

# Your best choice





# Your best choice

In an industry environment that is as fast-changing as it is competitive, it's hard to stand out in the crowd. Yet at Lanka Tiles, we have become the best choice for thousands of urban and suburban customers both here and overseas, for whom we are proud to be a preferred supplier.

Our aim is to be the tile manufacturer that our customers will return to time and again. Over the years, we have been building our reputation for excellence in industry competency, state of the art technology and a portfolio of innovative, beautifully designed products.

This year we are proud to present to our shareholders a record of a very profitable year, a turnaround in every aspect of value creation and increasing returns to the many stakeholders we serve. And that's how we know we're a truly unique company with a very clear vision of what we want to be; the best and preferred choice.

Lanka Tiles PLC  
Your best choice



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## Vision

Our vision is of a future in which Lanka Tiles will have become not only a household name but a global one....

## Mission

Our mission is to be a Company that sets and constantly exceeds the benchmark of the highest quality in producing ceramic products of exceptional beauty and functionality and to cater to every need of discerning customers both in Sri Lanka and abroad.

These traits have kept us at the forefront of our chosen spheres, creating peerless career development opportunities within the organisation. We believe that the improvement is a continuing process. It is the constant endeavour of our employees and the driving force behind our success.



# Performance Highlights

**Outpacing industry  
Profit growth rate**

28.9%

**Earnings per share (Rs.)**

15.84

**Revenue growth**

4.7%

A) SUMMARY OF OPERATIONS				
Year ended 31st March				
		2015	2014	Change %
Export sales	(Rs.'000)	242,933	233,293	4.13
Local sales	(Rs.'000)	5,106,737	4,876,025	4.73
Net revenue	(Rs.'000)	5,349,670	5,109,318	4.70
Gross profit	(Rs.'000)	1,927,795	1,657,133	16.33
Operating profit	(Rs.'000)	980,738	920,915	6.50
Net profit	(Rs.'000)	840,275	652,056	28.87
Production	(SqMt)	3,688,929	3,638,111	1.40
Value addition	(Rs.'000)	2,418,166	2,272,647	6.41
B) SUMMARY OF FINANCIAL POSITION				
As at 31st March				
		2015	2014	Change %
Working capital	(Rs.'000)	1,846,431	1,436,192	28.56
Net assets	(Rs.'000)	4,106,168	3,547,751	15.74
Borrowings	(Rs.'000)	744,529	1,252,054	(40.54)
Current ratio	(Times)	2.78	2.14	29.91
C) SUMMARY OF EMPLOYMENT STATISTICS				
Year ended 31st March				
		2015	2014	Change %
Executives	(Number)	56	50	
Supervisory, clerical and allied staff	(Number)	98	100	
Floor level staff	(Number)	346	329	
Total	(Number)	500	479	
Sales per employee	(Rs.)	10,699,340	10,666,635	0.31
Production per employee	(SqMt)	7,378	7,595	(2.86)
Net profit per employee	(Rs.)	1,680,550	1,361,286	23.45
Value addition per employee	(Rs.)	4,836,332	4,744,566	1.94

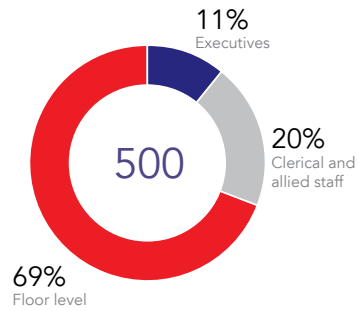
Given the stable outlook for the country's economic prospects, it is very likely that Sri Lanka would enter a phase of strong growth in the next few years.



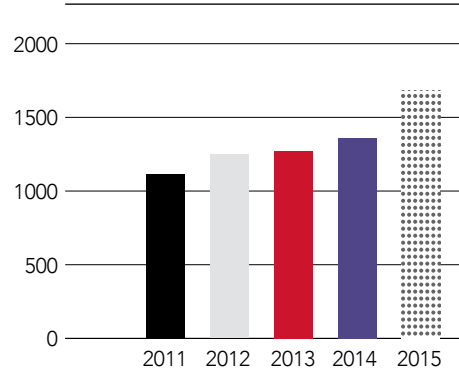
# Performance Highlights

## Number of Employees

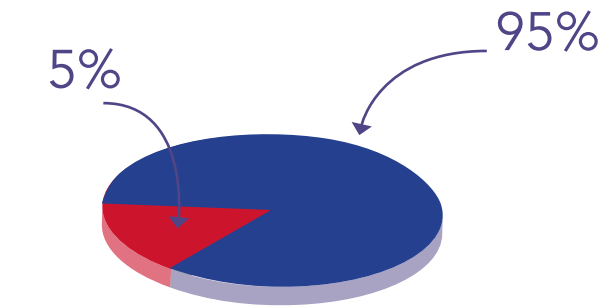
Executives	56
Clerical and allied staff	98
Floor level	346



## Profit per Employee (Rs.'000)

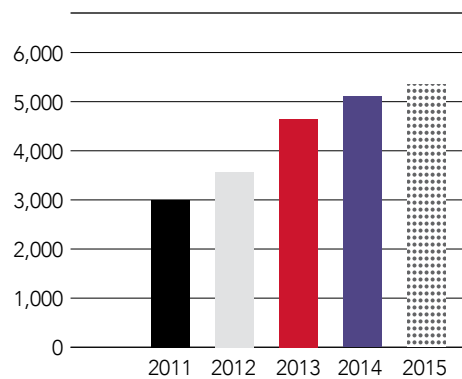


Gross Profit for the Year



Composition of export and local sales

## Revenue (Rs. Mn)





**Shirley Mahendra**  
**Head of Marketing**

We ensure product responsibility to our customers by training and educating all stakeholders through our customer service channel



Lanka Tiles adds 3 new ranges to its portfolio

5.35 Bn



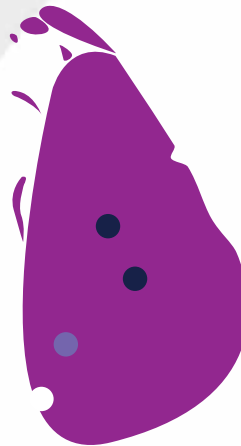
Continue  
Growth in  
Turnover



Lanka Tiles launches tilers Club loyalty card for the first time in Sri Lanka

Lanka Tiles recognised as the  
**Fastest Growing**

Floor tile manufacturer in Sri Lanka in 2014 by operating 40 outlets in the country



Lanka Tiles opens new branches in Ampara, Balangoda, Mahiyanganaya and Kottawa

Lanka Tiles launches

**Tilers Club**

A Pioneering partnership to build industry relationship.



Leveraging on group synergies to augment capabilities and improve efficiencies at multiple levels of the business, total revenue grew from Rs. 5.10 Bn in the previous year to reach Rs. 5.35 Bn for the current year, demonstrating a modest YoY growth of 5%.



During the year under review, the company paid a total of Rs. 4.50 per share as dividend comprising of Rs. 2.00 per share as the 1st interim dividend for the current year, paid in November 2014 and a further Rs. 2.50 per share as the 2nd interim dividend for the current year, paid in April 2015. The total dividend payout for the year increased by 12.5% comparative to the previous year.

# Standing out in the crowd

## Chairman's Statement



**Throughout the year, we have remained true to our core values as we worked with a clear purpose to realize our corporate goals... this has been the key to our success for the year under review.**

### Dear Shareholder,

It is with much pride and pleasure that I present to you the annual report and financial statements of your company for the year ended 31st March 2015. Throughout the year, we have remained true to our core values as we worked with a clear purpose to realize our corporate goals and I am indeed gratified to see that this has been the key to our success for the year under review.

### Strong Growth

In 2014 many regional heavyweights appeared to have reached an economic stalemate, in contrast to Sri Lanka's economy which was seen entering a systematic growth phase denoted by a GDP growth of 7.4% for the year. The local economy remained stable throughout the year, amidst low single digit inflation and a strong currency platform that provided the impetus for steady growth in all key sectors of the economy.

Spurred by an annual headline growth of 10% in the domestic construction sector, your company too was able to record strong growth in both the top-line and bottom line 31st March 2015. Leveraging on group synergies to augment capabilities and improve efficiencies at multiple levels of the business, total revenue grew from Rs. 5.10 Bn in the previous year to reach Rs. 5.35 Bn for the current year, demonstrating a modest YoY growth of 5%. Meanwhile, Profit after Tax for the current year stood at Rs. 840 Mn, up by 28.9% from the Rs. 652 Mn recorded in the previous year.

### Dependable Progress

As in the past, in this year too, investments were deemed to be a crucial part of the company's strategic focus. With Rs. 164 Mn being incurred during the year, nearly 80% of this cost was incurred to purchase equipment which would enhance the company's digital printing capabilities, while the remainder was spent to improve the general efficiency of the production line, streamline energy usage, promote greater environmental compliance and strengthen quality assurance procedures that would guarantee the quality of the final product.

### Assured Value

During the year under review, the company paid a total of Rs. 4.50 per share as dividend comprising of Rs. 2.00 per share as the 1st interim dividend for the current year, paid in November 2014 and a further Rs. 2.50 per share as the 2nd interim dividend for the current year, paid in April 2015. The total dividend payout for the year increased by 12.5% comparative to the previous year. I am happy to note that the dividend payout for the year is in line with growth of profits in the Company.

### Good Governance and Stewardship

As a key driver of the domestic construction sector, your company continues to perform an exemplary role where good governance practices and uncompromising ethics determine the manner in which we conduct our business. To fulfill the expectations of all stakeholders of the company and ensure greater transparency of the reporting process, we are guided by the Code of Best Practice on Corporate Governance jointly issued by The Institute of Chartered Accountants of Sri Lanka and The Securities and Exchange Commission of Sri Lanka and The Colombo Stock Exchange.

### Future Outlook

Given the stable outlook for the country's economic prospects, it is very likely that Sri Lanka would enter a phase of strong growth in the next few years. Moreover, underpinned by recent developments, conditions in the domestic construction sector too are likely to remain favourable for the foreseeable future, offering your company considerable opportunities for extensive growth in the years ahead. As an established presence in the domestic construction sector,



**The local economy remained stable throughout the year, amidst single digit inflation and a strong currency platform that provided the impetus for steady growth in all key sectors of the economy.**

### Company Turnover

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**5.35 Bn**

total revenue grew from Rs. 5.10 Bn in the previous year to reach Rs. 5.35 Bn

## Chairman's Statement



**Underpinned by recent developments, conditions in the domestic construction sector too are likely to remain favourable for the foreseeable future, offering your company considerable opportunities for extensive growth in the years ahead.**

I am confident that we are ideally positioned to benefit from these prospects by leveraging on the synergies offered by the group. I believe the ensuing cost efficiencies, enhanced technological capabilities and improved market presence would be critical in promoting the Lanka Tiles brand as the best choice in the market, in the years ahead.

### Appreciations

I wish to express my sincere thanks to the Board of Directors for their unstinted support at all times. I would also like to express my appreciation to the Managing Director, the senior management and the entire staff of Lanka Tiles PLC for their unquestionable loyalty and commitment in realizing corporate aspirations. My gratitude also goes out to our valued customers, bankers, distributors, dealers and other business partners for their continued support. In conclusion I wish to thank all our Shareholders for the trust and confidence placed in the company as I seek your continued patronage in the years ahead.

**W D N H Perera**  
Chairman

26th May 2015

# Becoming the preferred choice...

## Managing Director's Review



**Throughout the year a conscious effort was made to realign the company's marketing model and derive a more effective channel layout that would lead to the systematic expansion of the island-wide reach.**

# Managing Director's Review

## Macro-economic Review

Global economic conditions per se remained more or less unchanged from the previous year, with the balance of economic power once again returning in favour of the West. Advanced economies were seen gradually gaining traction, indicative of a slow but steady resurgence of economic activity amidst greater financial stability. Regardless, the world economy may never return to the pace of expansion seen before the financial crisis, given what appears to be persistent downside risks that continue to unhinge the little progress already made. For this year the primary concerns were the crash of the Russian Rouble and the plummeting world crude oil prices alongside escalating political tensions in the Middle-East. Nevertheless, improving conditions in the US and Europe were viewed with a great deal of optimism amidst weaker than expected growth seen in most key emerging economies including India and China.

## Performance Highlights

Strongly appended to the prospects of key European markets, Sri Lanka's economy was able to table a moderate GDP growth of 6.4% for 2014, with a notable upswing in economic activity seen in the second half of the year. With most sectors of the economy demonstrating an acceptable level of performance. The domestic housing and construction sector too remained on track recording a growth of 13% for the year.



As always, reducing operational costs also remained a key priority for the company and much effort went into introducing energy efficient technologies and streamlining manufacturing processes

Within this framework, your company, was able secure a 5.5% YoY growth in volumes leading to an increase in both top and bottom line. The company's turnover crossed the Rs. 5.35 Bn mark to register revenue growth of 5%, for the year. Aside from the regular cost control measures, the reduction in energy costs resulting from the drop in world crude oil prices also helped boost margins. The continuous focus in cost reduction coupled with low global energy prices resulting in cost savings in LP gas and kerosene oil led to a growth in gross profit from 32% in the previous year to 36% in the current year.

Moreover, the impressive performance tabled by the associate companies under the Swisstek umbrella, culminated in driving up the Company pre-tax profit which stood at Rs. 1,066 Mn for the year under review, a YoY growth of 29%, compared to the Rs. 826 Mn recorded in the previous financial year.



## Operational Highlights

During the year, steps were taken to optimize the capacity utilization at the factory, alongside ongoing efforts to streamline operational processes and improve efficiencies at all levels of the business. Of the Rs. 164 Mn invested during the year, Rs. 29 Mn was on account of a series of state-of-the-art equipment that would augment the digital printing capabilities, design and product quality.

On the supply side, I am happy to note, that our efforts, together with the steps taken by the Ceramics Council have helped the entire industry move forward by strengthening the supply chain stakeholders. The stricter controls brought in under new regulatory framework has not only minimized the illegal mining operations in the country, but also improved mining practices across the industry, ensuring the sustainability of ball clay and feldspar deposits for years to come.

As always, reducing operational costs also remained a key priority for the company and much effort went into introducing energy efficient technologies and streamlining manufacturing processes in line with the ISO 9000 Quality Management Systems, the ISO 14000 Environmental Management System and the OHSAS 18000 Occupational Health and Safety Management System frameworks.



## Marketing and Branding

Throughout the year a conscious effort was made to realign the company's marketing model and derive a more effective channel layout that would lead to the systematic expansion of the island-wide reach. Our marketing strategy for the year thus revolved around growing the number of franchise showrooms and reducing the dependence of the dealer network. To accommodate the mainstream needs of the customers across the country we expanded the number of franchise showrooms, while the Jawatte showroom was upscaled to a concept showroom so as to better present the high-end and niche value proposition to the customer.

To complement the marketing focus for the year, we also initiated a series of brand building activities to promote and strengthen brand acceptance and develop greater visibility across diverse market segments in Sri Lanka. As part of the brand awareness campaign, the 'Lankatiles Tilers Club' was initiated, a pioneering initiative aimed at developing business partnerships that would help penetrate yet untapped markets in Sri Lanka. In addition we also launched the 'Lankatiles Plus' sales outlet scheme, an innovative new sales model that will allow us to further extend our customer reach to new territories and geographies across the island.



**During the year, steps were taken to optimize the capacity utilization at the factory, alongside ongoing efforts to streamline operational processes and improve efficiencies at all levels of the business.**

Overseas markets also came under closer review during the year, as we stepped up efforts to develop the emerging potential in the North American and European markets, while strengthening the presence in the South Asian region. With the showroom in Bangalore, India, showing promising results, during this year we expanded our regional presence in the Maldives as well.

## Performance of Associated Companies

The Swisstek group of companies, comprising of Swisstek (Ceylon) PLC and its fully owned subsidiary Swisstek Aluminium (Pvt) Ltd, had a very successful year, with both companies demonstrating strong growth in both the top line and bottom line. The group turnover was Rs. 1.86 Bn and Post Tax Profit was Rs. 252 Mn compared to turnover of Rs. 1.49 Bn and Post Tax Profit of Rs. 117 Mn in the FY 13/14.



## Strengthening Support Services

Support services have always been an important part of our management model, of which the Human Resources function and the IT platform are key aspects that have given us a competitive edge.

We fully recognise the importance of a stable well-managed Human Resource function and remain committed to recruit, retain and develop our talent pool in a manner that would truly reflect our corporate identity. Our HR policies have evolved in cognizance with the changing corporate landscape. The comprehensive HRM module we adopt encapsulates fair practices within a framework of ethical conduct. Throughout the year we continued to engage in a number of proactive measures which included outbound training for executive and staff level employees to further enrich our human capital.

Meanwhile, information technology has been a strategic enabler that has allowed us to explore competitive advantages across a broad spectrum of business functions. As a key driver of growth, we continue to revisit our IT framework and bring about necessary improvements that would convey the most efficient operational template. During the year, we brought in certain key changes to the core IT mechanism to help realize possible cost savings and improve overall efficiencies.

## Share Performance

With no change to the total number of issued shares, the company's shares continued to trade well during the year. Underpinned by the pick-up in trading activity seen at the Colombo Stock Exchange in the second half of the year, your company's shares traded strongly ending the year on a positive note, trading at Rs. 106/- per share as at 31st March 2015. The highest traded price for the year was Rs. 117.90 in January 2015 with the lowest recorded price per share of Rs. 75.10 being in June 2014.

## Managing Director's Review



### Future Outlook

Having completed what could only be considered a very successful year, I look to the future with much optimism. The recent changes in the political and economic fronts in the country are likely create a level playing field vis-à-vis stricter regulatory controls that would enable the systematic proliferation of the domestic construction sector. I believe this would create the ideal platform for your company to leverage on its competitive advantage to penetrate a wider cross section of the island-wide market.

To gear ourselves for the future we would need to strengthen our core competencies in cognizance with the evolving trends in the market. I feel we are ready to accept these challenges as we access the group synergies to improve operational processes and refine our strategic focus.

We are backed by our brand, which is now a household name that embodies a truly Sri Lankan identity and benchmarks international standards. To maintain our reputation for quality and versatility, we would need to continuously re-evaluate the value proposition presented to the customer. In doing so, we would certainly need to invest in further enhancing both our design and manufacturing capabilities, particularly as we seek to caption global trends in the local market.

From a marketing perspective, our widespread franchise network appears to be a definite advantage that will help us reach a larger customer demographic across the country in the coming years. However, to keep abreast of growing demands of the customer, we

would need to be flexible in our approach and address key aspects of our marketing model that would help promote our offerings to the target customer segments in Sri Lanka.

To strengthen our prospects we would also be looking at aggressively developing our presence in key overseas markets in North America and Europe. Underpinned by the recent revival of economic activity in many advanced economies, we will focus on gaining a foothold in these markets, in the years ahead.

### Acknowledgements

I take this opportunity to express my sincere gratitude to all employees of the Company for their dedication and commitment in delivering the successful results we have seen for the year. I would also like to thank the Chairman and my colleagues on the Board for the unstinted support extended to me during the year.

Many thanks to all our customers, dealers, distributors, bankers, suppliers and other stakeholders for their loyal and continued support.

In conclusion I wish to thank the shareholders of the company for the confidence placed in the company. I seek your valued patronage in the years ahead as well.

**J A P M Jayasekera**  
Managing Director

26th May 2015

# Becoming the preferred choice...

## Board of Directors



**Mr. W D N H Perera**  
Chairman

On the Board of Lanka Tiles PLC since 2013, Mr. Nimal Perera also serves on boards of Pan Asia Banking Corporation PLC, Lanka Ceramic PLC, Lanka Walltiles PLC, Horana Plantations PLC, Swisstek (Ceylon) PLC, N P Capital Limited and N Capital (Pvt) Ltd as the Chairman, Vallibel One PLC as the Deputy Chairman, LB Finance PLC as an Executive Director, Vallibel Power Erathna PLC and The Fortress Resorts PLC as an Alternate Director.

He also holds directorships in Hayleys PLC, Kingsbury PLC, Haycarb PLC, Talawakelle Tea Estates PLC and Amaya Leisure PLC.

He is a renowned business magnate, stock trader and shareholder of many companies in the country.



**Mr. J A P M Jayasekera**  
Managing Director

Mr. Mahendra Jayasekera joined Lanka Tiles PLC in August 1997 as Executive Director. He was appointed as Managing Director in January 2002 and continues to hold same position at present.

In April 2008 he was appointed the Managing Director of Lanka Walltiles PLC, the holding Company of Lanka Tiles PLC. He is the Managing Director of Swisstek (Ceylon) PLC and a Director of Lanka Ceramic PLC and HNB Assurance PLC.

Mr. Jayasekera holds a BSc Special (Hons) degree in Business Administration from the University of Sri Jayawardenapura and is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka.



**Mr. P L Amerasinghe**  
Director

Mr. Peter Amerasinghe is a Fellow Member of the Chartered Institute of Management in UK, a professional with more than 45 years of Senior Managerial experience which includes 16 years in Plantation Management and 29 years as the Chief Executive Officer of several leading companies in Sri Lanka.

He functioned as the CEO of Lanka Walltiles Ltd from its inception for up to 17 years and thereafter took over the management of the family business of Aristons Ltd and continues as the Chairman of Aristons Ltd, to date.

In 1998 he established Ceyquartz MBI (Pvt) Ltd, a joint venture with Japanese collaboration and functions as the Chairman/Managing Director.

He is a founder Director of Lanka Tiles PLC and in addition is a Consultant to Noritake Lanka Porcelain (Pvt) Ltd. He is also the Chairman of Anilana Hotels and Properties Ltd.

He has considerable experience in management of export oriented manufacturing organisations and the marketing of their products both locally and internationally.

## Board of Directors



**Dr. S Selliah**

**Director**

Dr. Sivakumar joined the Board of Lanka Tiles PLC in 2002. Dr. Selliah holds an MBBS degree and a Master's Degree (M.Phil). He has over 23 years of experience in diverse fields.

He is currently the Deputy Chairman of Asiri Hospitals Holdings PLC, Deputy Chairman of Asiri Surgical Hospital PLC and Central Hospital Private Ltd. Dr. Selliah is also the Chairman of Cleanco Lanka Pvt Ltd and JAT Holdings Pvt Ltd.

He is a Director of Lanka Walltiles PLC, Horana Plantation PLC, Softlogic Holdings PLC, Lanka Ceramic PLC, HNB Assurance PLC and ODEL PLC. Dr. Selliah serves on the Remuneration Committee and Audit Committee of some of the companies listed above.



**Mr. K D D Perera**

**Director**

Mr. Dhammika Perera is the quintessential business leader, with interests in a variety of key industries including Hydropower generation, Manufacturing, Hospitality, Entertainment, Banking and Finance. He enriches the Board with over 25 years of experience in building formidable businesses through unmatched strategic foresight.

Mr. Perera is the Chairman of Sampath Bank PLC, Vallibel One PLC, Vallibel Power Erathna PLC, Royal Ceramics Lanka PLC, The Fortress Resorts PLC, Delmege Limited and Sun Tan Beach Resorts Ltd. He is the Co-Chairman of Hayleys PLC, Executive Deputy Chairman of LB Finance PLC and Deputy Chairman of Horana Plantations PLC and Lanka Ceramic PLC. He is the Executive Director of Vallibel Finance PLC. He also serves on the Boards of Amaya Leisure PLC, Haycarb PLC, Hayleys MGT Knitting Mills PLC, The Kingsbury PLC, Dipped Products PLC & Hayleys Global Beverages (Pvt) Ltd.



**Mr. T G Thoradeniya**

**Director**

Mr. Tharana Thoradeniya has over two decades of senior management experience in multi-industry scenarios. He sits on the Boards of several public quoted and privately held companies in Sri Lanka, including Pan Asia Banking Corporation PLC, Lanka Walltiles PLC, Lanka Tiles PLC, Lanka Ceramic PLC, Hayleys Fibre PLC, Delmege Ltd., Unidil Packaging Ltd., Vallibel Plantation Management Ltd., Dipped Products (Thailand) Ltd., and several others. He is a Group Director of Royal Ceramics Lanka PLC and CEO/Director of Rocell Bathware Ltd. Tharana has been credited as a proven business innovator across industries. A marketer by profession, Tharana was in the pioneering batch of Chartered Marketers of the Chartered Institute Marketing (UK).



