

A WILL TO  
SUSTAIN





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# A WILL TO SUSTAIN

At Lanka Walltiles, we care about the future. As your Company enters into another year of operations we are seeking new possibilities, strengthening our core competencies, and making the right investments. We are deeply committed to sustaining the environment and doing the right things, as we press on towards our ultimate goal: to create holistic value. We are persistent in our journey as a wholesome, resourceful entity, as we strive to deliver unparalleled value to the stakeholders we serve.

Lanka Walltiles PLC. Ours is a will to sustain.

## Contents

### 05

#### Introduction to this Report

- 06 About this Report
- 10 About Us
- 16 Financial Highlights



### 19

#### Creating Value for our Stakeholders

- 24 Operational Performance
- 28 Managing Our Capital

### 47

#### Governance

- 48 Chairman's Message
- 52 Managing Director's Review
- 58 The Board of Directors
- 62 Corporate Management
- 64 Corporate Governance
- 75 Risk Management and Internal Control Report
- 82 Remuneration Committee Report
- 83 Audit Committee Report
- 85 Related Party Transactions Review Committee Report
- 87 Annual Report of the Board of Directors on The Affairs of the Company
- 92 Chief Executive Officer's and Chief Financial Officer's Responsibility Statement
- 93 Statement of Directors Responsibilities



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# 95

## Financial Statements

- 96 Independent Auditor's Report
- 99 Statement of Financial Position
- 100 Statement of Profit or Loss and Other Comprehensive Income
- 101 Statement of Changes in Equity
- 103 Cash Flow Statement
- 104 Notes to the Financial Statements



# 175

## Supplementary Information

- 176 Five Year Summary Statement of Profit or Loss
- 178 Five Year Summary Statement of Financial Position
- 180 Major Shareholders
- 181 Shareholder Information
- 183 Statement of Value Added
- 184 Notice of Meeting
- 187 Form of Proxy

# 24

## Operational Performance

# 48

## Chairman's Message

# 52

## Managing Director's Review

# 64

## Corporate Governance

# 99

## Statement of Financial Position





# Seeking New Possibilities

## Introduction to this Report

We are exploring new avenues for growth, as we expand our operations and venture forth into a future of unparalleled value creation.

# The fundamentals that inspire success

## Introduction to this Report

### About this Report

**1st**

#### Integrated Report

The year under review marks our first attempt at integrated reporting.

This Annual Report for the financial year 2017-18 is Lanka Walltiles' first attempt at Integrated Reporting. Our objectives in adopting integrated reporting is two-fold.

1. To comply with Colombo Stock Exchange criteria for sustainability reporting
2. To improve corporate disclosure and transparency

#### Directors statement of responsibility for this report

The Board of Directors have acknowledged their responsibility for this annual report in the Annual Report of the Board of Directors on the Affairs of the Company and the Statement of Directors Responsibilities, as required under the Companies Act of 2007.

#### Basis of preparation and presentation of this report

The material topics selected for disclosure in this report were decided by the top management, under the guidance of the Managing Director. The process of selecting material topics took into account the disclosure requirements under:

1. The International Integrated Reporting (IR) framework of 2013
2. The Companies Act of 2007
3. 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.

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

#### Compliance with integrated reporting principles

On meeting the principle of reliability of information, we state that the financial

statements of the Company and Group have been audited by Chartered Accountants, M/s. Ernst & Young. All other information have been approved by relevant senior managers to ensure maximum reliability.

Through the process of selecting material topics for disclosure, we have attempted to present a connected and complete, but concise report.

In addition, we have attempted to presented a consistent and strategic picture of our performance for the financial year 2017-18 and our future plans.

#### Feedback and Contact

Lanka Walltiles PLC values stakeholder feedback on our reporting to enable us to continually meet their expectations and improve reporting criteria. For feedback on this report please contact :

#### Name of contact person:

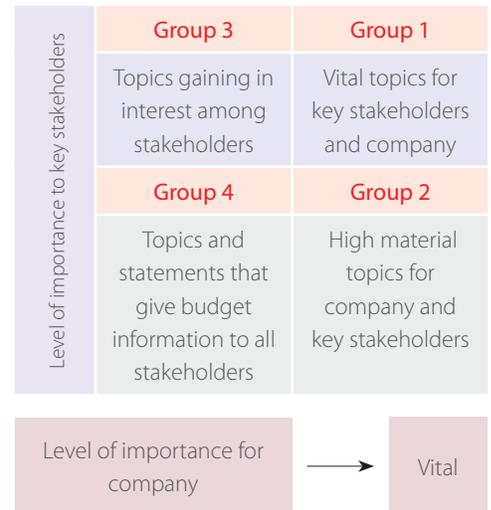
Mr. Tyrell Roche  
- General Manager (Finance)  
Telephone number: 011 4526700  
Email: tyrell@lankatiles.com

### Materiality Assessment

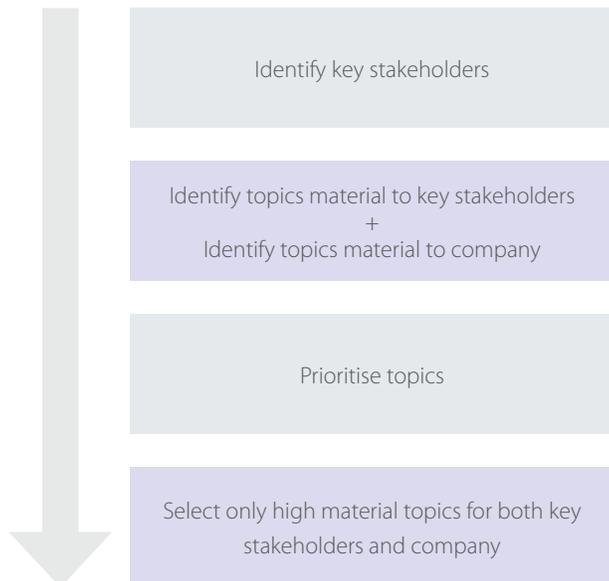
A materiality assessment was conducted to ensure the report conforms to Integrated Reporting principles by disclosing topics of relevance to both the Company and key stakeholder groups. This was a 4-step process where:

1. Key stakeholders were identified (please refer the Creating Value for our Stakeholders chapter and Social Capital section of this report for information regarding our key stakeholder groups)
2. An assessment was conducted to identify material topics under each of the coverage areas of the IR Framework, for the given period.
3. These topics were then matched against stakeholder expectations.
4. Topics were prioritised. Topics deemed to be high priority for both the Company and stakeholders were selected for discussion in the report. This process is depicted below.

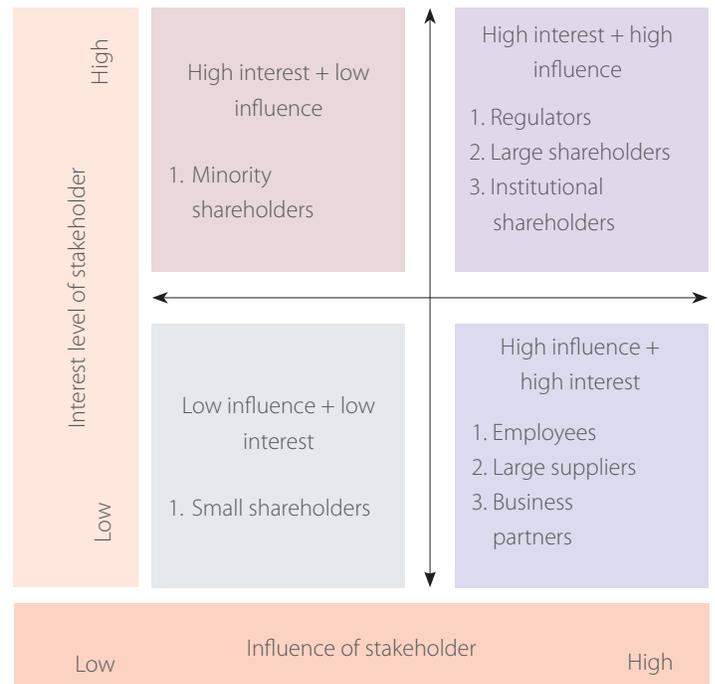
### Prioritisation of topics for discussion in current report



### Process of identifying material topics for disclosure Key



### Stakeholder mapping



## Introduction to this Report

Where to find this information in this annual report

Topics	Chapter	Page Nos.
<b>Group 1 topics</b>		
1. Regulatory compliance	Corporate Governance Report	64-74
	Financial Statements	99-173
	Statutory Reports	75-86
2. Good governance practices	Corporate Governance Report	64-74
3. Risk management and internal controls	Risk Management Report	75-81
	Managing Director's Review	52-27
<b>Group 2 topics</b>		
1. Shareholder returns	Chairman's Message	48-51
	Financial Statements	99-173
2. Proper management of the company	Managing Director's Review	52-57
	Operational Performance	24-27
	Managing our Capitals	28-45
3. Future outlook of the company	Chairman's Message and Managing Director's Review	48-57
4. Growth strategies and resource allocations	Chairman's Message	48-51
	Managing Director's Review	52-57
<b>Group 3 topics</b>		
1. Sustainability related topics	Capital Management Reports	28-45
2. Corporate information	Corporate Information	189
3. Business highlights	Industrial Highlights	16
<b>Group 4 topics</b>		
1. Investor's information	Investor Information	181-182
2. Finance History	5 Year's Summary	176-179
3. Meeting information	Notice of Meeting	184



# Building the future on a strong foundation

## About Us

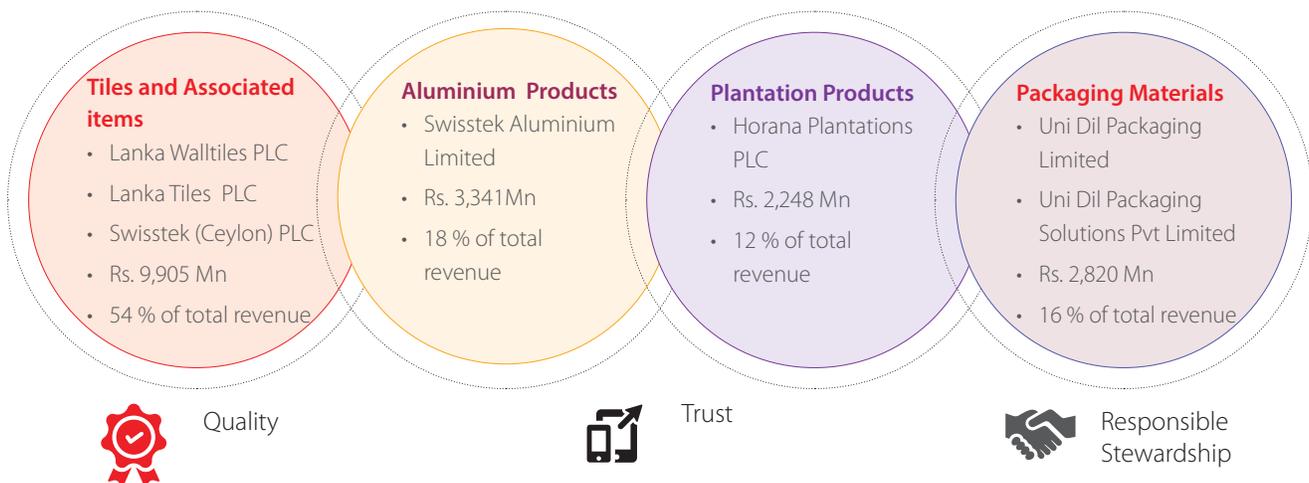
Lanka Walltiles PLC is a public limited liability company, incorporated under the Companies Ordinance No. 51 of 1938, as a public company on 24th day of September 1975. Pursuant to the requirements of the new Companies Act No. 7 of 2007, the Company was re-registered on 24th July 2007 and bears registration number PQ55.

The business of Lanka Walltiles PLC is the manufacture of glazed ceramic wall tiles for export and for sale in the local market.

The diversified Lanka Walltiles Group is involved in the manufacture and retail of tiles and associated items, aluminium products, plantation products and packaging materials.

# The business of Lanka Walltiles PLC is the manufacture of glazed ceramic wall tiles for export and for sale in the local market.

### Business activities of the diversified Lanka Walltiles Group



The key values that drive us, making us into the success story we are today.

## Our Vision

To be a leading producer of wall and floor coverings and related products for local and international markets.

## Our Mission

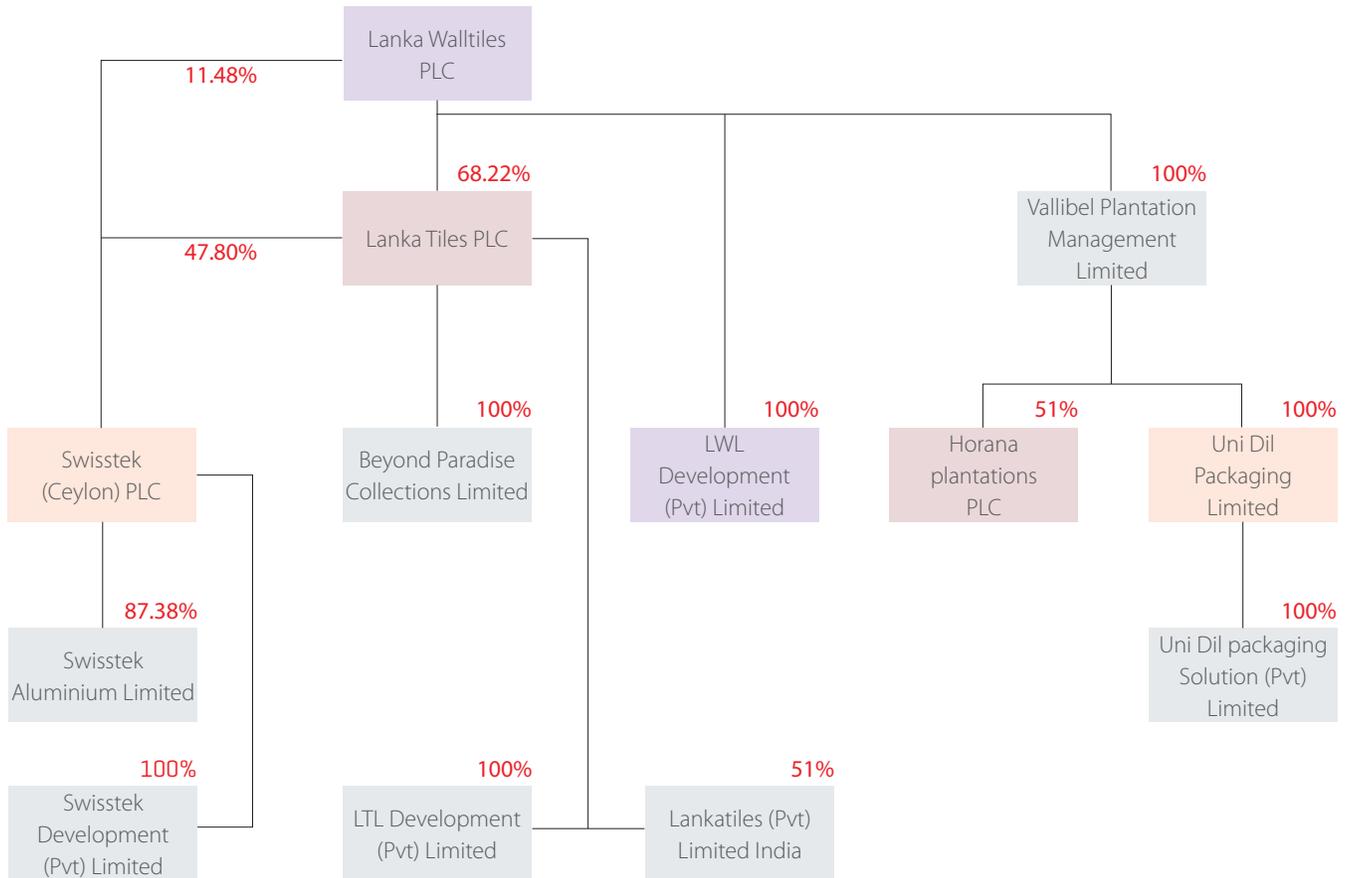
The production and marketing of exceptional quality products at optimum affordability

## Our Values

1. **Quality:** Every tile is manufactured to the highest quality standards and we can proudly claim that our products are second to none.
2. **Style:** Our portfolio features a wide range of tiles in a variety of colours, textures and sizes including special trim and decorated tiles.
3. **Elegance:** Classic style, innovative designs and simple elegance make all our products distinctive in local and international markets.
4. **Value:** Our stakeholders are diverse and demanding. Over the years we have delivered unmatched value to all of them.

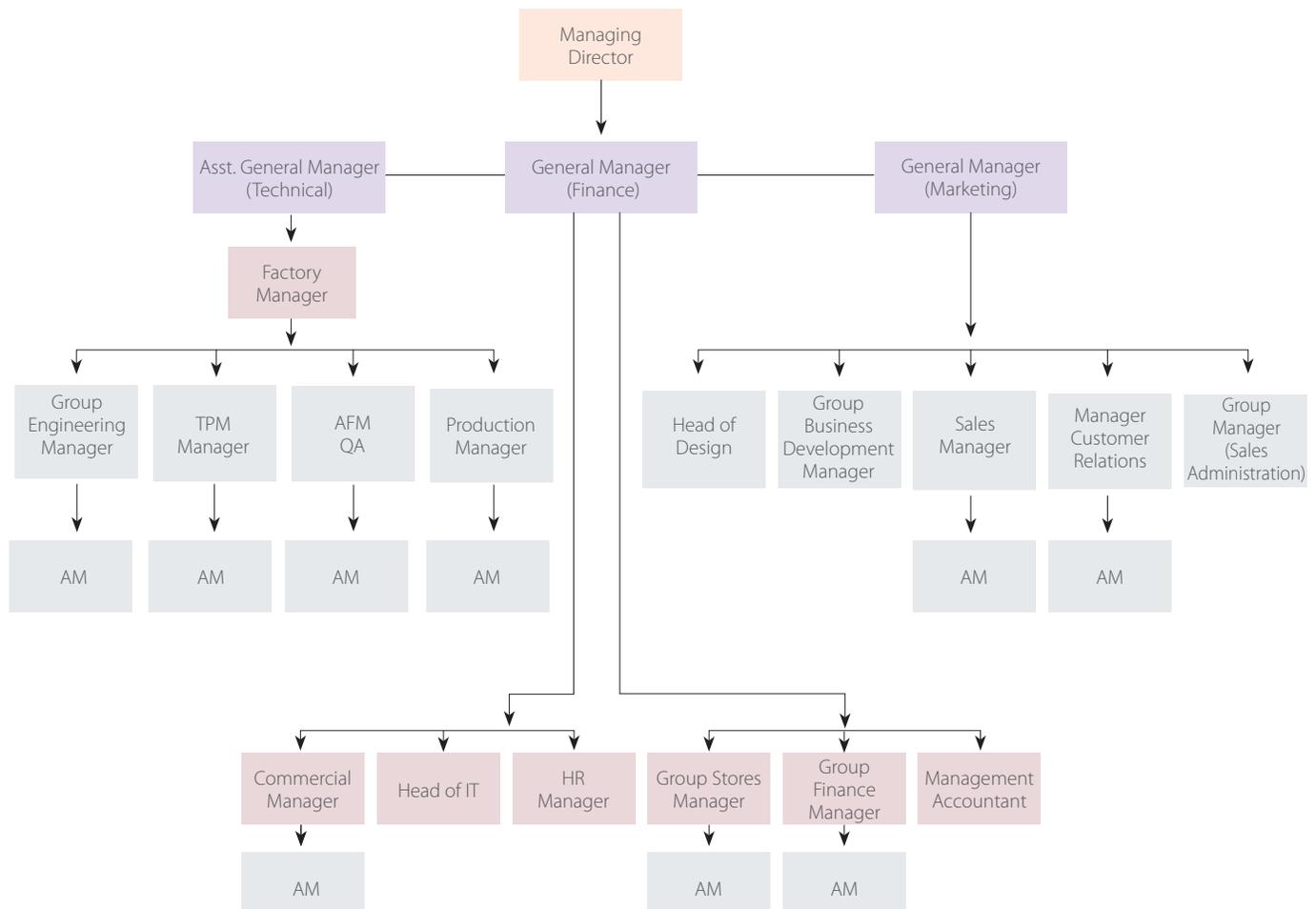
## About Us

### Group structure and shareholding



- The Lanka Walltiles PLC Group comprises the Lanka Tiles PLC Group, the Swisstek (Ceylon) PLC Group, the Vallibel Plantation Management Limited Group and LWL Developments (Pvt) Limited.
- Lanka Walltiles is the parent and major shareholder of Lanka Tiles, holding 68.21% of shares and Lankatiles (Pvt) Limited, India with 51% ownership, as at end March 2018.
- Lanka Walltiles is the ultimate parent and major shareholder of Swisstek (Ceylon) through
  - Lanka Tiles by collectively owning 59.28% of the Swisstek (Ceylon) Group, which includes Swisstek Aluminium Limited (87.38%) and the wholly owned Swisstek Development (Pvt) Ltd.
  - Swisstek (Ceylon) PLC is involved in the manufacture and sale of Tile Grout, Tile Mortar, Decorative Pebbles and imports wooden flooring for domestic retailing.
  - Swisstek Aluminium Limited manufactures aluminium profiles for industrial and domestic applications.
- LWL Development (Pvt) Ltd and Beyond Paradise Collections Ltd - Holding of property for industrial estate
- The Vallibel Plantation Management Group owns 51% of Horana Plantations and fully owns Uni Dil Packaging Limited and Uni Dil Packaging Solution Limited. Horana Plantations is a leading producer of tea and rubber in the country and the Uni Dil sub group is involved in manufacturing packaging and sacks and one of them is leading packaging company in Sri Lanka

**Lanka Walltiles organisation Structure**



## About Us

### Our product portfolio

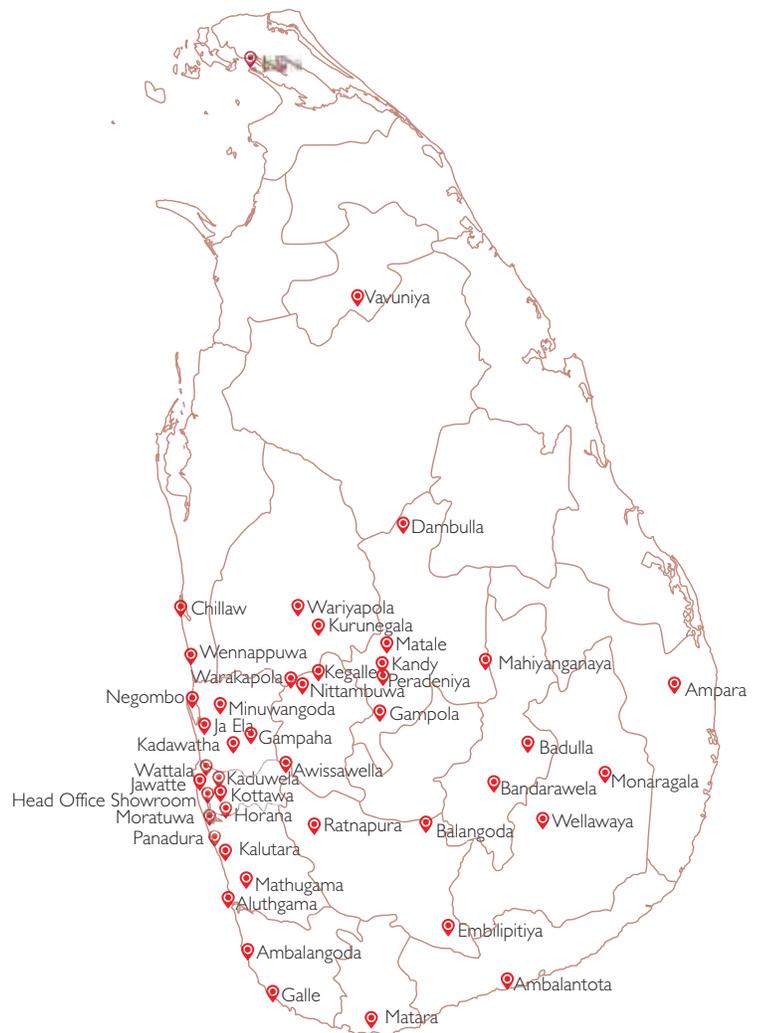
Our product portfolio includes 9 design collections under the Lanka Walltiles umbrella brand with more than 1,000 SKU's depending on size, design, shade, body type etc. A variety of designs are available. Over the years our portfolio has grown and evolved to become a household name in Sri Lanka. Today, the Lanka Walltiles range controls 35% of the local wall tile market and brings global interior design trends to Sri Lankan consumers, with a trusted quality guarantee backed by our quality assurance systems which incorporates international and national quality standards at every stage of the manufacturing process.

#### Popular Products/ Brands



### Our footprint around the country

Lanka Walltiles products are now getting closer to consumers where ever they may be. Our distribution and retail network is expanding rapidly to make sure more Sri Lankan consumers have access to world class products to make their homes and office premises reflect their aspirations. As at end March 2018, Lanka Walltiles had 45 showrooms.



## Our growing global presence

The Lanka Walltiles brand is gaining ground as a global brand with exports to 8 countries by end March 2018. Our global footprint now extends to Australia, Canada, India, Maldives, Netherlands, UK, USA, and Pakistan. With our subsidiary Lanka Tiles, our international presence increases to 11 countries with the addition of Singapore, Japan and New Zealand.



## Awards and accolades

Lanka Walltiles was the recipient of the Silver Award at the National Business Excellence Awards 2017.

At the CNCI Achiever Awards 2017 Lanka Walltiles PLC was honoured with the 'Top Ten Award'.

At the CNCI Achiever Awards 2017 Lanka Walltiles PLC was awarded the 'Bronze Award in the National Level Manufacturing Sector – Extra Large Category'.



# The power to achieve

## Financial Highlights

		Group			Company		
		2017/18	2016/17	Change %	2017/18	2016/17	Change %
Gross income	(Rs.000)	18,313,245	16,000,150	14.46	3,316,247	3,345,337	(0.87)
Gross profit	(Rs.000)	5,317,385	5,216,673	1.93	1,209,441	1,331,763	(9.18)
Net profit before tax	(Rs.000)	2,310,938	2,611,942	(11.52)	867,409	944,673	(8.18)
Income tax	(Rs.000)	699,774	664,591	5.29	176,368	171,908	2.59
Net Profit	(Rs.000)	1,611,165	1,947,351	(17.26)	691,041	772,765	(10.58)
Total Assets	(Rs.000)	25,722,893	22,202,677	15.85	7,820,837	6,499,167	20.34
Total Liabilities	(Rs.000)	15,206,079	12,408,229	22.55	2,839,798	1,979,592	43.45
Shareholder Funds	(Rs.000)	10,516,814	9,794,448	7.38	4,981,039	4,519,576	10.21
Earnings per share	(Rs.)	19.91	25.41	(21.66)	12.66	14.15	(10.58)
Dividends per share	(Rs.)	9.50	7.50	26.67	9.50	7.50	26.67
Net assets value per share	(Rs.)	192.62	179.39	7.38	91.23	82.78	10.21
Market Value per share	(Rs.)	98.40	93.00	5.81	98.40	93.00	5.81
Interest cover	(Times)	5.81	7.39	(21.31)	8.66	9.97	(13.14)
Dividend cover	(Times)	2.10	3.39	(38.16)	1.33	1.89	(29.40)
ROCE	(%)	0.14	0.16	(14.75)	0.16	0.19	(16.79)
Equity :Assets ratios	(Times)	0.41	0.44	(7.32)	0.64	0.70	(8.41)
Current ratio	(Times)	1.56	1.72	(9.57)	1.45	1.57	(7.66)
Gearing ratio	(%)	0.31	0.26	19.23	0.16	0.13	23.08
Profit per employee	(Rs.)	3,039,933	3,674,248	(17.26)	1,303,850	1,458,047	(10.58)

## Segment Turnover

(Rs. Mn)



## Segment Profit Before Tax

(Rs. Mn)



## Segment Assets

(Rs. Mn)

**7,598**

Group Number of Employees

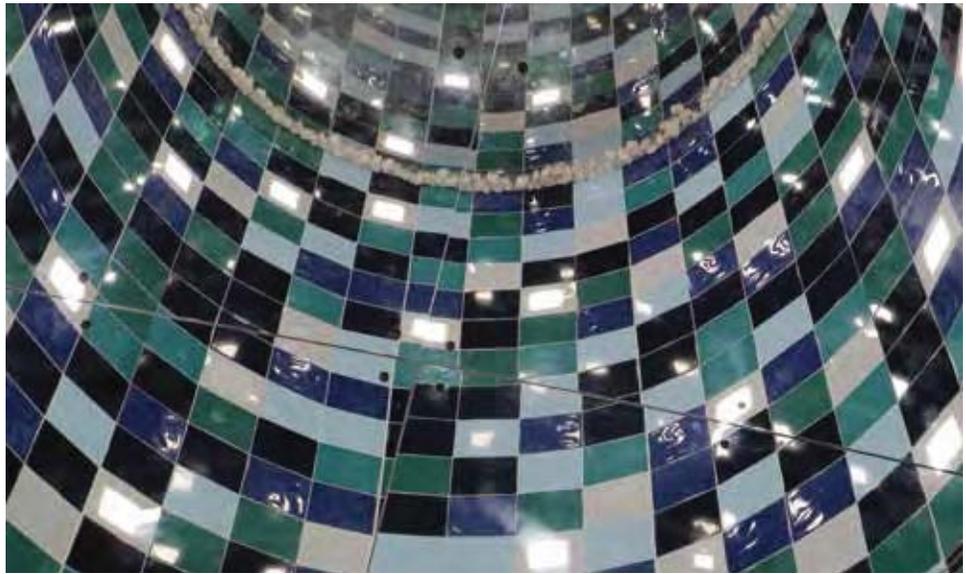
**3,341 Mn**Aluminium Products  
Contribution to  
Group Turnover**2,820 Mn**Packing Materials  
Contribution to  
Group Turnover**25,723 Mn**

Group Total Assets

**2,248 Mn**Plantation Products  
Contribution to Group Turnover**9,905 Mn**Tiles & Associated Items  
Contribution to Group Turnover



0.530



# A Holistic Perspective

## Creating Value for our Stakeholders

We are continuing our quest to generate value across the board, creating a positive impact for the many stakeholders we serve.

# An enduring goal

## Creating Value for our Stakeholders

### Our Business model

The main activity of Lanka Walltiles PLC is the manufacture of glazed ceramic walltiles for export and for sale in the local market. Our business model depicts how we utilise our financial and non financial capitals to create value for our stakeholders.

The Company's strategic value mapping process revolves 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

The business of Lanka Walltiles PLC is the manufacture of glazed ceramic wall tiles for export and for sale in the local market.



**530**

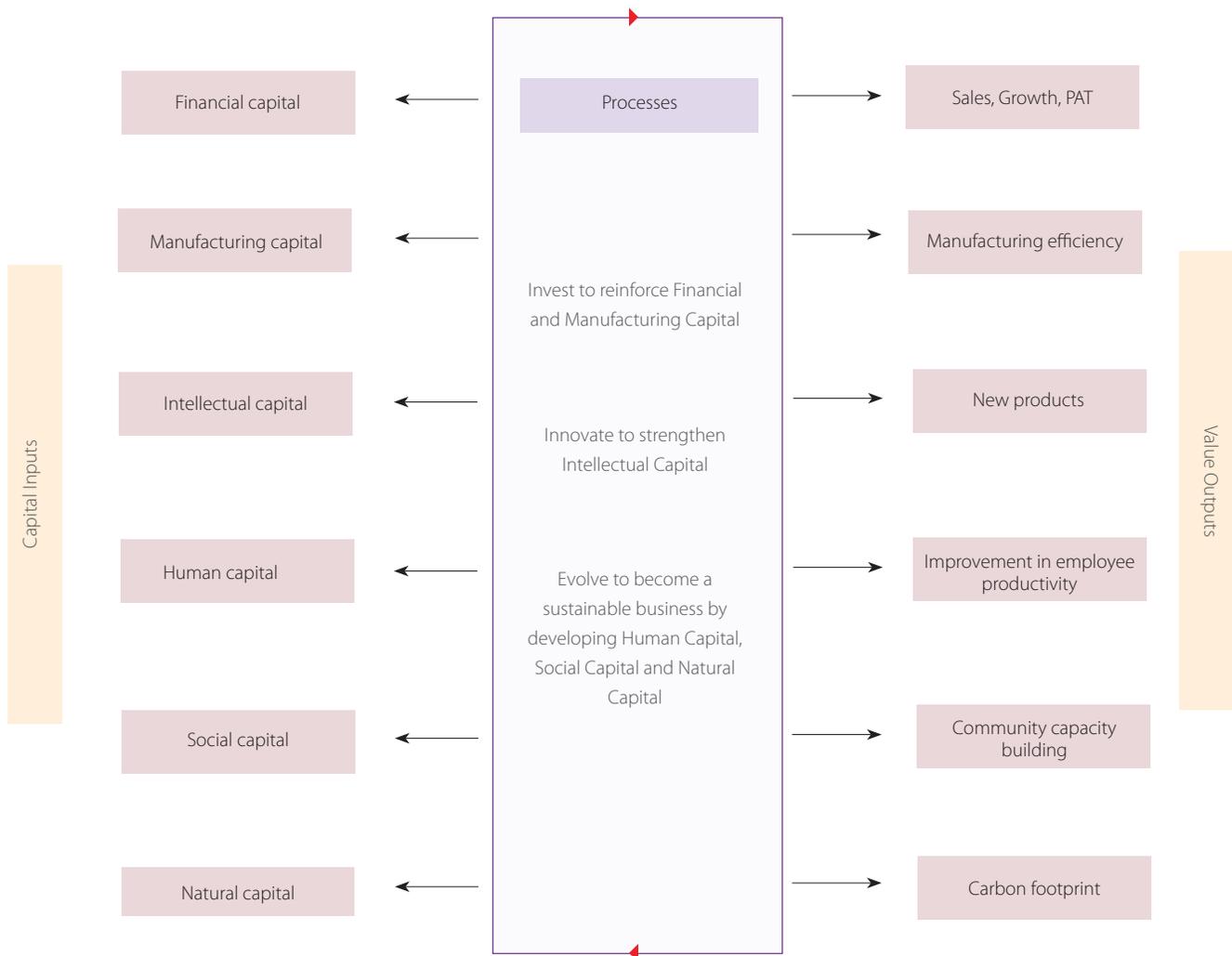
Company Number of Employees



**Rs.192.62**

Group Net Assets Per Share

### Creating Value for our Stakeholders



#### Stakeholder Engagement

Lanka Walltiles PLC has been in operation for 43 years since its establishment in 1975. This longevity of the business can be directly attributable to the Company's ability to

adapt to customer and other stakeholder requirements that have changed with time. Therefore, we constantly attempt to align our business model in line with our stakeholder expectations to create genuine value for all stakeholders.

The Company has in place formal stakeholder engagement mechanisms to engage with key stakeholder groups. These mechanisms are reviewed regularly and improvements made or new mechanisms are introduced to ensure regular and clear communications.

## Creating Value for Our Stakeholders

Our key stakeholders are those who have a significant impact on business operations, or can be significantly impacted by the Company's operations. Our engagements with key stakeholder groups during the year are depicted below.



