Tile tales

LANKA TILES PLC

So much more than just surfacing solutions…

Classic, sophisticated and strong

LANKATILES

Annual Report 2016/17

Tile tales

We love our tiles. At Lanka Tiles PLC, we create tiling solutions that are so much more than simply surfacing for your walls and floors. Our tiles are classic, sophisticated, stylish and strong. They speak to the artist, the home-maker, the architect, the entrepreneur. They bring out the designer in everyone.

Our tiles speak to the soul. Read on to find out what they have to say to you.

Contents

pg. 04

Group Financial Highlights

pg. 06

Chairman's Statement

pg. 08

Managing Director's Review

pg. 17

Management Discussion & Analysis

pg. 70

Independent Auditor's Report

About Us

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 improvement is a continuing process. It is the constant endeavour of our employees and the driving force behind our success.

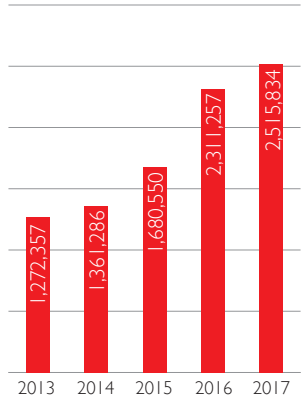
Lanka Tiles is the business of enhancing the quality of life by adding colour, style, and elegance to life. It creates a sense of aspiration, expectation, fashion and style always stirring aspirations around good living. Creating sensorial pleasures of an aesthetically appealing living ambience.

Our Brand **Promise**

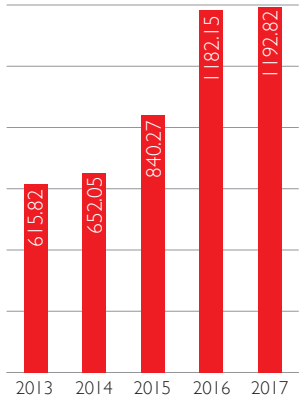
Group Financial Highlights

Financial Highlights		2016/17	Change %	2015/16	2014/15
Gross income	(Rs.'000)	5,846,505	(4.53)	6,123,730	5,941,148
Gross profit	(Rs.'000)	2,316,003	(5.64)	2,454,368	1,927,795
Net profit before tax	(Rs.'000)	1,604,508	1.67	1,578,189	1,066,224
Income tax	(Rs.'000)	359,170	(10.08)	399,448	225,949
Net profit	(Rs.'000)	1,245,338	5.65	1,178,741	840,275
Revenue to the Government	(Rs.'000)	1,140,843	4.08	1,096,099	877,775
Total Assets	(Rs.'000)	8,409,103	9.55	7,676,335	6,012,496
Total Liabilities	(Rs.'000)	1,765,475	(6.85)	1,895,286	1,906,328
Shareholder Funds	(Rs.'000)	6,643,628	14.92	5,781,049	4,106,168
Earning per share	(Rs.)	23.47	5.65	22.22	15.84
Dividends per share	(Rs.)	7.50	7.14	7.00	4.50
Net assets value per share	(Rs.)	125.23	14.92	108.97	77.40
Interest cover	(Times)	51.54	18.93	43.33	20.40
Dividend cover	(Times)	3.13	(1.39)	3.17	2.44
Return on capital	(%)	22.51	(7.68)	24.39	22.37
Equity: Assets ratios	(Times)	0.79	4.91	0.75	0.68
Current ratio	(Times)	3.22	1.68	3.17	2.78
Gearing ratio	(%)	7.58	3.82	7.30	15.35
Profit per employee	(Rs.)	2,515,834	8.85	2,311,257	1,680,550

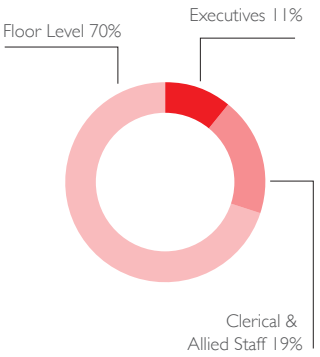
Profit per Employee (Rs.)



Profit for the Year (Rs. Mn.)



No of Employees




Tiles that speak to the artist, the home-maker, the architect, the entrepreneur.
Tiles that bring out the designer in everyone.

Chairman's Statement

The Sri Lankan economy grew at a slower than expected rate of 4.4% in 2016 compared to 4.8% in 2015, mainly due to the unfavourable weather conditions and the sluggish global economic recovery. Increasing inflation levels, with high levels of inflation during some months in 2016 as well as in the first quarter of 2017 were mainly attributed to the adverse impact of weather related disruptions, tax adjustments and rising international commodity prices.

Dear Shareholder,

It is a pleasure to present to you the 33rd annual report of Lanka Tiles PLC (LTPLC) for the year ending 31st March 2017. We continue our efforts towards integrated reporting and have greatly enhanced our sustainability reporting this year. We have made progress in our sustainability efforts while presenting a comprehensive and balanced overview of the performance of the Company during the financial year 2016/17.

Operating Environment

The Sri Lankan economy grew at a slower than expected rate of 4.4% in 2016 compared to 4.8% in 2015, mainly due to the unfavourable weather conditions and the sluggish global economic recovery. Increasing inflation levels, with high levels of inflation during some months in 2016 as well as in the first quarter of 2017 were mainly attributed to the adverse impact of weather related disruptions, tax adjustments and rising international commodity prices. The external sector of the economy was also adversely affected due to weak external demand which declined by 9.6% in nominal terms in 2016, which reflects the declining competitiveness of the country's exports and the continued fall in the country's share of global exports. Consumption expenditure which is the largest expenditure category of the economy, recorded only a modest growth of 4.1% in nominal terms in 2016 compared to the growth of 10.3% recorded in the previous year. Meanwhile, the rupee which depreciated against all major currencies except the pound sterling in 2016, remained stable with heavy intervention by the Central Bank in the first four months of 2016, but was allowed to reflect market demand and supply conditions to a great extent in the second half of the year, resulting in an overall depreciation of the rupee against the US dollar by 3.8% in 2016.

Resultantly, the operating environment of the Company continued to be challenging amidst such macroeconomic conditions.

Operating Results

Lanka Tiles PLC (LTPLC) consolidated its market position in the year under review. The Company's performance which was slightly below expectations was mainly a result of the lowered production levels the Company faced throughout the year. The revenue for the year under review was Rs. 5.2 Bn compared to the Rs. 5.5 Bn in 2015/16. However the groups' profit after tax marginally increased, recording Rs. 1,245 Mn compared to Rs. 1,178 Mn in 2015/16.

While the Company's financial performance was not on par with the performance realised in the previous year, LTPLC continued with its strategic initiatives aimed at increasing market share, exploring new avenues of raw material supplies and strengthening its manufacturing capacity requirements. Resultantly, in January 2017, the Company entered into a strategic partnership with a leading Indian tile manufacturer as an outsourcing partner. The Company also sustained its focus on product development and enhancement to take advantage of changing consumer trends and the demand for larger sized and specialist tiles. Focus on product quality parameters remained constant and is supported by the Company's ISO 9001 certification and the SLS certification.

Investing for the Future

Your Company invested Rs. 230 Mn to purchase a land in Nugegoda to set-up a state-of-the-art showroom. The Company also invested Rs. 98 Mn in upgrading the machinery in our factory in Ranala. Investments of Rs. 28 Mn was also made by LTPLC in support of our commitment to be a sustainable enterprise by safeguarding the environment, protecting stakeholder and human rights, and in assisting with community livelihood and lifestyle enhancement projects.

Creating Value to Shareholders

Creating value for shareholders is mainly through share price increments and the payment of dividends. Shareholder returns remain one of the key results of the Company's business operations. In the year under review, LTPLC paid Rs. 7.50 per share as total dividends to our shareholders, which comprised of Rs. 2.50 per share as interim dividend paid in November 2016, followed by the final dividend of Rs. 5.00 per share in February 2017. The resultant dividend payout ratio for the year under review increased by only 7.15% compared to the 55% increase realised in 2015/16.

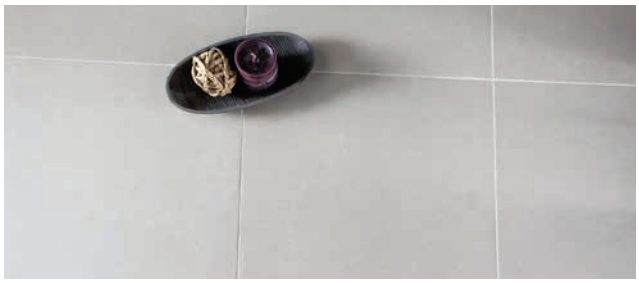
The Company's shares are relatively closely held, and the total number of issued shares remained unchanged during the year under review. LTPLC's shares were traded at the Colombo Stock Exchange during 2016, where the lowest traded price per share was Rs. 95.00 recorded in February 2016, while the highest traded price per share was Rs. 123.90 in May 2017. The share price of the LTPLC closed at Rs. 102.00 as at 31st March 2017.

Good Governance Practices

Good governance practices are embedded within our business operations as a means of doing business in a transparent and responsible manner. The frameworks and principles of governance adopted by the Company continues to be the backbone by which we ensure proper functioning of our day-to-day business activities and the treatment of our stakeholders. Our governance practices incorporate the Code of Best Practice on Corporate Governance jointly issued by The Institute of Chartered Accountants of Sri Lanka, The Securities and Exchange Commission of Sri Lanka and The Colombo Stock Exchange. We also voluntarily adopt internationally recognised standards such as ISO and ILO principles, and follow the Global Reporting Initiative (GRI) framework in reporting on triple bottom line aspects of sustainable business operations.

The Path Ahead

The forthcoming year will continue to be challenging for the Company. However, measures are in place to overcome these challenges and to perform above expectations. While LTPLC has made great strides in many strategic and operational aspects in the year under review, the Company will have to be dynamic in adopting changes to these strategies and operations to remain competitive in the market and exploit opportunities. Changing consumer demand, changes to the operating and industry environments, increased threat from imported finished products, production cost escalations, reduction in customer complaints and increase in customer satisfaction, and efficiency and process improvements from TPM activities will all remain key focus areas in



the year ahead. We will also continue to invest in modern technologies and innovations that will positively impact business operations and enable the Company to capitalise on new and emerging consumer trends and buying behaviour, allow for supply chain efficiencies to be realised, and increase the market share of the Company.

As a means of creating better value to stakeholders in the longer term, and in consideration of the operating conditions, the Company is also considering a restructuring of the Group in the next 2-3 years.

Acknowledgements

First, I would like to welcome Mr. A M Weerasinghe who joined the Board as the Deputy Chairman of LTPLC on 15th March 2017. His experience and knowledge will greatly benefit your company in the coming years. I also wish to thank Mr. Nimal Perera who resigned as the Co-Chairman for his services to the Company over the years.

Appreciations

I wish to express my sincerest appreciation to the Board of Directors for the support and wise counsel extended to me at all times. I take this opportunity to also congratulate the Managing Director, the Senior Management and the entire staff of Lanka Tiles PLC for their determination to deliver success to our shareholders. I am truly honoured by your dedication in working towards a common goal and thank you for your unquestioning loyalty. 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 their valuable patronage and confidence.

Dhammika Perera

Chairman

26th May 2017

Managing Director's **Review**

The year 2016/17 started off on a challenging note and continued in the same vein propelling the Company to strengthen its strategic position as the premier tile manufacturer and retailer in the country. As is the case, challenges are the basis on which opportunities are built, and Lanka Tiles PLC (LTPLC) seized this occasion to drive some key strategic initiatives which would enable the Company to create long term value to all its stakeholders.

Key Strategic Initiatives

A critical long term strategy that LTPLC initiated during the year was to scout for opportunities to increase outsourcing prospects to resolve production capacity constraints faced by the Company over the last few years. This resulted in our strategic partnership with Ambani Vitrified (Pvt) Ltd, a leading manufacturer of tiles in Gujrat, India in January 2017. This venture will aid LTPLC to increase its production capacity while retaining its domestic market share in the medium term. This partnership is a first step for the Company's longer term aspirations of building a larger overseas market in neighbouring countries, and further expanding our reputation as a quality tile manufacturer in international markets.

Expanding our supplier base is another important long term strategy that the Company pursued during the year. Sri Lanka being a small land mass has limited raw material availability, which in the longer term will prove a constraint towards meeting increasing demand for the Company's products. Hence, LTPLC is looking to partner with reliable international suppliers of quality raw materials to enable the Company to expand domestic manufacturing operations.

To combat the limited raw material supplies in Sri Lanka, the Company is also exploring the possibilities of increasing production quantities using existing raw material supplies. Hence, the Company's research and development activities are being focussed towards the creation of such innovative products and processes.

The implementation of the Total Productive Maintenance (TPM) initiative in the Company's factory during the third quarter of the year resulted in planned and surprising benefits for the Company. As a holistic approach to equipment maintenance; that strives to achieve perfect production without any breakdowns, defective products, short production stops or even production slowdowns, the Company was not only able to further increase production efficiency and cost savings, but also make factory operations more vibrant while motivating employees to achieve targets in a sustainable and effective manner.

LTPLC focus for the year 2016/17 was on increasing market share and regaining the Company's position as the dominant tile manufacturer and retailer in the country within the next two years.

From a marketing perspective, the Company's main strategic trust was to re-align our brand positioning in the customer's minds. LTPLC implemented measures such as increasing our digital marketing drives and presence in social media networks as a path towards establishing the Company as a modern premium brand, targeting both the high-end and Generation Y segments. Our traditional values and trustworthy aspects will continue to be the basis on which we build this new brand positioning for the Company.

The Year in Review

LTPLC focus for the year 2016/17 was on increasing market share and regaining the Company's position as the dominant tile manufacturer and retailer in the country within the next two years. The Company's strategies and resources were directed toward meeting this objective. The implementation of the Total Productive Maintenance (TPM) system in our factory operations, together with efficiency initiatives, and achieving the optimal supply chain model for the Company all contributed towards this focus. It is my belief that the Company together with our stakeholders have made great strides in this regard.

LTPLC's overall performance for the year was commendable, despite the challenges faced both from an internal perspective and in consideration of the macroeconomic environment. The Company achieved a net profit after tax of Rs. 1,192 Mn compared to Rs. 1,182 Mn in 2015/16. This marginal increase in profits can be attributed to reduced production volumes by 7% in the start of the financial year due to a longer than expected

LTPLC's overall performance for the year was commendable, despite the challenges faced both from an internal perspective and in consideration of the macroeconomic environment.

factory shutdown. This fall in production volumes adversely affected the Company's annual budgeted sales volumes leading to loss in sales revenue.

Credit for maintaining the Company's performance at this level despite these adverse issues is attributed to the continued strategies of supply chain management, price management, marketing activities and product portfolio management being implemented during the year. The introduction of the TPM system also greatly contributed towards the achievement of the Company's results in the year, by enabling our cost management initiatives to be optimised.

The demand for Company's product continued to grow at 12% to 15% both locally and internationally. While LTPLC was unable to capitalise on this opportunity in the year under review, steps taken in the last quarter of the financial year positions the Company towards a better performance in the coming year.

In the medium to longer term, the Company will continue to focus on increasing capacity, expanding outsourcing operations, building on our Indian operations both from a manufacturing perspective as well establishing more retail showrooms, furthering our domestic product reach and enhancing our sustainable business operations.

During the financial year LTPLC invested significantly to upgrade machinery used in the production of tiles factory upgrading and to purchase a land in Nugegoda with the intent of building a state-of-the- art showroom aligned to our brand positioning strategy as well as for customer convenience.

Industry Outlook

As a manufacturer, I foresee the industry becoming more challenging mainly because of issues related to raw material sourcing. As the primary raw material for tile manufacturing is sourced from mining clay, the increasing population of the country results in people moving into lands that can otherwise be mined. While, the Company understands the need for urbanisation and advocates environmental protection, we are of the view that the growth of the ceramic industry is dependent on some form of

Managing Director's **Review**

The Company's employees play a key role in the success of our operations. They are the people who operationalise our strategies and achieve targets. Accordingly, LTPLC cares for our employees and provides them with a conducive working environment, career advancement and opportunities to develop new skills and knowledge.

regulations being implemented to safeguard the sustainability of the industry as a whole. Another concern for the industry is the highly restricting regulations for the mining industry in Sri Lanka. While there is absolute need for laws and regulations to monitor and control industry operations, some of these regulations are detrimental towards sustaining business operations and profitably in the longer term, leading industry players to supplement production with imports.

As a retailer, there is much to be optimistic about. The Ceramics industry is growing and becoming a lucrative industry, with tiles becoming fashionable as a surface solution. Thus, leading to constantly increasing demand for the Company's product. There is much room for LTPLC to grow within this industry and increase market share. However, solutions to production capacity constraints together with limited supply of raw materials must be found sooner rather than later to capitalise on this industry growth and not lose market share to imported products.

Escalating costs of production is as aspect of the industry that will have to be managed effectively to enable the local manufacturers to compete on price with imported products. Ones solution is to focus on product value additions to level the playing field for local players to compete with imported products. Another is to lobby for protection of the local industry by requesting for reasonable duty structures on imported raw materials to manage costs of production.

Creating Value for Key Stakeholders

Employees

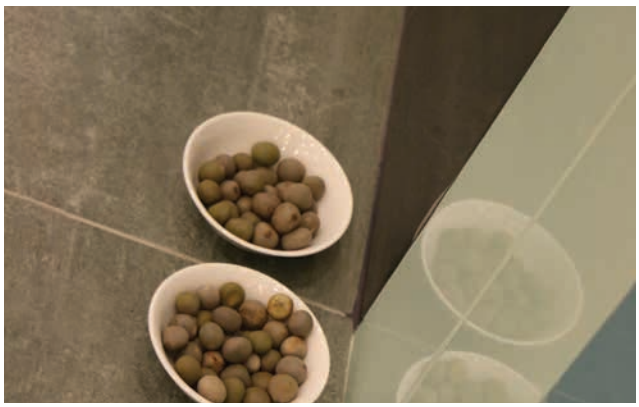
The Company's employees play a key role in the success of our operations. They are the people who operationalise our strategies and achieve targets. Accordingly, LTPLC cares for our employees and provides them with a conducive working environment, career advancement and opportunities to develop new skills and knowledge.

Customer and Dealer Network

Our customer and dealer network are also key stakeholders. The Company is committed to meeting their demand for our product and ensuring their satisfaction in the longer term. Our strategies are geared towards meeting this commitment. The Company has plans to increase internal production capacity as well as imports of finished products in the coming year. Consequently, the Company has allocated Rs. 1.5 Bn to increase production capacity in the coming year.

Environment and Wider Society

The Company considers the environment and wider society when operationalising our strategies. Accordingly, measures are integrated within our strategies to ensure that our business does not cause any adverse impacts to the environment and impacts that take place on a day-to-day basis are minimised and regulated. LTPLC also contributed to the communities surrounding our business operations by assisting them to build better livelihoods and living standards. Enhancing sustainability efforts of the Company continued to be a key focus area for the management during the year under review.



Performance of Associate Company

The associate company of LTPLC - Swisstek (Ceylon) PLC group which includes Swisstek (Ceylon) PLC and Swisstek Aluminium Ltd, recorded an overall better performance than in the previous year. The group revenue increase by 28% to Rs. 3.4 Bn, while group profitability also increased by 33% to Rs. 429 Mn in the year under review. To further improve the group's performance, both companies plan to make substantial investments to increase and upgrade their manufacturing capabilities in the coming year.

Future Outlook

In the medium to longer terms, the Company will continue to focus on increasing capacity, expanding outsourcing operations, building on our Indian operations both from a manufacturing perspective as well establishing more retail showrooms, furthering our domestic product reach and enhancing our sustainable business operations.

We will also continue with our efforts to increase the market share of the Company by providing the right product mix at the right price and at the highest quality. Customers' changing demands also make it imperative that LTPLC's operations must be agile and versatile so that products to meet such demands can be manufactured with a minimum downtime. Plans are also in place to further add value to our products to be able to compete with the wider variety available from imported products.

I believe that following this path will allow LTPLC to consolidate its domestic and international market presence while meeting customer expectations and the growing demand for our product.

Appreciations

I take this opportunity to express my sincere thanks to all employees who work tirelessly to deliver results and take the Company forward to achieve future success. My appreciation to our customers, dealers, distributors, bankers, suppliers and other stakeholders for their continued support, dedication and commitment towards LTPLC's long term business success. I would also like to thank the Chairman and my colleagues on the Board for their guidance, support and wise counsel at all times. Finally, special thanks to our shareholders for the confidence placed in the management and the Company to meet your expectations. To all stakeholders, I look forward to your valued patronage in the years to come.

J A P M Jayasekera
Managing Director

26th May 2017

Board of **Director's**

Mr. Dhammika Perera
Chairman

Mr. Dhammika Perera is the quintessential strategist and business specialist with interests in a variety of key industries including Manufacturing, Banking and Finance, Hospitality & Hydropower generation. He has three decades of experience in building formidable business through unmatched strategic foresight.

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

Mr. A M Weerasinghe
Deputy Chairman

Founder of Royal Ceramics Lanka PLC in 1990. A Gem Merchant by profession. Mr. Weerasinghe has been in the business field for more than 35 years involved in Real Estate, Construction, Transportation & Hospital Industry and a Landed Proprietor. In addition to the above, he is also the Chairman of Singhe Hospitals Ltd and Weerasinghe Property Development (Pvt) Ltd.

Mr. J A P M Jayasekera
Managing Director

Mr. Mahendra Jayasekera is the Managing Director of Lanka Walltiles PLC, Lanka Tiles PLC, Swisstek (Ceylon) PLC and Swisstek Aluminium Limited and a Director of Lanka Ceramics PLC. He is also a Director of HNB Assurance PLC, Uni Dil Packaging Limited and Uni Dil Packaging Solutions Limited and the Chairman of Centre for Technical Excellence in Ceramics (CENTEC).

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

Dr. S Selliah
Director

Dr. Selliah holds an MBBS degree and a Master's Degree (M.Phil). He has over two decades of diverse experience in various fields which include areas of manufacturing, healthcare, plantations, packaging, logistics and retail.

He currently holds the position of Deputy Chairman of Asiri Hospitals Holdings PLC, Deputy Chairman of Asiri Surgical Hospital PLC and Central Hospitals Pvt Ltd. He is a Director of Lanka Tiles PLC, Softlogic Holdings PLC , ODEL PLC, Lanka Walltiles PLC, HNB Assurance PLC, ACL Cables PLC, Horana Plantation PLC, Lanka Ceramic PLC, Swisstek (Ceylon) PLC and Swisstek Aluminium Limited. Dr. Selliah is the Chairman of JAT Holdings Pvt Ltd, Cleanco Lanka Pvt Ltd. Dr. Selliah serves on the Audit Committee, Investment committee, Risk committee, Strategic planning committee, Related Party Transaction committee and Remuneration Committee of some of the companies listed above.

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 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. Mr. 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 of Marketing (UK).

Mr. K D G Gunaratne
Director

Mr. 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 and Urban Investments & Development Company (Pvt) Ltd. He also serves as a Director of Lanka Tiles PLC, Lanka Walltiles PLC, Lanka Ceramic PLC and Dipped Products PLC and as an Alternate Director at Horana Plantations PLC.

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 in Sri Lanka and overseas.

Mr. G A R D Prasanna
Alternate Director

Mr. Dimuth Prasanna was appointed as an Alternate Director to the Lanka Tiles Board on 10th 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, Delmege Limited, Grand Mark Pvt Ltd and Royal Ceramic Lanka PLC.

Senior **Management**

1.	Mr. Mahendra Jayasekera	-	Managing Director
2.	Mr. Nandajith Somaratne	-	Group General Manager Manufacturing
3.	Mr. Shirley Mahendra	-	General Manager (Marketing)
4.	Mr. Tyrell Roche	-	General Manager (Finance)
5.	Mr. Patrick Piyasena	-	Assistant General Manager (Plant and Technical)
6.	Ms. Nathalie Kehrli	-	Head of Design
7.	Mr. Prabhath Pupulewatta	-	Factory Manager
8.	Mr. Upul Weerasinghe	-	Group Engineering Manager
9.	Mr. Prasad Keerthiratna	-	Group IT Manager


Find out what they have to say ...to you
Our tiles speak to the soul.

Creating Value for **Our Stakeholders**

Last year Lanka Tiles PLC reported on its business activities using the Integrated Reporting (IR) framework to assist in identifying the value created to all stakeholders from the perspective of the six capitals - Financial, Manufacturing, Intellectual, Human, Social and Natural. We continue this endeavour in the year under review and have further improved our reporting in this regard.