**Mr. K D G Gunaratne**

**Director**

Mr. Gamini Gunaratne studied at St. Thomas' College Mt. Lavinia and was a member of the Western Province Council during the period 1989 to 2009.

He currently holds the position of Chairman Lanka Hotels & Residences (Pvt) Ltd.



**Ms. A M L Page**

**Director**

Ms. Anjalie Page holds a BSc (Hons) Psychology (First Class) from the University of Nottingham, United Kingdom and a MSc in Economics, Finance and Management (Distinction) from the University of Bristol, United Kingdom.

Ms. Page has been employed at several institutions and lastly served at Ernst & Young LLP, UK – (Advisory, Financial Services).

Ms. Page is currently working at Habitat for Humanity Sri Lanka.



**Mr. G A R D Prasanna**

**Alternate Director**

Mr. Dimuth Prasanna was appointed as an Alternate Director to the Lanka Tiles Board on 10 October 2014. He is the Managing Director of Wise Property Solutions Pvt Ltd and also serves as Director on the Boards of Pan Asia Banking Corporation PLC, Delmage ,& Grand Mark Pvt Ltd and Royal Ceramic Lanka PLC.

# Senior Management

Our Senior Management Team works tirelessly to ensure that objectives are achieved, address the commitment the firm has to its key stakeholders, and provide direction to the organisation.

04



01



02



07



1. Mr. Nandajith Somaratne - Group General Manager Manufacturing
2. Mr. Shirley Mahendra - Head of Marketing
3. Mr. Tyrell Roche - Head of Finance
4. Mr. Patrick Piyasena - Assistant General Manager (P/T)
5. Ms. Nathalie Kehrli - Head of Design
6. Mr. Prabath Pupulewatta - Factory Manager
7. Mr. Upul Weerasinghe - Group Engineering Manager
8. Mr. Prasad Keerthiratna - Group IT Manager

08



03



06



05



# A turnaround in every aspect of value creation...

## Management Discussion & Analysis

### Overview of Global Tile Industry

The global demand for ceramic tiles is driven by development activities taking place around the world, arising mainly from the rise of new residential housing and commercial requirements in addition to the proliferation of hotels across the world.

In general the ceramic tile market is segmented based on geographical regions comprising of North America, Latin America, Europe, Asia Pacific, and the rest of the world, with the Asia Pacific region controlling the equation.

The “China Effect” has dominated the global tile market in the recent past. While global tile production volumes have doubled over the past twenty years, at present China alone accounts for more than 50% of the tiles manufactured worldwide. Outpacing traditional tile producing nations, China also leads the table as the key exporter of all forms of tiles, with Italy coming in at a distant second and Spain following in third place. Recent statistics also indicate that China appears to be the leading consumer of tiles as well.

It has been found that tile consumption is highly correlated with the per capita income, which explains the impact of the “China Effect” on the global Tile industry in the recent years. Meanwhile, the prospects for the global tile industry are likely to remain strongly appended to an increase in per capita income, across the aforementioned regional distributions.

#### Sri Lanka’s Tile industry at a glance

When compared to certain countries, the Sri Lankan per capita tile consumption remains significantly lower than other Asian counterparts. Consumer behaviour patterns in Sri Lanka have been traditionally based on the premise that tiles are a luxury product and do not warrant priority in a typical dwelling construction. However, growing affluence has triggered dramatic growth in the domestic construction sector in the past decade, which have altered these perceptions and led to steady growth in the local tile industry.





The 20% growth in the domestic construction sector for 2014, translated into 13% growth for Sri Lanka's domestic tile cluster. Production volumes also grew during the year, with floor tiles accounting for over 80% of production volumes, with wall tiles taking up the remainder. Meanwhile, in the absence of a proper framework, cheap imported tiles continue to flood the market, jeopardizing the prospects of the local tile cluster.

On the supply side, the lobbying efforts of the Ceramics Council appear to have paid off with the imposition of stricter controls to curb illegal mining and rationalize the issues surrounding the clay extraction process. It has also helped lay the foundation for a sustainable supply of ball clay and feldspar to support the needs of the cluster in the years ahead

## Review of Financial Performance

### Revenue

The company performed well despite the curtailed market environment, demonstrating growth in both the topline and bottom line. Total revenue increased to Rs. 5.35 Bn from Rs. 5.1 Bn recorded in the previous year, a notable 5% YoY increase. With export sales showing a marginal increase, local sales was mainly responsible for the increase recorded during the year. Volumes also grew by 5% during the year, with the local network contributing mainly to the volume growth.

### Profitability

The ongoing expansion of the distribution channels and increased advertising resulted in a consequential increase in distribution costs for the year from Rs. 468 Mn in the previous year to Rs. 598 Mn in



**The company performed well, despite the curtailed market environment, demonstrating growth in both the topline and bottom line.**

the year under review. Administrative expenses for the period also increased by 25%, over last year mainly due to payment of technical fees to the parent company for cost improvement projects done by them. However consequent to the increased costs, operating profit showed a growth of 6.5%.

Meanwhile, finance costs decreased during the year, in large part due to improved cash flow of the company. A notable increase was seen in the share of profits received from associate companies, which contributed well towards PBT, which increased by 29% YoY. Better sales and increased GP drove PAT to a healthy 29% YoY increase from Rs. 652 Mn in 2013/14 to Rs. 840 Mn as at 31st March 2015.

Earnings per Share (EPS) increased from Rs. 12.29 per share, in the previous year to Rs. 15.84 per share for the current year, while NAV increased from Rs. 66.86 in 2013/14 to Rs. 77.41 in 2014/15.

# Management Discussion & Analysis

## Borrowings

The company's total borrowings decreased significantly from Rs. 1.25 Bn in the previous year to Rs. 744 Mn to this year. Consisting mainly of short term interest bearing liabilities and bank overdrafts, the borrowings were primarily for funding the working capital requirements of the Company. In the face of better finance costs, a company-wide strategy of prudent cost management and financial control was initiated to enable the company to bring down the debt/equity ratio of 26% to 16%.

## Share performance

While the total number of shares issued remaining unchanged, the Company's performance in the stock market was consistent throughout the year under review, with no material changes observed in the share price despite the relatively slow stock market movements. The price per share was Rs. 106/- as at 31st March 2015, while the highest recorded price of Rs. 117.90 was on January 2015 and the lowest price per share of Rs. 75.10 was recorded on June 2014.

## Dividend

For the year under review, the company paid as dividends, Rs. 4.50 per share as two interim dividends for the current year of Rs. 2.00 and 2.50 each.

## Investments

Much of the investments made during the year, was to upgrade technology and improve operational efficiencies across the business. A total of Rs. 163 Mn was spent during the year, of which Rs. 29 Mn was for the purchase of a New Digital Printing Machine, to complement the tile design technology. Meanwhile, Rs. 13 Mn

was spent on increasing warehouse capacity to facilitate the storage of both raw materials and finished goods. A further Rs. 13 Mn was incurred to commission an ultra-modern telecommunication system for the Company.

As part of ongoing efforts to promote greater environmental accountability, a further Rs. 20 Mn was spent to purchase land adjacent to the factory, thereby extending the peripheries of the facility. Moreover, LTPLC continued to make regular investments to upgrade all environmental compliance codes in particular, sound proofing, dust reduction, emission reduction and effluent treatment etc.

## Financial Reporting

Having successfully made the transition towards adopting SLFRS reporting guidelines, LTPLC remains fully compliant with respect to all areas contained under the code. The company was also a recipient of the Silver award at the Annual Report Awards by ICASL, in recognition of efforts made towards complying with the SLFRS statutes.

## Review of Market Operations

### Domestic Sales

Despite the growing threat caused by tile imports, LTPLC was able to successfully retain customary market strongholds to secure a 23% market share in the local tile cluster as at 31st March 2015. The company's domestic sales volumes mirrored industry growth, registering a progressive pick up over the year that culminated in a 51% YoY growth compared to the previous year.



Celebrating International Women's Day !





### Strategic Brand Building

During the year, the company stepped up brand building efforts aimed at boosting sales volumes across the country. A campaign was launched in this connection, to enhance brand awareness and calibrate customer perceptions in line with evolving lifestyle concepts trending across the globe. To create the right market momentum, the current product display model was changed and a more dynamic, visually appealing theme was introduced across the island-wide network of franchise showrooms. While all racking, display and merchandising material was changed as per the designated theme for the year, all showrooms were further geared to present a more interactive, customer friendly outlook. Aside from the new look and feel, all showrooms are now equipped to provide customers with a value added, end-to-end solution for all their tiling needs.

### Distribution Networks

Ongoing measures to develop existing distribution channels were initiated, parallel to new steps taken to expand the overall outreach across the country. As part of the ongoing efforts, four new franchise showrooms were added to the existing network, bringing the total to 40 showrooms across the country.

Meanwhile, the dealer network was consolidated so as to derive a more efficient operational framework and help the registered dealer base to streamline their operations and effectively maximize their geographical coverage.

Two new distribution channels were also introduced during the year, to complement the existing distribution network. The first being the

Lanka Tile branded Tiler Club, which allows individual tillers to partner up as marketing agents for the company's products. The pioneering venture has received an overwhelming response since its launch in, with over 1,000 Tilers from across the country registering for the initial intake of the Tiler Club.

In yet another innovative step, LTPLC also introduced the Lankatile Plus Scheme, which ties up with small area-based businesses to act agents for the company's products. 10 new Lankatiles Plus members came on board during the year.

### New Developments

Meanwhile, responding to changing customer dynamics LTPLC introduced three new collections to add to the existing range of offerings. Entitled, Concrete, Essential and Xilosophy, the three new portfolios have been ergonomically designed to complement the diversity of modern living spaces. These products which were launched in mid-2014, were well received by the market and have shown encouragingly results within the year itself.

### Customer Engagement

Further efforts to caption customer needs prompted LTPLC to venture into the social media space vis-à-vis Facebook and Twitter. The positive feedback received from customers indicate that the power of social media could be harnessed as an effective marketing tool in the coming years. Meanwhile, among the steps taken to respond to customer needs, additional warning labels were introduced on the packaging material to ensure customers are made aware of the safety and handling requirements for the company's products.

# Management Discussion & Analysis

## Overseas Markets

Although only a small component of the company's overall performance, export volumes did record a YoY increase of 5% , with Australia accounting for more than 40% of the volumes for the year under review.

To strengthen the company's exposure in the export sphere, LTPLC participated in a number of international promotional forums aimed at providing new business opportunities across the globe. The COVERINGS 2104, held in Las Vegas and the Cersaie 2014 exhibition in Bologna, Italy were among the key events patronized by the company, to help gain greater access to the respective markets in North American and Europe.

## Review of Factory Operations

### Manufacturing Processes

With the factory operating at an average 90% capacity throughout the year, the company remained committed to improve efficiencies at all levels of the manufacturing process, not only to maximize

output levels, but also to enhance the quality of the finished product. Ongoing process improvements in line with ISO 9001 guidelines for Quality Management Systems led to a series of investments being made to improve the efficiency of the drying process.

Moreover, LTPLC made significant investments to enhance the digital printing capabilities that would improve the profile of the tile that is released to the market, while a number of new cost effective, yet good quality glazes and stains were introduced to the finishing process. While improving the underlying quality of the finished product, these changes were responsible for considerable cost savings within the first few months of its commercial use.

### Design function

Given that concept design is a critical component of LTPLC's strategic plan, improving the design function remains a crucial priority for the company. Steps taken in this regard saw the company strengthen the knowledge and capability of the design team in readiness for future challenges.

### Cost Efficiencies

Given the energy intensity of the manufacturing process, the cost of LP gas has always been concern for the company. As such energy efficient practices and stringent cost control measures have been the norm that applies to the company's operational code. In addition to the accrued cost savings from these efforts, the reduction in LP gas prices in November 2014 also helped reduce annual energy costs by 19%

### Supply Chain Management

With the rapid expansion of the business, in recent years, the company has had to look at third party suppliers for the supply of ball clay. Underpinned by the group-wide purchasing policies, procurements are made only from approved suppliers. Suppliers are approved following a strict evaluation process in conformity with CEA guidelines to assess their mining practices, including the sustainability of the post-mining process. The company also carries out an independent assessment to verify labour and human rights practices of these suppliers. Meanwhile, the company continues to engage with suppliers in an ongoing effort to introduce further improvements that will promote long term sustainability of the industry as a whole.

Leveraging on this group-wide procurement process has helped LWPLC benefit from considerable synergies both in terms of cost advantages as well as a guaranteed supply of high-quality raw material.

### Outsourcing

While the company retains control over all core operations, certain non-core areas, including calcite crushing are outsourced to third parties. All outsourcing is done as per the group work ethic for maintaining relationships with outsource partners. Moreover, continuous engagement ensures that the company's quality benchmarks are enforced at every stage of the outsourcing process.



The Fine Art of Living...



### Environmental Management

LTPLC's environmental practices are aligned to internationally accepted benchmark issued by the ISO 14001, Environmental Management Systems. The company also invested a considerable sum during the year to monitor and upgrade environmental compliance mechanisms at the Ranala factory.

### Human Capital Development

As always, LTPLC engaged in a committed effort to train and develop the company's human capital resources as part of the efforts to nurture a dynamic workforce capable of carrying out corporate aspirations.

Employee relations were strengthened during the year, supported by the three year collective bargaining agreement that was renewed in 2013. This ensured smooth operations throughout the year, with no industrial disputes or union-induced work stoppages during the year.

The Health and Safety of employees continued to be an important aspect that warranted the attention of the company. In this regard all areas of the manufacturing process were aligned to the directives laid out by the OHSAS 18001, Occupational Health and Safety Standards.

### Future Outlook

Amidst widespread urbanization taking place across the country, Sri Lanka's domestic construction and housing industry is set to grow steadily in the years ahead and the future prospects for the Tile sector remain upbeat. Meanwhile however, the inherent issues surrounding the tile sector are deemed to yet again overshadow progress for all the local tile manufacturers in the years ahead.

From a marketing perspective, the best way for LTPLC to combat these challenges would be to leverage on group synergies to expand the market share. To do so would mean pushing the benefits of the "Buy local" concept to a wider island-wide market. This would require fresh efforts strengthen brand identity and to reposition the brand as the BEST CHOICE in the local wall tile market. Further, the company would also need to consider capacity expansions to help strengthen the LANKA TILES brand identity in targeted overseas markets as well.

From an operational perspective too, change would be imperative. In this context, the company would be called upon to work collaboratively with all industry stakeholders to refine and improve the long term sustainability of the business model.



# Sustainability Report



## Report Profile

This report is a systematic assessment of Lanka Tiles PLC's (LTPLC) efforts to cultivate economic, environmental and social sustainability as key drivers of corporate growth. Prepared to coincide with the company's financial year end as at 31st March 2015, the report contains references to the Standard Disclosures from the GRI Sustainability Reporting Guidelines, which are tabled in the attached GRI content index.

## Report Boundary and Scope

A complete analysis of LTPLC's triple bottom line performance for the year has been carried out, with all economic aspects addressed under the Management Discussion and Analysis segment on Page 22 to 27 of this annual report. Meanwhile, this sustainability section addresses only the environmental and social impacts resulting from the business. However, in seeking to achieve completeness of reporting, all stakeholder engagement mechanisms and a comprehensive

value creation model has been included as part of this sustainability segment. Sustainability data and information has been gathered from the following sources;

- HR information and data obtained from the Human Resources department
- Environmental data obtained from the green team
- CSR project information and data obtained from CSR division

## Materiality

Materiality is an important aspect of the GRI reporting guidelines and hence, the matrix tabled below, summarizes the material economic, social and environmental aspects that impact LTPLC's Stakeholders. It is also the basis on which the company is able to establish strategic priorities in tandem with the expectations of each stakeholder cluster.

LTPLC Sustainability Profile

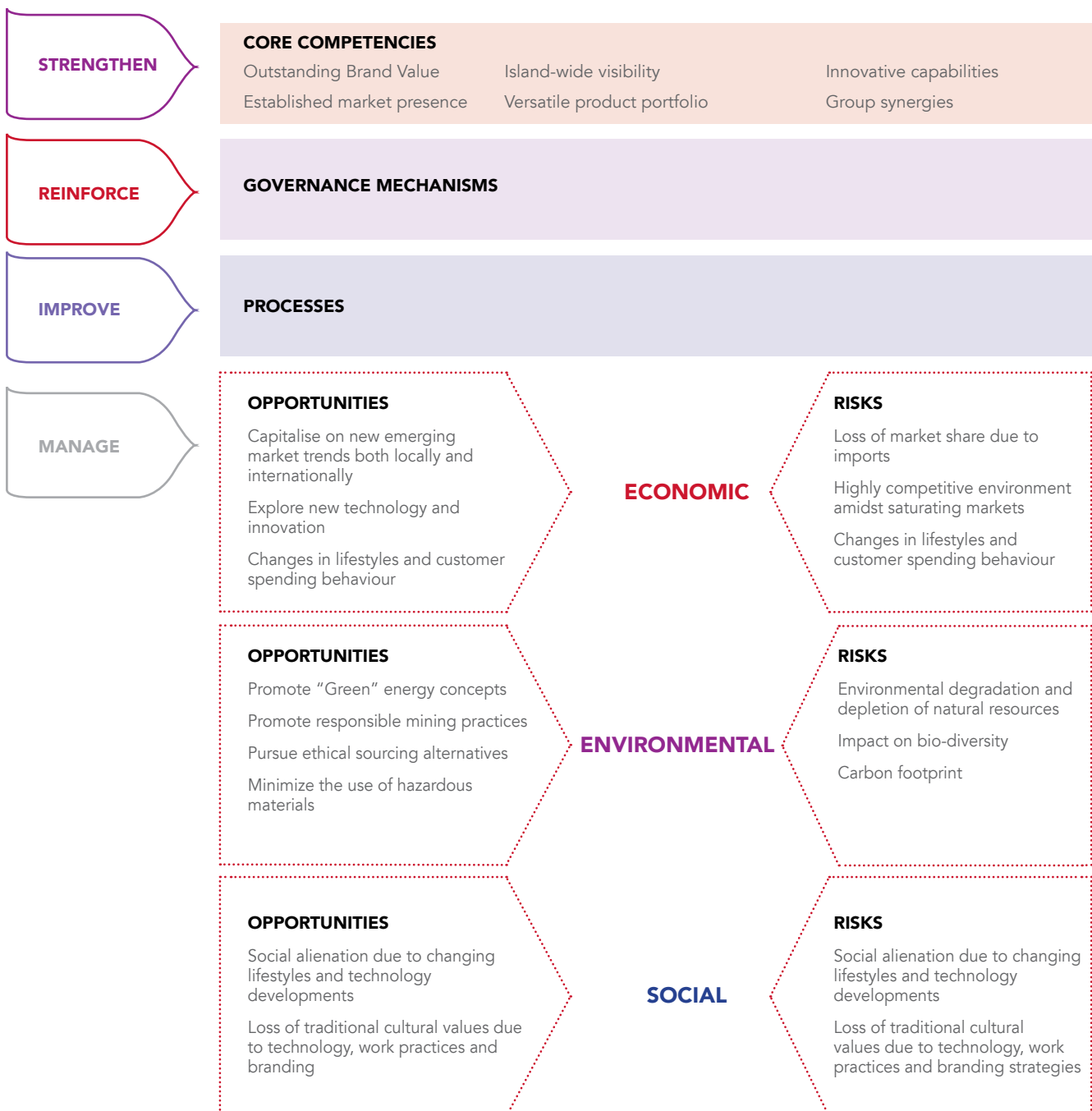
		ENGAGEMENT PROCESS	MATERIAL ASPECTS	STRATEGIC PRIORITIES
<b>ECONOMIC</b>	<b>SHAREHOLDERS</b>	AGM/EGM, Quarterly Publications, Dividend Announcement, Annual Report	Operational Efficiency and long term value creation	Commitment towards optimizing the bottom line Sustainable Business Practices to improve overall performance
	Good Governance and Business Integrity		Compliance with all mandatory statues Develop sound principles and operational fundamentals over and above the statutory codes	
	<b>CUSTOMERS</b>	Face-to-face Interactions, Customer Hotline, Customer complaint Mechanisms, Customer surveys, Customer Satisfaction Index	Customer Responsiveness	Innovative Design concepts in tandem with global trends and changing lifestyles Unparalleled customer service
			Product Responsibility	Versatile, ergonomic product range
			Marketing and Communications	Responsible advertising and marketing campaigns High brand visibility and market presence across the country
	<b>DISTRIBUTORS / DEALERS</b>	Face-to-face Interactions Customer Hotline Customer complaints Mechanism Customer surveys Customer Satisfaction Index	Product Responsibility	Sustainable business practices to improve overall performance
Marketing and Merchandising	Knowledge transfer and skills development			
<b>SUPPLIERS</b>	Supplier visits, Bi-weekly meetings, Knowledge sharing, industrial workshops ,Participation in industry forums	Stability and continuity of business	Sustainable business practices to improve overall performance	
Enhanced competencies		Knowledge transfer and skills development		
<b>REGULATORY AUTHORITIES</b>	Monthly reporting framework, Annual Reporting structure	Regulatory compliance	Good governance practices	
Contribution towards national development		Creating employment and new business opportunities		

# Sustainability Report

	ENGAGEMENT PROCESS	MATERIAL ASPECTS	STRATEGIC PRIORITIES
ENVIRONMENT	NATURE AND THE COMMUNITY	<p>Promote resource efficiency</p> <hr/> <p>Reduce carbon footprint</p>	<p>Sustainable operations that improve energy efficiency at all levels of the business</p> <hr/> <p>Explore alternative energy solutions</p> <hr/> <p>Sustainable operations that manage and control the usage of water</p> <hr/> <p>Mitigation of sound and dust pollution and Control of effluents</p> <hr/> <p>Promote the efficient use of manufacturing waste</p>
	SUPPLIERS	<p>Environmental outlook and approach</p> <hr/> <p>Environmental outlook and approach</p>	<p>Develop partnerships that would promote a sustainable supply chain</p> <hr/> <p>Knowledge transfer and skills development to encourage better mining practices</p>
	REGULATORY AUTHORITIES	<p>Improve Compliance</p>	<p>Greater integration of environmental concerns as part of the day-to-day operations</p>
SOCIAL	EMPLOYEES	<p>Remuneration and Benefits</p> <hr/> <p>Fairness and Equality</p> <hr/> <p>Job Security</p> <hr/> <p>Career Development</p> <hr/> <p>Safety and Well-being</p>	<p>Remuneration Policy</p> <hr/> <p>Employee Engagement and Labour Relations</p> <hr/> <p>Performance and Reward Management</p> <hr/> <p>Training and Mentoring</p> <hr/> <p>Occupational Health and Safety</p>
	COMMUNITY	<p>Livelihood Development</p> <hr/> <p>Improving community infrastructure</p>	<p>Initiating livelihood development programmes to uplift the living standards of communities</p> <hr/> <p>Provision of basic facilities to improve the living standards of the community</p>

## Strategy Execution Framework

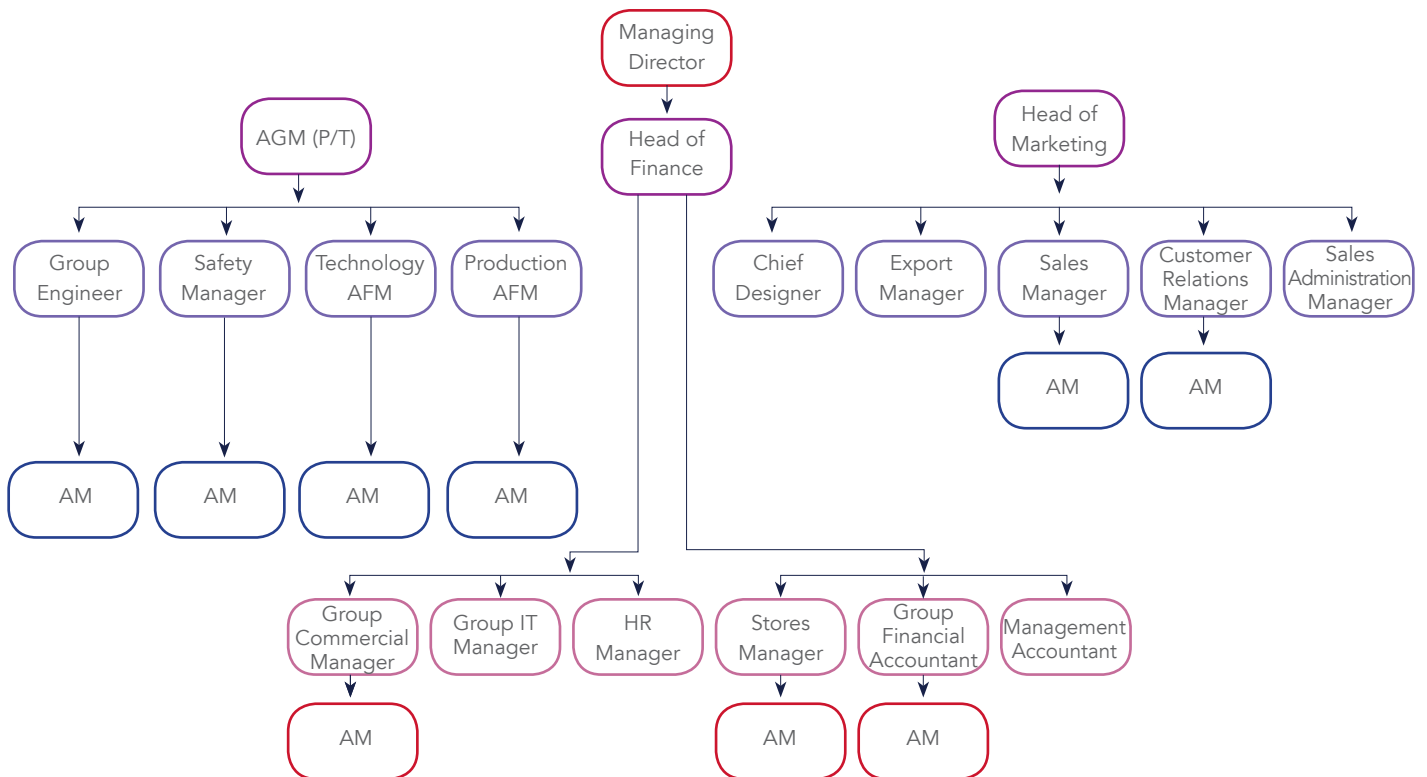
Sustainable business practices are a fundamental condition that defines all that we do. It is an integral component of our business activities and drives all our management decisions. It also helps us utilize our core competencies so as to generate more productive economic opportunities, minimise the impact of our operations on the local environment, while at the same time making a meaningful contribution towards societal change.