### Shareholders

Concerns	Response	Engagement Methods	Frequency of Engagement
<p>Good governance Creating employment and new business opportunities Integrate environmental concerns into operations</p>	<p>Improve governance practices Maintain close working relationships with regulators</p>	<ul style="list-style-type: none"> <li>AGM and EGM</li> <li>Dividend • Announcement</li> <li>Annual Report</li> <li>Stock Exchange Announcements</li> <li>Press release</li> </ul> <p>Quarterly Publications</p>	<p>Annual</p> <p>As required</p> <p>Quarterly</p>



### Regulatory Authorities

Concerns	Response	Engagement Methods	Frequency of Engagement
<p>Good governance Creating employment and new business opportunities Integrate environmental concerns into operations</p>	<p>Improve governance practices Maintain close working relationships with regulators</p>	<p>Monthly reporting framework</p> <p>Annual Reporting structure</p> <p>Regular monitoring and audits</p>	<p>Monthly</p> <p>Annual</p> <p>Ongoing</p>



### Employees

Concerns	Response	Engagement Methods	Frequency of Engagement
<p>Development and growth Employment security</p>	<p>Training opportunities were increased</p> <p>Provided salary increments</p> <p>Performance appraisals were conducted</p>	<ul style="list-style-type: none"> <li>Direct interactions with senior management</li> <li>Notice Boards</li> <li>Letters/Email Notices</li> <li>Meetings • Workshops</li> <li>Labour forums</li> </ul> <p>Company sponsored social Interactions</p> <p>Performance Appraisals</p>	<p>As required</p> <p>Annual</p> <p>Biannual</p>

 Customers

Concerns	Response	Engagement Methods	Frequency of Engagement
<ul style="list-style-type: none"> <li>Value for money</li> <li>Product quality</li> <li>Reliable service</li> <li>Accessibility Choices</li> <li>Modern designs</li> </ul>	<ul style="list-style-type: none"> <li>Expanded retail and storage for better access</li> <li>Many new products and designs introduced</li> <li>Employees trained on customer</li> <li>Competitive pricing</li> </ul>	<b>Face-to-face interactions</b> <ul style="list-style-type: none"> <li>Customer hotline</li> <li>Customer complaints process</li> <li>Monthly Customer surveys</li> <li>Customer Satisfaction Index</li> <li>Social media interactions</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing</li> <li>As and when required</li> <li>24/7 x 365 days</li> </ul>

 Distributors

Concerns	Response/Outcome	Engagement Methods	Frequency of Engagement
<ul style="list-style-type: none"> <li>Improve performance and skills development</li> <li>Knowledge transfer</li> </ul>	<ul style="list-style-type: none"> <li>Business support services</li> <li>Set up an Index for distributors</li> </ul>	<b>Face-to-face interactions</b> <ul style="list-style-type: none"> <li>Customer hotline</li> <li>Customer complaints process</li> </ul> <b>Customer surveys</b> <ul style="list-style-type: none"> <li>Customer Satisfaction Index</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing</li> <li>As and when required</li> <li>Monthly</li> </ul>

 Suppliers

Concerns	Response	Engagement Methods	Frequency of Engagement
<ul style="list-style-type: none"> <li>Grow their business</li> <li>Skills development</li> </ul>	<ul style="list-style-type: none"> <li>Develop &amp; maintain a supplier base</li> <li>Conduct workshops and trainings</li> </ul>	<ul style="list-style-type: none"> <li>Supplier • visits • Meetings</li> <li>Industry forums</li> </ul>	<ul style="list-style-type: none"> <li>As and when required</li> </ul>

 Communities

Concerns	Response	Engagement Methods	Frequency of Engagement
<ul style="list-style-type: none"> <li>Safety and environmental concerns</li> <li>Support for social events</li> </ul>	<ul style="list-style-type: none"> <li>All environmental precautions are observed at all times</li> <li>Improved systems to reduce environmental impacts</li> <li>We have bought land surrounding the factory</li> <li>We support community activities</li> </ul>	<ul style="list-style-type: none"> <li>Hotline to address community complaints</li> <li>Participation in community activities</li> </ul>	<ul style="list-style-type: none"> <li>As and when required</li> </ul>

# Making the right investments

## Operational Performance

### External environment

During 2017, the macro environment was not favourable for the tile manufacturing and retail industry of Sri Lanka. Overall, the Sri Lankan economy went into deceleration with the real GDP growth rate falling to 3.1 per cent from 4.5 per cent in 2016. Both services and industry related activities, which together account for 92.4 per cent of gross value added, recorded growth rates of below 4 per cent. The agriculture related activities recorded a negative growth for the second consecutive year, due to droughts and extreme weather patterns, although estimates for Quarter 4, 2017 indicated a recovery in the sector.

The current account deficit, which was 2.1 per cent of GDP in 2016, expanded to 2.6 per cent of GDP in 2017, triggered by the widened trade and primary income deficits, moderate earnings from tourism and lower workers' remittances. Although 2017 marked the highest ever export earnings with a double digit growth, the trade deficit expanded to 11.0 per cent of GDP in 2017 from 10.9 per cent of GDP in 2016 due to increased imports of fuel, rice and gold, in particular

The negative impacts of a slowing economy was compounded by rising market rates due to the Central Bank, raising the Standing Deposit Facility Rate (SDFR) and the Standing

Lending Facility Rate (SLFR), by 25 basis points in March 2017, to 7.25 per cent and 8.75 per cent, respectively. This was on top of the 100 basis point increase in policy interest rates and the 1.50 percentage point increase in the Statutory Reserve Ratio (SRR) in 2016. Deposit and lending interest rates of commercial banks continued to increase during most of 2017 raising the cost of funds in the economy. The average weighted deposit rate (AWDR) and the average weighted fixed deposit rate (AWFDR), increased by 90 basis points and 102 basis points, respectively, from end 2016 to end 2017. The average weighted lending rate (AWLR), which is based

on interest rates of all outstanding rupee denominated loans and advances extended by Licensed Commercial Banks (LCBs) to the private sector, increased by 68 basis points to 13.88 per cent by end 2017 from 13.20 per cent at end 2016.

The external value of the Sri Lankan rupee remained relatively stable, depreciating only by 2.0 per cent against the US dollar in 2017. However, reflecting movements in cross-currency exchange rates against the US dollar in international markets, the rupee depreciated markedly against all other major currencies in 2017, in comparison to the



Factory Investment - Meepe

previous year. The exchange rate of the Sri Lankan rupee depreciated against the Euro by 13.49 per cent, the Indian rupee by 7.54 per cent, the Japanese yen by 5.10 per cent, and the Pound Sterling by 10.46 per cent. With the combined effect of the depreciation of the rupee against major currencies, the Sri Lankan rupee also depreciated against the SDR by 7.49 per cent during the year.

### Industry overview

As the construction sector is the primary driver of demand for tiles, the large downturn in construction activities during the year resulted in an inevitable slow down in demand for tiles from the commercial sector. Growth in construction activities was primarily supported by the infrastructure projects, and large scale residential and mixed development projects. Demand growth for tiles from the household sector was also slower than anticipated due to higher cost of living and lower disposable incomes. Reflecting this overall construction industry drop, the value added of construction activities declined to a growth rate of 3.1 per cent in 2017, compared to 8.3 per cent growth in 2016. This slowdown in construction activities was reflected in cement production and imports, which grew at slower rates of 4.6 per cent and 7.1 per cent, respectively, in 2017, compared to the respective growth rates of 17.8 per cent and 29.5 per cent in 2016. It collectively recorded a 6.3 per cent growth in 2017, compared to 25.3 per cent growth in 2016. Further, the building material imports volume index, which increased by 22.9 per cent in 2016, recorded an increase of 6.8 per cent in 2017,

indicating the deceleration in construction activities. Credit extended to the private sector for construction activities by Licensed Commercial Banks (LCBs) slowed down to 22.5 per cent as at end December 2017, compared to 26.9 per cent growth recorded as at end December 2016. Further, credit granted for personal housing construction activities by LCBs grew by only 22.3 per cent as at end December 2017.

As an industry highly dependent on energy for manufacturing the rising energy prices caused operating costs to spiral upwards. Within this environment of lower demand and rising costs, the industry was faced with the threat of a deluge of low cost imports, mainly from China, which put added pressure on margins of local manufacturers. As a result prices in the local tile markets continued to depreciate, eroding profits, despite maintaining international quality and design standards.

### Consumer trends

Within the recent past, domestic consumer demand trends in tiles have been shifting to reflect global trends. Consumers are increasingly demanding larger tile sizes and new modern designs accompanied by greater durability and more competitive pricing. Modern interior design trends prefer larger, multi-purpose porcelain tiles that can be used on walls as well as floors, which is a dramatic shift away from the traditional tile manufacturing model of separate tiles for

walls and floors. Consumers also increasingly prefer are low water absorbent porcelain tiles. At Lanka Walltiles we have responded to this change in market demand by revamping our manufacturing processes and introducing new product ranges with contemporary designs and larger sizes.

### Lanka Walltiles' business operations

Despite the onslaught of imported tiles, we are proud to stand tall as one of the oldest and most popular brands in the Sri Lankan market with a solid 35% of market share in wall tiles. Our standards were reinforced by winning the National Business Excellence, Silver award for 2017.

The strategic shift in distribution and retailing has ensured rapid expansion of our market reach during the year. We have accompanied our front end push-strategy with a supply capacity expansion strategy to ensure we were able to meet anticipated market demand for our products.

In addition, ongoing internal projects are enhancing cost efficiencies within the manufacturing and marketing process to maintain cost competitiveness of Lanka Walltiles products against imports. Further, we have successfully operationalised an outsourced manufacturing model to leverage lower cost structures of competitor countries to our advantage and to produce larger sized tiles.

## Operational Performance

### Summary of operational performance - Company

Measure	2017	2018	Change
Domestic production	2.4 Mn Sqmt	2.5 Mn Sqmt	5.5%
Chinese production	0.1 Mn Sqmt	0.2 Mn Sqmt	50%
Domestic capacity utilisation	91%	92%	2%
Return on Net Assets	15%	19%	27%
Inventory Turnover ratio	90 days	120 days	33%
Labour Turnover ratio	2%	2%	-
ROCE	14%	16%	14%

### Manufacturing Operations

During the year, domestic production volumes at our manufacturing operations in Meepe increased by 5.5% from 2.4 Mn square metres in 2017/18, to 2.5 Mn square meters, with capacity utilisation increasing marginally from 91% to 92%. This volume accounted for nearly 87% of total Lanka Tiles branded output, while the balance was represented by imports from China manufactured under an outsourcing agreement. The Company is currently in the process of making crucial changes to the manufacturing model to ensure long term competitiveness of the Company. During the year, we invested approximately Rs. 111 Mn in new machines and processes, IT system improvements and also in training factory staff.

### Key concerns

1. A major change in both domestic and international tile markets, is that the distinction between wall and floor tiles is disappearing. Traditionally, there was separate consumer demand for wall tiles and for floor tiles. Wall tiles by nature means a high water absorption tile and is less hard than floor tiles, as wall tiles do not bear weight. Floor tiles are low water

absorption, harder tiles. In the current market however, consumers no longer request specifically for wall-tiles. Instead, the demand is to continue the floor pattern on the wall, by fixing floor tiles on the walls as well.

2. A second change in the market is the growing demand for larger tiles, which are perceived as more cost effective and efficient in installation, while also presenting a better appearance.
3. A third change is the shift towards lower water absorbent porcelain tiles, which are

perceived to be more durable. Porcelain tiles absorb less than 1% water, compared to about 16% water absorption of Lanka Walltiles' ceramic tiles.

These changes in consumer preference are a challenge for the Company, as Lanka Walltiles' manufacturing model was originally structured to manufacture wall tiles made of ceramic, which are typically more water absorbent. In addition, the factory has been equipped to produce smaller tiles with the maximum size at 1 foot x 3 feet, which is a small tile by today's standards.

Therefore, going forward, the Company will convert small tiles to larger sizes as much as possible. Already, small tiles have been discontinued and factory lines have been adjusted to make the maximum possible size within our available manufacturing capabilities, and we can produce sizes in the range of 2 feet x 4 feet. However, the preference for low water absorbent tiles remains a challenge for Lanka Walltiles, as the current machinery is for ceramic products.



Tile Manufacturing Plant - Meepe

### Progress in manufacturing modernisation

We continued our modernisation plans for the factory in Meepe, which includes the completion of a rectification plant for the rectification process of large format tiles and expanding the ball clay storage facilities. These upgrades and enhancements to the manufacturing facility will not only result in cost saving for the Company in the longer term, but will also enable Lanka Walltiles to cater to the changing consumer demand for tile styles, sizes and designs.

- We entered into strategic partnerships with product principals such as suppliers of glaze, major machine suppliers and raw material suppliers to establish uninterrupted supply lines to support our growth plans.
- New tile types, sizes, and new designs were introduced to the market during the year including porcelain tiles and 44 new designs. This NPD process will continue as we progress with planned changes to manufacturing model.

### Total Productive Maintenance Programme (TPM)

We continued to roll out the Total Productive Maintenance Programme (TPM) with great success, as evidenced from the enhanced capacity utilisation and outputs experienced during the year. In addition, Lanka Walltiles was able to save nearly Rs. 92 Mn on manufacturing expenses, as a direct outcome of the TPM programme, due to lower instances of machine breakdowns and work stoppages and more efficient use of machinery.

The TPM, which is a Group wide exercise, is an in-depth and wide-reaching productivity improvement initiative comprising comprehensive evaluations of existing production flows and procedures at our manufacturing units to identify changes towards enhancing overall productivity parameters. The execution of the TPM programme resulted in a number of modifications to production lines that had the beneficial outcome of not only more efficient factory floor turn-around, but also cost savings and energy savings due to elimination of repetitive activities, duplications and redundant steps within crosscutting production system.

### Skill development

In parallel with TPM deployment we continued to focus on upskilling our production cadre to integrate the latest manufacturing management methodologies into the operations.

One way of enriching our employee's knowledge base was by getting them to travel overseas regularly to work in affiliated factories, mainly in India due to the use of English and cultural proximities, and also Japan. During the year, every month about 15-20 people at all levels, from factory workers to supervisors, were sent abroad. They gained first-hand experience on how these factories operate, their organisational culture and work ethics.

We are conscious that the skill-levels of employees at all levels should be enhanced to meet emerging challenges and undertake new projects. Therefore, in addition to production floor employees, executive staff and executive-level employees engaged

in various projects including new product developments, and sanitary-ware and faucet marketing, promotions and merchandising, have all been given specialised training opportunities to enhance the overall competitiveness of the business.

### Imports from China

Our outsourced manufacturing model in China, which operates under our direct supervision to ensure international quality standards of our products, has continued to give excellent results and the Company has benefited from this model in two ways. Firstly, we have been able to take advantage of lower cost production systems in China to reduce average manufacturing costs and thereby, set more competitive retail pricing to compete with low priced imports. Secondly, we have been able to produce larger tile sizes that we cannot currently produce at our Sri Lankan manufacturing facility. Both these aspects have enhanced overall competitiveness of Lanka Walltiles products in both Sri Lankan and export markets.

During the year we imported about 3% of our tiles from China, which was a growth of 90% year on year.

### Export expansion

While mainly supplying tiles to the Sri Lankan market, the Company exports 20% of our manufactured tiles to 8 countries. Total export volumes increased by 3.8% to 455,282 Sqm and export revenues increased by 9% to Rs. 591 Mn during the year.

# A compelling investment proposition...

## Managing our Capitals

During the year the Company invested Rs. 167 Mn on capital expenditure to support growth plans over the short to medium term.

Financial risks faced by the Company and Group are explained in the financial statements, note 34 and the Risk Management section of this report.

### Changes to financial capital structure

The Group financial capital structure did not experience changes to equity during the year and total stated capital remained at Rs. 788 Mn, which is the Company's total equity capital from Rs. 54.6 Mn ordinary shares. However, the market value of the Company increased from Rs. 5.08 Bn in 2016-17, to Rs. 5.37 Bn, in 2017-18. Shareholders equity was augmented by 10% year-on-year, to Rs. 4.98 Bn, with retained profits rising by Rs.167 Mn to Rs. 2.66Bn.

As at end March 2018, long term liabilities increased mainly due to deferred tax from Rs. 367 Mn in 2016-17, to Rs. 887 Mn. As a result, the gearing ratio deteriorated from 0.44 in 2016-17, to 0.57. In addition, during the year the Company accessed financial facilities from banks for its imports and working capital requirements to the value of Rs. 500 Mn.

### Financial Capital

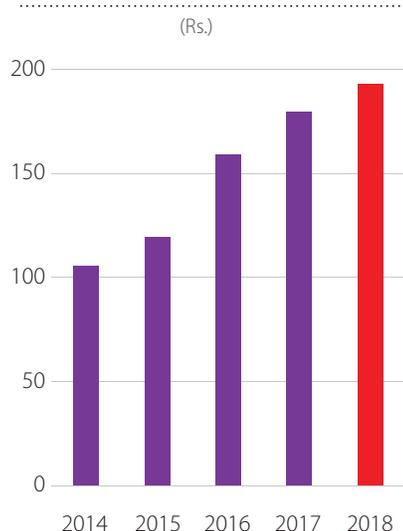
The financial capital chapter of this annual report demonstrates the financial stability of the Lanka Walltiles Group and its prudent management of financial resources during the period under review.

### Financial Capital Management

The risks associated with the financial capital base of the Group is managed on a daily basis through the financial risk management framework which defines risk components and the risk appetite for the Company and the Group.

The main financial risks faced by the Company during the year were high market interest rates, foreign currency risks and associated exchange rate risks due to rupee depreciation. Our financial performance was also significantly impacted due to the extreme price competition in the market that exerted continuous downward pressure on margins, topline and bottomline, and also impacted our financial ratios negatively.

### Net Assets Per Share



### Distribution of profits

A total dividend of Rs. 9.50 per ordinary share was made during the year.

### Solvency status (In accordance with Section 56 of the Companies Act no 07 of 2007)

As per the requirements of Act, the auditors have certified that the Company has the ability to pay its debts as they fall due in the normal course of business, and that the value of the Company's assets is greater than the value of its liabilities and stated capital.

### Solvency status as at year-end

	2017-18 (Rs. Mn)
Non-current assets	5,391
Current assets	2,430
Total assets	7,821
Non-current liabilities	1,161
Current liabilities	1,679
Total liabilities	2,840
Assets less liabilities	4,981
Stated capital	788
Net position	4,193

### Cash flow management

The Group maintained prudent cash flow management by carefully monitoring cash allocations for business activities, while also accommodating expansion related investments. The Group current ratio declined marginally from 1.56 times in the previous year to 1.72 times in the current year. The Company continued to record a healthy cash flow for this year, with a net cash flow from operating activities amounting to Rs. 145 Mn against Rs. 657 Mn in previous year. In line with increased business volumes, cash was tied up with increased working capital especially in debtors and inventory.

### Capital investments on expansion

During the year the Company invested Rs. 167 Mn on capital expenditure to support growth plans over the short to medium term. These inputs were primarily towards financing plant and machinery.

### Changes to financial capital structure in 2017-18

Capital component	Group			Company		
	Value in 2017-18 Rs.	Value in 2016-17 Rs.	% change	Value in 2017-18 Rs.	Value in 2016-17 Rs.	% change
<b>Equity</b>						
• Ordinary shares	788 Mn	788 Mn	0%	788 Mn	788 Mn	0%
• Other Debt	5.52 Bn	4.83 Bn	14.3%	1.17 Bn	0.96 Bn	21.9%
Retained profits	7.16 Bn	6.60 Bn	7.5%	2.66 Bn	2.49 Bn	6.7%
Shareholder's equity	10.52 Bn	9.79 Bn	7.5%	4.98 Bn	4.52 Bn	10.2%
Market value	5.37 Bn	5.08 Bn	5.8%	5.37 Bn	5.08 Bn	5.8%
Share price	98.40	93.00	5.8%	98.40	93.00	5.8%

## Managing our Capitals

### Assets

Total assets of the Group increased by 16% to Rs. 25.7 Bn.

Company assets grew to Rs. 7.8 Bn by end March 2018, from Rs. 6.5 Bn, with property plant and equipment value increasing to Rs. 4.1 Bn from Rs. 3.3 Bn. Total inventories cumulated to Rs. 1.6 Bn from Rs. 1.3 Bn due to higher outputs that could not be sold during the year. However, with stronger market presence, we anticipate faster sales in the new financial year. Debtor value grew from Rs. 499 Mn, to Rs. 725 Mn due to volume increase in stocks obtained by distributors.

### Revenue

The Group revenue increased to Rs. 18.3 Bn, from Rs. 16.0 Bn in the previous financial year with revenues of Lanka Tiles and Vallibel Plantation Management increasing.

The Company topline dropped by a marginal 0.9%, to Rs. 3.3 Bn, due to lower sales volumes.

### Earnings Before Interest and Tax

The gross profit of the Group reached Rs. 5.3 Bn from Rs. 5.2 Bn from the previous financial year. The gross profit margin of the Group declined from 32.6% to 29.1% due higher cost of sales and promotional price discounts. However, Group administration expenses maintain around Rs. 1.0 Bn. At Group level, operating profits reduced from Rs. 2.9 Bn to 2.7 Bn.

The Company's gross profit declined marginally from Rs. 1.3 Bn to Rs. 1.2 Bn with sales and distribution costs increasing from Rs. 381 Mn to Rs. 445 Mn as a result of increased costs associated with distribution network expansion. The administration costs

were reduced from Rs. 210 Mn, to Rs. 208 Mn during the year. However, profit before interest and tax fell to Rs. 981 Mn, from Rs. 1Bn in the previous year.

### Net profit

The Group's profit before tax declined to Rs. 2.3 Bn from 2.6 Bn the previous year in the wake of higher finance costs. The Group's total tax outflows decreased from Rs. 664 Mn to Rs. 699 Mn. The Group's net profit declined to Rs. 1.6 Bn from Rs. 1.9 Bn. The net profit attributable to the Group was Rs. 1.1Bn from Rs. 1.4 Bn in the previous year.

### Performance benchmarks

Key performance ratios were negatively impacted by the lower turnover and profitability in a highly price competitive market environment. However, we are confident of recovery in the short term.

### ROCE

The Group ROCE declined from 16% to 14%

The Company ROCE declined from 19% to 16% as a result of the drop in turnover

### ROE

The ROE of the Group decreased from 21% to 19%, while the Company's ROE fell to 20% from a ratio of 23% in the previous year.

### ROA

The Group ROA moved from 9% to 6%, while the Company reported a ROA of 9% from 12% in the previous year.

### Earning Per Share (EPS)

The EPS declined for both the Group and the Company due to lower earnings reported during the year. The EPS for the Group fell by 22% to Rs. 20.11 per share, from Rs. 25.63 in the previous year

The EPS for the Company fell by 11% to Rs.12.66 per share from Rs. 14.15 in the previous year.

However, Lanka Tiles increased the dividend payout ratio to 45% in the current year from 35% in the preceding year, to ensure our shareholders are compensated.

### Financial performance of subsidiaries 2017-18

The main contributors to the Lanka Walltiles Group's profit are the Lanka Tiles PLC, Horana Plantation PLC, the Swisstek (Ceylon) PLC and Swisstek Aluminium Limited. Their financial performance is listed below.

Manufactured Capital Item	Lanka Tiles PLC	Horana Plantation PLC	Swisstek (Ceylon) PLC	Swisstek Aluminium Limited
	Rs. (000)	Rs. (000)	Rs. (000)	Rs. (000)
Net turnover	6,126,307	2,248,462	736,784	3,340,583
Gross profit	2,380,504	265,514	175,192	1,013,412
Profit from operations	1,254,355	191,588	217,917	455,807
PBT	1,232,587	104,674	184,138	339,186
PAT	883,866	84,345	162,398	254,208

## Human Capital

The human capital chapter describes the workforce of Lanka Walltiles, which stood at 530 personnel as at end March 2018, and how we added value to our people to support the Company's growth objectives. The Company has three types of employees

in terms of type of contract, which are permanent contracts, fixed term and casual contracts.

Indicating the quality of our human resources management practices, in 2017-18 Lanka Walltiles PLC was recognised as a 'Great Place

to Work' placing the Company among the best corporate employers in the country.

Lanka Walltiles' human capital base by employment grade and gender as at 31st March 2018.

Employment grade	Male	Female
Senior Management and above	5	1
Executive Staff	38	12
Non Executive Staff	414	39
Total	457	52



The Company has a predominantly male workforce with 470 men and 60 women as a large number of men are engaged in factory employments due to the nature of production activities of the Company. A majority of employees are from urban areas with rural workforce representing only 10% of total employees.



Receiving Green Label Certification



Award winning HR Department

## Managing our Capitals

### Employees by unionisation.

There was no change to the unionised employee profile of the Company during the year

	2016-17	2017-18
Employees in trade union	50%	56%
Non-unionised employees	50%	44%
Total	100%	100%

### Lanka Walltiles labour costs 2016-17 Vs 2017-18

During the current financial year Lanka Walltiles spent Rs. 379 Mn on employee wages and over Rs. 32 Mn on employee benefits. This expenditure represents 15% of total costs of the Company for the year.

	2016-17	2017-18
Total expenditure on employee wages Rs.	323 Mn	379 Mn
Wages as % of total costs	13%	13%
Total expenditure on employee benefits Rs.	27 Mn	32 Mn
Total expenditure on employees as a% of total cost	14%	15%
Ratio of basic salary and remuneration of women to men (All employee categories)"	1:1	1:1

### Status of regulatory compliance

Lanka Walltiles was fully compliant with all applicable national labour regulations during the year and did not face any fines or penalties for late compliance or non compliance of labour regulations. All statutory payments including EPF, ETF and gratuity payments have been made on time.



Awards for Long Service

### Changes to human capital in 2017-18

There were no significant changes to human capital management policies during the year with the exception of new recruitments and salary revisions in line with market trends. All other routine best practices in relation to human resource management were observed, including performance reviews, promotions and grievance management.

A 3-year collective agreement with the trade union is currently in operation to ensure smooth labour relations. All occupational health and safety standards have been stringently observed at all times at factory premises, conforming to national regulations and international best practices.

Training and development was a key component of human capital development during the year. The Company is in the process of restructuring its manufacturing model to cater to new consumer trends and to compete with low cost imported products. Changes to employee attitudes and skill sets are vital to ensure success in these initiatives. Therefore, training programmes were developed to gain a competitive advantage for the Company in the market, through production related skill development, marketing, merchandising and customer care training, and by exposing employees to working conditions in other countries to generate attitudinal changes and strengthen their work ethic.

Another value added component was the wage revisions effected during the year. The Board Remuneration Committee evaluated the existing salary structures of the Company in line with market rates and Company strategic objectives to attract and retain

highly skilled cadre. Following this review, salary increments were recommended to the Board. These recommendations were approved by the Board and enacted during the year and employees received an average salary increment of 17% against the previous year. Consequently, coupled with new recruitments, the Company experienced an increase of 17% in the wage bill from Rs. 323 in the previous year, to Rs. 379 in the current year. Wages accounted for 13% of total costs in 2017-18. We have continued to ensure that men and women are paid equal remuneration for equal work and the company does not maintain a gender pay gap.

In addition to salaries, employees were rewarded using incentives, bonuses, salary increments and foreign tours. The Company also provided many benefits above and beyond wages such as staff discounts and a 25 year service felicitation, medical insurance, staff outings etc.

### New recruitments in 2017-18

Lanka Walltiles made 108 new recruitments for the year. All recruitments are conducted according to a Board approved, formal recruitment process which is based on merit as an equal opportunity employer.

The selection of potential candidates is based on vacancies and Company wide skill mapping, which identifies new talent required to achieve strategic objectives. New recruitments during the current financial year were primarily in the production and sales departments in alignment with the proposed increases in production and sales in the coming year.



*With long service award winners*

### New recruitment by employment contract and gender

Employment contract	Male	Female
Senior Management and above	-	-
Executive Staff	8	1
Non Executive Staff	83	16
Total	91	17

### Performance reviews

To facilitate training, increments and career progress through promotions, annual performance reviews were conducted for all employees (100%), based on a pre-designed format.

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

### Occupational health and safety

As part of the Group-wide compliance policy, Lanka Walltiles has a 'Zero Accident' policy at its production facility. Employees' safety is ingrained through the implementation of the internationally accepted OHSAS 18001 safety standard in all factory operations. In addition, a Safety Committee is in operation to 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.

### Standard safety practices include:

- Appropriate fire-fighting and other safety equipment is installed as per the guidelines set out by the Department of Labour and the OHSAS 18001 standard.
- 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.

## Managing our Capitals

- 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 a safety manual available for the reference of the employees at the factory premises.
- Regular safety awareness programmes are conducted.
- The employees based in our factory receive regular training on the use of safety equipment in case of a fire or during any other emergency/disaster situation
- Health and safety is covered under the existing collective agreement

### Industrial Accidents 2016-17 vs 2017-18

Type of Accident	2016-17	2017-18
Major accidents (nos)	none	2
Minor accidents (nos)	17	21
Lost days due to accidents (nos)	none	76 days

### Training and Development

Employees' training needs are identified through the Performance Management System as well as through a skill mapping process where specialist skills are identified in line with Company growth objectives. During 2017-18 training and development was focused towards:

- Productivity enhancement
- Attitude development and work ethic
- Spiritual training
- Foreign Training in manufacturing

- Quality systems
- Environmental system training
- Showroom staff training – Customer Relationship Management
- Marketing, sales and merchandising

During 2017-18, LTPLC invested Rs.3.4 Mn on training and development programmes conducted for employees..

### Succession Planning and Career Development

The Lanka Walltiles personnel development strategy is based on a “develop from within” philosophy. Accordingly, the Company offers first access to new opportunities to existing employees, as and when they arise. The Company also provides career guidance and continuous professional development programmes.

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

### Employee Grievance Mechanisms

No changes were made to the existing grievance policy and procedures in 2017-18 and there were no significant grievances reported by the union during the year. An Employee Grievance Committee, aligned to the requirements of OHSAS 18001 has been established. 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.

### Employee Welfare, Work-life Balance, and Well-being

Lanka Walltiles being recognised as a 'Great Place to Work,' demonstrates the quality of employee welfare measures available to our employees. The Company has many mechanisms in place to identify and respond to employee concerns, including regular meetings with trade union representatives, in addition to individual communications. The Company has also introduced many



Promoting Healthy Lifestyle



### *Promoting Healthy Lifestyle in Communities*

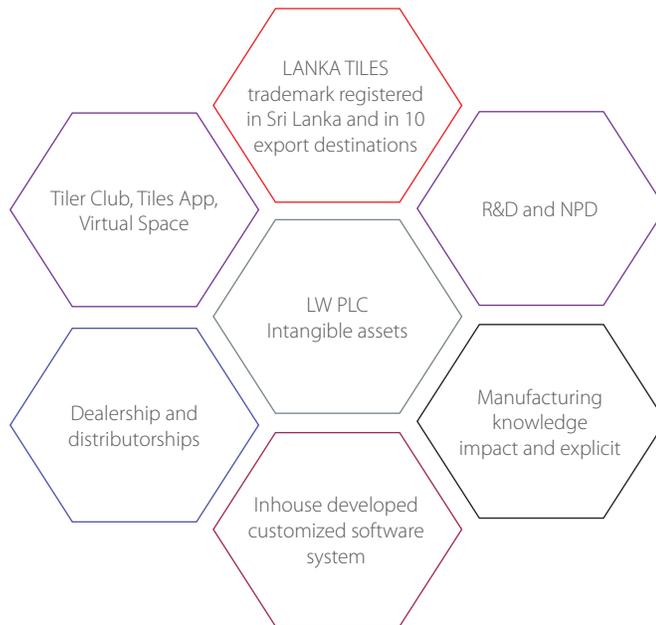
innovative ways to improve work-life balance and quality of life of employees. These include:

- Setting up a dedicated 'relaxation area' in the factory. These areas are equipped with games and comfortable seating arrangements to allow employees to take a break from their work routines.
- A special Spiritual Management programme is conducted for managers by an external specialist.
- Managing the number of work hours to provide flexible and mentally and physically healthy work life
- Employees are provided leave for family and other emergencies
- Company trips and outings are organised to allow employees to social and network and build team spirit
- Family gatherings are organised to allow employees to enjoy with their families
- Sporting events are conducted regularly to appreciate athletic skills and to encourage healthy lifestyles
- Cultural and religious activities, such as pirith ceremonies are conducted regularly for spiritual well-being
- 25 years of service was recognised at a staff felicitation ceremony

## Managing our Capitals

### Intellectual Capital

This chapter explains how the Company has added value to the intellectual capital base during the current financial year. We estimate the collective value of the Lanka Walltiles' intellectual assets at over Rs. 500 Mn as at end March 2018.



high international quality products reflecting the latest design trends both in the local market and foreign markets.

- The 'LANKATILES' brand is firmly established and recognised internally as a trusted and reliable brand that delivers optimum value for money for all categories of customers.
- During the year, about 44 new designs and 6 new sizes were introduced to capture consumer and commercial market segments and position LANKATILES as a modern and youthful brand personifying contemporary lifestyle aspirations, which resulted in a market share of 20%.

### Production quality management system

The Lanka Tiles production system is built on a quality platform comprising multiple national and international quality systems specialising in work flows, health and safety, environmental safety and management techniques.

### LANKATILES trademark

- The LANKATILES trademark is registered with the National Intellectual Property Office and is also registered in export destinations of India, Australia, Japan, Singapore, USA, Brisbane, Pakistan, Maldives, Netherlands, Canada to ensure protection for the brand and brand reputation. During the current financial year, we invested Rs.1 Mn on intellectual property registrations and renewals.
- The LANKATILES brand is positioned as a global brand with advertising and promotions during the year aimed at enhancing brand image and brand equity as a trusted brand delivering consistently



Customer Review on Review Board

Our production quality system at the Meepe factory includes the domestic SLS standard and international ISO standards of ISO 9001 certification and ISO 14001 standard of environmental standards of production. In addition the factory is compliant with OHSAS 18001 on occupational health and safety. This multi layered quality system is the foundation of our production process, ensuring consistent quality standards, on par with international tile brands, making the LANKATILES brand international quality in all aspects of production.

In 2017 Lanka Walltiles obtained the GREEN Label certification with an investment of Rs. 5 Mn, which includes training of employees and modifications of systems to comply with the stipulations of the standard.

During the year the company invested Rs. 5 Mn on complying and retaining the quality certifications.

### **New Product Development (NPD)**

In an environment of rapidly changing global interior design trends, continuous innovation and creativity is the foundation for success. Therefore, we continued to invest in aligning our production systems to respond to changing consumer trends, extending from raw materials, patterns, colours and finishes, to the sizes and shapes of our tile outputs.

Our current Indian partnership has supported this global focus by enabling us to provide designs to the local market that we cannot at present manufacture at our factory in Ranala.

During the current financial year, we made headway in responding to the growing



*LANKATILES Stall at 'Coverings' Exhibition 2017*

demand for larger sizes of tiles which are gaining in popularity among domestic and commercial sectors due to more economical applications.

In addition, we also introduced 44 new designs to the local market during the year, giving a facelift to our design portfolio and ensuring our products remain fashionable and trendy.

Currently we have over 1,000 SKU's of various sizes, designs, shades, body types in our product portfolio. This growth in our product portfolio has contributed to an improved sales mix and allowed us to attract a wider customer range with more diverse preferences.

During the year we invested in excess of Rs. 7.5 Mn on research and development activities.

### **Market channels**

Lanka Walltiles has deployed a market channel development strategy through franchise agreements to rapidly penetrate the market with LANKATILES branded products. Our exclusive agreements are a part of our intellectual asset base due to their high potential for generating future revenues for the Company.

During the year, the company entered into 5 new franchise agreements and also exclusive agreements with distributors, dealers and showrooms which has consolidated the Company's market footprint. The new showrooms in particular have been situated in strategic localities to ensure a competitive advantage to LANKATILES in the highly competitive tile market in Sri Lanka.

## Managing our Capitals

### Manufactured capital

This chapter explains the status of manufactured assets of the Company. The Company's manufactured capital base comprises the Meepe factory facility, Company owned showrooms, Company owned vehicles, inventory and furniture and equipment.

As at end March 2018, the total value of our manufactured capital base stood at Rs. 3.4 bn.

### Changes to manufactured assets

The only significant changes to our manufactured capital base stems from the increase in inventory of finished, unsold products during the year. Total finished inventory increased by 24% year-on-year to Rs. 1.6 Bn as a result of higher domestic outputs and also larger volumes of own-brand imports from China, under the Company's outsourced manufacturing agreement. Company's inventory turnover increased by 45 days from 128 in 2016-17 to 173 days during the year, the inventory build up occurred due to much lower demand from the construction and real estate sectors. During 2017 the construction sector rate of growth declined well below anticipated growth rates, thereby significantly reducing large scale commercial and project related orders. However, with our distribution network expansion happening at a rapid pace, we are confident of faster inventory turnaround within the new financial year.

There were no capacity additions to existing factory premises, plant, machinery and equipment during the current financial year. However, all maintenance and repair works were conducted promptly to ensure

optimum condition of these manufacturing assets. During the year, the Company invested in excess of Rs. 111 Mn on maintenance and repairs. The value of our factory premises was Rs. 727 mn as at end of the year with plant and machinery valued at Rs. 974 mn. Our fleet of vehicles was valued at Rs. 71 Mn as at year end which is an increase of 12% against the previous year.