The Company's strategic value mapping process revolve around three strategic thrusts,

- Invest to reinforce Financial Capital and Manufacturing Capital
- Innovate to strengthen Intellectual Capital
- Evolve to become a sustainable business by developing Human Capital, Social Capital and Natural Capital

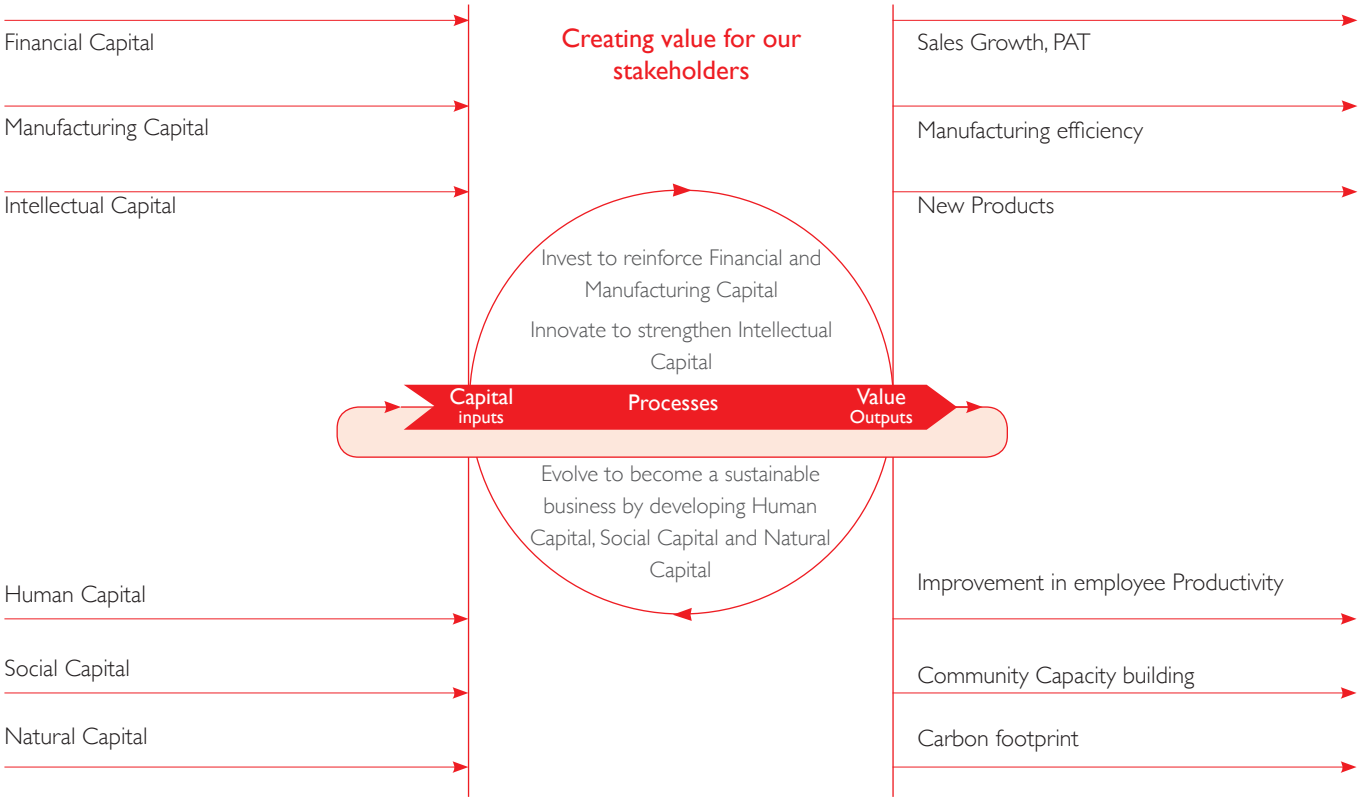
In this year's annual report, we have reported on Financial Capital, Manufacturing Capital, and Intellectual Capital in the Management Discussion and Analysis on pages 17 to 24, while Human Capital, Social Capital and Natural Capital is reported within the Sustainability Review on pages 25 to 43.

Strategic Value Mapping

Invest : to reinforce Financial Capital & Manufacturing Capital

Innovate : to strengthen Intellectual Capital

Evolve : to become a sustainable business by developing Human Capital, Social Capital & Natural Capital



Management
Discussion & Analysis

We continue to experiment with a wide range of new technologies, in factory, store and online, that improve the products and customer shopping experience.

Overview

Lanka Tiles PLC (LTPLC) as Sri Lanka's pioneer floor tiles manufacturer has been creating value for our stakeholders over 30 years. With changing consumer trends and demands, our business and processes have undergone dramatic changes over the years. From manufacturing only tiles, we have become a total solutions provider to our customers by also supplying tile adhesives, tile grout, tile cleaner, tile leveller and trained tilers.

The year under review was wrought by many challenges, from scarce raw material availability, influx of cheaper priced imported surfacing solutions in the market, dynamically changing consumer product demands, to limited production capacity issues. While, short term measures were implemented to maintain the profitability of the Company in the year under review, we are in the process of working towards mitigating these challenges and turning them into opportunities in the medium to long terms.

20%
Market Share

Lanka Tiles PLC is the second largest player in the Sri Lankan market with an equal share for its manufactured and imported floor tiles.

The Company's growth in the year under review was sluggish mainly due to the decline of the construction sector in the past. While the construction sector is slowly picking up, particularly the increased housing sub-sector, the Company hopes to benefit from these opportunities mainly in the coming year.

Changing Consumer Trends

Being in the business of manufacturing and retailing floor tiles, the Company is subject to unpredictable changes in consumer tastes and demand. With the advent of the internet and the popularity of using smart phones to conduct of all activities from business to pleasure, the Company has recognised that today's consumers have changed the way in which they search for, and buy products. Gone are the days of physical visits to stores and retail outlets. Consumers are moving towards digital platforms and becoming greatly dependent on mobile apps to purchase goods and services, while relying on social and digital media reviews and recommendations.

The world-wide web has also made the world a smaller place. With greater and easier access to international trends and fashions, consumers of today are greatly influenced by the tastes and trends

Management
Discussion & Analysis

of people in the West and other parts of the globe. As tiles are mainly used in homes, and are seen as a lifestyle and interior décor product, the Company is subject to constant changes in consumer demands due to changes in tastes and current fashionable trends.

The Sri Lankan economy and per capita income also influence consumer demand for the Company's products. With the increase in credit purchases, the current trend in the country is to offer zero percent credit card instalment plans for products and services, especially those related to home improvements and lifestyle. Accordingly, the Company too has to offer such facilities to encourage customer spend.

Sri Lankan Economic Outlook

The Sri Lankan economy grew by 4.4% in real terms in 2016 compared to the 4.8% growth achieved in 2015. Factors such as the increasing inflation driven by supply side impediments and changes in taxation regimes, tightening of the monetary policy stance of the Central Bank leading to high interest rates and increasing exchange rates contributed to this slowdown. This resulted in decreased consumer spend and increased costs to business which impacted business and economic growth. However, the recommencement of a few large-scale government infrastructure projects and private sector investment activities supported economic growth in the domestic front.

External front aspects such as the slow global economic recovery, sluggish global trade, tightening interest rates in the US and heightened policy uncertainty from unanticipated outcomes of global economic and political developments that took place throughout 2016 further hindered the expected recovery in external demand, impacting the Sri Lankan economic growth adversely.

The Political climate of Sri Lanka which resulted in frequent policy changes during the beginning of 2016 also impacted overall

economic activity and was highlighted as a major impediment to sustain a higher pace of growth leading to low market sentiments and reduced investments.

Construction Sector Outlook

Sri Lanka's construction sector was bolstered in 2016 due to the recommencement of government infrastructure activities and the consequent expansion in private sector involvement in construction activities. The Construction sector grew by nearly 15% recovering from the 2.7% contractions recorded in 2015 mainly due to the large scale construction projects and emerging condominium apartments largely contributing to the expansion in construction activities.

The credit granted by Licensed Commercial Banks (LCBs) to the private sector for construction activities also significantly increased by 26.9% in 2016 further to the 36.1% growth recorded in 2015. With the development in housing construction activities, the credit granted by LCBs also increased by 27.1% in 2016 for personal housing construction activities.

While these aspects remain positive for LTPLC in the longer term, the Company being a manufacturer and retailer of surface solutions was only marginally benefited in the year under review as our products are demanded only towards the latter part of construction lifecycle.

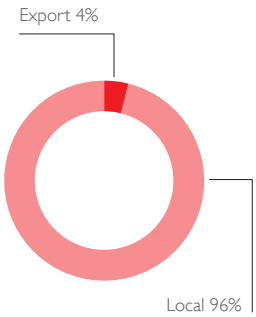
Financial Review

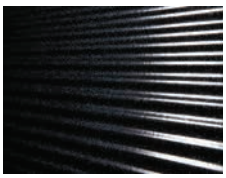
LTPLC faced a challenging year in terms of revenue growth mainly attributed to the reduced production in the year which resulted in lesser quantities of products to meet the market demand, and other macroeconomic factors. Factors such as the increasing year-on-year CCPI inflation which was 1.7% in January 2016; peaked to 5.8% in July 2016 and reached 4.5% in December 2016, the increased domestic prices of imported goods in 2016 compared to 2015, and the increased Average Weighted Prime Lending Rate (AWPLR) to 11.52% by year end 2016 compared to 7.53% at the end of 2015 all contributed towards the Company's contracted performance for the year under review.

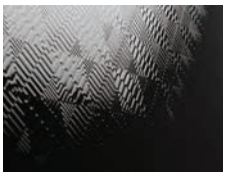
Amidst such challenges, LTPLC is happy to report that the overall performance of the Company was maintained in the year under review through our focussed strategies to minimise costs and achieve efficiencies of scale. Accordingly, the Company's increased its production quantities in anticipation of the increased demand expected in the coming year managed to achieve a capacity utilisation of 90.42%, compared to the previous year.

LTPLC faced a challenging year in terms of revenue growth mainly attributed to the reduced production in the year which resulted in lesser quantities of products to meet the market demand, and other macroeconomic factors.

Sales







Management
Discussion & Analysis

We are fully focused on maintaining the path of growth that has served us well over the past three years. We believe this will be another exciting year with significant opportunity.

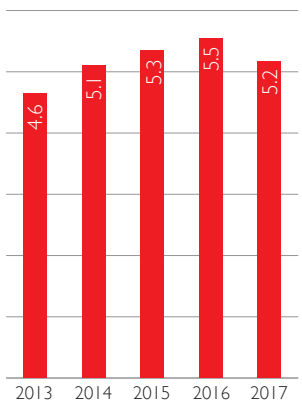
However, the overall turnover of the Company did suffer from a slight decrease realising a 7% decline in the year under review compared to the 4% growth achieved in the last financial year. This was mainly attributed to the decrease in domestic and export sales leading to increased stock of tiles as at 31st March 2017. The underlying reason for the decrease in domestic sales was a reflection of increased inflation in the year under review and the slowdown of the housing sub-sector in 2015/16 which was realised in real terms by LTPLC only in the year under review. The main factor that contributed to the reduction in export sales was the price of the Company's products compared to lower priced imports from China and India. Accordingly, the Company's gross profit margin increased only by 1% compared to the 44% achieved in the previous financial year. The operating profit of the Company however, decreased to 25%, compared to 25% realised in the previous financial year mainly due to the increase in interest income from Rs. 83 Mn in the previous year to Rs. 151 Mn in the year under review.

The Company's total asset base stood at Rs. 8.4 Bn in the year under review compared to Rs. 7.7 Bn in the previous financial year. This increase is mainly attributed to the increased fixed assets base.

LTPLC's share price stood at Rs. 102 per share as at 31st March 2017 compared to Rs. 100.60 per share as at 31st March 2016. However, the lower profits earned during the year resulted in a slight increase in earnings per share as at 31st March 2017 to Rs. 22.48 compared to Rs. 22.28 per share realised as at 31st March 2016. The net asset value per share as at 31st March 2017 was Rs. 124.31 compared to Rs. 109.04 per share as at 31st March 2016. The shared issued by the Company remained unchanged at 53,050,410.

The performance of LTPLC's associate company - Swisstek (Ceylon) PLC shows a growth in revenue of Rs. 3.43 Bn in the year under review compared to Rs. 2.69 Bn in the previous financial year.

Revenue for Last 5 years (Rs. Bn.)



Operations Review

In the year under review the Company pursued strategies of manufacturing high quality tiles, improving operational efficiencies, enhancing the brand status, and upgrading and improving our

showroom and distribution network, while working towards providing our customers with an experience of purchasing a fashionable product rather than a commodity product when choosing surface solutions. Taking into consideration consumer trends, the Company also focused on increasing our digital presence on social media networks.

While mainly supplying tiles to the Sri Lankan market, the Company exports 5% of our manufactured tiles to several countries such as USA, Canada, Japan, Singapore, New Zealand, Australia as well as some European countries. The Company also has an established showroom in Bangalore, India.

A key innovation was the introduction of Total Productive Maintenance (TPM), which is a holistic approach to equipment maintenance that strives to achieve perfect production without any breakdowns, defective products, short production stops or even production slowdowns. The implementation of this system has enabled LTPLC to become more efficient and effective, while motivating employees towards achieving the objectives of TPM while creating a long term culture that is geared to optimal operations and a true culture of TPM.

Another important enhancement the Company implemented in the year under review was an IT-based Workflow Management System which linked the ordering, purchasing and good receiving functionalities to the existing ERP system. This new system is expected to benefit the LTPLC in the long term in terms of reduced costs, increases in production efficiencies, and increased transparency and control of the raw material ordering and receiving process.

Manufacturing and Production Operations

LTPLC's manufactures 90% of floor tiles sold by the company in its Ranala factory. However, due to the demand exceeding production capacity, the Company imports the balance 10% from India, China, and Malaysia. The Company's factory continued to operate at optimal capacity during the year under review. However, LTPLC encountered a longer than expected shutdown of production operations in April 2016, which resulted in actual production being below budgeted levels throughout the year. Further, the Company had to change its product mix to meet the demand for larger tile sizes which resulted in lost production time.

As part of the Company's continuous expansion and modernisation efforts, Rs. 98 Mn was invested to purchase new machinery that is expected to enhance manufacturing quality and range, while enabling the Company to match consumer demand for different types of tiles.

Indian Operations

The Company continued to face the situation of low production volumes due to limited production capacity and availability of raw materials in the country. In order to meet increased consumer demand, LTPLC entered into a strategic partnership with an Indian tile manufacturer - Ambani Vitrified (Pvt) Ltd in January 2017. This partnership will enable the Company to satisfy our customers' discerning requirements for quality and style, while allowing LTPLC to remain competitive in our chosen market place. The tiles manufactured in India will also meet the standards imposed by the Sri Lanka Standards Institute and will pertain the SLS mark, and will be sold under the Company's brand name – 'Lankatiles'.

The Bangalore showroom of the Company continues to serve its customers satisfactorily providing them with surface solutions that meet their requirements and quality standards.

In the coming years, LTPLC will mobilise its plans to increase sales in India and expand the distribution network, while simultaneously enhancing the Company's brand positioning in the Indian market place.

Management
Discussion & Analysis

Product Range

LTPLC delivers a wide array of tiles in alluring colours, textures, designs as well as sizes to suit needs of our customers' discerning tastes. The Company manufactures glazed ceramic tiles which has a water absorption rate of 3% to 6%, and glazed porcelain tiles with a water absorption rate of less than 3%.

Innovative Designs and Development

As one of Sri Lanka's leading specialist manufacturers of floor tiles, LTPLC bases its value proposition on three key principles;

- Best Quality,
- Latest Designs, and
- Competitive prices

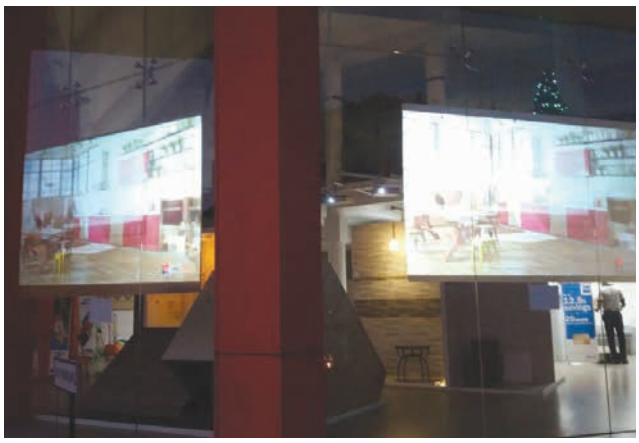
Popular Products/Brands

Over the years, these have become critical success factors in maintaining a competitive edge in the ever-dynamic surface solutions market place. The Company, therefore, expends much effort and resources towards the continuous innovation and development of contemporary designs, styles and the improved quality of our tiles. The in-house design team of the Company overlooks and develops unique designs and styles inspired by global trends to meet our customer's fashionable tastes. In the year under review 49 new designs were released to the market, while 50 technical factor changes and ten quality improvements were made to existing tile designs and types.

Marketing Activities

In the year under review LTPLC focused its marketing activities on uplifting its brand and working towards positioning the 'Lankatiles' brand to the high-end market from its current positioning in the middle market segment. To achieve this aim, the Company invested Rs. 70 Mn on merchandising, product development, and modernising of showrooms.

Modern marketing methods such as installation of Intelligent Screens at our Nawala showroom to screen commercials and product videos was introduced in the year under review. The Company also consolidated its digital marketing activities by increasing the use of social media marketing to promote the Company's brands, products, events and other promotional activities. LTPLC also continued to adopt innovative marketing methodologies on the digital platform to increase customer loyalty and garner customer recommendations and encourage repeat customers.



LTPLC focused on seasonal advertising campaigns in the year under review. The two main advertising campaigns were carried out for the Christmas Season during November/December 2016 which focused on enhancing the look of each room of people's homes and addressed the needs of the different rooms. The second seasonal campaign was carried out for the Avurudhu Season during March/April 2017, and this campaign's theme was based on "The New is New". These campaigns were promoted on traditional media as well as through banners on the internet and on LTPLC's Facebook page.

Retail Channel Network

The Company's retail channel network is divided into franchise showrooms and distributor network. Considered as a key strategic pillar in achieving sustainable growth in the long term, the Company continuously undertakes modernisations and upgrades to the retail channel network. In the year under review, channel management was aimed at increasing brand visibility and strengthening customer loyalty. A focused strategy is adopted to strengthen the operational model of each channel to benefit our business partners and create long term sustainable business value to all stakeholders.

Franchise Showrooms

Franchise showrooms are one of the two main retail sales drivers of the Company. As part of the Company's strategic aim to uplift its brand positioning, we continued to expand, renovate and modernise our franchise showrooms. Accordingly, in the year under review the Company opened two contemporary showrooms in Kalutara and Matara, while five showrooms in the towns of Aluthgama, Kegalle, Peradeniya, Warakapola, and Wariyapola were renovated for a modernised outlook, upgraded with state-of-the-art internal merchandising systems and also expanded for greater floor area. As at the end of March 2017, LTPLC has 46 such showrooms located islandwide in addition to the 2 direct-owned and operated showrooms in Colombo.

To further enhance the franchise showroom branding, the Company conducted training for 35 franchise showroom managers to help them manage showrooms in an optimal and customer friendly manner, while creating a memorable experience for the customer. Further, to ensure that the franchise sales force and marketing coordinators understand the products they sell, the Company organised a factory visit which gave them an in-depth view of the manufacture of tiles.

Management
Discussion & Analysis

Distribution Network

The Company's distribution network is another important driver of sales of the Company. Currently, the company enjoys 46 such partnerships in islandwide locations ensuring that our products are more easily accessible to our customers. In the year under review one new dealer was added from Vavuniya.

The restructuring of the distribution network model was completed during the year under review and is expected to allow the Company greater control of the retail market while allowing distributors to work with minimal working capital requirements as they are able to make consignment purchases. The Company also rolled out a Distributor Automation System to connect distributors to the central ERP system which let them check product availability in real time while also enabling the Company to gather customer purchase behaviour data for future target marketing purposes.

The Company continues to provide distributors with promotional materials and branding support to encourage alignment of their facilities with Company owned and franchise showrooms. The Company also conducts training programmes for distributors regarding our products and a special training programme on the Distributor Automation System was conducted during the year under review. One of our bigger distributors also requested a special training for their sales force of 30 people.

Tiler Club

As surface solutions is a specialist area, most people's understanding is limited. Therefore, the Tilers play a significant role in increasing the sales of our products as the people who recommend and select tiles for customers, acting as the bridge between the Company and the customer. This was the foremost reason that LTPLC introduced the 'Tiler Club' in the year 2015, which resultantly benefited both our customers and the Tilers themselves.

The Tilers accepted as members of the club first undergo a rigorous professionalism and accountability check. Once a part of the 'Tiler Club', their names are permanently displayed on a notice board at our showrooms where our customers' can choose to contact them for tiling work. Currently, the membership of the club stands at 3,100 Tilers from all islandwide locations.

To further the Tilers professionalism and as a means of continuous professional development, the Company conducted training programmes aimed at skills development and increasing the tilers' knowledge on new forms and types of tiles available to customers. A special training was also conducted to educate tilers on the art of laying bigger size tiles which is in high demand by customers. Some of these training programmes are conducted in collaboration with the Vocational Training Authority.

A special programme named 'Vasi Katha Baha' was organised by the Company from October to December 2016, encouraging the interaction of Tilers and customers.

The Way Forward

While year under review was challenging, LTPLC made progress towards laying the foundation for achieving the Company's long term business goals. We strengthened our partnerships with dealers and franchisees, optimised our supply chain model, set-up a overseas manufacturing operation and worked towards enhancing the brand presence and positioning of the Company and our products among consumers. We also increased our digital presence and hope to launch a dedicated android application which will allow our customers to purchase products from the comfort of their home.

Sustainability **Review**

Report Profile

Continuing our journey of integrated reporting, Lanka Tiles PLC (LTPLC), tables the performance of the Company for the reporting period 01st April 2016 to 31st March 2017. The report has been prepared in accordance with the Code of Best Practice on Corporate Governance for public listed companies, jointly issued by The Institute of Chartered Accountants of Sri Lanka, The Securities and Exchange Commission of Sri Lanka and The Colombo Stock Exchange.

LTPLC's integrated reporting endeavours to follow the Integrated Reporting (IR) framework. A synopsis of the Company's commitment to create value for all stakeholders using the six capitals - Financial, Manufacturing, Intellectual, Human, Social and Natural is shown on page 16 of this annual report.

LTPLC reports sustainability performance in line with the 'Core' criteria of the Global Reporting Initiative (GRI) G4 Guidelines. The emphasis on sustainability reporting has been greatly enhanced in this year's annual report. The most recent previous sustainability disclosures were reported in the Company's the annual report 2015/16.

The Company has not obtained external assurance for the sustainability performance measures and aspects disclosed in this report.

Report Boundary and Scope

The report aims to present a clear and transparent account of the sustainability performance of LTPLC's factory operations in Ranala, while the activities carried out at the Head Office in Colombo, and the island wide sales and distribution network is only partly covered.

The content that follows goes on to outline the strategy and management approach in addressing triple bottom line aspects, while performance indicators have been included to reflect the commitment to develop a sustainable business framework.

The information and statistics needed for the preparation of the report have been obtained from various sources, including;

- The Finance Department
- Corporate governance department
- Procurement and Supplies Department
- Design Department
- Production Floor
- Marketing Department
- Distribution management System
- Human Resources Department
- Factory Safety Team
- Green Team

Materiality

With the importance allocated to Material Aspects under the GRI guidelines, LTPLC uses the stakeholder engagement mechanism to pinpoint what is deemed to be material for each stakeholder group. It is also the basis on which the Company is able to gauge the expectations of each stakeholder cluster. The materiality process is disclosed in page 30 under Materiality Analysis.

Feedback and Contact

LTPLC values stakeholder feedback on our reporting to enable us to continually meet their expectations and improve reporting criteria.

Sustainability **Review**

Advocating Sustainable Business Operations

Sustainable business operations underpin the way Lanka Tiles PLC (LTPLC) carries out business activities on a day-today basis. The Company's strategies and business goals are developed using a holistic approach whereby we safeguard the environment, care for our employees, customers and other stakeholders and benefit the society and communities within which we operate our business. Over the years, being sustainable has become integrated within the Company's value system and principles of doing business. It has also helped the Company to build a reputation as a caring employer, make the most of opportunities to minimise our impact on the environment and use scare resources with care, and utilise our core competencies to become more productive and efficient.

(G416) LTPLC supports external initiatives and the Company is a member of several trade associations, non-profit organisations and other councils including:

- Ceylon Chamber of Commerce
- National Chamber of Commerce
- Sri Lanka Ceramics Council
- Industrial Association of Sri Lanka
- Exporters Association of Sri Lanka
- Business Councils of Italy, China, Japan, and the US
- Industrial Development Board - Ceramics Sector

Stakeholder Engagement

Engaging with stakeholders is a critical strategic initiative implemented to understand stakeholder concerns and views on sustainable business practices. LTPLC identifies key stakeholders as those who have a significant impact on business operations, or can be significantly impacted by the Company's operations. The Company uses different methods for engaging with different stakeholder groups, and stakeholder dialog is carried out in a transparent manner, whereby true views can be exchanged; and greater understanding derived among the Company and our stakeholders.

Stakeholder engagement is an ongoing process, and the Company has been successful in obtaining productive feedback regarding our strategies and sustainable business practices over the years. At the same time, such stakeholder dialogue has also become a source of innovative ideas on sustainable business management, and forms the basis for the further development of our sustainability strategy and reporting process.

LTPLC's stakeholder engagement outcomes in the year under review is summarise below.