# Sustainability Report

## Governance as a key driver of Sustainable Development

The commitment to sustainable development is a key pillar of LTPLC's corporate strategy. It is also the basis on which we gauge the long term viability of our business. Our Corporate Governance mechanism provides clear guidelines to help extend our vision and capture the diverse expectations of our stakeholders, vis-à-vis economic value, environmental sustainability and social responsibility parameters



## Nurturing the "Greenscape"

### Our approach:

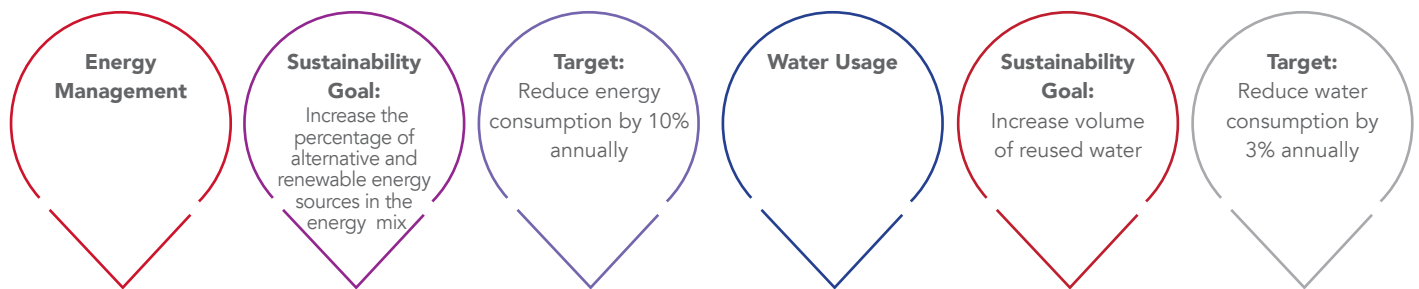
We believe that environmental protection benefits everyone and our goal is to nurture sustainable development in a manner that would benefit all stakeholders associated with our business. Our integrated management approach is based on ongoing evaluations and continuous improvement. We use the following guidelines to help us imbibe environmental concerns into all aspects of the business;

- Continuously improve environmental performance by reviewing internal guidelines
- Adopt a proactive and long term view on environmental matters by subscribing to new technology
- Comply with all relevant environmental legislation, international standards and global environmental benchmarks, including ISO 140001 Environmental Management Systems

**Rs. 32 Mn –**  
 Invested on Compliance and improvement of Environmental systems as per ISO 140001 Environmental Management Systems

In our search for environmental sustainability, we have come to understand how specific aspects of our business impact the environment. We have found that, with the expansion of our business footprint in the recent years, these aspects have become even more pronounced and our carbon footprint more distinct.

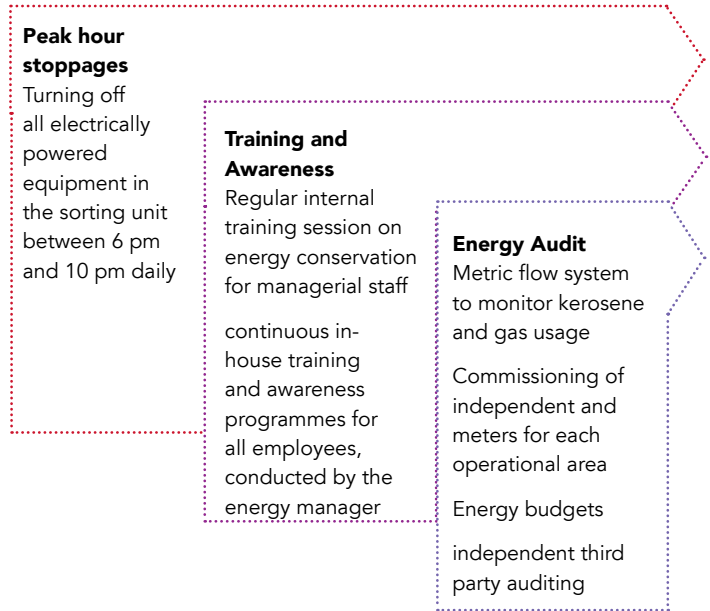
### Key focus areas:



LTPLC's energy intensive manufacturing process continues to depend on LP Gas as the primary energy source for the drying and firing processes, while conveyor functions including pressing and packing are powered by electricity. Diesel is also used in limited quantities to power the stand-by generators.

Given the high dependence on non-renewable energy sources, we have made a commitment to reduce our annual energy consumption by 10%. While ongoing efforts seek to improve the efficiency of existing processes, we believe the only sustainable way reduce the energy consumption, is to invest in renewable energy to power designated operations.

## Ongoing Initiatives



### The following steps were taken during the year;

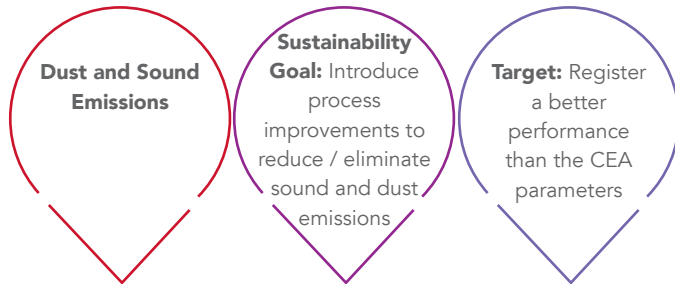
- A new heat recovery system was introduced to capture the residual heat from the Kiln exhaust, to be used for post-glaze drying of tiles, resulting in a saving of 5,100 Kg's of LP Gas per month
- Modification were introduced to the horizontal dryer to eliminate the use of LP Gas during the Tile squaring process. This helped reduce the monthly consumption by 6,400 Kg's

Our water requirements arise from the milling, glazing, cleaning and chamfering processes, in addition to numerous washing and cleaning applications at various stages of the manufacturing process. All water used during the manufacturing process is drawn entirely from municipal sources.

In the recent past, however, our demand for water has risen considerably prompting us to optimize our use of water. While we have taken steps to reduce the water consumed at each stage of the

# Sustainability Report

production process, our main thrust is to encourage the reuse of water wherever possible and practical. To accommodate this, we have set up an in-house water treatment plant which processes nearly 200 cubic meters of waste water on a daily basis, of which nearly 95% is recycled back, to be for different uses on the production floor. Meanwhile, the remaining 5% is treated in conformity with the CEA guidelines and released to the environment as non-hazardous effluents.



Dust emissions that originate from the firing process have always been a concern for LTPLC, particularly given its impact on the ambient air quality of the surrounding areas. We have always taken proactive steps to address the issue and have continued to implement ways in which we could help prevent emissions from reaching the lower regions of the atmosphere.

2014	CEA limit	LTPLC
Dust (Mg per Cubic Meter)	450	357
Sound (DB)	52	47

Among the measures for the year, we have built a series of dust containment points and changed the design structure of our kiln chimneys to increase the height of each chimney. We are also looking into possible temperature control measures to help curb the release of dust.

Sound emissions from the crushing process is yet another unavoidable consequence of the tile manufacturing process. This prompted us to outsource our crushing process, which has helped us cut sound emissions by 20%. The sound emissions that we do have are the result of the regular manufacturing operations. Here too, we remain committed to adhere to CEA stipulated sound limits for both the production floor as well as at the factory perimeter.

**An Innovative approach to control Dust Emissions**  
 Over the years we conducted extensive research to investigate the possibility of recycling tile dust and crushed tiles. A pilot project has been initiated to test the viability of producing paving blocks using tile chips that result from the manufacturing process.

In yet another innovative step, LTPLC is exploring the possibility of using tile powder as an alternative for the river sand used in the construction industry.

## Nurturing our people

Our aim is to develop a human capital base that would be an asset not only to the company, but to society and the nation as a whole. To help us achieve this goal, we have put in place a structured framework that complies with all applicable labour laws in the country. Moreover, in formulating our policies and practices, we are also guided by the broadly accepted recommendations and standards of recognized national and international organisations.

To meet key deliverables, we follow an integrated, non-discriminatory approach that is underpinned by a set of key fundamentals. Meanwhile, our leadership principles define a code of conduct for managers, including the respectful treatment of colleagues, the creation of a strong feedback culture and the professional development of all employees.

## Our Approach:

### Remuneration and Benefits

Our management culture is characterized by a strong focus on performance and results, which resonates through our all our remuneration systems. Our benefit structure is aligned to industry standards and has been designed to attract the most competent individuals for the job. Selections are done in a highly transparent manner, in accordance with LTPLC's code of business ethics and the underlying principles of Integrity, openness and honesty.

**1:1 –**  
 Basic Salary ratio  
 for men and women

Being a multi-cultural nation, we greatly value cultural diversity and will not discriminate on the basis of nationality, gender, religion or other personal characteristics. As an equal opportunity employer, all new recruits are selected based purely on the individual's credentials. The same guidelines apply for promotions as well.

### Freedom of Association and Collective Bargaining

We believe in the freedom of association and do not object to employees becoming members of any association, whether for collective bargaining purposes or otherwise. We do however object, if such an association violates the LTPLC code of ethics or infringes on the human rights of any other individual or group.

Of our 500 employees, 95% are represented by collective bargaining agreements drawn up by their respective labour unions. We have always been forthright with union representatives, maintaining a strong dialogue that has helped lay the groundwork for sustainable development of the workforce.

**0 –**  
 Grievances received  
 during the year

**0 –**  
 Days lost owing  
 to industrial disputes

Along these lines, maintaining a strong communicative culture with our employees, has been a priority for us. To support this aim we have put in place an open-door management culture accompanied by a formal grievance process that allows employees to access both formal and informal channels of communication to reach their superiors.

**Succession planning**

We are consciously pursuing the approach of filling management positions from among the existing employees as far as possible. To do this we first evaluate possible candidates from our existing cadre, before looking towards the group. While, all employees are evaluated regularly to assess their performance and determine their current and future capabilities, we earmark those who have demonstrated growth potential and help them map out their career within the organisation.

We also act as mentors in grooming and developing these candidates as future corporate leaders. Meanwhile, to help employees integrate their work ethic in line with the company’s growth expectations, we allow them to acquire a broader corporate perspective through regular learning and knowledge sharing.

**Training and Development**

While providing multiple benefits for both the company as well as the employee, training and development is, and always will be, at the crux of our effort to nurture a sustainable workforce. Our employees are trained with a clear purpose, i.e. not only help them enhance their skills and secure self-advancement within the company, but also to improve their overall marketability, should the chose to leave.

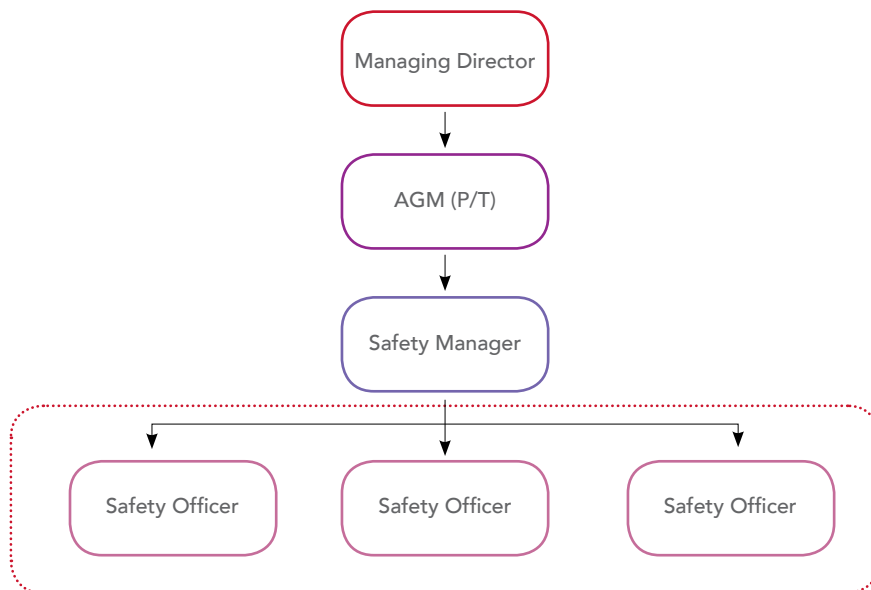
During the year, we invested Rs. 3.0 Mn on a dynamic training agenda, which was aimed at improving both technical, soft skills and leadership aspects of our employees.

**Occupational Health and Safety**

Our commitment to occupational health and safety is an integral part of our business activities and a key focus of our sustainability strategy. As part of our integrated operational framework, a clear safety structure is in place, to help us improve our safety record. Our aim is to minimise the risk of accidents and injury, as well as the risks of occupational illness. To achieve this goal, we continue to work towards improving occupational health and safety at our production facility in Ranala.

Emphasizing on preventative measures as the key driver of workplace safety, we practice OSHAS 18001, the ISO standards for Occupational Health and Safety Systems in the workplace. Moreover, occupational health and safety aspects have been imbibed into our leadership principles to help managers appreciate the importance of the “Safety First” model.

**HAZARD REPORT**  
13 – 2014 (20 – 2013)



Appointed on quarterly rotations

# Sustainability Report

Workforce Statistics	As at 31st March 2015			Gender Distribution			
	Head Office	Factory	Total	As a percentage of total workforce	Executive	Staff	Operative
Company Employees							
Female	18	9	27	5%	7	19	1
Male	65	408	473	95%	49	78	346
Total	83	417	500	100%	56	97	347
Internal promotions during the year	2	-	2				
Labour Turnover rate	2.70%						
Attrition rate							
Return to work after maternity leave	4						
<b>Outsourced Personnel</b>							
Female	-	20	20	20%			
Male	-	80	80	80%			
Total	-	100	100	100%			

Total Training	2013/14		2014/15	
Total Training hours				2,995
Total Training Hours (Male)				2,902
Total Training Hours (Female)				93
Technical Training	No of Participants	No. of hours	No of Participants	No. of hours
Technical Training				

Health and Safety	2013/14	2014/15
Injuries	32	27
Days lost due to occupational health and Safety reasons	24	35
No. of hazardous incidents reported	-	-
<b>Safety Training</b>		
No. of Programs	6	6
No. of participants	68	72

### **Nurturing the Community;**

Underpinned by our group policies, our social responsibility initiatives also link back to our business. It is on this basis that we try to integrate communities as part of our business ethic and do justice to the concept of sustainable social development as an enabler of a progressive nation.

Our key initiative for the year was the launch of the Lanka Tiles, Tiler Club, as a livelihood development effort aimed at developing the Tiler-based communities across the country. As it is a sustainable business initiative, the details of the Tiler Club have been comprehensively captured on page 22 to 27 of the Management Discussion and Analysis section of this report.

Additionally, we also offer practical help for construction projects by providing materials, time, financial assistance and know-how for projects that uplift community infrastructure. We also focus on improving the standard of education, general health and well-being of communities who are closely linked to our work. These projects are driven by our employees who volunteer their time and effort to bring about meaningful change for the community. Donation of Kolakanda to the village Daham Pasala on Sundays and donation of cash and kind to nearby hospitals, health centres and schools amplify this commitment.



Our key initiative for the year was the launch of the Lanka Tiles, Tiler Club, as a livelihood development effort aimed at developing the Tiler-based communities across the country.



The Board is guided by the Code of Best Practice issued by the Institute of Chartered Accountants of Sri Lanka the requirements of the Securities and Exchange Commission of Sri Lanka and the Colombo Stock Exchange.

# Corporate Governance

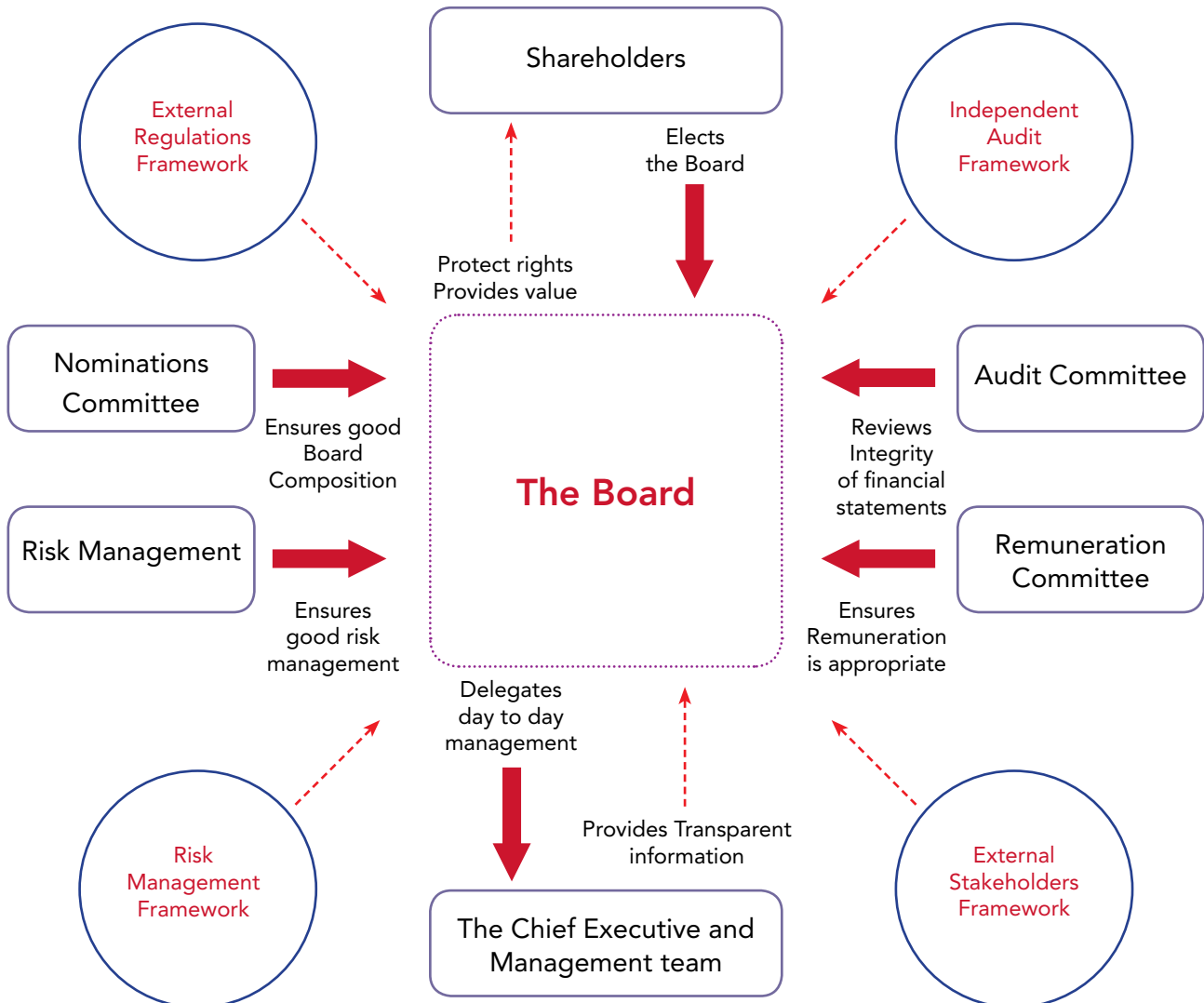


**As a key driver of the domestic construction sector, Lanka Tiles PLC continues to perform an exemplary role where good governance practices and uncompromising ethics determine the manner in which we conduct our business.**

The Board of Directors of Lanka Tiles PLC is committed to upholding the highest standards of integrity and transparency in its governance of the Company and its subsidiaries. The Board is guided by the Code of Best Practice issued by the Institute of Chartered Accountants of Sri Lanka the requirements of the Securities and Exchange Commission of Sri Lanka and the Colombo Stock Exchange. The Board is responsible for protecting the rights and interests of shareholders and are accountable to them for the overall management of the Company.

## Corporate Governance Framework

The Corporate Governance framework to accomplish the corporate governance objective of Lanka Tiles PLC is given below.