Although the Lanka Walltiles distribution network of warehouses and showrooms continued to expand during the year, this was achieved by contracting with third party warehouse and showroom owners. Therefore, the number of Company owned showrooms did not change in the current financial year and was valued at Rs. 85 Mn. However, we invested in excess of Rs. 8.6 Mn on redesigning and upgrading 10 showrooms to reflect the premium Lanka Walltiles brand image.

### Changes to manufactured assets

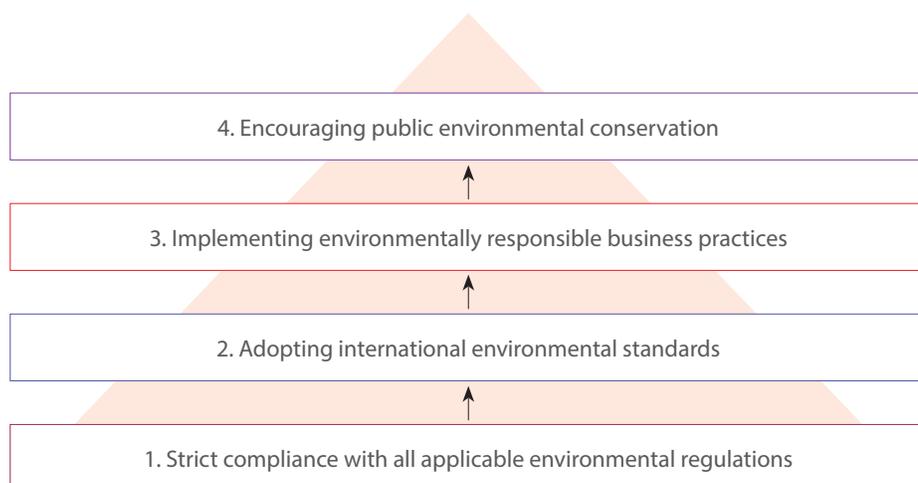
Manufactured capital item	2016-17 value Rs. Mn	2017-18 value Rs. Mn	% change
Factory building	732	727	1
Plant and machinery	962	974	1
Showrooms	86	85	1
Fleet of vehicles	63	71	12
Furniture and equipment	31	34	10
Inventory	1,336	1,606	24
Total	3,210	3,497	9

### Environmental responsibility

Lanka Walltiles do not own any specific form of natural capital with the exception of land occupying its factory premises and office premises. Therefore, the natural capital component of the Company's reporting refers to how the Company attempts to be environmentally responsible through compliance with environmental regulations and improvements to the manufacturing processes and business model to conserve natural resources and reduce negative environmental impacts.

### Lanka Walltiles Environmental Responsibility Model

The Lanka Walltiles policy on environmental responsibility is founded on absolute compliance with all applicable environmental regulations. On top of this, we have established an additional layer of international best practices on environmentally friendly manufacturing, by adhering to international environmental standards, which are audited and tested for accurate implementation by independent external auditors. This environmental accountability base is further enhanced by adopting responsible business practices within the organisation to conserve natural resources. Finally, in addition to internal efforts, we also attempt to promote an environmental consciousness among our external stakeholders.



### 1. Environmental regulatory compliance

We are fully compliant with all applicable Central Environmental Authority (CEA) and other regulations. We did not face any fines or penalties for non-compliance.

During 2017-18 financial year, the Company invested Rs. 20 Mn on compliance activities such as sound proofing, monitoring

environmental impacts and reducing dust emissions. Sound and air emissions are monitored regularly to sat within mandated levels.

Status of environmental compliance as at March 31, 2018 (if partially compliant or non-compliant give reasons and responses

Name of regulation	Fully compliant	Partially compliant	Non-compliant
National environmental – Act section 23 A,B,C,D,E & 32	√		
National environmental – Act section 23 P,Q,R & 32	√		
National environmental – Act section 23 J,K and 32	√		
Compliance to factory ordinance	√		
Trade license	√		

### Compliance with CEA standards

#### Containing air pollution

- The Company's ongoing projects to contain air emissions more efficiently, continued to make progress during the current financial year. This has ensured that the ambient air quality around the Meepe factory is well within the regulatory permissible level of 100 Micrograms for m3.
- Air emissions due to tile manufacturing comprise Greenhouse Gas (GHG) emissions, tile dust, and other types of air emissions. Factory has ensured that all emissions are below the permissible levels set by the CEA. We regularly monitor air emissions for sulphur dioxides (SOx) and nitrogen oxides (NOx) which are maintained well below regulatory levels.
- 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 and are regularly monitored to measure any changes in the levels of toxicity.
- The Company has no formal mechanisms in place to monitor CO and CO2 emissions. However, we continued to introduce improvements 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.

## Managing our Capitals

### • Containing Dust emissions :

Lanka Walltiles has ongoing projects to contain and reduce dust emissions from the firing process during the manufacture of tiles. The Company has installed dust collectors or containment points. This dust is collected and reused in the production process. Dust emissions of the Company are well below the maximum permissible levels set by the CEA.

### • Containing sound pollution

During the current financial year Lanka Walltiles continued to monitor and improve internal systems to measure and reduce sound pollution.

- The crushing process has been outsourced to reduce sound pollution within the factory radius. 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.
- The production processes which generate high amount of sound have been sound proofed with installing sound proofed cabins.
- The Company has also bought up land surrounding the factory to prevent sound disturbance to neighbours.

### Effluents and Waste Management

The effluent treatment process is BOD, COD, TSS & pH controlled and complies with parameters 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. Lanka Walltiles does not discharge any waste water into water bodies or in biodiversity rich habitats.

- Effluents and waste generated from the manufacturing process is monitored, tested and treated before it's released to the environment.
- This recycled water is then used inside the factory for manufacturing operations, cleaning and other ancillary purposes.

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

All other non-operational wastes like plastic, polythene, paper, metal scraps, etc are collected and segregated in a specified place inside the factory premises. They are sold to outside parties time to time.

### 2. International environmental standards certification

The company invested Rs. 9.3 Mn towards complying with international environmental standards listed below.

1. GREENSL<sup>®</sup> Green Labelling system for products
2. ISO 14001 certification



### 3. Implementing environmentally responsible business practices

#### • Practicing 3 Rs concept:

To conserve precious natural resources, the Company practices the 3R model of reduce, re-use and recycle in the business and manufacturing model. All tiles are recycled 100% before firing. The Company uses 10-12% of recycled materials such as green tiles, waste body powder in the production process. Further, any tiles that are rejected during the production process are also recycled.

#### • R&D

Lanka Walltiles conducts ongoing research on new forms and types of materials that can be used as substitutes in the production of tiles which will have a lower impact on the environment. The Company's efforts have thus far enabled to use recyclable and environmentally friendly raw materials such as clay, feldspar and green tiles in the production process.

#### • Use of non-toxic material

The raw materials used in the wall tiles manufacturing process are non-toxic and do not contain any hazardous chemicals such as Lead, Antimony, Arsenic, etc.

Any wastes such as inks, waste oil which cannot be recycled or treated are sent to incineration processes to eliminate any environmental risks.

#### • Energy conservation programme

Ongoing energy efficiency projects continued in 2017-18 to generate cost savings for the Company.

Energy efficiency is treated as a priority and energy consumption is monitored monthly, with energy saving processes which are regularly reviewed and improved to prevent any energy wastages. The Company has implemented an on-going energy efficiency improvement project to reduce energy consumption, which has generated extremely encouraging savings to the value of Rs. 24 Mn in the current financial year.

In addition, there are 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.

- **Water conservation**

We encourage employees to minimise the consumption of water and accordingly have signages in the restrooms and the cafeteria section. Approximately 30% of water is recycled and reused inside the factory for various activities including production and cleaning.

- **Training and awareness**

Lanka Walltiles carried out educational awareness programmes annually for staff and operatives on green practices and Environmental Management System to educate people on working environmentally friendly manner inside the factory and also at their own homes to change their mind sets to achieve environmentally friendly practices.

#### 4. Encouraging public environmental conservation

Lanka Walltiles is involved in 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.

Lanka Walltiles endeavours to procure raw materials from suppliers who follow 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.

## Managing our Capitals

### Social Capital

This chapter explains how the social capital of the Company has continued to grow and become stronger during the current financial year. The Lanka Walltiles social capital base comprises the LANKATILES brand equity and presence in society.

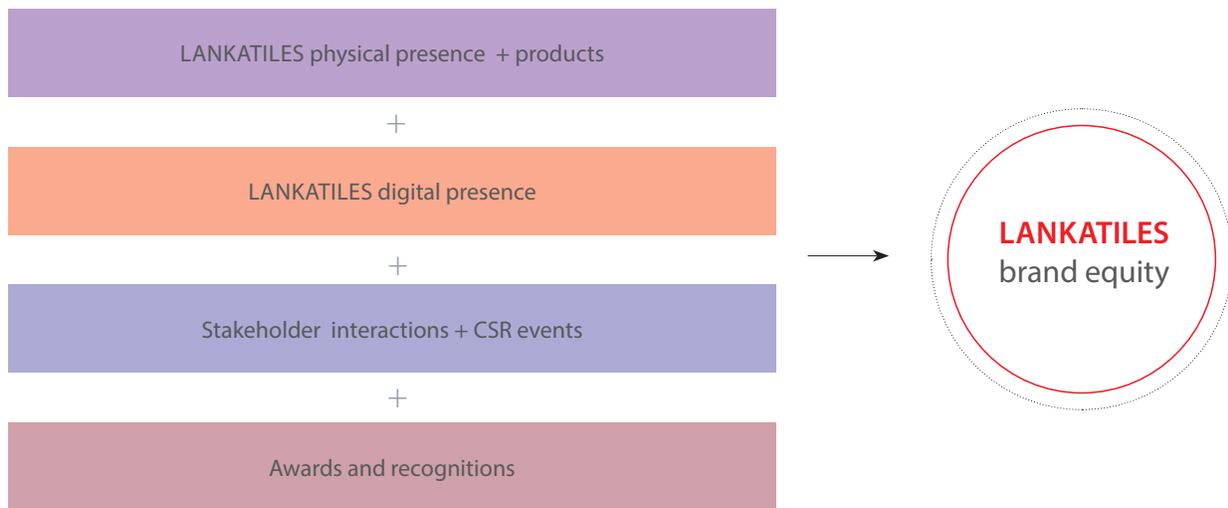
Our brand equity includes the good will and reputation built-up over decades of trust, quality service and reputation as

a responsible corporate citizen with no regulatory black marks against the company.

Our social presence is primarily defined by our physical retail and distribution network through which we interact with the public and our product portfolio. We are now, also expanding our social presence through digital platforms.

Our stakeholder engagement strategy and marketing strategy are developed

for maximum positive brand impact on all stakeholders. Customer surveys are conducted on a monthly basis and regular interaction is maintained with business partners and suppliers. In addition, we conduct many CSR activities during the year to engage with different communities through a non profit platform.



### Changes to social capital

During the current financial year we invested Rs. 68 Mn on marketing, promotions and digital marketing initiatives. In addition, to enhance our social capital base, we unrolled an aggressive expansion drive. These activities were aimed at differentiating and consolidating the LANKATILES brand from foreign and local competition. Our sales figures for the year, which have maintained strong growth in spite of extreme completion, indicates that our brand equity has gained in the domestic market and that consumers still prefer the LANKATILES branded products. As part of this distribution growth strategy, 10 franchise showrooms were upgraded.

Our expansion drive, supported by continuous stakeholder engagements, has contributed to brand equity by enhancing the LANKATILES brand visibility across the country, among all communities.

During the year, we also conducted many marketing and branding activities to increase brand visibility and brand recall.

### Expanding our physical presence

During the current financial year, the Lanka Tiles market presence increased significantly with dramatic expansion of the distribution and retail network by promoting a franchise model for retailing our products and by contracting independent third parties for warehousing and distributor services.

This strategy has:

1. Allowed more customers in all parts of the country to access trusted and reliable LANKATILES branded products, as opposed to unknown imports.
2. Strengthened the LANKATILES market hold by locking-in distribution networks through exclusive contracts with distributors, ensuring our products have higher market visibility and physical presence.

### Expanding our digital presence

Lanka Walltiles continued to focus on strengthening social capital through the use of modern digital platforms including mobile, web and social media presence.

### Upgrade to website

The Company website <http://www.lankatiles.com/> was upgraded and improved for a better user experience.

### Mobile APP for LANKATILES

A dedicated mobile app was developed and successfully introduced to the market for the public to enhance customer engagements.

### Facebook promotion

A Facebook promotion was launched with great success to promote LANKATILES products.

	2016-17	2017-18	% change
Own showrooms	2	2	-
Franchise showrooms	40	45	12
Direct Dealers	30	36	20
Distributors	27	31	16
Suppliers	120	160	33



## Managing our Capitals



### Marketing and brand development activities

#### The Tilers' Club

A unique initiative of the Lanka Walltiles Group, the Tilers' Club, is a channel to reach out and add value to our customers across the breadth of the country, by engaging industry practitioners. As at end of the current financial year, the Tilers' Club had a membership of around 4,000 active participants from the tile mason community, who were exposed to training programmes during the year about the quality standards and specific applications of Lanka Tiles products. This facilitates on-the-job professional advisory services to consumers regarding the use and application of our products towards enhance their living and working premises. During 2017 the Group distributed about Rs. 20 Mn in awards to Tilers' Club members in recognition of their contributions for introducing and promoting our products, which has further strengthened our industry networks and market reach.



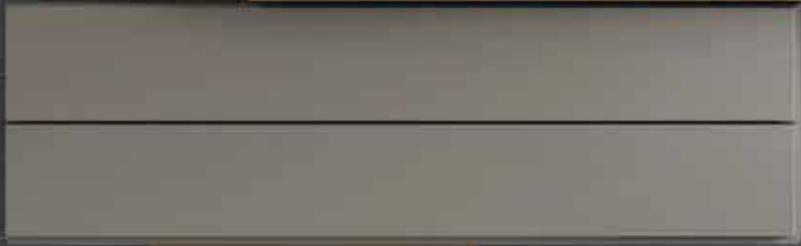
*Awarding Tiler Club Members*

**CSR events**

Lanka Walltiles contributes to many charitable events in cash or kind. Some of the events are described below.



CSR Events by the Factory





# Making the Right Choices

## Governance

Our governance is founded on principles of the utmost integrity and ethical practices drive our every action.

# Capitalising on a myriad opportunities

## Chairman's Message



**Dhammika Perera**  
Chairman

# “The Lanka Walltiles Group has continued to generate healthy profits and build brand equity within a prudent strategic framework.”

## Dear Shareholders,

The Lanka Walltiles PLC Group has continued to invest in value creation for the country and stakeholders within a challenging environment as indicated by the theme of this report, “A Will to Sustain,” and it is my pleasure to present an account of our business activities during the financial year 2017-18 to our shareholders through our annual report and audited accounts for the said period.

Our theme for this year’s annual report reflects the Lanka Walltiles Group’s determination to achieve growth and excellence in the face of adversity. We hope to describe these plans and our performance in this report, which is our first attempt at an integrated annual report.

As a diversified business operation, the Group is active in the different economic sectors of tile and associated product manufacturing,

aluminium extrusions, plantation management services and manufacturing packaging. Therefore, Group performance is subject to diverse and dynamic macro-economic conditions that have varying impacts upon our different businesses.

The current financial year was especially challenging for the tile and related products companies in the country against a backdrop of sluggish economic growth, slow construction sector growth, rising operating costs and an influx of imported, low cost tiles from China. The plantation sector on the other hand fared better on the back of higher international tea prices, although natural rubber production suffered under extreme weather conditions. The aluminium and packaging sectors were also impacted by high cost of raw materials, especially aluminium and paper.

Nevertheless, despite the many obstacles that impinged upon the financial goals of the Group, I am pleased to report that the Lanka Walltiles Group has continued to generate healthy profits and build brand equity within a prudent strategic framework. We have continued to strengthen our relationship with employees, business partners and customers during the year, while retaining a balance between financial, social and environmental objectives.

## Stakeholder value creation

Although we anticipated an upswing in profitability in 2017, external conditions caused an unavoidable downturn of the Group’s bottomline from Rs. 1.95 Bn in the previous financial year to Rs. 1.61 Bn in the current financial year. However, total economic value created by the Group increased by Rs. 200 Mn to Rs. 6.17 Bn during the year.

## Chairman's Message

“Shareholder equity has been augmented by 10% year-on-year to Rs 14.9 Bn, with retained profits rising by Rs 900 Mn to Rs 7.5 Bn during the year.”

exceptionally favourable treatment of our employees is reflected in the fact that Lanka Walltiles PLC has been recognised as a 'Great Place to Work' among the best corporate employers in the country.

Customer value creation is essential to compete and in the current financial year, Lanka Walltiles and Lanka Tiles significantly enhanced their customer value proposition through attractive pricing strategies. Prices were slashed to make our range of international quality tiles and related products affordable to larger numbers of consumers. Although this decision to sacrifice our margins has reduced overall profitability, we believe our contributions towards quality of life and conservation of foreign exchange - by enhancing affordability of our tiles against imported products - have further strengthened the brand positions of Lanka Tiles and Lanka Walltiles.

Despite the lower profits for the year, we have remained true to our undertaking towards augmenting our shareholders' wealth. During the year we made an interim dividend payout and a final dividend payout to our shareholders totalling Rs. 9.50 per share and I would like to highlight that we have also enhanced the dividend payout ratio compared to previous years to increase return on investments for our esteemed shareholders. In addition, shareholder equity has been augmented by 7% year-on-year to Rs. 10.5 Bn, with retained profits rising by Rs. 565 Mn to Rs. 7.2 Bn during the year. As a result, the return on equity has increased by 7% and return on assets has grown by 2.5%, reflecting Group asset growth by Rs. 3.5 Bn during the year. I request our shareholders to refer the Managing Director's Review and the Financial Capital Management chapter for further details on the financial and business performance of the Group.

We have also not neglected our core stakeholder group, who are our employees, in our thrust towards enhancing our financial performance. On the contrary, our



We also strengthened our business relationships. I would like to highlight that a majority of our business partners have been with us for as long as 30 to 40 years. This is the best indicator of the trust and professionalism of our business relationships. Validating this commitment to advance opportunities for our business partners, this year, the Tilers' Club, which has a membership of around 1,800 active participants from the tile mason community, distributed about Rs. 20 Mn in awards to members for their contributions in promoting our products.

In addition, the Lanka Walltiles Group paid over Rs. 698 Mn in total tax payments for the financial year 2017-18. Further to this statutory outlay, the Group distributed over Rs. 100 Mn among various communities through our CSR projects during the year. Please refer the chapter on Social Capital for details on CSR activities by Lanka Walltiles.

We have also made exceptional headway in curtailing costs through a range of efficiency improvement interventions through a Total Productive Maintenance Programme (TPM Programme). In fact, we have saved about Rs. 180 Mn during the year through these cost-saving projects, which has contributed towards countering the incessant cost increases.

### Compliance and good governance

The Lanka Walltiles Group has always been a highly compliant organisation in all aspects of our business activities and during the current financial year too, the Group did not face any fines or penalties for non-compliance, or delays in compliance with any applicable regulations. Within our companies

we make all efforts to ingrain the ethics of accountability and good governance across organisational structures, and as a result, we enjoy an exceptionally high degree of integrity among our employees. I believe this is an internal strength that contributes towards the overall sustainability of the Group.

We also continued to strengthen internal controls by continually reviewing and eliminating non-value adding processes and concentrating on value-adding processes, to optimise management of our financial and non-financial capitals.

### Future direction

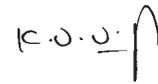
I believe the Lanka Walltiles Group has immense potential for growth and to support the national development drive as the country realigns into a new growth trajectory as a middle income economy. Within this scenario, it is necessary to reposition and realign the Group, to tap into emerging opportunities within a changing market that also manifests new threats and challenges. Therefore, we are now equipped with a new corporate blueprint to transition the Group to its next stage of growth by doubling turnover and profits over the short-term, through a product and market development strategy.

Our far-reaching investment plans for the future have already been deployed, with Lanka Walltiles and Lanka Tiles planning to invest about Rs. 600-700 Mn in a subsidiary to manufacture sandwich panels for walls and roofing. We are also considering other diversified investments to enhance our revenue flows and strengthen financial and market sustainability over the mid to long

term. I am confident our shareholders will reap the benefits of these plans in the near future.

### Acknowledgements

I would like to thank the Board of Directors for their dedicated contributions to advance the growth of the Group during the year and I wish to thank the Managing Director, the Senior Management and the staff of Lanka Walltiles PLC for their hard work in making the current year a success. I also thank all our valued customers, dealers, distributors, regulators, and shareholders for their continued support and for the trust placed in the Company and the Group.



**Dhammika Perera**

Chairman

25th May 2018

# Upholding our performance

## Managing Director's Review



A handwritten signature in black ink, appearing to read 'J A P M Jayasekera'. The signature is stylized and cursive.

**J A P M Jayasekera**  
Managing Director

# “The total revenue from the Group’s tile and associated products manufacturing companies came to Rs. 9.90 Bn.”

The financial year 2017-18 has been a year of challenges and changes for the Lanka Walltiles PLC. Despite rising external threats, the Company continued to maintain strong brand positioning and sustained revenue growth, while also delivering comparatively robust profits. More significantly, we laid a solid foundation for a stronger growth model for the future. This demonstrates our “Will to Sustain,” as illustrated by our theme story for this year.

## **Operating environment**

Market conditions were highly unfavourable for domestic tile manufacturers as a whole during the 2017/18 financial year, with domestic players losing market share to imports and experiencing rapidly narrowing profit margins. At present, nearly 87% of total tile outputs of Lanka Walltiles are manufactured locally and collectively accounts for 85% of revenue. Therefore, the prevalent systemic risks resulted in unavoidable negative consequences for the Group’s financial returns. I will take this opportunity to briefly explain some of the more pressing concerns facing the Company and will also describe our strategies to sustain business growth into the future.



*Factory Premises*

There were several factors that significantly impacted the Company’s financial performance. On the demand-side we experienced sluggish macroeconomic conditions including a modest economic growth and in particular slower construction sector growth, that resulted in lower demand for floor tiles, wall tiles and tile accessories from both the household sector and the commercial sector of the country.

Secondly, the country continued to experience rising cost structures and the manufacturing sector in particular was faced with significantly higher energy costs, which directly contributed towards pushing up overall operating costs. Lanka Walltiles, as a tile manufacturer, is a high energy consumer and this cost increase could not be recovered by simply increasing retail prices due to the element of low cost foreign competition within domestic tile markets.

## Managing Director's Review

“The Group balance sheet expanded by 16% to Rs. 25.7 Bn, with an 20% growth in the Lanka Walltiles balance sheet, which reached Rs. 7.8 Bn by the end of the year.”



*Addressing TPM Benchmark Forum*

Imported tiles continued to present a growing threat to domestic tile manufacturers due to their low retail pricing strategy, which domestic manufacturers found difficult to match, due to the country's comparatively higher production cost structures.

In addition, poor weather conditions experienced during 2017 also had an indirect negative impact on the tile industry by disrupting livelihoods and curtailing disposable incomes of a wide swathe of consumer segments.

Lanka Walltiles in particular is also experiencing a shift in consumer value-perceptions, where consumers no longer differentiate between floor tiles and wall tiles. The trend is towards tiles that can be used both on walls and floors, and in larger sizes.

### Summary of financial performance

At Group level the topline increased by 14% against the previous financial year, while the Company topline dropped by a marginal 0.9% to Rs. 3.3 Bn, due to a 5.6% drop in sales volumes stemming from unfavourable demand dynamics experienced throughout the year, as explained above. Group export revenues increased by 17.3% to Rs. 856 Mn during the year supported by rupee depreciation, while Lanka Walltiles also achieved an export income growth of 8.5%, which totalled Rs. 590.5 Mn. Profit before interest and tax of the Group declined by 7.6% to Rs. 2.8 Bn, with Lanka Walltiles recording a decline of 6.6% at Rs. 980.6 Mn, leading to an overall drop of 17.3% in net profits at Group level, which came to Rs. 1.61 Bn, and a 10.6% drop in net profits at Company level at Rs. 691 Mn.

The Group balance sheet expanded by 16% to Rs. 25.7 Bn, with an 20% growth in the Lanka Walltiles balance sheet, which reached

Rs. 7.8 Bn by the end of the year. With higher production and capital investments, total assets, property plant and equipment and inventories of the Company expanded during the year, underpinning this expansion in balance sheet. Please refer the Financial Capital Management chapter of this report for a more detailed description of our financial fundamentals as at end March 2018.

On a sectoral assessment, the total revenue from the Group's tile and associated products manufacturing companies came to Rs. 9.90 Bn, compared to Rs. 8.84 Bn in the previous year, while the profit before tax was Rs.1.81 Bn, from Rs. 2.16 Bn in 2016/17.

The aluminium sector generated a revenue of Rs. 3.34 Bn, from Rs. 2.82 Bn in the previous year, while the profit before tax in the year under review was Rs. 339 Mn, compared to Rs. 365 Mn in the 2016/17 financial year.

The plantation sector contributed Rs. 2.25 Bn in revenue, compared to Rs.1.87 Bn in the previous year, while profit before tax came to Rs. 138 Mn, compared to a loss of Rs. 45 Mn in the previous year.

The packaging sector revenue amounted to Rs. 2.8 Bn, against Rs. 2.5 Bn last year, with the profit before tax recorded at Rs. 15 Mn, compared to Rs. 128 Mn in the previous year.

### Risk management

During the current financial year, we successfully operationalised a number of adjustments to our business model in response to the changing systemic threat profile faced by the Company and our subsidiaries. These changes to our business model includes adopting an outsourced

manufacturing strategy to take advantage of lower cost manufacturing opportunities in other countries.

The threat from low-priced imported tiles was diverted, by adding China as an own-brand manufacturing destination to our existing Indian operations that support our subsidiary Lanka Tiles. We commenced importing floor-tiles under the Lanka Walltiles brand from China that were retailed at all Lanka Walltiles

beefing-up our distribution and warehousing networks islandwide through external business partnerships, instead of setting up our own warehouses and outlets. This move has rapidly increased consumer accessibility to our products.

### Operational performance

To report on our operational status, the Lanka Walltiles factory ran at almost full capacity during the year with a capacity utilisation



*Awarding Tilers*

outlets, at extremely competitive rates. This move, coupled with a new distribution strategy, has generated demonstrably positive results, as can be seen in our turnover growth for the year, despite markets being flooded by imports.

To safeguard market share and enhance brand presence we changed our distribution strategy. During the year we focused on

of 92.6%, despite our import from China. This increased our domestic production by 5.5% from last year. Factory workflows and production efficiencies were improved by modifying and upgrading production lines to improve capacity.

On the downside however, we were unable to meet our sales target of disposing 100% of the Lanka Walltiles output, which I believe is due to the general drop in demand.

## Managing Director's Review

During the year we disposed of about 80% of the Lanka Walltiles output. However, I believe our new distribution and pricing strategies will result in faster stock turnover in the new financial year. We are closely observing market demand trends to facilitate this process.

We continued to invest in modernisation through software upgrades that are developed in-house. Our software systems are now a valuable component of the Group's intellectual capital base due to their high degree of applicational customisation and ability to generate a competitive advantage. These software systems include our in-house developed ERP system, which facilitates excellent internal controls and flexibility in running our business.

In the current financial year, we contracted external expertise to conduct an internal audit on our Enterprise Resources Planning (ERP) system to ensure our internal control environment is in optimum condition within

the context of the Company's changing risk profile. External specialists were also contracted to evaluate our system security. Having successfully concluded the audit, a group has been assigned the task of addressing any security vulnerabilities identified through the IT security audit and the ERP system. We are currently also in the process of aligning our systems to obtain the ISO 27000 certification for IT security, which will elevate our system security to the highest international standards.

Our human capital base was improved during the year through investments in up-skilling and retaining our talent pool. Please refer the Human Capital Management chapter for information in this regard.

I would also like to highlight that both Lanka Walltiles and Lanka Tiles remain top domestic tile brands despite new entrants into the market. This is particularly significant as we do not resort to expensive mass media advertising for Lanka Walltiles. However, we

have continued to invest in all our brands to build up brand equity and brand visibility. More information on how we promote the Lanka Walltiles brand can be found in the Social Capital Management chapter of this report.

### Outlook and growth strategy

The short-term target for the Lanka Walltiles is an ambitious one, to double turnover and profits. While I am fully confident this is an attainable target, we face a challenging environment in which to do so.

In the 2018-19 financial year the Company will be faced with an increased tax burden following the new Inland Revenue Act coming into force from the 1st of April. The concessionary tax rate of 14% hitherto available to exporters on export profits, have been withdrawn and the tax rate of 28% will be applicable from the financial year 2018/19. We have made representations to the government in this regard and obtained an assurance to reverse the tax rate to 14%. However, until this reversal is effected, the negative impact of deferred tax is Rs. 41 Mn on Lanka Walltiles, which will erode profitability at the current level, by a staggering 6%. Therefore, this situation is an extremely challenging one.

Nevertheless, I believe domestic market conditions will improve within the short term to enable faster business expansion. The threat from imports can also be expected to become less virulent with time, as China, a major contributor, is experiencing rising domestic costs. We are also positioned to benefit from cost differentials in both India and China due to our diversified



*Awarding Business Partners*



*Recognising Long standing Employees*

manufacturing model where Lanka Tiles has now established a manufacturing base in India and Lanka Walltiles is in the process of doing the same in China. Therefore, a stable interest-rate regime, coupled with an upturn in the construction sector and with no widespread natural calamities, would allow the company to make rapid gains under our growth strategy.

The outlook for export markets however, remains challenging. We are monitoring developments between China and the US trade relations and other global trends for opportunities in export markets. We are also looking into possibilities in the US and Canada for wall tile exports.

Our domestic retail operations will be revamped in the new financial year to enhance value additions for Lanka Walltiles. This will be achieved through the introduction of a range of new products, including high quality sanitaryware and

accessories such as fittings and faucets, that will be packaged with tiling solutions. We hope to rollout the new product range by mid 2018.

We are also considering a rebranding strategy for Lanka Walltiles in response to the changing consumer demand for tiles that can be used for both walls and floors. In addition, our product development strategy will continue to gradually phase-out the manufacture of small tiles, and shift away from ceramic tile production, to porcelain tiles. This decision is driven by consumer value perception trends, where demand for smaller tiles and ceramic tiles are declining in preference for porcelain tiles and more economical, larger tiles.

### Appreciations

I would like to express my appreciation to the Chairman and my colleagues on the Board for their guidance and advice during a particularly difficult year. As always, I appreciate our shareholders for their confidence in the management and the Company. I would also like to express my appreciation to all employees, customers, dealers, distributors, bankers, suppliers and other stakeholders for their continued support and commitment towards the Company's success.

Sincerely,

**J A P M Jayasekera**  
Managing Director

25th May 2018

# A leadership that drives performance

## The Board of Directors



**Mr. Dhammika Perera**  
Chairman



**Mr. A M Weerasinghe**  
Deputy Chairman



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



**Dr. S Selliah**  
Director



**Mr. T G Thoradeniya**  
Director



**Mr. K D G Gunaratne**  
Director



Ms. A M L Page  
Director



Mr. R N Somaratne  
Director



Mr. J D Nihal Kekulawala  
Director

## The Board of Directors

### Mr. Dhammika Perera

#### Chairman

Mr. Dhammika Perera is the quintessential strategist and a business specialist with interests in a variety of key industries including Manufacturing, Banking and Finance, Hospitality and Hydropower Generation. He has nearly thirty years of experience in building formidable businesses through unmatched strategic foresight.

Mr. Perera is the Chairman of Vallibel One PLC, Royal Ceramics Lanka PLC, Lanka Ceramic PLC, Lanka Tiles PLC, Lanka Walltiles PLC, The Fortress Resorts PLC, Vallibel Power Erathna PLC, Delmege Limited, and LB Microfinance Myanmar Company Limited. He is the Co-Chairman of Hayleys PLC, The Kingsbury PLC, Singer (Sri Lanka) PLC, The Executive Deputy Chairman of LB Finance PLC and the 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, 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, Lanka Ceramic PLC and Swisstek Aluminium Limited. He is also a Director of HNB Assurance PLC, Uni Dil Packaging Limited and Uni Dil Packaging Solutions Limited.

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

### 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 Hospital Pvt Ltd. He is a Director of Lanka Tiles PLC, Lanka Walltiles PLC, Softlogic Holdings PLC, ODEL PLC, HNB Assurance PLC, ACL Cables PLC, Lanka Ceramic PLC, Swisstek (Ceylon) PLC and Swisstek Aluminium Ltd. Dr. Selliah is the Chairman of JAT Holdings Pvt Ltd and Cleanco Lanka Pvt Ltd.

Dr. Selliah also serves on the Audit Committee, Investment Committee, Risk Committee, Strategic Planning Committee, Related Party Transactions Committee and HR & 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, Uni dil 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 at 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. R N Somaratne****Director**

Mr. R Nandajith Somaratne currently serves as a Director of Hayleys Fabrics PLC and Royal Porcelain (Pvt) Ltd, which is a fully owned subsidiaries of Royal Ceramics Lanka PLC. He is currently working in the capacity of General Manager (Manufacturing) for the Royal Ceramics Group, which includes Lanka Walltiles PLC and Lanka Tiles PLC. He served at in Ansell Lanka (Pvt) Ltd and in the Central Engineering Consultancy Bureau (CECB) before joining Royal Ceramics Lanka PLC in 1993. Mr. Nandajith Somaratne counts more than 25 years' experience in the Ceramic Industry and the Manufacturing field. He holds an MBA from the University of Colombo, Post Graduate Diploma in Industrial Engineering from NIBM and a B.Sc. degree in Physical Science from the University of Peradeniya.

Mr. Somaratne has undergone several corporate leadership training programmes including a Corporate Leadership Management Programme conducted by HIDA, Japan.

**Mr. J D Nihal Kekulawala****Director**

Mr. Kekulawala had held senior positions in the Hatton National Bank including Chief Financial Officer, Senior Deputy General Manager Strategy & Compliance. He worked as the lead consultant responsible for commencing commercial banking operations in the Solomon Islands and also functioned as the inaugural CEO of the bank.

Mr. Nihal Kekulawala is a Fellow of the Institute of Chartered Accountants in England & Wales and a Fellow of the Institute of Chartered Accountants in Sri Lanka and a Fellow of the Chartered Institute of Bankers in England. He holds a MBA from the University of Manchester.

# A winning philosophy

## Corporate Management



**Mr. Mahendra Jayasekera**  
Managing Director



**Mr. Nandajith Somaratne**  
Director/ Group General Manager Manufacturing



**Mr. Shirley Mahendra**  
General Manager (Marketing)



**Mr. Tyrell Roche**  
General Manager (Finance)



**Mr. Nihal Kumarasinghe**  
Assistant General Manager (Technical)



**Mr. Upul Weerasinghe**  
Group Engineering Manager



**Ms. Nathalie Kehrli**  
Head of Design



**Mr. Prasad Keerthiratna**  
Head of IT



**Mr. Mahesh Mendis**  
Factory Manager



**Ms. Sajeewani Amarasinghe**  
Group Finance Manager



**Mr. Anura Ratnayake**  
Group Business Development Manager



**Ms. Kaushalya Sudasinghe**  
Group Manager - Sales Administration

# Prudent strategies. Controlled growth.

## Corporate Governance

### Introduction

The Board of Directors of Lanka Walltiles 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.

The Board of Directors of Lanka Walltiles PLC is properly constituted and comprises nine Directors of which one is Executive Director and eight are Non-Executive Directors. Out of the eight Non-Executive Directors, four are Independent Non-Executive Directors and there is no Alternate Directors. The Board composition has ensured an optimal mix of qualification, industry knowledge and business experience for proper guidance of the Company.

The Board, headed by the Chairman, has the overall responsibility and accountability for the management of the affairs of the Company, which includes maintenance of prudent risk management practices and safeguarding stakeholder rights. In order to carry out these responsibilities, the Board has appointed a corporate management team to implement Company strategy, led by a Managing Director.