Stakeholder Group	Engagement Objectives	Key Concern Areas	Engagement Methods	Frequency of Engagement	Response/ Outcome 2016/17
Employees	• Dissemination of information • Develop skills and knowledge	• Career development • Training and education	• Direct interactions with senior management • Notice Boards • Letters/Email Notices • Meetings • Learning and awareness workshops • Labour forums	As and when required	Increase in the number of training programmes
			• Company sponsored social Interactions	Annual	
			• Performance Appraisals	Bi-annual	

Stakeholder Group	Engagement Objectives	Key Concern Areas	Engagement Methods	Frequency of Engagement	Response/ Outcome 2016/17
Customers	High brand visibility and market presence across the country	• Innovative design concepts in tandem with global trends and changing lifestyles • Unparalleled customer service • Versatile and ergonomic product range • Responsible advertising and marketing	• Face-to-face interactions • Customer hotline • Customer complaints process	• Ongoing • As and when required	• Increase the brand perception • Increase customer satisfaction
			• Customer surveys • Customer Satisfaction Index	• Monthly	• Increase the brand perception • Increase customer satisfaction
			• Social media interactions	• 24/7 x 365 days	
Distributor	Build long term mutually beneficial relationships	• Sustainable business practices to improve overall performance • Knowledge transfer and skills development	• Face-to-face interactions • Customer hotline • Customer complaints process	• Ongoing • As and when required	• Increase customer satisfaction • Set-up an Index for distributors
			• Customer surveys • Customer Satisfaction Index	• Monthly	
Suppliers	Build long term mutually beneficial relationships	• Sustainable business practices to improve overall performance • Knowledge transfer and skills development • Develop partnerships that would promote a sustainable supply chain • Better mining practices	• Supplier visits • Knowledge sharing	• As and when required	Develop & Maintain a Sustainable Supplier Base
			• Meetings	• Bi-weekly	
			• Industrial workshops • Participation in industry forums	• Quarterly	

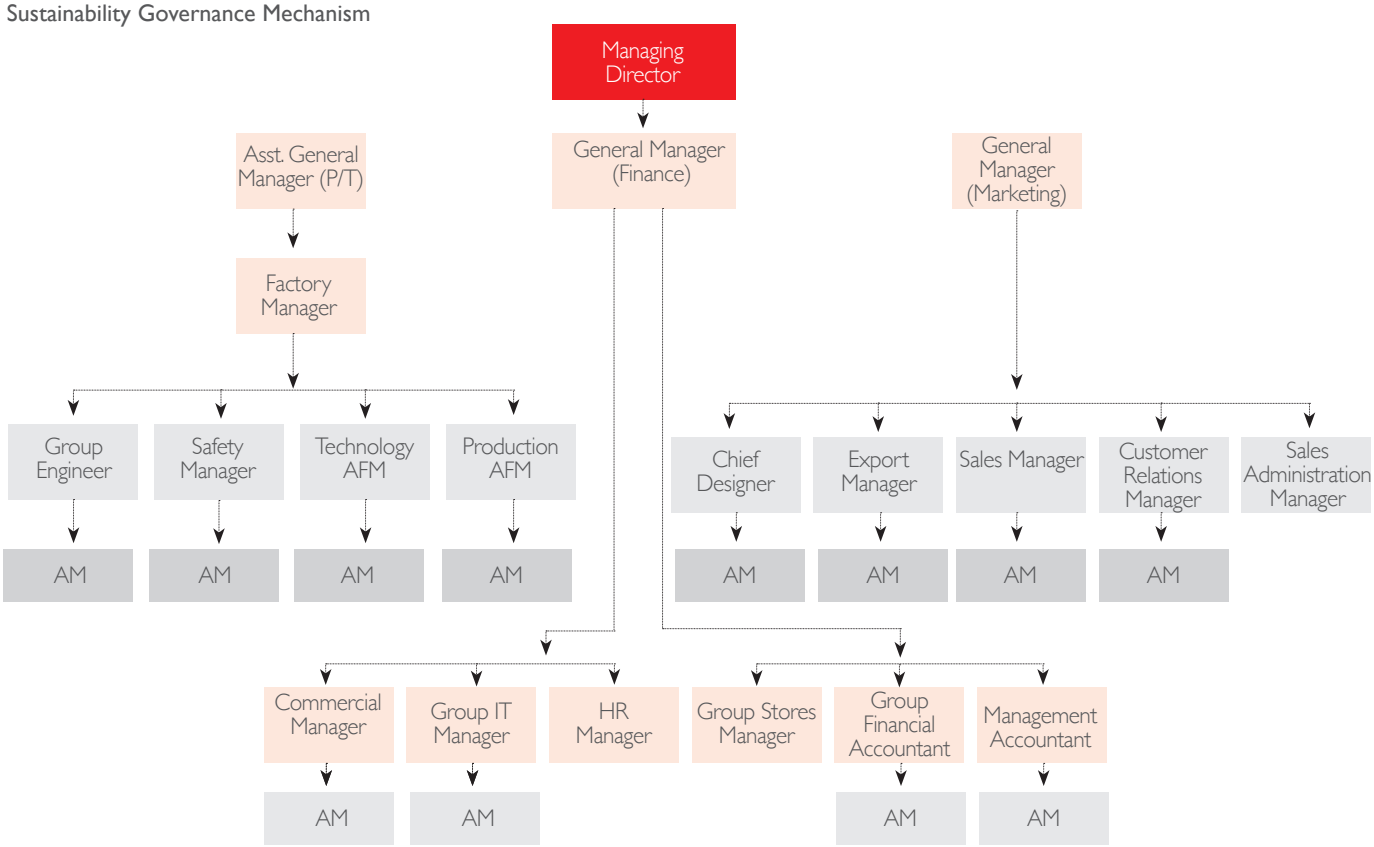
Sustainability **Review**

Stakeholder Group	Engagement Objectives	Key Concern Areas	Engagement Methods	Frequency of Engagement	Response/ Outcome 2016/17
Regulatory Authorities	Advocate and Support changes in new laws and regulations	• Good governance practices • Creating employment and new business opportunities • Greater integration of environmental concerns as part of the day-to-day operations	• Monthly reporting framework • Annual Reporting structure • Regular monitoring and audits	• Monthly • Annual • Ongoing	• Improve governance practices • Maintain close working relationships with regulators
Communities	Better Living standards Reduction of impact to the environment and surrounding communities	• Assistance with social issues • Assistance with community activities and programmes • Environmental related complaints/ incidents/accidents • Mitigation of sound and dust pollution and Control of effluents	• Hotline to address community complaints • Participation in community activities • Community welfare programmes	• Monthly As and when required	• Buying surrounding land to factory premises
Shareholders	Increase returns and market value of shares	• Commitment towards optimising the bottom line • Sustainable Business Practices to improve overall performance • Compliance with all mandatory statues • Develop sound principles and operational fundamentals over and above the statutory codes	• Annual General Meeting • Dividend Announcement • Annual Report	• Annual	• Increased returns • Transparent information dissemination • Transparent business operations • Regular updates to keep shareholders well informed
			• Extraordinary General Meeting • Stock Exchange Announcements • Press releases	• As required	
			• Quarterly Publications	• Quarterly	

Sustainability Governance

The commitment to sustainable practices and development starts at the very top and is disseminated throughout the Company. As a key pillar of LTPLC's corporate strategy, sustainability practices are also the basis on which we gauge the long term viability of our business operations and manage stakeholder expectations on economic value creation, environmental sustainability and social responsibility parameters.

Sustainability Governance Mechanism

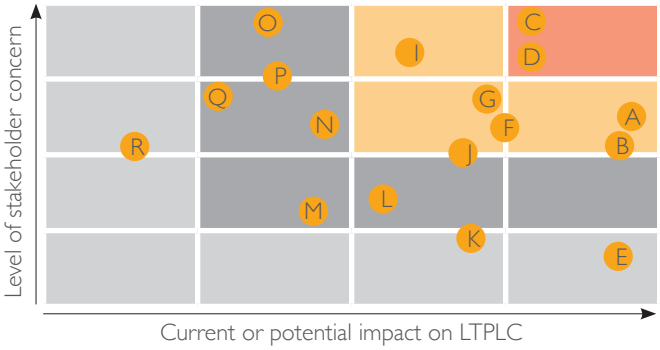


Sustainability **Review**

Materiality Analysis

LTPLC identifies the sustainability criteria agenda through a process that considers topics identified through the stakeholder engagement process, topics of general concern, topics of concern for the Company and topics that must be addressed by regulatory mandate. An assessment process in implemented for the Company to prioritises and identify key material issues to be focused on during a given period.

A summary of the material issues identified is shown in the matrix below. The position of an issue on the matrix represents LTPLC's understanding of its relative importance to stakeholders and potential impact on the Company. While none of the issues shown in the matrix are unimportant, the upper right sector of the matrix shows those issues of highest potential impact on LTPLC and of highest concern to stakeholders.

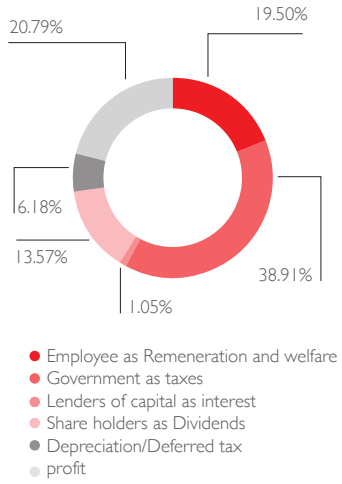


Responsible Operator	For the Benefit of the Community	Towards Meeting Employee Aspirations	Responsible Purchasing and Sales	Mitigation of Climate Change
A - Financial performance	L - Assisting with community needs	E - Competence and skills development	C - Product safety and quality	F - Best practices for environmental management
B - Good corporate governance and risk management	M - Enhancing the living standards of the local communities	G - Health and safety	O - Sustainable product selection	I - Energy and resource efficiency
D - Accessibility and Multichannel approach		Q - Changing expectations for work-life balance	P - Supply chain management and promoting "Green" procurement	R - Promoting sustainable mining
N - Shopping safety and security			J - Customer awareness	
			K - After Sales service	

Economic Sustainability EC1 & EC 8

LTPLC contributes to economic sustainability of the country with its direct business operations. The value the Company generates is distributed to key stakeholders leading to the upliftment of their livelihoods and lifestyles, while contributing to the growth of the economy.

Distribution of Value Added



While the Company aims to produce high quality products to meet customer requirements, we are also mindful that there are those who require our products at lower prices. Accordingly, we also produce lower grade products that are simpler to produce due to minimal design elements and colours to meet these requirements. However, all products of the Company adhere to one quality standard. We also employ people from the vicinity to support their livelihoods and income source.

An important aspect that LTPLC continues to be involved in is advocating environmental-friendly clay mining practices among raw material suppliers in Sri Lanka. The Company works with other industry players and the government to develop a guideline to be followed by clay miners so that they can become more adept at meeting environmentally friendly practices.

Supply Chain Management EC 9

The Company's suppliers are a key stakeholder and a critical aspect of ensuring that we are able to provide the best quality products to our customers. Our suppliers provide the raw materials used to produce the Company's surface solutions. The majority of the Company's raw materials are sourced locally, while the balance is imported to supplement requirements. However, Silica is mainly imported due to its limited availability in the local market.

Stakeholder Group	2015/16	2016/17
Locally Sourced Materials:		
• Clay	60%	60%
• Silica/Feldspar	10%	10%
Imported Materials:		
• Glazes	3%	3%
• Stains	2%	2%

As the raw materials required for the Company's products is mainly obtained from mining; LTPLC endeavours to procure such products from suppliers who advocate environmentally friendly practices and operations. However, our efforts are sometimes hindered due to limited laws and regulations in these areas in the country. The Company, however, expects our global suppliers to fully comply with international standards for environmental safety regulations.

LTPLC continues to research on new forms and types of materials that can be used as substitutes in the production of tiles that will have a lesser impact on the environment. The Company's efforts have thus far enabled us to use recycled and environmentally friendly raw materials such as clay, feldspar and green tiles in the production process.

The Company's relationship with all suppliers is based on long term partnerships that creates sustainable business value for the future. Accordingly, the Company's suppliers undergo a regular assessment to ensure that they meet the Company's Environmental and Labour Policy guidelines for managing environmental impacts and adhering to labour and human rights regulations followed by LTPLC. The Company regularly screens all suppliers on meeting environmental criteria, and includes relevant environmental related clauses in our contracts/tenders with suppliers. EN 32

Sustainability Review

The Company also conducts regular supplier assessments for labour practices like health and safety, fair wages, equal opportunity, non-discrimination, as well as other areas related to fair labour practices. While LTPL has no formal assessment for human rights practices of suppliers, the Company ensures that human rights laws are adhered to, and human rights are protected by suppliers. LA14 & HR 10

Environmental Sustainability

Being a producer of tiles, LTPLC has always prioritised being environmentally friendly while carrying out business operations. Accordingly, we take an integrated approach towards environmental management and green initiatives from raw material, manufacturing, packaging, sales, marketing to delivery.

The Company's adheres to all environmental laws and regulations of the country. Our commitment is further strengthened by the adoption of voluntary environmental regulation and management systems such as ISO 14001 and SLS standards for the Company's production facilities, while the GREEN Label certification ensures that we minimise the negative impact of our end-product on the environment.

The Company also has in place an Environmental Policy towards reducing the environmental impact of our business operations, with emphasis on our production processes. The Company's Environmental Policy is guided by the three fundamental principles as depicted in the diagram. The Company advocates reduce, re-use and recycle principles whereby employees and other stakeholders can also contribute to the Company's eco-friendly initiatives.

Comply with all relevant environmental legislation issued by the Central Environmental Authority, international standards and global environmental benchmarks, including ISO 140001 Environmental Management Systems and Green Label

Continuously improve environmental performance by reviewing internal guidelines

Adopt a long term view on environmental matters and proactively subscribe to new technologies that help mitigate the business impact on the environment.

In the last few years, LTPLC is has been working towards reducing the direct environmental impact caused by the Company's products. Towards achieving this goal, the Company has made changes in the production process to use environmentally friendly and recycled materials, while simultaneously deploying preferred usage instructions to optimise raw material usage.

In the year under review LTPLC faced no incidents of non-compliance with environmental laws and regulations and hence no fines were paid. EN 29 The total environmental expenditure incurred by the Company during the year under review is Rs. 20 Mn. EN 31

Material environmental impact areas identified by the LTPLC are discussed below.

Materials EN 1

LTPLC's primary business is the manufacture of floor tiles. The raw materials used include Ball Clay, Feldspar, Glaze, Silica, and Inks, of which clay and silica are procured through mining while the other raw materials are sourced from local and international manufactures. The primary raw material is clay which is procured from Sri Lanka. Silica Sand is another raw material used in the manufacture of tiles, however, due to its scarcity in Sri Lanka, a result of the difficult mining process, the Company is currently looking for alternatives and/or new sources for this product.

Name of Material	Weight (MT)	
	2015/16	2016/17
Ball Clay	25,888	23,600
Feldspar	40,423	41,335
Glaze	4,469	3,292
Silica	13,315	11,658
Inks	20	21

All inks used by the Company can be recycled and are not harmful to the environment or customers.

The Company's uses 5% of recycled raw materials such as clay, feldspar and green tiles in the production process. Further, any tiles that are rejected during the production process are also recycled.

Energy EN 3 & EN 5 & EN 6 & EN 7

LTPLC's primary energy sources which are non-renewable include LP gas used in the firing and drying processes of tile manufacture, and electricity from the country's main source for the pressing and packaging functions of tile manufacture; as well as for use in office premises. A limited quantity of Diesel is used to power the stand-by generators.

The Company also has set a target for energy consumed per unit of production. This considers only the direct energy used during the manufacturing process and is derived by dividing the total production by the total energy used in the factory operations. In the year under review the actual energy consumed per unit of production was 21,180 kcal/square meter compared to the target of 21,068 kcal/ square meter. The upgrades undertaken to the factory over the years is the main source of direct energy savings realised by the Company.

The Company has on-going initiatives to reduce consumption of electricity in office premises and showrooms. These include, use of energy saving bulbs, practice of switching off lights and electronic devices like personal computers and laptops when not in use.

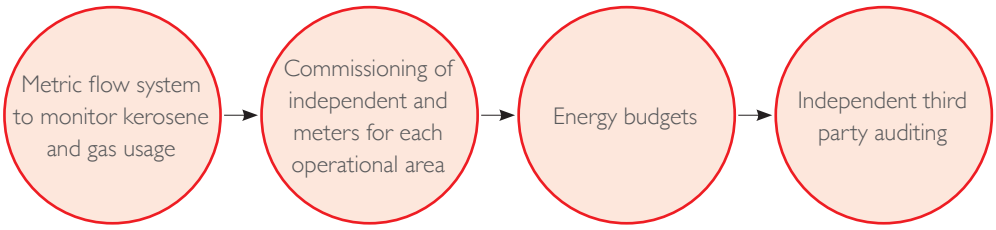
The Company also has in place an energy audit process for our factory premises as below:

Energy Consumption

Type of Energy	Volume 2015/16	Volume 2016/17
LP Gas	6.9 Mn Kg	6.8 Mn Kg
Electricity	15.8 Mn KWH	15 Mn KWH

GOAL

	Strategies	Tactical Measures	Results
Reduce energy consumption by 5%	Improve efficiency of existing equipment and invest in energy efficient alternatives Enhance energy efficiency by increasing the use of renewable energy Compliance with global energy management standards	Annual energy audit to monitor and control usage Energy efficient lighting and cooling solutions at all administrative building and warehouses Migrating to Solar energy for warehouses Increase awareness among employees to promote energy saving	Continuously improve environmental performance by reviewing internal guidelines



In the year under review the energy usage of the Company reduced by 5% due to the implementation of energy saving initiatives, thus achieving LTPLC's goal to reduce energy consumption by 5% annually.

Water EC 8 & EC 10

Water is a key resource in the Company's business operations as it is used from start to finish of the tile manufacturing process – from milling, glazing, cleaning and to chamfering. Water is also used in our office premises by employees for their daily needs and for purposes such as maintenance of premises and gardens. We encourage employees to minimise the consumption of water and accordingly have signage in the restrooms and the cafeteria section.

Sustainability Review

The water used by the Company is obtained 100% from municipal sources and no other natural water sources are used by LTPLC for water extraction.

Total Water Withdrawal by Source

	Volume	
	2015/16	2016/17
Factory	1,000 Cubic meters on a daily basis	500 Cubic meters on a daily basis

While water is becoming more scarce year by year, the Company's demand for water has concurrently been increasing due to the increase in the quantity of tiles manufactured to meet the increasing market demand. LTPLC has therefore, put in place mechanisms to reduce the water usage at each stage of the manufacturing process, while the Company also promoted the re-use of water whenever possible. Accordingly, an in-house water treatment plant has been set up to process nearly 375 cubic meters of waste water on a daily basis, thus allowing for 75% of the water used during the manufacturing process to be recycled and re-used on the production floor.

Biodiversity EN 11

The Company's manufacturing facility located in Ranala is not in the vicinity of any biodiversity conservation areas. Further, the company-owned and franchise showrooms are all located in towns and cities and does not infringe on any biodiversity protected areas.

Emissions EN 21

LTPLC, being a tile manufacturer produces emissions in the form of Greenhouse Gas (GHG), tile dust, sound and other types of air emissions. To counteract any negative impact from dust emissions arising from the firing process during the manufacture of tiles, the Company has installed dust collectors or containment points to minimise the dust released into the air. This is then collected and reused in the production process. To reduce GHG emissions and other forms of air pollution, the Company has ensured that the kiln chimneys are at a height that will allow for the evaporation of any released vapours without harm to the environment, and has implemented a programme of fuel efficiency during the manufacturing process. All vapours and air emissions are non-toxic. Dust emission of the Company are below the parameters as set by the Central Environmental Authority of Sri Lanka (CEA).

Sound emissions during the manufacturing process is another concern for the Company. To ensure that we adhere to the regulations set by the CEA, we have outsourced the crushing process which generated the most amount of sound in the factory, thus enabling the Company to reduce noise by 20%. The partner to whom we have outsourced this process conducts this process in a manner that does not disturb the surrounding areas and as per regulations. Further, strict control measures and continuous monitoring is undertaken to ensure that sound emissions are maintained at optimal levels, thus ensuring that the ambient air quality around the Ranala factory has a total suspended particulate matter less than the permissible level of 450 Micrograms for m3.

Emissions

Type of Energy	CEA Limit	2014/15	2015/16	2016/17
Dust (Mg per Cubic Meter)	450	289	220	142
Sound (DB)- Day	55	52	56	92
- Night	45	45	45	45

LTPLC also monitors air emissions for sulphur oxides (SOx) and nitrogen oxides (NOx) which have only been detected in minimal levels and are maintained well below regulatory levels.

LTPLC strives to reduce CO and CO2 emissions by using cleaner production methods and state-of -the-art machines that have been developed with eco-efficiency features resulting in reduced emissions. Thus far, the Company has no formal mechanisms in place to monitor such emissions.

Effluents and Waste EN 22 & EN 23 & EN 25 & EN 26

Effluents and waste generated from the manufacturing process is monitored, tested and treated before its release to the environment. The Company has a treatment plant set up within the factory premises in accordance with the stipulations of the Environmental Protection License issued by the Environmental Protection Authority of Sri Lanka, to treat the non-toxic waste water generated during the manufacturing process. This recycled water is then use in the factory for cleaning and other ancillary purposes. LTPLC also does not discharge any waste water into water bodies or in biodiversity rich habitats.

The Company has no hazardous waste or effluents that arise from our manufacturing operations.

Quality of Treated Water

	Standard	2014/15	2015/16	2016/17
BOD	< 50 Mg/L	30	20	15
COD	< 250 Mgor/L	92	200	600
PH Value	6 - 7	7	7	7

The Company also produces common types of waste such as paper, plastic, refuse, and other similar items in our office premises, factory and showrooms. These wastes are disposed of using the government provided municipal waste management systems. The Company also accumulates electronic waste such as light bulbs, batteries, printer toners, etc., which are sold to specialist disposal companies.

Products and Services EN 27

While the primary raw material used in the manufacture of tiles is clay, the end product, i.e. the tile itself can also have an impact on the environment. Reiterating the Company's commitment to continuously improve our role towards safeguarding the environment, we have obtained the GREEN Label (GREEN STAR) certification from the Green Building Council of Sri Lanka (GBCSL), the local representative of the World Green Building Council for the entire range of tiles produced by LTPLC. This is just the first step in ensuring that we produce products that are environmentally friendly and can be disposed of in an environmentally friendly manner.

Transport EN 30

The nature of products manufactured by the Company does not result in any direct environmental impacts during transportation of raw materials, purchased good or end products. The Company also ensures that the vehicles used for transportation is maintained at optimal levels to ensure minimal impact to the environment.

Environmental Grievance Mechanisms EN 34

The Company has a form that can be accessed by those who wish to bring to our notice any concerns/issues related to environmental practices of LTPLC. An internal team then investigates the complaint according to procedures as set out by the ISO 14001 standard, and recommends corrective action as relevant. The complaint with the recommendation is then reported to a senior management representative of the Company for review and final approval. Once, the complaint has been resolved, the initiating party that made the complaint is informed in writing on how the Company plans to resolve their concern.

During the year under review the Company received 16 complaints of which all were resolved to the satisfaction of all parties concerned.

Social Sustainability

Social responsibility initiatives of the LTPLC revolves around our employees, the surrounding communities, our customers and the society at large. The Company diligently and implicitly considers the impact of our business operations on these stakeholders as well as considers their wellbeing and rights as human beings.

Our People LA 1 & EC 6

Employees of LTPLC play an integral role in meeting business goals and implementing sustainable business practices. Hence, it is the Company's belief that we are duty-bound to consider their health, safety, wellbeing and rights, while they carry out their job responsibilities on behalf of the Company. Hence, the Company has in place an inclusive human resource management process that helps to guide the management on all aspects related to human resource management, development and retention.

LTPLC also has a comprehensive Human Resources Policy in place that covers key areas of concern for employees and their rights, which is available to all employees for their reference. A Code of Business Conduct is also in place, which defines and clarifies the expected conduct and behaviour of employees when representing the Company.

To date the Company directly employs 495 people of whom only 24 are females and the rest males. The nature of business operations is the foremost reason for the small number of female staff, who are mainly employed in our offices. Our employees are over 18 years old and those below that age are only employed as interns for short periods to assist with their training requirement as dictated by their higher education institutions. 27% of the Company's employees have been working for us for over 21 years, while 31% of our employees have been with the Company for less than 6 years mainly a result of the expansion drive the Company underwent five years ago. The majority of our employees are between the ages of 21 to 40 years and fall under the category of permanent staff.

EC 6 The Company has only two significant operating locations – the Head office in Colombo and the factory at Ranala. All managers including the factory General Manager are Sri Lankans and are from Colombo mainly due to the expertise and experience required. LTPLC does employ other staff who work in Colombo from the other towns/regions of Sri Lanka, and many of the operatives are employed from communities in close vicinity to our factory.

Sustainability Review

Age Analysis as at 31st March 2017

Age Category	Total No.	%	M	%	F	%
18-20 years	19	4	19	100	0	0
21-30 year	130	26	119	92	11	8
31-40 years	146	30	138	95	8	5
41-50 years	94	19	91	97	3	3
51-55 years	97	19	95	98	2	2
56 years and above	9	2	9	100		0
Total	495	100	471		24	

Service Analysis as at 31st March 2017

No of years of service	Total No.	%	M	%	F	%
0 - 5 years	155	31	146	95	9	5
6 - 10 years	81	16	74	91	7	9
11 - 15 years	70	14	66	95	4	5
16 - 20 years	52	10	51	96	2	4
21 years and above	137	29	134	99	2	1
Total	495	100	471		24	

Gender Analysis 31st March 2017

M	%	F	%
471	95.2	24	4.8

Analysis by Grade 31st March 2017

M	%	F
Senior Management and above	1	20
Executive Staff	6	28
Non-Executive Staff	17	423
Total	24	471

Recruitment LA 1

To develop a competitive advantage, the Company must recruit the best talent and retain them in the longer term. Accordingly, LTPLC has in place a comprehensive recruitment policy that must be adhered to, and ensures that all recruitment is fair and non-discriminatory. The selection of potential candidates is based on their skills, knowledge, qualifications and capabilities reflecting LTPLC's commitment to being an equal opportunity employer. In the year under review LTPLC hired 14 people to our employee cadre mainly in the production and sales departments in alignment with the proposed increases in production and sales in the coming year.