## The Compliancy to Corporate Governance Code

The compliance of Lanka Tiles PLC to the Code of Best Practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka is as follows:

Governance Principle	Lanka Tiles Adherence	Compliance Status																		
<b>A. Directors</b>																				
<b>A.1 The Board</b>																				
Frequency of Board Meetings	<p>The Board met on a monthly basis in the year under review. The Board's Audit and Remuneration sub committees met on 05 occasions.</p> <p>Board meeting attendance:</p> <table> <tbody> <tr> <td>W D N H Perera (Chairman)</td> <td>- 11/11</td> </tr> <tr> <td>J A P M Jayasekera (Managing Director)</td> <td>- 11/11</td> </tr> <tr> <td>P L Amerasinghe (Director)</td> <td>- 11/11</td> </tr> <tr> <td>Dr. S.Selliah (Director)</td> <td>- 09/11</td> </tr> <tr> <td>K D D Perera (Director)</td> <td>- 0/11</td> </tr> <tr> <td>T G Thoradeniya (Director)</td> <td>- 10/11</td> </tr> <tr> <td>K D G Gunaratne (Director)</td> <td>- 09/11</td> </tr> <tr> <td>A M L Page (Director)</td> <td>- 09/11</td> </tr> <tr> <td>G A R D Prasanna (Alternate Director)</td> <td>- 4/4</td> </tr> </tbody> </table>	W D N H Perera (Chairman)	- 11/11	J A P M Jayasekera (Managing Director)	- 11/11	P L Amerasinghe (Director)	- 11/11	Dr. S.Selliah (Director)	- 09/11	K D D Perera (Director)	- 0/11	T G Thoradeniya (Director)	- 10/11	K D G Gunaratne (Director)	- 09/11	A M L Page (Director)	- 09/11	G A R D Prasanna (Alternate Director)	- 4/4	Compliant
W D N H Perera (Chairman)	- 11/11																			
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A M L Page (Director)	- 09/11																			
G A R D Prasanna (Alternate Director)	- 4/4																			
Responsibility of the Board	<p>The Board is responsible for:</p> <ol style="list-style-type: none"> <li>The formulation and implementation of a sound business strategy.</li> <li>Monitoring compliance of governance, laws and regulations.</li> <li>Overseeing systems of internal control and risk management.</li> <li>Approving annual budgets and strategic plans.</li> <li>Appointing and reviewing the performance of the Managing Director.</li> <li>Approving any change in the Group's business portfolio and sanctioning major investments and disinvestments in accordance with parameters set.</li> <li>Ensuring that effective remuneration, reward and recognition policies are in place to motivate employees to meet Company objectives.</li> <li>Submitting themselves for re-election at regular intervals and at least once in every three years.</li> </ol>	Compliant																		

## Corporate Governance

Governance Principle	Lanka Tiles Adherence	Compliance Status
Compliance with applicable law	The Board ensured in the year under review that the Company adhered to all applicable laws, rules and regulations.	Compliant
Company Secretary	The services and advice of the Company Secretary M/s. PW Corporate Secretarial (Pvt.) Ltd. is made available to Directors as necessary. The Company Secretary keeps the Board informed of new laws, regulations and requirements coming into effect which are relevant individually as Directors and collectively to the Board.	Compliant
Independent judgment	The Board members are required to divulge all functions with the Company, refrain from matters of self interest and to bring independent judgement to the decision making process.	Compliant
Dedication of adequate time and effort	Board members attend all Board meetings in person and need to be prepared to engage in decision making matters which may entail an adequate amount of time and effort spent.	Compliant
Appropriate training for Directors	All Directors have considerable experience in managing Companies and the ceramic industry. Relevant training opportunities are made available to all Directors locally and internationally to further their knowledge and expertise.	Compliant
<b>A2 Chairman and CEO</b>		
Division of responsibilities between the Chairman and CEO	There is a clear division of responsibility at the head of the Company. This is between the running of the Board (Chairman) and the executive responsibility of overseeing the Company's business (Managing Director). No single individual has liberal powers with regard to decision making.	Compliant
<b>A.3 Role of the Chairman</b>		
Prepare good corporate governance and facilitate effective discharge of Board functions	The Chairman is responsible for the efficient conduct of Board meetings. The Chairman maintains close contact with all Directors and holds informal meetings with Non-Executive Directors whenever necessary.	Compliant
<b>A.4 Financial Acumen</b>		
Availability of sufficient financial acumen and knowledge.	The Board includes directors, who possess the necessary knowledge and competence to offer the Board guidance on financial matters. The Managing Director is a Chartered Accountant.	Compliant

Governance Principle	Lanka Tiles Adherence	Compliance Status
<b>A.5 Board Balance</b>	<p>The Board comprises of 08 executive and non-executive Directors.</p> <p>Directors' status is as follows:</p> <p>W D N H Perera (Chairman) - Non executive  J A P M Jayasekera (Managing Director) - Executive  P L Amerasinghe (Director) – Non executive – Independent  Dr. S.Selliah - (Director) – Non executive – Independent  K D D Perera – (Director) - Non executive  T G Thoradeniya – (Director) - Non executive  K D G Gunaratne – (Director) - Non executive - Independent  A M L Page – (Director) - Non executive - Independent</p> <p>The Board of Directors are of the view that the period of service as a Board member exceeding twelve years rendered by Mr. P L Amerasinghe does not compromise his independence and objectivity in discharging his functions as a Director. Dr. S Selliah and Ms. A M L Page are also Directors of Lanka Walltiles PLC. However, after taking into consideration the fact that they are not actively involved in the Management of Lanka Walltile PLC and furthermore, since they do not directly hold a significant percentage of shares in Lanka Tiles PLC, the Board is of the view that their independence is also not compromised. Accordingly, the Board has determined that Mr. P L Amerasinghe, Dr. S Selliah, Mr. K D G Gunaratne and Ms. A M L Page are 'independent' Directors as per the criteria set out in the Listing Rules of the Colombo Stock Exchange.</p>	
<b>A.6 Supply of Information</b>	<p>Relevant information and agenda to be circulated in a timely manner to the Board.</p> <p>The Board papers are circulated a week prior to Board meetings with an adequate briefing on relevant information.</p>	Compliant
<b>A.7 Appointments to the Board</b>	<p>Procedure for the appointment and disclosure of new Directors/ Assessment of Board composition</p> <p>The appointment to the Board is undertaken by the Board itself, taking into consideration the Board composition required and the strategic input required. All Board appointments are informed to the CSE as per the existing regulations.</p>	
<b>A.8 Re-election</b>	<p>Re-election of Directors at regular intervals.</p> <p>As per the Articles of Association one third of the Directors for the time being shall retire from the office and shall offer themselves for re-election each year by Shareholders.</p>	Compliant

# Corporate Governance

Governance Principle	Lanka Tiles Adherence	Compliance Status
<b>A.9</b>	<b>Appraisal of Board Performance</b>	
Boards should periodically appraise their own performance in order to ensure that responsibilities are discharged in a satisfactory manner.	The Board regularly evaluates its performance based on achievement of results, implementation of strategy, risk management, internal controls, compliance with laws and stakeholder requirements.	Compliant
<b>A.10</b>	<b>Disclosure of information with respect to Directors</b>	
Shareholders at all times should be aware of relevant details with respect to Directors.	All Directors have declared their details in pages in 17,18 and 19 as Director profiles.	Compliant
<b>A.11</b>	<b>Appraisal of Chief Executive Officer</b>	
The Board should be required to assess the performance of the CEO annually.	The CEO is evaluated each year as per the yearly targets that has been agreed with the annual budget	Compliant
<b>B.</b>	<b>Directors' remuneration</b>	
<b>B.1</b>	<b>Remuneration Procedure</b>	
Formal and transparent procedure for developing policies on remuneration.	The Board has implemented a formal and transparent procedure for developing policies on remuneration by setting up a Remuneration Committee. Its purpose is to assist the Board of Directors in matters relating to compensation of the Company's Directors, Executive Officers and such other employees as determined by the Committee.	Compliant
Composition and disclosure of the members of the Remuneration Committee	The Remuneration Report which is in Page 60 of the report addresses all related matters.	Compliant
<b>B.2</b>	<b>The level and make up of Remuneration</b>	
Levels of Remuneration	Remuneration levels have been designed to attract, retain and motivate Directors and Senior Management required to run the Company successfully, while remaining within the industry's remuneration standards.	Compliant
<b>B.3</b>	<b>Disclosure of Remuneration</b>	
Disclosure of Remuneration in the Annual Report	Details of the Remuneration Committee and the statement of remuneration policy are provided in the Annual Report.  The aggregate remuneration paid to Executive and Non executive Directors are disclosed on Page 88 of this Report.	Compliant
<b>C.</b>	<b>Relations with Shareholders</b>	
<b>C.1</b>	<b>Constructive use of the Annual General Meeting</b>	
Boards should use the Annual General Meeting to communicate with shareholders and encourage their participation.	The active participation of shareholders at the AGM is encouraged. The Board believes the AGM is a means of continuing effective dialogue with Shareholders.	Compliant

Governance Principle	Lanka Tiles Adherence	Compliance Status
<b>C.2 Major Transactions</b>		
Disclosure of major corporate transactions that will materially effect the net asset base.	There have been no transactions during the year under review, which fall within the definition of 'Major Transactions' in terms of the Companies Act.	Compliant
<b>D. Accountability and Audit</b>		
<b>D.1 Financial Reporting</b>		
<b>D.2 Internal Control</b>		
The Board should maintain a sound system of internal control to safeguard shareholders' investments and the Company's assets.	The Board has taken necessary steps to ensure the integrity of the Group's accounting, financial reporting and internal control systems and also review and monitor the same on a periodic basis. Our systems covering risk management, financial and operational control, ethical conduct, compliance with legal and regulatory requirements and corporate social responsibility are detailed below.	Compliant
<b>D.3 Audit Committee</b>		
The Board should establish formal and transparent arrangements in the manner in which they select and apply accounting policies, financial reporting, internal control principles and maintaining an appropriate relationship with the Company's Auditors.	The Audit Committee Report on page 61 of the report addresses this section in full.	Compliant
<b>D.4 Code of Business Conduct and Ethics</b>		
Companies must adopt a Code of Business Conduct and Ethics for Directors and members of the Senior Management team and promptly disclose any waivers of the Code for Directors or others.	The Code of Best Practice issued by the Institute of Chartered Accountants of Sri Lanka and the Securities Exchange Commission is adopted by the Directors who then ensure that the Company and the employees behave ethically.	Compliant
<b>D.5 Corporate Governance Disclosures</b>		
Directors should be required to disclose the extent to which the Company adheres to established principles and practices of good Corporate Governance.	Adhered to as per the Corporate Governance report in the Annual Report Pages 40-47	Compliant
<b>E. Shareholders</b>		
<b>E.1 Shareholder Voting</b>		
Institutional shareholders should be encouraged to ensure their voting intentions are translated into practice.	All institutional shareholders are encouraged to participate and their views are communicated to all concerned.	Compliant
<b>E.2 Evaluation of Governance Disclosures</b>		
Institutional investors should be encouraged to give due weight to all relevant factors drawn to their attention.	The Report contains the Company's Corporate Governance process and structure for investor's attention.	Compliant

# Corporate Governance

Governance Principle	Lanka Tiles Adherence	Compliance Status
<b>F Other Investors</b>		
<b>F.1 Investing / Divesting Decision</b>		
Individual shareholders should be encouraged to carry out adequate analysis in investing or divesting decisions.	The Annual Report contains sufficient information to make an informed decision. The report is hosted in Colombo Stock Exchange website with the quarterly reports to facilitate investors and shareholders to make informed decisions.	Compliant
<b>F.2 Shareholder Voting</b>		
Individual shareholders should be encouraged to participate in the General Meeting of Companies and exercise their voting rights.	All shareholders are encouraged to participate at the Annual General Meeting / Extraordinary General Meeting and cast their votes. AGM's are noticed in advance as per Companies Act and held on accessible area to ensure shareholders can participate effectively.	Compliant

## CSE Listing Rules Compliance

Lanka Tiles PLC's extent of adherence to corporate governance rules under section 7.10 of continuous listing requirements of the Colombo Stock Exchange is given below.

### a. Non-Executive Directors

The Board of Directors should include at least two Non-executive directors or such number of Non-Executive Directors equivalent to one third of the total number of directors whichever is higher.

#### Lanka Tiles Adherence

Lanka Tiles PLC has seven Non- Executive Directors out of eight as given in item A5 in the ICASL adherence table, which is above the minimum requirement.

#### Compliance Status

Compliant

### b. Independent Directors

The Board of Directors should include two or 1/3 of Non-Executive Directors appointed to the Board of Directors, whichever is higher shall be 'independent'.

#### Lanka Tiles Adherence

The Company has four independent Directors out of seven as given in item A5 in ICASL adherence table, which is above the minimum level.

#### Compliance Status

Compliant

### c. Disclosure relating to Directors

The Board shall make a determination annually as to the independence or non-independence of each non-executive Director based on such declaration and other information available to the Board and shall set out in the annual report the names of Directors determined to be 'independent'.

#### Lanka Tiles Adherence

The Board has determined the independence of each independent director and set out and declared the independence as per item A5 in the previous table.

#### Compliance Status

Compliant

### d. Criteria for Defining 'Independence'

The Colombo Stock Exchange identified criteria of independence should be met by the independent directors of the Company

#### Lanka Tiles Adherence

All directors meet the above criteria and additional explanations are given in Note A5 in Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission corporate governance adherence report.

#### Compliance Status

Compliant

### e. Remuneration Committee

#### i. Composition of Remuneration Committee

The remuneration committee shall comprise of at least two Non-Executive Directors in which a majority shall be Independent.

#### **Lanka Tiles Adherence**

As per the remuneration committee report given in page 60 the Remuneration Committee comprises of three independent non-executive Directors of Royal Ceramics Lanka PLC and who are also the members of the Group Remuneration Committee.

#### **Compliance Status**

Compliant

#### **ii. Functions of Remuneration Committee**

The Remuneration Committee shall recommend the remuneration payable to the executive directors and Chief Executive Officer of the Listed Entity to the board of the Listed Entity among other defined functions.

#### **Lanka Tiles Adherence**

The Remuneration Committee met once for the year and have recommended the remuneration of the CEO and the Senior management of the Company to the board and their report is published in page 17-19.

#### **Compliance Status**

Compliant

#### **iii. Disclosure in the Annual Report**

The annual report should set out the names of directors in comprising the Remuneration Committee and contain a statement of the remuneration policy and set out the aggregate remuneration paid to executive and non-executive directors.

#### **Lanka Tiles Adherence**

The Remuneration Committee report in page 60 as sets out the names of the directors in the remuneration committee report and aggregate remuneration paid to all directors is given in page 88.

#### **Compliance Status**

Compliant

#### **f. Audit Committee**

##### **i. Composition of the Audit Committee**

The audit committee shall comprise of at least two Non-Executive directors a majority of whom shall be independent.

#### **Lanka Tiles Adherence**

The Audit Committee comprises of three independent, Non – Executive Directors of Royal Ceramics Lanka PLC.

#### **Compliance Status**

Compliant

#### **ii. Functions Audit Committee**

Overseeing of the preparation, presentation and adequacy of disclosures in the financial statements of a Listed Entity, in accordance with Sri Lanka Accounting Standards.

#### **Lanka Tiles Adherence**

The Audit Committee report in page 61 of the annual report explains the function of the Audit Committee which has executed the above function.

#### **Compliance Status**

Compliant

#### **iii. Disclosure in the Annual Report relating to Remuneration Committee**

The names of the directors comprising the Remuneration committee should be disclosed in the annual report.

#### **Lanka Tiles Adherence**

The Remuneration Committee report in page 60 has addressed this requirement.

#### **Compliance Status**

Compliant

#### **Statement of Compliance**

The Company is fully compliant with the requirements of the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka in 2008. See the tables appear on pages 40 to 46 for the requirements of 'Corporate Governance Principles' and the response of the company on its adherence to the said requirements.

In addition, tables appearing on pages 46 to 47 demonstrate the company's adherence corporate governance rules under section 7.10 of continuous listing requirements of the Colombo Stock Exchange.

Further, the Board of Directors to the best of their knowledge and belief are is also satisfied that all statutory payments due to the Government, other regulatory institutions and those payments related to employees, have been made on time.

Therefore the Board has concluded and declared the Company is fully compliant to with the Corporate Governance Rules of the Colombo Stock Exchange.

# Risk Management

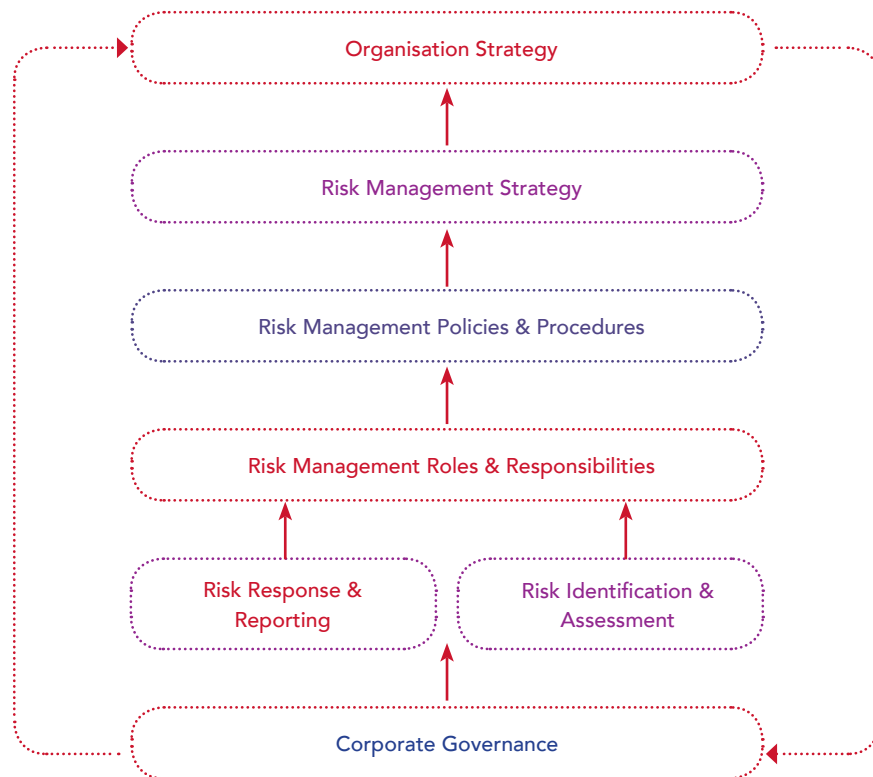
## Introduction

Risk Management is a critical requirement for any company operating in a competitive market and a changing economy. Lanka Tiles PLC henceforth has taken a strategic initiative to identify the areas relevant to the organisation and respond to potential risk. The risk management process will enable administration to evaluate strategies existing within the organisation to mitigate the risk factors identified, gain comfort over the continuation of the business and ensure the required returns to the stakeholders. This process additionally assists the Company in managing sustainability of growth and profitability. The objective is to improve performance and decision making through identification, evaluation and management of key risks. The responsibility of the Risk Management process lies with the Board of Directors and the process is supervised by the Company's Executive Committee and reviewed by the Audit Committee. A review of the risk management framework and the process of the Company is described below.

## Risk Management Framework

The Committee of Sponsoring Organisations of the Tradeway Commission (COSO)'s Enterprise Risk Management (ERM) integrated framework defines ERM as a process, effected by the entity's Board of Directors and management and applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within the risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

A graphical overview of the Company's risk management framework is given below.



Lanka Tiles PLC risk management frame work with COSO's integrated enterprise risk management can be presented as follows;

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### Risk culture

A Company has to cultivate an appropriate risk awareness culture for effective ERM practice. A strong endorsement by the Board of Directors and senior management of the value of investing time and infrastructure into better understanding the organisation's most significant risk exposures is an important and necessary condition that must be in place.

In this regard the senior management and the Board of Directors have a clear understanding of the objectives of ERM relative to traditional approaches to risk management and the CEO embraces the need and provides adequate endorsement of an enterprise wide approach to risk oversight that seeks to obtain a top-down view of major risk exposures. The Board of Directors is also supportive of management's efforts to implement an enterprise wide approach to risk oversight and the Board of Directors sets aside agenda time at each of its meetings to discuss the most significant risks facing the organisation. The senior management has effective risk management capabilities and competencies.

---

### Risk identification

Robust processes have to be in place in the organisation to identify risks, particularly those risks that may be currently unknown, but emerging and should encourage the management to regularly think about risk.

In this regard, the organisation has defined and widely communicated to members of management and the Board what it means by the term "risk". The organisation has identified a broad range of risks that may arise both internally and externally, including risks that can be controlled or prevented, as well as those over which the organisation has no control. The organisation engages in identifiable processes to regularly scan the environment in an effort to identify unknown, but potentially emerging risks such as competitor moves, new regulations, changing consumer preferences, etc. Each member of the Board of Directors has provided input into the risk identification process.

---

### Risk assessment

The organisation needs methods to prioritise risks that encourages a consistent consideration of both the likelihood of the risk occurring and the impact of the event to the organisation, if the risk occurs.

The organisation defines a five year time period over which risks should be assessed to ensure consistency in management's evaluations. The organisation strives to assess inherent risk of the Company and industry and the organisation assesses not only the likelihood of a risk event occurring but also the impact of the risk to the organisation. The Board of Directors has concurred with the assessment of the risks completed by management.

---

### Articulation of risk appetite

While determining the organisation's appetite for risk taking can be challenging, it is important that the board and senior management make some attempt to articulate its overall appetite for risk taking.

The board and management have engaged in discussions to articulate the organisation's overall appetite for risk taking. The Board of Directors has concurred with the organisation's risk appetite.

---

### Risk response

It is very important to ensure that an appropriate risk response method is implemented, and then to ensure that the response is working as intended. Periodic evaluation of whether identified risk responses are effectively being carried out will ensure an effective ongoing ERM process.

The organisation has identified risk owners with responsibility for each of its most significant risks. The organisation has evaluated whether the existing response is sufficient to manage the risks to be within the organisation's risk appetite. The organisation has separately evaluated the potential cost of the risk response relative to the benefit provided by the response towards either reducing the impact or reducing the probability of occurrence of the risk event. The organisation's ERM process helps identify potential overlaps or duplications in risk responses across the enterprise.

# Risk Management

## Risk reporting

As risks are identified and assessed across the organisation, processes are needed to facilitate the communication of risk-related information so that an aggregate view of important risks and their related risk responses are provided to senior management, the board, and to critical stakeholders.

The organisation has developed and monitors critical risk indicators that are leading in nature in that they provide some indication that a risk event is more likely to occur in the future. Senior management regularly review management reports that provide the status of critical risks and risk response plans. The Board monthly receives and reviews these reports which provide the status of critical risks and risk response plans.

## Integration with strategic planning

Effective ERM can be an important input and consideration into the determination and execution of any organisation's strategy. ERM provides critical insights into the portfolio of existing and emerging risk exposures that can contribute to the strategic success of the organisation.

The organisation has a formal strategic planning process and the strategic plan is updated at least annually. The organisation's existing risk profile is an important input for the strategic planning process. Senior management links the top risk exposures to strategic objectives to determine which objectives face the greatest number of risks and to determine which risks impact the greatest number of objectives.

## Assessment of ERM effectiveness of the risk management process:

Senior management and the Board of Directors need to view ERM as an evolution, not a point-in-time project to be implemented.

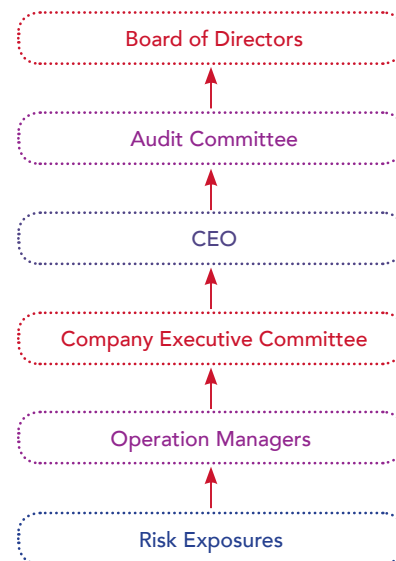
In the organisation the senior management regards ERM as an ongoing process rather than just a project and they seek to understand and monitor emerging ERM best practices and adequate resources have been dedicated to support and complete the ERM function, successfully.