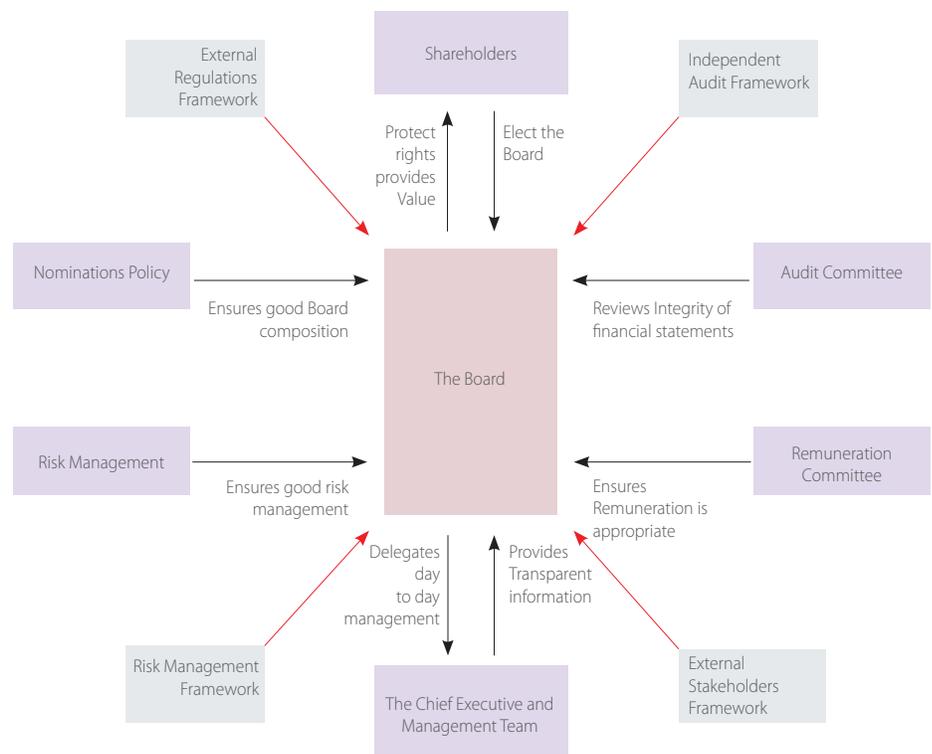
The Board has delegated some of its functions to duly constituted Board sub committees under our parent Lanka Walltiles. These are, the Audit Committee, the Remuneration Committee and the Related Party Transactions Review Committee.

In this report the Company shares its corporate governance framework, compliance to corporate governance codes and the Board statement of compliance. This is presented to the shareholders 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 Walltiles PLC is given below



## Compliance with the Code of Best Practice

The level of compliance of Lanka Walltiles PLC with 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 in 2017 is as follows:

Governance Principle	Lanka Walltiles Adherence	Compliance Status
<b>A. Directors</b>		
<b>A.1 - The Board</b>		
Frequency of Board Meetings	<p>The Board met on a monthly basis in the year under review. The Board's sub committees met on four occasions.</p> <p>Board meeting attendance:            Dhammika Perera (Chairman) - 6/12            A M Weerasinghe (Deputy Chairman) - 12/12            J A P M Jayasekera (Managing Director) -12/12            Dr. S Selliah – (Director) -12/12            T G Thoradeniya – (Director) –11/12            K D G Gunaratne – (Director) – 11/12            A M L Page – (Director) – 9/12            R N Somaratne – (Director) – 12/12            J D N Kekulawala – (Director) – 11/12</p>	Compliant
Role and responsibility of the Board	<p>The Board is responsible for:</p> <ol style="list-style-type: none"> <li>The formulation and implementation of a sound business strategy.</li> <li>Monitoring compliance of governance, laws and regulations.</li> <li>Overseeing systems of internal control and risk management.</li> <li>Approving annual budgets and strategic plans.</li> <li>Appointing and reviewing the performance of the Managing Director.</li> <li>Approving any change in the Group's business portfolio and sanctioning major investments and disinvestments in accordance with parameters set.</li> <li>Ensuring that effective remuneration, reward and recognition policies are in place to motivate employees to meet Company objectives.</li> <li>Submitting themselves for re-election at regular intervals and at least once in every three years.</li> </ol>	Compliant

## Corporate Governance

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

Governance Principle	Lanka Walltiles Adherence	Compliance Status
<b>A.5 - Board Balance</b>		
<p>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.</p>	<p>The Board comprises of nine executive and non-executive Directors.</p> <p>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  R N Somaratne – (Director) - Non executive  J D N Kekulawala – (Director) - Non executive - Independent</p> <p>Dr. S Selliah, Mr. K D G Gunaratne and Ms. A M L Page are Directors of Lanka Tiles PLC. However, after taking into consideration the fact that they are not actively involved in the management of Lanka Walltiles 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, Ms. A M L Page and Mr. J D N Kekulawala are 'independent' Directors as per the criteria set out in the Listing Rules of the Colombo Stock Exchange.</p>	Compliant
<b>A.6 - Supply of Information</b>		
<p>Relevant information and agenda to be circulated in a timely manner to the Board.</p>	<p>The Board papers are circulated a week prior to Board meetings with an adequate briefing on relevant information.</p>	Compliant
<b>A.7 - Appointments to the Board</b>		
<p>Procedure for the appointment and disclosure of new Directors/ Assessment of Board composition</p>	<p>The appointment to the Board is undertaken by the Board itself, taking into consideration the Board composition required and the strategic input required. All Board appointments are informed to the SEC as per the existing regulations.</p>	Compliant

## Corporate Governance

Governance Principle	Lanka Walltiles Adherence	Compliance Status
<b>A.8 - Re-election</b>		
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
<b>A.9 - Financial Acumen</b>		
Boards should periodically appraise their own performance in order to ensure that responsibilities are discharged in a satisfactory manner	The Board regularly self evaluates its performance based on achievement of corporate objectives implementation of strategy, risk management, internal controls, compliance with laws and stakeholder requirements. In addition the Remuneration Committee also evaluates the performance of the Board and makes necessary recommendations for improvements.	Compliant
<b>A.10 - Disclosure of information in respect of Information</b>		
Shareholders at all times should be aware of relevant details with respect to Directors.	All Directors have declared their details on pages 60 to 61 as Director profiles.	Compliant
<b>A.11 - Appraisal of Chief Executive Officer</b>		
The Board should be required to assess the performance of the CEO annually.	The CEO is evaluated each year by the Board as per the yearly targets that has been agreed with the annual budget and corporate requirements.	Compliant
<b>B. Directors' Remuneration</b>		
Formal and transparent procedure for developing policies on remuneration.	The Board has implemented a formal and transparent procedure for developing policies on remuneration by setting up a Remuneration Committee. Its purpose is to assist the Board of Directors in matters relating to compensation of the Company's Directors, Executive Officers and such other employees as determined by the Committee	Compliant
Composition and disclosure of the members of the Remuneration Committee	The Remuneration Report which is on Page 82 of the report addresses all related matters.	Compliant
<b>B.2 - The level and make up of Remuneration</b>		
Levels of Remuneration	Remuneration levels have been designed to attract, retain and motivate Directors and Senior Management required to run the Company successfully, while remaining within the industry's remuneration standards	Compliant

<b>Governance Principle</b>	<b>Lanka Walltiles Adherence</b>	<b>Compliance Status</b>
<b>B.3 - Disclosure of Remuneration</b>		
Disclosure of Remuneration in the Annual Report	<p>Details of the Remuneration Committee and the statement of remuneration policy are provided in the Annual Report.</p> <p>The aggregate remuneration paid to Executive and Non executive Directors are disclosed on Page 162 of this Report.</p>	Compliant
<b>C. Relations with Shareholders</b>		
<b>C.1 - Constructive use of the Annual General Meeting and conduct of General Meetings</b>		
Boards should use the Annual General Meeting to communicate with shareholders and encourage their participation.	The active participation of shareholders at the AGM is encouraged. The Board believes the AGM is a means of continuing effective dialogue with Shareholders.	Compliant
<b>C.2 – Communication with shareholders</b>		
Board should implement effective communication with shareholders	Policies and processes to receive and respond to matters are in place and the Company Secretary is the contact person to communicate with shareholders officially.	Compliant
<b>C.3 – Major and Material Transactions</b>		
Disclosure of major and material corporate transactions that will materially effect the net asset base of the company and/or its subsidiaries.	There have been no transactions during the year under review, which fall within the definition of 'Major Transactions' in terms of the Companies Act. This has been reviewed by the Related Party Transactions Review Committee and the report is on the pages 85 to 86.	Compliant
<b>D. Accountability and Audit</b>		
<b>D.1 – Financial and Business Reporting</b>		
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, the management and financial reviews, Director's report and responsibility structures. All major and minor related party transactions are also reported there.	Compliant
<b>D.2 – Risk Management and Internal Control</b>		
The Board should maintain a sound system of internal control to safeguard shareholders' investments and the Company's assets.	The Board has taken necessary steps to ensure the integrity of the Group's accounting, financial reporting and internal control systems and also 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

## Corporate Governance

Governance Principle	Lanka Walltiles Adherence	Compliance Status
<b>D.3 - Audit Committee</b>		
The Board should establish formal and transparent arrangements in the manner in which they select and apply accounting policies, financial reporting, internal control principles and maintaining an appropriate relationship with the Company's Auditors.	The Audit Committee Report on pages 83 to 84 of the report addresses this section in full.	Compliant
<b>D.4 – Related Party Transactions Review Committee</b>		
The Board should establish a procedure to ensure that the company does not engage in transactions with "related parties" in a manner that would grant such parties "more favourable treatment" than that accorded to third parties in the normal course of business	Related party transactions detailed in LKAS 24 and the company's adhered to it and the details are given in the Related Party Transactions Review Committee report on Pages 85 to 86 of this report.	Compliant
<b>D.5 - Code of Business Conduct and Ethics</b>		
Companies must adopt a Code of Business Conduct and Ethics for Directors and members of the Senior Management team and promptly disclose any waivers of the Code for Directors or others.	The Code of Best Practice issued by the Institute of Chartered Accountants of Sri Lanka and the Securities Exchange Commission is adopted by the Directors who then ensure that the Company and the employees behave ethically.	Compliant
<b>D.6 - Corporate Governance Disclosures</b>		
Directors should be required to disclose the extent to which the Company adheres to established principles and practices of good Corporate Governance.	Adhered to as per the Corporate Governance report in the Annual Report Pages 64 to 74.	Compliant
<b>E. Shareholders – Institutional Investors</b>		
<b>E.1 - Shareholder Voting</b>		
Institutional shareholders should be encouraged to ensure their voting intentions are translated into practice.	All institutional shareholders are encouraged to participate and their views are communicated to all concerned.	Compliant
<b>E.2 - Evaluation of Governance Disclosures</b>		
Institutional investors should be encouraged to give due weight to all relevant factors drawn to their attention.	The Report contains the Company's Corporate Governance process and structure for investor's attention.	

<b>Governance Principle</b>	<b>Lanka Walltiles Adherence</b>	<b>Compliance Status</b>
<b>F. Other Investors</b>		
<b>F.1 - Investing / Divesting Decision</b>		
Individual shareholders, should be encouraged to carry out adequate analysis in investing or divesting decisions.	The Annual Report contains sufficient information to make an informed decision. The report is hosted in Colombo Stock Exchange website with the quarterly reports to facilitate investors and shareholders to make informed decisions.	Compliant
<b>F.2 - Shareholder participation in meetings</b>		
Individual shareholders should be encouraged to participate in the General Meeting of Companies and exercise their voting rights.	All shareholders are encouraged to participate at the Annual General Meeting / Extraordinary General Meeting and cast their votes. AGMs are noticed in advance as per Companies Act and held on accessible area to ensure shareholders can participate effectively.	Compliant
<b>G. Internet of Things and Cybersecurity</b>		
<b>G.1 - Internet of Things and Cyber security</b>		
The Board should have a process to identify how in the organisation's business model, IT devices within and outside the organisation can connect to the organisation's network to send and receive information and the consequent cybersecurity risks that may affect the business.	The company has implemented a cybersecurity policy and have a robust cybersecurity risk management process and has a designated Chief Information Security Officer (CISO) in place to manage this area. Details of this appear on pages 75 to 81 of this report under the risk management and internal control report.	Compliant
<b>H. Environment, Social and Governance (ESG)</b>		
<b>H.1 - ESG Reporting</b>		
ESG reporting is a Board's responsibility and it is designated to add value by providing a credible account of the Company's economic, social and environmental impact.  The company's annual report should contain sufficient information to enable investors and other stakeholders to assess how ESG risks and opportunities are recognised, managed, measured and reported.	Refer page 38 in the Annual Report for information pertaining to this.	Compliant

## Corporate Governance

Governance Principle	Lanka Walltiles Adherence	Compliance Status
<b>H.2 - Environmental and Social Factors Governance</b>		
<p>Company should establish a governance structure to support its ability to create value and manage risks in the short, medium and long term, recognising managing and reporting on all pertinent aspects of ESG.</p> <p>Environmental governance of an organisation should adopt an integrated approach that takes into consideration the direct and indirect economic, social, health and environmental implications of the decisions and activities.</p> <p>Social governance of an organisation should include its relationship with the community, customers, employees, suppliers, outsourced providers and any other party that can influence or be influenced by the organisation's business model</p>	Refer page 38 in the Annual Report for information pertaining to this.	Compliant
<b>COMPLIANCE TO CORPORATE GOVERNANCE RULES OF CSE</b>		
Lanka Walltiles 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.		
<b>a. Non-Executive Directors</b>		
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 Walltiles PLC has four non- executive Directors out of nine as given in item A5 in the ICASL adherence table, which is above the minimum requirement.	Compliant
<b>b. Independent Directors</b>		
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 four independent Directors out of nine as given in item A5 in ICASL adherence table, which is above the minimum level.	Compliant

<b>Governance Principle</b>	<b>Lanka Walltiles Adherence</b>	<b>Compliance Status</b>
<b>c. Disclosure relating to Directors</b>		
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
<b>d. Criteria for Defining 'Independence'</b>		
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
<b>e. Remuneration Committee</b>		
<b>i. Composition of Remuneration Committee</b>		
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 82 the Remuneration Committee comprises of three independent non-executive Directors of Royal Ceramics Lanka PLC and who are also the members of the Group Remuneration Committee	Compliant
<b>ii. Functions of Remuneration Committee</b>		
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 there report is published in page 162.	Compliant
<b>iii. Disclosure in the Annual Report</b>		
The annual report should set out the names of directors in comprising the remuneration committee and contain a statement of the remuneration policy and set out the aggregate remuneration paid to executive and non-executive directors	The remuneration committee report on page 82 as sets out the names of the directors in the remuneration committee report and aggregate remuneration paid to all directors is given in page 162.	Compliant

## Corporate Governance

Governance Principle	Lanka Walltiles Adherence	Compliance Status
<b>f. Audit Committee</b>		
<b>i. Composition of the Audit Committee</b>		
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 non – executive Directors and two of whom are independent.	Compliant
<b>ii. Functions Audit Committee</b>		
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 on pages 83 to 84 of the annual report explains the function of the audit committee which has executed the above function.	Compliant
<b>iii. Disclosure in the Annual Report relating to Remuneration Committee</b>		
The names of the directors comprising the Remuneration committee should be disclosed in the annual report.	The audit committee report on pages 83 to 84 has addressed this requirement.	Compliant

### Statement of Compliance

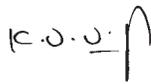
From the above mentioned details it can be concluded that the Company is fully compliant with the requirements of the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka in 2017 and the Corporate Governance Rules of Colombo Stock Exchange.

Further, the Board confirms that all statutory payments due to the Government, other regulatory institutions and to employees, have been made on time.

Therefore, the Board concludes and declares that the Company is fully compliant to with the Corporate Governance Codes of Institute of Chartered Accountants of Sri Lanka, Securities and Exchange Commission and Corporate Governance Rules of Colombo Stock Exchange has in place a robust Corporate Governance Framework to govern the business.



**J A P M Jayasekera**  
Managing Director



**Dhammika Perera**  
Chairman

## Risk Management and Internal Control Report

### 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 Walltiles PLC (LWPLC) has taken the strategic initiative to identify the areas relevant to the organisation and respond to potential risks. The risk management process will enable administration to evaluate strategies existing within the organisation to mitigate the risk factors identified, gain comfort over the continuation of the business and ensure the required returns to the stakeholders. This process additionally assists the Company in managing sustainability of growth and profitability. The objective is to improve performance and decision making through identification, evaluation and management of key risks.

The responsibility of the Risk Management process lies with the Board of Directors and the process is supervised by the Company's Executive Committee and reviewed by the Audit Committee. A review of the risk management framework and the process of the Company are described below.

### Risk Management Framework

The Committee of Sponsoring Organisations 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 strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within the risk appetite, to provide reasonable

assurance regarding the achievement of entity objectives. LWPLC adopted an ERM approach in year 2013, because it provides an integrated approach to the management of the Company's business risk.

The adherence by LWPLC to the risk management framework with the COSO's integrated enterprise risk management principles, is presented as follows;

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



## Risk Management and Internal Control Report

Principle	Lanka Walltiles Adherence	Compliance Status
<b>Risk culture</b>		
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 organisation's most significant risk exposures is an important and necessary condition that must be in place.	In this regard the senior management and the Board of Directors have a clear understanding of the objectives of ERM relative to traditional approaches to risk management and the CEO embraces the need and provides adequate endorsement of an enterprise wide approach to risk oversight that seeks to obtain a top-down view of major risk exposures. The Board of Directors is also supportive of management's efforts to implement an enterprise wide approach to risk oversight and the Board of Directors sets aside agenda time at each of its meetings to discuss the most significant risks facing the organisation. The senior management has effective risk management capabilities and competencies.	Compliant
<b>Risk identification</b>		
Robust processes have to be in place in the organisation to identify risks, particularly those risks that may be currently unknown, but emerging and should encourage the management to regularly think about risk.	In this regard, the organisation has defined and widely communicated to members of management and the Board what it means by the term "risk." The organisation has identified a broad range of risks that may arise both internally and externally, including risks that can be controlled or prevented, as well as those over which the organisation has no control. The organisation engages in identifiable processes to regularly scan the environment in an effort to identify unknown, but potentially emerging risks such as competitor moves, new regulations, changing consumer preferences, etc. Each member of the Board of Directors has provided input into the risk identification process.	Compliant
<b>Risk assessment</b>		
Organisation needs methods to prioritise risks that encourages a consistent consideration of both the likelihood of the risk occurring and the impact of the event to the organization, if the risk occurs.	The organisation defines a five year time period over which risks should be assessed to ensure consistency in management's evaluations. The organisation strives to assess inherent risk of the Company and industry and the 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
<b>Articulation of risk appetite</b>		
While determining the organisation's appetite for risk taking can be challenging, it is important that the board and senior management make some attempt to articulate its overall appetite for risk taking.	The board and management have engaged in discussions to articulate the organisation's overall appetite for risk taking. The Board of Directors has concurred with the organisation's risk appetite.	Compliant

Principle	Lanka Walltiles Adherence	Compliance Status
<b>Risk response</b>		
<p>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.</p>	<p>The organisation 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 organisation has separately evaluated the potential cost of the risk response relative to the benefit provided by the response towards either reducing the impact or reducing the probability of occurrence of the risk event. The organisation's ERM process helps identify potential overlaps or duplications in risk responses across the enterprise.</p>	Compliant
<b>Risk reporting</b>		
<p>As risks are identified and assessed across the organisation, processes are needed to facilitate the communication of risk-related information so that an aggregate view of important risks and their related risk responses are provided to senior management, the board, and to critical stakeholders.</p>	<p>The organisation has developed and monitors critical risk indicators that are leading in nature in that they provide some indication that a risk event is more likely to occur in the future. Senior management regularly review management reports that provide the status of critical risks and risk response plans. The Board monthly receives and reviews these reports which provide the status of critical risks and risk response plans.</p>	Compliant
<b>Integration with strategic planning</b>		
<p>Effective ERM can be an important input and consideration into the determination and execution of any organisation's strategy. ERM provides critical insights into the portfolio of existing and emerging risk exposures that can contribute to the strategic success of the organisation.</p>	<p>The organisation has a formal strategic planning process and the strategic plan is updated at least annually. The organisation's existing risk profile is an important input for the strategic planning process. Senior management links the top risk exposures to strategic objectives to determine which objectives face the greatest number of risks and to determine which risks impact the greatest number of objectives.</p>	Compliant
<b>Assessment of ERM effectiveness of the risk management process:</b>		
<p>Senior management and the Board of Directors need to view ERM as an evolution, not a point-in-time project to be implemented.</p>	<p>In the organisation the senior management regards ERM as an ongoing process rather than just a project and they seek to understand and monitor emerging ERM best practices and adequate resources have been dedicated to support and complete the ERM function, successfully.</p>	Compliant

## Risk Management and Internal Control Report

### Risk Management Process

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

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

LWPLC has the following management structure to facilitate risk management and risk reporting.

The LWPLC risk management process can be explained by the three lines of defence concept of risk management as given below. The Key Risks that may hinder the Achievement of the Company's Strategic Business Objectives are set out below



	First line	Second line	Third line
Responsibility	<ul style="list-style-type: none"> <li>➤ Day to day identification, assessment, managing and reporting of all risk within span of control</li> <li>➤ Ensuring risk exposures stay within limits</li> <li>➤ Responding appropriately to challenge by the second line of defence</li> <li>➤ Implementing recommendations by third line of defence</li> </ul>	<ul style="list-style-type: none"> <li>➤ Clear and well communicated risk policies</li> <li>➤ Effective control and monitoring systems</li> <li>➤ Providing assurance that risks are being appropriately managed across the business</li> <li>➤ Providing robust challenge to first line</li> <li>➤ Facilitating actions to respond to levels of risk deemed to be beyond or close to tolerance</li> </ul>	<ul style="list-style-type: none"> <li>➤ Independent assurance and oversight on the effectiveness of :               <ul style="list-style-type: none"> <li>➤ Systems of governance</li> <li>➤ Risk management</li> <li>➤ Internal control</li> </ul> </li> </ul>
Accountability	<ul style="list-style-type: none"> <li>➤ Executives and Supervisors.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Corporate Management team.</li> </ul>	<ul style="list-style-type: none"> <li>➤ The Board</li> </ul>

Principle	Lanka Walltiles Adherence	Compliance Status
<b>Business Environment Risk</b>		
<p>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.</p>	<p>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.</p>	<p>In control</p>
<b>Operations Risk</b>		
<p>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.</p>	<p>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</p>	<p>In control</p>

## Risk Management and Internal Control Report

Principle	Lanka Walltiles Adherence	Compliance Status
<b>Cybersecurity Risk</b>		
<p>Cybersecurity risk is the risk that external parties by using the cyberspace or cyber tools penetrate the organisations database to obtain specific details which are counterproductive to the organisation.</p> <p>Internal and external parties could have computing devices systems embedded in everyday objects which may enable them to interconnect with the company's network to send and receive data which are unauthorized by the organization. The external parties may also use sophisticated tools to hack into company database. These data can be then acquired and used to destabilise company operation or obtain confidential corporate information or be used to demand a financial payment from the company.</p>	<p>To counter cybersecurity risk, the company has appointed a Chief Information Security Officer (CISO) designated as Head of IT who has sufficient expertise, authority and budgetary allocation to introduce and implement robust cybersecurity risk and management policy and control system.</p> <p>In addition, a cybersecurity risk management process, response system, disaster recovery plan and cybersecurity governance practice is in place.</p> <p>Also the Board allocates regular and adequate time on the board meeting for discussions about cyber risk management which includes, potential cybersecurity risks in the company's business model and Company's security strategy compliance.</p> <p>Also an independent review of cybersecurity risk is done by third parties whose findings are reviewed by the CISO, CFO, CEO and the Board.</p>	In control
<b>Capacity Risk</b>		
<p>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.</p>	<p>Presently the firm has identified that it needs more capacity and therefore a Capacity Expansion Program has been planned for 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.</p>	In control
<b>Integrity Risk</b>		
<p>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.</p>	<p>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.</p>	In control

Principle	Lanka Walltiles Adherence	Compliance Status
<b>Financial Risk</b>		
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
<b>Environmental and Social Risk</b>		
<p>Company should establish a structure to support its ability to create value and manage risks in the short, medium and long term, recognising managing and reporting on all pertinent aspects of Environment and Social Risk.</p> <p>Environmental Risk of an organization is the direct and indirect economic, social, health and environmental implications of the decisions and activities on the business.</p> <p>Social Risk of an organisation is its relationship with the community, customers, employees, suppliers, outsourced providers and any other party that can influence the organisation's business model</p>	<p>The Board and the Senior Management review Environmental, Social factory that impact the business at each board meeting. Also the compliance to regulations are tabled. The board also reviews the adequacy of management control systems and threats to manage this risk effectively.</p> <p>Regular training, exposure and leadership is given to Senior Management and line management to manage the risks and mitigate them</p>	In control

### Statement of Risk Management and Internal Control adequacy

The Board confirms that an effective risk management and internal control framework and an ongoing process is in place to minimise all potential risks and its probability of impact to the Company and its business.

The Board also confirms all risks were reviewed using internal and external parties and were deliberated upon by the Board and if necessary corrective actions were taken.

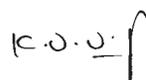
The Board assures the reliability of financial statements presented herein has been done in according with applicable accounting standards and regulatory requirements and training in to account all risk factors.

The Board declares that it has not found any significant risks that may impact the operation of the business as a going concern, or will impact the finance stability or the business materially.



**J A P M Jayasekera**

Managing Director



**Dhammika Perera**

Chairman

## Remuneration Committee Report

### Role of the Remuneration Committee

The Remuneration Committee is a sub committee of the Board, to which it is accountable. The Committee evaluates the performance of the Board, the Chief Executive Officer, Key Management Personnel 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 comprises of the following three Independent Non-Executive Directors.

Mr. A M Weerasinghe - Chairman of the Remuneration Committee  
 Mr. K D G Gunaratne - Committee Member  
 Dr. S Selliah - Committee Member

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

The above 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 business management to deliberate and propose necessary changes and 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. Evaluating and recommending the remuneration payable to the Board, 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 the last financial year is given on page 162 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. 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 of the Remuneration Committee

25th May 2018

## Audit Committee Report

### Role of the Audit Committee

The Audit Committee is a Sub Committee of the Board, to which it is accountable. The function of the Audit Committee is defined in the Audit Committee Charter. Primarily it is to assist the Board in its oversight of the integrity of the Financial Statements of the Company, to assess the adequacy of the risk management framework of the Company, assess the independence and the performance of the Company's external audit function and internal audit functions, and review compliance of the Company with legal and regulatory requirements.

### Composition of the Audit Committee

The Audit Committee comprised of the following three Non-Executive Directors.

Mr. J D N Kekulawala	- Chairman - Independent Non - Executive
Dr. S Selliah	- Committee Member Independent Non - Executive
Mr. T G Thoradeniya	- Committee Member Non - Executive

The Managing Director and the General Manager – Finance attend the meetings at the invitation of the Audit Committee.

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

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

### Meetings

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

Mr. J D N Kekulawala	- 4/4
Dr. S Selliah	- 4/4
Mr. T G Thoradeniya	- 1/4
Mr. T de Zoysa	- 1/4 ( Retired w.e.f 29th June 2017)

### Functions performed by the Audit Committee

- The Committee reviewed the provisional financial statements that were published for financial year 2017/18 and the Annual Report of 2017/18. It reviewed the preparation, presentation and adequacy of disclosures in the financial statements of the Company, in accordance with Sri Lanka Accounting Standards. 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.
- The Committee reviewed the monthly internal audit reports. The internal audit function is carried out by M/s. KPMG. The Internal audits are done on a process based audit framework to improve process performance and control.

- 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 external auditors and the engagement partner's relationships with the Company, and assessed that the external auditors are independent.
- 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.
- 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.
- The Audit Committee reviewed the company's arrangement for the confidential receipt, retention and treatment of complaints alleging fraud, received from any sources and pertaining to accounting, internal controls or other such matters and assured the confidentiality to whistleblowing employees. It also reviewed the company's procedures for detecting and preventing fraud and bribery and receiving reports on non-compliance

## Audit Committee Report

and reviewed the procedure for receiving and dealing with "Non-Compliance with Laws and Regulations (NOCLAR) referred by Professional Accountants.

- g. Performed other activities relate to this charter as requested by the Board of Directors.

Oversaw special investigations as needed. Reviewed and assessed the adequacy of the Committee charter annually, requesting Board approval for proposed changes, and ensured appropriate disclosure as may be required by law or regulation.

### Conclusion

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



**J D N Kekulawala**

Chairman – Audit Committee

25th May 2018

## Related Party Transactions Review Committee Report

### Purpose of the Committee

The purpose of the Related Party Transaction Review Committee (RPTRC) of Lanka Walltiles PLC (LWPLC) is to conduct an independent review and oversight of all related party transactions of LWPLC and to ensure that the Company complies with the rules set out in the Code of Best Practice issued by the Securities and Exchange Commission of Sri Lanka. 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

The RPTRC comprises of the following three Non-executive Directors.

1. Dr. S Selliah – Chairman
2. Mr. J D N Kekulawala
3. Mr. T G Thoradeniya

The Managing Director and the General Manager - Finance, attend meetings by invitation and the Company Secretary functions as the secretary to the Committee.

The Committee members possess vast experience in business management and financial expertise to perform the duty of the Committee successfully.

### Meetings

The Committee held four meetings during the year under review for which all members attended. The minutes of the Committee meetings were tabled at Board meetings, for the review of the Board.

### Responsibilities of the Related Party Transactions Review Committee

The following are the key responsibilities that have been set out in the Charter for the 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 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 2017/18. In terms of Rule 9.3.2 of the Listing Rules of the Colombo Stock Exchange on related party transactions, there were no one-recurrent related party transactions entered into during the course of the financial year with an aggregate value 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 31st March 2018, the aggregate value of which exceeded 10% of the revenue.

## Related Party Transactions Review Committee Report

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 30 to the Financial Statements, on pages 157 to 162 of this Annual Report.

### Declaration

A declaration by the Board of Directors on compliance with the rules pertaining to Related Party Transactions appears on the report of the Board of Directors on pages 87 to 91 of this Annual Report.



### Dr. S Selliah

Chairman - Related Party Transactions Review Committee

25th May 2018

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

The Directors of Lanka Walltiles PLC take pleasure in presenting their Annual Report together with the Audited Financial Statements of the Company for the year ended 31st March 2018.

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.

## General

Lanka Walltiles PLC is a public limited liability company which was incorporated under the Companies Ordinance No.51 of 1938 as a public company on the 24th day of September 1975. Pursuant to the requirements of the new Companies Act No. 7 of 2007, the Company was re-registered on 24th July 2007 and bears registration number PQ55.

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

The main activity of Lanka Walltiles PLC is the manufacture of glazed ceramic walltiles for export and for sale in the local market.

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

## Financial Statements

The Financial Statements of the Company duly signed by two Directors on behalf of the Board and the Auditors are given on page 99.

## Summarised Financial Results

Year ended 31st March	2018	2017
	Rs.'000	Rs.'000
Revenue	18,313,245	16,000,150
Profit for the year	1,611,165	1,947,351

## Independent Auditors' Report

The Report of the Independent Auditors on the Financial Statements of the Company is given on pages 96 to 98.

## Accounting Policies

The financial statements of the Company have been prepared in accordance with the revised Sri Lanka Accounting Standards and the policies adopted thereof are given on pages 104 to 114. Figures pertaining to the previous period have been re-stated where necessary to conform to the presentation for the year under review.

## Directors' responsibility for Financial Reporting

The Directors are responsible for the 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.

## Directors

The names of the Directors who held office as at the end of the accounting period are given below and their brief profiles appear on pages 60 to 61.

## Executive Directors

Mr. J A P M Jayasekera  
Managing Director

## Non - Executive Directors

Mr. Dhammika Perera  
Chairman  
Mr. A M Weerasinghe  
Deputy Chairman  
Mr. T G Thoradeniya  
Mr. M W R N Somaratne

## Independent Non - Executive Directors

Dr. S Selliah  
Mr. K D G Gunaratne  
Ms. A M L Page  
Mr. J D N Kekulawala  
Mr. T de Zoysa  
(Retired from the Board on 29th June 2017)

Mr. T G Thoradeniya and Mr. K D G Gunaratne 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.

Directors of subsidiary Companies are given below;

## Lanka Tiles PLC

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

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

Mr. G A R D Prasanna  
(Alternate Director)

### Swisstek (Ceylon) PLC

Mr. A M Weerasinghe  
Mr. J A P M Jayasekera  
Mr. J K A Sirinatha  
Dr. S Selliah  
Mr. K D G Gunaratne  
Mr. A S Mahendra

### Swisstek Aluminum Limited

Mr. A M Weerasinghe  
Mr. J A P M Jayasekera  
Dr. S Selliah  
Mr. A S Mahendra  
Mr. B T T Roche  
Mr. T G Thoradeniya

### Vallibel Plantation Management Limited

Mr. A M Pandithage  
Mr. N T Bogahalande  
Mr. T G Thoradeniya  
Mr. J M Kariapperuma

### Horana Plantations PLC

Mr. A M Pandithage  
Mr. Dhammika Perera  
Mr. L J A Fernando  
Mr. K D H Perera  
Mr. A M Pandithage  
Mr. W G R Raja  
Mr. J M Kariapperuma  
Mr. S C Ganegoda  
Mr. K D G Gunaratne - Alternate Director to  
Mr. Dhammika Perera

Mr. N T Bogahalande - Alternate Director to  
Mr. K D H Perera

### Uni Dil Packaging Limited

Mr. T G Thoradeniya  
Mr. D B Gamalath  
Mr. J M Kariapperuma  
Mr. J A P M Jayasekera  
Mr. A M Pandithage  
Mr. Rajapakse  
Mr. M R Zaheed  
Mr. H Somashantha  
Dr. N T Bogahalande

### Uni Dil Packaging Solutions (Private) Limited

Mr. D B Gamalath  
Mr. A M Pandithage  
Mr. J A P M Jayasekera  
Mr. Rajapakse  
Mr. M R Zaheed

### Beyond Paradise Collection Ltd

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

### Lankatiles Private Limited

Mr. A M Weerasinghe  
Mr. J A P M Jayasekera  
Mr. Fatheraj Singhvi  
Mr. Praveen Kumar Singhvi

### LTL Development (Pvt) Ltd

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

### Swisstek Development (Pvt) Ltd

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

### 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 2018.

The relevant interests of Directors in the shares of the Company as at 31st March 2018 as recorded in the Interests Register are given in this Report under Directors' shareholding.

### Directors' Remuneration

The Directors' remuneration is disclosed under key management personnel compensation in Note 30.2 to the Financial Statements on page 162.

### 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 30 to the Financial Statements, the Company did not carry out any transaction with any of the Directors.

The Company carried out transactions during the year in the ordinary course of its business at commercial rates with the following directors related entities as given in note no. 30.

### Auditors

Messrs Ernst & Young, Chartered Accountants served as the Auditors during the year under review and also provided non audit 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. 1.5 Mn is payable by the Company to the Auditors for the year under review comprising Rs. 1.4 Mn as audit fees and Rs. 0.1Mn for non audit services.

The Auditors have expressed their willingness to continue in office. The Audit Committee at a meeting held on 23rd May 2018 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.

### Stated Capital

The Stated Capital of the Company is Rs.787,765,736/-.

The number of shares issued by the Company stood at 54,600,000 fully paid ordinary shares as at 31st March 2018 (which was the same as at 31st March 2017).

### Directors' Shareholding

The relevant interests of Directors in the shares of the Company as at 31st March 2018 and 31st March 2017 are as follows.

	Shareholding as at 31/03/2018	Shareholding as at 31/03/2017
Mr. Dhammika Perera		
Mr. A M Weerasinghe	6,610	-
Mr. J A P M Jayasekera	199	86
Dr. S Selliah	-	-
Mr. T G Thoradeniya	-	-
Mr. K D G Gunaratne	-	-
Ms. A M L Page	-	-
Mr. M W R N Somaratne	11,000	10,000
Mr. J D N Kekulawala		

### Shareholders

There were 11,016 shareholders registered as at 31st March 2018 (10,992 shareholders as at 31st March 2017). The details of distribution are given on pages 180 to 182 of this Report.

### 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 180 under Share Information.

### Employment Policy

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

As at 31st March 2018 530 persons were in employment (518 persons as at 31st March 2017).

### Reserves

The reserves of the Company with the movements during the year are given in Note 13 to the Financial Statements on page 134.