Employee Recruitment

Age	Total No.	%	M	%	F	%
18-20 years	-	-	-	-	-	-
21-30 years	11	79	10	91	1	9
31-41 Years	1	8	1			0
41-50 years	2	13	1	100	1	0
51-55 years	-	-	-	100	-	-
56 years and above	-	-	-	-	-	-
Total new hires	14	85	12	14	2	-

The employee turnover seen in the Company is mainly a result of other employment opportunities that were more aligned with employees' career aspirations, and employees reaching their retirement age. In the year under review the total employee turnover was 2%.

Employee Turnover by Age and Gender

Age	Total No.	%	M	%	F	%
18-20 years			-	-	-	-
21-30 year	26	59	23	89	3	11
31-40 years	4	9	4	100	-	-
41-50 years			-	-	-	-
51-55 years	14		14	100	-	-
56 years and above			-	-	-	-
Total turnover	44		41	-	3	-

Employee Turnover by Grade

Age	F	M
Senior Management and above	-	-
Executive Staff	-	02
Non-Executive Staff	3	39
Security Staff	-	-
Janitorial Staff	-	-
Total turnover	3	41

Remuneration and Benefits EC 3 & EC5 & LA2 & LA3 & LA13

LTPLC compensates all employees without bias or discrimination; based on their grades, skill levels, experience and qualifications. There is a structured Remuneration Policy in place that is followed to ensure fair compensation to all. The Company revises its.

"Ratio of basic salary and remuneration of women to men 1:1 (All employee categories)"

Remuneration Policy which is reviewed every year to ensure alignment with market rates and industry benchmarks. However, employees' remuneration and benefits are annually reviewed and revised as appropriate, taking into considerations factors such as inflation.

The Company provides 84 days of parental leave for their female employees. In the year under review 6 employees took parental leave and 100% of them have returned to work.

Benefits to Employees

Benefits	Full Time Employees
Guaranteed Cash and Allowances	
Basic Salary	√
Fuel/ Travelling Allowance	√
Job Specific Allowances	√
Variable Pay	
Performance Bonus	√
Sales Incentives	√
Overtime	√
Reimbursable Expenses	
Subscriptions (professional & club)	√
Educational Assistance (MBAs)	√
Other Benefits	
Holiday Bungalow / Annual Trip	√
Medical Insurance Scheme (OPD, In-house, Life, Personal Accident Cover)	√
Leave (break this down further)	√
Cafeteria, Gymnasium, Library	√
Retirement Benefits	
EPF/ ETF/ Gratuity	√

EC 5 LTPLC pays its workforce employed at the factory a wage that is well above the minimum wage rate as stipulated the Ceramics Wage Board of the Department of Labour of Sri Lanka.

EC 3 The Company makes monthly contributions to the Employee Provident Fund (EPF) and Employee Trust Fund (ETF) as set out by the labour laws and regulations in Sri Lanka. Further, gratuity payments are also made to employees who leave the Company after being in employment for five years or more, again aligned with labour laws and regulations. During the year, the total disbursements to EPF and ETF were Rs. 36 Mn, while the company made gratuity payments amounting to Rs. 10 Mn.

Occupational Health and Safety LA 5 & LA 6 & LA 7 & LA 8

The health and safety of the Company's workforce is a core area of concern for LTPLC and accordingly, LTPLC strives to maintain a 'Zero Accident' policy in all its business operations. To assist in this endeavour the Company subscribes to the internationally accepted

Sustainability Review

OHSAS 18001 safety standard in all its factory operations. It is compulsory that all our employees wear safety gear such as goggles, helmets, gloves and industrial standard boots when undertaking work that requires it. Signage and other safety information is also prominently displayed in critical areas of our factory to ensure employees adhere to the rules and follow correct procedures. There is also a safety manual available for reference by employees at the factory premises. A regular safety awareness programme is conducted as a means of ensuring constant and top-of-mind recall with safety related agendas and actions.

In the year under review 17 male employees of the Company based in our factory suffered from minor injuries such as bruises, minor cuts and scrapes.

Injury rates and Lost Days

Type of Accident	Number
Major Accidents	none
Minor Accidents	17
Lost days due to accidents	none

The employees based in our factory receive regular training on use of safety equipment in case of a fire or during any other emergency/disaster situation, while appropriate fire-fighting and other safety equipment is installed as per the guidelines set out by the department of labour and OHSAS 18001 standard.

The Company has in place a Safety Committee that helps monitor, review and advise on occupational health and safety initiatives of factory operations. This committee is comprised of members from the management and the workforce. All our employees are represented in this joint management-worker Safety Committee.

The health and safety topics covered in formal agreements with trade unions are as follows:

Health and Safety Topics Covered in Formal Agreements with Trade Unions

"ZERO
Workers with high incidence or high risk of diseases related to their occupation"

Health and Safety Topic	Percentage of Coverage
First Aid	100%
Preventing Accidents	100%
Fire Training	5%
Fire Evacuation Training	100%
General Health and Safety	5%

Training and Development LA 9

Training and development of employees not only benefits the employee but also the sustainable growth of the Company in the long term. LTPLC has in place a policy whereby employees' training needs are identified through the Performance Management System as well as specialist skills development based on current trends and business requirements. In the year under review 3,380 hours of training was conducted for 400 employees in identified development areas. The average hours of training per year per employee (irrespective of gender) is 16 hours.

A challenge the Company continues to face is the training of factory operative and supervisory staff due to the 24-hour production schedule. However, the Company has overcome this by undertaking training of such employees in small batches so as not to disrupt business activities.

Key areas of focus for training and development in 2016/17

- Productivity Enhancement Related Training
- Customer Service Related Training
- Training on New Technology
- Technical Competency Development
- Process Knowledge
- Training on New Management Tools Like TPM, Lean Management, etc.
- Soft Skill Enhancement
- Training on New Technology

Details of External Training Programmes

External Training programmes	No. of Training programmes	Head Count	Duration (Hours)
Total Production Management (TPM)	5	50	400
5S Methodology	4	9	71.5
Industrial Engineering	3	8	64
Finance Related	1	2	8
Sales Related	1	1	8

In house Training programmes	No. of Training programmes	Head Count	Duration (Hours)
Work-life Balance	4	55	370
Attitude Training	7	174	990
First Aid/Accident Training	3	24	82
Customer Relationship Management	2	120	480
Production Improvements	8	199	650

In the year under review, LTPLC implemented a couple of unique concepts aimed at improving productivity of employees by allowing them a break from their routine work. These include;

- Setting up a dedicated 'relaxation area' in the factory to enable employees to relax during the work day. These areas are equipped with games and comfortable seating arrangements to give it a cosy atmosphere.

- Spiritual Management – a specialist programme for Managers conducted by an external specialist as a form of spiritual cleansing and attaining peace

During the year, LTPLC invested Rs. 5 Mn on the training and development programmes conducted for employees.

Performance Reviews LA 11

All employees must compulsorily undergo an annual performance review conducted by the individual employee's supervisor/manager. The performance review is based on a pre-designed format and the process explained clearly to both the employee and supervisor/manager. The management also encourages the employees to discuss any concerns and aspirations they have with regard to their job functions and roles in a transparent manner, thus enabling the Company to decide on adequate training required as well as increasing responsibilities based on interest and capabilities of employees. The performance review process of the Company is designed to enable both the employee and the Company to benefit from its outcome.

"100%
of the Company's employees receive annual performance reviews"

In the case of employees represented by collective bargaining agreements, performance reviews are conducted according to the terms set out in said agreements.

Succession Planning and Career Development

The Company views employees as partners with whom to build long term mutually beneficial relationships. Hence, we encourage and advocate employees' long term career aspirations and nurture them towards building their career with us. Accordingly, LTPLC offers first access to new opportunities to existing employees as and when they arise. The Company has adopted a "develop from within" philosophy, which has been successful to date. The Company also provides career guidance and continuous professional development programmes to enable employees to find their true career path and meet their career aspirations.

Sustainability **Review**

LTPLC has a standard succession plan in place, where key senior level employees are identified for future senior management roles and developed accordingly.

Employee Grievance Mechanisms LA 16

LTPLC has in place a grievance policy and procedure supported by an Employee Grievance Committee aligned to the requirements of OHSAS 18001, whereby employees can formally report any problems/concerns they may have related to the workplace, work ethic or the conduct of business. All grievances are treated as 'strictly confidential' and the resolution process commences immediately and is completed from within a week to a month depending on the seriousness of the issue raised. A thorough and impartial investigation is carried out, with the employee receiving regular feedback regarding the status of their grievance.

In the year under review 10 grievances were received and resolved by the Employee Grievance Committee.

The Company's Grievance Process:

Step 01	Employee can submit his/her grievance immediate boss (Supervisor)
Step 02	if not solved employee can submit the grievance to the Line Manager
Step 03	If not solved employee can submit the grievance to the Department Head
Step 04	If not solved employee can submit the grievance to the HRM
Step 05	If not solved employee can submit the grievance to the FM/AGM(P/T)
Step 06	If not solved employee can submit the grievance to the HOF
Step 07	- If not solved employee can submit the grievance to the MD
Step 08	If not solved employee can submit the grievance to the Chairman or labour department.

Employee Welfare, Work-life Balance, and Wellbeing

Employee welfare and work-life balance are highly valued by the Company as we believe that 'a happy and content employee is a motivated long term employee'. The Company, therefore, conducts regular needs assessments to understand the areas of concerns for employees and then undertakes changes or conducts programmes as required.

Some regular employee engagement programmes and activities aimed at ensuring that our employees are motivated; and have an enjoyable working experience include;

- Employees' Day - an outing for non-executive employees and their families and employees only in other categories.
- Pirith Ceremony - held during March for employees and their families.
- Counselling programmes – a therapist is available for consultation by all employees on designated days.
- Annual Excursion - an outing for all executive level employees.
- Annual Trip – an outing for all operative level employees.
- Annual Staff Get-together –the Company organises annual events such as cricket matches, Christmas party, trips for all employees.

The Company also carries out regular reviews of working conditions and encourages employees to provide feedback to their supervisors/managers as and when they identify problems or shortcomings. The Company for the very first time commissioned a "Great place to work" survey in 2015. Going forward we plan to conduct such similar employee surveys every two years.

Human Rights HR 2

LTPLC believes in; respects and values the dignity, privacy and rights of all individuals and cultures. Our working environment is designed to accept diverse cultures and beliefs, and free from

harassment. We endeavour to follow the principles as set out by the International Labour Organisation (ILO) and comply with labour and human rights laws of Sri Lanka and foreign countries where we have business interests. As part of our commitment to maintaining the rights of employees, our employees are also trained and educated on human rights aspects. In the year under review all employees were provided such training totalling one session of two hours.

Equal Opportunity and Non-Discrimination HR 3

LTPLC is an equal opportunity employer and maintains this stance throughout the employment life cycle of an individual. The Company promotes equality for all and does not discriminate on gender, race, cast, creed, disability, marital status or national and social origin. The Company has had no reported cases of discrimination in the year under review.

Freedom of Association and Collective Bargaining LA 4 & HR 4

LTPLC does not enforce any restriction on the freedom of association and collective bargaining of employees. The Company's operative level employees based in our factory are a part of the Inter Company Workers Union. 470 employees amounting to 95% of total employees are members of the Trade Union. The Company's labour/management relationship has always been mutually respectful and understanding. The Collective Agreement is reviewed once every three years and includes specialist clauses human rights aspects and such matters as notice periods for operational changes that are implemented by the Company. As a general rule, all employees are given a two-week notice period before any major operational change is implemented by the Company.

Human Rights Grievance Mechanism HR 12

While LTPLC currently has no formal human rights grievance mechanisms in place, employees and other stakeholders are able to bring their concern to senior managers on a need basis which is then looked into. As a general principle, the Company ensures that human rights are protected.

Child Labour HR 5

The Company has in place strict policies regarding child labour and the protection of children's rights, whereby we do not tolerate child labour even by our partners and business associates. There were no reported incidents of child labour in the year under review.

Forced or Compulsory Labour HR 6

The Company believes that employment should be at the free will of the employee and no individual should be forced to remain in employment, should they not wish to do so. There were no reported cases of forced labour in the year under review.

Local Communities SO 2 & SO 8

The main community service goals of LTPLC aim to create a better quality of life for all, especially for the communities surrounding our business operations. With this purpose of betterment of society within which we operate, the Company dedicates resources towards the support of causes that we believe in. In the year under review Rs. 5 Mn was invested by the Company on Corporate Social Responsibility (CSR) programmes/projects and activities, as well as direct donations and contributions. The focus of the Company's CSR programmes/projects and activities during the year was on the upliftment of the societies/communities surrounding our factory operations, upliftment of educational and religious institutions, and providing assistance for the disabled to attain a more comfortable lifestyle.

LTPLC's CSR programmes/projects and activities are proposed either by the management or employees. Every suggestion is developed into a project proposal and evaluated by senior management before Board approval obtained before final implementation. (G4-49 partly covered)

None of the Company's operations have negative impacts on local communities and the Company has not had any known incidence of non-compliance with laws and regulations.

Sustainability **Review**

Anti-Corruption SO 3 & SO 4 & SO 5

LTPLC does not tolerate corruption, and appropriate behaviour by employees is expected and detailed in the Company's HR Policies/ Code of Business Conduct. All business operations are assessed for risks related to corruption and the Company has not identified any significant risks in this area in the year under review. The Company has also had no reported incidents of corruption in the year under review.

Anti-Competitive Behaviour and Public Policy SO 6 & SO 7

The Company does not condone anti-competitive or monopolistic behaviour and have never faced any legal action in this regard. The Company also has a policy of making no contributions to political parties or politically inclined projects.

Supplier Assessment for Impact on Society SO 9

The Company conducts a supplier assessment for their impact to society and related laws and regulations before getting into any long term contracts with them. If the Company finds that proposed suppliers do not have the adequate impact measures in place and do not adhere to laws and regulations, we choose alternate suppliers when possible.

Grievance Mechanisms for Impacts on Society SO 11

The Company has no formal grievance mechanism for impact on society. However, our HR managers are always available to community members to listen to; and resolve any problems that may arise. No such grievances were reported in the year under review.

The Company's ultimate endeavour is to set an example for individuals and businesses alike to follow a path of being societally responsible, thereby nurturing a new Corporate Social Responsibility paradigm.

Product Responsibility PR 9

Product responsibility is an important criterion for the Company as our products are predominantly utilised in homes. Therefore, LTPLC manufactures and retails our product in a responsible manner ensuring no harm to customers while giving them the best quality tiles. The Company has obtained ISO 9001 certification which is the internationally acclaimed standard for quality management for our factory operations. The Company was in full compliance with laws and regulations concerning the provision and use of our products in the year under review.

Customer Health and Safety PR 1 & PR 2

All the Company's products are assessed for health and safety improvements. We do no use any harmful or toxic materials in the manufacture of our tiles and adhere to the health and safety rules and regulations of the industry when retailing our products. In the year under review there were no incidents of non-compliance with laws and regulations of Sri Lanka pertaining to the health and safety of our customers.

Customer Satisfaction Surveys PR 5 & PR 9

Customers are a key stakeholder of the Company. To ensure their satisfaction, the Company conducts in-house surveys based on customer complaints received and resolved, as well as from information gathered at the monthly meetings held for showroom sales staff and the monthly sales conference held for field sales staff. LTPLC measures customer satisfaction using an index system which records customer complaints and enables the Company to improve service levels based on results. For the year under review the Index showed a result of 'satisfactory performance'.

Based on our survey results, it was identified that the most common complaint was with regards our technical aspects of our products, which were mainly minor issues that could be resolved with replacement of products or monetary compensation. No complaints were received with regards to breaches in customer privacy in the year under review.

Every complaint is responded to in writing by the Company. The timeframe to resolve the complaint is between a week to a month depending on the type of complaint. LTPLC has in place a process by which customer complaints are handled and this is depicted in the diagram.

Customer Complaint Process

Complaint Form (available at the showrooms or on the website) to be filled and directed to General Manager (Marketing.)

Head of Marketing sends the form to Technical Officers in factory to attend to the complaint. General Manager (Marketing.)

Feedback provided by the Technical Officers. If compensation required, MD's approval received and compensation given.

Employees also receive regular monthly trainings to ensure that they grasp the importance of customer satisfaction and service. In the year under review, in recognition of their excellent customer service standards, the Company sponsored 110 sales staff for a 3-nights/4-days holiday to Singapore.

Product and Service Labelling PR 3 & PR 4

"70%
direct product
sales to end users"

All the Company's products are labelled with information regarding the size, weight, colour, design style and other relevant technical details. Further, the product labels also include information on substances that might have a negative environmental or social impact. Clear instructions on the safe use of tiles are also included. No sourcing details or product disposal details are included in the labelling. In the year under review, the company faced no incidents of non-compliance concerning product labelling information.

Marketing Communications PR 6 & PR 7

LTPLC does not use any banned or disputed products in the manufacture of tiles, nor do we sell any such products to our customers.

The Company uses traditional and digital media for its advertising and promotional activities. In the year under review there were no incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship by the Company.

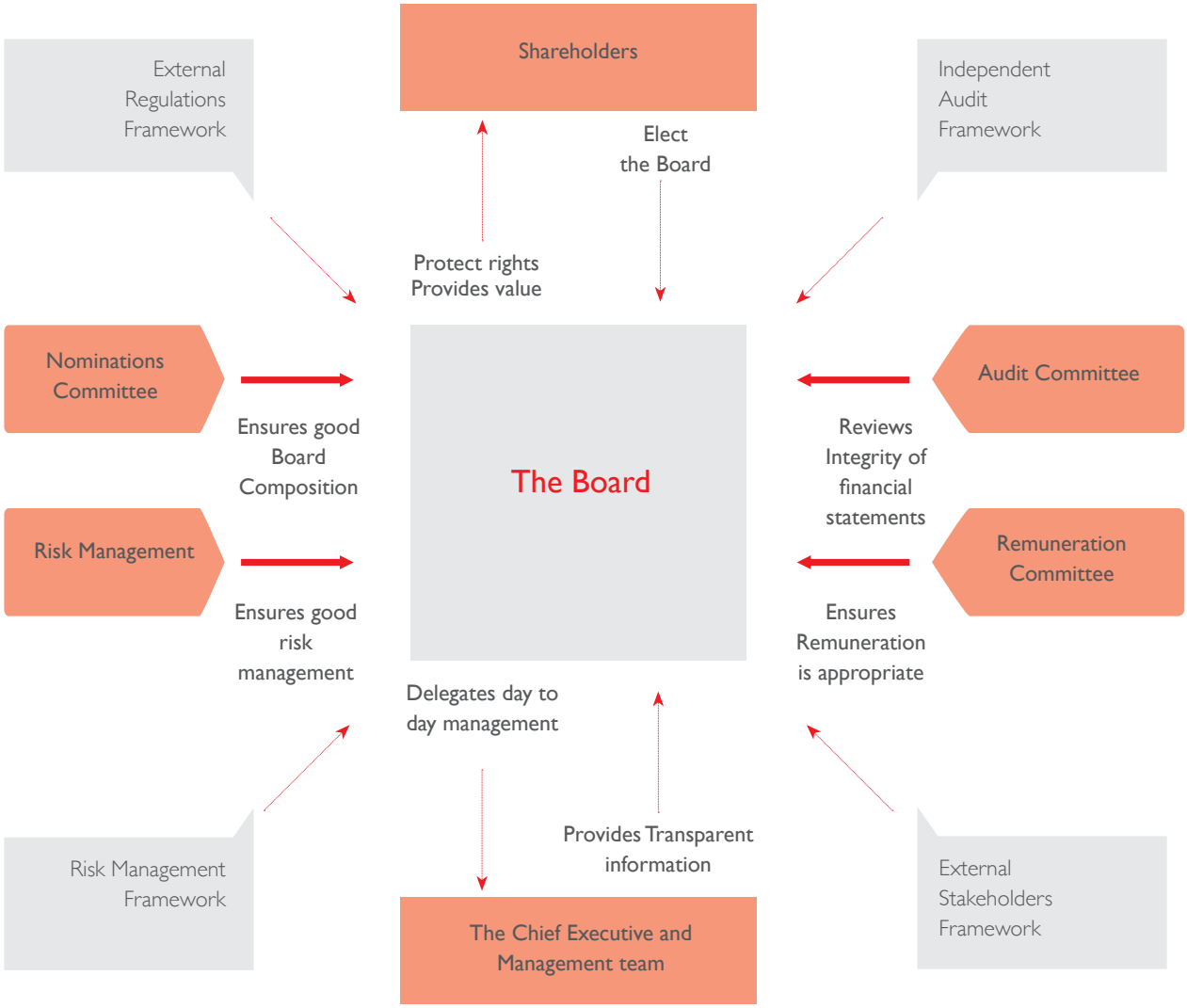
Corporate **Governance Report**

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 in conjunction with 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 is accountable to them for the overall management of the Company.

In this report the Company shares its corporate governance framework and compliance to corporate governance codes and the board statement of compliance is given. This is presented to the shareholder to ensure that their rights are protected while the business is being run to create value for them.

Corporate Governance Framework

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



The Compliance 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
A.	Directors		
A.1	The Board		
	Frequency of Board Meetings	The Board met on a monthly basis in the year under review. The Board's Audit and Remuneration sub committees met on 4 occasions. Board meeting attendance: Dhammika Perera (Chairman) - 04/12 A M Weerasinghe (Deputy Chairman) - 01/01 J A P M Jayasekera (Managing Director) - 12/12 Dr. S Selliah (Director) - 11/12 T G Thoradeniya (Director) - 09/12 K D G Gunaratne (Director) - 09/12 A M L Page (Director) - 09/12 G A R D Prasanna (Alternate Director) - 11/12	Compliant
	Responsibility of the Board	The Board is responsible for: a. The formulation and implementation of a sound business strategy. b. Monitoring compliance of governance, laws and regulations. c. Overseeing systems of internal control and risk management. d. Approving annual budgets and strategic plans. e. Appointing and reviewing the performance of the Managing Director. f. Approving any change in the Group's business portfolio and sanctioning major investments and disinvestments in accordance with parameters set. g. Ensuring that effective remuneration, reward and recognition policies are in place to motivate employees to meet Company objectives. h. Submitting themselves for re-election at regular intervals and at least once in every three years.	Compliant

Corporate
Governance Report

	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 in the ceramic industry. Relevant training opportunities are made available to all Directors locally and internationally to further their knowledge and expertise.	Compliant
A2	Chairman and CEO		
	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
A.3	Role of the Chairman		
	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
A.4	Financial Acumen		
	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
A.5	Board Balance		
	The Board should have an adequate number of Directors with a balance of executive and Non - Executive Directors of sufficient calibre along with independent Directors.	The Board comprises of 07 Executive and Non-Executive Directors. Directors' status is as follows: Dhammika Perera - (Chairman) - Non Executive A M Weerasinghe - (Deputy Chairman) - Non Executive J A P M Jayasekera - (Managing Director) - Executive Dr. S Selliah - (Director) - Non Executive - Independent T G Thoradeniya - (Director) - Non Executive K D G Gunaratne - (Director) - Non Executive - Independent A M L Page - (Director) - Non Executive - Independent Dr. S Selliah, Mr. K D G Gunaratne 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 not compromised. Accordingly, the Board has determined that 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.	Compliant
A.6	Supply of Information		
	Relevant information and agenda to be circulated in a timely manner to the Board.	The Board papers are circulated a week prior to Board meetings with an adequate briefing on relevant information.	Compliant
A.7	Appointments to the Board		
	Procedure for the appointment and disclosure of new Directors/ Assessment of Board composition	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.	Compliant
A.8	Re-election		
	Re-election of Directors at regular intervals.	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.	Compliant

Corporate
Governance Report

	Governance Principle	Lanka Tiles Adherence	Compliance Status
A.9	Appraisal of Board Performance		
	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
A.10	Disclosure of information with respect to Directors		
	Shareholders at all times should be aware of relevant details with respect to Directors.	All Directors have declared their details in pages 12 to 13 as Director profiles.	Compliant
A.11	Appraisal of Chief Executive Officer		
	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 upon in with the annual budget	Compliant
B.	Directors' remuneration		
B.1	Remuneration Procedure		
	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 68 of the report addresses all related matters.	Compliant
B.2	The level and make up of Remuneration		
	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.3	Disclosure of Remuneration		
	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 105 of this Report.	Compliant

	Governance Principle	Lanka Tiles Adherence	Compliance Status
C.	Relations with Shareholders		
C.1	Constructive use of the Annual General Meeting		
	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
C.2	Major Transactions		
	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
D.	Accountability and Audit		
D.1	Financial Reporting		
	The Board should present a balanced and understandable assessment of the Company's financial position, performance and prospects.	The Annual Report of the Company provides a balanced and understandable assessment of the Company which is in addition to the accounts of the management and financial reviews, Director's report and responsibility structures.	Compliant
D.2	Internal Control		
	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 their review and monitoring 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
D.3	Audit Committee		
	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 69 of the report addresses this section in full.	Compliant

Corporate
Governance Report

	Governance Principle	Lanka Tiles Adherence	Compliance Status
D.4	Code of Business Conduct and Ethics		
	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 and Exchange Commission is adopted by the Directors who then ensure that the Company and the employees behave ethically.	Compliant
D.5	Corporate Governance Disclosures		
	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 44 to 53.	Compliant
E.	Shareholders		
E.1	Shareholder Voting		
	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
E.2	Evaluation of Governance Disclosures		
	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
F.	Other Investors		
F.1	Investing / Divesting Decision		
	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 The Colombo Stock Exchange website with the quarterly reports to facilitate investors and shareholders to make informed decisions.	Compliant
F.2	Shareholder Voting		
	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 in accessible area to ensure shareholders can participate effectively.	Compliant

	Governance Principle	Lanka Tiles Adherence	Compliance Status
G.	Sustainability Reporting		
G.1	Principles of Sustainability Reporting		
	Sustainability reporting is the practice of recognising, measuring, disclosing and being accountable to internal and external stakeholders for organisational performance towards the goals of sustainable development in the context of the overall business activities and strategy of the entity and directed to the target stakeholders, usually shareholders, employees, customers, society and government.	Sustainable business practices are a fundamental condition that defines all that the company does. It is an integral component of the Company business activities and drives all its management decisions. It also helps it to utilize its core competencies so as to generate more productive economic opportunities, minimize the impact of its operations on the local environment, while at the same time making a meaningful contribution towards societal change.	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 PLC has six Non - Executive Directors out of seven as given in item A5 in the ICASL adherence table, which is above the minimum requirement.	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'.	The Company has three independent Directors out of seven as given in item A5 in ICASL adherence table, which is above the minimum level.	Compliant

Corporate
Governance Report

	Governance Principle	Lanka Tiles Adherence	Compliance Status
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'.	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.	Compliant
d.	Criteria for Defining 'Independence'		
	The Colombo Stock Exchange identified criteria of independence should be met by the independent directors of the Company	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.	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.	As per the remuneration committee report given in page 68 the Remuneration Committee comprises of three independent Non - Executive Directors of Lanka Walltiles PLC - the immediate parent Company.	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.	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 that report is published in page 68.	Compliant

	Governance Principle	Lanka Tiles Adherence	Compliance Status
	iii. Disclosure in the Annual Report		
	The Annual Report should set out the names of directors 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	The remuneration committee report in page 68 sets out the names of the directors in the remuneration committee report and aggregate remuneration paid to all directors is given in page 105.	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.	The Audit Committee comprises of three independent, Non - Executive Directors of Lanka Walltiles PLC	Compliant
	ii. Functions of the 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.	The Audit Committee report in page 69 of the annual report explains the function of the audit committee which has executed the above function.	Compliant
	iii. Disclosure in the Annual Report relating to Audit Committee		
	The names of the directors comprising the Remuneration committee should be disclosed in the annual report.	The Audit Committee report in page 69 has addressed this requirement.	Compliant

Risk Management

Introduction

Risk Management is a critical requirement for any company operating in a competitive market and a changing economy. Recent global and local developments have highlighted the need for a robust, integrated risk management approach across the business. Lanka Tiles PLC (LTPLC) henceforth has taken a strategic initiative to identify the areas relevant to the organization and respond to potential risk. The risk management process will enable administration to evaluate strategies existing within the organization 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 Organizations of the Tradeway Commission (COSO) defines Enterprise Risk Management (ERM) as a process, effected by the entity's Board of Directors and management and applied in strategies setting 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. LTPLC adopted an ERM approach in year 2013, because it provides an integrated approach to the management of the Company's business risk.