## Risk Management Process

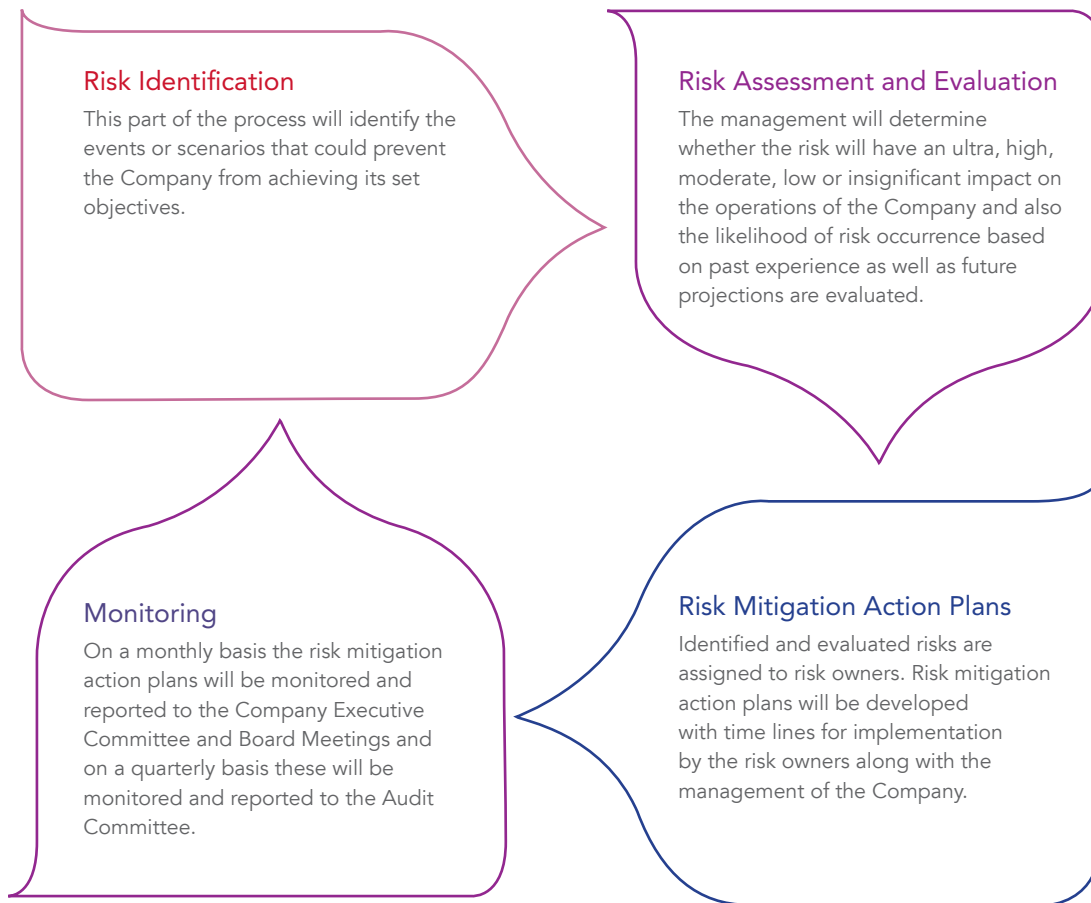
The risk management process has been designed to ensure identification of any situation or circumstance that would adversely effect the achievement of Company activities and to accept and manage unavoidable risks and to ensure that surprise events or situations are minimized. This process is aligned directly to the Company strategy, annual plans and monitored by the Board which is reviewed by the Audit Committee.

To facilitate a professional risk management process a facilitative management structure and a robust management process needs to be in place in the organisation.

Lanka Tiles PLC has the following management structure to facilitate risk management;



Lanka Tiles PLC has the following management process to facilitate risk management;



Some of the Key Risks that may hinder the Achievement of the Company's Strategic Business Objectives are set out below

### Business Environment Risk

Environment risk arises when there are external forces that may affect the viability of the enterprise's business model, including the fundamentals that drive the overall objectives and strategies that define it. Adverse political actions and changing laws may be harmful to the firm's resources and future cash flows in a country in which the firm has invested significantly and is dependent on a significant volume of business.

To counter political and regulation risk the Company brings the relevant issues to the notice of government institutions, persistently monitors them and maintains a close relationship with relevant government institutions and industry associations and chambers. The Company also assists government institutions in formulating new laws and regulations pertaining to the industry and provides information

on relevant issues to government institutions. In addition, a legal feasibility evaluation has been made a standard process in order to approve capital projects.

### Operations Risk

Operations risk is the risk of inefficiency in executing the firm's business model, satisfying customers and achieving the Company's quality, cost and time performance objectives. Unproductive operations threaten the Company's capacity to produce goods at or below cost levels incurred by competitors.

To counter operations risk, the Company has a strong operational control mechanism where production, quality, cost and efficiency are monitored on a daily basis and improvement projects are undertaken to increase efficiency. Plant upgrades with new plants and machinery are done annually to be on par with world class manufacturers. In addition, a five year strategic plan has been implemented to enhance capacity and ensure operations run smoothly.

# Risk Management

## Capacity Risk

Insufficient capacity will pose a hindrance to the Company's ability to meet customer demands or excess capacity threatens the firm's ability to generate competitive profit margins.

Presently the firm has identified that it needs more capacity and therefore a Capacity Expansion Program has been planned for next five years and is reviewed monthly. This includes installation of the new kiln, importing tiles to meet specific demands and implementing the capacity expansion plan to monitor financial and resources requirements.

## Integrity Risk

Integrity risk is the risk of management fraud, employee fraud, illegal acts, unauthorized acts and any or all of which could lead to loss of reputation in the marketplace.

To mitigate this risk the Company conducts a monthly internal audit of transactions undertaken by an independent firm of chartered accountants, to detect and reduce fraud and detail approval processes for official transactions which mitigate the above risk. In addition a quarterly audit committee meeting is held to monitor the reporting status and coupled with monthly Board meetings which supervise the financial status of the Company and the integrity of employees.

## Financial Risk

Exposure to lower returns or the necessity to borrow due to shortfalls in cash or expected cash flows or variances in timing or significant movements in interest rates expose the firm to a number of negative factors. These include higher borrowing costs, lower investment yields or decreased asset values and result in financial helping risk. Movements in prices, rates, indices and such, affect the value of the Company's financial assets and stock price, which may additionally impact its cost of capital and/ or the ability to raise capital.

Credit limits and given credit is reviewed through a detailed approval process reducing risk of debt, exports under DA terms are insured using SLECIC and monthly overdue debtors are reported to the Board for necessary action. These actions reduce cash flow risk and all capital projects are financially evaluated to ensure that inflows match with borrowings. Both floating and fixed rate debt is maintained and is structured using loans, share capital and internal fund management to reduce borrowings.

## Confirmation


The Board confirms that an effective risk management framework and an adequate ongoing risk management process is in place to minimize all potential risks and its probability of impact to the Company and the financial reporting.

A system has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes has been done in according with applicable accounting standards and regulatory requirements and the Board has found no any significant risks that may impact the operation of the business as a going concern.



## **Financial Statements**

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# Annual Report of The Board of Directors on The Affairs of The Company

The Board of Directors of Lanka Tiles PLC is pleased to present herewith the Annual Report together with the Audited Financial Statements of the Company for the year ended 31 March 2015 as set out on pages 54 to 94.

This Annual Report of the Board on the affairs of the Company contains the information required in terms of the Companies Act No. 07 of 2007, the Listing Rules of the Colombo Stock Exchange and is guided by recommended best practices.

## 1. General

Pursuant to the requirements of the new Companies Act No. 7 of 2007, the Company was re-registered on 19th March 2008 and bears registration number PQ 129.

## 2. Principal activities of the Company and review of performance during the year

The main activity of the Company, which remains unchanged since the previous year, is the manufacture and sale of glazed ceramic floor tiles.

This Report together with the Financial Statements, reflect the state of affairs of the Company.

## 3. Financial Statements

The Financial Statements of the Company duly signed by two Directors on behalf of the Board and the Auditors are given on pages 63 to 93

Summarised "Economic Entity" financial results

Year ended 31st March	2015 Rs.'000	2014 Rs.'000
Revenue	5,349,670	5,109,318
Total comprehensive Income for the year	903,245	649,086

## 4. Independent Auditor's Report

The Report of the Independent auditors on the financial statements of the Company is given on page 62.

## 5. Accounting Policies

The financial statements of the Company have been prepared in accordance with the revised Sri Lanka Accounting Standards and the policies adopted thereof are given on page 67 to 94. Figures pertaining to the previous period have been re-stated where necessary to conform to the presentation for the year under review.

## 6. Directors

The names of the Directors who held office as at the end of the accounting period are given below and their brief profiles appear on pages 17 to 19.

### Executive Directors

Mr. J A P M Jayasekera - Managing Director

### Non - Executive Directors

Mr. W D N H Perera - Chairman

Mr. Dhammika Perera - Director

Mr. T G Thoradeniya - Director

### Independent Non - Executive Directors

Mr. P L Amerasinghe - Director

Dr. S Selliah - Director

Mr. K D G Gunaratne - Director

Ms. A M L Page - Director

Mr. K D D Perera and Mr. T G Thoradeniya retire by rotation at the conclusion of the Annual General Meeting in terms of Articles 103 and 104 of the Articles of Association and being eligible are recommended by the Directors for re-election.

Mr. P L Amerasinghe who reached the age of 70 years on 2nd September 2014 will retire from the Board and does not offer himself for re-appointment.

## 7. Interests Register

The Company maintains an Interests Register in terms of the Companies Act, No. 7 of 2007.

All related party transactions which encompasses the transactions of Directors who were directly or indirectly interested in a contract or a related party transaction with the Company during the accounting period are recorded in the Interests Register in due compliance with the applicable rules and regulations of the relevant regulatory authorities.

The relevant interests of Directors in the shares of the Company as at 31st March 2015 as recorded in the Interests Register are given in this Report under Directors' shareholding.

## 8. Directors' Remuneration

The Directors' remuneration is disclosed under key management personnel compensation in Note 20 to the financial statements on page 88.

## 9. Directors' Interests in Contracts

The Directors have no direct or indirect interest in any other contract or proposed contract with the Company, except for the transactions referred to in Note 27 to the financial statements, to the Company carried out transaction during the year in the ordinary course of its business at commercial rates with the related entities.

## 10. Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of financial statements of the Company to reflect a true and fair view of the state of its affairs. The Directors are of the view that these financial statements have been prepared in conformity with requirements of the Sri Lanka Accounting Standards, the Companies Act No.7 of 2007 and the Listing Rules of the Colombo Stock Exchange.

## 11. Independent Auditors

Messrs PricewaterhouseCoopers, Chartered Accountants served as the Auditors during the year under review and also provided tax services. They do not have any interest in the Company other than that of auditor and provider of tax related services.

A total amount of Rs. 980,000/- (2014 – Rs. 975,000/-) is payable by the Company to the Auditors for the year under review comprising Rs. 652,000/- (2014 – Rs. 615,000/-) as audit fees and Rs. 328,000/- (2014 – Rs. 360,000/-) for non audit services.

The Auditors have expressed their willingness to continue in office. The Audit Committee at a meeting held on 19 May 2015 recommended that they be re-appointed as auditors. A resolution to re-appoint the auditors and to authorise the Directors to determine their remuneration will be proposed at the annual general meeting.

## 12. Stated Capital

The stated capital of the Company is Rs. 900,967,696/- (2014-900,967,696/-).

The number of shares issued by the Company stood at 53,050,410 fully paid ordinary shares as at 31st March 2015 (which was the same as at 31st March 2014).

## 13. Directors' Shareholding

The relevant interests of Directors in the shares of the Company as at 31st March 2015 and 31st March 2014 are as follows:

	Shareholding as at 31/03/2015	Shareholding as at 31/03/2014
Mr. W D N H Perera	-	-
Mr. J A P M Jayasekera	-	-
Mr. P L Amerasinghe	2,135	2,135
Dr. S Selliah	-	-
Mr. Dhammika Perera	-	-
Mr. T G Thoradeniya	-	-
Mr. K D G Gunaratne	-	-
Ms. A M L Page	2,500	2,500

## 14. Shareholders

There were 1,720 shareholders registered as at 31st March 2015 (1,826 shareholders as at 31st March 2014). The details of distribution are given on page 97 of this Report.

## 15. Major Shareholders, Distribution Schedule and other information

Information on the distribution of shareholding, analysis of shareholders, market values per share, earnings, dividends, net assets per share, twenty largest shareholders of the Company, percentage of shares held by the public as per the Listing Rules of the Colombo Stock Exchange are given on pages 97 to 98 under Share Information.

## 16. Employment Policy

The Company's employment policy is totally non-discriminatory which respects individuals and provides career opportunities irrespective of the gender, race or religion.

As at 31st March 2015, 500 persons were in employment ( 522 persons as at 31st March 2014).

## 17. Reserves

The movement of reserves during the year is given under the statement of changes in equity on page 65

## 18. Capital Expenditure

The total capital expenditure during the year amounted to Rs. 163 Mn compared to Rs. 240 Mn incurred in the previous year. Details of movement in property, plant and equipment and capital work-in-progress are given under Note 05 to the financial statements.

## 19. Land holdings

The book value of property, plant and equipment as at the balance sheet date amounted to Rs. 2.556 Mn (2014 – Rs. 2.608 Mn)

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

Location	No. of Buildings	Lands in extent (perches)	Valuation Rs. '000
Factory at Jaltara, Ranala	41	4,060	348,500
Land adjacent to the factory	17	1,783	205,618
Warehouse at Biyagama	2	336	218,354
Ball Clay land at Kalutara	-	841	55
Land at Madampe	-	2,082	35,784
TOTAL	60	9,102	808,311

# Annual Report of The Board of Directors on The Affairs of The Company

The movement of fixed assets during the year is given in Note 05 to the financial statements.

## 20. Dividend

A second interim dividend of Rs 2/- per share for the year ended 31 March 2014 was paid on 4 July 2014. A first interim dividend of Rs. 2/- per share for the year ended 31 March 2015 was paid on 25 November 2014. A second interim dividend of Rs. 2.50 per share as approved by Directors for the year ended 31 March 2015 was paid on 23 April 2015.

## 21. Substantial Shareholdings

The Company is controlled by Lanka Walltiles PLC which holds 68.2% (2014 – 68.2%) of the issued share capital of the Company. Lanka Walltiles PLC itself is a subsidiary of Lanka Ceramic PLC of which the ultimate parent Company is Vallibel One PLC.

## 22. Investments

Details of the Company's quoted and unquoted investments as at 31st March 2015 are given in Note 06 to the Financial Statements on page 78.

## 23. Donations

The Company made donations amounting to Rs. 832,420/- in total, during the year under review.

## 24. Risk Management

An ongoing process is in place to identify and manage the risks that are associated with the business and operations of the Company. The Directors review this process through the Audit Committee.

Specific steps taken by the Company in managing the risks are detailed in the section on Risk Management on pages 47 - 51.

## 25. Statutory Payments

The Directors confirm that to the best of their knowledge, all taxes, duties and levies payable by the Company, all contributions, levies and taxes payable on behalf of, and in respect of employees of the Company and all other known statutory dues as were due and payable by the Company as at the date of financial position have been paid or, where relevant provided for, except for certain assessments where appeals have been lodged.

## 26. Contingent Liabilities

Except as disclosed in Note 29 to the Financial Statements on page 93, there were no material contingent liabilities as at the date of the financial position.

## 27. Events After Reporting Period

As disclosed in Note 30 to the financial statements there are no material events as at the date of the auditor's report which require adjustment to, or disclosure in the financial statements.

## 28. Corporate Governance

The Board of Directors confirm that the Company is compliant with section 7.10 of the Listing Rules of the CSE.

An audit committee and a remuneration committee function as board sub committees, with directors nominated for the group and possess the requisite qualifications and experience. The composition of the said committees is as follows.

### Audit Committee

Mr. M D S Goonatileke - Chairman  
Mr. L T Samarawickrama  
Mr. R N Asirwatham  
Mr. S H Amarasekera

### Remuneration Committee

Mr. R B Thambiyah - Chairman  
Mr. M D S Goonatileke  
Mr. L T Samarawickrama

The corporate governance of the Company is reflected in its strong belief in protecting and enhancing stakeholder value in a sustainable manner, supported by a sound system of policies and practices. Prudent internal controls ensure professionalism, integrity and commitment of the Board of Directors, Management and employees.

The corporate governance Statement on pages 40 to 46 explains the measures adopted by the Company during the year.

## 29. Corporate Social Responsibility

The Company continued its Corporate Social Responsibility Programme, details of which are set out on pages 28 to 37 of this Report.

## 30. Environmental Protection

After making adequate enquiries from the management, the Directors are satisfied that the Company operates in a manner that minimizes the detrimental effects on the environment and provides products and services that have a beneficial effect on the customers and the communities within which the Company operates.

### 31. Going Concern

The financial statements are prepared on going concern principles. After making adequate enquires from the management, the Directors are satisfied that the Company has adequate resources to continue its operations in the foreseeable future.

### 32. Annual General Meeting

The Notice of the Thirty First (31st) Annual General Meeting appears on page 100.

This Annual Report is signed for and on behalf of the Board of Directors by



**W D N H Perera**  
Chairman



**J A P M Jayasekera**  
Managing Director



**P W Corporate Secretarial (Pvt) Ltd**  
Secretaries

26th May 2015

# Statement of Directors Responsibilities

The Directors are required by the Companies Act, No. 7 of 2007 to prepare financial statements for each financial year, which give a true and fair view of the statement of affairs of the Company as at the end of the financial year and the income and expenditure of the Company for the financial year.

The Directors are also responsible to ensure that the financial statements comply with any regulations made under the Companies Act which specifies the form and content of financial statements and any other requirements which apply to the Company's financial statements under any other law.

The Directors consider that the financial statements presented in this Annual Report have been prepared using appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates and in compliance with the Sri Lanka Accounting Standards, Companies Act, No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.

The Directors are responsible for ensuring that the Company keeps sufficient accounting records, which disclose the financial position of the Company with reasonable accuracy and enable them to ensure that the financial statements have been prepared and presented as aforesaid. They are also responsible for taking measures to safeguard the assets of the Company and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to prevention and detection of fraud and other irregularities.

The Directors continue to adopt the going concern basis in preparing the financial statements. The Directors, after making inquiries and review of the Company's Business Plan for the financial year 2015/2016, including cash flows and borrowing facilities, consider that the Company has adequate resources to continue in operation.

By Order of the Board

**LANKA TILES PLC**



**P W Corporate Secretarial (Pvt) Ltd**  
Secretaries

26th May 2015

# Chief Executive Officer's and Chief Financial Officer's Responsibility Statement

The financial statements are prepared in compliance with the Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka and the requirements of the Companies Act No. 7 of 2007 and any other applicable statutes to the extent applicable to the Company. There are no departures from the prescribed accounting standards in their adoption. The accounting policies used in the preparation of the financial statements are appropriate and are consistently applied, except where otherwise stated in the notes accompanying the financial statements.

The Board of Directors and the management of your Company accept responsibility for the integrity and objectivity of these financial statements. The estimates and judgments relating to the financial statements were made on a prudent and reasonable basis, in order that the financial statements reflect in a true and fair manner, the form and substance of transactions, and reasonably present the Company's state of affairs. To ensure this, the Company has taken proper and sufficient care in installing a system of internal control and accounting records, for safeguarding assets, and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. Our internal auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Company were consistently followed. However, there are inherent limitations that should be recognized in weighing the assurances provided by any system of internal controls and accounting.

The financial statements were audited by M/s. PricewaterhouseCoopers, Chartered Accountants, the independent auditors.

The Audit Committee of your Company meets periodically with the internal auditors and the independent auditors to review the manner in which these auditors are performing their responsibilities, and to discuss auditing, internal control and financial reporting issues. To ensure complete independence, the independent auditors and the internal auditors have full and free access to the members of the Audit Committee to discuss any matter of substance.

It is also declared and confirmed that the Company has complied with and ensured compliance by the auditors with the guidelines for the audit of Listed Companies where mandatory compliance is required.



**J A P M Jayasekera**  
Managing Director



**B T T Roche**  
Head of Finance

26th May 2015

# Remuneration Committee Report

## Role of the Remuneration Committee

The Committee evaluates the performance of the Chief Executive Officer, Key Management Personal and executive staff against the set objectives and goals, and determines the remuneration policy of the Company for all levels of employees. The Committee supports and advises the Board on remuneration and remuneration related matters and makes decisions under delegated authority with a view to aligning the interests of employees and shareholders.

## Composition of the Remuneration Committee

The Remuneration Committee is a sub - committee of the main Board, to which it is accountable. The Remuneration Committee comprises of the following three independent Non-Executive Directors of Royal Ceramics Lanka PLC.

Mr. R B Thambiayah	Chairman of the Remuneration Committee
Mr. M D S Goonatilleke	Committee Member
Mr. L T Samarawickrama	Committee Member

The Managing Director attends the Committee meeting by invitation. The Company secretary is the secretary of the Remuneration Committee.

The Committee members possess vast experience in the fields of Business Management, Human Resources Management, Labour Relations and Labour Law. Hence the Committee has adequate expertise in remuneration policy and management to deliberate and propose necessary changes, improvements to meet the roles and responsibility of the Committee.

## Meetings

The Remuneration Committee met once for the year where all members participated.

## Functions performed by the Remuneration Committee

- a. The Remuneration Committee recommended the remuneration payable to the Managing Director and the Key Management Personal of the Company to the Board to make the final determination. Based on that, the aggregate remuneration paid to Executive and Non Executive Directors for the last financial year is given on Page 88 of the Annual Report under key management remuneration.
- b. Ensuring that the Board complies with the Companies Act in relation to Directors remunerations, especially the requirements of section 216. And it also ensures that employees are adequately compensated based on their performance and contribution for the period under review and future potential.

- c. Constructing a specific remuneration policy and remuneration framework that enables the Company to attract and retain a high quality and representative staff in its operations and do this inter alia with reference to appropriate market rates where these are relevant, and benchmarking specific categories where required.
- d. Ensuring internal equity and fairness in and between the various pay categories and building incentives in the cost of employment structure to encourage and reward excellent performance, on objectively defined criteria.
- e. Ensuring that staff costs are within the budget set by the Board, and are sustainable over time.

## Conclusion

The Committee is satisfied that it has performed the responsibilities that were delegated to it by the Board for the year under review and the necessary objectives were achieved for the year under review.



**R B Thambiayah**  
Chairman - Remuneration Committee

26th May 2015

# Audit Committee Report

## Role of the Audit Committee

The Audit Committee is a sub committee of the main Board to which it is accountable. The primary function of the Audit Committee is to assist the Board in its oversight of the integrity of the financial statements of the Company, to assess the adequacy of the risk management framework of the Company, assess the independence and the performance of the Company's external audit function and internal audit functions, and review compliance of the Company with legal and regulatory requirements.

## Composition of the Audit Committee

The Audit Committee comprises of the following four independent, non – executive Directors of Royal Ceramics Lanka PLC.

Mr. M D S Goonatileke	Chairman of the Audit Committee
Mr. L T Samarawickrama	Committee Member
Mr. R N Asirwatham	Committee Member
Mr. S H Amarasekera	Committee Member

The Managing Director attends meetings at the invitation of the Audit Committee.

The Company secretary functions as the Secretary to the Audit Committee. Representatives of the Company, external auditors and internal auditors also attend Audit Committee meetings by invitation.

The Audit Committee has the required expertise in finance, law and business management to deliberate Audit Committee matters and recommend necessary action to be taken.

## Meetings

The Audit Committee met 04 times during the year. The attendance of the members at the meeting is as follows.

Mr. M D S Goonatileke	-	4/4
Mr. L T Samarawickrama	-	3/4
Mr. R N Asirwatham	-	3/4
Mr. S H Amarasekera	-	1/2

## Functions performed by the Audit Committee

a. The Committee reviewed the provisional financial statements that were published for financial year 2014/15 and the Annual Report of 2013/14. It oversaw of the preparation, presentation and adequacy of disclosures in the financial statements of the Company, in accordance with Sri Lanka Accounting Standards and SLFRS. It also reviewed the Company's compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements.

- b. The Committee reviewed the monthly internal audit reports. The internal audit function is carried out by M/s. Ernst & Young Advisory Services (Pvt) Ltd. The Internal audits are done on a process based audit framework to improve process performance and control.
- c. The Committee reviewed the external auditors' report and management letter for the last year. All recommendations proposed by the external auditors were discussed with the senior partner and recommendations proposed were duly carried out by the management. In addition the Audit Committee reviewed the engagement partner's relationships with the Company, and assessed that the external auditors are independent.
- d. The Audit Committee in conjunction with the Managing Director of the Company reviewed the Company's disclosure controls and procedures and internal control over financial reporting.
- e. The Audit Committee reviewed the Company's framework and practices with respect to risk assessment and risk management, including discussing with management the Company's major financial risk exposures and the steps that have been taken to monitor and control such exposures.