### Land Holdings

The book value of property, plant and equipment as at the balance sheet date amounted to Rs.4,114,548/-

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

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

Location	No. of Buildings	Land in Extent			Valuation
		A	R	P	
Head Office	1	1.00	1.00	2.10	1,212,600
Meepe Factory	29	23.00	1.00	24.16	936,040
Total	30	24.00	2.00	26.26	2,148,640

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

### Dividends

An interim dividend of Rs. 4/- per share for the year ending 31st March 2018 was paid on 18th August 2017.

A second interim dividend of Rs.5/50 per share for the year ending 31st March 2018 was paid on 27th March 2018.

### Substantial Shareholdings

The Company was controlled by Lanka Ceramic PLC which held 62.192% of the issued share capital of the Company.

However, Lanka Ceramic PLC offered to re-purchase its own shares for a consideration as set out below.

- Either the transfer to such Shareholder, of One decimal Four One Four Eight (1.4148) shares of Lanka Walltiles Limited (LWL) held by the Company
- Or the payment of Cash of, Rupees One Hundred and Ninety (Rs.190/-) per share of the Company

Royal Ceramic Lanka PLC opted for shares in Lanka Walltiles PLC in place of their shareholding in Lanka Ceramic PLC.

Accordingly, Royal Ceramic Lanka PLC is now the majority shareholder in Lanka Walltiles PLC holding 52.049% of the issued share capital of the Company.

The ultimate parent Company is Vallibel One PLC.

### Investments

Details of the Company's quoted and unquoted investments as at 31st March 2018 are given in Note 5 to the Financial Statements on pages 129 to 130.

### Donations

The Company made donations amounting to Rs.588,895/- in total, during the year under review. (2017 Rs.306,425/-).

### Risk Management

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

Specific steps taken by the Company in managing the risks are detailed in the section on Risk Management on pages 75 to 81.

### 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 Balance Sheet date have been paid or, where relevant provided for, except for certain assessments where appeals have been lodged.

### Contingent Liabilities

Except as disclosed in Note to the Financial Statements on pages 162 to 163, there were no material Contingent Liabilities as at the Balance Sheet date.

### Events occurring after the reporting date

Except for the matters disclosed in Note 32 to the Financial Statements on page 163 there are no material events as at the date of the Auditor's report which require adjustment to, or disclosure in the Financial Statements.

### 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.

**Audit Committee**

Mr. J D N Kekulawala - Chairman  
 Dr. S Selliah  
 Mr. T G Thoradeniya  
 Mr. T de Zoysa  
 (Retired from the Board on 29th June 2017)

**Remuneration Committee**

Mr. A M Weerasinghe - Chairman  
 Mr. K D G Gunaratne  
 Dr. S Selliah  
 Mr. T de Zoysa  
 (Retired from the Board on 29th June 2017)

**Related Party Transaction Review Committee**

Dr. S Selliah - Chairman  
 Mr. J D N Kekulawala  
 Mr. T G Thoradeniya  
 Mr. T de Zoysa  
 (Retired from the Board on 29th June 2017)

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 64 to 74 explains the measures adopted by the Company during the year.

**Corporate Social Responsibility**

The Company continued its Corporate Social Responsibility Programme, details of which are set out on page 45 of this Report.

**Environmental Protection**

After making adequate enquiries from the management, the Directors are satisfied

that the Company operates in a manner that minimizes the detrimental effects on the environment and provides products and services that have a beneficial effect on the customers and the communities within which the Company operates.

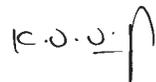
**Going Concern**

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

**Annual General Meeting**

The Notice of the Forty first (41st) Annual General Meeting appears on page 184.

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



**Dhammika Perera**  
 Chairman



**J A P M Jayasekera**  
 Managing Director



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

25th May 2018

Colombo

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

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

The Board of Directors and the management of your Company accept responsibility for the integrity and objectivity of these financial statements. The estimates and judgements 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. Ernst & Young, Chartered Accountants, the independent auditors. The independency of the external auditor has been assessed by the audit committee and the Board and have been determined as independent.

The Audit Committee of your Company meets periodically with the internal auditors and the external 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 external 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.

It is also confirmed that the Company is compliant with the Code of Best Practice in Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka and the Code of Best Practice on Related Party Transactions, issued by the Securities and Exchange Commission of Sri Lanka.



**J A P M Jayasekera**  
Managing Director



**BTT Roche**  
General Manager (Finance)

25th May 2018

## 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 2016/2017, including cash flows and borrowing facilities, consider that the Company has adequate resources to continue in operation.

By Order of the Board  
LANKA WALLTILES PLC



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

25th May 2018





# Delivering Unparalleled Value

## Financial Statements

Our plans are in place to ensure a brighter future, with  
the promise of exceptional performance and  
greater returns

## Independent Auditor's Report



Ernst & Young  
Chartered Accountants  
201 De Saram Place  
P.O. Box 101  
Colombo 10  
Sri Lanka

Tel : +94 11 2463500  
Fax Gen : +94 11 2697369  
Tax : +94 11 5578180  
eysl@lk.ey.com  
ey.com

### Report on the audit of the Consolidated Financial Statements

#### Opinion

We have audited the financial statements of Lanka Walltiles PLC ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the statement of financial position as at 31 March 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 March 2018, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### Basis for opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

#### Key Audit Matter

#### How our audit addressed the key audit matter

##### Valuation of Land and Buildings

As at 31 March 2018, Land and Buildings carried at fair value, classified as Property, Plant & Equipment amounted to Rs. 2,960.6Mn.

The fair value of such properties was determined by external valuers engaged by the Group. The valuation of land and buildings was significant to our audit due to the use of significant estimates such as per perch price and value per square foot.

Our audit procedures focused on the valuations performed by the external valuers engaged by the Group, and included the following:

- Assessed the competency, capability and objectivity of the external valuers engaged by the Group
- Read the external valuer's report and understood the key estimates made and the approach taken by the valuers in determining the fair value.
- Engaged our internal specialised resources to assess the reasonableness of the valuation techniques, per perch price and value per square foot
- We have also assessed the adequacy of the disclosures made in Notes 2.2.2 (c), 2.3.7 and 3.1 to the financial statements relating to the valuation technique and estimates used by the external valuers

**Key Audit Matter*****Impairment of Inventories***

As at 31 March 2018, the carrying amount of inventories amounted to Rs. 6.11 Bn net of the provision for obsolete and slow moving inventories of Rs. 119 Mn as disclosed in Note 8 to the financial statements. These inventories include finished goods of Rs. 2.3 Bn and general stocks of Rs. 1.2 Bn relating to the tile and applied products. The inventories relating to the tile and applied products represents 57% of total inventory value of the Group as at 31 March 2018.

The provision for obsolete and slow moving inventories relating to the tile and applied products is recognised based on the best estimates available to management on the recoverability. As management uses historical information as the basis to determine the recoverability, actual future losses could vary from the provision made.

The significance of the balance coupled with the management's judgement and estimation of the recoverability, the provision for obsolete and slow moving inventories has been considered a key audit matter.

**Other information included in the Group's 2018 Annual Report**

Other information consists of the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the

**How our audit addressed the key audit matter*****Our procedures included, the following;***

- Assessed the reasonableness of the provision policy based on historical usage of the general stocks and finished goods
- Checked the relevant information to assess the reasonability of the valuation and net realisable value of the related inventories on a sample basis
- We have reviewed the working papers of the component auditor for the audit procedures performed to assess the adequacy of the provision for obsolete and slow moving inventories and test the key controls on a sample basis over inventory valuation at lower of cost and net realizable value
- In addition, assessed the adequacy of the Group's disclosures in Note 2.2.b, Note 2.3.5 and Note 8.

other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard

**Responsibilities of management and those charged with governance**

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.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

## Independent Auditor's Report

As part of an audit in accordance with SLAuSs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal controls of the Company and the Group.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we

conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that

may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2471.



25th May 2018  
Colombo

Partners: W R H Fernando FCA FCMA M P D Cooray FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W K B S P Fernando FCA FCMA  
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA  
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA  
Principal T P M Ruberu FCMA FCCA

A member firm of Ernst & Young Global Limited

## Statement of Financial Position

As at 31st March 2018	Note	GROUP		COMPANY	
		2018 Rs.000	Restated 2017 Rs.000	2018 Rs.000	2017 Rs.000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	3.1	14,316,493	12,988,436	4,114,548	3,323,749
Consumable biological assets	3.4	536,575	490,535	-	-
Investment Properties	3.8	459,407	-	-	-
Intangible assets - goodwill	4	24,519	24,519	-	-
Investments in subsidiaries	5	-	-	1,276,096	1,276,096
Long term receivables	6	27,285	27,285	-	-
Deferred tax asset	7	14,686	12,176	-	-
		15,378,965	13,542,951	5,390,644	4,599,845
<b>Current assets</b>					
Inventories	8	6,113,247	4,313,824	1,606,272	1,335,580
Trade and other receivables	9	3,450,285	2,885,572	725,049	499,333
Amounts due from related parties	10	55,427	8,729	34,628	17,739
Income tax receivable		60,851	24,674	-	-
Short term investments	11	3,239	3,296	3,239	3,296
Cash and cash equivalents	28	660,879	1,423,632	61,004	43,372
		10,343,928	8,659,727	2,430,192	1,899,320
<b>Total assets</b>		<b>25,722,893</b>	<b>22,202,678</b>	<b>7,820,836</b>	<b>6,499,165</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity attributable to equity holders of the parent</b>					
Stated capital	12	787,765	787,765	787,765	787,765
Reserves	13	2,566,671	2,409,494	1,531,815	1,237,011
Retained earnings		7,162,378	6,597,189	2,661,459	2,494,799
Shareholders' funds		10,516,814	9,794,448	4,981,039	4,519,575
Non controlling interest		3,897,935	3,764,563	-	-
<b>Total equity</b>		<b>14,414,749</b>	<b>13,559,011</b>	<b>4,981,039</b>	<b>4,519,575</b>
<b>Non-current liabilities</b>					
Interest bearing liabilities	14	1,712,118	1,773,267	165,180	324,981
Deferred tax liabilities	15	2,032,023	1,042,939	887,282	367,375
Retirement benefit liability	16	778,830	656,086	108,706	75,825
Deferred income & Capital grants	17	136,532	138,189	-	-
		4,659,503	3,610,481	1,161,168	768,181
<b>Current liabilities</b>					
Trade and other payables	18	2,714,644	1,789,552	479,476	414,318
Income tax liabilities		81,847	168,841	23,834	72,267
Amounts due to related parties	19	48,528	17,045	167,860	86,707
Current portion of interest bearing liabilities	14	3,803,622	3,057,748	1,007,459	638,118
		6,648,641	5,033,186	1,678,629	1,211,409
<b>Total equity and liabilities</b>		<b>25,722,893</b>	<b>22,202,678</b>	<b>7,820,836</b>	<b>6,499,165</b>

I certify that, these Financial Statements are in compliance with the requirements of the Companies Act No.07 of 2007.

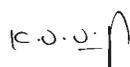


**J A P M Jayasekera**  
General Manager (Finance)

The Board of Directors is responsible for these financial statements.  
Signed for and on behalf of the Board,



**J A P M Jayasekera**  
Managing Director



**Dhammika Perera**  
Chairman

The accounting policies and notes on pages 104 to 173 form an integral part of the financial statements.

25th May 2018  
Colombo

## Statement of Profit or Loss and other Comprehensive Income

For the Year ended 31st March 2018	GROUP		COMPANY		
	Note	2018 Rs.000	2017 Rs.000 Restated	2018 Rs.000	2017 Rs.000
<b>Revenue</b>	20	18,313,245	16,000,150	3,316,247	3,345,337
Cost of Sales		(12,995,860)	(10,783,477)	(2,106,806)	(2,013,573)
<b>Gross Profit</b>		5,317,385	5,216,673	1,209,441	1,331,764
Other Income	21	189,020	135,843	424,965	309,426
Distribution Costs		(1,798,905)	(1,466,625)	(445,167)	(381,220)
Administrative Expenses		(1,027,033)	(1,007,570)	(208,646)	(210,028)
Finance Cost	22	(480,146)	(408,928)	(113,185)	(105,269)
Finance Income	23	110,617	142,549	-	-
<b>Profit Before Tax</b>	24	2,310,938	2,611,942	867,409	944,673
Income Tax Expense	25	(699,774)	(664,591)	(176,368)	(171,908)
<b>Profit for the Year</b>		1,611,164	1,947,351	691,041	772,765
<b>Other Comprehensive Income</b>					
<b>Net Other Comprehensive Income not to be reclassified to profit or loss in subsequent periods (net of tax):</b>					
Revaluation of Land and Building	3	918,904	119,535	779,322	-
Actuarial Gain/ (Loss) on Retirement Benefit Liability	16	(90,788)	75,064	(18,795)	17,789
Deferred tax on components of other comprehensive income	25	(861,977)	(15,497)	(479,255)	(4,518)
Foreign currency translation differences of foreign operations		(259)	-	-	-
<b>Total Comprehensive Income for the Year</b>		1,577,044	2,126,454	972,313	786,036
Profit attributable to :			-		
Equity holders of the parent		1,086,902	1,387,503	691,041	772,765
Non controlling interest		524,262	559,849	-	-
<b>Profit for the year</b>		1,611,164	1,947,351	691,041	772,765
<b>Total comprehensive income attributable to :</b>			-		
Equity holders of the parent		1,191,690	1,530,280	972,313	786,036
Non controlling interest		385,355	596,174	-	-
<b>Total Comprehensive Income for the Year</b>		1,577,044	2,126,454	972,313	786,036
Basic Earnings Per Share - Profit Attributable to Ordinary Equity Holders	26	19.91	25.41	12.66	14.15

The accounting policies and notes on pages 104 to 173 form an integral part of the financial statements.

## Statement of Changes in Equity

	Stated capital Rs.000	Revaluation reserve Rs.000	Retained Earnings Rs.000	Total Rs.000	Non controlling interest Rs.000	Total Rs.000
<b>GROUP</b>						
<b>Balance as at 1st April 2016</b>	787,765	2,306,644	5,590,940	8,685,350	3,360,147	12,045,497
Prior Year Adjustment (Note-36)			(22,075)	(22,075)	(21,210)	(43,285)
Restated Balance as at 1st April 2016	787,765	2,306,644	5,568,864	8,663,275	3,338,937	12,002,212
Profit for the Year	-	-	1,387,503	1,387,503	559,849	1,947,351
Other Comprehensive Income	-	102,850	39,926	142,775	36,327	179,102
Total Comprehensive Income	-	102,850	1,427,428	1,530,278	596,176	2,126,454
Write back of unclaimed dividends	-	-	-	-	-	-
Dividends						
1st Interim 2015/16 (Rs. 2.50 per share)	-	-	(109,200)	(109,200)	-	(109,200)
2nd Interim 2015/16 (Rs. 5.00 per share)	-	-	(300,300)	(300,300)	-	(300,300)
	-	-	(409,500)	(409,500)	-	(409,500)
Dividends to non controlling interest			10,396	10,396	(170,549)	(160,153)
<b>Balance as at 1st April 2017</b>	787,765	2,409,494	6,597,189	9,794,448	3,764,563	13,559,011
Profit for the Year	-	-	1,086,902	1,086,902	524,262	1,611,164
Other Comprehensive Income	-	157,177	(52,390)	104,787	(138,907)	(34,120)
Total Comprehensive Income	-	157,177	1,034,512	1,191,690	385,355	1,577,044
Write back of unclaimed dividends	-	-	7,852	7,852	-	7,852
Dividends						-
1st Interim 2017/18 (Rs. 4.00 per share)	-	-	(218,400)	(218,400)	-	(218,400)
2nd Interim 2017/18 (Rs. 5.50 per share)	-	-	(300,300)	(300,300)	-	(300,300)
	-	-	(518,700)	(518,700)	-	(518,700)
Dividends to non controlling interest	-	-	41,525	41,525	(257,980)	(216,455)
Proceeds on issue of shares to minority shareholders	-	-	-	-	5,997	5,997
<b>Balance as at 31st March 2018</b>	787,765	2,566,671	7,162,378	10,516,814	3,897,935	14,414,749

The accounting policies and notes on pages 104 to 173 form an integral part of the financial statements.

## Statement of Changes in Equity

	Stated capital Rs.000	Revaluation reserve Rs.000	Retained Earnings Rs.000	Total Rs.000
<b>COMPANY</b>				
<b>Balance as at 31st March 2016</b>	787,765	1,237,011	2,118,262	4,143,038
Profit for the Year	-	-	772,765	772,765
Other Comprehensive Income	-	-	13,271	13,271
Total Comprehensive Income	-	-	786,036	786,036
Write back of unclaimed dividends	-	-	-	-
Dividends				
1st Interim 2016/17 (Rs. 2.00 per share)	-	-	(109,200)	(109,200)
2nd Interim 2016/17 (Rs. 5.50 per share)	-	-	(300,300)	(300,300)
	-	-	(409,500)	(409,500)
<b>Balance as at 31st March 2017</b>	787,765	1,237,011	2,494,799	4,519,575
Profit for the Year	-	-	691,041	691,041
Other Comprehensive Income	-	294,804	(13,532)	281,272
Total Comprehensive Income	-	294,804	677,508	972,313
Write back of unclaimed dividends	-	-	7,852	7,852
Dividends				
1st Interim 2017/18 (Rs. 4.00 per share)	-	-	(218,400)	(218,400)
2nd Interim 2017/18 (Rs. 5.50 per share)	-	-	(300,300)	(300,300)
	-	-	(518,700)	(518,700)
<b>Balance as at 31st March 2018</b>	787,765	1,531,815	2,661,459	4,981,039

The accounting policies and notes on pages 104 to 173 form an integral part of the financial statements.

## Cash Flow Statement

For the Year ended 31st March		GROUP		COMPANY	
	Note	2018 Rs.000	Restated 2017 Rs.000	2018 Rs.000	2017 Rs.000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Profit before income tax		2,310,938	2,611,942	867,409	944,673
<b>Adjustments for</b>					
Depreciation & amortisation	24	709,855	636,109	154,613	154,836
Income from investments		-	-	(336,229)	(252,619)
Profit/ (loss) on sale of property, plant & equipment	21	(3,645)	3,187	(3,572)	112
Interest income	23	(110,617)	(142,549)	-	-
Finance costs	22	480,146	408,928	113,185	105,269
Provision for retirement benefit obligations	16	133,361	121,693	17,219	14,201
Capital expenditure written off		-	743	-	-
Allowance/ (reversal) for obsolete and slow moving inventories		(13,584)	(3,013)	1,189	6,500
Allowance for impairment of trade receivable		5,494	(5,650)	1,364	(5,623)
Deferred income / capital grants amortisation	17	(6,274)	(4,760)	-	-
Changing in Fair Value of Biological Assets		(44,995)	(28,871)	-	-
Foreign exchange (gain)/ loss		17,283	21,003	82	3,775
<b>Operating profit/(loss) before working capital changes</b>		<b>3,477,961</b>	<b>3,618,760</b>	<b>815,260</b>	<b>971,123</b>
<b>Working capital adjustments</b>					
(Increase)/ decrease in inventories		(1,779,629)	(1,164,329)	(271,881)	(145,504)
(Increase)/ decrease in trade and other receivables		(570,206)	(681,241)	(227,080)	24,015
(Increase) /decrease in due from related parties		(46,698)	(3,945)	(16,889)	(2,365)
Increase/ (decrease) in due to related parties		31,483	(5,678)	81,153	(7,148)
Increase /decrease in trade and other payables		922,317	264,662	65,159	41,072
Increase/ (decrease) in investments		57	(219)	57	(219)
<b>Cash generated from operations</b>		<b>2,035,285</b>	<b>2,028,011</b>	<b>445,779</b>	<b>880,974</b>
Interest received		110,617	142,549	-	-
Finance costs paid		(480,146)	(408,928)	(113,185)	(105,269)
Retirement benefit plan costs paid	15	(98,629)	(90,078)	(3,131)	(3,155)
Income tax paid		(698,351)	(805,724)	(184,151)	(115,121)
<b>Net cash flows from/(used in) operating activities</b>		<b>868,776</b>	<b>865,830</b>	<b>145,311</b>	<b>657,429</b>
<b>CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES</b>					
Acquisition of property, plant & equipment	3	(1,348,032)	(1,429,091)	(167,299)	(157,554)
Acquisition of plantation assets	3	(241,550)	(209,348)	-	-
(Acquisition) / disposal of investments		-	-	-	-
Proceeds from sale of property, plant & equipment		7,300	7,582	4,782	834
Income from investments		-	-	336,229	252,619
<b>Net cash flows from/(used in) investing activities</b>		<b>(1,582,282)</b>	<b>(1,630,857)</b>	<b>173,712</b>	<b>95,899</b>
<b>CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES</b>					
Interest bearing loans & borrowings obtained		6,219,152	4,685,869	500,000	-
Repayment of interest bearing borrowings		(5,336,562)	(4,243,214)	(262,626)	(401,189)
Dividends paid - on Ordinary Shares	25	(518,700)	(409,500)	(518,700)	(409,500)
Dividend paid to non controlling interest		(216,455)	(160,153)	-	-
Proceeds on issue of shares to minority shareholders		5,997	-	-	-
Dividend write back		7,852	-	7,852	-
Capital grants received	17	4,617	8,649	-	-
<b>Net cash flows from/(used in) financing activities</b>		<b>165,901</b>	<b>(118,349)</b>	<b>(273,474)</b>	<b>(810,689)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(547,606)</b>	<b>(883,376)</b>	<b>45,549</b>	<b>(57,361)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	26	<b>244,354</b>	<b>1,127,731</b>	<b>(331,416)</b>	<b>(274,057)</b>
<b>Cash and cash equivalents at the end of the year</b>	26	<b>(303,251)</b>	<b>244,354</b>	<b>(285,867)</b>	<b>(331,416)</b>

The accounting policies and the notes on pages 104 to 173 form an integral part of these financial statements.

## Notes to the Financial Statements

### 1. CORPORATE INFORMATION

#### 1.1 General

Lanka Walltiles PLC ("Company") is a 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.

#### 1.2 Principal activities and nature of operations

During the year, the principal activities of the Company were the manufacture and sale of ceramic walltiles for export and local markets and holding investments.

The principal activities of the other Companies of the Group are disclosed in Note 5.2 to the Financial Statements.

#### 1.3 Parent enterprise and ultimate parent enterprise

The Company's parent entity is Royal Ceramic Lanka PLC. In the opinion of the Directors, the Company's ultimate parent undertaking and controlling party is Vallibel One PLC, which is incorporated in Sri Lanka.

#### 1.4 Date of authorization for issue

The Financial Statement of Lanka Walltiles PLC and its Subsidiaries for year ended 31 March 2018 was authorized for issue in accordance with a resolution of the Board of Directors.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 2.1 Basis of Preparation

The financial statements of the Company and the Group have been prepared in accordance with Sri Lanka Accounting Standards comprising SLFRS and LKAS (hereafter "SLFRS") as issued by the Institute of Chartered Accountants of Sri Lanka.

##### 2.1.1 Basis of measurement

The financial statements of the Company and the Group have been prepared on a historical cost basis, other than for following assets measured at fair value;

1. Property, Plant and Equipment
2. Biological assets
3. Investment properties

The financial statements are presented in Sri Lankan Rupees (Rs), except when otherwise indicated.

#### 2.1.2 Statement of Compliance

The financial statements of the Company and consolidated financial statements of the Group have been prepared in accordance with Sri Lanka Accounting Standards ("SLFRS") as issued by Institute of Chartered Accountants of Sri Lanka.

The preparation and presentation of these financial statements is in compliance with the requirements of the Companies Act No.07 of 2007.

#### 2.1.3 Going concern

When preparing financial statements, management has made assessments of the ability of the constituents of the Group to continue as going concern, taking into account all available information about the future, including intentions of curtailment of business, as decided by Board.

#### 2.1.4 Comparative information

The accounting policies adopted are consistent with those used in the previous financial year

#### 2.1.5 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 March 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

1. Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
2. Exposure, or rights, to variable returns from its involvement with the investee
3. The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

1. The contractual arrangement with the other vote holders of the investee
2. Rights arising from other contractual arrangements
3. The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Companies in the Group, the Group holdings in its subsidiary are given in Note 5.2 to the financial statements.

### 2.1.6 Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration

transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

## 2.2 Significant Accounting Judgments, Estimates And Assumptions

### 2.2.1 Judgements

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

#### a) Taxation

The group is subject to income taxes and other taxes. Uncertainties exist, with respect to the interpretation of the applicability of tax laws, at the time of preparation of these financial statements. The Group recognized assets and liabilities for current and deferred based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from that were initially recorded, such differences will impact the income and deferred tax amounts in the period in which the determination is made.

#### b) Useful life-time of the Property, Plant and equipment

The Group reviews the useful lives and methods of depreciation of assets at each reporting date. Judgement of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainty (Note 3).

### 2.2.2 Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The respective carrying amounts of assets and liabilities are given in related notes to the financial statements.

## Notes to the Financial Statements

### a) Defined benefit plans

The cost of defined benefit plan- gratuity is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Retirement benefit liability of the Group is disclosed in Note 16.

### b) Provision for Slow moving inventories

A provision for slow moving inventories is recognized based on the best estimates available to management on their future usability/ sale. As management uses historical information as the basis to determine the future usability and recoverability, actual future losses on inventories could vary from the provision made in these financial statements (Note 8).

### c) Fair value of Freehold Land and Buildings and Land classified as Investment properties

The Group measures freehold land and buildings as well as Land classified as Investment properties at fair value with changes in fair value being recognized in other comprehensive income and statement of profit and loss respectively. Land and buildings were valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

Fair value related disclosures for assets measured at fair value are summarized in the Note 3.4 and 3.8 to the financial statements.

### d) Impairment of debtors

The Group reviews at each reporting date all receivables to assess impairment of debtors. (Note 9).

### e) Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent it is probable that future taxable profits will be available against which such tax losses can be set off. Judgment is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with the future tax-planning strategies.

### f) Impairment of Non Financial Assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When values in use calculations are

undertaken, management must estimate the expected future cash flows from the assets or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

### g) Fair Value of Financial Instruments

Where the fair values of financial assets and financial liabilities disclosed in the financial statements cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish fair values. The judgments include considerations of liquidity and inputs such as discount rates. The valuation of financial instruments is described in more detail in Note 14.8.

### h) Fair Valuation of Biological Assets

The fair value of managed timber determined based on discounted cash flow method using various financial and non-financial assumptions. The growth of the trees is determined by various biological features that are highly unpredictable. Any change to the assumptions will impact the fair value of biological assets. Key assumptions and sensitivity analysis of the biological assets are given in the note 3.1 (h) and 2.4.2 (b) (i).

## 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.3.1 Foreign currency translation

The financial statements are presented in Sri Lanka Rupees, which is the Group's functional and presentation currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to profit or loss. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

### 2.3.2 Fair Value Measurement

Fair value related disclosures for assets measured at fair value or financial instruments that are not measured at fair value, for which fair values are disclosed, are summarized in the Note 3.1(l) and 3.4.1 to the financial statements.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorised within the fair value hierarchy, described as follows,

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the Financial Statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The management determines the policies and procedures for both recurring fair value measurement and for non-recurring measurement.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

### 2.3.3 Taxation

#### Current taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provisions of the relevant tax legislations. Current income tax relating to items recognised directly in equity statement is recognised in equity and not in the statement of comprehensive income.

#### Deferred taxation

Deferred income tax is provided, using the liability method, on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and the carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognised directly in equity statement is recognized in equity statement and not in the statement of total comprehensive income.

#### Sales tax

Revenue, expenses and assets are recognised net of the amount of sales tax except where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authorities in which case the sales tax is recognized as a part of the cost of the asset or part of the expense items as applicable and receivable and payable are stated with the amount of sales tax included. The amount of sales tax recoverable and payable in respect of taxation authorities is included as a part of other receivables and other payables in the Statement of Financial Position.

## Notes to the Financial Statements

### 2.3.4 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred, except to the extent where borrowing costs that are directly attributable to the acquisition, construction, or production of an asset that takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of that asset.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in statement of comprehensive income using the effective interest method.

The amounts of borrowing costs which are eligible for capitalisation are determined in accordance with LKAS 23 – “Borrowing Costs”.

Borrowing cost incurred in respect of specific loans that are utilised for the field development activities have been capitalised as part of the cost of relevant immature plantation. The capitalisation will ceased when crops are ready for commercial harvest.

### 2.3.5 Inventories

Inventories are valued at the lower of cost and net realizable value, after making due allowances for obsolete and slow moving items. Net realizable 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.

The cost incurred in bringing inventories to its present location and condition is accounted using the following cost formulae:-

#### Finished goods and work-in-progress

#### Manufacturing goods

At the cost of direct materials, direct labour and an appropriate proportion of fixed production overheads based on normal operating capacity, but excluding borrowing cost.

#### Trading goods

At purchase cost on first in first out basis

#### Consumable and spares

At actual cost on weighted average basis

#### Raw materials

At purchase cost on weighted average cost basis, except for Vallibel Plantation Management Limited and Swisstek (Ceylon) PLC which is on a first in first out basis.

#### Goods in transit

At actual cost

### 2.3.6 Financial Instruments

#### Financial Assets

#### Initial Recognition and Measurement

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group's financial assets include cash and short-term deposits, trade and other receivables, loans and other receivables and quoted and unquoted financial instruments.

#### Subsequent Measurement

The subsequent measurement of financial assets depends on their classification as follows:

#### a) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs.

#### Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a Group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full.

### Impairment of Financial Assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a Group of financial assets is impaired. A financial asset or a Group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the 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 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.

### Financial Assets carried at Amortised Cost

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a Group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

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. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised; the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

### Financial Liabilities

#### Initial Recognition and Measurement

Financial liabilities within the scope of LKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, carried at amortised cost. This includes directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts and loans and borrowings.

Accordingly Group financial liabilities have been classified as and loans and borrowings.

#### Subsequent Measurement

The measurement of financial liabilities depends on their classification as follows:

##### a) Loans and Borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs those are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of comprehensive income.

#### Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

### 2.3.7 Property, plant and equipment

Property, plant and equipment is stated at cost or valuation, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met. When each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

## Notes to the Financial Statements

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

Depreciation is calculated on a straight line basis over the useful life of the assets. The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Capital expenditure incurred in relation to fixed assets which are not completed as at the reporting date are shown as capital work-in-progress and is stated at cost. On completion, the related assets are transferred to property, plant and equipment. Depreciation on capital work-in-progress commences when the assets are ready for their intended use.

Free hold land and building is subsequently measured at fair value. Valuations are performed every 3 years (or frequently enough) to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

A revaluation surplus is recognised in other comprehensive income and credited to the revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in the income statement, in which case the increase is recognised in the income statement. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

### 2.3.8 Leases

#### 2.3.8.1 Finance leases

Assets obtained under finance lease, which effectively transfer to the Group substantially the entire risks and benefits incidental to ownership of the leased assets, are treated as if they have been purchased outright and are capitalized at their cash price. Assets acquired by way of a finance lease are measured at an amount equal to the lower of the present value of the minimum lease payments and fair value of the leased property.

Assets held under finance lease are amortized shorter of the lease period or the useful lives of equivalent owned assets, unless ownership is not transferred at the end of the lease period.

The principal/capital element payable to the lessor is shown as liability/obligation. The lease rentals are treated as consisting of capital and interest elements. The capital element in the rental is applied to reduce the outstanding obligation and interest element is charged against profit, in proportion to the reducing capital outstanding.

The cost of improvements on leased property is capitalised, disclosed as improvements to leasehold property and depreciated over the unexpired period of the lease, or the estimated useful lives of the improvements, whichever is shorter.

#### 2.3.8.2 Operating leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership over the leased term are classified as operating leases.

Rentals paid under operating leases are recognized as an expense in the income statement on a straight-line basis over the lease term. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

#### 2.3.9 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of total comprehensive income net of any reimbursement.

#### 2.3.10 Retirement benefit obligations

##### (a) Defined Benefit Plan – Gratuity

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The defined benefit is calculated by independent actuaries using Projected Unit Credit (PUC) method as recommended by LKAS 19 – "Employee benefits". The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related liability.

The present value of the defined benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions about discount rate, expected rates of return

on assets, future salary increases and mortality rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

Accordingly, the employee benefit liability is based on the actuarial valuation as of 31 March 2018.

#### Funding Arrangements

The Gratuity liability is not externally funded.

#### (b) Defined Contribution Plans- Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with respective statutes and regulations. These are recognized as an expense in the statement of income as incurred.

The Group contributes 12% and 3% of gross emoluments of the employees to Employees' Provident Fund and Employees' Trust Fund respectively.

#### 2.3.11 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount an asset is considered impaired and is written down to its recoverable amount.

#### 2.3.12 Revenue recognition

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

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

##### Interest

For all financial instruments measured at amortised cost and interest bearing financial assets, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

Interest income is included in finance income in the statement of total comprehensive income.

##### Dividends

Dividend income is recognised when the shareholders' right to receive payment is established.

##### Rental income

Rental income receivable under operating leases is recognised on a straight-line basis over the term of the lease.

##### Other income

Other income is recognised on an accrual basis.

Net gains and losses of a revenue nature on the disposal of property, plant & equipment and other non-current assets including investments have been accounted for in the statement of total comprehensive income, having deducted from proceeds on disposal, the carrying amount of the assets and related selling expenses. On disposal of revalued property, amount remaining in revaluation reserve relating to that asset is transferred directly to retained earnings.

Gains and losses arising from incidental activities to main revenue generating activities and those arising from a group of similar transactions which are not material, are aggregated, reported and presented on a net basis.

#### 2.3.13 Segmental Reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment information is presented in respect of the Group's business and has been prepared in conformation with the accounting policies adopted for preparing and presenting the consolidated financial statements of the Group. The business segments are reported based on Group's management and internal reporting structure.

## Notes to the Financial Statements

Inter segment pricing is determined at prices mutually agreed by the companies.

Segment result, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise of goodwill on consolidation.

The Group comprises the following main business segments:

Tiles and associated items

The manufacture and distribution of wall tiles, floor tiles and related products.

### Biological Assets

Cultivation, processing and sale of tea and rubber

### Aluminum products

The manufacture and distribution of aluminum extrusions and allied products through a network of dealers & distributors.

### Packing materials

The manufacture and distribution of packing materials

Management considers that there is no suitable basis for allocating such assets and related liabilities to geographical segments. Accordingly, segment assets, segment liabilities and other segment information by geographical segment is not disclosed.

## 2.4 Significant accounting policies that are specific to the business of plantation

### 2.4.1 Basis of Preparation

The Financial Statements have been prepared on historical cost convention except for the following material items in the statement of financial position.

- a) Lease hold right to Bare Land and leased assets of JEDB/ SLSPC, which have been revalued as morefully described in note 3.1.(d) and (e).
- b) Consumable Mature Biological Assets are measured at fair value less cost to sell. (LKAS 41)
- c) Employee Benefits recognized based on actuarial valuation (LKAS 19)

### 2.4.2 Property, Plant and Equipment

#### a) Permanent Land Development Cost

Permanent land development costs incurred in making major infrastructure development and building new access roads on leasehold lands.

These costs have been capitalised and amortised over the remaining lease period.

Permanent impairments to land development costs are charged to the Statement of Comprehensive Income in full and reduced to the net carrying amounts of such assets in the year of occurrence after ascertaining the loss.

#### b) Biological Assets

##### (i) Bearer Biological Assets & Consumer Biological Assets

Biological assets are classified in to mature biological assets and immature biological assets. Mature biological assets are those that have attained harvestable specifications or are able to sustain regular harvests. Immature biological assets are those that have not yet attained harvestable specifications. Tea, rubber, other plantations and nurseries are classified as biological assets.

The cost of land preparation, rehabilitation, new planting, re-planting, crop diversifying, inter-planting and fertilizing, etc., incurred between the time of planting and harvesting (when the planted area attains maturity), are classified as immature plantations. These immature plantations are shown at direct costs plus attributable overheads, including interest attributable to long term loans used for financing immature plantations.

Biological assets are further classified as bearer biological assets and consumable biological assets. Bearer biological asset includes tea and rubber trees, those that are not intended to be sold or harvested, however used to grow for harvesting agricultural produce from such biological assets. Consumable biological assets includes managed timber trees those that are to be sold as biological assets.

The expenditure incurred on bearer biological assets (tea and rubber) fields, which come in to bearing during the year, has been transferred to mature plantations. Expenditure incurred on consumable biological assets is recorded at cost at initial recognition and thereafter at fair value at the end of each reporting period.