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

The adherence of the Lanka Tiles PLC risk management framework with the COSO's integrated enterprise risk management principles can be presented as follows;

Principle	Lanka Tiles Adherence	Compliance Status
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 in better understanding the organization'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 the 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 organization. The senior management has effective risk management capabilities and competencies.	Compliant

Principle	Lanka Tiles Adherence	Compliance Status
Risk identification		
Robust processes have to be in place in the organization 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 organization has defined and widely communicated to members of management and the Board what it means by the term "risk." The organization 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 organization has no control. The organization 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.	Compliant
Risk assessment		
Organization 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 organization, if the risk occurs.	The organization defines a five year time period over which risks should be assessed to ensure consistency in management's evaluations. The organization strives to assess inherent risks of the Company and industry and the organization assesses not only the likelihood of a risk event occurring but also the impact of the risk to the organization. The Board of Directors has concurred with the assessment of the risks completed by management.	Compliant
Articulation of risk appetite		
While determining the organization'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 organization's overall appetite for risk taking. The Board of Directors has concurred with the organization's risk appetite.	Compliant
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 organization has identified risk owners with responsibility for each of its most significant risks. The organization has evaluated whether the existing response is sufficient to manage the risks to be within the organization's risk appetite. The organization 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 organization's ERM process helps identify potential overlaps or duplications in risk responses across the enterprise.	Compliant

Risk Management

Principle	Lanka Tiles Adherence	Compliance Status
Risk reporting		
As risks are identified and assessed across the organization, 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 organization 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.	Compliant
Integration with strategic planning		
Effective ERM can be an important input and consideration in the determination and execution of any organization's strategy. ERM provides critical insights into the portfolio of existing and emerging risk exposures that can contribute to the strategic success of the organization.	The organization has a formal strategic planning process and the strategic plan is updated at least annually. The organization'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.	Compliant
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 organization 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.	Compliant

Risk Management Process

The risk management process has been designed to ensure identification of any situation or circumstance that would adversely affect the achievement of Company activities and to accept and manage unavoidable risks and to ensure 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 organization.

Lanka Tiles PLC has the following management structure to facilitate risk management and risk reporting.

The LTPLC risk management process can be explained by the three lines of defence concept of risk management as given below

	First line	Second line	Third line
Responsibility	• Day to day identification, assessment, managing and reporting of all risk within span of control • Ensuring risk exposures stay within limits • Responding appropriately to challenge by the second line of defence • Implementing recommendations by third line of defence	• Clear and well communicated risk policies • Effective control and monitoring systems • Providing assurance that risks are being appropriately managed across the business • Providing robust challenge to first line • Facilitating actions to respond to levels of risk deemed to be beyond or close to tolerance	• Independent assurance and oversight on the effectiveness of : - Systems of governance - Risk management - Internal control
Accountability	• Executives and Supervisors.	• The Board which includes the Managing Director and the Corporate Management team.	• Internal Audit • External Audit • Audit Committee

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

Principle	Lanka Tiles Adherence	Compliance Status
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.	In control
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.	In control

Risk Management

Principle	Lanka Tiles Adherence	Compliance Status
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 the next five years and 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.	In control
Integrity Risk		
Integrity risk is the risk of management fraud, employee fraud, illegal acts, unauthorised 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, quarterly audit committee meeting to monitor the reporting status coupled with monthly Board meetings which supervise the financial status of the Company and the integrity of employees are held.	In control
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.	In control

Conclusion

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 its business.

The Board assures the reliability of financial statements presented herein and that it has been done in according with applicable accounting standards and regulatory requirements.

The Board declares that it has not found any significant risks that may impact the operation of the business as a going concern.

J A M P Jayasekera
Managing Director

Dhammika Perera
Chairman

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 consolidated financial statements of the Company and its subsidiary (collectively referred to as 'the Group') for the year ended 31 March 2017 as set out on pages 71 to 110.

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 Formation

The Company is a public limited liability company incorporated and domiciled in Sri Lanka and is 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.

The Company was incorporated in Sri Lanka on 30 March 1984 under the Companies Act No. 17 of 1982 as a private limited company bearing the name Lanka Tiles (Private) Limited.

On 7 August 1984, Lanka Tiles Limited (Private) was listed on the Colombo Stock Exchange as a Public Limited Liability Company.

Pursuant to the requirements of the new Companies Act No. 7 of 2007, the Company was re-registered on 19 March 2008 and was accordingly renamed as Lanka Tiles PLC and bears registration number PQ129.

2 Principal Activities of the Company and Review of Performance during the year

The principal activities of the Group are the manufacture and sale of glazed ceramic and porcelain 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 together with the accounting policies and notes are given on pages 71 to 110.

Summarised financial results

Year ended 31 March	2017 (Rs '000)	2016 (Rs '000)
Revenue	5,176,372	5,541,368
Total Comprehensive income for the year	1,260,457	2,110,946

4 Independent Auditor's Report

The independent auditors report on the financial statements of the Company is given on page 70.

5 Accounting Policies

The financial statements of the Company and the Group have been prepared in accordance with the 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 significant accounting policies adopted in the preparation of financial statements are given on pages 75 to 110.

6 Statement of Directors' Responsibility

The Directors are responsible for preparing and presenting the financial statements of the Company and the Group to reflect a true and fair view of their state of 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.

7 Directors

The names of the Directors who held office as at the end of the accounting period are given below:

Executive Director

Mr. J A P M Jayaskera — Managing Director

Non-Executive Directors

Mr. Dhammika Perera — Chairman
(Alternate Director Mr. G A R D Prasanna)

Mr. A M Weerasinghe — Deputy Chairman
(Appointed w.e.f. 15/03/2017)

Mr. T G Thoradeniya — Director

Annual report of the Board of Directors **on the Affairs of the Company**

Independent Non Executive Directors

Dr. S Selliah	Director
Mr. K D G Gunaratne	Director
Ms. A M L Page	Director

Mr. W D N H Perera resigned as a Director and the Chairman on 8th March 2017

Mr. Dhammika Perera was appointed the Chairman of the Company on 15th March 2017.

Mr. A M Weerasinghe was appointed as a Director and the Deputy Chairman on 15th March 2017

Dr. S Selliah retires 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 is recommended by the Directors for re-election.

Mr. A M Weerasinghe who was appointed a Director on 15th March 2017 is due to retire at the forthcoming Annual General Meeting in terms of Article 110 of the Articles of Association of the Company and being eligible is recommended for re-election.

Directors of subsidiary Company are given below

Beyond Paradise Collection Ltd

Mr. M H Jamaldeen
Mr. K D H Perera
Mr. J A P M Jayasekera

8 Interests Register

The Company maintains an interests register in terms of the Companies Act No. 7 of 2007. which is deemed to form part and parcel of this Annual Report and available for inspection upon request.

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 Directors declare that the Company is in compliance with Section 9 of the Listing Rules of the Colombo Stock Exchange pertaining to Related Party Transactions during the financial year ended 31st March 2017.

The relevant interests of Directors in the shares of the Company as at 31st March 2017 as recorded in the Interests Register are given in this Report under Directors' shareholding.

9 Directors Remuneration

The Directors' remuneration is disclosed under key management personnel compensation in note 22 to the financial statements on page 105.

10 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 29 to the financial statements. The Company carried out transactions during the year in the ordinary course of its business at commercial rates with the related entities.

11 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.

12 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.1,528,000/- (2016 - Rs. 1,416,000/-) is payable by the Company to the Auditors for the year under review comprising Rs. 7,32,000/- (2016 - Rs. 691,000/-) as audit fees and Rs. 796,000/- (2016 - Rs. 725,000/-) for non audit services.

The Auditors have expressed their willingness to continue in office. The Audit Committee at a meeting held on 24th May 2017 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.

13 Stated capital

The stated capital of the Company is Rs. 900,967,696. (2016 - Rs. 900,967,696).

The number of shares issued by the Company stood at 53,050,410 fully paid ordinary shares as at 31 March 2017 (which was the same as at 31 March 2016).

14 Directors' Shareholding

The relevant interests of Directors in the shares of the Company as at 31 March 2017 and 31 March 2016 are as follows.

	No. of Shareholding As at 31 March 2017	No. of Shareholding As at 31 March 2016
Mr. Dhammika Perera	-	-
Mr. A M Weerasinghe	-	-
Mr. J A P M Jayasekera	-	-
Dr. S Selliah	-	-
Mr. T G Thoradeniya	-	-
Mr. K D G Gunaratne	-	-
Ms. A M L Page	2,500	2,500

15 Shareholders

There were 1,787 shareholders registered as at 31 March 2017 (1,763 shareholders as at 31 March 2016).

16 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 page 113 to 114 under Share Information.

17 Employment Policy

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

As at 31 March 2017, 495 persons were in employment (510 persons as at 31 March 2016).

18 Reserves

The movement of reserves during the year is given under the statement of changes in equity on page 73.

19 Capital Expenditure

The total capital expenditure during the year amounted to Rs. 413 Mn compared to Rs.186 Mn incurred in the previous year. Details of movement in property, plant and equipment and capital work-in-progress are given under note 5 to the financial statements.

20 Land Holdings

The book value of property, plant and equipment as at the financial year end date amounted to Rs. 3,609 Mn (2016 -Rs. 3,399 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)	Cost/ Valuation (Rs '000)
Factory at Jaltara, Ranala	41	4,060	1,137,371
Land adjacent to the factory	17	1,897	205,144
Warehouse at Biyagama	2	336	442,725
Ball Clay land at Kalutara	-	841	52
Nawala Land	1	32	229,743
Land at Madampe	-	2,082	35,780
Total	61	9,248	2,050,815

The movement of fixed assets during the year is given in note 5 to the financial statements.

Annual report of the Board of Directors **on the Affairs of the Company**

21 Dividend

An interim dividend of Rs. 2/50 per share for the year ended 31st March 2017 was paid on 1st November 2016.A second interim dividend of Rs.5/00 per share for the year ended 31st March 2017 was paid on 22nd February 2017.

22 Substantial shareholdings

The Company is controlled by Lanka Walltiles PLC which holds 68.2% (2016 - 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.

23 Investments

Details of the company's quoted unquoted investment as at 31s March 2017 are given in notes 7 to 8 to the financial statement on pages 92 to 94.

24 Public Holding

29.15% (2016 - 29.15%) of the issued shares of the Company are widely held by the public.

25 Donations

The Company made donations amounting to Rs. 3,062,217 (2016 - Rs. 1,319,680) in total, during the year under review.

26 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 risk are detailed in the section on risk Management on pages 54 to 58.

27 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.

28 Contingent Liabilities

Except as disclosed in Note 30 to the Financial Statements, there were no material contingent liabilities as at the date of financial position.

29 Events After Reporting Period

As disclosed in note 32 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.

30 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, Remuneration Committee and Related Party Transaction Review Committee function as board sub committees, with directors who possess the requisite qualifications and experience.The composition of the said committees is as follows.

31 Audit Committee

Up to 30th August 2016

Mr. M D S Goonatilleke - Chairman (Resigned on 12/05/2016)
Mr. L T Samarawickrama
Mr. R N Asirwatham

With effect from 1st September 2016

Mr. J D N Kekulawala - Chairman

Dr. S Selliah

Mr.T de Zoysa

Mr.T G Thoradeniya

Remuneration Committee

Up to 30th August 2016

Mr. W D N H Perera - Chairman (resigned on 8/3/17)

Mr. M D S Goonatilleke

Mr. A M Weerasinghe

With effect from 1st September 2016

Mr. W D N H Perera - Chairman (resigned on 8/3/17)

Mr. A M Weerasinghe - Chairman (appointed on 25/4/17)

Mr. K D G Gunaratne

Mr. T de Zoysa

Related Party Transaction Review Committee

Up to 30th August 2016

Mr. R.N. Asiriwatham - Chairman

Mr. M D S Goonatilleke

Mr. A M Weerasinghe

With effect from 1st September 2016

Dr. S Selliah - Chairman

Mr. T de Zoysa

Mr. J D N Kekulawala

Mr. T G Thoradeniya

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 44 to 53 explains the measures adopted by the company during the year.

32 Corporate Social Responsibilities

The company continues its Corporate Social Responsibility programs, details of which are set out on pages 25 to 43 of this report .

33 Environmental Protection

After making adequate enquiries from the Management, the Directors are satisfied that the Company and the Group operate 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 and its subsidiary operate.

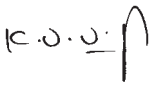
34 Going Concern

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

35 Annual General Meeting

The note of this thirty third (33rd) Annual General Meeting appears on page 117. This Annual Report is signed for and on behalf of the Board of Directors by

By order of the Board
LANKA TILES PLC



Dhammika Perera
Chairman

J A P M Jayasekera
Managing Director

P W Corporate Secretarial (Pvt) Ltd
Secretaries

Colombo
26th May 2017

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 2018/2019, 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 2017

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

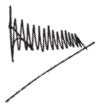
The financial statements are prepared in compliance with the Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka and the requirements of the Companies Act No. 7 of 2007 and any other applicable statues to the extent applicable to the Company. There are no departures 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.



B T T Roche
General Manager (Finance)

J A P M Jayasekera
Managing Director

26th May 2017

Related Party Transactions
Review Committee Report

Adoption of the Code of Best Practices on Related Party Transactions

The Board of Directors of Lanka Tiles PLC (LTPLC) adopted the Code of Best Practices on related party transactions issued by the Securities and Exchange Commission of Sri Lanka (SEC) and established the Related Party Transactions Review Committee (RPTRC) in March 2016.

Purpose of The Committee

The purpose of the RPTRC of LTPLC is to conduct an independent review approval and oversight of all related party transactions of LTPLC and to ensure that the Company complies with the rules set out in the Code. The primary objectives of the said rules are to ensure that the interests of the shareholders as a whole are taken into account when entering into related party transactions, and to prevent Directors, key management personnel or substantial shareholders from taking advantage of their positions. To exercise this purpose the Committee has adopted the related party transaction Policy which contains the company's Policy governing the review, approval and oversight of related party transactions.

Composition of the Committee

Up to 30th August 2016

Mr. R N Asiriwatham - Chairman
Mr. A M Weerasinghe
Mr. M D S Goonatilleke

With effect from 1st September 2016

Dr. S Selliah - Chairman
Mr. T de Zoysa
Mr. J D N Kekulawala
Mr. T G Thoradeniya

PW Corporate Secretarial (Pvt) Ltd, the Company Secretary functions as the Secretary to the Committee.

The Managing Director and the Head of Finance attend meetings by invitation.

Meetings

The Committee held four meetings during the year under review. The minutes of the Committee meeting were tabled at the Board meeting, for the review of the Board.

Charter of the Related Party Transaction Review Committee

The Charter of the Related Party Transaction Review Committee clearly sets out the purpose, membership, authority and the duties and responsibilities of the Committee. In order to discharge the duties and responsibilities effectively and efficiently, the Committee has been authorised to:

a) Receive regular reports from the Management, and be provided with any information it requests relating to its responsibilities

b) Establish policies and procedures that provide general pre-approvals to certain classes or types of related party transactions

c) Review and evaluate the terms, conditions, and the advisability of, any related party transaction

d) Determine whether the relevant related party transaction is fair, and in the best interest of the Company and its shareholders as a whole

e) Recommend to the Board what action, if any, should be taken by the Board with respect to any related party transaction

f) Obtain advice and assistance from legal, technical, financial and other advisors from within or outside the Company as deemed necessary by the Committee in order to carry out its duties

Responsibilities of the Related Party Transactions Review Committee

The following are key responsibilities have been set out in the Charter for RPTRC;

a) Ensure that the Company complies with the rules set out in the Code

b) Subject to the exceptions given under Rule 27 of the Code, review, in advance all proposed related party transactions

c) Perform other activities related to the Charter as requested by the Board

d) Have meetings every fiscal quarter and report to the Board on the Committee's activities

e) Share information with the Audit Committee as necessary and appropriate, to permit the Audit Committee to carry out its statutory, regulatory and other responsibilities with regard to related party transactions

f) Review the Charter and Policy at least annually and recommend amendments to the Charter and Policy to the Board as and when determined to be appropriate by the Committee.

Procedures for Reporting Rpt's

The Managing Director (MD) is responsible for reporting to the Committee, for its review and approval of the information set out under Rule 30 of the Code at the minimum, in respect of each related party transaction proposed to be entered into other than the exceptions given in Rule 27 of the code. Moreover, on a quarterly basis, the MD is required to report to the Committee on the approved related party transactions actually entered into by the Company.

The Committee has approved the Related Party Transactions Declaration Form required to be filled by the Directors and key management personnel of the Company. The Company uses this form to capture the related party transactions at the end of every quarter.

Review of Related Party Transactions

The Committee reviewed all related party transactions of the Company for the financial year 2016/17. In terms of Rule 9.3.2 of the Listing Rules of the Colombo Stock Exchange on related party transactions, there were no non- recurrent related party transactions entered into during the course of the financial year, aggregative value of which exceeded the lower of 10% of the equity or 5% of the assets. There were no recurrent related party transactions carried out during the financial year ended 31 March 2017, the aggregate value of which exceeded 10% of the revenue.

In the opinion of the Committee, the terms of these transactions were not more favourable to the related parties than those generally available to the public. The details of related party transactions entered into during the year are given in Note 29 to the Financial Statements, on pages 107 to 110 of this Annual Report.

Declaration

A declaration by the Board of Directors on compliance with the rules pertaining to the Related Party Transactions appears on the Report of the Board of Directors on page 60 of this Annual Report.

Dr. S. Selliah
Chairman - Related Party Transactions Review Committee

26th May 2017

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.

Up to 30th August 2016

Mr. W D N H Perera - Chairman
Mr. M D S Goonatilleke
Mr. A M Weerasinghe

With effect from 1st September 2016

Mr. W D N H Perera - Chairman
(Resigned on 08/03/2017)
Mr. A M Weerasinghe - Chairman
(Appointed Chairman on 25/04/2017)

Mr. K D G Gunaratne

Mr. T de Zoysa

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 Personnel 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 last financial year is given on Page 93 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.

A M Weerasinghe
Chairman-Remuneration Committee

26th May 2017

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

Up to 31st August 2016

The Audit Committee comprised of the following four independent, Non-Executive Directors.

Mr. M D S Goonatilleke	-	Chairman (Resigned on 12/05/2016)
Mr. L T Samarawickrama	-	Committee Member
Mr. R N Asirwatham	-	Committee Member
Mr. S H Amarasekera	-	Appointed Chairman on 27/05/2016

With effect from 1st September 2016

The Audit Committee comprised of the following four independent, Non-Executive Directors of Lanka Walltiles PLC.

Mr. J D N Kekulawala	-	Chairman
Dr. S Selliah	-	Committee Member
Mr. T de Zoysa	-	Committee Member
Mr. T G Thoradeniya	-	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.

Up to 31st August 2016

Mr. M D S Goonatilleke	-	0/1
Mr. L T Samarawickrama	-	1/1
Mr. R N Asirwatham	-	1/1
Mr. S H Amarasekera	-	0/1

With effect from 1st September 2016

Mr. J D N Kekulawala	-	3/3
Dr. S Selliah	-	3/3
Mr. T de Zoysa	-	3/3
Mr. T G Thoradeniya	-	2/3

Functions performed by the Audit Committee

a. The Committee reviewed the provisional financial statements that were published for financial year 2016/17 and the Annual Report of 2016/17. It oversaw 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.

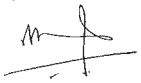
c. The Committee reviewed the external auditors' report and management letter for the last year. All recommendations proposed by the external auditors were discussed with the senior partner and recommendations proposed were duly carried out by the management. In addition the Audit Committee reviewed 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.



Mr. J D N Kekulawala
Chairman – Audit Committee

26th May 2017

Independent
Auditor's Report

Report on the Financial Statements

1 We have audited the accompanying financial statements of Lanka Tiles PLC ("the Company"), the consolidated financial statements of the Company and its subsidiary ("the Group"), which comprise the Statement of Financial Position as at 31 March 2017, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out in pages 71 to 110.

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 whether the financial statements are free from material misstatement.

4 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.

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

Opinion

6 In our opinion, the financial statements of the Company and the consolidated financial statements of the Group give a true and fair view of the financial positions of the Company and the Group as at 31 March 2017, and of their financial performance and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards.

Report on other Legal and Regulatory Requirements

7 These financial statements also comply with the requirements of Section 151 (2) and Section 153 (2) of the Companies Act, No. 07 of 2007.

26 May 2017
COLOMBO

PricewaterhouseCoopers
CHARTERED ACCOUNTANTS

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 **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**

Consolidated Statement of **Financial Position**

As at 31st March	Note	Group 2017 Rs. 000	Group 2016 Rs. 000	Company 2017 Rs. 000	Company 2016 Rs. 000
ASSETS					
Non-current assets					
Property, plant and equipment	5	3,608,790	3,570,151	3,608,790	3,398,848
Investment Properties	6	223,800	-	-	-
Investment in subsidiary	7	-	-	-	-
Investment in associate	8	881,052	725,543	881,052	725,543
Loans given to related companies	12	20,422	49,050	20,422	49,050
		4,734,064	**4,344,744**	**4,510,264**	**4,173,441**
Current assets					
Inventories	11	1,434,412	932,256	1,434,412	932,256
Trade and other receivables	12	1,013,508	813,270	1,187,787	987,986
Cash and cash equivalents (excluding bank overdrafts)	13	1,227,119	1,586,065	1,227,119	1,586,065
		3,675,039	**3,331,591**	**3,849,318**	**3,506,307**
Total assets		**8,409,103**	**7,676,335**	**8,359,582**	**7,679,748**
EQUITY					
Capital and reserves					
Stated capital	18	900,968	900,968	900,968	900,968
Amalgamation reserve		460,151	460,151	460,151	460,151
Revaluation reserve		838,856	838,856	838,856	838,856
Retained earnings		4,443,653	3,581,074	4,394,551	3,584,487
		6,643,628	**5,781,049**	**6,594,526**	**5,784,462**
LIABILITIES					
Non-current liabilities					
Borrowings	15	56,224	260,824	56,224	260,824
Deferred income tax liabilities	16	443,787	453,542	443,787	453,542
Retirement benefit obligations	17	124,394	129,073	124,394	129,073
		624,405	**843,439**	**624,405**	**843,439**
Current liabilities					
Trade and other payables	14	583,791	580,766	583,540	580,766
Current income tax liabilities		68,726	276,660	68,558	276,660
Borrowings	15	488,553	194,421	488,553	194,421
		1,141,070	**1,051,847**	**1,140,651**	**1,051,847**
Total liabilities		**1,765,475**	**1,895,286**	**1,765,056**	**1,895,286**
Total equity and liabilities		**8,409,103**	**7,676,335**	**8,359,582**	**7,679,748**

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 2017.