## Conclusion

The Audit Committee is satisfied that the Company's accounting policies, independence of the auditors and risk management are adequate for its operations. The Audit Committee has also accomplished responsibilities and functions that are delegated to it by the Board.



**M D S Goonatileke**  
Chairman – Audit Committee

26th May 2015

# Independent Auditor's Report

To the shareholders of Lanka Tiles PLC



## Report on the Financial Statements

- 1 We have audited the accompanying financial statements of Lanka Tiles PLC ("the Company"), which comprise the statements of financial position as at 31 March 2015, and the statement of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information as set out in pages 63 to 94.

## Management's Responsibility for the Financial Statements

- 2 Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

- 3 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit

procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

- 4 In our opinion the financial statements give a true and fair view of the financial position of Lanka Tiles PLC as at 31 March 2015, and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

## Report on Other Legal and Regulatory Requirements

- 5 These financial statements also comply with the requirements of Section 151 (2) of the Companies Act, No. 07 of 2007.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', is written over a light blue horizontal line.

COLOMBO

26th May 2015

*PricewaterhouseCoopers, P. O. Box 918, 100 Braybrooke Place, Colombo 2, Sri Lanka  
T: +94 (11) 771 9838, 471 9838, F: +94 (11) 230 3197, www.pwc.com/lk*


**Partners Y. Kanagasabai FCA, D.T.S.H. Mudalige FCA, C.S. Manoharan FCA, N.R. Gunasekera FCA,  
S. Gajendran FCA, Ms. S. Hadgie FCA, Ms. S. Perera ACA, T.U. Jayasinghe ACA**

PricewaterhouseCoopers is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

# Statement of financial position

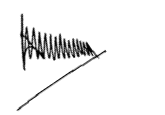
As at 31 March	Note	2015 Rs. '000	2014 Rs. '000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	2,533,387	2,583,865
Capital work in progress	5	23,366	23,914
Investment in associate	6	493,136	308,846
Loans given to related companies	10	79,885	110,467
Finance lease receivables	10	-	1,225
		3,129,774	3,028,317
<b>Current assets</b>			
Inventories	9	1,137,107	1,473,550
Trade and other receivables	10	898,821	1,148,034
Cash and cash equivalents	11	846,794	74,996
		2,882,722	2,696,580
<b>Total assets</b>		<b>6,012,496</b>	<b>5,724,897</b>
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Stated capital	16	900,968	900,968
Amalgamation reserve		460,151	460,151
Retained earnings		2,745,049	2,186,632
		4,106,168	3,547,751
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	13	383,974	488,395
Deferred income tax liabilities	14	375,486	340,527
Retirement benefit obligations - Gratuity	15	110,577	87,836
		870,037	916,758
<b>Current liabilities</b>			
Trade and other payables	12	536,171	463,642
Current income tax liabilities		139,565	33,087
Borrowings	13	360,555	763,659
		1,036,291	1,260,388
<b>Total liabilities</b>		<b>1,906,328</b>	<b>2,177,146</b>
<b>Total equity and liabilities</b>		<b>6,012,496</b>	<b>5,724,897</b>

The board of directors is responsible for the preparation and presentation of these financial statements. These financial statements were approved for issue by the board of directors on 26 May 2015

  
W D N H Perera  
Chairman

  
J A P M Jayasekera  
Managing Director

I certify that these financial statements have been prepared in compliance with the requirements of the Companies Act No. 07 of 2007.

  
B T T Roche  
Head of Finance

The notes on pages 67 to 94 form an integral part of these financial statements.

# Statement of comprehensive income

Year ended 31 March	Note	2015 Rs. '000	2014 Rs. '000
Revenue	17	5,349,670	5,109,318
Cost of sales		(3,421,875)	(3,452,185)
Gross profit		1,927,795	1,657,133
Distribution costs		(598,823)	(468,288)
Administrative expenses		(373,673)	(297,529)
Other income	18	24,542	32,780
Other gains / (losses) - net	19	898	(3,181)
Operating profit	20	980,739	920,915
Finance income		23,992	26,283
Finance costs		(49,242)	(172,814)
Finance costs - net	22	(25,250)	(146,531)
Share of profit of associate - net of tax	6	110,736	52,098
Profit before income tax		1,066,225	826,482
Income tax expense	23	(225,949)	(174,426)
<b>Profit for the year</b>		<b>840,275</b>	<b>652,056</b>
<b>Other comprehensive income :</b>			
Items that will not be reclassified to profit or loss			
Remeasurement of retirement benefit obligations (Gratuity)		(14,552)	(2,268)
Deferred tax on components of other comprehensive income - gratuity		3,968	617
Share of other comprehensive income of associate, net of tax		73,554	(1,319)
<b>Total other comprehensive expense for the year, net of tax</b>		<b>62,970</b>	<b>(2,970)</b>
<b>Total comprehensive income for the year attributable to equity holders of the Company</b>		<b>903,245</b>	<b>649,086</b>
Basic earnings per share (Rs.)	24	15.84	12.29

The notes on pages 67 to 94 form an integral part of these financial statements.

# Statement of changes in equity

	Attributable to equity holders of the Company			Total Rs. '000
	Stated capital Rs. '000	Retained earnings Rs. '000	Amalgamation reserve* Rs. '000	
Balance as at 1 April 2013	900,968	1,781,578	460,151	3,142,697
Profit for the year	-	652,056	-	652,056
Other comprehensive expense for the year	-	(2,970)	-	(2,970)
<b>Total comprehensive income for the year</b>	-	649,086	-	649,086
Dividends for year 2012/2013 (interim 2)	-	(137,931)	-	(137,931)
Dividends for year 2013/2014 (interim 1)	-	(106,101)	-	(106,101)
Balance as at 31 March 2014	900,968	2,186,632	460,151	3,547,751
<b>Balance as at 1 April 2014</b>	900,968	2,186,632	460,151	3,547,751
Profit for the year	-	840,275	-	840,275
Other comprehensive income for the year	-	62,970	-	62,970
<b>Total comprehensive income for the year</b>	-	903,245	-	903,245
Dividends for year 2013/2014 (final)	-	(106,101)	-	(106,101)
Dividends for year 2014/2015 (interim 1)	-	(106,101)	-	(106,101)
Dividends for year 2014/2015 (interim 2)	-	(132,626)	-	(132,626)
<b>Balance as at 31 March 2015</b>	900,968	2,745,049	460,151	4,106,168

\* Amalgamation reserve resulted from amalgamation of two fully owned subsidiaries Lanka Tiles Trading (Private) Limited and Ceradec (Private) Limited on 19 December 2011 in terms of Section 242(1) of the Companies Act No 07 of 2007.

The notes on pages 67 to 94 form an integral part of these financial statements.

# Statement of cash flows

Year ended 31 March	Note	2015 Rs. '000	2014 Rs. '000
<b>Cash flows from operating activities</b>			
Cash generated from operations	26	1,803,758	765,086
Interest paid		(49,242)	(150,696)
Interest received		21,463	616
Gratuity paid	15	(7,013)	(5,812)
Tax paid		(80,545)	(40,771)
<b>Net cash generated from operating activities</b>		<b>1,688,421</b>	<b>568,423</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	5	(129,102)	(180,644)
Proceeds from sale of property, plant and equipment		1,915	3,084
Expenditure incurred on capital work in progress	5	(34,709)	(59,233)
Loans granted to related companies		(35,000)	-
<b>Net cash used in investing activities</b>		<b>(196,896)</b>	<b>(236,793)</b>
<b>Cash flows from financing activities</b>			
Dividends paid		(212,202)	(244,032)
Repayments of finance leases		(2,515)	(3,058)
Proceeds from borrowings		334,633	600,464
Repayments of borrowings		(683,347)	(754,351)
<b>Net cash used in financing activities</b>		<b>(563,431)</b>	<b>(400,977)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>928,094</b>	<b>(69,347)</b>
<b>Movement in cash and cash equivalents</b>			
At beginning of year		(309,763)	(240,416)
Net increase / (decrease) in cash and cash equivalents		928,094	(69,347)
<b>At end of year</b>	11	<b>618,331</b>	<b>(309,763)</b>

The notes on pages 67 to 94 form an integral part of these financial statements.

# Notes to the financial statements

(all amount are in Sri Lankan rupees thousands unless otherwise stated)

## 1 General information

### General

Lanka Tiles PLC ("the Company") is a public limited liability company incorporated and domiciled in Sri Lanka and listed on the Colombo Stock Exchange. The registered office and the principal place of business of the Company is located at No. 215, Nawala Road, Narahenpita, Colombo 05.

### Principal activities and nature of operations

Lanka Tiles PLC manufactures and sells glazed ceramic floor tiles through a network of dealers and distributors. The Company has its manufacturing plant located at St James Estate, Jaltara, Ranala.

### Parent company and ultimate parent company

The Company's parent entity is Lanka Walltiles PLC. The Company's ultimate parent undertaking and controlling party at the financial reporting date was Vallibel One PLC, which is incorporated in Sri Lanka.

### Date of authorization for issue

The financial statements were authorized for issue in accordance with a resolution of the board of directors on 26 May 2015.

## 2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below: These policies have been consistently applied to all years presented, unless otherwise stated.

### 2.1 Basis of preparation and adoption of Sri Lanka Accounting Standards (SLFRS/LKAS)

The financial statements have been prepared on a historical cost basis except for financial assets and liabilities which are measured at fair value.

The financial statements of the Company is prepared in accordance with Sri Lanka Accounting Standards, which comprise Sri Lanka Financial Reporting Standards (SLFRSs), Sri Lanka Accounting Standards (LKASs), relevant interpretations of the Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC).

The preparation of financial statements in conformity with Sri Lanka Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of

judgment or complexity, or areas where assumptions and estimates are significant to the Company's financial statements are disclosed in Note 3.

### 2.2 Changes in accounting policies and disclosures

- a) New accounting standards, amendments and interpretations adopted during the financial year.

The following standards have been adopted by the Company for the first time with effect from financial year beginning on 1 April 2014.

- (i) SLFRS 13, 'Fair Value Measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Sri Lanka Accounting Standards.
- (ii) SLFRS 10, 'Consolidated Financial Statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The standard does not have a significant impact on the financial statements.
- (iii) SLFRS 12, 'Disclosures of Interests in Other Entities', includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The standard does not have a significant impact on the financial statements.
- (iv) SLFRS 11, 'Joint Arrangements', focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operators account for its share of the assets, liabilities, revenue and expenses. Joint ventures are accounted for under equity method. Proportional consolidation of joint arrangements is no longer permitted. The standard does not have a significant impact on the financial statements.
- (v) IFRIC 21 'Levies', establishes the accounting for an obligation to pay a levy if that liability is within the scope of LKAS 37 'Provisions'. The interpretation addresses what the obligating event which gives rise to

## Notes to the financial statements

### 2 Summary of significant accounting policies (Contd.)

#### 2.2 Changes in accounting policies and disclosures (Contd.)

pay a levy and when a liability should be recognised. The Company has applied the IFRIC 21 and there has been no significant impact on the Company's financial statements.

- (vi) Amendment to LKAS 1 'Financial Statement Presentation', regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'Other Comprehensive Income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).
- (vii) Amendments to LKAS 32 'Financial Instruments: Presentation', with regard to offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment does not have a significant effect on the Company financial statements.
- (viii) Amendments to LKAS 36 'Impairment of Assets', regarding recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of 'Cash-Generating Units'(CGUs) which had been included in LKAS 36 by the issue of SLFRS 13. The amendment does not have a significant effect on the Company financial statements.
- (ix) Amendments to LKAS 39 'Financial Instruments: Recognition and Measurement', on novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under LKAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The amendment is not applicable to the Company financial statements in the current financial year.
- b) New accounting standards, amendments and interpretations issued but not yet adopted.

- (i) " SLFRS 9 'Financial Instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of SLFRS 9 was issued in July 2014. It replaces the guidance in LKAS 39 that relates to the classification and measurement of financial instruments. SLFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in LKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. SLFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under LKAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Company is yet to assess the full impact of SLFRS 9.

- (ii) SLFRS 15, 'Revenue from Contracts with Customers', deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces LKAS 18 and LKAS 11 and related interpretations. This standard will be effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted.

There are no other standards or IFRIC interpretations that are not yet effective that would be expected to have a material impact to the Company.

## 2 Summary of significant accounting policies (Contd.)

### 2.3 Comparative information

Previous period figures and notes have been restated and reclassified wherever necessary to conform to the current year's presentation.

### 2.4 Investments in associate

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in the statement of comprehensive income as other comprehensive income is reclassified to profit or loss where appropriate.

The Company's share of its associates' post-acquisition profits or losses is recognised as profit or losses in the statement of comprehensive income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income in the statement of comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Company does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

### 2.5 Foreign currency translation

#### (a) Functional and presentation currency

Items included in the financial statements of each of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in 'Sri Lankan Rupees' (LKR), which is the Company's functional and presentation currency.

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the comprehensive statements of income. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'Finance income or costs'. All other foreign exchange gains and losses are presented in the income statement within 'Other (losses)/gains – net'.

### 2.6 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The provision for current income tax is based on the elements of income and expenditure as reported in financial statements and computed in accordance with the provisions of the Inland Revenue Act.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income

# Notes to the financial statements

## 2 Summary of significant accounting policies (Contd.)

### 2.6 Current and deferred income tax (Contd.)

taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### 2.7 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the statement of comprehensive income in the period in which they are incurred.

### 2.8 Inventories

Inventories are valued at the lower of cost and net realisable value, after making due allowances for obsolete and slow moving items. Net realisable value is the price at which inventories can be sold in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale. Cost of the trading stock is determined using the first-in, first-out (FIFO) method. Cost of the finished goods and work in progress is determined using the weighted average cost method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs.

### 2.9 Financial assets

#### 2.9.1 Classification

The Company classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for

maturities greater than twelve (12) months after the end of the reporting period. These are classified as non-current assets. The Company's loans and receivables comprises, trade and other receivables, loans given to related companies and cash and cash equivalents.

#### 2.9.2 Recognition and measurement

Loans and receivables are initially recognised at fair value plus transaction costs. Financial assets are de-recognised when rights to receive the cash flows from the investments have expired or have been transferred. Loans and receivables are subsequently carried at amortised cost using the effective interest rate method.

#### 2.9.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

#### 2.9.4 Impairment of financial assets - Assets carried at amortised cost

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of comprehensive income.

## 2 Summary of significant accounting policies (Contd.)

### 2.9 Financial assets (Contd.)

#### 2.9.4 Impairment of financial assets - Assets carried at amortised cost (Contd.)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the statement of comprehensive income.

#### 2.10 Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand and cash at banks and other highly liquid financial assets which are held for the purpose of meeting short-term cash commitments with original maturities of less than three months which are subject to insignificant risk of changes in their fair value.

Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

#### 2.11 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income within 'selling and distribution costs'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'selling and distribution expenses' in the statement of comprehensive income.

#### 2.12 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### 2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

#### 2.14 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the item.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows;

Land is not depreciated except for lands used for extracting mineral resources. Depreciation on other assets is calculated using the straight line method to allocate their cost to their residual values over the estimated useful lives, as follows:

# Notes to the financial statements

## 2 Summary of significant accounting policies (Contd.)

### 2.14 Property, plant and equipment (Contd.)

Clay mining land	Units of production basis
Roadway	50 years
Buildings	50 years
Plant and machinery	12- 20 years
Furniture, fittings and office equipment	5 years
Mobile equipment	4 years
Software packages	5 years
Tools and implements	2 years
Electricity distribution and water supply schemes	10 years
Motor vehicles	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other gains / (losses) – net' in the statement of comprehensive income.

### 2.15 Impairment of non financial assets

Non financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

### 2.16 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

## 2.17 Employee benefits

### 2.17.1 Defined benefit plans - Gratuity

#### (a) Defined benefit plans - Gratuity

Defined benefit plan defines an amount of benefit that an employee will receive on retirement, usually dependent on one or more factors such as years of service and compensation. The defined benefit plan comprises the gratuity provided under the Act, No 12 of 1983.

The liability recognised in the statement of financial position in respect of defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using market rate on long term Government Bonds that have terms to maturity approximating to the terms of the gratuity obligation since, in Sri Lanka there is no deep market in high quality corporate bonds.

Past-service costs are recognised immediately in the statement of comprehensive income

Actuarial gains and losses arising from experience adjustments and changes in the actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

#### (b) Defined contribution plans

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

For defined contribution plans, such as the Employees' Provident Fund and Employees' Trust Fund, the Company contributes 12% and 3% respectively, of the employees' basic or consolidated wage or salary. The Company has no further payment obligations once the contributions have been paid. The Company and the employees are members of these defined contribution plans.

## 2 Summary of significant accounting policies (Contd.)

### 2.17 Employee benefits (Contd.)

#### (c) Short term employee benefits

Wages, salaries, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Company.

### 2.18 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where Company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued.

Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

### 2.19 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

### 2.20 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and that the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable net of trade discounts and sales taxes. The following specific criteria have been used for the purpose of recognition of revenue.

#### a) Sale of goods

Revenue from sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to buyer with the Company retaining neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

#### b) Interest

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted

at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

#### c) Rental income

Rental income is recognised on an accrual basis.

### 2.21 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

The Company leases certain property, plant and equipment. Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

### 2.22 Segment reporting

The Company does not identify any segments for reporting purposes.

## 3 Critical accounting estimates and judgments

### 3.1 Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

# Notes to the financial statements

## 3 Critical accounting estimates and judgments (Contd.)

### 3.1 Critical accounting estimates and assumptions (Contd.)

#### (a) Defined benefit plans - Gratuity

The present value of the defined benefit plan depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for defined benefit plan include the discount rate, future salary increases etc. Any changes in these assumptions will impact the carrying amount of defined benefit plan.

#### (b) Estimated useful lives of PPE

Management review annually the useful lives and carrying value of assets. This require estimates and judgment

The useful lives of the assets are estimated by the Company as detailed in Note 2.14.

#### (c) Impairment of non financial assets

The Company annually tests the indicators to ascertain whether non-current assets have suffered any impairment. These calculations require the use of estimates.

### 3.2 Critical judgments in applying the Company's accounting policies

In the process of applying the accounting policies, management has made the following judgments, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements.

#### (a) Deferred tax asset

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

#### (b) Impairment of receivables

The Company reviews all receivables at the date of statement of financial position to assess whether an allowance should be recorded in the statement of comprehensive income. The management uses judgment in estimating such amounts in the light of the duration of outstanding and any other factors management are aware of that indicates uncertainty in recovery.

## 4 Financial Risk Management

The Company's activities are exposed to variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The Company's overall financial risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company. Financial risk management is carried out through risk reviews, internal control systems, insurance programmes and adherence to the Company's financial risk management policies. The board of directors regularly reviews these risks and approves the risk management policies, which covers the management of these risks.

### Market risk consists of:

- (i) Foreign exchange risk – risk that the value of recognised assets and liabilities, future commercial transactions will fluctuate due to changes in foreign exchange rates.
- (ii) Fair value interest rate risk – risk that the value of a financial instrument will fluctuate due to changes in market interest rates.
- (iii) Cash flow interest rate risk – risk that future cash flows associated with a financial instrument will fluctuate.
- (iv) Price risk – risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instrument traded in the market.

**Credit risk** – risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss (refer note 8)

**Liquidity risk (Funding risk)** – risk that an entity will encounter difficulty in raising funds to meet commitments associated with operational and financial obligations.

## 4 Financial Risk Management (Contd.)

### Foreign exchange risk

The Company operate internationally and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and EURO. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

As at end of the reporting period, if the currency had weakened/strengthened by 5% against the US dollar with all other variables held constant, post-tax profit for the year would have been Rs 26,977,000/- (2014-Rs. 11,324,000/-) lower/higher, mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated loans granted, trade receivables and trade creditors.

As at end of the reporting period, if the currency had weakened/strengthened by 5% against the EURO with all other variables held constant, post-tax profit for the year would have been Rs. 3,836,000/- (2014 Rs. 198,000/-) lower/higher, mainly as a result of foreign exchange gains/losses on translation of EURO-denominated trade creditors.

### Cash flow and fair value interest rate risk

The Company's interest rate risk arises from long-term borrowings issued at variable rates. The Company manage its interest rate risk by actively monitoring the yield curve trend and interest rate movement with reference to AWPLR and LIBOR for the various financial instruments.

The Company's borrowings comprise borrowings from financial institutions. The Company's interest rate risk objective is to manage an acceptable level of rate fluctuation on the interest expense. In order to achieve this objective, the Company targets floating borrowings based on assessment of its existing exposure and desirable interest rate profile. The Company analyses its interest rate exposure on a dynamic basis.

At 31 March 2015, if interest rates on foreign currency-denominated borrowings had been 10 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been Rs. 460,301/-(2014 - 306,000/) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings. At 31 March 2015, if interest rates on Sri Lankan rupee-denominated borrowings at that date had been 0.5% higher/lower with all other variables held constant, pre-tax profit for the year would have been Rs. 5,098,318/- (2014 - 3,849,000/-) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

### Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks, as well as credit exposures to customers, including outstanding receivables. Trade receivables are mainly secured with bank guarantees given by customers in favour of the Company. Individual credit limits are set based on the amount of the bank guarantee. The utilisation of credit limits is regularly monitored.

The Company places its cash and cash equivalents with a number of creditworthy financial institutions. The Company's policy limits the concentration of financial exposure to any single financial institution. The maximum credit risk exposure of the financial assets of the Company is approximately their carrying amounts as at statement of financial position date, except for trade receivables which are secured by bank guarantees.

### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient liquid funds to meet its financial obligations.

In the management of liquidity risk, the Company monitor and maintain a level of cash and cash equivalents deemed adequate by management to finance the Company's operations and to mitigate the effects of fluctuations in cash flows. Due to the dynamic nature of the underlying business, the Company aims at maintaining flexibility in funding by keeping both committed and uncommitted credit lines available. The Company uses both short term bank facilities (overdrafts) together with cash in hands and in banks in managing the liquidity position.

The table below analyses the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

## Notes to the financial statements

### 4 Financial Risk Management (Contd.)

At 31 March 2015	Less than 3 months	Between 3 months and 1 year	Between year 1 and year 2	Between year 2 and year 5	Over 5 years
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Borrowings (excluding finance lease liabilities)	262,030	98,525	131,367	252,607	-
Finance lease liabilities	-	-	-	-	-
Trade and other payables	93,907	-	-	-	-
<hr/>					
At 31 March 2014					
Borrowings (excluding finance lease liabilities)	421,147	344,497	139,882	333,074	10,939
Finance lease liabilities	1,080	1,801	-	-	-
Trade and other payables	197,277	-	-	-	-

#### Capital management risk

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may or may not make dividend payments to shareholders, return capital to shareholders or issue new shares or other instruments.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings by total equity. Total borrowings including non-current and current borrowings as shown in the statements of financial position. Total equity is calculated as 'Total equity' in the statements of financial position.