The entity recognize the biological assets when, and only when, the entity controls the assets as a result of past event, it is probable that future economic benefits associated with the assets will flow to the entity and the fair value or cost of the assets can be measured reliably.

The managed timber trees are measured on initial recognition and at the end of each reporting period at its fair value less cost to sell in terms of LKAS 41- Agriculture. The cost is treated as approximation to fair value

of young plants as the impact on biological transformation of such plants to price during this period is immaterial. The fair value of timber trees are measured using Discounted Cash Flow Method taking in to consideration the current market prices of timber, applied to expected timber content of a tree at the maturity by an independent professional valuer.

The main variables in DCF model concerns,

Variable	Comment
Timber content	Estimate based on physical verification of girth, height and considering the growth of the each species. Factor all the prevailing statutory regulations enforced against harvesting of timber coupled with forestry plan of the Company.
Economic useful life	Estimated based on the normal life span of each species by factoring the forestry plan of the Company.
Selling price	Estimated based on prevailing Sri Lankan market price. Factor all the conditions to be fulfilled in bringing the trees in to saleable condition
Discount Rate	Discount rate reflects the possible variations in the Cash flows and the risk related to the biological assets.

Nursery cost includes the cost of direct materials, direct labour and an appropriate proportion of directly attributable overheads, less provision for overgrown plants.

The gain or loss arising on initial recognition of biological assets at fair value less cost to sell and from a change in fair value less cost to sell of biological assets are included in the Statement of Comprehensive Income for the period in which it arises.

Permanent impairments to Biological Assets are charged to the Statement of Comprehensive Income in full and reduced to the net carrying amounts of such asset in the year of occurrence after ascertaining the loss.

(ii) **Infilling Cost on Biological Assets**

The land development costs incurred in the form of infilling have been capitalised to the relevant mature field, only if it increases the expected future benefits from that field, beyond its pre-infilling performance

assessment. Infilling costs so capitalised are depreciated over the newly assessed remaining useful economic life of the relevant mature plantation, or the unexpired lease period, whichever is lower.

Infilling costs that are not capitalized have been charged to the Statement of Comprehensive Income in the year in which they are incurred.

**2.4.3 Inventories**

a) **Agricultural produce harvested from Biological Assets**

Agricultural produce harvested from Biological Assets are measured at their fair value less cost to sell at the point of harvest. The finished and semi finished inventories from Agricultural produce are valued by adding the cost of conversion to the fair value of agricultural produce.

b) **Agricultural produce after further processing**

Further processed output of agricultural produce are valued at the lower of cost and estimated net realisable value, after making due allowances for obsolete and slow moving items.

**2.4.4 Retirement Benefit Obligation**

a) **Defined Benefit Plan**

The retirement benefit plan adopted is as required under the Payment of Gratuity Act No.12 of 1983 and the Indian Repatriate Act No.34 of 1978 to eligible employees. This item is grouped under Retirement Benefit Liability in the Statement of Financial Position.

Provision for Gratuity on the Employees of the Company is based on an actuarial valuation, using the Project Unit Credit (PUC) method as recommended by LKAS 19 "Retirement Benefit Costs". The actuarial valuation was carried out by a professionally qualified firm of actuaries, Messers .Actuarial Management Consultants (Private) Limited as at 31.03.2016.

However, according to the Payment of Gratuity Act No.12 of 1983, the liability for payment to an employee arises only after the completion of 5 years continued services.

**The liability is not externally funded.**

b) **Defined Contribution Plans - Provident Funds and Trust Fund**

The Company contributes 12% on consolidated salary of the employees to Ceylon Planters' Provident Society (CPPS)/Estate Staff's Provident Society (ESPS)/ Employees' Provident Fund (EPF).

## Notes to the Financial Statements

All the employees of the Company are members of the Employees' Trust Fund, to which the Company contributes 3% on the consolidated salary of such employees.

### 2.4.5 Deferred Income

#### a) Grants and Subsidies

Grants related to Property, Plant and Equipment other than grants received for consumer biological assets are initially deferred and allocated to income on a systematic basis over the useful life of the related Property, Plant and Equipment is more fully mentioned in Note 17 to the Financial Statements.

Grants related to income are recognized in the Statement of Comprehensive Income in the year which it is receivable.

Unconditional grants received for consumer biological assets are measured at fair value less cost to sell are recognized in the Statement of Comprehensive income when and only when such grants become receivable.

### 2.4.6 Revenue Recognition

Revenue is recorded at invoice value net of brokerage, sale expenses and other levies related to revenue. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised. The fair value gain arising on the valuation of harvested crops has been separately disclosed as part of the revenue.

### 2.5 Effect of Sri Lanka Accounting Standards Issued But Not Yet Effective:

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing of standards

and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

#### SLFRS 9 – Financial Instruments

SLFRS 9 replaces the existing guidance in LKAS 39 Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from LKAS 39.

SLFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

#### SLFRS 15 – Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 Revenue, LKAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

SLFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group plans to adopt the new standard on the effective date using full retrospective method

#### SLFRS 16 - Leases

SLFRS 16 provides a single lessee accounting model, requiring leases to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value even though lessor accounting remains similar to current practice. This supersedes: LKAS 17 Leases, IFRIC 4 determining whether an arrangement contains a Lease, SIC 15 Operating Leases- Incentives; and SIC 27 evaluating the substance of Transactions Involving the Legal form of a Lease. Earlier application is permitted for entities that apply SLFRS 15 Revenue from Contracts with customers.

SLFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019.

The Group is currently assessing the impact of adopting these three new standards.

### 3 PROPERTY, PLANT & EQUIPMENT

#### 3.1 Group

	Balance as at 01.04.2017 Rs.000	Revaluations Rs.000	Additions Rs.000	Disposals/ Transfers Rs.000	Balance as at 31.03.2018 Rs.000
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#### a) Gross Carrying Amounts

##### At Cost

Land	454,675	-	4,732	(459,407)	-
Buildings	355,398	-	2,697	-	358,095
Plant and Machinery	6,846,152	-	606,184	(6,005)	7,446,331
Water Supply, Electricity Distribution Scheme	397,117	-	24,408	-	421,524
Tools, Implements, Furniture & Fittings and Electrical Appliances	632,355	-	75,088	(17,539)	689,903
Transport & Communication Equipment	483,790	-	45,557	(13,370)	515,977
	9,169,488	-	758,665	(496,321)	9,431,830

	Balance as at 01.04.2017 Rs.000	Revaluations Rs.000	Additions Rs.000	Disposals/ Transfers Rs.000	Balance as at 31.03.2018 Rs.000
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##### At Valuation

Freehold Land	3,761,305	872,356	250,184	-	4,883,845
Buildings	2,287,884	46,547	83,977	(37,989)	2,380,419
	6,049,188	918,903	334,161	(37,989)	7,264,263

##### Assets on Finance Lease

Leasehold Land	14,600	-	-	-	14,600
Plant and Machinery	18,221	-	-	-	18,221
Transport & Communication Equipment	57,195	-	-	(5,134)	52,061
	90,016	-	-	(5,134)	84,882

## Notes to the Financial Statements

	Balance as at 01.04.2017	Revaluations	Additions	Disposals/ Transfers	Balance as at 31.03.2018
<b>In the Course of Construction</b>	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
<b>Capital Work In Progress - Building &amp; Others</b>	246,606	-	998,049	(732,771)	511,884
	246,606	-	998,049	(732,771)	511,884
<b>Total</b>	15,555,298	918,903	2,090,875	(1,272,215)	17,292,861

### b) Depreciation

	Balance as at 01.04.2017	Revaluations	Additions	Disposals/ Transfers	Balance as at 31.03.2018
<b>In the Course of Construction</b>	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
<b>At Cost</b>					
Buildings	181,575	(37,989)	69,014	-	212,600
Plant and Machinery	3,444,659	-	387,055	(3,725)	3,827,990
Water Supply, Electricity Distribution Scheme	265,792	-	22,074	(3)	287,864
Tools, Implements, Furniture & Fittings and Electrical Appliances	479,477	-	67,089	(17,310)	529,256
Transport & Communication Equipment	334,645	-	42,851	(12,217)	365,280
<b>Total</b>	4,706,149	(37,989)	588,084	(33,255)	5,222,989

#### At Valuation

Buildings	11,916	-	14,008	-	25,924
	11,916	-	14,008	-	25,924

#### Assets on Finance Lease

Leasehold Land	1,947	-	485	-	2,432
Plant and Machinery	9,156	-	2,115	-	11,271
Transport & Communication Equipment	43,591	-	4,403	(5,834)	42,160
	54,694	-	7,003	(5,834)	55,863
<b>Total</b>	4,772,759	(37,989)	609,095	(39,089)	5,304,776

## c) Net book value of assets

	2018 Rs.000	Restated 2017 Rs.000
<b>At Valuation</b>		
Freehold Land	4,883,845	3,761,305
Buildings	2,141,894	2,275,967
<b>At Cost</b>		
Land	-	454,675
Buildings	358,095	173,823
Plant and Machinery	3,618,341	3,401,493
Water Supply, Electricity Distribution Scheme	133,661	131,325
Tools, Implements, Furniture & Fittings and Electrical Appliances	160,648	152,878
Transport & Communication Equipment	150,697	149,145
	11,447,181	10,500,610
<b>Assets on Finance Leases</b>		
Leasehold Land	12,168	12,654
Plant and Machinery	6,950	9,065
Transport & Communication Equipment	9,901	13,604
	11,476,200	10,535,933
Capital Work in Progress	511,884	246,606
Net Value [ 3.1 (i)]	11,988,084	10,782,540

## (d) Leasehold right to bare land of JEDB/SLSPC estates

	2018 Rs.000	2017 Rs.000
<b>Capitalised value</b>		
As at 22.06.1992	204,931	204,931
<b>Amortisation</b>		
At the beginning of the year	95,812	91,945
Charge for the year	3,866	3,866
At the end of the year	99,678	95,812
<b>Carrying Amount</b>		
At the end of the year	105,253	109,119

## Notes to the Financial Statements

The leasehold rights to the bare land on all estates (except for Dumbara Estate which is under an operating lease) have been taken into the books of Horana Plantations PLC.(HPPLC), as at 22nd June 1992, immediately after formation of HPPLC, in terms of the opinion obtained from the Urgent Issue Task Force (UITF) of the Institute of Chartered Accountants of Sri Lanka. For this purpose lands have been revalued at Rs.204.931 Mn. being the value established for these lands by Valuation Specialist, D.R.Wickremasinghe just prior to the formation of HPPLC. However Institute of Chartered Accountants of Sri Lanka has withdrawn the UITF ruling with the implementation of LKAS/SLFRs and introduced Statement of Recommended Practices SoRP on leasehold land on 19th December 2013. As per the SoRP right to use land does not permit further revaluation.

### (e) Immovable JEDB/SLSPC estate assets on finance leases (other than right to bare land)

	Mature Plantations	Permanent Land Development Cost	Buildings	Plant & Machinery	2018 Rs.000	2017 Rs.000
	Rs.000	Rs.000	Rs.000	Rs.000		
Revaluation	214,810	4,014	47,173	6,818	272,815	272,815
	214,810	4,014	47,173	6,818	272,815	272,815
<b>Amortisation</b>						
At the beginning	161,124	3,295	46,757	6,818	217,994	208,813
During the period	7,160	137	417	-	7,715	9,181
At the end	168,285	3,433	47,175	6,818	225,710	217,994
<b>Written Down Value</b>						
As at 31.03.18	46,525	582	(2)	-	47,105	
As at 31.03.17	53,686	720	416	-		54,821

In terms of the opinion obtained from the UITF all immovable estate Property, Plant and Equipment under finance leases have been taken into the books of the Company retroactive to 22nd June 1992. For this purpose all estate immovables have been revalued at their book values as they appear in the books of the lessor(JEDB/SLSPC), as the case may be on the day immediately preceding the date of formation of the company.

Investments in Bearer Biological assets which were immature, at the time of handing over to the Company by way of estate lease, are shown under Bearer Biological assets - immature (Revalue as at 22.06.1992). Further investments in such a bearer biological assets (Immature to bring them to maturity are shown under\* Note 3.1 (f) Bearer Biological assets (Immature Plantation). When these plantations become mature the additional investment to bring them to maturity will be moved from the Note 3.1 (f) - Bearer Biological assets Immature plantations) to Note 3.1 (f) - Bearer Biological assets Mature Plantations) shown under Note 3.1(f) and corresponding move from bearer biological assets (Immature) to bearer biological assets (Mature) will be made in the above category, namely cost incurred before take over.

**(f) Bearer Biological Assets**

	Tea	Rubber	Oil Palm	Diversi- -fication	Total	Total Restated
	Rs.000	Rs.000	Rs.000	Rs.000	2018 Rs.000	2017 Rs.000
<b>Immature Plantations</b>						
<b>Cost or Valuation :</b>						
Opening Balance	146,696	375,628	58,800	56,038	637,164	717,283
Additions	46,264	80,000	59,724	43,076	229,065	194,708
Transfers from Mature	(94,324)	(204,901)	(53,660)	(14,456)	(367,341)	(274,084)
Transferred to Income Statement	-	-	-	-	-	(743)
At the end of the year	98,636	250,726	64,864	84,659	498,887	637,164
<b>Mature Plantations</b>						
<b>Cost or Valuation :</b>						
Opening Balance	697,998	1,133,145	50,219	31,226	1,912,588	1,638,504
Transfers from Immature	94,324	204,901	53,660	14,456	367,341	274,084
At the end of the year	792,322	1,338,046	103,880	45,681	2,279,929	1,912,588
<b>Accumulated Amortization</b>						
At the beginning of the year -Restated	157,489	340,041	1,520	8,745	507,795	429,615
Charge for the year	25,341	64,951	2,511	2,165	94,969	78,178
At the end of the year	182,830	404,992	4,031	10,910	602,764	507,794
Written Down Value	609,492	933,053	99,850	34,771	1,677,165	1,404,794
<b>Total Bearer Biological Assets</b>	<b>708,128</b>	<b>1,183,780</b>	<b>164,713</b>	<b>119,430</b>	<b>2,176,052</b>	<b>2,041,956</b>

These are investments in immature/mature plantations since the formation of HPPLC. The assets (including plantations) taken over by way of estate leases are set out in Note 3.1. (d) and 3.1. (e). Further investments in the immature plantations taken over by way of these lease are also shown in the above. When such plantations become mature, the additional investments since take over to bring them to maturity have been (or will be ) moved from immature to mature under this category as and when field become mature.

## Notes to the Financial Statements

### (g) Consumable Biological Assets

	2018	2017
	Rs.000	Rs.000
<b>Immature Plantations</b>		
<b>Cost :</b>		
At the beginning of the year -Restated	39,339	29,288
Additions	12,485	14,640
Transfers to Mature Plantations	-	(4,589)
At the end of the year	51,824	39,339
<b>Mature Plantations</b>		
<b>Cost :</b>		
At the beginning of the year	451,197	424,596
Decrease due to Harvest	(5,230)	
Increase due to new plantations	-	4,589
<b>Change in Fair Value less costs to sell</b>	38,785	22,011
At the end of the year	484,752	451,197
<b>Total Bearer Biological Assets</b>	<b>536,575</b>	<b>490,536</b>

### (h) Basis of Valuation

Under LKAS 41 the company has valued its managed plantations at fair value less cost to sell, Managed timber plantations as at 31st March 2018 comprised approximately 304.52 hectares.

Managed trees which are less than three years old are considered to be immature consumable biological assets, amounting Rs. 51.824 Mn as at 31st March 2018. The cost of immature trees is treated as approximate fair value, particularly on the ground that little biological transformation has taken place and the impact of the biological transformation on price is not material. When such plantation become mature, the additional investments since taken over to bring them to maturity are transferred from immature to mature.

The mature consumable biological assets were valued by Chartered Valuers Mr. Ariyatillake for 2017/18 using Discounted Cash Flow (DCF) method . In ascertaining the fair value of timber, physical verification was carried covering all the estates.

#### Key assumptions used in valuation are;

The prices adopted are net of expenditure

Discounted rates used by the Valuer are within the range of 14% - 16%.

The valuation, as presented in the external valuation model based on the net present value, takes into accounts the long-term exploitation of the timber plantation. Because of the inherent uncertainty associated with the valuation at fair value of the biological assets due to the volatility of the variables, their carrying value may differ from their realisation value. The Board of Directors retains their view that commodity markets are inherently volatile and their long-term price projection are highly unpredictable. Hence, the sensitivity analysis regarding the selling price and discount rate variation as included in this note allows every investor to reasonably challenge the financial impact of the assumptions used in the valuation against his own assumptions.

The biological assets of the Company are mainly cultivated in leased lands. When measuring the fair value of the biological assets it was assumed that these concession can and will be renewed at normal circumstances. Timber content expects to be realised in future and is included in the calculation of the fair value that takes into account the age of the timber plants and not the expiration date of the lease.

The Company is exposed to the following risks relating to its timber plantation.

#### Regulatory and Environmental Risks

The Company is subject to laws and regulations in Sri Lanka. The Company has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage those risks.

#### Supply and Demand Risks

The Company is exposed to risks arising from fluctuations in the price and sales volume of timber. When possible the Company manages this risk by aligning its harvest volume to market supply and demand. Management performs regular industry trend analyses to ensure that the Company's pricing structure is in line with the market and to ensure that projected harvest volumes are consistent with the expected demand.

#### Climate and Other Risks

The Company's timber plantations are exposed to the risk of damage from climatic changes, diseases, forest fires and other natural forces. The Company has extensive processes in place aimed at monitoring and mitigating those risks, including regular forest health inspections and industry pest and disease surveys.

#### Sensitivity Analysis

##### Sensitivity Variation on Sales Price

Net Present Value of the Biological Assets as appearing in the Statement of Financial Position are very sensitive to changes in the average sales price applied. Simulations made for timber show that an increase or decrease by 10% of the estimated future selling price has the following effect on the Net Present Value of the Biological assets.

		-10%	10%
Managed Timber	2018	Rs. 39.83 Mn	Rs. 36.16 Mn

##### Sensitivity Variation on Discount Rate

Net Present Value of the Biological Assets as appearing in the Statement of Financial Position are very sensitive to changes in the discount rate applied. Simulations made for timber show that an increase or decrease by 1% of the estimated future discount rate has the following effect on the Net Present Value of the Biological assets.

		-1%	1%
Managed Timber	2018	Rs. 12.76 Mn	Rs.14.94 Mn

#### (i) Capitalisation of borrowing cost

Borrowing costs amounting to Rs. 76.73 Mn (Rs. 60.01 Mn in 2016/17) directly relating to investment in Biological Assets (Immature Plantations) have been capitalised during the period, at an average borrowing rate of 13.01% (11.92% in 2016/17).

## Notes to the Financial Statements

### (i) Net book value of assets

	2018	Restated 2017
	Rs.000	Rs.000
Property, plant and equipment [3.1 (c)]	11,988,084	10,782,540
Leasehold right to bare land of JEDB/SLSPC Estates [3.1 (d)]	105,253	109,119
Immovable JEDB/SLSPC estate assets on finance leases (other than right to bare land) [3.1 (e)]	47,105	54,821
Bearer Biological Assets [3.1 (f)]	2,176,052	2,041,956
	<b>14,316,493</b>	<b>12,988,436</b>

- (j) Fixed assets include fully depreciated assets, the cost of which at the reporting date amounted to Rs. 1,462.8 Mn (2017- Rs. 1,402.6 Mn)
- (k) During the financial year, the Group acquired property, plant & equipment to the aggregate value of Rs. 1,600.30 Mn (2017- Rs. 1,638.5 Mn). Cash payments amounting to Rs. 1,589.60 Mn (2017 - Rs. 1,623.50 Mn) were made during the year for purchase of property, plant and equipment.
- (l) "The following properties are revalued and recorded under freehold land and buildings. Fair Value measurement disclosure for revalued land based on unobservable inputs are as follows,

(A) Quoted Price (unadjusted) in active markets for identical assets or liabilities (Level -1).

(B) Inputs other than quoted prices included within 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)

(C) Input for the assets or liability that are not based on observable market data (that is, unobservable inputs) (Level -3).

Company	Location	Extent	Valuer	Valuation Date	Valuation Details	Significant unobservable input : price per perch/ acre/range	Fair Value measurement (Level 3) Rs.000	
1	Lanka Tiles PLC	Land at Ranala	36A-03R-07.35P	Mr. Ranjan J Samarakone	31st March 2018	Market based evidence	Rs. 40,000/-to Rs. 175,000/- per perch	558,989
		Land at Biyagama	02A-00R-15.93P	Mr. Ranjan J Samarakone	31st March 2018	Market based evidence	Rs. 950,000 per perch	319,134
		Marawila silica land	13A-0R-02P	Mr. Ranjan J Samarakone	31st March 2018	Market based evidence	Rs. 18,752.52 per perch	39,038
		Ball Clay land at Kalutara	5A-01R-0.83P	Mr. Ranjan J Samarakone	31st March 2018	Market based evidence	Rs. 62.50 per perch	52
2	Uni Dil Packing Ltd.	Land at Narampola road, Moragala, Deketana	A9-R0-P17.8	Mr. D.G.Newton	31st March 2016	Market based evidence	Rs. 70,000/- per perch	102,046

Company	Location	Extent	Valuer	Valuation Date	Valuation Details	Significant unobservable input : price per perch/ acre/range	Fair Value measurement (Level 3) Rs.000
	Building and land improvement at Narampola road, Moragala, Deketana	25,551 sq.ft	Mr. D.G.Newton	31st March 2016	Depreciated Replacement cost	Rs. 650/- to Rs. 2,000/- per sq.ft	179,254
3	Uni Dil Packaging Solutions Ltd	Land at Narampola road, Moragala, Deketana	Mr. D.G.Newton	31st March 2016	Market based evidence	Rs. 60,000/- per perch	26,100
	Building at Narampola road, Moragala, Deketana	25,551 sq.ft	Mr. D.G.Newton	31st March 2016	Depreciated Replacement cost	Rs. 1,750/- to Rs. 2,500/- per sq.ft	46,400
4	Swisstek (Ceylon) PLC	Factory Complex, Belummahara, Imbulgoda-Land	Mr. Ranjan J Samarakone	31st March 2018	Market based evidence	Rs. 646,429/- per perch	633,500
	No:334/5, Colombo Road, Belummahara, Imbulgoda-Land	20 Perches	Mr. Ranjan J Samarakone	31st March 2018	Market based evidence	Rs. 567,500/- per perch	11,350
	Factory Complex, Belummahara, Imbulgoda-Building	54,647 sq.ft	Mr. Ranjan J Samarakone	31st March 2018	Contractor's method	Rs. 3,750/- per sqft	112,500
	No:334/5, Colombo Road, Belummahara, Imbulgoda-Building	1,384 sq.ft	Mr. Ranjan J Samarakone	31st March 2018	Depreciated Replacement cost	Rs. 361/- per sqft	500
	Factory Complex, Belummahara, Imbulgoda-Tile Stores	24,444 sq.ft	Mr. Ranjan J Samarakone	31st March 2018	Investment Method	Rs. 15/- to 40/- per sqft	63,351
	Factory Complex, Belummahara, Imbulgoda-Sales centre	4890 sq.ft	Mr. Ranjan J Samarakone	31st March 2018	Investment Method	Rs. 15/- to 40/- per sqft	27,261
	Factory Complex, Belummahara, Imbulgoda-Open Shed	1600 sq.ft	Mr. Ranjan J Samarakone	31st March 2018	Investment Method	Rs. 15/- to 40/- per sqft	2,676
	Factory Complex, Belummahara, Imbulgoda-Warehouse	5,000 sq.ft	Mr.K.T.D.Tissera	31st March 2018	Investment Method	Rs. 15/- to 40/- per sqft	22,300
5	Swisstek Aluminum Ltd.	Land at Pahala Dompe, Dompe Lot 01	Mr. Ranjan J Samarakone	31st March 2018	Market based evidence	Rs. 17,567,247 per arce	10,727
	Dompe Lot 02	A9-R1-P15.9	Mr. Ranjan J Samarakone	31st March 2018	Market based evidence	Rs. 18,834,861 per arce	176,000
	Dompe Lot 03	A0-R2-P5.2	Mr. Ranjan J Samarakone	31st March 2018	Market based evidence	Rs. 7,511,737 per arce	4,000
	Building at Pahala Dompe, Dompe	142,242 sq.ft	Mr. Ranjan J Samarakone	31st March 2018	Contractors Method	Rs. 650/- to Rs. 4,000/- per sq.ft	464,533

Significant increases (decreases) in estimated price per perch in isolation would result in a significantly higher (lower) fair value.

## Notes to the Financial Statements

### 3.2 The useful lives of the assets are estimated as follows ;

	2018 Years	2017 Years
<b>Non plantation assets</b>		
Buildings on free hold land and roadway	25,40 & 50	25,40 & 50
Plant and machinery	5-20	5-20
Water supply and electricity distribution scheme	5-25	5-25
Tools, implements and furniture and fittings	2,4,5 & 10	2,4,5 & 10
Transport and communication equipment	4 to 12	4 to 12
<b>Plantation assets</b>		
The leasehold rights to JEDB/ SLSPC are amortised in equal amounts over the following years		
Bare land	53	53
Mature plantations	30	30
Permanent land development costs	30	30
Buildings	25	25
Plant and machinery	15	15
<b>Mature Plantation(re-planting and new planting)</b>		
Mature plantations (Tea)	33 1/3	33 1/3
Mature plantations (Rubber)	20	20
Mature plantations (Coconut)	50	50
Mature plantations (Cinnamon)	15	15
Mature plantations (Coffee and pepper)	4	4
Mature plantations (Pineapple)	3	3
Mature plantations (Oil palm)	20	20
Permanent Land Development Cost	40	40

The carrying amount of revalued assets of the Company would have been included in the Financial Statement had the assets been carried at cost less depreciation as follows

	Group				Company			
	Cost	Accumulated	Net Carrying	Net Carrying	Cost	Accumulated	Net Carrying	Net Carrying
		Depreciation	Amount	Amount		Depreciation	Amount	Amount
	2018	2018	2018	2017	2018	2018	2018	2017
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Freehold Land	1,795,028	-	1,795,028	1,795,028	418,926	-	418,926	418,926
Building	2,060,658	(490,233)	1,570,425	1,677,428	588,163	(182,091)	406,072	444,061
	3,855,686	(490,233)	3,365,453	3,472,456	1,007,089	(182,091)	824,998	862,987

### 3.3 PROPERTY, PLANT & EQUIPMENT COMPANY

	Balance as at 01.04.2017	Additions	Revaluations	Disposals/ Transfers/ Write-off	Balance as at 31.03.2018
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
<b>COMPANY</b>					
<b>Gross Carrying Amounts</b>					
<b>At Cost</b>					
Plant and Machinery	1,893,238	110,800	-	(2,473)	2,001,566
Water Supply, Electricity Distribution Scheme	130,032	8,062	-	-	138,094
Tools, Implements, Furniture & Fittings and Electrical Appliances	158,750	20,303	-	(16,468)	162,585
Transport & Communication Equipment	157,867	5,778	-	(3,422)	160,224
	2,339,889	144,943	-	(22,362)	2,462,469
<b>At Valuation</b>					
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Freehold Land	1,370,024	4,414	774,202	-	2,148,640
Buildings	836,814	8,001	5,119	(37,989)	811,945
	2,206,838	12,415	779,321	(37,989)	2,960,584
<b>Assets on Finance Lease</b>					
Leasehold Land	14,600	-	-	-	14,600
	14,600	-	-	-	14,600
<b>In the Course of Construction</b>					
Capital Work In Progress Plant & Machinery and Building	10,943	87,475	-	(77,527)	20,891
	10,943	87,475	-	(77,527)	20,891
<b>Total</b>	4,572,271	244,832	779,321	(137,878)	5,458,545

## Notes to the Financial Statements

### 3.3 PROPERTY, PLANT & EQUIPMENT (Contd)...

Depreciation	Balance as at 01.04.2017 Rs.000	Additions Rs.000	Revaluations Rs.000	Disposals/ Transfers/ Write-off Rs.000	Balance as at 31.03.2018 Rs.000
<b>At Cost</b>					
Buildings	18,397	19,592	(37,989)	-	-
Plant and Machinery	930,865	99,435		(2,405)	1,027,895
Water Supply, Electricity Distribution Scheme	83,078	5,091		-	88,170
Tools, Implements, Furniture & Fittings and Electrical Appliances	127,810	17,408		(16,461)	128,756
Transport & Communication Equipment	86,424	12,601		(2,281)	96,745
<b>Total</b>	<b>1,246,574</b>	<b>154,127</b>	<b>(37,989)</b>	<b>(21,147)</b>	<b>1,341,566</b>
<b>Assets on Finance Lease</b>					
Leasehold Land	1,947	485			2,432
	1,947	485	-	-	2,432
<b>Total</b>	<b>1,248,521</b>	<b>154,613</b>	<b>(37,989)</b>	<b>(21,147)</b>	<b>1,343,998</b>

### 3.4 Net Book Value of Assets

	2018 Years Rs.000	2017 Years Rs.000
<b>At Valuation</b>		
Freehold Land	2,148,640	1,370,024
Buildings	811,945	818,417
<b>At Cost</b>		
Plant and Machinery	973,670	962,374
Water Supply, Electricity Distribution Scheme	49,925	46,955
Tools, Implements, Furniture & Fittings and Electrical Appliances	33,829	30,940
Transport & Communication Equipment	63,479	71,444
	4,081,488	3,300,153
<b>Assets on Finance Leases</b>		
Leasehold Land	12,168	12,654
	4,093,656	3,312,807
Capital Work in Progress	20,891	10,943
<b>Total</b>	<b>4,114,548</b>	<b>3,323,749</b>

### 3.4 Assets At Valuation

3.4.1 "The fair value of freehold lands and buildings were determined by means of a revaluation during the financial year 2017/18 in reference to market based evidence and the details of the valuations are indicated below,

Location	Extent	Valuer	Valuation Date	Valuation Details	Significant unobservable input : price per perch/ acre/range	Significant unobservable inputs (Level 3) Rs.000
No. 215, Nawala Road, Narahenpita, Colombo 05	A1-R1-P2.1	Mr. Ranjan J Samarakone	31st March 2018	Market based evidence	Rs. 6,000,000/- per perch	1,212,600
	35,990 Square feet building	Mr. Ranjan J Samarakone	31st March 2018	Contractor's basis method valuation	Rs.1,000/-to Rs 3,500/- per square feet	85,281
Plan No 2205 Situated at Mawathgama and Galagedara Village	A23-R1-P24.16	Mr. Ranjan J Samarakone	31st March 2018	Market based evidence	Rs. 250,000/- per perch	936,040
	279,361 Square Feet building	Mr. Ranjan J Samarakone	31st March 2018	Contractor's basis method valuation	Rs.2,000/-to Rs. 4,000/- per square feet	726,664

### 3.5 Assets on Finance Lease

During the financial year 2013, the Company acquired a right to leasehold land to the value of Rs.14.60 Mn for a period of 30 years.

3.6 During the financial year, the Company acquired property, plant and equipment to the aggregate value of Rs. 157.36 Mn (2016/2017 - Rs. 157.55 Mn). Cash payments amounting to Rs. 167.30 Mn (2016/2017- Rs.157.55 Mn) were made during the year for purchase of Property, Plant and Equipment.

3.7 "Fixed assets include fully depreciated assets the cost of which at the reporting date amounted to Rs. 274.27 Mn (2016/2017 - Rs. 700.60 Mn)."

### 3.8 Investment property

	Group		Company	
	2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000
Opening balance	-	-	-	-
Transfer from property plant and equipment	459,407	-	-	-
Disposal	-	-	-	-
Net fair value gain recognised in profit or loss	-	-	-	-
Closing balance	459,407	-	-	-

The properties of Beyond Paradise Collection Limited (Rs. 223.8 Mn) and LWL Development ( Private) Limited (Rs. 235.6 Mn) has been reclassified as investment property in accordance with LKAS 40 Investment Property ("LKAS 40") due to change of use of the assets.

## Notes to the Financial Statements

The following Investment properties are revalued and recorded under freehold land and buildings. observable inputs are as follows,

	Location	Location	Extent	"Valuation Date"	valuer	"Valuation Details"	"Significant unobservable input : price per perch/ acre/ range"	Significant unobservable inputs (Level 3) Rs.000
1	LWL Development Limited	Agalagedara Village, Divulapitiya, Gampha	48A-03R-17.9P	31st March 2018	Mr. Ranjan J Samarakone	Market based evidence	Rs. 4,500,000/- per Acre	219,875
		Waradala Village, Divulapitiya, Gampha	4A-01R-15.9P	31st March 2018	Mr. Ranjan J Samarakone	Market based evidence	Rs.2,500,000/- per Acre	11,000
2	Beyond Paradise Collection Limited	Agalagedara Village, Divulapitiya, Gampha	48A-03R-17.9P	31st March 2018	Mr. Ranjan J Samarakone	Market based evidence	Rs. 4,500,000/- per Acre	223,800
		House	981.sq.ft	31st March 2018	Mr. Ranjan J Samarakone	Market based evidence	Rs.4,000/- per sq.ft	

Purchase of land at Divulapitiya under LWL Development (Pvt) Ltd.

Company	Location	Extent	Purchase Date	Value Rs.000
LWL Development Limited	Agalagedara Village, Divulapitiya, Gampha	00A-00R-45 P	28 March 2018	4,732

#### 4 GOODWILL

"Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses."

Goodwill acquired through business combinations have been allocated to Lanka Tiles PLC for impairment testing.

	2018 Years Rs.000	2017 Years Rs.000
At the end of the year	24,519	24,519

## 5 INVESTMENTS IN SUBSIDIARIES

COMPANY	Number of Shares		Holding		Market Value/ Directors		Market Value/ Directors	
	2018	2017	2018	2017	Cost	Valuation*	Cost	Valuation*
	Rs.000	Rs.000	%	%	Rs.000	Rs.000	Rs.000	Rs.000
<b>5.1 Subsidiary</b>								
<b>a) Quoted</b>								
Lanka Tiles PLC	36,189	36,189	68.22	68.22	935,958	3,608,063	935,958	3,691,298
Swisstek (Ceylon) PLC	3,141	3,141	11.48	11.48	41,247	186,276	41,247	206,066
Total Quoted Investment in Subsidiary					977,205	3,794,339	977,205	3,897,364
<b>b) Non-quoted</b>								
VPML Plantation Management (Pvt) Ltd	10,336	10,336	100.00	100.00	298,891	298,891	298,891	298,891
LWL Development (Pvt) Ltd	0.001	0.001	100.00	100.00	0.001	-	0.001	-
Total Non-quoted Investments in Subsidiaries					298,891	298,891	298,891	298,891
*Non quoted investments of the Company has been valued by the directors based on the cost of investments.								
Carrying Value of Investments in Subsidiaries					1,276,096		1,276,096	
Total Net Carrying Value of Investments in Subsidiaries					1,276,096		1,276,096	

## Notes to the Financial Statements

### 5.2 Details of those companies in which Lanka Walltiles PLC, held a controlling interest, as at 31 March 2018 directly or indirectly (Group) are set out below:

	Name of Company	Percentage of share holding in subsidiaries				Principal activities of the company	Auditors
		Group		Company			
		2018	2017	2018	2017		
1)	Lanka Tiles PLC	68.22	68.22	68.22	68.22	Manufacture of Ceramic & Porcelain floor tiles	M/s. PricewaterhouseCoopers
2)	Vallibel Plantation Management Ltd	100.00	100.00	100.00	100.00	Providing management services to plantation industry	M/s KPMG
3)	Horana Plantations PLC	51.00	51.00	-	-	Agricultural production	M/s KPMG
4)	Fairlawn Power (Pvt) Ltd	27.54	27.54	-	-	Mini hydro power project	M/s KPMG
5)	Uni-Dil Packaging Ltd	100.00	100.00	-	-	Manufacture and sale of cartons for packing	M/s KPMG
6)	Uni-Dil Packaging Solutions Ltd	100.00	100.00	-	-	Manufacture and sale of paper sacks for packing	M/s KPMG
7)	Swisstek (Ceylon) PLC	59.28	59.28	11.48	11.48	Manufacture and sale of tile grout and tile mortar.	M/s KPMG
8)	Swisstek Aluminium Ltd	51.81	51.81	-	-	Manufacture and sale of aluminium extrusions	M/s. PricewaterhouseCoopers
9)	LWL Development (Private) Limited	100.00	100.00	100.00	100.00	Property Holding Company	M/s. PricewaterhouseCoopers
10)	Beyond Paradise Collection Limited	68.22	68.22	-	-	Property Holding Company	M/s. PricewaterhouseCoopers
11)	Lankatiles (Pvt) Ltd (Foreign Subsidiary)	34.79	-	-	-	Distribution of Tiles in India	M/s. K S Muralidhar
12)	LTL Development (Pvt) Limited	68.22	-	-	-	Property Holding Company	
13)	Swisstek Development (Pvt) Limited	51.81	-	-	-	Property Holding Company	

5.3 The financial statements of Fairlawn Power (Pvt) Ltd has not been consolidated as at the reporting date, since the company is still in the pre operational stage and no real value to share holders of the Horana Plantations PLC, under section 153 (6)a of the companies act No. 07 of 2007. Further Horana Plantations PLC has fully provided for this investment. The shares of Fairlawn Power (Pvt) Ltd were allotted on 29th July 1997.