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

Dhammika Perera	J A P M Jayasekera	B T T Roche
Chairman	Managing Director	General Manager (Finance)

The notes on pages 75 to 110 form an integral part of these financial statements.

Consolidated Statement of **Comprehensive Income**

Year ended 31 March		Group		Company	
		2017	2016	2017	2016
	Note	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Revenue	19	5,176,372	5,541,368	5,176,372	5,541,368
Cost of sales		(2,860,369)	(3,087,000)	(2,860,369)	(3,087,000)
Gross profit		2,316,003	2,454,368	2,316,003	2,454,368
Distribution costs		(706,517)	(642,341)	(706,517)	(642,341)
Administrative expenses		(381,726)	(416,967)	(381,312)	(413,554)
Other income	20	26,754	37,328	26,154	37,328
Other gains / (losses) - net	21	45,739	(39,220)	(6,758)	(39,220)
Operating profit		1,300,253	1,393,168	1,247,570	1,396,581
Finance income		150,720	82,890	150,720	82,890
Finance costs		(31,749)	(37,280)	(31,749)	(37,280)
Finance income - net	24	118,971	45,610	118,971	45,610
Share of net profit of associate accounted for using the equity method	8	185,284	139,411	185,284	139,411
Profit before income tax		1,604,508	1,578,189	1,551,825	1,581,602
Income tax expense	25	(359,170)	(399,448)	(359,002)	(399,448)
Profit for the year		**1,245,338**	**1,178,741**	**1,192,823**	**1,182,154**
Other comprehensive income :					
Items that will not be reclassified to profit or loss					
Gains on revaluation of land and buildings	5	-	928,763	-	928,763
Deferred tax component - gains on revaluation of land and buildings"	16	-	(89,907)	-	(89,907)
Remeasurements of retirement benefit obligations - gratuity	17	18,898	(7,628)	18,898	(7,628)
Deferred tax component - remeasurement of retirement benefit obligations - gratuity	16	(5,183)	2,093	(5,183)	2,093
Items that may be subsequently reclassified to profit or loss					
"Share of other comprehensive income of associate investment accounted for using the equity method"	8	1,404	98,884	1,404	98,884
Total other comprehensive income for the year, net of tax		**15,119**	**932,205**	**15,119**	**932,205**
Total comprehensive income for the year attributable to equity holders of the Company		**1,260,457**	**2,110,946**	**1,207,942**	**2,114,359**
Basic earnings per share (Rs)	26	23.47	22.22	22.48	22.28

The notes on pages 75 to 110 form an integral part of these financial statements.

Consolidated Statement of **Changes in Equity**

	Attributable to equity holders of the Company				
	Stated capital Rs.'000	Retained earnings Rs.'000	Revaluation reserve Rs.'000	Amalgamation reserve* Rs.'000	Total Rs.'000
a) Group					
Balance as at 1 April 2015	**900,968**	**2,680,337**	**-**	**460,151**	**4,041,456**
Profit for the year	-	1,178,741	-	-	1,178,741
Other comprehensive income for the year	-	93,349	838,856	-	932,205
Total comprehensive income for the year	**-**	**1,272,090**	**838,856**	**-**	**2,110,946**
Dividends for year 2015/2016 (interim 1)	-	(212,202)	-	-	(212,202)
Dividends for year 2015/2016 (interim 2)	-	(159,151)	-	-	(159,151)
Balance as at 31 March 2016	900,968	3,581,074	838,856	460,151	5,781,049
Balance as at 1 April 2016	**900,968**	**3,581,074**	**838,856**	**460,151**	**5,781,049**
Profit for the year	-	1,245,338	-	-	1,245,338
Other comprehensive income for the year	-	15,119	-	-	15,119
Total comprehensive income for the year	**-**	**1,260,457**	**-**	**-**	**1,260,457**
Dividends for year 2016/2017 (interim 1)	-	(132,626)	-	-	(132,626)
Dividends for year 2016/2017 (interim 2)	-	(265,252)	-	-	(265,252)
Balance as at 31 March 2017	**900,968**	**4,443,653**	**838,856**	**460,151**	**6,643,628**

	Attributable to equity holders of the Company				
	Stated capital Rs.'000	Retained earnings Rs.'000	Revaluation reserve Rs.'000	Amalgamation reserve* Rs.'000	Total Rs.'000
b) Company					
Balance as at 1 April 2015	**900,968**	**2,680,337**	**-**	**460,151**	**4,041,456**
Profit for the year	-	1,182,154	-	-	1,182,154
Other comprehensive income for the year	-	93,349	838,856	-	932,205
Total comprehensive income for the year	**-**	**1,275,503**	**838,856**	**-**	**2,114,359**
Dividends for year 2015/2016 (interim 1)	-	(212,202)	-	-	(212,202)
Dividends for year 2015/2016 (interim 2)	-	(159,151)	-	-	(159,151)
Balance as at 31 March 2016	**900,968**	**3,584,487**	**838,856**	**460,151**	**5,784,462**
Balance as at 1 April 2016	**900,968**	**3,584,487**	**838,856**	**460,151**	**5,784,462**
Profit for the year	-	1,192,823	-	-	1,192,823
Other comprehensive income for the year	-	15,119	-	-	15,119
Total comprehensive income for the year	**-**	**1,207,942**	**-**	**-**	**1,207,942**
Dividends for year 2016/2017 (interim 1)	-	(132,626)	-	-	(132,626)
Dividends for year 2016/2017 (interim 2)	-	(265,252)	-	-	(265,252)
Balance as at 31 March 2017	**900,968**	**4,394,551**	**838,856**	**460,151**	**6,594,526**

* 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 75 to 110 form an integral part of these financial statements.

Consolidated Statement of **Cash Flows**

Year ended 31 March	Note	Group 2017 Rs.000	Group 2016 Rs.000	Company 2017 Rs.000	Company 2016 Rs.000
Cash flows from operating activities					
Cash generated from operations	28	768,858	1,995,483	768,858	1,824,180
Interest paid		(30,789)	(26,518)	(30,789)	(26,518)
Interest received		150,720	82,890	150,720	82,890
Gratuity paid	17	(7,235)	(8,963)	(7,235)	(8,963)
Tax paid		(582,042)	(336,823)	(582,042)	(336,823)
Net cash generated from operating activities		**299,512**	**1,706,069**	**299,512**	**1,534,766**
Cash flows from investing activities					
Purchase of property, plant and equipment	5	(369,454)	(304,595)	(369,454)	(133,292)
Proceeds from sale of property, plant and equipment		531	4,840	531	4,840
Expenditure incurred on capital work in progress	5	(43,202)	(52,458)	(43,202)	(52,458)
Dividend received		31,179	5,888	31,179	5,888
Repayments by (loans to) related companies		30,834	36,930	30,834	36,930
Net cash used in investing activities		**(350,112)**	**(309,395)**	**(350,112)**	**(138,092)**
Cash flows from financing activities					
Dividends paid		(397,878)	(368,119)	(397,878)	(368,119)
Proceeds from borrowings		-	50,000	-	50,000
Repayments of borrowings		(231,317)	(167,109)	(231,317)	(167,109)
Net cash used in financing activities		**(629,195)**	**(485,228)**	**(629,195)**	**(485,228)**
Net (decrease) / increase in cash and cash equivalents		**(679,795)**	**911,446**	**(679,795)**	**911,446**
Movement in cash and cash equivalents					
Cash and cash equivalents at beginning of year		1,529,777	618,331	1,529,777	618,331
Net (decrease) / increase in cash and cash equivalents		(679,795)	911,446	(679,795)	911,446
Cash and cash equivalents at end of year	13	**849,982**	**1,529,777**	**849,982**	**1,529,777**

The notes on pages 75 to 110 form an integral part of these financial statements.

Notes to the Financial **Statements**

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.

Beyond Paradise Collection (Private) Limited, a wholly owned subsidiary of the Company is a limited liability company domicilied in Sri Lanka and incorporated on 12 May 2011. The registered office 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 and porcelain floor tiles through a network of dealers and distributors. The Company has its manufacturing plant located at St James Estate, Jaltara, Ranala.

Beyond Paradise Collection (Private) Limited is the property holding and developing company."

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 25 May 2017.

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

The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings and financial assets and liabilities which are measured at fair value through profit or loss.

The financial statements of the Company and the Group are prepared in accordance with Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka, 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 and the Group'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 and the Group'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 2016.

(i) "SLFRS 11,'Joint Arrangements', require an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a business. This includes ;

- measuring identifiable assets and liabilities as fair value
- expensing acquisition related costs
- recognising deferred tax, and
- recognising the residual as goodwill, and testing this for impairment annually.

Existing interests in the joint operation are not remeasured on acquisition of an additional interest, provided joint control is maintained. SLFRS 11 also apply when a joint operation is formed and an existing business is contributed.

(ii) LKAS 16, 'Property, Plant and Equipment' and LKAS 38, 'Intangible Assets', clarify that a revenue-based method of depreciation is generally not appropriate.

Notes to the **Financial Statements**

LKAS 38 Intangible Assets now includes a rebuttable presumption that the amortisation of intangible assets based on revenue is inappropriate. This presumption can be overcome if either

- The intangible asset is expressed as a measure of revenue (i.e where a measure of revenue is the limiting factor on the value that can be derived from the asset), or
- It can be shown that revenue and the consumption of economic benefits generated by the asset are highly correlated.

(iii) LKAS 27, 'Separate Financial Statements', allow entities to use the equity method in their separate financial statements to measure investments in subsidiaries, joint ventures and associates. LKAS 27 currently allows entities to measure their investments in subsidiaries, joint ventures and associates either at cost or as a financial asset in their separate financial statements. LKAS 27 introduce the equity method as a third option. The election can be made independently for each category of investment and change to the equity method must apply retrospectively.

(iv) SLFRS 10, 'Consolidated Financial Statements' and LKAS 28, 'Investments in Associates and Joint Ventures', clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. The accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitutes a 'business'. Full gain or loss shall be recognised by the investor where the non-monetary assets constitute a 'business'. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interest in the associate or joint venture. SLFRS 10 further clarifies that it does not intend to address accounting for the sale or contribution of assets by an investor in a joint operation. This amendments apply prospectively.

(v) SLFRS 5, 'Non-current Assets Held for Sale', clarifies when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution' or vice versa, this does not constitute a change to a plan of sale or distribution and does not have to be accounted for as such.

(vi) SLFRS 7, 'Financial Instruments: Disclosures', provide specific guidance for transferred financial assets to help management to determine whether the terms of a servicing arrangement constitute 'continuing involvement' and, therefore, whether the asset qualifies for derecognition. It further clarifies that the additional disclosures relating to the offsetting of financial assets and financial liabilities only need to be included in interim reports if required by LKAS 34 'Interim Financial Reporting'.

(vii) LKAS 19, 'Employee Benefits', clarify that when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important and not the country where they arise.

(viii) LKAS 34, 'Interim Financial Reporting', clarify what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report' and adds a requirement to cross-reference from the interim financial statements to the location of that information.

(ix) LKAS 1, 'Presentation of Financial Statements', amendments is made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. LKAS 1 provide clarifications on a number of issues, including: materiality, disaggregation and subtotals, notes to the financial statements and OCI arising from investments accounted for under the equity method. According to the transitional provisions, the disclosures in LKAS 8 regarding the adoption of new standards/accounting policies are not required for these amendments.

(x) Investment entities: Applying the consolidation exception – Amendments to SLFRS 10,SLFRS 12 and LKAS 28, Amendments made to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in associates and joint ventures clarify that:

- The exception from preparing consolidated financial statements is also available to intermediate parent entities which are subsidiaries of investment entities
- An investment entity should consolidate a subsidiary which is not an investment entity and whose main purpose and activity is to provide services in support of the investment entity's investment activities

- Entities which are not investment entities but have an interest in an associate or joint venture which is an investment entity have a policy choice when applying the equity method of accounting. The fair value measurement applied by the investment entity associate or joint venture can either be retained, or a consolidation may be performed at the level of the associate or joint venture, which would then unwind the fair value measurement. Early adoption is permitted.

There are no other standards, IFRIC interpretations or amendments which are effective for the financial year beginning on 1 April 2016 that would be expected to have a material impact on the Company.

b) New accounting standards, amendments and interpretations issued but not yet adopted.

(i) Amendments to LKAS 7 'Statement of Cash Flows – Disclosure Initiative' introduce an additional disclosure on changes in liabilities arising from financing activities. The amendments to the standard are effective for accounting periods beginning on or after 1 January 2017.

(ii) Amendments to SLFRS 2 'Share Based Payments– clarifies the treatment of vesting and non-vesting conditions and accounting for a modification of a share -based payment transaction that changes its classification from cash -settled to equity –settled. The amendments to the standard are effective for accounting periods beginning on or after 1 January 2018. Earlier application is permitted.

(iii) Amendments to LKAS 12 'Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses' (effective from 1 January 2017) clarify the requirements for recognising deferred tax assets on unrealised losses arising from deductible temporary difference on asset carried at fair value. In addition, in evaluating whether an entity will have sufficient taxable profits in future periods against which deductible temporary differences can be utilised, the amendments require an entity to compare the deductible temporary differences with future taxable profits that excludes tax deductions resulting from the reversal of those temporary differences. The amendments to the standard are effective for accounting periods beginning on or after 1 January 2017.

(iv) SLFRS 9 'Financial Instruments', retains but simplifies the mixed measurement model in LKAS 39 'Financial Instruments: Recognition and Measurement' and establishes a single model that has only three primary classification categories for financial assets: amortised cost, fair value through profit or loss and fair value through Other Comprehensive Income ("OCI") for certain financial assets that are debt instruments.

Classification of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. All other debt and equity instruments, including investments in complex debt instruments and equity investments, must be recognised at fair value. All fair value movements on financial assets are taken through the profit or loss, except for equity investments that are not held for trading, which may be recorded in the profit or loss or in reserves without subsequent recycling to the profit or loss.

For financial liabilities, the standard retains most of the LKAS 39 requirements. These include amortised cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in OCI rather than the profit or loss, unless this creates an accounting mismatch.

The new hedge accounting rules align hedge accounting more closely with common risk management practices. As a general rule, it will be easier to apply hedge accounting going forward. Further, SLFRS 9 introduces a new expected credit losses model on impairment for all financial assets that replaces the incurred loss impairment model used in LKAS 39. The expected credit losses model is forward-looking and eliminates the need for a trigger event to have occurred before credit losses are recognised.

SLFRS 9 also introduces expanded disclosure requirements and a change in presentation .The

Notes to the Financial Statements

standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.

(v) SLFRS 15 'Revenue from contracts with customers' replaces LKAS 18 'Revenue' and LKAS 11 'Construction contracts' and related interpretations. The core principle in SLFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Revenue is recognised when a customer obtains control of goods or services, i.e. when the customer has the ability to direct the use of and obtain the benefits from the goods or services. A new five-step process is applied before revenue can be recognised:

- Identify contracts with customers
- Identify the separate performance obligations
- Determine the transaction price of the contract;
- Allocate the transaction price to each of the separate performance obligations; and
- Recognise the revenue as each performance obligation is satisfied.

Key provisions of the new standard are as follows:

- Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements.
- If the consideration varies (such as for incentives, rebates, performance fees, royalties, success of an outcome etc), minimum amounts of revenue must be recognised if they are not at significant risk of reversal.
- The point at which revenue is able to be recognised may shift: some revenue which is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa.
- There are new specific rules on licenses, warranties, non-refundable upfront fees, and consignment arrangements, to name a few.
- As with any new standard, there are also increased disclosures.

The standard is effective for accounting periods beginning on or after 1 January 2018. Entities will have a choice of full retrospective application, or prospective application with additional disclosures and earlier application is permitted.

(vi) SLFRS 16, 'Leases' supersedes LKAS 17 'Leases' and the related interpretations. Under SLFRS 16, a lease is a contract (or part of a contract) that conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

SLFRS 16 eliminates the classification of leases by the lessee as either finance leases (on Statement of Financial Position) or operating leases (off Statement of Financial Position). SLFRS 16 requires a lessee to recognise a "right-of-use" of the underlying asset and a lease liability reflecting future lease payments for most leases. The right-of-use asset is depreciated in accordance with the principle in LKAS 16 'Property, Plant and Equipment' and the lease liability is accreted over time with interest expense recognised in the income statement.

For lessors, SLFRS 16 retains most of the requirements in LKAS 17. Lessors continue to classify all leases as either operating leases or finance leases and account for them differently.

The standard is effective for accounting periods beginning on or after 1 January 2019. Early adoption is permitted if SLFRS 15 'Revenue from Contracts with Customers' has also been applied.

The impact of SLFRS 9 'Financial Instruments', SLFRS 15 'Revenue from Contracts with Customers' and SLFRS 16 'Leases' are still being assessed. Apart from SLFRS 9, SLFRS 15 and SLFRS 16, the adoptions of amendments to published standards are not expected to have a material impact to the financial statements of the Company and the Group.

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.

2.3 Comparative information

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

2.4 Consolidation

(a) Subsidiaries

"Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered only if the rights are substantive when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any Non-Controlling Interest ("NCI") in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the NCI's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition related costs are expensed as incurred. When initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports in the financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group retrospectively adjusts the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the Group also recognises additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Group receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. The measurement period shall not exceed one year from the acquisition date.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gain or loss arising from such remeasurement is recognised in the profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or a liability is recognised in accordance with LKAS 39, in the profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred by the Group, the amount of any NCI in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recognised as goodwill. If the total of consideration transferred, NCI recognised and previously held interest measured are less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

Inter-company transactions, balances, income and expenses on transactions between the Group's entities are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies. The financial periods of the subsidiary undertakings are same as that of the Company.

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in consolidated profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained

Notes to the Financial Statements

interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised as other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the profit or loss.

Transactions with NCIs that do not result in loss of control are accounted for as equity transactions; i.e. as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gain or loss on disposals to NCIs is also recorded in equity.

(b) Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is power to participate in the financial and operating policy decisions of the associates but not power to exercise control or jointly control over those policies.

Investments in associates are accounted for in the separate financial statements using the equity method of accounting as allowed by amended LKAS 27 - equity method in separate financial statements which is effective for annual periods beginning on or after 01 January 2016.Under the equity method of accounting, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the post-acquisition results and changes of the associate's reserves in the consolidated statement of comprehensive income after the date of acquisition and net off with any accumulated impairment loss, if any.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations (legal or constructive) or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the consolidated financial statements only to the extent of unrelated investors' interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. When necessary, amounts reported by associates have been adjusted to conform with the Group's accounting policies. Equity accounting is discontinued when the Group ceases to have significant influence over the associates.

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 cost of acquiring an additional stake in an associate is added to the carrying amount of associate and equity accounted. Goodwill arising on the purchase of additional stake is computed using fair value information at the date the additional interest is purchased. The previously held interest is not remeasured.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the difference in the consolidated profit or loss.

2.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities 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 Lanka Rupees' (LKR), which is the Company's and the Group's functional and presentation currency since the entities use LKR in majority of their transactions and reflect the economic substance of the underlying events and circumstances relevant to the Group.

(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 remeasured.

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 profit or loss. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit or loss within 'Finance income or cost'.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

2.6 Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the profit or loss, 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 current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. Management establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from the 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 substantially enacted by the end of the reporting period 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 is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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 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

Notes to the Financial Statements

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 and the Group classify its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held to maturity, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. At the Statement of Financial Position date and during the period the Company and the Group only held financial assets classified as loans and receivables.

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 12 months after the date of the statement of financial position.

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 and the Group have 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 and the Group assess 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.

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.

When an asset is uncollectible, it is written off against the related accumulated impairment losses account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

2.10 Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three (3) months or less and bank overdrafts.

In the Statement of Financial Position, bank overdrafts are shown within borrowings in current liabilities.

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 accumulated impairment losses.

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. Trade 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.

Borrowings are classified as current liabilities unless the Company and the Group have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

2.14 Property, plant and equipment

Property, plant and equipment other than land and buildings is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items and also includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Land and buildings are shown at fair value based on a valuation performed by an external independent professional valuer. Where an item of property, plant and equipment is revalued, the entire class of such asset is revalued. Revaluations are made with sufficient regularity (every three or five years) to ensure that their carrying value do not differ materially from their fair value at the reporting date.

Increases in the carrying amount arising on revaluation of land and building is credited to other comprehensive income and shown as revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against revaluation reserve directly in equity; all other decreases are charged to the statement of comprehensive income.

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 Group 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.

Notes to the **Financial Statements**

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 costs to their residual values over the estimated useful lives, as follows:

Clay mining land	Units of production basis
Roadway	50 years
Buildings	50 years
Plant and machinery	15- 20 years
Furniture, fittings and office equipment	5 years
Mobile equipment	3 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.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its 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 Investment property

Property that is held for long-term rental yields or for capital appreciation or both, is classified as investment property. Investment property also includes property that is being constructed or developed for future use as investment property. Land held under operating leases is classified and accounted for by the Group and Company as investment property when the definition of investment property would otherwise be met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs and (where applicable) borrowing costs.

After initial recognition, investment property is accounted for under the fair value model. Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and Company the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred. When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment.

2.16 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.

2.17 Provisions

Provisions are recognised when the Company and the Group have a present legal or constructive obligation as a result of past events, when it is more probable that an outflow of resources will be required to settle the obligation and when a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions for asset retirement obligations are measured at the present value of management's best estimate of the expenditures required to settle the present obligation at the end of the reporting period using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost.

2.18 Employee benefits

(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. 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 the yield rate of the long term government bonds that have terms to maturity approximating to the terms of the related defined benefit obligation.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and included in employee benefit expense in the profit or loss.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise and will not be reclassified to the profit or loss. They are included in retained earnings in the statement of changes in equity and in the Statement of Financial Position.

Past service costs are recognised immediately in the profit or loss.

The assumptions based on which the results of the actuarial valuation was determined, are included in note 17 to the financial statements.

(b) Defined contribution plans

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

(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 and the Group.

2.19 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 any Group 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.

2.20 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.

2.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services rendered in the ordinary course of the Company's and the Group's activities. Revenue is stated net of all applicable taxes and levies, returns, rebates and discounts.

The Company and the Group recognise revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company's and the Group's activities as described below.

Notes to the Financial Statements

The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Company and the Group base their estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(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 and the Group retaining neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

(b) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Company and the Group reduce 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. Interest income on bank balances and bank deposits is recognised on accrual basis.

(c) Rental income

Rental income is recognised on an accrual basis.

2.22 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 and the Group lease certain property, plant and equipment. Leases of property, plant and equipment where the Company and the Group have 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.

2.23 Segment reporting

The Company and the Group do not identify any segments for reporting purposes.

3 Critical accounting estimates and judgments

3.1 Critical accounting estimates and assumptions

The Company and the Group make 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:

(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 reviews annually the useful lives and carrying values of assets. This require estimates and judgment.

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

(c) Impairment of non financial assets

The Company and the Group annually test 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 income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilised. This involves judgment regarding future financial performance of a particular entity in which the deferred income tax asset has been recognised.

The Company and the Group review all receivables at the date of statement of financial position to assess whether an allowance should be recorded in the statement of comprehensive income. 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 and the Group'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 and the Group's overall financial risk management programme focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the financial performance of the Company and the Group. Financial risk management is carried out through risk reviews, internal control systems, insurance programmes and adherence to the Company's and the Group'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 9).

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

Foreign exchange risk

The Company and the Group 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 functional currency (LKR) 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 9,312,009 (2016: Rs 22,970,698) 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 functional currency (LKR) had weakened/strengthened by 5% against the EURO with all other variables held constant, post-tax profit for the year would have been Rs 5,917,854 (2016: Rs 2,720,410) 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 and the Group's interest rate risk arise from long-term borrowings issued at variable rates. The

Notes to the Financial Statements

Company and the Group manage their 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 and the Group's borrowings comprise borrowings from financial institutions. The Company's and the Group'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 and the Group target floating borrowings based on assessment of its existing exposure and desirable interest rate profile. The Company and the Group analyse their interest rate exposure on a dynamic basis.

At 31 March 2017, 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. 212,750 (2016 - Rs. 352,532) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings. At 31 March 2017, 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. 2,481,897 (2016 - Rs. 4,755,359) 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 and the Group. Individual credit limits are set based on the amount of the bank guarantee. The utilisation of credit limits is regularly monitored.

The Company and the Group place their cash and cash equivalents with a number of creditworthy financial institutions. The Company's and the Group'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 and the Group 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 and the Group monitor and maintain a level of cash and cash equivalents deemed adequate by management to finance the Company's and the Group's operations and to mitigate the effects of fluctuations in cash flows. Due to the dynamic nature of the underlying business, the Company and the Group aim at maintaining flexibility in funding by keeping both committed and uncommitted credit lines available. The Company and the Group use both short term bank facilities (overdrafts) together with cash in hand and at banks in managing the liquidity position.

The table below analyses the Company's and the Group'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.