The gearing ratio as at 31 March is as follows:

	2015 Rs. '000	2014 Rs. '000
Borrowings (net of cash)	-	1,177,058
Total equity	4,106,168	3,547,751
Total capital	4,106,168	4,724,809
Gearing ratio	-	0.25

## 5 Property, plant and equipment

	Freehold and clay mining land	Freehold building	Plant & machinery	Furniture, fittings and electrical appliances	Tools & implements	Water supply scheme	Electrical distribution scheme	Motor vehicles	Roadway	Capital work in progress (CWIP)	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>As at 1 April 2013</b>											
Cost	244,861	588,560	2,578,879	186,984	17,473	28,062	171,767	72,935	15,028	65,094	3,969,643
Accumulated depreciation	(3,730)	(78,471)	(1,021,577)	(121,234)	(15,953)	(14,743)	(99,348)	(45,455)	(2,374)	-	(1,402,885)
Net book value	241,131	510,089	1,557,302	65,750	1,520	13,319	72,419	27,480	12,654	65,094	2,566,758
<b>Year ended 31 March 2014</b>											
Balance as at 1 April 2013	241,131	510,089	1,557,302	65,750	1,520	13,319	72,419	27,480	12,654	65,094	2,566,758
Additions	20,135	-	106,521	20,301	188	-	4,278	29,221	-	59,233	239,877
Additions transferred from CWIP	-	75,510	7,882	4,655	-	409	7,881	-	4,076	(100,413)	-
Depreciation charge for the year	-	(12,441)	(128,431)	(23,186)	(1,090)	(1,064)	(15,065)	(13,015)	(358)	-	(194,650)
Disposals	-	-	(8,655)	(47,720)	(8,788)	-	-	(9,663)	-	-	(74,826)
Depreciation on disposals	-	-	4,255	47,328	8,788	-	-	8,189	-	-	68,560
Depreciation adjustment due to deemed value	-	-	(4,738)	-	-	(275)	(272)	(598)	-	-	(5,883)
Depreciation adjustment due to residual value	-	-	2,953	-	-	-	-	4,990	-	-	7,943
Net book value	261,266	573,158	1,537,089	67,128	618	12,389	69,241	46,604	16,372	23,914	2,607,779
<b>Year ended 31 March 2014</b>											
Cost	264,996	664,070	2,684,627	164,220	8,873	28,471	183,926	92,143	19,104	23,914	4,134,344
Accumulated depreciation	(3,730)	(90,912)	(1,147,538)	(97,092)	(8,255)	(16,082)	(114,685)	(45,539)	(2,732)	-	(1,526,565)
Net book value	261,266	573,158	1,537,089	67,128	618	12,389	69,241	46,604	16,372	23,914	2,607,779
<b>Year ended 31 March 2015</b>											
Balance as at 1 April 2014	261,266	573,158	1,537,089	67,128	618	12,389	69,241	46,604	16,372	23,914	2,607,779
Additions	9,738	-	67,998	35,972	774	-	1,985	12,635	-	34,709	163,811
Additions transferred from CWIP	-	20,343	9,208	5,391	-	-	-	-	315	(35,257)	-
Depreciation charge for the year	-	(12,941)	(141,697)	(25,791)	(785)	(1,254)	(15,371)	(17,635)	(759)	-	(216,233)
Disposals	-	-	(992)	(1,226)	-	-	-	(3,886)	-	-	(6,104)
Depreciation on disposals	-	-	585	1,096	-	-	-	3,406	-	-	5,087
Depreciation adjustment due to deemed value	-	-	(4,705)	-	-	(275)	(272)	(265)	-	-	(5,517)
Depreciation adjustment due to residual value	-	-	2,960	-	-	-	-	4,970	-	-	7,930
Net book value	271,004	580,560	1,470,446	82,570	607	10,860	55,583	45,829	15,928	23,366	2,556,753
<b>Year ended 31 March 2015</b>											
Cost	274,734	684,413	2,760,841	204,357	9,647	28,471	185,911	100,892	19,419	23,366	4,292,051
Accumulated depreciation	(3,730)	(103,853)	(1,290,395)	(121,787)	(9,040)	(17,611)	(130,328)	(55,063)	(3,491)	-	(1,735,298)
Net book value	271,004	580,560	1,470,446	82,570	607	10,860	55,583	45,829	15,928	23,366	2,556,753

## Notes to the financial statements

### 5 Property, plant and equipment (Contd.)

- (a) Property, plant and equipment of the Company include fully depreciated assets in use as at 31 March 2015, the cost of which amounted to the Company Rs 427,754,038/- (2014 - Rs 355,077,906/-). Further, the clay mining land costing Rs 3,729,620/- has been fully utilised by 1 April 2011.
- (b) The bank borrowings are secured on freehold land, freehold building and plant and machinery. The values of assets secured is given in Note 13 to the financial statements.
- (c) Property, plant and equipment includes motor vehicles acquired under finance leases, the net book value of which is made up as follows:

	2015 Rs. '000	2014 Rs. '000
Cost	34,150	35,850
Accumulated depreciation	(27,959)	(25,067)
Net book amount	6,191	10,783

- (d) The market value of freehold and clay mining land as at 31 March 2013, as per the valuation carried out by the independent professional valuer, Ranjan J Samarakone, is Rs 778,778,424/-.

### 6 Investment in associate

	Number of shares	2015 Rs. '000	2014 Rs. '000
Opening net book amount		308,846	258,067
Share of results of associate for the year		184,290	50,779
At the end of year	13,085,180	493,136	308,846

- (a) The Company holds 47.8% (2014 - 47.8%) ownership interest in Swisstek (Ceylon) PLC. The principal activities of Swisstek (Ceylon) PLC are manufacturing and selling of Tile Grout and Tile Mortar. Its subsidiary Swisstek Aluminium Limited manufacture and sells aluminium extrusions.
- (b) The market value of quoted associate investment as at date of statement of financial position is Rs 548,269,042/- (2014 - Rs 266,937,672/-).
- (c) The Company's share of the results of the associate and its aggregated assets and liabilities are as follows:

As at 31 March	2015 Rs. '000	2014 Rs. '000
Assets	2,149,257	1,797,396
Liabilities	1,000,691	1,053,790
For the year ended 31 March		
Revenue	1,857,199	1,487,095
Profit share	110,736	52,098
% interest held	47.8	47.8

## 7 Financial instruments by category

31 March 2015

Loans and receivables  
Rs. '000

Assets as per the statement of financial position

Loans given to related companies (Note 10)	115,270
Trade and other receivables (excluding pre-payments) (Note 10)	822,449
Finance lease receivables	808
Cash and cash equivalents (Note 11)	846,794
<b>Total</b>	<b>1,785,321</b>

31 March 2015

Other financial liabilities at  
amortised cost  
Rs. '000

Liabilities as per the statement of financial position

Borrowings (excluding finance lease liabilities) (Note 13)	744,529
Finance lease liabilities	-
Trade and other payables excluding non-financial liabilities (Note 12)	333,485
<b>Total</b>	<b>1,078,014</b>

31 March 2014

Loans and receivables  
Rs. '000

Assets as per the statement of financial position

Loans given to related companies (Note 10)	141,301
Trade and other receivables (excluding pre-payments) (Note 10)	1,061,729
Finance lease receivables	2,990
Cash and cash equivalents (Note 11)	74,996
<b>Total</b>	<b>1,281,016</b>

31 March 2014

Other financial  
liabilities at amortised cost  
Rs. '000

Liabilities as per the statement of financial position

Borrowings (excluding finance lease liabilities) (Note 13)	1,249,539
Finance lease liabilities	2,515
Trade and other payables excluding non-financial liabilities (Note 12)	197,277
<b>Total</b>	<b>1,449,331</b>

## Notes to the financial statements

### 8 Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to extent of collaterals provided by counter parties:

	2015 Rs. '000	2014 Rs. '000
<b>Trade receivables</b>		
Counterparties without external credit ratings		
Group 1	360,536	417,922
Group 2	44,022	51,055
Group 3	98,022	82,651
<b>Total unimpaired trade receivables</b>	<b>502,580</b>	<b>551,628</b>
	<b>2015</b>	<b>2014</b>
	<b>Rs. '000</b>	<b>Rs. '000</b>
<b>Cash at bank and short-term bank deposits</b>		
AAA	69,334	11,837
AA +	16,505	496
AA	555,227	58,648
A	8,386	63
<b>Total</b>	<b>649,452</b>	<b>71,044</b>

Group 1 – Customers whose due amounts are secured with bank guarantees.

Group 2 – Customers whose due amounts are secured with documentary credits.

Group 3 – Customers whose due amounts are not secured with any collaterals.

### 9 Inventories

	2015 Rs. '000	2014 Rs. '000
Raw materials	497,456	509,870
Work in progress	33,504	66,548
Finished goods	531,599	721,862
Trading stock	133,502	229,627
Less: Provision for slow moving inventories	(59,740)	(54,357)
	<b>1,136,321</b>	<b>1,473,550</b>
Goods in transit	786	-
	<b>1,137,107</b>	<b>1,473,550</b>

The cost of inventories recognised as an expense and included in cost of goods sold amounted to Rs 3,421,875,000/- (2014 - Rs 3,452,185,000/-).

## 10 Trade and other receivables

	2015 Rs. '000	2014 Rs. '000
Trade receivables	508,579	682,589
Receivables from parent company (Note 27)	218,781	240,728
Receivables from related companies (Note 27)	1,319	49,406
Loans to related companies (Note 27)	115,270	141,301
Prepayments and deposits	40,179	53,706
Finance lease receivables	808	2,990
Other receivables	93,770	89,006
	978,706	1,259,726
Less: non current portion : loans to related companies	(79,885)	(110,467)
: Finance lease receivables	-	(1,225)
Current portion	898,821	1,148,034

The directors consider the carrying amount of the trade and other receivables equals its fair value.

The long term loans to related companies are carried at amortised cost based on effective interest rates which equals to market interest rates.

(a) The aging of trade receivables that are past due but not impaired are as follows:

	2015 Rs. '000	2014 Rs. '000
Amount overdue:		
1 month to 3 months	44,687	70,475
3 months to 1 year	13,146	37,977
More than 1 year	12,042	9,885
	69,875	118,337

Rs 38,893,000/- (2014 - Rs. 92,697,000/-) of debtors which are past due but not impaired are secured with bank guarantees, hence no impairment considered necessary.

(b) The carrying amounts of trade and other receivables are denominated in following currencies [in thousands]

	2015	2014
United States dollars	23,083	16,799
Australian dollars	20,939	34,256
Sri Lankan rupees	840,277	1,121,074

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above, except for trade receivables which are secured by bank guarantees and documentary credits.

(c) The effective interest rates of non current receivables are based on market interest rates.

## Notes to the financial statements

### 11 Cash and cash equivalents

	2015 Rs. '000	2014 Rs. '000
Cash at bank and cash in hand	646,626	74,828
Short term deposits	200,168	168
Cash and cash equivalents	846,794	74,996

For the purpose of the cash flow statement, the year end cash and cash equivalents comprise the following:

	2015 Rs. '000	2014 Rs. '000
Cash and cash equivalents	846,794	74,996
Bank overdrafts (Note 13)	(228,463)	(384,759)
Total cash and cash equivalents	618,331	(309,763)

The cash and cash equivalents are denominated in following currencies;

	2015 Rs. '000	2014 Rs. '000
Sri Lankan rupees	784,412	69,327
United States dollars	7,886	452
Australian dollars	54,443	5,172
Euro	53	45
	846,794	74,996

### 12 Trade and other payables

	2015 Rs. '000	2014 Rs. '000
Trade payables	93,907	197,277
Amount due to related parties [Note 27]	47,711	17,903
Accrued expenses	131,706	107,771
Other payables	143,035	139,829
Dividend payable	119,811	862
	536,171	463,642

Other payables of the Company include Value Added Tax payable amounting to Rs 48,510,849/- (2014 - Rs 43,893,506/-), cash sales advance amounting to Rs 9,052,853/- (2014 - Rs 17,041,233/-) and Nations Building Tax payable amounting to Rs. 9,589,735/- (2014 - Rs 8,717,685/-).

## 13 Borrowings

	2015 Rs. '000	2014 Rs. '000
<b>Current</b>		
Bank borrowings	132,092	376,385
Bank overdrafts (Note 11)	228,463	384,759
Finance lease liabilities	-	2,515
	<b>360,555</b>	<b>763,659</b>
<b>Non-current</b>		
Bank borrowings	383,974	488,395
Finance lease liabilities	-	-
	<b>383,974</b>	<b>488,395</b>
<b>Total borrowings</b>	<b>744,529</b>	<b>1,252,054</b>

(a) Bank overdrafts are secured primarily on inventories.

(b) The security offered and the interest rate applicable to each bank borrowings are set out below:

Loan	Security offered	Interest rate per annum (%)
DFCC LKR 165 Mn	A primary mortgage over land, building and plant and machinery located at Ranala amounting to Rs.300 Mn	AWPLR - 1%
DFCC USD 3 Mn	A primary mortgage over land, building and plant and machinery located at Ranala amounting to Rs.300 Mn	LIBOR + 3.5%
COMM LKR 22 Mn	A primary mortgage over land, building and plant and machinery located at Ranala amounting to Rs.100 Mn	AWPLR + 1%
DFCC LKR 150 Mn	A primary mortgage over land, building and plant and machinery located at Ranala amounting to Rs.300 Mn	4 WEEK AWPLR
DFCC LKR 80 Mn	A primary mortgage over land, building and plant and machinery located at Ranala amounting to Rs.300 Mn	4 WEEK AWPLR

(c) Weighted average effective interest rates:

	2015	2014
Bank overdrafts	7.15%	11.35%
Bank borrowings	8.29%	12.92%

(d) Maturity of non - current bank borrowings is as follows;

	2015 Rs. '000	2014 Rs. '000
Between one and two years	262,734	264,375
Between two and five years	121,240	224,020
	<b>383,974</b>	<b>488,395</b>

## Notes to the financial statements

### 13 Borrowings ( Contd.)

(e) The carrying amounts of the Company's borrowing are denominated in following currencies;

	2015 Rs. '000	2014 Rs. '000
Sri Lankan rupees	499,459	973,408
United States dollars	245,070	278,646
	744,529	1,252,054

(f) The exposure of the Company's borrowings to interest rate changes and the contractual re-pricing dates at the end of the reporting period varies between 1 month to 3 months period.

(g) Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

(g) Finance lease liabilities - minimum lease payment

	2015 Rs. '000	2014 Rs. '000
Not later than 1 year	-	2,880
Later than 1 year and no later than 3 years	-	-
	-	2,880
Future finance charges on finance leases	-	(365)
Present value of finance lease liabilities	-	2,515
Present value of finance lease liabilities:		
Not later than 1 year	-	2,515
Later than 1 year and no later than 3 years	-	-
	-	2,515

### 14 Deferred income tax

(a) Deferred income taxes are calculated on all temporary differences under the liability method.

The gross movement on the deferred income tax account is as follows:

	2015 Rs. '000	2014 Rs. '000
At beginning of year	340,527	235,671
Income statement charge (Note 23)	38,927	105,473
Deferred tax release on components of other comprehensive income	(3,968)	(617)
At end of year	375,486	340,527

## 14 Deferred income tax ( Contd.)

(b) The analysis of the deferred tax assets and deferred tax liabilities is as follows:

	2015 Rs. '000	2014 Rs. '000
Deferred tax assets	(47,064)	(46,603)
Deferred tax liabilities	422,550	387,130
<b>Deferred tax liabilities (net)</b>	<b>375,486</b>	<b>340,527</b>

(c) The movement in deferred assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction is as follows:

Deferred tax liabilities	Accelerated tax depreciation Rs. '000
V At 1 April 2013	278,619
Charged to income statement	108,511
Credited to other comprehensive income	-
<b>At 31 March 2014</b>	<b>387,130</b>
Charged to income statement	35,420
Credited to other comprehensive income	-
<b>At 31 March 2015</b>	<b>422,550</b>

Deferred tax assets	Retirement benefit obligation Rs. '000	Provisions Rs. '000	Total Rs. '000
At 1 April 2013	(20,769)	(22,179)	(42,948)
(Credited) / charged to income statement	(10,432)	7,394	(3,038)
Credited to other comprehensive income	(617)	-	(617)
<b>At 31 March 2014</b>	<b>(31,818)</b>	<b>(14,785)</b>	<b>(46,603)</b>
(Credited) / charged to income statement	5,013	(1,506)	3,507
Credited to other comprehensive income	(3,968)	-	(3,968)
<b>At 31 March 2015</b>	<b>(30,773)</b>	<b>(16,291)</b>	<b>(47,064)</b>

## 15 Retirement benefit obligation - gratuity

(a)	2015 Rs. '000	2014 Rs. '000
Balance sheet obligations for:		
Defined benefits - gratuity	110,577	87,836
Statement of comprehensive income charge included in operating profit for:		
Defined benefits - gratuity	15,202	14,834
Remeasurements for:		
Defined benefits - gratuity	14,552	2,268

## Notes to the financial statements

### 15 Retirement benefit obligation - gratuity (Contd.)

(b) The movement in the defined benefit obligation is as follows

	2015 Rs. '000	2014 Rs. '000
At 1 April	87,836	76,546
Company service cost	6,129	5,454
Interest cost	9,073	9,380
Actual benefits paid from plan	(7,013)	(5,812)
Remeasurements:		
Loss due to changes in financial assumptions	15,674	3,096
Experience gain	(1,122)	(828)
<b>At 31 March</b>	<b>110,577</b>	<b>87,836</b>

(c) The amount recognised in the statement of comprehensive income are as follows:

	2015 Rs. '000	2014 Rs. '000
Current service cost	6,129	5,454
Interest cost	9,073	9,380
<b>Total, included in staff costs (Note 21)</b>	<b>15,202</b>	<b>14,834</b>

(d) The principal actuarial assumptions are as follows

	2015 Rs. '000	2014 Rs. '000
Discount rate	10.14%	10.33%
Future salary increases		
-Executive staff	13.65%	11.00%
-Others	9.58%	8.12%

In addition to above, demographic assumptions such as mortality, withdrawal disability and retirement age were considered for the actuarial valuation. GA 1983 mortality table issued by the Society of Actuaries USA was taken as the base for the valuation.

The sensitivity of the Defined Benefit Obligation (DBO) to changes in the weighted principal assumptions is :

Discount Rate as at 31 March 2015	10.33%
Effect on DBO due to a change in the discount rate to 9.33%	119,056
Effect on DBO due to a change in the discount rate to 11.33%	103,092
Salary escalation rate as at 31 March 2015	9.58%
Effect on DBO due to a change in the salary escalation rate to 8.58%	102,692
Effect on DBO due to a change in the salary escalation rate to 10.58%	119,443
Attrition rate as at 31 March 2015	0.5% to 1%
Effect on DBO due to a change in the attrition rate plus 1%	112,022
Effect on DBO due to a change in the attrition rate minus 1%	108,587

## 15 Retirement benefit obligation - gratuity (Contd.)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined retirement benefit obligation to significant actuarial assumptions, the same method (present value of the defined retirement benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the defined benefit liability recognised within the statement of financial position.

## 16 Stated capital

	Number of shares	Stated capital Rs. '000
At 31 March 2014	53,050,410	900,968
At 31 March 2015	53,050,410	900,968

## 17 Revenue

The Company's revenue is primarily derived from ;

	2015 Rs. '000	2014 Rs. '000
(i) Revenue from local sales	5,106,737	4,876,025
(ii) Revenue from export sales	242,933	233,293
<b>Total revenue for the year</b>	<b>5,349,670</b>	<b>5,109,318</b>

## 18 Other income

	2015 Rs. '000	2014 Rs. '000
Sundry income	24,542	32,780
	24,542	32,780

Sundry income mainly includes the rental income Rs 5,880,000 (2014 - Rs 6,360,000).

## 19 Other gains / (losses) - Net

	2015 Rs. '000	2014 Rs. '000
Gain / (loss) on disposal of property, plant and equipment	898	(3,181)
	898	(3,181)

## Notes to the financial statements

### 20 Expenses by nature

The following items have been charged/(credited) in arriving at operating profit:

	2015 Rs. '000	2014 Rs. '000
Directors' emoluments		
- As Directors' fees	13,256	6,950
- For managerial services	18,409	16,967
Auditors' remuneration		
-Audit	652	615
-Non-Audit services	328	360
-Reimbursable expenses	165	154
Depreciation on property, plant and equipment (Note 5)	213,820	192,590
Changes in inventories of finished goods, trading items and work in progress	(318,685)	(10,368)
Raw materials and consumables used	2,986,252	3,090,822
Technical fee	109,176	-
Advertising expenses	39,781	26,606
Promotional expenses and sales commission	363,219	280,731
Repair and maintenance expenditure	143,359	164,095
Inventory provision / (reversal ) for slow moving inventories	5,382	(16,499)
Staff costs (Note 21)	518,190	418,940
Other expenses	301,965	46,039
<b>Total cost of sales, distribution costs and administrative expenses</b>	<b>4,394,371</b>	<b>4,218,002</b>

### 21 Staff costs

	2015 Rs. '000	2014 Rs. '000
- Wages, salaries and bonus	471,188	375,693
- Defined contribution plans	31,800	28,413
- Defined benefit plan - gratuity (Note 15)	15,202	14,834
	<b>518,190</b>	<b>418,940</b>

### 22 Net finance costs

	2015 Rs. '000	2014 Rs. '000
Interest income	(21,463)	(22,951)
Exchange (gains) / losses	(2,529)	(3,332)
	<b>(23,992)</b>	<b>(26,283)</b>
Interest expenses	49,242	172,814
	<b>25,250</b>	<b>146,531</b>

## 23 Income tax

	2015 Rs. '000	2014 Rs. '000
(a) Current tax ;		
- Current tax on profit for the year	186,652	68,953
- Adjustments in respect of prior years	370	-
<b>Total current tax</b>	<b>187,022</b>	<b>68,953</b>
(b) Deferred tax (Note 14)		
- Origination and reversal of temporary differences	38,927	105,473
<b>Total income tax expense</b>	<b>225,949</b>	<b>174,426</b>

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the statutory tax rate applicable to profits of the Company as follows

	2015	2014
Profit before tax	1,066,225	826,482
Tax calculated at average rate	253,463	181,826
Tax on share of results of associate	(2,876)	-
Income not subject to tax	(589)	-
Expenses not deductible for tax purposes	(24,419)	(7,400)
Under/(over) provision in respect of previous year	370	-
	<b>225,949</b>	<b>174,426</b>

The weighted average applicable tax rate was 23.65% (2014 : 22.52%)

## 24 Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders of the Company by the weighted average number of shares in issue during the year.

	2015 Rs. '000	2014 Rs. '000
Profit attributable to equity holders of the Company	840,275	652,056
Weighted average number of ordinary shares (thousands)	53,050	53,050
<b>Basic earnings per share (Rs)</b>	<b>15.84</b>	<b>12.29</b>

## 25 Dividends

A second interim Dividend of Rs.106,100,820/- (2014 - Rs.137,931,066/-) at Rs 2.00 (2014 - Rs.2.60) per share for the year ended 31st March 2014 was paid on 4th July 2014. A first interim dividend of Rs.106,100,820/- (2014 - Rs. 106,100,820/-) at Rs 2.00. (2014 - Rs2.00) per share for the year ended 31 March 2015 was paid on 25th November 2014. A second interim dividend of Rs. 2.50/- per share as approved by Directors for the year ended 31 March 2015 was paid on 23 April 2015.

## Notes to the financial statements

### 26 Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	2015 Rs. '000	2014 Rs. '000
Profit before tax	1,066,225	826,482
Adjustments for:		
Depreciation (Note 5)	213,820	192,590
Provision for retirement benefit obligation (Note 15)	15,202	14,834
Remeasurements for retirement benefit obligation (Note 15)	14,552	-
(Gain) / loss on disposal of assets (Note 20)	(898)	3,181
Interest expenses (Note 22)	49,242	150,696
Interest income (Note 22)	(21,463)	(22,951)
Unrealised profit of inventory purchased from associate	(738)	(7)
Share of result of associate	(110,736)	(52,098)
Provision / (reversal) for slow moving inventories (Note 20)	5,383	(16,499)
Changes in working capital		
- Increase in inventories	336,443	26,953
- Increase / (decrease) in trade and other receivables	281,020	(123,023)
- Increase in trade and other payables	(44,294)	(235,072)
Cash generated from operations	1,803,758	765,086

### 27 Related Party transactions

The Company is controlled by Lanka Walltile PLC which owns 68.22% (2014 - 68.22%) of the Company's shares. The remaining 31.78% of the shares are widely held. The ultimate parent of the Company is Vallibel One PLC.