**6 LONG TERM RECEIVABLES**

	GROUP	
	2018	2017
	Rs.000	Rs.000
Advance company tax receivable	27,285	27,285
<b>Total</b>	<b>27,285</b>	<b>27,285</b>

**7 DEFERRED TAX ASSET**

	GROUP	
	2018	2017
	Rs.000	Rs.000
Deferred tax assets at the beginning of the year	12,175	12,527
Reclassification to liability	(354)	(1,992)
Deferred tax (charge) / reversal	4,006	1,657
Deferred tax release on components of other comprehensive income	(1,143)	(16)
Deferred tax assets at the end of the year	14,686	12,175
<b>Statement of Financial Position</b>		
<b>Deferred Tax Liability</b>	<b>Applicable Tax Rate</b>	
Capital Allowances	28%	(27,261) (24,006)
Revaluation Surplus	28%	(1,218) -
<b>Deferred Tax Assets</b>		
Retirement Benefit Liability	28%	720 384
Carried Forward Tax Losses	28%	42,445 35,798
Deferred Tax Assets		14,686 12,175

7.2 Deferred tax assets amounting to Rs. 14.7 Mn have been recognised as 31st March 2018 ( 2017 - 11.8 Mn) in Uni Dil Packaging Solutions Ltd based on recoverability as assessed by the management. Deferred tax assets have been recognised in respect of the unused tax losses, to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be used.

7.3 No deferred tax assets have been recognised as 31st March 2018 ( 2017 - 0.4 Mn) in Vallibel Plantation Management Limited.

## Notes to the Financial Statements

### 8 INVENTORIES

	Group		Company	
	2018 Rs.000	2017 Rs. 000	2018 Rs.000	2017 Rs. 000
Raw materials	2,479,816	1,189,862	165,673	138,220
Work in progress	204,312	144,136	43,274	34,370
Finished goods	2,767,052	2,110,717	1,097,954	882,849
Goods in transit	133,100	19,601	908	908
Consumables and spares	418,449	785,724	329,588	309,169
Harvested crops	223,516	189,715	-	-
Non-harvested produce on bearer biological assets	6,210	6,860	-	-
Allowances for obsolete and slow moving spares	(119,207)	(132,791)	(31,125)	(29,936)
<b>Total</b>	<b>6,113,247</b>	<b>4,313,824</b>	<b>1,606,272</b>	<b>1,335,580</b>

These inventories include finished goods of Rs. 2.3 Bn and general stocks of Rs.1.2 Mn relating to tiles applied products.

### 9 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2018 Rs.000	2017 Rs. 000	2018 Rs.000	2017 Rs. 000
Trade debtors - related parties (9.1)	2,362	40,924	488	1,575
- Other	2,814,281	2,122,809	592,694	382,980
	2,816,643	2,163,733	593,182	384,556
Less: Allowances for doubtful debts	(39,596)	(34,102)	(4,750)	(3,386)
	2,777,048	2,129,631	588,432	381,170
Other debtors	308,102	255,912	94,624	34,095
Advance and prepayments	326,279	452,889	34,007	76,948
Loans to company officers	38,855	47,139	7,985	7,120
<b>Total</b>	<b>3,450,285</b>	<b>2,885,572</b>	<b>725,049</b>	<b>499,333</b>

#### 9.1 Trade debtors - related parties

Company	Relationship	Group		Company	
		2018 Rs.000	2017 Rs. 000	2018 Rs.000	2017 Rs. 000
Lanka Ceramic PLC	Affiliated Company	-	148	-	-
Royal Ceramics Lanka PLC	Parent Company	1,022	6,283	-	-
Royal Porcelain (Pvt) Ltd	Affiliated Company	855	16,320	-	-
Royal Bathware Ltd	Affiliated Company	-	9,095	-	-
Mabroc Teas (Pvt) Ltd	Affiliated Company	-	11	-	-
Dipped Products PLC	Affiliated Company	-	1,003	-	572
Swistek Ceylon PLC	Subsidiary Company	-	-	3	3
Uni Dil Packaging (Pvt) Limited	Subsidiary Company	-	-	485	1,000
MN Properties (Pvt) Ltd	Affiliated Company	485	1,000	-	-
Delmege Forsyth & Co.Ltd	Affiliated Company	-	7,065	-	-
		2,362	40,924	488	1,575

## 9.2 As at 31 March, the ageing analysis of trade receivables are as follows:

Company	Neither past due		Past due but not impaired			Impaired	Total	
	not impaired	< 3 Months	3- 12 Months	> 1 Year	Rs. 000			Rs.000
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000			Rs.000
2018	495,153	61,158	28,378	3,743	4,750	593,182		
2017	343,231	28,801	6,540	2,598	3,386	384,556		

Group	Neither past due		Past due but not impaired		Impaired	Total		
	not impaired	< 3 Months	> 1 Year	> 1 Year			Rs. 000	Rs.000
	Rs. 000	Rs. 000	Rs. 000	Rs. 000			Rs. 000	Rs.000
2018	1,251,315	1,265,526	164,973	95,236	39,596	2,816,643		
2017	1,803,169	234,303	73,346	18,813	34,102	2,163,733		

## 10 AMOUNTS DUE FROM RELATED PARTIES

Company	Relationship	Group		Company	
		2018	2017	2018	2017
		Rs.000	Rs. 000	Rs.000	Rs. 000
Swisstek Aluminium Ltd	Subsidiary company	-	-	16,796	613
Royal Ceramics Lanka PLC	Affiliated Company	20,949	3,227	-	-
Royal Porcelain (Pvt) Ltd	Affiliated Company	15,191	5,418	2,005	1,298
Royal Bathware Limited	Affiliated Company	15,522	83	4	4
LWL Development (Pvt) Ltd	Subsidiary company	-	-	15,824	15,824
Delmege Forsyth & Co., Ltd.	Affiliated Company	3,765	-	-	-
<b>Total</b>		<b>55,427</b>	<b>8,729</b>	<b>34,628</b>	<b>17,739</b>

## 11 SHORT TERM INVESTMENTS

	Group		Company	
	2018	2017	2018	2017
	Rs.000	Rs. 000	Rs.000	Rs. 000
Deposit of Tsunami donations	3,239	3,296	3,239	3,296
	3,239	3,296	3,239	3,296

## 12 STATED CAPITAL

### 12.1 Issued & fully paid

	Group		Company	
	2018	2017	2018	2017
	Rs.000	Rs. 000	Rs.000	Rs. 000
Balance at the beginning of the year	787,765	787,765	787,765	787,765
Balance at the end of the year	787,765	787,765	787,765	787,765

## Notes to the Financial Statements

### 12.2 Issued & fully paid

	Group		Company	
	2018 No.000	2017 No.000	2018 No.000	2017 No.000
Balance at the beginning of the year	54,600	54,600	54,600	54,600
Balance at the end of the year	54,600	54,600	54,600	54,600

12.3 The holders of ordinary shares confer their right to receive dividends as declared from time to time and are entitled to one vote per share at a meeting of the Company. All shares rank equally with regard to the Company's residual assets.

### 13 RESERVES

	Group		Company	
	2018 Rs.000	2017 Rs. 000	2018 Rs.000	2017 Rs. 000
Revaluation reserve (13.1)	2,566,671	2,409,494	1,531,815	1,237,011
Total	2,566,671	2,409,494	1,531,815	1,237,011

#### 13.1 Revaluation reserve

Revaluation reserve				
On: Property Plant & Equipment				
As at 01 April	2,409,494	2,306,645	1,237,011	1,237,011
Revaluation of freehold land and building net of deferred tax	157,177	102,850	291,118	-
Revaluation of Buildings net of deffered tax			3,687	-
As at 31 March	2,566,671	2,409,494	1,531,816	1,237,011

The above revaluation surplus consists of net surplus resulting from the revaluation of freehold land described in Note 3.1 (i) & 3.3

**14 INTEREST BEARING LIABILITIES**

	Group		Company	
	2018 Rs.000	2017 Rs. 000	2018 Rs.000	2017 Rs. 000
<b>Non Current</b>				
Long term loans (14.1)	1,629,350	1,684,700	165,180	324,981
Finance leases (14.2)	82,767	88,567	-	-
<b>Total</b>	<b>1,712,118</b>	<b>1,773,267</b>	<b>165,180</b>	<b>324,981</b>
<b>Current</b>				
Long term loans (14.1)	664,695	731,120	160,585	263,328
Finance leases (14.2)	10,698	7,872	-	-
Short term loans	2,164,099	1,139,479	500,000	-
Bank overdrafts (28.0)	964,130	1,179,277	346,874	374,790
<b>Total</b>	<b>3,803,622</b>	<b>3,057,748</b>	<b>1,007,459</b>	<b>638,118</b>
<b>Total</b>	<b>5,515,740</b>	<b>4,831,015</b>	<b>1,172,639</b>	<b>963,099</b>

**14.1 Long term loans**

	Group		Company	
	2018 Rs.000	2017 Rs. 000	2018 Rs.000	2017 Rs. 000
<b>At the beginning</b>	<b>2,415,820</b>	<b>2,345,277</b>	<b>588,309</b>	<b>885,723</b>
Loans obtained	671,499	912,848	-	-
Exchange gain/(loss)	6,751	21,003	82	3,775
Repayments	(800,024)	(863,307)	(262,626)	(301,189)
<b>At the end</b>	<b>2,294,046</b>	<b>2,415,820</b>	<b>325,765</b>	<b>588,309</b>
Amount payable within 12 months	664,695	731,120	160,585	263,328
Amount payable after 12 months	1,629,350	1,684,700	165,180	324,981
<b>Total</b>	<b>2,294,046</b>	<b>2,415,820</b>	<b>325,765</b>	<b>588,309</b>

## Notes to the Financial Statements

### 14.2 Finance leases

	Group	
	2018 Rs.000	2017 Rs. 000
<b>JEDB/SLSPC estates (14.3)</b>		
Other finance lease creditors	146,053	146,384
Gross liability	4,155	11,032
Finance charges allocated to future period	150,208	157,416
Net liability	(56,744)	(60,977)
	93,465	96,439
Amount payable within one year	10,698	7,872
Amount payable after one year	82,767	88,567
<b>Total</b>	93,465	96,439
<b>JEDB/SLSPC estates (14.3)</b>		
At the beginning	146,384	151,612
New leases obtained	14,361	13,681
Repayments	(14,692)	(18,909)
At the end	146,053	146,384
<b>Other finance lease creditors</b>		
At the beginning	11,032	20,359
New leases obtained	-	-
Repayments	(6,877)	(9,327)
At the end	4,155	11,032

**14.3** "The lease rentals have been amended with effect from 22nd June 1996 to an amount substantially higher than the previous nominal lease rental of Rs. 500/- per estate per annum. The basic rental payable under the revised basis is Rs. 5.228 Mn per annum. This amount is to be inflated annually by the Gross Domestic Product (GDP) deflator in the form of contingent rent.

This lease agreement was further amended on 10th June 2005, freezing the annual lease rental at Rs. 7.472 Mn for a period of six years commencing from 22nd June 2002. Hence, the GDP Deflator adjustment will be frozen at Rs. 2.244 Mn per annum until 21st June 2008. Accordingly, the Financial Statements have been adjusted, in order to reflect the future net liability in the following manner:-

**14.4** Future liability on the revised annual lease payment of Rs. 7.472 Mn will continue until 21st June 2008, and thereafter from 22nd June 2008, annual lease payment will remain at Rs. 5.228 Mn, until 21st June 2045. The Net Present Value of this liability at a 4% discounting rate would result in a liability of Rs. 89.953 Mn.

### 14.5 The net present value as at date is represented by :-

	2018 Rs.000
Gross Liability	146,053
Less : Interest in Suspense	(56,592)
Net Present Value	89,461

**14.6** The contingent rental charged during the current year to Statement of Profit or Loss amounted to Rs. 14.361 Mn and the gross liability to make contingent rentals for the remaining 27 years of lease term at the current rate would be estimated to Rs. 387.747 Mn as at 31st March 2018.

#### 14.7 Details of long term loans of the Group

Financial Institution	Repayment terms	Principal Rs.000	Interest rate per annum	Security	Balance as at 31.03.2018 Rs. 000	Balance as at 31.03.2017 Rs. 000
<b>Lanka Walltiles PLC</b>						
Hatton National Bank PLC	60 monthly instalments	300,000	AWPLR+0.5%	Primary mortgage bond for Rs. 390 Mn over the project assets comprising land, building and machinery at Meepe.	-	45,000
	60 monthly instalments	(USD 1,800,000)	LIBOR+3.75%	Secondary mortgage bond for USD 1.8 Mn over the project assets comprising land, building and machinery at Meepe.	33,073	87,729
Commercial Bank of Ceylon PLC	60 monthly instalments	584,000	AWPLR+0.5%	Tripartite agreement for Rs. 392.8 Mn between Bank, Lanka Walltiles PLC & the custodian (Pan Asia Bank) over 7,210,000 Shares of Lanka Tiles PLC.	282,060	398,940
	60 instalments	80,000	AWPLR+0.75%	Primary Mortgage bond for Rs. 80 Mn over the ceramic printer	10,632	26,640
DFCC Bank	60 monthly instalments	200,000	AWDR+0.5%	Primary mortgage over movable machinery at Meepe	-	30,000
<b>Company Total -</b>	<b>Lanka Walltiles PLC</b>				<b>325,765</b>	<b>588,309</b>

## Notes to the Financial Statements

Financial Institution	Repayment terms	Principal Rs.000	Interest rate per annum	Security	Balance as at 31.03.2018 Rs. 000	Balance as at 31.03.2017 Rs. 000
<b>Lanka Tiles PLC</b>						
DFCC Bank	48 monthly instalments	150,000	AWPLR+0.5%	A primary mortgage over land, building and plant and machinery of Lanka Tiles PLC at Ranala amounting to Rs.300 million	7,500	37,500
	84 monthly instalments	165,000	AWPLR+0.5%		29,464	53,036
	85 monthly instalments (USD 3,000,000)	287,712	LIBOR+3.5%		-	40,067
	54 monthly instalments	80,000	AWPLR+0.5%		19,259	37,037
<b>Company Total - Lanka Tiles PLC</b>					<b>56,224</b>	<b>167,640</b>
<b>Uni-Dil Packaging Limited</b>						
HSBC	US\$ 20,281 monthly instalments	USD 310,000	LIBOR+3.8%	Mortgage bond for USD 310,000 over Moveable machinery	20,140	47,822
					USD 127.88	USD 297.14
SCB	US \$ 114,079 Quarterly instalments	USD 310,000	LIBOR+3.8%	Primary concurrent Mortgage bond for LKR 170 Mn over Property	233,562	298,484.00
					USD 1483.03	USD 1939.3
<b>Company Total - Uni-Dil Packaging Limited</b>					<b>253,701</b>	<b>346,306</b>
<b>Horana Plantations PLC</b>						
Hatton National Bank PLC	72 monthly instalments	150,000	AWPLR+1.0%	Primary mortgage for 550 million over the leasehold rights of Frocester Estate	70,200	95,400
		200,000	AWPLR+1.0%		116,750	150,050
		200,000	AWPLR+0.75%	Primary mortgage for 300 million over the leasehold rights of Bambrakelly Estate	138,950	172,250
		250,000	AWPLR+3.00%		250,000	250,000
Indian Bank	54 monthly instalments	75,000	AWPLR+0.65%	Primary mortgage over leasehold rights of Tillicoultry Estate	-	8,400
Hatton National Bank PLC	60 monthly instalments	100,000	AWPLR+0.75%	Primary mortgage over leasehold rights of Alton, Bambrakelly, Eildon Hall and Gouravilla	59,980	76,540

Financial Institution	Repayment terms	Principal Rs.000	Interest rate per annum	Security	Balance as at 31.03.2018 Rs. 000	Balance as at 31.03.2017 Rs. 000
Hatton National Bank PLC	60 monthly instalments	130,114	AWPLR+1.5%	Primary mortgage over leasehold rights of Bambarakelly Estate	69,396	95,418
Sri Lanka Tea Board	48 monthly installments	33,000	11.96%	No security has been offered	25,667	33,000
Industry Distress Financing Facility	-	46,935	5.00%	No security has been offered	33,332	
Replanting of Main Crops	-	100,000	AWPLR + 2.00%	Primary Floating Mortgage for Rs.120 Mn, over the leasehold rights land and buildings of Stockholm Estate.	100,000	
<b>Company Total - Horana Plantations PLC</b>					<b>864,275</b>	<b>881,058</b>
<b>Swisstek (Ceylon) PLC</b>						
Bank of Ceylon	58 monthly installments	25,817	AWPLR+1.5%	Mortgage over immovable property at Balummahara, Imbulgoda	-	2,202
		31,736	AWPLR+1.5%	Mortgage over immovable property at Balummahara, Imbulgoda	-	31,736
Bank of Ceylon	54 monthly installments	170,000	AWPLR+1.5%	Mortgage over immovable property at Balummahara, Imbulgoda	152,990	-
Commercial Bank	60 monthly installments	35,000	AWPLR+1.5%	Mortgage over immovable property at Balummahara, Imbulgoda	35,000	-
<b>Company Total - Swisstek (Ceylon) PLC</b>					<b>187,990</b>	<b>33,938</b>
<b>Swisstek Aluminium Limited</b>						
DFCC Bank	78 monthly installments	290,000	AWPR+0.75%	Mortgage over land, building, plant & machinery	26,026	70,641
	60 monthly installments	50,000	AWPR+0.75%		3,285	13,140
	60 monthly installments	10,000	AWPR+0.75%		3,504	5,506
	60 monthly installments	500,000	AWPR+1.4%		351,309	-
	60 monthly installments	193,032	AWPR+1.5%	Movable Machinery	156,838	193,032
HNB Bank	48 monthly installments	80,000	AWPR+1.5%	Simple Receipt	45,140	65,060
<b>Company Total - Swisstek Aluminium Limited</b>					<b>586,102</b>	<b>347,379</b>
<b>Vallibel Plantation Management Limited</b>						
Commercial Bank of Ceylon PLC	60 monthly installments	144,790	AWPR+1%	12,750,000 shares of Horana Plantation PLC	19,990	51,190
<b>Company Total - Vallibel Plantation Management Limited</b>					<b>19,990</b>	<b>51,190</b>

## Notes to the Financial Statements

### 14.8 Fair Value of Financial Assets and Liabilities Not Carried at Fair Value

Set out below is a comparison, by class, of the carrying amounts and fair values of the Company's financial instruments that are not carried at fair value in the Financial Statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

Group	Carrying Amount		Fair value	
	2018	2017	2018	2017
	Rs.000	Rs.000	Rs.000	Rs.000
<b>Group</b>				
<b>Financial Assets</b>				
Trade and Other Receivables	2,815,904	2,176,771	2,815,904	2,176,771
<b>Total</b>	<b>2,815,904</b>	<b>2,176,771</b>	<b>2,815,904</b>	<b>2,176,771</b>
<b>Financial Liabilities</b>				
Trade and Other Payables	1,888,849	974,724	1,888,849	974,724
Loans and Borrowings- Current	3,803,622	3,057,748	3,803,622	3,057,748
Loans and Borrowings- Non Current	1,712,118	1,773,267	1,712,118	1,773,267
<b>Total</b>	<b>7,404,589</b>	<b>5,805,739</b>	<b>7,404,589</b>	<b>5,805,739</b>
<b>Company</b>				
<b>Financial Assets</b>				
Trade and Other Receivables	596,418	388,290	596,418	388,290
<b>Total</b>	<b>596,418</b>	<b>388,290</b>	<b>596,418</b>	<b>388,290</b>
<b>Financial Liabilities</b>				
Trade and Other Payables	331,006	252,161	331,006	252,161
Loans and Borrowings- Current	1,007,459	638,118	1,007,459	638,118
Loans and Borrowings- Non Current	165,180	324,981	165,180	324,981
<b>Total</b>	<b>1,503,645</b>	<b>1,215,260</b>	<b>1,503,645</b>	<b>1,215,260</b>

The following describes the methodologies and assumptions used to determine the fair values for those financial instruments which are not already recorded at fair value in the Financial Statements.

### Assets for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short term maturity (original maturities less than a year), it is assumed that the carrying amounts approximate their fair values.

Financial assets and financial liabilities with variable interest rates are also considered to be carried at fair value in the books.

### Fixed Rate Financial Instruments

In fair valuing financial assets and financial liabilities with fixed rate, Average Weighted Primary Lending Rates rates published by the CBSL were used.

## 15 DEFERRED TAX LIABILITIES

	Group		Company	
	Restated		2018	2017
	2018	2017		
	Rs.000	Rs.000	Rs.000	Rs.000
At the beginning of the year	1,042,938	980,802	367,374	338,862
Prior year adjustment (Refer No:36)	-	(7,046)		
Reclassification from deferred tax assets	-	(1,992)		
Income/ (expense) arising during the year ( Note 25.2)	128,250	55,695	40,653	23,994
Deferred tax release on components of other comprehensive income ( Note 25.2)	860,834	15,481	479,255	4,518
<b>At the end</b>	<b>2,032,023</b>	<b>1,042,938</b>	<b>887,282</b>	<b>367,375</b>

### 15.1 Statement of Financial Position

	Applicable tax rate	2018	2017	2018	2017
		Rs.000	Rs.000	Rs.000	Rs.000
Deferred Tax Liability					
Capital Allowances	28%	1,814,034	1,504,689	444,681	395,095
Revaluation surplus	28%	700,281	-	483,084	
<b>Deferred Tax Assets</b>					
Retirement Benefit Liability	28%	(160,965)	(134,051)	(30,438)	(19,258)
Carried Forward Tax Losses	28%	(286,941)	(298,545)	-	-
Provision for Obsolete and Slow Moving, Consumables and Spares	28%	(33,055)	(28,241)	(8,715)	(7,603)
Allowances for Doubtful Debts	28%	(1,330)	(913)	(1,330)	(860)
		<b>2,032,023</b>	<b>1,042,938</b>	<b>887,282</b>	<b>367,375</b>

## Notes to the Financial Statements

### 16 RETIREMENT BENEFIT LIABILITY

	Group		Company	
	2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000
At the Beginning of the Year	685,174	728,623	75,825	82,569
Current service cost	55,163	46,116	8,120	5,531
Net interest on the net defined benefit liability (asset)	78,199	75,577	9,099	8,670
	133,362	121,693	17,219	14,201
Net Actuarial Gain / loss for the year	90,788	(75,064)	18,795	(17,789)
Payments made during the Year	(98,629)	(90,078)	(3,131)	(3,155)
	(7,841)	(165,142)	15,663	(20,944)
Payable for retired employees included under current liabilities	(31,864)	(29,088)	-	-
At the End of the Year	778,830	656,086	108,706	75,825

In order to illustrate the significance of the salary escalation rates and discount rates assumed in this valuation a sensitivity analysis for all employees in Lanka Walltiles PLC is as follows;

Discount Rate as at 31st March	2018 Rs.000	2017 Rs.000
Effect on DBO due to decrease in the discount rate by 1%	7,559	6,232
Effect on DBO due to increase in the discount rate by 1%	(6,732)	(5,495)
Salary Escalation Rate as at 31 March	2018 Rs.000	2017 Rs.000
Effect on DBO due to decrease in the salary escalation rate by 1%	(6,692)	(5,568)
Effect on DBO due to increase in the salary escalation rate by 1%	7,367	6,205

**Group**

In order to illustrate the significance of the salary escalation rates and discount rates assumed in this valuation a sensitivity analysis for all employees of Lanka Walltiles PLC, Lanka Tiles PLC, Horana Plantation PLC, Swisstek Ceylon PLC, Swisstek Aluminium Limited, Uni Dil Packaging (Pvt) Ltd and Uni Dil Packaging Solution Ltd is as follows;

Discount Rate as at 31 March	2018 Rs.000	2017 Rs.000
Effect on DBO due to decrease in the discount rate by 1%	58,194	49,000
Effect on DBO due to increase in the discount rate by 1%	(53,401)	(43,090)
Salary Escalation Rate as at 31 March		
Effect on DBO due to decrease in the salary escalation rate by 1%	(42,020)	(31,830)
Effect on DBO due to increase in the salary escalation rate by 1%	43,437	34,600

Distribution of Present value of define benefit obligation

	Less than a year Rs.000	Between 1-2 years Rs.000	Between 2- 5 years Rs.000	Over year 5 Rs.000	Total Rs.000
<b>As at 31 March 2018</b>					
Defined Benefit Obligation	12,160	16,715	25,563	54,269	108,707

**Group**

Distribution of Present value of define benefit obligation

	Less than a year Rs.000	Between 1-2 years Rs.000	Between 2- 5 years Rs.000	Over year 5 Rs.000	Total Rs.000
<b>As at 31 March 2018</b>					
Defined Benefit Obligation	79,636	120,325	174,628	404,243	778,829

**Lanka Walltiles PLC**

The defined benefit liability as of 31 March 2018 was actuarially valued by Messrs. Actuarial and Management Consultants (Pvt) Ltd. qualified actuary.

The principal assumptions underlying the valuation are as follows;

	2018	2017
Discount rate (per annum)	10.00%	12.00%
Salary scale (per annum)		
- Executives	12.50%	12.50%
- Non Executives	10.00%	10.00%
Retirement Age	55 Years	55 Years
Staff Turnover ratio	7% up to 49 years, thereafter 0%	8% up to 49 years, thereafter 0%

Rates of turnover at selected ages as follows;

Executive and staff	20	25	30	35	40	45 - 50
Age						
Turnover	10%	10%	10%	5%	3%	1%

## Notes to the Financial Statements

### Lanka Tiles PLC

The defined benefit liability of Lanka Floortiles PLC was actuarially valued by Messrs. Actuarial and Management Consultants (Pvt) Ltd qualified actuary on 31 March 2018.

Principal Actuarial Assumptions are as follows

	2018	2017
Discount rate	10.00%	10.50%
Future salary increases - Executives	12.50%	12.50%
- Non Executives	10.00%	10.00%

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

### Horana Plantations PLC

An actuarial valuation of the retirement benefit obligation was carried out as at 31st March 2018 by Actuarial and Management Consultants (Pvt) Ltd.

The valuation method used by the actuary to value the benefit is the "projected Unit Credit Method".

Principal Actuarial Assumptions are as follows

	2018	2017
Rate of interest	11.00% per annum	12.00% per annum
Rate of salary increase		
Workers	15.00% for every two years beyond	15% for every two years beyond
Staff	12.50% for first three years & 2.00% per annum beyond	12.50% for first three years & 2.00% per annum beyond
Head Office Staff	10.00% per annum beyond	10.00% per annum beyond
Retirement age		
Workers	60 years	60 years
Staff	60 years	60 years
Head Office Staff	55 years	55 years
Daily wage rate		
Tea	Rs.500	Rs.500
Rubber	Rs.500	Rs.500

The company will continue as a going concern

### Uni Dil Packaging Ltd and Uni Dil Packaging Solution Ltd

Messrs. Actuarial and Management Consultants (Pvt) Ltd., actuaries carried out an actuarial valuation for Uni Dil Packaging Ltd and Uni Dil Packaging Solution Ltd of the defined benefit plan gratuity as at 31st March 2018.

The valuation method used by the actuaries to value the benefit is the "projected Unit Credit Method".

	2018	2017
Principal Actuarial Assumptions are as follows		
Discount rate p.a	11.00%	12.00%
Rate of salary increase	11.00%	12.00%
Staff turnover factor	9.00%	9.00%
Retirement age (Years)	55	55

The Company will continue as a going concern.

#### Swisstek (Ceylon) PLC

Gratuity liability based on the actuarial valuation carried out by Messrs Actuarial and Management (Pvt) Ltd on 31st March.

	2018	2017
Principal Actuarial Assumptions are as follows		
Discount rate p.a	10.00%	12.00%
Rate of salary increase	12.50%	12.50%

#### Swisstek Aluminium Limited

Gratuity liability based on the actuarial valuation carried out by Messrs Actuarial and Management (Pvt) Ltd on 31st March.

	2018	2017
Discount rate p.a	10.00%	13.10%
Rate of salary increase	10.00%	13.00%
Retirement age (Years)	55	55

## Notes to the Financial Statements

### 17 CAPITAL GRANTS

	Group	
	2018	2017
	Rs.000	Rs.000
Capital grants (17.1)	136,532	138,189
Total	136,532	138,189

#### 17.1 Capital grants

##### Capital grants received on plantations

Granted by	Purpose of the grant	Basis of amortisation	Amount received	Balance at the beginning	Received during the period	Amortised during the period	Balance at the end
			Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Sri Lanka Tea Board	Tea factory modernization	Rate of depreciation applicable to plant & machinery (7.5% p.a.)	701	423	-	(53)	370
	Tea replanting subsidy	Will be amortised at rate applicable to Tea mature plantations, after become mature (3.00%)	2,105	4,866	-	-	4,866
Plantation development project / Asian Development Bank	Improvement of workers living environment	Rate of depreciation applicable to buildings (2.5% p.a.)	31,588	18,829	-	(1,128)	17,701
Plantation human development trust	Improvement of workers living environment	Rate of depreciation applicable to buildings and furniture & fittings (2.5% & 10% p.a.)	45,143	30,337	-	(1,600)	28,737
Estate infrastructure development project	Improvement of workers living environment	Rate of depreciation applicable to buildings (2.5% p.a.)	489	305	-	(17)	288
Plantation development project	Improvement of workers living environment	Rate of depreciation applicable to buildings (2.5% p.a.)	20,051	15,332	-	(716)	14,616
	Ergonomic equipment	Rate of depreciation applicable to equipment (12.5% p.a.)	5,854	-	-	-	-
	Internal road development and boundary posts	Rate of depreciation applicable to permanent land development cost (2.5% p.a.)	4,622	3,630	-	(165)	3,466

Capital grants received on plantations							
Granted by	Purpose of the grant	Basis of amortisation	Amount received	Balance at the beginning	Received during the period	Amortised during the period	Balance at the end
			Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
	Minor factory development	Rate of depreciation applicable to buildings (2.5% p.a.)	10,099	8,013		(361)	7,651
Rubber Development Department	Rubber replanting subsidy	Rate applicable to rubber mature plantations (5% p.a.)	51,311	56,163	4,617	(2,182)	58,598
	Rubber factory development	Rate of depreciation applicable to plant & machinery (7.5% p.a.)	675	161	-	(50)	112
Export Agriculture Department (EAD)	Cinnamon replanting subsidy	Will be amortised at rate applicable to Cinnamon Mature Plantations, after become mature (6.67% p.a.)	76	131	-	-	132
<b>Total</b>			172,712	138,189	4,617	(6,274)	136,532

## 18 TRADE AND OTHER PAYABLES

	Group		Company	
	2018	2017	2018	2017
	Rs.000	Rs.000	Rs.000	Rs.000
Trade creditors - other	1,620,433	798,107	85,293	96,732
- related parties [18.1]	82,304	84,177	91,466	92,078
	1,702,738	882,284	176,759	188,810
Sundry creditors including accrued expenses	825,795	814,828	148,470	162,157
Provision for terminal benefits (current) [16.0]	31,864	29,088	-	-
Donations in respect of Tsunami fund	3,239	3,296	3,239	3,296
Unclaimed dividends	151,008	60,055	151,008	60,055
<b>Total</b>	2,714,644	1,789,552	479,476	414,318

## Notes to the Financial Statements

### 18.1 Trade creditors - related parties

Company	Relationship	Group		Company	
		2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000
Lanka Ceramic PLC	Affiliated Company	17,059	-	-	-
Royal Ceramics	Parent Company	5,150	46,056	-	-
Royal Porcelain (Pvt) Ltd	Affiliated Company	-	90	-	-
Royal Bathware Ltd	Affiliated Company	-	3	-	-
Hayleys Agriculture Holding	Subsidiary Company	2,024	19,464	-	-
Hayleys Agro Fertilizer	Affiliated Company	42,204	18,477	-	-
Hayleys Agro Products	Affiliated Company	24	88	-	-
Hayleys PLC	Affiliated Company	2,575	-	-	-
Hayleys Aventura (Pvt) Ltd	Affiliated Company	53	-	-	-
Ravi Industries Ltd	Affiliated Company	840	-	-	-
Diesel & Motor Engineering PLC	Affiliated Company	478	-	-	-
Singer Sri Lanka PLC	Affiliated Company	381	-	-	-
Lanka Tiles PLC	Subsidiary Company	-	-	89,011	89,067
Unidil Packaging Ltd	Subsidiary Company	-	-	2,455	3,011
Vallibel One PLC	Ultimate Parent Company	11,516	-	-	-
		82,304	84,178	91,466	92,078

### 19 AMOUNTS DUE TO RELATED PARTIES

Company	Relationship	Group		Company	
		2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000
Lanka Tiles PLC	Subsidiary Company	-	-	145,624	68,473
Swisstek Ceylon PLC	Subsidiary Company	-	-	4,990	1,189
Royal Ceramics PLC	Parent Company	39,956	11,704	6,850	11,704
Lanka Ceramic PLC	Affiliated Company	8,572	5,341	8,572	5,341
Vallibel One PLC	Ultimate Parent Company	-	-	1,824	-
		48,528	17,045	167,860	86,707

**20 REVENUE**

	Group		Company	
	2018	2017	2018	2017
	Rs.000	Rs.000	Rs.000	Rs.000
Sale of tiles & associated items				
Export sales	855,857	729,517	590,566	544,056
Local sales	9,048,699	8,211,608	2,725,681	2,801,281
	9,904,556	8,941,125	3,316,247	3,345,337
Sale of aluminium products	3,340,583	2,824,409	-	-
Sale of plantation products	2,248,462	1,947,278	-	-
Sale of packing materials	2,819,644	2,287,338	-	-
Turnover net of tax	18,313,245	16,000,150	3,316,247	3,345,337

**21 OTHER INCOME**

		Group		Company	
		2018	2017	2018	2017
		Rs.000	Rs.000	Rs.000	Rs.000
Income from investments in related Parties	- Quoted	-	-	336,229	252,619
Rental income	- Related parties	-	-	25,590	25,588
Technical Fee Income	- Related parties	-	-	42,297	-
Amortisation of capital and revenue grants		6,274	4,760	-	-
Sales commission	- Related parties	7,233	1,214	-	-
Disposal Gain/(Loss) on Property, Plant and Equipment		3,645	(3,187)	3,572	(112)
Change in fair value of consumable biological assets		44,995	28,871	-	-
Sundry income		114,301	82,690	4,706	9,837
Exchange gain		12,572	21,494	12,572	21,494
		189,020	135,843	424,965	309,426

## Notes to the Financial Statements

### 22 FINANCE COST

	Group		Company	
	2018	2017	2018	2017
	Rs.000	Rs.000	Rs.000	Rs.000
Interest expense on overdrafts	98,894	72,159	36,427	18,645
Interest expense on bank loans	426,055	263,494	76,758	86,624
Finance charges on lease liabilities	14,361	69,941	-	-
Interest on bills discounted	-	37,905	-	-
Exchange loss	367	25,442	-	-
Less: Capitalisation of borrowing costs on immature plantations	(59,531)	(60,013)	-	-
	480,146	408,928	113,185	105,269

### 23 FINANCE INCOME

	Group		Company	
	2018	2017	2018	2017
	Rs.000	Rs.000	Rs.000	Rs.000
Interest income	110,617	142,549	-	-
	110,617	142,549	-	-

**24 PROFIT BEFORE TAX**

Is stated after Charging /(Crediting)

	Group		Company	
	Restated		2018	2017
	2018	2017		
	Rs.000	Rs.000	Rs.000	Rs.000
<b>Included in cost of sales</b>				
Depreciation	657,288	577,209	138,890	140,312
Defined benefit plan costs - gratuity	98,743	94,749	6,750	6,750
Defined contribution plan costs - EPF & ETF	198,530	182,326	23,452	20,223
Other staff cost	2,228,340	2,064,310	296,005	253,247
Operating lease rentals	372	838	-	-
Inventory written off and allowances	(26,972)	22,958	1,189	6,500
<b>Included in administration expenses</b>				
Depreciation	37,900	45,343	11,717	11,298
Defined benefit plan costs - gratuity	32,395	23,119	10,469	7,451
Defined contribution plan costs - EPF & ETF	26,724	22,403	4,162	3,428
Other staff cost	268,484	215,557	34,656	28,543
Audit Fee	4,791	6,644	1,191	1,200
Technical Fee	253,821	263,103	30,958	31,853
<b>Included in distribution cost</b>				
Depreciation	14,668	13,556	3,890	3,173
Defined benefit plan costs - gratuity	4,600	3,894	-	-
Defined contribution plan costs - EPF & ETF	12,420	10,870	4,200	3,576
Other staff cost	167,577	130,664	48,815	40,734
Allowance for doubtful Debts	12,696	(5,650)	1,364	(5,623)

## Notes to the Financial Statements

### 25 INCOME TAX EXPENSES

#### 25.1 The major components of income tax expense are as follows ;

Year ended 31st March	Group		Company	
	2018 Rs.000	Restated 2017 Rs.000	2018 Rs.000	2017 Rs.000
(a) Current income tax				
Current income tax charge	524,587	575,800	137,361	141,937
Under/(over) provision of current taxes in respect of prior years	3,076	6,646	(1,646)	5,977
Tax effect on Inter company Dividends	47,512	28,106	-	-
	575,175	610,552	135,715	147,914
(b) Deferred income tax				
Deferred taxation charge/(reversal)	124,598	54,039	40,653	23,994
Income tax expense reported in the Income statement	699,774	664,591	176,368	171,908
(c) Deferred tax expense reported in the OCI	861,977	15,497	479,255	4,518
	1,561,751	680,087	655,623	176,426

**25.2 Reconciliation between current tax expense and the product of accounting profit.**

Year ended 31st March	Group		Company	
	2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000
Accounting profit before income tax	2,310,938	2,611,942	867,409	944,673
Income considered as separate source of income	112,123	150,720	-	-
Loss attributable to the manufacturer	43,665			
Income exempt from tax	-		(336,229)	(252,619)
Non deductible expenses	991,684	1,126,536	189,112	192,238
Deductible expenses	(1,357,643)	(1,431,117)	(182,872)	(158,849)
Total Statutory Income	2,100,766	2,458,082	537,420	725,443
Tax losses utilised	(108,128)	(256,778)	-	(203,343)
Qualifying Payment Relief	(91,488)	(152,884)	-	(154,477)
Exempt profit	(5,138)	(130,203)	-	-
<b>Taxable profit/loss</b>	<b>1,896,012</b>	<b>1,918,216</b>	<b>537,420</b>	<b>367,623</b>
<b>Current income tax expense</b>				
Taxation -12%	16,272	21,629	9,838	13,450
Taxation -14%	1,432	-	-	-
Taxation -20%	25,568	20,264	-	-
Taxation -28%	481,316	525,841	127,523	128,487
Dividend tax	-	8,067	-	-
	524,587	575,800	137,361	141,937
<b>Deferred income tax reported in income statement</b>				
Capital Allowances	147,425	40,756	48,152	(11,249)
Retirement Benefit Liability	(17,251)	(7,823)	(5,918)	(3,050)
Carried Forward Tax Losses	(9,902)	21,498	-	38,612
Provision for Obsolete and Slow Moving, Consumables and Spares	4,744	(1,774)	(1,112)	(1,720)
Allowances for Doubtful Debts	(417)	1,382	(470)	1,401
Deferred taxation charge/(reversal)	124,598	54,039	40,653	23,993
<b>Deferred income tax reported in other comprehensive income</b>				
Revaluation Surplus	881,685	-	484,517	-
Retirement Benefit Liability	(19,707)	(15,497)	(5,262)	4,518
	861,977	(15,497)	479,255	4,518
<b>Effective Income Tax Rate</b>	<b>30.28%</b>	<b>25.44%</b>	<b>20.33%</b>	<b>18.20%</b>

## Notes to the Financial Statements

### 25.3 Notes on income tax of Group companies

Lanka Walltiles PLC, Lanka Tiles PLC, Vallibel Plantation Management Ltd, Uni Dil Packaging (Private) Limited and Swisstek (Ceylon) PLC

The statutory tax rate of above companies are as follows;

	2018	2017
Local sales and other profits	28%	28%
Qualified export profit	12%	12%
Specified profits	12%	12%

#### Swisstek Aluminium Ltd

Income tax exemption given for the Swisstek Aluminium Ltd has been ended by 01st September 2016 and company liable to pay tax at a rate of 20% on trade profit and 28% on other income.