	Less than 3 months Rs.'000	Between 3 months and 1 year Rs.'000	Between year 1 and year 2 Rs.'000	Between year 2 and year 5 Rs.'000	Over 5 years Rs.'000
At 31 March 2017					
Borrowings (excluding finance lease liabilities)	435,041	53,512	48,850	7,374	-
Trade and other payables	206,068	-	-	-	-
At 31 March 2016					
Borrowings (excluding finance lease liabilities)	90,345	102,170	136,226	126,504	-
Trade and other payables	128,699	-	-	-	-

Capital management risk

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

The Company and the Group manage their capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company and the Group 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 and the Group monitor capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the Statement of Financial Position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated Statement of Financial Position plus net debt.

The gearing ratio as at 31 March is as follows:

	Group		Company	
Year ended 31 March	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Borrowings (net of cash)	-	-	-	-
Total equity	6,643,628	5,781,049	6,594,526	5,784,462
Total capital	6,643,628	5,781,049	6,594,526	5,784,462
Gearing ratio	-	-	-	-

5 Property, plant and equipment

(a) Group	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
Year ended 31 March 2015											
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**
Year ended 31 March 2016											
Balance as at 1 April 2015	271,004	580,560	1,470,446	82,570	607	10,860	55,583	45,829	15,928	23,366	2,556,753
Additions	177,916	-	75,061	16,177	1,134	25	33,491	791	-	52,458	357,053
Revaluation surplus	601,114	327,649	-	-	-	-	-	-	-	-	928,763
Asset class transfers	-	(1,277)	-	-	-	-	-	-	1,277	-	-
Additions transferred from CWIP	-	29,472	19,127	3,257	-	1,447	2,304	-	-	(55,607)	-
Depreciation charge for the year	-	(13,821)	(148,969)	(30,765)	(647)	(1,607)	(14,761)	(17,374)	(414)	-	(228,358)
Disposals	-	-	(61,161)	(960)	(136)	-	-	(11,652)	-	-	(73,909)
Depreciation on disposals	-	-	18,818	375	136	-	-	10,520	-	-	29,849
Net book value	**1,050,034**	**922,583**	**1,373,322**	**70,654**	**1,094**	**10,725**	**76,617**	**28,114**	**16,791**	**20,217**	**3,570,151**
Year ended 31 March 2016											
Cost / valuation	1,050,034	922,583	2,793,868	222,831	10,645	29,943	221,706	90,031	20,696	20,217	5,382,554
Accumulated depreciation	-	-	(1,420,546)	(152,177)	(9,551)	(19,218)	(145,089)	(61,917)	(3,905)	-	(1,812,403)
Net book value	**1,050,034**	**922,583**	**1,373,322**	**70,654**	**1,094**	**10,725**	**76,617**	**28,114**	**16,791**	**20,217**	**3,570,151**
Year ended 31 March 2017											
Balance as at 1 April 2016	1,050,034	922,583	1,373,322	70,654	1,094	10,725	76,617	28,114	16,791	20,217	3,570,151
Additions	249,503	-	87,822	19,727	1,709	43	1,749	8,901	-	43,202	412,656
Land transferred to investment property	(171,303)	-	-	-	-	-	-	-	-	-	(171,303)
Asset class transfers	-	-	-	-	-	-	-	-	-	-	-
Additions transferred from CWIP	-	5,501	10,322	6,986	-	-	7,281	-	2,420	(32,510)	-
Depreciation charge for the year	-	(26,428)	(109,327)	(30,770)	(1,128)	(1,794)	(14,614)	(10,925)	(439)	-	(195,425)
Disposals	-	-	(9,011)	(1,651)	(1,265)	(53)	-	-	-	-	(11,980)
Depreciation on disposals	-	-	2,183	1,240	1,265	3	-	-	-	-	4,691
Net book value	**1,128,234**	**901,656**	**1,355,311**	**66,186**	**1,675**	**8,924**	**71,033**	**26,090**	**18,772**	**30,909**	**3,608,790**
Year ended 31 March 2017											
Cost / valuation	1,128,234	928,084	2,883,001	247,893	11,089	29,933	230,736	98,932	23,116	30,909	5,611,927
Accumulated depreciation	-	(26,428)	(1,527,690)	(181,707)	(9,414)	(21,009)	(159,703)	(72,842)	(4,344)	-	(2,003,137)
Net book value	**1,128,234**	**901,656**	**1,355,311**	**66,186**	**1,675**	**8,924**	**71,033**	**26,090**	**18,772**	**30,909**	**3,608,790**

5 Property, plant and equipment Contd.

(b) Company

	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	
As at 1 April 2015											
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**
Year ended 31 March 2016											
Balance as at 1 April 2015	271,004	580,560	1,470,446	82,570	607	10,860	55,583	45,829	15,928	23,366	2,556,753
Additions	6,613	-	75,061	16,177	1,134	25	33,491	791	-	52,458	185,750
Revaluation surplus	601,114	327,649	-	-	-	-	-	-	-	-	928,763
Asset class transfers	-	(1,277)	-	-	-	-	-	-	1,277	-	-
Additions transferred from CWIP	-	29,472	19,127	3,257	-	1,447	2,304	-	-	(55,607)	-
Depreciation charge for the year	-	(13,821)	(148,969)	(30,765)	(647)	(1,607)	(14,761)	(17,374)	(414)	-	(228,358)
Disposals	-	-	(61,161)	(960)	(136)	-	-	(11,652)	-	-	(73,909)
Depreciation on disposals	-	-	18,818	375	136	-	-	10,520	-	-	29,849
Net book value	**878,731**	**922,583**	**1,373,322**	**70,654**	**1,094**	**10,725**	**76,617**	**28,114**	**16,791**	**20,217**	**3,398,848**
Year ended 31 March 2016											
Cost	878,731	922,583	2,793,868	222,831	10,645	29,943	221,706	90,031	20,696	20,217	5,211,251
Accumulated depreciation	-	-	(1,420,546)	(152,177)	(9,551)	(19,218)	(145,089)	(61,917)	(3,905)	-	(1,812,403)
Net book value	**878,731**	**922,583**	**1,373,322**	**70,654**	**1,094**	**10,725**	**76,617**	**28,114**	**16,791**	**20,217**	**3,398,848**
Year ended 31 March 2017											
Balance as at 1 April 2016	878,731	922,583	1,373,322	70,654	1,094	10,725	76,617	28,114	16,791	20,217	3,398,848
Additions	249,503	-	87,822	19,727	1,709	43	1,749	8,901	-	43,202	412,656
Asset class transfers	-	-	-	-	-	-	-	-	-	-	-
Additions transferred from CWIP	-	5,501	10,322	6,986	-	-	7,281	-	2,420	(32,510)	-
Depreciation charge for the year	-	(26,428)	(109,327)	(30,770)	(1,128)	(1,794)	(14,614)	(10,925)	(439)	-	(195,425)
Disposals	-	-	(9,011)	(1,651)	(1,265)	(53)	-	-	-	-	(11,980)
Depreciation on disposals	-	-	2,183	1,240	1,265	3	-	-	-	-	4,691
Net book value	**1,128,234**	**901,656**	**1,355,311**	**66,186**	**1,675**	**8,924**	**71,033**	**26,090**	**18,772**	**30,909**	**3,608,790**
Year ended 31 March 2017											
Cost / valuation	1,128,234	928,084	2,883,001	247,893	11,089	29,933	230,736	98,932	23,116	30,909	5,611,927
Accumulated depreciation	-	(26,428)	(1,527,690)	(181,707)	(9,414)	(21,009)	(159,703)	(72,842)	(4,344)	-	(2,003,137)
Net book value	1,128,234	901,656	1,355,311	66,186	1,675	8,924	71,033	26,090	18,772	30,909	3,608,790
Net book value	**1,128,234**	**901,656**	**1,355,311**	**66,186**	**1,675**	**8,924**	**71,033**	**26,090**	**18,772**	**30,909**	**3,608,790**

Notes to the Financial Statements

5 Property, plant and equipment (Contd.)

(a) Property, plant and equipment of the Group / Company include fully depreciated assets in use at 31 March 2017, the cost of which amounted to the Group / Company Rs. 584,007,960 (2016 - Rs. 454,277,262). Further, the clay mining land costing Rs. 3,729,620 has been fully utilised.

(b) The bank borrowings are secured on freehold land, freehold building and plant and machinery. The values of assets secured is given in Note 15 to the financial statements.

(c) Valuation of the Company's land and buildings was last performed by the independent valuer Mr. R. J. Samarakone on 30 March 2016. The revaluation surplus net of applicable deferred income taxes was credited to other comprehensive income and is shown in revaluation reserve in shareholders equity. Different levels of fair valuation methods have been defined as follows:

- Quoted prices (unadjusted) in active market for identical assets or liabilities (Level 1);
- Inputs other than quoted prices with in level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Input for the assets or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The fair values of land and buildings have been derived by level 2 valuation method using the sales comparison approach. Sales prices of comparable properties in close proximity were adjusted for differences in key attributes such as property size, site improvements and access to public roads. The most significant input into this valuation approach was market price per perch of land and square feet of buildings.

If the land and buildings were stated at the historical cost basis, the amounts would be as follows:

	Cost Rs.'000	Accumulated depreciation Rs.'000	Carrying value Rs.'000
Land	1,128,234	0	1,128,234
Building	928,084	(26,428)	901,656
Total	**2,056,318**	**(26,428)**	**2,029,890**

6 Investment property

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Opening balance	-	-	-	-
Transfer from property plant and equipment	171,303	-	-	-
Disposal	-	-	-	-
Net fair value gain recognised in Statement of Comprehensive Income	52,497	-	-	
Closing balance	**223,800**	**-**	**-**	**-**

The group has leased out its land under cancellable operating lease arrangements to its affiliated company - LWL Development (Private) Limited. This property has been classified as investment property in accordance with LKAS 40 Investment Property. The Group has initially accounted for the investment property at cost, and subsequently accounted for it under the fair value model.

Amounts recognised in Statement of Comprehensive Income in relation to investment properties

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Rental income	600	-	-	-
	600	-	-	-

Details of the valuation of the freehold land carried out by Chartered Valuation Surveyor Mr. D.M.H Dhammika Bandara are as follows:

Total extent of land	48 acre - 3 rood - 17.9 perches
Total valuation for land	223,800,000
Location	Agalagedara Village, Divulapitiya, Gampaha
Date of valuation	31 March 2017

- Quoted prices (unadjusted) in active market for identical assets or liabilities (Level 1);
- Inputs other than quoted prices with in level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Input for the assets or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The fair values of Investment Property have been derived by level 2 valuation method using the sales comparison approach. Sales prices of comparable properties in close proximity were adjusted for differences in key attributes such as property size, site improvements and access to public roads. The most significant input into this valuation approach was market price per perch of land and square feet of buildings.

7 Investment in subsidiary

Details of entities in which the Company had control as at 31 March 2017 are set out below.

Name of the subsidiary	Group		Company	
	Number of shares	% Holding	2017	2016
			Rs.'000	Rs.'000
Beyond Paradise Collection Limited	1	100	-	-

The Company invested in one share of Beyond Paradise Collection Limited amounting to Rs.10/-. The principal business of the subsidiary is holding and developing the property of the Company.

Notes to the Financial Statements

8 Investment in associate

	Number of shares	Group 2017 Rs.'000	Group 2016 Rs.'000	Company 2017 Rs.'000	Company 2016 Rs.'000
Opening net book amount		725,543	493,136	725,543	493,136
Share of results of associate for the year		186,688	238,295	186,688	238,295
Dividend received		(31,179)	(5,888)	(31,179)	(5,888)
At the end of year	13,085,180	881,052	725,543	881,052	725,543

(a) The Company holds 47.8% (2016 - 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 consolidated Statement of Financial Position is Rs.858,387,808 (2016 - Rs. 719,684,900).

(c) The Company's share of the results of the associate and its summarised financial information are as follows:

As at 31 March	2017 Rs.'000	2016 Rs.'000
Assets	3,870,775	2,628,854
Liabilities	1,856,425	972,267
For the year ended 31 March		
Revenue	3,432,357	2,689,529
Profit for the year	428,722	323,284
Other comprehensive income for the year	3,301	215,492
% interest held	47.87	47.8
Share of profit	185,284	139,411
Share of other comprehensive income	1,404	98,884

9 Financial instruments by category

31 March 2017 Assets as per the consolidated Statement of Financial Position	Loans and receivables Group Rs.'000	Loans and receivables Company Rs.'000
Loans given to related companies (Note 12)	47,506	47,506
Trade and other receivables (excluding pre-payments) (Note 12)	861,650	1,035,929
Cash and cash equivalents (Note 13)	1,227,119	1,227,119
Total	**2,136,275**	**2,310,554**

31 March 2017 Liabilities as per the consolidated Statement of Financial Position	Other financial liabilities at amortised cost Group Rs.'000	Other financial liabilities at amortised cost Company Rs.'000
Borrowings (excluding finance lease liabilities) (Note 15)	544,777	544,777
Trade and other payables excluding non-financial liabilities (Note 14)	583,791	583,540
Total	**1,128,568**	**1,128,317**

31 March 2016	Loans and receivables	
Assets as per the consolidated Statement of Financial Position	Group	Company
	Rs.'000	Rs.'000
Loans given to related companies (Note 12)	78,340	78,340
Trade and other receivables (excluding pre-payments) (Note 12)	675,382	850,098
Cash and cash equivalents (Note 13)	1,586,065	1,586,065
Total	**2,339,787**	**2,514,503**

31 March 2016	Other financial liabilities at amortised cost	
Assets as per the consolidated Statement of Financial Position	Group	Company
Borrowings (excluding finance lease liabilities) (Note 15)	455,245	455,245
Trade and other payables excluding non-financial liabilities (Note 14)	352,961	352,961
Total	**808,206**	**808,206**

10 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:

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Trade receivables				
Counterparties without external credit ratings				
Group 1	227,004	223,548	227,004	223,548
Group 2	126,748	57,584	126,748	57,584
Group 3	64,645	85,241	64,645	85,241
Total unimpaired trade receivables	**418,397**	**366,373**	**418,397**	**366,373**

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.

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cash at bank and short-term bank deposits				
AA +	4,556	12,948	4,556	12,948
AA	34,993	589,421	34,993	589,421
A	-	6,727	-	6,727
A +	-	1,099	-	1,099
AA -	517	-	517	-
A -	253	12,731	253	12,731
Counterparties without external credit rating	5,421	-	5,421	-
Total	**45,740**	**622,926**	**45,740**	**622,926**

Notes to the Financial Statements

11 Inventories

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Raw materials	650,244	480,102	650,244	480,102
Work in progress	23,584	29,665	23,584	29,665
Finished goods	495,005	404,886	495,005	404,886
Trading stock	365,814	124,418	365,814	124,418
Less: Provision for slow moving inventories	(100,812)	(106,951)	(100,812)	(106,951)
	1,433,835	932,120	1,433,835	932,120
Goods in transit	577	136	577	136
	1,434,412	**932,256**	**1,434,412**	**932,256**

The cost of inventories recognised as an expense and included in cost of goods sold amounted to Rs. 2,860,809,196 (2016 - Rs. 3,086,999,933).

12 Trade and other receivables

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Trade receivables	446,927	391,394	446,927	391,394
Less: Provision for impairments	(3,217)	(7,781)	(3,217)	(7,781)
	443,710	383,613	443,710	383,613
Receivables from parent company { Note 29 (j) }	160,352	139,399	160,352	139,399
Receivables from related companies { Note 29 (j) }	234,461	143,322	408,740	318,038
Loans to related companies { Note 29 (k) }	47,506	78,340	47,506	78,340
Prepayments and deposits	124,774	108,598	124,774	108,598
Finance lease receivables	-	-	-	-
Other receivables	23,127	9,048	23,127	9,048
	1,033,930	**862,320**	**1,208,209**	**1,037,036**
Less: non current portion - loans to related companies	(20,422)	(49,050)	(20,422)	(49,050)
Current portion	**1,013,508**	**813,270**	**1,187,787**	**987,986**

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) Trade receivables by credit quality are as follows:

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Neither past due nor impaired	418,397	366,373	418,397	366,373
Past due but not impaired	25,313	17,240	25,313	17,240
Impaired	3,217	7,781	3,217	7,781
	446,927	**391,394**	**446,927**	**391,394**

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

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Amount overdue:				
1 month to 3 months	16,001	13,929	16,001	13,929
3 months to 1 year	4,756	253	4,756	253
More than 1 year	4,556	3,058	4,556	3,058
	25,313	**17,240**	**25,313**	**17,240**

Rs. 25,313,000 (2016 Rs. 17,240,00) of debtors which are past due but not impaired are secured with bank guarantees, hence no impairment considered necessary.

(c) Movements on the provision for impairment of trade receivables are as follows:

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
At 1 April 2016	7,781	-	7,781	-
Provision for impairment	-	7,942	-	7,942
Reversal of impairment provision	(199)	-	(199)	-
Receivables written off during the year as uncollectible	(4,365)	(161)	(4,365)	(161)
At 31 March 2017	**3,217**	**7,781**	**3,217**	**7,781**

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

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
United States dollars	14,514	27,206	14,514	27,206
Australian dollars	21,382	30,378	21,382	30,378
Sri Lankan rupees	977,612	755,686	1,151,891	930,402
	1,013,508	**813,270**	**1,187,787**	**987,986**

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.

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

Notes to the Financial Statements

13 Cash and cash equivalents

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cash at bank and cash in hand	46,821	682,936	46,821	682,936
Short term deposits	1,180,298	903,129	1,180,298	903,129
Cash and cash equivalents	**1,227,119**	**1,586,065**	**1,227,119**	**1,586,065**

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

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cash and cash equivalents	1,227,119	1,586,065	1,227,119	1,586,065
Bank overdrafts (Note 15)	(377,137)	(56,288)	(377,137)	(56,288)
Total cash and cash equivalents	**849,982**	**1,529,777**	**849,982**	**1,529,777**

The cash and cash equivalents are denominated in following currencies;

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Sri Lankan rupees	1,218,972	1,524,790	1,218,972	1,524,790
United States dollars	4,541	10,564	4,541	10,564
Australian dollars	3,545	50,669	3,545	50,669
Euro	61	42	61	42
	1,227,119	**1,586,065**	**1,227,119**	**1,586,065**

14 Trade and other payables

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Trade payables	206,068	128,699	206,068	128,699
Amount due to related parties { Note 28 (j) }	91,327	136,671	91,276	136,671
Accrued expenses	150,908	157,992	150,908	157,992
Other payables	135,488	157,404	135,288	157,404
Dividend payable	-	-	-	-
	583,791	**580,766**	**583,540**	**580,766**

Other payables of the Company and the Group mainly include Value Added Tax payable amounting to Rs 34,902,627 (2016 - Rs 42,871,543), cash sales advance amounting to Rs 3,726,131 (2016 - Rs 8,641,843) and Nations Building Tax payable amounting to Rs. 8,280,043 (2016 - Rs 8,514,844).

The carrying amounts of trade and other payable are denominated in following currencies;

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Sri Lankan rupees	457,043	523,891	456,792	523,891
United States dollars	67,569	29,671	67,569	29,671
Euro	59,179	27,204	59,179	27,204
	583,791	**580,766**	**583,540**	**580,766**

15 Borrowings

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Current				
Bank borrowings	111,416	138,133	111,416	138,133
Bank overdrafts (Note 13)	377,137	56,288	377,137	56,288
	488,553	**194,421**	**488,553**	**194,421**
Non-current				
Bank borrowings	56,224	260,824	56,224	260,824
Total borrowings	**544,777**	**455,245**	**544,777**	**455,245**

(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, buildings and plant and machinery located at Ranala amounting to Rs.300 Mn	4 WEEK AWPLR + 0.5%
DFCC	USD 3 Mn	A primary mortgage over land, buildings and plant and machinery located at Ranala amounting to Rs.300 Mn	LIBOR + 3.5%
DFCC	LKR 150 Mn	A primary mortgage over land, buildings and plant and machinery located at Ranala amounting to Rs.300 Mn	4 WEEK AWPLR + 0.5%
DFCC	LKR 80 Mn	A primary mortgage over land, buildings and plant and machinery located at Ranala amounting to Rs.300 Mn	4 WEEK AWPLR + 0.5%

Notes to the Financial Statements

(c) Weighted average effective interest rates:

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Bank overdrafts	12.49%	9.37%	12.49%	9.37%
Bank borrowings	11.79%	7.24%	11.79%	7.24%

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

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Between one and two years	48,849	253,766	48,849	253,766
Between two and five years	7,375	7,058	7,375	7,058
	56,224	**260,824**	**56,224**	**260,824**

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

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Sri Lankan rupees	504,710	255,210	504,710	255,210
United States dollars	40,067	200,035	40,067	200,035
	544,777	**455,245**	**544,777**	**455,245**

(f) The exposure of the Company's and the Group'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.

16 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:

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
At beginning of year	453,542	375,486	453,542	375,486
Income statement charge (Note 25)	(14,938)	(9,758)	(14,938)	(9,758)
Deferred tax release on the components of other comprehensive income	5,183	87,814	5,183	87,814
At end of year	**443,787**	**453,542**	**443,787**	**453,542**

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

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Deferred tax assets	(63,751)	(64,492)	(63,751)	(64,492)
Deferred tax liabilities	507,538	518,034	507,538	518,034
Deferred tax liabilities (net)	**443,787**	**453,542**	**443,787**	**453,542**

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

	Group / Company	
	Accelerated tax depreciation	Total
	Rs.'000	Rs.'000
Deferred tax liabilities		
At 1 April 2015	422,550	422,550
Charged to income statement	5,577	5,577
Charged to other comprehensive income	89,907	89,907
At 31 March 2016	**518,034**	**518,034**
Charged to income statement	(10,496)	(10,496)
Charged to other comprehensive income	-	-
At 31 March 2017	**507,538**	**507,538**

	Group / Company			
	Retirement benefit obligations	Retirement	Inventory Provision	Total
Deferred tax assets				
At 1 April 2015	(30,773)	-	(16,291)	(47,064)
Charged / (credited) to income statement	(2,284)	-	(13,051)	(15,335)
Credited to other comprehensive income	(2,093)	-	-	(2,093)
At 31 March 2016	**(35,150)**	**-**	**(29,342)**	**(64,492)**
Credited to income statement	(4,155)	-	(287)	(4,442)
Credited to other comprehensive income	5,183	-	-	5,183
At 31 March 2017	**(34,122)**	**-**	**(29,629)**	**(63,751)**

Notes to the
Financial Statements

17 Retirement benefit obligations - gratuity

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Statement of Financial Position obligations for:				
Defined benefits - gratuity	124,394	129,073	124,394	129,073
Income statement charge included in operating profit for:				
Defined benefits - gratuity	21,454	19,831	21,454	19,831
Remeasurements for:				
Defined benefits - gratuity	(18,898)	7,628	(18,898)	7,628

The movement in the defined benefit obligations is as follows

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
At 1 April	129,073	110,577	129,073	110,577
Current service cost	7,901	8,619	7,901	8,619
Interest expense	13,553	11,212	13,553	11,212
Benefits paid	(7,235)	(8,963)	(7,235)	(8,963)
Remeasurements:				
Gain from change in financial assumptions	(10,222)	(25,954)	(10,222)	(25,954)
(Gain) from change in demographic assumptions	-	19,868	-	19,868
Experience losses	(8,676)	13,714	(8,676)	13,714
At 31 March	**124,394**	**129,073**	**124,394**	**129,073**

The amount recognised in the income statement are as follows:

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Current service cost	7,901	8,619	7,901	8,619
Interest cost	13,553	11,212	13,553	11,212
Total, included in staff costs (Note 23)	**21,454**	**19,831**	**21,454**	**19,831**

The obligation is not externally funded.

The gratuity liability of the Company / the Group is based on the actuarial valuation carried out by messrs Acturial and Management Consultants (Private) Limited, as at 31 March 2017. The principal actuarial valuation assumptions used were as follows:

	Group		Company	
	2017	2016	2017	2016
Discount rate	12.00%	10.50%	12.00%	10.50%
Future salary increase rate				
Executive staff	12.50%	12.50%	12.50%	12.50%
Others	10.00%	10.00%	10.00%	10.00%

In additions to above, demographic assumptions such as mortality and withdrawal disability were considered for the actuarial valuation. A 1967/70 mortality table issued by the Institute of Acturies, London was taken as the base for the valuation.

The weighted average duration of the defined benefit obligations is 6.12 years.

Expected maturity analysis of undiscounted defined benefits - gratuity;

	Less than a year Rs.'000	Between 1-2 years Rs.'000	Between 2- 5 years Rs.'000	Between 5- 10 years Rs.'000	Over year 10 Rs.'000	Total Rs.'000
Defined benefits - gratuity;	16,525	28,467	37,782	18,953	22,667	124,394
As at 31 March 2017	**16,525**	**28,467**	**37,782**	**18,953**	**22,667**	**124,394**

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

Discount Rate as at 31 March 2017	12.00%
One percentage point increase in discount rate Rs.'000	117,892
One percentage point decrease in discount rate Rs.'000	131,678
Salary escalation rate as at 31 March 2017	12.50%
One percentage point increase in salary escalation rate Rs.'000	131,992
One percentage point decrease in salary escalation rate Rs.'000	117,504

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 obligations to significant actuarial assumptions, the same method (present value of the defined retirement benefit obligations 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.