The related parties with whom Lanka Tiles PLC carried out transactions in the ordinary course of business are set out below:

#### (a) Sale of goods to/ Services rendered

		2015 Rs. '000	2014 Rs. '000
Lanka Walltiles PLC	Finished goods	-	420
Swisstek (Ceylon) PLC	Raw materials	87	163
Lanka Walltiles PLC	Raw materials	12,859	10,154
Royal Porcelain (Pvt) Ltd	Raw materials	7,188	13,404
	Spares	694	-
	Consumables	6	-
Rocell Bathware LTD	Raw materials	-	91
	Services	184	-
	Spares	6	-
Royal Ceramics Lanka PLC	Raw materials	778	288
	Spares	421	-
Ever Paint and Chemical Industries Ltd	Services	3	-
		22,226	24,520

## 27 Related Party transactions (Contd.)

		2015	2014
		Rs. '000	Rs. '000
(b)	Purchase of goods/ Services from:		
	Swisstek (Ceylon) PLC		
	Trading items	138,589	131,014
	Sales commission	33,871	29,461
	Management fee	4,082	4,082
	Swisstek Aluminium Limited		
	Trading items	-	41,669
	Lanka Ceramic PLC	113,753	125,852
	Lanka Walltiles PLC	2,229	-
	Royal Porcelain (Pvt) Ltd	7,051	1,441
	Spares	900	-
	Consumables	15	-
	Royal Ceramics Lanka PLC	126	48
	Spares	151	-
	Lanka Walltiles PLC	312	1,911
	Finished goods	-	3,694
	Uni-Dil Packaging Ltd	44,946	15,064
	Ever Paint and Chemical Industries Ltd	506	153
	Delmage Freight Services (Pvt) Ltd	4,012	3,344
	Delmage Forsyth & Co (Shipping) Ltd	-	200
		350,543	357,933
(c)	Receipt of funds from:		
	Lanka Walltiles PLC		
	Loan settlement	165,000	35,000
	Fund received	-	18,000
	Swisstek Aluminium Limited		
	Loan settlement	-	8,158
	Lanka Walltiles PLC	12,050	18,631
	Swisstek (Ceylon) PLC	11,505	21,450
	Loan settlement	35,360	9,146
		223,915	110,385
(d)	Transfer of funds to:		
	Lanka Walltiles PLC	200,000	100,000
	Swisstek (Ceylon) PLC	121,362	130,988
		321,362	230,988
(e)	Expenses incurred and transferred to/(from)		
		2015	2014
		Rs. '000	Rs. '000
	Lanka Walltiles PLC		
	- Administration expenses	758	858
	- Distribution expenses	59,564	62,690
	Swisstek (Ceylon) PLC		
	- Administration expenses	1,135	693
	- Distribution expenses	4,705	-
	Swisstek Aluminium Limited		
	- Administration expenses	1,031	1,640
	Royal Ceramics Lanka PLC		
	- Technical fees	109,176	-
		176,369	65,881

## Notes to the financial statements

### 27 Related party transactions (Contd.)

(f) Key management compensation

Key management personnel include members of the Board of Directors and Senior management of Lanka Tiles PLC.

	2015 Rs. '000	2014 Rs. '000
Salaries and short-term employee benefits	34,960	33,937

The Directors have disclosed the nature of their interests in contracts at meetings of Directors.

(g) Rental expense

The Company has paid a rental of Rs.5,093,747/- (2014 - Rs 4,602,041/-) to Swisstek (Ceylon) PLC for the use of warehouse space at Balummahara during the financial year ended and Rs 27,196,806/- (2014 - Rs. 23,760,000/-) to Lanka Walltiles PLC for the use of office space at Nawala, during the financial year ended 31 March 2015.

(h) Rental Income

The Company has received a rental of Rs.2,923,380/- (2014 - Rs. 2,616,000/-) from Swisstek (Ceylon) PLC for the use of Grout and Mortar machines and Rs.6,570,900/- (2014 - Rs.5,880,000/-) from Lanka Walltiles PLC as rental income for Biyagama warehouse during the financial year ended 31 March 2015.

(i) Loans given to Swisstek (Ceylon) PLC at Balummahara, has been mortgaged to Lanka Tiles PLC as security to the value of Rs. 95 Mn against the outstanding balance due to Lanka Tiles PLC by Swisstek (Ceylon) PLC. Lanka Tiles PLC charges interest at AWPLR + 1% per annum on the loans given to Swisstek (Ceylon) PLC.

(j) Outstanding balances arising from sale/purchase of goods/services

Receivables from related Companies:

	2015 Rs. '000	2014 Rs. '000
Lanka Walltiles PLC	218,781	240,728
Swisstek (Ceylon) PLC	-	7,969
Swisstek Aluminium Limited	-	29,144
Royal Porcelain (Pvt) Ltd	1,280	11,963
Royal Bathware Limited	39	91
Royal Ceramics Lanka PLC	-	239
	220,100	290,134
Payables to related parties:		
Lanka Ceramic PLC	9,719	17,903
Royal Ceramics Lanka PLC	14,959	-
Swisstek (Ceylon) PLC	18,951	-
Swisstek Aluminium Limited	4,082	-
	47,712	17,903

## 27 Related Party transactions (Contd.)

(k) Loans given to related parties

	2015 Rs. '000	2014 Rs. '000
Swisstek (Ceylon) PLC Group	115,270	141,301

The property owned by Swisstek (Ceylon) PLC at Balummahara, has been mortgaged to Lanka Tiles PLC as security to the value of Rs 95 Mn against the outstanding balance due to Lanka Tiles PLC by Swisstek (Ceylon) PLC. Lanka Tiles PLC charges interest at AWPLR + 1% per annum on the loans given to Swisstek (Ceylon) PLC.

## 28 Related party transactions

The Directors of the Company are also Directors of the following companies with which Lanka Tiles PLC carried out business transactions in the ordinary course of business.

	Mr. W D N H	Mr. J A P M	Dr. S	Mr. P L	Mr T G	Mr K D G	Mr K D D	Ms A M L
	Perera	Jayasekera	Selliah	Amerasinghe	Thoradeniya	Gunaratne	Perera	Page
	(Chairman)	(Managing Director)						
Lanka Ceramic PLC	x	x	x	-	x	x	x	x
Lanka Walltiles PLC	x	x	x	-	x	x	x	x
Swisstek (Ceylon) PLC	x	x	-	-	-	-	-	-
Aristons (Private) Limited	-	-	-	x	-	-	-	-
Swisstek Aluminium Limited	x	x	-	-	-	-	-	-
Royal Ceramics Lanka PLC	x	-	-	-	x	-	x	-
Royal Porcelain (Private) Limited	x	-	-	-	x	-	x	-
Royal Bathware Limited	x	-	-	-	x	-	x	-
Uni-Dil Packaging Limited	x	-	-	-	x	-	x	-

## Notes to the financial statements

### 29 Contingencies and commitments

There were no other material contingent liabilities outstanding at the end of the reporting period.

Financial commitments

- a) Operating lease commitments where the company is the lessee

The future minimum lease payments under non cancellable operating leases are as follows.

	2015 Rs. '000	2014 Rs. '000
Not later than one year	-	2,881
Later than one year not later than five years	-	-
	-	2,881

- b) The Company is committed to pay Rs 324,500/- and Rs.2,295,887/- as rent per month for the use of building located at Rajagiriya and Nawala respectively.

### 30 Restatement and reclassifications of comparatives

The presentation and classification of figures of previous year have been amended, where relevant, to be comparable with those for the current year.

### 31 Events after the reporting period

"A Draft Act has been gazetted by the Government for the imposition of the Super Gains Tax as announced in the Budget presented on 29 January 2015. As per the provisions of the Draft Act , the Company will be liable to pay Rs. 64,712,615/- as Super Gains Tax in 3 equal instalments due on 15 of May, July and September 2015. The Company has not adjusted the earnings to reflect the impact arising from this tax , as this Act is yet to be passed by the Parliament"

No circumstances have arisen since the statement of financial position date which require adjustments to, or disclosure in the financial statements, other than noted above.

# Five Year Summary of Financial Position

As at 31st March	2011 Rs '000	2012 Rs '000	2013 Rs '000	2014 Rs '000	2015 Rs '000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	1,514,770	2,251,738	2,501,664	2,583,865	2,533,387
Capital work-in-progress	85,071	86,819	65,094	23,914	23,366
Intangible assets	-	-	-	-	-
Investments in subsidiary	168,254	-	-	-	-
Investments in associates	167,206	247,983	258,067	308,846	493,136
Loan given to related companies	40,937	102,106	138,291	110,467	79,885
Finance lease debtors	6,182	4,754	2,989	1,225	-
	1,982,420	2,693,400	2,966,105	3,028,317	3,129,774
<b>Current assets</b>					
Inventories	569,821	781,626	1,500,505	1,473,550	1,137,107
Trade and other receivables	449,427	749,749	970,098	1,148,034	898,820
Cash and cash equivalents	154,414	38,721	128,042	74,996	846,794
	1,173,662	1,570,096	2,598,645	2,696,580	2,882,722
<b>Total assets</b>	<b>3,156,082</b>	<b>4,263,496</b>	<b>5,564,750</b>	<b>5,724,897</b>	<b>6,012,496</b>
<b>EQUITY</b>					
<b>Capital and reserves</b>					
Stated capital	900,968	900,968	900,968	900,968	900,968
Reserves	782,937	1,390,027	1,781,578	2,186,632	2,745,049
Amalgamation reserve	-	460,151	460,151	460,151	460,151
	1,683,905	2,751,146	3,142,697	3,547,751	4,106,168
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Borrowings	81,093	379,024	528,979	488,395	383,974
Deferred income tax liabilities	124,212	179,561	235,671	340,527	375,486
Defined benefit obligations	41,855	62,988	76,546	87,836	110,577
	247,160	621,573	841,196	916,758	870,037
<b>Current liabilities</b>					
Trade and other payables	1,042,424	575,008	699,097	463,642	536,171
Current income tax liabilities	94,928	10,839	17,306	33,087	139,565
Borrowings	87,665	304,930	864,454	763,659	360,555
	1,225,017	890,777	1,580,857	1,260,388	1,036,291
<b>Total liabilities</b>	<b>1,472,177</b>	<b>1,512,350</b>	<b>2,422,053</b>	<b>2,177,146</b>	<b>1,906,328</b>
<b>Total equity and liabilities</b>	<b>3,156,082</b>	<b>4,263,496</b>	<b>5,564,750</b>	<b>5,724,897</b>	<b>6,012,496</b>

# Five Year Summary of Comprehensive Income

Year ended 31st March	2011 Rs '000	2012 Rs '000	2013 Rs '000	2014 Rs '000	2015 Rs '000
Sales (with VAT)	3,002,191	3,567,209	4,646,623	5,109,318	5,349,670
Operating profit	706,264	772,228	785,039	920,915	980,738
Finance costs	(3,648)	(43,905)	(76,277)	(146,531)	(25,250)
Share of results of associate	-	327	(8,164)	52,098	110,736
Profit before income tax	702,616	728,650	700,598	826,482	1,066,224
Income tax expense	(197,546)	(142,310)	(84,777)	(174,426)	(225,949)
Profit for the year	505,070	586,340	615,821	652,056	840,275
Profit attributable to the equity holders of the Company	505,070	586,340	615,821	652,056	840,275
Dividends	(291,777)	(53,050)	(238,727)	(244,032)	(344,828)
Retained profit for the year	213,293	533,290	377,094	408,024	495,447
Earnings per share - basic (Rs)	9.52	11.05	11.61	12.29	15.84

# Shareholder Information

Year ended 31st March		2011	2012	2013	2014	2015
Authorised share capital	(Rs.Mn)	500.0	500.0	500.0	500.0	500
Stated capital	(Rs.Mn)	900.0	900.0	900.0	900.0	900
Shares in issue (as at end of year)	(Mn)	53.05	53.05	53.05	53.05	53.5
Shareholders						
- Institutions	(Number)	209	186	183	152	141
- Individuals	(Number)	1,818	1,831	1,757	1,674	1,579
<b>Total</b>		<b>2,027</b>	<b>2,017</b>	<b>1,940</b>	<b>1,826</b>	<b>1,720</b>
Shares held by						
- Institutions	(%)	83.67	83.84	85.16	90.80	91.85
- Individuals	(%)	16.33	16.16	14.84	9.20	8.15
<b>Total</b>		<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.00</b>
Transactions	(Number)	5,465	1,196	1,420	1,328	1,352
Shares traded	(Mn)	20.90	3.04	2.53	12.28	315.00
Dividends	(%)	36.7	35.4	35.3	37.4	41.0
Dividends per share	(Rs.)	3.50	4.00	4.10	4.00	4.5
Market price per share						
- Highest during the year	(Rs.)	143.00	140.00	83.00	84.90	117.90
- Lowest during the year	(Rs.)	87.00	64.90	56.00	61.00	75.10
- As at end of the year	(Rs.)	131.10	65.10	69.50	75.70	106.00
Market Capitalization (as at end of year)	(Rs.Mn)	6,954.90	3,453.60	3,686.98	4,015.89	5,623.34
Earnings per share	(Rs.)	9.52	11.05	11.61	12.29	15.84
Price/Earnings ratio	(Times)	13.77	5.89	5.99	6.16	6.69
Net assets per share (as at end of year)	(Rs.)	31.74	51.86	59.24	66.88	77.40

## Distribution of Shareholdings As At 31st March 2015

Size of shareholdings Number	Shareholders Number	Shares Number	Holdings %
1 - 1,000	1,248	280,370	0.53
1,001 - 10,000	378	1,230,424	2.32
10,001 - 100,000	77	2,021,337	3.81
100,001 - 1,000,000	13	3,389,773	6.39
Over 1,000,000	4	46,128,506	86.95
	<b>1,720</b>	<b>53,050,410</b>	<b>100.00</b>

## CATEGORIES OF SHAREHOLDERS

Local Individuals	1,528	3,608,310	6.80
Local Institutions	133	45,169,575	85.14
Foreign Individuals	51	715,847	1.35
Foreign Institutions	8	3,556,678	6.71
	<b>1,720</b>	<b>53,050,410</b>	<b>100.00</b>

## PUBLIC HOLDING

Percentage of public holding as at 31st March 2015 was 29.152% comprising of 1,714 shareholders.

# Shareholder Information

## 20 MAJOR SHAREHOLDERS

NAME	No. of Shares as at		No. of Shares as at	
	31/03/2015	(%)	31/03/2014	(%)
1 Lanka Walltiles PLC	36,189,195	68.217	36,189,195	68.217
2 Employees Provident Fund	5,295,602	9.982	5,295,602	9.982
3 Mellon -Frontaura Global Frontier fund LLC	3,255,228	6.136	2,599,400	4.900
4 Royal Ceramics Lanka PLC	1,388,481	2.617	862,003	1.625
5 Bank of Ceylon No. 1 Account	973,200	1.834	973,200	1.834
6 Mr. K R Kamon	537,628	1.013	537,628	1.013
7 Mr. A A Page	433,939	0.818	433,939	0.818
8 Rubber Investment Trust Limited A/C NO 01	259,765	0.490	-	-
9 Pinnacle Trust (Pvt) Limited	214,800	0.405	184,800	0.348
10 Deutsche bank AG-Comtrust equity fund	138,631	0.261	184,550	0.348
11 The Sri Lanka fund	131,267	0.247	-	-
12 Aruna Enterprises (Pvt) Limited	128,500	0.242	128,500	0.242
13 Mr S.M Fernando	126,446	0.238	126,446	0.238
14 Mrs A A Merchant	125,000	0.236	125,000	0.236
15 HSBC Intl Nom Ltd -Ubs A Zurich	115,164	0.217	-	-
16 Mr Y h Abdulhussein	104,833	0.198	104,833	0.198
17 Mr S N Kumar	100,600	0.190	100,600	0.190
18 Mr N H Esufally	87,240	0.164	52,240	0.098
19 Mr M A H Esufally	87,217	0.164	61,130	0.115
20 Mrs B C Sansoni	63,000	0.119	63,000	0.119
SUB TOTAL	49,755,736	93.788	48,022,066	90.520
Others 1,700 Shareholders	3,294,674	6.212	5,028,344	9.480
Grand Total	53,050,410	100.00	53,050,410	100.00

Percentage of public holding as at 31st March 2015 was 29.152% comprising of 1,714 shareholders.

# Statement of Value Added

Year ended 31st March	2011 Rs. '000	%	2012 Rs. '000	%	2013 Rs. '000	%	2014 Rs. '000	%	2015 Rs. '000	%
Sales	3,372,014		3,983,462		5,171,650		5,789,073		5,941,148	
Duty rebate	13		611		852		853		-	
Other income	19,177		21,406		34,916		29,599		25,939	
Less: cost of materials & services bought in	(1,757,192)		(2,235,671)		(3,151,092)		(3,546,878)		(3,535,313)	
<b>Value Added</b>	<b>1,634,012</b>		<b>1,769,808</b>		<b>2,056,326</b>		<b>2,272,647</b>		<b>2,431,774</b>	
<b>Distribution of Value Added</b>										
Employees as remuneration and welfare	321,590	19.7	363,307	20.53	428,511	20.84	453,101	19.94	526,439	21.65
Government as taxes	607,617	37.2	576,157	32.55	637,990	31.03	748,708	32.94	877,775	36.10
Lenders of capital as interest	24,300	1.5	53,518	3.02	126,375	6.15	172,814	7.60	49,242	2.02
Shareholders as dividends	291,777	17.9	53,050	3.0	79,576	3.87	106,101	4.67	238,727	9.82
Retained in the business as										
- Depreciation/deferred tax	173,779	10.6	186,570	10.55	239,465	11.65	298,063	13.12	248,779	10.23
- Profits	214,949	13.2	537,205	30.35	544,409	26.47	493,860	21.73	490,812	20.18
<b>Total</b>	<b>1,634,012</b>	<b>100.0</b>	<b>1,769,808</b>	<b>100.0</b>	<b>2,056,326</b>	<b>100.00</b>	<b>2,272,647</b>	<b>100.00</b>	<b>2,431,774</b>	<b>100.00</b>

# Notice of Meeting

NOTICE IS HEREBY GIVEN that the Thirty First (31st) Annual General Meeting of Lanka Tiles PLC will be held at the Victorian Ballroom (located in the 10th floor), The Kingsbury Hotel, No. 48, Janadhipathi Mawatha, Colombo 01 on 29th day of June 2015 at 10.30 a.m. for the following purposes,

1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and the Statement of Accounts for the year ended 31st March 2015 and the Report of the Auditors thereon.
2. To re-elect Mr. K D D Perera, who retires by rotation in terms of Articles 103 and 104 of the Articles of Association, as a Director of the Company
3. To re-elect Mr. T G Thoradeniya, who retires by rotation in terms of Articles 103 and 104 of the Articles of Association, as a Director of the Company.
4. To re-appoint Messrs PricewaterhouseCoopers, Chartered Accountants, the retiring Auditors and to authorize the Directors to determine their remuneration.
5. To authorize the Directors to determine Donations for the ensuing year.

By Order of the Board  
**LANKA TILES PLC**



P W Corporate Secretarial (Pvt) Ltd  
Director / Secretaries

Colombo  
26th May 2015

## Notes:

- 1) A shareholder entitled to attend and vote at the Meeting is entitled to appoint a Proxy who need not be a shareholder, to attend or attend and vote instead of him/her. A Proxy need not be a member of the Company. A Form of Proxy is enclosed for this purpose.
- 2) A Form of Proxy is enclosed in this Report.
- 3) The completed Form of Proxy should be deposited at the Registered Office of the Company, No. 215, Nawala Road, Narahenpita, Colombo 05, not less than forty-eight (48) hours before the time fixed for the commencement of the Meeting.





# Form of Proxy

\*I/We.....of.....being a \*Shareholder /Shareholders of Lanka Tiles PLC, do hereby appoint .....of .....or failing him/her

- Mr. Wannakuwattawaduge Don Nimal Hemasiri Perera of Colombo or failing him\*
- Mr. Jayasekera Arachchige Panduka Mahendra Jayasekera of Colombo or failing him\*
- Dr. Sivakumar Selliah of Colombo or failing him\*
- Mr. Kulappuarachchige Don Dhammika Perera of Colombo or failing him\*
- Mr. Tharana Gangul Thoradeniya of Colombo or failing him\*
- Mr. Kalupathiranalage Don Gamini Gunaratne of Colombo or failing him\*
- Ms. Anjalie Maryanne Letitia Page of Colombo or failing her\*

as \*my/our proxy to represent me/us to speak and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 29th June 2015 at 10.30 a.m and any adjournment thereof and at every poll which may be taken in consequence thereof.

		FOR	AGAINST
1)	To receive and consider the Annual Report of the Board of Directors along with the Financial Statements of the company for the year ended 31st March 2015	<input type="checkbox"/>	<input type="checkbox"/>
2)	To re-elect Mr. K D D Perera, who retires by rotation in terms of Article 103 and 104 of the Articles of Association as a Director of the Company	<input type="checkbox"/>	<input type="checkbox"/>
3)	To re-elect Mr. T G Thoradeniya, who retires by rotation in terms of Article 103 and 104 of the Articles of Association as a Director of the Company	<input type="checkbox"/>	<input type="checkbox"/>
4)	To re-appoint M/s PricewaterhouseCoopers as Auditors of the Company for the ensuing year and to authorize the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
5)	To authorize the Directors to determine donations for the ensuing year	<input type="checkbox"/>	<input type="checkbox"/>

Signed this..... day of ..... Two Thousand and Fifteen

.....  
Signature

- 1) \*Please delete the inappropriate words.
- 2) Instructions as to completion are noted on the reverse thereof.

#### **INSTRUCTIONS AS TO COMPLETION**

1. This Form of Proxy must be deposited at No. 215, Nawala Road, Narahenpita, Colombo 5 not less than forty eight (48) hours before the time fixed for the Meeting.
2. In perfecting the Form of Proxy please ensure that all details are legible.
3. If you wish to appoint a person other than a Director of the Company as your proxy, please insert the relevant details in the space provided.
4. Please indicate with an 'X' in the space provided, how your proxy is to vote on the resolution. If no indication is given, the proxy in his discretion will vote as he thinks fit.
5. In the case of a Company/Corporation, the proxy must be under its Common Seal, which should be affixed and attested in the manner prescribed by its Articles of Association.
6. In the case of a Proxy signed by an Attorney, the Power of Attorney must be deposited at The Secretaries' Office (i.e. P W Corporate Secretarial (Pvt) Ltd, No.3/17, Kynsey Road, Colombo 8) for registration.
7. In the case of joint holders the Form of Proxy must be signed by the first holder.

# Corporate Information

## NAME OF THE COMPANY

Lanka Tiles PLC

## LEGAL FORM

Public Limited Liability Company listed on the Colombo Stock Exchange. ( Incorporated as a Private Limited Liability Company on 30th March 1984 under the Companies Act No. 17 of 1982 and converted to a Public Limited Liability Company on 07th August 1984.) The Company was re-registered under the New Companies Act No. 07 of 2007 on 19th March 2008. (Registration No. PQ 129)

## DIRECTORS

Mr. W D N H Perera (Chairman)  
Mr. J A P M Jayasekera (Managing Director)  
Mr. P L Amerasinghe  
Dr. S Selliah  
Mr. K D D Perera  
Mr. T G Thoradeniya  
Mr. K D G Gunaratne  
Ms. A M L Page  
Mr. G A R D Prasanna (Alternate Director to Mr. K D D Perera)

## SECRETARIES

P W Corporate Secretarial (Pvt) Ltd  
No. 3/17, Kynsey Road  
Colombo 08  
Telephone : + 94 -11 - 4640360-3  
Facsimile : + 94 -11 - 4740588  
E-mail : pwcs@pwcs.lk

## REGISTERED OFFICE

215, Nawala Road, Narahenpita, Colombo 05  
Telephone : + 94 -11 - 2808050 / 2808001-3  
Facsimile : + 94 -11 - 2806232  
E-mail : info@lankatiles.com  
Website : www.lankatile.com

## FACTORY

St. James Estate, Jaltara, Ranala  
Telephone : + 94 - 11 - 2141055, 2141057, 2141819  
Facsimile : + 94 - 11 - 2141045  
E-mail : factory@lankatiles.com

## BANKERS

Commercial Bank of Ceylon PLC  
DFCC Bank  
Bank of Ceylon  
Hongkong & Shanghai Banking Corp. Limited  
Hatton National Bank PLC  
Sampath Bank PLC

## AUDITORS

PricewaterhouseCoopers  
Chartered Accountants  
100, Braybrooke Place, Colombo 2.  
Telephone : + 94 - 11 - 4719838  
Facsimile : + 94 - 11 - 2303197



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