Notes to the Financial Statements

18 Stated capital

	Group		Company	
	Number of shares	Stated capital Rs.'000	Number of shares	Stated capital Rs.'000
At 31 March 2016	53,050,411	900,968	53,050,410	900,968
At 31 March 2017	**53,050,411**	**900,968**	**53,050,410**	**900,968**

19 Revenue

The Company's and the Group's revenue are primarily derived from ;

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
(i) Revenue from local sales	4,990,911	5,345,818	4,990,911	5,345,818
(ii) Revenue from export sales	185,461	195,550	185,461	195,550
Total revenue for the year	**5,176,372**	**5,541,368**	**5,176,372**	**5,541,368**

20 Other income

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Sundry income	26,754	37,328	26,154	37,328
	26,754	**37,328**	**26,154**	**37,328**

Sundry income mainly include the rental income Rs 9,680,000 (2016 - Rs 5,880,000) and sales from excess raw material stock of Rs.1,899,223 (2016-Rs.18,897,403).

21 Other gains / (losses) - net

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
(Loss) on disposal of property, plant and equipment	(6,758)	(39,220)	(6,758)	(39,220)
Net fair value gain recognised in profit or loss	52,497	-	-	-
	45,739	**(39,220)**	**(6,758)**	**(39,220)**

22 Expenses by nature

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

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Directors' emoluments				
As Directors' fees	11,904	13,552	11,904	13,552
For managerial services	27,778	28,796	27,778	28,796
Auditors' remuneration				
Audit	732	691	732	691
Non-Audit services	254	285	254	285
Reimbursable expenses	542	440	542	440
Depreciation on property, plant and equipment (Note 5)	195,425	228,358	195,425	228,358
Changes in inventories of finished goods, trading items and work in progress	263,972	(138,889)	263,972	(138,889)
Raw materials and consumables used	2,073,180	2,538,988	2,073,180	2,538,988
Technical fee	110,309	105,675	110,309	105,675
Advertising expenses	21,484	11,788	21,484	11,788
Promotional expenses and sales commission	449,191	410,501	449,191	410,501
Repair and maintenance expenditure	180,665	166,218	180,665	166,218
(Reversal) / provision for slow moving inventories	(2,705)	47,211	(2,705)	47,211
Staff costs (Note 23)	592,840	580,751	592,840	580,751
Other expenses	23,041	151,943	22,627	148,530
Total cost of sales, distribution costs and administrative expenses	**3,711,977**	**4,146,308**	**3,711,563**	**4,142,895**

23 Staff costs

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Wages, salaries and bonus	534,941	525,937	534,941	525,937
Defined contribution plans	36,445	34,983	36,445	34,983
Defined benefit plan - gratuity (Note 17)	21,454	19,831	21,454	19,831
	592,840	**580,751**	**592,840**	**580,751**

24 Net finance income

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Interest income	150,720	82,890	150,720	82,890
Finance income	150,720	82,890	150,720	82,890
Interest expenses	(30,789)	(26,518)	(30,789)	(26,518)
Net foreign exchange losses on transactions / translations	(960)	(10,762)	(960)	(10,762)
Finance costs	(31,749)	(37,280)	(31,749)	(37,280)
Net finance income	**118,971**	**45,610**	**118,971**	**45,610**

Notes to the Financial Statements

25 Income tax

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
(a) Current tax :				
Current tax on profit for the year	374,108	409,206	373,940	409,206
Total current tax	374,108	409,206	373,940	409,206
(b) Deferred tax (Note 16)				
Decrease in temporary differences	(14,938)	(9,758)	(14,938)	(9,758)
Total income tax expense	**359,170**	**399,448**	**359,002**	**399,448**

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

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Profit before tax	1,604,508	1,578,189	1,551,825	1,581,602
Tax calculated at average rate 27.43% (2016 : 27.44%)	440,116	433,055	425,665	433,991
Expenses deductible for tax purposes	(125,851)	(107,445)	(125,851)	(107,445)
Income not subject to tax	(14,427)	(19,771)	Nil	(19,771)
Expenses not deductible for tax purposes	59,331	93,608	59,187	92,671
	359,170	399,448	359,002	399,448

The weighted average applicable tax rate was 27.43% (2016 : 27.44%).

26 Earnings per share

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

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Profit attributable to equity holders	1,245,338	1,178,741	1,192,823	1,182,154
Weighted average number of ordinary shares (thousands)	53,050	53,050	53,050	53,050
Basic earnings per share (Rs)	23.47	22.22	22.48	22.28

27 Dividends

A first interim dividend of Rs.132,626,025 (2016 - Rs. 212,201,640) at Rs 2.50. (2016 - Rs 4.00) per share for the year ended 31 March 2017 was paid on 1st November 2016. A second interim dividend of Rs. 265,252,050 (2016-Rs.159,151,230) at Rs. 5.00 (2016-Rs.3.00) per share for the year ended 31 March 2017 was paid on 15th February 2017.

28 Cash generated from operations

Reconciliation of profit before tax to cash generated from operations:

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Profit before tax	1,604,508	1,578,189	1,551,825	1,581,602
Adjustments for:				
Depreciation (Note 5)	195,425	228,358	195,425	228,358
Provision for retirement benefit obligations (Note 17)	21,454	19,831	21,454	19,831
Net fair value gain recognised in profit or loss (Note 21)	(52,497)	-	-	-
Losses / (gains) on disposal of assets (Note 21)	6,758	39,220	6,758	39,220
Interest expenses (Note 24)	30,789	26,518	30,789	26,518
Interest income (Note 24)	(150,720)	(82,890)	(150,720)	(82,890)
Unrealised (profits) / losses on inventory purchased from associate	(440)	88	(440)	88
Profit share of results of associate	(185,284)	(139,411)	(185,284)	(139,411)
Provision for slow moving inventories (Note 11)	(6,139)	47,211	(6,139)	47,211
Changes in working capital				
(Increase) / Decrease in inventories	(495,577)	157,552	(495,577)	157,552
Decrease / (increase) in trade and other receivables	(202,444)	73,568	(202,007)	(101,148)
Increase / (decrease) in trade and other payables	3,025	47,249	2,774	47,249
Cash generated from operation	**768,858**	**1,995,483**	**768,858**	**1,824,180**

The Company is controlled by Lanka Walltiles PLC which owns 68.22% (2016 - 68.22%) of the Company's issued share capital. The remaining 31.78% of the shares are widely held. The ultimate parent of the Company is Vallibel One PLC.

29 Related Party Transactions

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:

		Group		Company	
		2017	2016	2017	2016
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Lanka Walltiles PLC	Raw materials	12,454	9,122	12,454	9,122
Royal Porcelain (Private) Limited	Raw materials	5,374	8,362	5,374	8,362
	Spares	462	1,356	462	1,356
	Consumables	1,197	62	1,197	62
Royal Bathware Limited	Raw materials	37	-	37	-
	Services	74	256	74	256
Royal Ceramics Lanka PLC	Raw materials	96	989	96	989
	Spares	464	1,059	464	1,059
M N Properties (Private) Limited	Finished goods	1,476	2,274	1,476	2,274
		21,634	**23,480**	**21,634**	**23,480**

Notes to the **Financial Statements**

29 Related Party Transactions (Contd.)

(b) Purchase of goods/services from:

		Group		Company	
		2017	2016	2017	2016
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Swisstek (Ceylon) PLC	Trading items	189,398	165,390	189,398	165,390
	Sales commission	9,170	35,382	9,170	35,382
	Reimbursement of operational expense	4,417	4,085	4,417	4,085
Swisstek Aluminium Limited	Trading items	859	23,352	859	23,352
Lanka Ceramic PLC	Raw materials	165,741	116,658	165,741	116,658
Lanka Walltiles PLC	Raw materials	864	1,229	864	1,229
	Consumables	8,340	3,741	8,340	3,741
	Services	-	53,063	-	53,063
Royal Porcelain (Private) Limited	Raw materials	2,563	3,713	2,563	3,713
	Spares	79	884	79	884
Royal Ceramics Lanka PLC	Raw materials	933	5	933	5
	Spares	-	408	-	408
Uni-Dil Packaging Limited	Raw materials	54,087	43,435	54,087	43,435
Ever Paint and Chemical Industries Limited	Sales Commisssion	-	32	-	32
Hayleys Travels & Tours (Private) limited	Services	7,972	5,453	7,972	5,453
Hayleys Agriculture Holding Limited	Services	187	97	187	97
Hayleys Electronic Lighting (Private) Limited	Services	251	286	251	286
Hayleys Industrial Solutions (Private) Limited	Services	6,823	6,696	6,823	6,696
Hayleys Agro Fertilizers (Private) Limited	Services	-	25	-	25
Hayleys Leisure Holdings (Pvt) Ltd	Services	2,550	-	2,550	-
Delmege Freight Services (Private) Limited	Services	2,746	2,820	2,746	2,820
		456,980	**466,754**	**456,980**	**466,754**

		Group		Company	
		2017	2016	2017	2016
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
(c) Receipt of funds from:					
Lanka Walltiles PLC	Loan settlement	-	200,000	-	200,000
	Interest received	-	8,725	-	8,725
Swisstek (Ceylon) PLC	Interest received	8,299	8,618	8,299	8,618
	Loan settlement	30,834	36,929	30,834	36,929
		39,133	**254,272**	**39,133**	**254,272**

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
(d) Transfer of funds to:				
Swisstek (Ceylon) PLC	185,996	182,368	185,996	182,368
LWL Development (Private) Limited	69,000	-	69,000	-
	254,996	**182,368**	**254,996**	**182,368**

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
(e) Expenses incurred and transferred to/(from)				
Lanka Walltiles PLC				
Administration expenses	11,407	1,656	11,407	1,656
Distribution expenses	120,902	115,301	120,902	115,301
Swisstek (Ceylon) PLC				
Administration expenses	4,193	4,313	4,193	4,313
Swisstek Aluminium Limited				
Administration expenses	497	-	497	-
Royal Ceramics Lanka PLC				
Technical fees	110,309	105,675	110,309	105,675
Beyond Paradise Collection Limited				
Administration expenses	-	-	162	3,413
	247,308	226,945	247,470	230,358

(f) Key management compensation

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

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Salaries and short-term employee benefits	39,398	35,290	39,398	35,290
Salaries and short-term employee benefits	15,925	14,462	15,925	14,462
	55,323	49,752	55,323	49,752

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.5,789,409 (2016 - Rs.5,670,215) to Swisstek (Ceylon) PLC for the use of warehouse space at Balummahara during the financial year ended and Rs 28,186,512 (2016 - Rs 27,591,906) to Lanka Walltiles PLC for the use of office space at Nawala, during the financial year ended 31 March 2017.

(h) Rental Income

The Company has received a rental of Rs.12,383,673 (2016 - Rs.6,526,800) from Lanka Walltiles PLC as rental income for Biyagama warehouse during the financial year ended 31 March 2017.

The Group has received a rental of Rs.600,000 from LWL Development (Private) Limited as rental income for Divulapitiya land during the financial year ended 31 March 2017.

(i) The property owned by Swisstek (Ceylon) PLC at Balummahara, has been mortgaged to Lanka Tiles PLC as security to the value of Rs. 78 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.

Notes to the Financial Statements

29 Related Party Transactions (Contd.)

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

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Receivables from related Companies:				
Lanka Walltiles PLC	160,352	139,399	160,352	139,399
Swisstek Aluminium Limited	1,007	937	1,007	937
Royal Porcelain (Private) Limited	3,287	3,079	3,287	3,079
Royal Bathware Limited	11	39	11	39
Beyond Paradise Collection Limited	-	-	174,879	174,716
LWL Development (Private) Limited	230,156	139,267	229,556	139,267
	394,813	282,721	569,092	457,437
Payables to related parties:				
Lanka Ceramic PLC	16,510	15,964	16,510	15,964
Royal Ceramics Lanka PLC	25,624	84,549	25,624	84,549
Swisstek (Ceylon) PLC	42,861	32,575	42,861	32,575
Uni-Dil Packaging Limited	6,281	3,583	6,281	3,583
LWL Development (Private) Limited	51	-	-	-
	91,327	136,671	91,276	136,671

(k) Loans given to related parties

	Group		Company	
	2017	2016	2017	2016
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Swisstek (Ceylon) PLC [See Note 29 (i) above]	47,506	78,340	47,506	78,340

30 Contingencies and commitments

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

Financial commitments

a) The Company is committed to pay Rs 412,500 and Rs2,072,657 as rent per month for the use of building located at Rajagiriya and Nawala respectively.

Capital commitments

There were no capital commitments outstanding at the end of the reporting period.

31 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.

32 Events after the reporting period

No circumstances have arisen since the Statement of Financial Position date which require adjustments to, or disclosure in the financial statements.

Five Year Summary Statement of **Financial Position**

As at 31st March	2013 Rs.'000	2014 Rs.'000	2015 Rs.'000	2016 Rs.'000	2017 Rs.'000
ASSETS					
Non-current assets					
Property, plant and equipment	2,566,758	2,607,779	2,556,753	3,398,848	3,608,790
Investments in associates	258,067	308,846	493,136	725,543	881,052
Loan given to related companies	138,291	110,467	79,885	49,050	20,422
Finance lease debtors	2,989	1,225	-	-	-
	2,966,105	**3,028,317**	**3,129,774**	**4,173,441**	**4,510,264**
Current assets					
Inventories	1,500,505	1,473,550	1,137,107	932,256	1,434,412
Trade and other receivables	970,098	1,148,034	898,820	987,986	1,187,787
Cash and cash equivalents	128,042	74,996	846,794	1,586,065	1,227,119
	2,598,645	2,696,580	2,882,722	3,506,307	3,849,318
Total assets	**5,564,750**	**5,724,897**	**6,012,496**	**7,679,748**	**8,359,582**
EQUITY					
Capital and reserves					
Stated capital	900,968	900,968	900,968	900,968	900,968
Retained earnings	1,781,578	2,186,632	2,745,049	3,584,487	4,394,551
Revaluation reserve			-	838,856	838,856
Amalgamation reserve	460,151	460,151	460,151	460,151	460,151
	3,142,697	**3,547,751**	**4,106,168**	**5,784,462**	**6,594,526**
LIABILITIES					
Non-current liabilities					
Borrowings	528,979	488,395	383,974	260,824	56,224
Deferred income tax liabilities	235,671	340,527	375,486	453,542	443,787
Defined benefit obligations	76,546	87,836	110,577	129,073	124,394
	841,196	**916,758**	**870,037**	**843,439**	**624,405**
Current liabilities					
Trade and other payables	699,097	463,642	536,171	580,766	583,540
Current income tax liabilities	17,306	33,087	139,565	276,660	68,558
Borrowings	864,454	763,659	360,555	194,421	488,553
	1,580,857	**1,260,388**	**1,036,291**	**1,051,847**	**1,140,651**
Total liabilities	**2,422,053**	**2,177,146**	**1,906,328**	**1,895,286**	**1,765,056**
Total equity and liabilities	**5,564,750**	**5,724,897**	**6,012,496**	**7,679,748**	**8,359,582**

Five Year Summary Statement of **Profit or Loss**

Year ended 31st March	2013 Rs.'000	2014 Rs.'000	2015 Rs.'000	2016 Rs.'000	2017 Rs.'000
Revenue	4,646,623	5,109,318	5,349,670	5,541,368	5,176,372
Operating profit	785,039	920,915	980,739	1,396,581	1,247,570
Finance Income/(costs)	(76,277)	(146,531)	(25,250)	45,610	118,971
Share of results of associate - Net of Tax	(8,164)	52,098	110,736	139,411	185,284
Profit before income tax	700,598	826,482	1,066,225	1,581,602	1,551,825
Income tax expense	(84,777)	(174,426)	(225,949)	(399,448)	(359,002)
Profit for the year	615,821	652,056	840,275	1,182,154	1,192,823
Profit attributable to the equity holders of the Company	615,821	652,056	840,275	1,182,154	1,192,823
Dividends	(238,727)	(244,032)	(344,828)	(371,353)	(397,878)
Retained profit for the year	377,094	408,024	495,447	810,801	794,945
Earnings per share - basic (Rs)	11.61	12.29	15.84	22.28	22.48

Shareholder **Information**

Year ended 31st March		2013	2014	2015	2016	2017
Authorised share capital	(Rs.Mn)	500.0	500.0	500.0	500.0	500.0
Stated capital	(Rs.Mn)	900.0	900.0	900.0	900.0	900.0
Shares in issue	(Mn)	53.05	53.05	53.05	53.5	53.5
(as at end of year)						
Shareholders						
- Institutions	(Number)	183	152	141	144	143
- Individuals	(Number)	1757	1674	1579	1619	1644
Total		1,940	1,826	1,720	1,763	1,787
Shares held by						
- Institutions	(%)	85.16	90.80	91.85	91.49	92.13
- Individuals	(%)	14.84	9.20	8.15	8.51	7.87
Total		100.0	100.0	100.0	100.0	100.0
Transactions	(Number)	1,420	1,328	1,352	1,605	978
Shares traded	(Mn)	2.53	12.28	315.00	224.00	1,173.00
Dividends	(%)	35.3	37.4	41.4	31.4	33.3
Dividends per share	(Rs.)	4.10	4.00	4.50	7.00	7.50
Market price per share						
- Highest during the year	(Rs.)	83.00	84.90	117.90	128.00	123.90
- Lowest during the year	(Rs.)	56.00	61.00	75.10	97.00	95.00
- As at end of the year	(Rs.)	69.50	75.70	106.00	100.60	102.00
Market Capitalization	(Rs.Mn)	3,686.98	4,015.89	5,623.30	5,336.83	5,411.14
(as at end of year)						
Earnings per share	(Rs.)	11.61	12.29	15.84	22.28	22.48
Price/Earnings ratio	(Times)	5.99	6.16	6.69	4.51	4.54
Net assets per share	(Rs.)	59.24	66.88	77.40	109.04	124.31
(as at end of year)						

Distribution of Shareholdings as at 31 March 2017

Size of shareholdings Number			Shareholders Number	Shares Number	Holdings %
1	-	1,000	1,325	275,955	0.52
1,001	-	10,000	374	1,252,430	2.36
10,001	-	100,000	74	1,958,200	3.69
100,001	-	1,000,000	10	3,511,856	6.62
Over	-	1,000,000	4	46,051,969	86.81
			1,787	53,050,410	100.00

Shareholder **Information**

Categories of Shareholders

Categories	No of Holders	No of Shares	%
Local Individuals	1,592	3,528,277	6.65
Local Institutions	134	44,593,034	84.06
Foreign Individuals	52	649,827	1.22
Foreign Institutions	9	4,279,272	8.07
	1,787	53,050,410	100.00

Public Holding

Percentage of public holding as at 31st March 2017 was 29.16% comprising of 1,783 shareholders.

20 Major Shareholders

	Name	No of Shares as at 31.03.2017	(%)	No of Shares as at 31.03.2016	(%)
1	Lanka Walltiles PLC	36,189,195	68.217	36,189,195	68.217
2	Employees Provident Fund	4,968,313	9.365	4,968,313	9.365
3	BNYM SA/NV- Frontaura Global Frontier Fund LLC	3,505,980	6.609	3,491,257	6.581
4	Royal Ceramics Lanka PLC	1,388,481	2.617	1,388,481	2.617
5	Bank of Ceylon No.01 Account	973,200	1.834	973,200	1.834
6	Caceis Bank Luxembourg S/A Barca Globel Master Fund LP	548,532	1.034	0	0.000
7	Mr. K R Kamon	537,628	1.013	537,628	1.013
8	Mr. A A Page	433,939	0.818	433,939	0.818
9	Mr. D F G Dalpethado and Mrs. H F A K D Fonseka	395,080	0.745	385,999	0.728
10	HSBC Intl Nom Ltd-UBS-AG Zurich	135,531	0.255	154,560	0.291
11	Aruna Enterprises (Pvt) Limited	128,500	0.242	128,500	0.242
12	Mr. S M Fernando	126,446	0.238	126,446	0.238
13	Mrs. A A Merchant	125,000	0.236	125,000	0.236
14	Deutsche Bank AG-Comtrust Equity Fund	108,000	0.204	108,131	0.204
15	National Development Bank of Sri Lanka Limited A/C	100,000	0.188	100,000	0.1888
16	Mr. Y H Abdulhussein	98,833	0.186	98,833	0.186
17	Pinnacle Trust (Pvt) Limited	92,038	0.173	214,800	0.405
18	Sampath Bank PLC/ Dr. T Senthilverl	90,600	0.171	90,600	0.171
19	Dr. A C Visvalingam and Mrs. Y I Visvalingam	77,342	0.146	61,542	0.116
20	Seylan Bank PLC / Channa Nalin Rajahmoney	71,317	0.134	78,717	0.148
	Sub Total	50,093,955	94.427	49,655,141	93.600
	Other 1,767 Shareholders	2,956,455	5.573	3,395,269	6.400
	Issued Capital	53,050,410	100.000	53,050,410	100.000

DIRECTORS' AND CEO'S SHAREHOLDING AS AT 31ST MARCH 2017

Categories	No of Shares	%
Mr. J A P M Jayasekera	-	-
Dr. S Selliah	-	-
Mr. Dhammika Perera	-	-
Mr. T G Thoradeniya	-	-
Mr. K D G Gunaratne	-	-
Ms. A M L Page	2,500	0.0047
Mr .R D P Godawatta Arachchige (Alternate Director to Mr. Dhammika Perera)	-	-
Mr. A M Weerasinghe	-	-

- Mr A M Weerasinghe —Appointed w.e f 151 March 2017
- Mr W D N H Perera- Resigned w.e.f 08th March 2017
- The fractional shares of 582 arising from the capitalization of revenue reserves Issue were issued jointly in the names of Mr. J A P M Jayasekera and Mr. A A Page

SHARE PRICE FOR THE YEAR

Market price per share

Highest during the year	-	Rs. 123.90 (03-05-2016)
Lowest during the year	-	Rs. 95.00 (15-02-2017)
As at end of the year	-	Rs. 102.00
Number of Transactions during the year	-	978
Number of Shares traded during the year	-	1,173,266
Value of shares traded during the year (Rs.)	-	126,117,198.60

PUBLIC HOLDING

The Percentage of shares held by the Pubic	-	29.16%
No of shareholders representing the above percentage	-	1,783

Statement of **Value Added**

Year ended 31st March	2013 Rs. '000	%	2014 Rs. '000	%	2015 Rs. '000	%	2016 Rs. '000	%	2017 Rs. '000	%
Sales	5,171,650		5,789,073		5,941,148		6,123,730		5,805,556	
Duty rebate	852		853		-		-		-	
Other income	34,916		29,599		25,939		37,328		26,154	
Less: cost of materials & services bought in	(3,151,092)		(3,546,878)		(2,535,313)		(3,179,762)		(2,899,677)	
Value Added	2,056,326		2,272,647		2,431,774		2,981,296		2,932,033	
Distribution of Value Added										
Employees as remuneration and welfare	428,511	20.84	453,101	19.94	526,439	21.65	597,336	20.22	571,757	19.50
Government as taxes	637,990	31.03	748,708	32.94	877,775	36.10	1,096,099	37.10	1,140,843	38.91
Lenders of capital as interest	126,375	6.15	172,814	7.60	49,242	2.02	26,518	0.89	30,789	1.05
Shareholders as dividends	79,576	3.87	106,101	4.67	238,727	9.82	371,353	12.57	397,878	13.57
Retained in the business as										
- Depreciation/deferred tax	239,465	11.65	298,063	13.12	248,779	10.23	218,600	7.40	181,106	6.18
- Profits	544,409	26.47	493,860	21.73	490,812	20.18	671,390	22.72	609,660	20.79
Total	2,056,326	100.00	2,272,647	100.00	2,431,774	100.00	2,981,296	100.00	2,932,033	100.00

Notice of **Meeting**

NOTICE IS HEREBY GIVEN that the Thirty Third (33rd) Annual General Meeting of Lanka Tiles PLC will be held at the Sri Lanka Foundation Institute, 100, Independence Square, Colombo 7 on 29th June 2017 at 2.30 p.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 2017 and the Report of the Auditors thereon.

2. To re-elect Dr. S Selliah, who retires by rotation in terms of Articles 103 and 104 of the Articles of Association, as a Director of the Company

3. To elect Mr. A M Weerasinghe, who retires in terms of Articles 110 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
Secretaries

At Colombo
26th May 2017

Notes:

1) A shareholder entitled to attend or attend and vote at the Meeting is entitled to appoint a Proxy who need not be a shareholder, to 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.

Notes

Form of **Proxy**

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

Mr. Dhammika Perera	of Colombo or failing him *
Mr. Amarakone Mudiyanselage Weerasinghe	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. 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 him*

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 2017 at 2.30 p.m. and any adjournment thereof and at every poll which may be taken in consequence thereof.

		FOR	AGAINST
1	To re-elect Dr. S Selliah, who retires by rotation in terms of Article 103 and 104 of the Articles of Association as a Director of the Company.		
2	To elect Mr. A M Weerasinghe, who retires in terms of Article 110 of the Articles of Association as a Director of the Company.		
3	To re-appoint M/s PricewaterhouseCoopers as Auditors of the Company for the ensuing year and to authorize the Directors to determine their remuneration.		
4	To authorize the Directors to determine donations for the ensuing year		

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

.....
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. Dhammika Perera (Chairman)

Mr. A M Weerasinghe (Deputy Chairman)

Mr. J A P M Jayasekera (Managing Director)

Dr. S Selliah

Mr. T G Thoradeniya

Mr. K D G Gunaratne

Ms. A M L Page

Mr. G A R D Prasanna (Alternate Director to Mr. Dhammika 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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