#### Horana Plantations PLC

In terms of Section 16 of the Inland Revenue Amendment Act No.10 of 2006, and subsequent amendments thereto, "Profits from any Agricultural Undertaking" is liable for income tax at 10%, commencing from 01 April 2011. Manufacturing profit and other income are liable for income tax at 28%.

## 26 EARNINGS PER SHARE

### 26.1 Earnings per share - basic

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders of Lanka Walltiles PLC by the weighted average number of ordinary shares outstanding during the year.

The weighted average number of ordinary shares outstanding during the year and the previous year are adjusted for events that have changed the number of ordinary shares outstanding without a corresponding change in the resources such as a bonus issue.

The following reflects the income and share data used in the basic earnings per share computations.

Year ended 31st March	Group		Company	
	2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000
<b>Amounts used as the numerator:</b>				
Profit attributable to equity holders for basic earnings per share	1,086,902	1,387,503	691,041	772,765
<b>number of ordinary shares used as the denominator:</b>				
Weighted average number of ordinary shares in issue applicable to basic earnings per share	54,600	54,600	54,600	54,600

**27 DIVIDENDS PAID****Declared and paid during the year**

Equity dividends on ordinary shares :

Year ended 31st March	Group		Company	
	2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000
First Interim 2016/17 (Rs. 2.00 per share)	-	109,200	-	109,200
Second Interim 2016/17 (Rs. 5.50 per share)	-	300,300	-	300,300
First Interim 2017/18 (Rs. 4.00 per share)	218,400	-	218,400	-
Second Interim 2017/18 (Rs. 5.50 per share)	300,300	-	300,300	-
	518,700	409,500	518,700	409,500
Dividend payout ratio (%)			75	53

**28. CASH AND CASH EQUIVALENTS**

Components of cash and cash equivalents balance

Year ended 31st March	Group		Company	
	2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000
<b>Favourable cash &amp; cash equivalents balance</b>				
Cash & bank balances	660,879	1,423,632	61,004	43,372
Short Term Deposits	-	-	-	-
	660,879	1,423,632	61,004	43,372
<b>Unfavourable cash &amp; cash equivalent balances</b>				
Bank overdrafts (14)	(964,130)	(1,179,278)	(346,874)	(374,790)
Total cash and cash equivalents for the purpose of cash flow statement	(303,251)	244,354	(285,867)	(331,416)

**29. ASSETS PLEDGED**

Following Assets have been pledged as security for liabilities, in addition to the items disclosed in Note 14.7 to these financial statements.

**Lanka Tiles PLC**

Bank overdrafts are secured primarily on inventories.

**Uni Dil Packaging (Pvt) Ltd**

Import Loan 1 (Hatton National Bank PLC)	Immovable Property Stock & Debtors	110,000,000
	Immovable Property Stock & Debtors	145,000,000
Import Loan 2 ( Standard Chartered Bank)	Immovable Property Stock & Debtors	40,000,000
	Immovable Property Stock & Debtors	70,000,000
Import Loan 3 ( DFCC Bank)	Stock & Book Debtors	150,000,000

**Uni Dil Packaging Solutions Ltd**

Import Loans are secured by Primary on mortgage bond over land and building for Rs. 30 million at Naranpola, Dekatana for the banking facilities of Hatton National Bank PLC and registered primary floating mortgage bond over stock and book debts for Rs. 60 million for the banking facilities of Hong kong & Shanghai Banking corporation.

## Notes to the Financial Statements

### Horana Plantations PLC

The following securities were offered for bank overdraft facilities .

Financial Institution	Type of Securities		Rate of Interest	Facility Available Rs'000
Seylan Bank PLC Millennium Branch Colombo 1	Primary Mortgage for Secondary Mortgage for "Tertiary Mortgage for	- Rs. 3.50 Mn - Rs. 2.45 Mn - Rs.30.00 Mn over leasehold rights of Mahanilu Estate"	14.50% p.a.	10,000
Commercial Bank of Ceylon PLC	"Mortgage over leasehold rights of Stockholm Estate and" "Fairlawn Estate, including buildings, fixed and floating assets."		"11.72% p.a." (AWPLR+0.5%)	200,000
Hatton National Bank PLC	Mortgage over leasehold rights of Eildon Hall Estate, including buildings , fixed and floating assets.		11.97% p.a (AWPLR+0.75%)	100,000
				310,000

### Lanka Walltiles PLC

Hatton National Bank Rs. 100 Mn bank overdraft is secured primarily on register primary floating mortgage bond for Rs.390 Mn over the project assets comprising of land, building and machinery at Meepe.

### Swisstek Aluminum Limited

Financial Institution	Type of Securities		Rate of Interest	Facility Available Rs'000
Hatton National Bank ( Import Loan)	Trading Stock and Trade Debtors		AWPLR (11.79%)	300,000
DFCC Bank(Term loan)	Primary mortgage over plant and machinery		AWPLR (11.79%)	200,000
DFCC Bank(Import loan and Bank Overdrafts	Secondary mortgage over stock and book debtors		AWPLR (11.79%)	800,000

### 30 RELATED PARTY DISCLOSURES

Details of significant related party disclosures are as follows

#### 30.1 Company

	Transactions with the Parent Company, Royal Ceramic Lanka PLC		Transactions with Previous the Parent Company, Lanka Ceramic PLC		Transactions with Subsidiaries and Affiliate Companies	
	2018 Rs. 000	2017 Rs. 000	2018 Rs. 000	2017 Rs. 000	2018 Rs. 000	2017 Rs. 000
Balance as at 01 April	(11,704)	(21,475)	(5,341)	(3,653)	(142,425)	(130,087)
Sale of Tiles/ (Sales returns)	14,491	-	-	-	608	2,117
Purchase of raw materials	-	-	(15,255)	(37,688)	(8,743)	(15,332)
Purchase of other items	(19,325)	(6,077)	-	-	(61,739)	(45,231)
Sale of raw materials	-	-	-	-	6,007	10,931
Dividend received	-	-	-	-	205,948	252,619
Settlements/(Recoveries) by the Company	35,994	54,121	11,891	35,354	(78,722)	(98,938)
Rent received	-	-	-	-	13,046	10,268
Expenses apportioned	2,313	5,588	132	646	97,586	99,096
Advances received/( paid)	-	-	-	-	(56,856)	708
Commission on sales	(4,421)	(9,227)	-	-	(14,098)	(7,228)
Expenses incurred and transferred	-	-	-	-	(127,410)	(130,299)
Credit card proceeds collected from subsidiary	-	-	-	-	(79,472)	(87,631)
Sale of other items	-	-	-	-	92	-
Insurance Premium	-	-	-	-	-	(3,417)
Cash/Goods in transit	-	1,481	-	-	-	-
Technical Fees	(24,197)	(36,115)	-	-	37,405	-
Balance as at 31st March	(6,850)	(11,704)	(8,572)	(5,341)	(208,772)	(142,425)
Included Under						
Trade and other receivable	-	-	-	-	488	1,576
Trade and other payable	-	-	-	-	(91,450)	(92,078)
Amount due from related parties	-	-	-	-	34,628	17,739
Amount due to related parties	(6,850)	(11,704)	(8,572)	(5,341)	(152,438)	(69,662)
Balance as at 31st March	(6,850)	(11,704)	(8,572)	(5,341)	(208,772)	(142,425)

## Notes to the Financial Statements

The above subsidiaries and affiliates include following companies;

### Company

- Lanka Tiles PLC
- Uni Dil Packaging (Pvt) Ltd
- Vallibel Plantation Management (Pvt) Ltd
- Horana Plantations PLC
- Swisstek Aluminum Limited
- Swisstek (Ceylon) PLC
- Royal Porcelain (Private) Limited
- Royal Bathware Limited
- LWL Development (Private) Limited
- Beyond Paradise Collection Limited
- Lankatiles (Pvt) Ltd
- LTL Development (Pvt) Limited
- Swisstek Development (Pvt) Limited

### Terms and conditions with related parties

The 'Sales to' and 'Purchases from' related parties are made on commercial terms agreed with respective parties.

Outstanding balances as at the year end are unsecured, interest free and settlement occur in cash.

Technical fees paid to Royal Ceramic Lanka PLC and Vallibel One PLC are for services rendered in providing technical advises to improve manufacturing process of Lanka Walltiles PLC, Lanka Tiles PLC and Swisstek Aluminum Limited.

**30.2 Group - Related Party Transactions****30.2.1 Lanka Tiles PLC**

Name of the company	Relationship	Nature of the transaction	2018 Rs. 000	2017 Rs. 000
<b>(a) Sale of goods /services to</b>				
Royal Porcelain (Pvt) Ltd	Affiliated Company	Raw materials	3,972	5,374
		Spares	213	462
		Consumables	199	1,197
Royal Bathware LTD	Affiliated Company	Raw Materials	-	37
		Services	-	74
Royal Ceramics Lanka PLC	Affiliated Company	Raw materials	948	96
		Spares	29	464
MN Properties (Pvt) Ltd	Affiliated Company	Services	180	1,476
<b>(b) Purchase of goods/Services from:</b>				
Lanka Ceramic PLC	Affiliated Company	Raw materials	123,960	165,741
Royal Porcelain (Pvt) Ltd	Affiliated Company	Raw materials	6,222	2,563
		Spares	101	79
Royal Ceramics Lanka PLC	Affiliated Company	Raw materials	-	933
		Spares	141	-
		Technical fees	73,445	110,309
MN Properties (Pvt) Ltd	Affiliated Company	Sale of Goods	180	1,476
Delmege Freight Services (Pvt) Ltd	Affiliated Company	Services	1,433	2,746
Hayleys Travels & Tours (Private) limited	Affiliated Company	Services	10,274	7,972
Hayleys Agriculture Holding Limited	Affiliated Company	Services	206	187
Hayleys Electronic Lighting (Private) Limited	Affiliated Company	Services	258	251
Hayleys Industrial Solutions (Private) Limited	Affiliated Company	Services	9,506	6,823
Hayleys Leisure Holdings (Pvt) Ltd	Affiliated Company	Services	-	2,550

## Notes to the Financial Statements

### 30.2.2 Swisstek (Ceylon) PLC

Name of the company	Relationship	Nature of the transaction	2018 Rs.000	2017 Rs.000
<b>(a) Sale of goods /services to</b>				
Royal Ceramics Lanka PLC	Affiliated Company	Finished goods	30,714	7,081
M N Properties (Pvt) Ltd	Affiliated Company	Finished goods	2,902	
<b>(b) Purchase of goods/Services from:</b>				
Royal Porcelain (Pvt) Ltd	Affiliated Company	Sales Commission	6,845	5,904
Rocell Bathware Ltd.	Affiliated Company	Sales Commission	481	68
Royal Ceramics Lanka PLC	Affiliated Company	Sales Commission	1,125	1,601
		Reimbursement of security expenses	989	1,026
		Warehouse rental income	4,473	3,759
Uni-Dil Packing Ltd	Affiliated Company	Purchase of corrugated boxes	3,918	3,345
Horana Plantation PLC	Affiliated Company	Purchase of Goods	1,344	-

### 30.2.3 Swisstek Aluminum Ltd

Name of the company	Relationship	Nature of the transaction	2018 Rs.000	2017 Rs.000
<b>(a) Purchase of goods/Services from:</b>				
Royal Ceramics Lanka PLC	Affiliated Company	Purchase of goods	169	2,964
		Technical fees	17,642	84,774
Horana Plantation PLC	Affiliated Company	Purchase of goods	150	369
Lanka Walltiles PLC	Affiliated Company	Technical fees	42,590	-
Lanka Tiles PLC	Affiliated Company	Technical fees	42,061	-
			-	3,345

## 30.2.4 Uni Dil Packaging Ltd

Name of the company	Relationship	Nature of the transaction	2018	2017
			Rs.000	Rs.000
<b>(a) Sale of goods /services to</b>				
Horana Plantations PLC	Affiliated Company	Finished goods	121	282
Lanka Tiles PLC	Affiliated Company	Finished goods	12	33,148
Uni-Dil Packing Solution Limited	Affiliated Company	Finished goods	7,311	82,655
Royal Porcelain (Pvt) Ltd	Affiliated Company	Finished goods	2,699	61,026
Royal Bathware LTD	Affiliated Company	Finished goods	271	24,190
Swisstek (Ceylon)PLC	Affiliated Company	Finished goods	4,516	-
Royal Ceramics Lanka PLC	Affiliated Company	Finished goods	324	36,600
<b>(b) Purchase of goods/Services from:</b>				
Lanka Ceramic PLC	Affiliated Company	Expenses reimbursed	-	130
Royal Ceramics Lanka PLC	Affiliated Company	Purchase of goods	232	97
		Technical fees	7,979	39,325
Vallibel One PLC	Ultimate Parent Company	Technical fees	25,270	-
Ever Paint & Chemical Industries (Pvt) Ltd	Affiliated Company	Purchase of goods	-	25

## 30.2.5 Uni Dil Packaging Solutions Ltd

Name of the company	Relationship	Nature of the transaction	2018	2017
			Rs.000	Rs.000
<b>Sale of goods to</b>				
Royal Porcelain (Pvt) Ltd	Affiliated Company	Finished goods	11,605	18,675
Royal Bathware LTD	Affiliated Company	Finished goods	15,412	8,772
Royal Ceramics Lanka PLC	Affiliated Company	Finished goods	21,095	10,147
Lanka Walltiles PLC	Parent Company	Finished goods	7,718	-
Lanka Tiles PLC	Affiliated Company	Finished goods	7,075	-

## 30.2.6 Horana Plantations PLC

Name of the company	Relationship	Nature of the transaction	2018	2017
			Rs.000	Rs.000
<b>(a) Sale of goods /services to</b>				
Lanka Ceramic PLC	Affiliated Company	Sale of tea	(70)	39
Royal Porcelain (Pvt) Ltd	Affiliated Company	Sale of tea	-	69
Royal Bathware LTD	Affiliated Company	Sale of tea	-	292
Royal Ceramics Lanka PLC	Affiliated Company	Sale of tea	(20)	206
		Office rent	-	113
Dipped Products PLC	Affiliated Company	Sale of latex	-	1,003
Delmege Forsyth & Co.Ltd	Affiliated Company	Sale of tea	3,765	7,065
Amaya Leisure PLC	Affiliated Company	Sale of pineapple	-	22

## Notes to the Financial Statements

Name of the company	Relationship	Nature of the transaction	2018 Rs.000	2017 Rs.000
<b>(b)Purchase of goods/services from/Expenses Reimbursement</b>				
Lanka Ceramic PLC	Affiliated Company	Expenses reimbursed	69	1,492
Royal Porcelain (Pvt) Ltd	Affiliated Company	Purchase of goods	-	3
Royal Bathware LTD	Affiliated Company	Purchase of goods	65	221
Royal Ceramics Lanka PLC	Affiliated Company	Purchase of tiles	-	626
Hayleys Agriculture Holdings Ltd	Affiliated Company	Chemicals	2,024	39,076
Hayleys Agro Fertilizer (Pvt) Ltd	Affiliated Company	Fertilizer	42,204	86,894

### 30.2 Transactions with key management personnel of the company

The key management personnel of the company are the members of its Board of Directors and that of its parent.

Year ended 31st March	Group		Company	
	2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000

#### Key management personnel compensation

Short Term Employment Benefits	98,453	110,326	27,969	26,362
Post Employment Benefits	25,644	24,499	5,383	8,575
	124,097	134,825	33,352	34,937

### 31. COMMITMENTS AND CONTINGENCIES

#### 31.1 Capital commitments

There were no significant capital commitments as at reporting date in the Company or Group except as detailed below,

##### Lease commitments

- a). Lanka Tiles PLC is committed to pay Rs. 375,000/- & Rs. 2,300,471/- respectively as rent per month for the use of buildings situated in Rajagiriya and Nawala  
 b). Horana Plantation PLC has commitments under operating lease rentals on Dumbara Estate as given below;

1 - 10 years (per annum)	Rs. 0.552 Mn
11 - 20 years (per annum)	Rs. 0.698 Mn
21 - 30 years (per annum)	Rs. 0.838 Mn

Finance lease rentals payable to the Secretary to the Treasury ;  
 22.06.2018 to 21.06.2045 (per annum) Rs. 5.228 Mn

- c). Swisstek Aluminium Limited has a commitment on letter of credits amounting to Rs.1,939 Mn as at the reporting date.

**31.2 Contingencies****a) Horana Plantation PLC**

Horana Plantations PLC, Several cases and disputes are pending against the company in labour Tribunal and Courts. All these cases are being vigorously contested / prosecuted and our lawyers have advised that an evaluation of the likelihood of an unfavourable outcome and the amount or range of potential loss cannot be quantified or commented upon at this stage.

Capital grant received from the Ceylon Electricity Board (CEB) for stand by power generators is subject to a condition of minimum usage of CEB power as against the generator power. A liability will arise only if the above condition is not fulfilled.

**b) Lanka Walltiles PLC**

As at the reporting date, the Lanka Walltiles PLC has received assessments issued by the Department of Inland revenue in respect of Income tax, Value added tax and economic service charge totalling Rs. 46,988,405/- for the year of assessment 2008/09, 2009/10. The Company has appealed against the assessments in the appeal hearing branch. The Directors believe, based on the information currently available, the ultimate resolution of such assessment is not likely to have a material adverse effect on the company. Accordingly no provision for liability has been made in these financial statements.

**32 EVENTS OCCURRING AFTER THE REPORTING PERIOD**

There have been no material events occurring after the reporting date that require adjustments to or disclosure in the Financial Statements

## Notes to the Financial Statements

## 33.0 SEGMENTAL INFORMATION

	2018						2017														
	Tiles & Aluminium associated items		Plantation products		Packing materials		Inter Segment Elimination		Total		Tiles & Aluminium associated items		Plantation products		Packing materials		Inter Segment Elimination		Total		
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	
Sales to External Customers	9,904,783	3,340,583	2,248,357	2,819,523	-	18,313,245	8,842,949	2,824,409	1,868,405	2,464,387	-	16,000,150	-	-	-	-	-	-	-	-	-
Inter Segment Sales	-	-	105	123,229	(123,334)	-	-	(693)	890	95,917	(96,115)	-	-	-	-	-	-	-	-	-	-
Total Revenue	9,904,783	3,340,583	2,248,462	2,942,752	(123,334)	18,313,245	8,842,949	2,823,716	1,869,295	2,560,305	(96,115)	16,000,150	-	-	-	-	-	-	-	-	-
Gross Profit	3,750,137	1,013,412	280,514	273,427	(105)	5,317,386	3,819,884	942,078	102,743	350,764	1,205	5,216,673	-	-	-	-	-	-	-	-	-
Other Income	57,003	5,569	76,673	92,915	(43,142)	189,020	18,331	4,388	43,939	71,027	(1,842)	135,843	-	-	-	-	-	-	-	-	-
Distribution Costs	(1,294,075)	(398,456)	-	(106,993)	619	(1,798,905)	(1,037,585)	(338,526)	-	(90,515)	-	(1,466,625)	-	-	-	-	-	-	-	-	-
Administrative Expenses	(641,470)	(164,718)	(127,081)	(136,392)	42,627	(1,027,033)	(633,194)	(155,290)	(94,652)	(125,072)	638	(1,007,570)	-	-	-	-	-	-	-	-	-
Finance Cost	(168,732)	(116,621)	(91,607)	(108,050)	4,865	(480,146)	(147,333)	(88,008)	(96,867)	(77,903)	1,184	(408,928)	-	-	-	-	-	-	-	-	-
Finance Income	115,482	-	-	-	(4,865)	110,617	143,604	-	129	-	(1,184)	142,549	-	-	-	-	-	-	-	-	-
Profit Before Tax	1,818,345	339,186	138,499	14,908	-	2,310,938	2,163,707	364,642	(44,707)	128,301	(0)	2,611,942	-	-	-	-	-	-	-	-	-
Income Tax Expense	(546,637)	(84,978)	(22,178)	1,531	(47,512)	(699,774)	(561,130)	(38,981)	(201)	(28,106)	(36,173)	(664,591)	-	-	-	-	-	-	-	-	-
Net Profit for the year	1,271,709	254,208	116,321	16,438	(47,512)	1,611,165	1,602,577	325,661	(44,908)	100,195	(36,173)	1,947,351	-	-	-	-	-	-	-	-	-
Segment Assets	16,708,834	3,928,890	4,043,225	3,052,661	(2,010,715)	25,722,893	15,721,975	2,712,829	3,120,774	2,658,108	(2,011,009)	22,202,677	-	-	-	-	-	-	-	-	-
Segment Liabilities	4,636,946	2,600,456	2,308,928	1,770,286	(8,474)	11,308,141	3,776,033	1,569,242	1,970,072	1,357,263	(20,038)	8,652,572	-	-	-	-	-	-	-	-	-
<b>Other Segment Information</b>																					
Total cost incurred during the period to depreciation and amortisation	407,875	62,468	157,666	81,847	-	709,855	372,255	64,187	184,891	65,117	-	686,450	-	-	-	-	-	-	-	-	-
Property, plant & equipment	1,172,655	119,481	15,556	40,340	-	1,348,032	969,571	33,903	11,673	413,944	-	1,429,091	-	-	-	-	-	-	-	-	-
Biological assets	-	-	241,550	-	-	241,550	-	-	209,348	-	-	209,348	-	-	-	-	-	-	-	-	-
Trade debtors and inventory impairment	(10,842)	-	-	2,751	-	(8,090)	1,240	-	-	(2,539)	-	(1,299)	-	-	-	-	-	-	-	-	-
Provision for retirement benefit	44,524	4,000	74,718	10,119	-	133,361	34,359	3,523	75,858	7,953	-	121,693	-	-	-	-	-	-	-	-	-
<b>Reconciliation of net profit for the year</b>																					
Segment net profit for the year	1,658,676																				
Dividend tax on Inter segment dividend	(47,512)																				
Group net profit for the year	1,611,165																				
<b>Reconciliation of assets</b>																					
Segment Assets	27,733,609																				
Inter- segment balance eliminations	(8,474)																				
Investment in subsidiary elimination	(2,002,241)																				
	- 25,722,893																				
<b>Reconciliation of liabilities</b>																					
Segment Liabilities	11,316,615																				
Inter- segment balance eliminations	(8,474)																				
	11,308,141																				

### 34. FINANCIAL RISK MANAGEMENT

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

The company's overall financial risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the company. Financial risk management is carried out through risk reviews, internal control systems, insurance programmes and adherence to the company 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

Market risk is the risk that the fair value of future cash flows of the financial instruments will fluctuate because of the changes in market prices.

(i) Foreign currency exchange risk—risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

(ii) Cash flow interest rate risk—risk that future cash flows associated with a financial instrument will fluctuate.

#### Foreign currency/ exchange risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The company operate internationally and are exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the USD and Euro.

Foreign exchange risk arises mainly as a result of foreign exchange gains/losses on translation of US dollar - denominated loans granted, trade receivables, trade creditors and Euro - denominated trade creditors.

Foreign currency sensitivity	Change in	Change in profit before tax Rs. 000
2018	5.0%	5,464
2017	5.0%	8,685

#### Cash flow and fair value interest rate risk

The company's interest rate risk arises from long-term borrowings issued at variable rates. The company manages its interest rate risk by actively monitoring the yield curve trend and interest rate movement for the various financial instruments.

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

Interest rate sensitivity	Change in	Change in profit before tax Rs. 000
2018	0.05	1,629
2017	0.05	2,942

## Notes to the Financial Statements

### 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 Group. Individual credit limits are set based on the amount of bank guarantee. The utilisation of credit limits is regularly monitored.

The group places its cash and cash equivalents with a number of creditworthy financial institutions. 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 group is approximately the carrying amounts as at reporting date, except for trade receivables which are secured by bank guarantees. ( Please refer Note 9.2 for ageing analysis of trade receivables)

### Liquidity risk

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

In the management of liquidity risk, the group monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance the group's operations and to mitigate the effects of fluctuations in cash flows. Due to the dynamic nature of the underlying business, the group aims at maintaining flexibility in funding by keeping both committed and uncommitted credit lines available.

The table below analyses 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.

### Group

At 31 March 2018	Less than 3 months	Between 3 months and 1 year	Between year 1 and 2 year	Between year 2 and year 5	Over 5 years
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Bank Borrowings	3,405,488	561,337	533,292	840,272	175,342
Trade and other payables	2,714,644	-	-	-	-

At 31 March 2017	Less than 3 months	Between 3 months and 1 year	Between year 1 and 2 year	Between year 2 and year 5	Over 5 years
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Bank Borrowings	2,533,238	556,388	565,590	960,973	214,826
Trade and other payables	1,789,552	-	-	-	-

**Company**

At 31 March 2018	Less than 3 months	Between 3 months and 1 year	Between year 1 and 2 year	Between year 2 and year 5	Over 5 years
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Bank Borrowings	894,316	113,143	116,880	48,300	-
Trade and other payables	479,476	-	-	-	-

At 31 March 2017	Less than 3 months	Between 3 months and 1 year	Between year 1 and 2 year	Between year 2 and year 5	Over 5 years
Rs ('000)	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Bank Borrowings	446,872	191,246	159,801	165,180	-
Trade and other payables	414,318	-	-	-	-

**Capital management risk**

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, 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 Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings by total equity. Total borrowings including non-current and current borrowings as shown in the statements of financial position. Total equity is calculated as 'Total equity' in the statements of financial position.

The gearing ratio as at 31 March is as follows:

Year ended 31st March	Group		Company	
	2018 Rs.000	2017 Rs.000	2018 Rs.000	2017 Rs.000
<b>Borrowings</b>	5,515,740	4,831,015	1,172,639	963,099
Total equity	14,414,750	13,559,011	4,981,039	4,519,576
Gearing ratio ; Debt to Equity	38%	36%	24%	21%

## Notes to the Financial Statements

### 35. MATERIAL PARTLY-OWNED SUBSIDIARIES

Financial information of subsidiaries that have material non-controlling interests is provided below:

Proportion of equity interest held by non-controlling interests:

Name	Country of incorporation and operation	2018	2017
Lanka Tiles PLC	Sri Lanka	31.78%	31.78%
Horana Plantation PLC	Sri Lanka	49.00%	49.00%
Swisstek (Ceylon) PLC	Sri Lanka	55.91%	55.91%
Swisstek Aluminium Limited	Sri Lanka	61.48%	61.48%
Beyond Paradise Collection Limited	Sri Lanka	31.78%	31.78%
Lankatiles (Pvt) Ltd	India	65.21%	-
		-	-

Accumulated Balances of the Material Non - Controlling Interest

Name	2018	2017
	Rs.000	Rs.000
<b>Accumulated Balances of Material Non - Controlling Interest</b>		
Lanka Tiles PLC	1,951,376	1,893,949
Horana Plantation PLC	696,190	672,108
Swisstek (Ceylon) PLC	537,471	611,985
Swisstek Aluminium Limited	691,786	570,915
Beyond Paradise Collection Limited	15,946	15,606
Lankatiles (Pvt) Ltd	5,166	-
	3,897,935	3,764,563

Name	2018	2017
	Rs.000	Rs.000
<b>Profit allocated to Material Non - Controlling Interest</b>		
Lanka Tiles PLC	266,957	330,096
Horana Plantation PLC	41,328	(20,444)
Swisstek (Ceylon) PLC	60,020	49,987
Swisstek Aluminium Limited	156,279	200,204
Beyond Paradise Collection Limited	340	6
Lankatiles (Pvt) Ltd	(662)	-
	524,262	559,849

## Summarised statement of profit or loss for year ended 31 March 2018

	Lanka Tiles PLC	Horana Plantation PLC	Swisstek (Ceylon) PLC	Swisstek Aluminium Limited	Beyond Paradise Collection Limited	Lankatiles (Pvt) Ltd
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Revenue	6,126,307	2,248,462	736,784	3,340,583	-	-
Cost of sales	(3,745,803)	(1,982,948)	(561,592)	(2,327,171)	-	-
Distribution costs	(895,347)	-	(48,194)	(398,456)	-	-
Administrative expenses	(404,447)	(125,264)	(39,607)	(164,718)	(56)	(1,234)
Finance costs	(21,768)	(86,914)	(33,779)	(116,621)	-	-
Profit before tax	1,232,587	104,674	184,138	339,186	-	-
Income tax	(348,721)	(20,329)	(21,740)	(84,978)	-	-
Profit for the year	883,866	84,345	162,398	254,208	1,070	(1,015)
Total comprehensive income	755,105	49,147	17,587	254,852	1,070	(1,274)
Attributable to non-controlling interests	266,957	41,328	60,020	156,279	340	(662)
Dividends paid to non-controlling interests	168,610	-	53,565	-	-	-

## Summarised statement of profit or loss for year ended 31 March 2017:

	Lanka Tiles PLC	Horana Plantation PLC	Swisstek (Ceylon) PLC	Swisstek Aluminium Limited	Beyond Paradise Collection Limited
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Revenue	5,176,372	1,947,278	607,948	2,824,409	-
Cost of sales	(2,860,369)	(1,831,450)	(451,062)	(1,882,331)	-
Distribution costs	(706,517)	-	(44,074)	(338,526)	-
Administrative expenses	(381,312)	(100,063)	(32,170)	(155,290)	(413)
Finance costs	(31,749)	(88,785)	(19,997)	(88,008)	-
Profit before tax	1,397,720	(29,589)	157,336	364,642	-
Income tax	(359,002)	(700)	(29,768)	(38,981)	-
Profit for the year	1,038,718	(30,289)	127,568	325,661	19
Total comprehensive income	1,052,433	(3,194)	127,982	328,548	52,515
Attributable to non-controlling interests	330,096	(14,842)	49,987	200,204	6
Dividends paid to non-controlling interests	126,458	-	38,261	5,831	-

## Notes to the Financial Statements

### Summarised statement of financial position as at 31 March 2018:

	Lanka Tiles PLC	Horana Plantation PLC	Swisstek (Ceylon) PLC	Swisstek Aluminium Limited	Beyond Paradise Collection Limited	Lankatiles (Pvt) Ltd
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Current Assets	3,906,972	381,700	310,280	2,533,654	1,800	78
Non- Current Assets	4,107,887	3,312,306	1,391,178	1,395,237	223,800	-
Current Liabilities	1,022,724	786,721	327,700	2,044,755	175,428	-
Non- Current Liabilities	807,990	1,486,488	365,084	555,701	-	-
Total equity	6,184,144	1,420,798	1,008,672	1,328,435	50,172	78
Attributable to:						
Equity holders of parent	4,218,823	724,607	444,723	511,764	34,227	27
Non-controlling interest	1,965,321	696,191	563,949	816,671	15,945	51

### Summarised statement of financial position as at 31 March 2017:

	Lanka Tiles PLC	Horana Plantation PLC	Swisstek (Ceylon) PLC	Swisstek Aluminium Limited	Beyond Paradise Collection Limited
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Current Assets	3,869,300	372,996	236,327	1,749,855	600
Non- Current Assets	3,917,636	3,242,907	1,136,870	962,974	223,800
Current Liabilities	1,140,651	705,106	247,778	1,275,256	175,298
Non- Current Liabilities	624,405	1,484,427	40,590	293,986	-
Total equity	6,021,880	1,426,369	1,084,827	1,143,587	49,102
Attributable to:					
Equity holders of parent	2,732,552	452,400	464,221	273,980	20,831
Non-controlling interest	3,467,148	973,969	787,387	869,607	28,271

**Summarised cash flow information for year ending 31 March 2018:**

	Lanka Tiles PLC	Horana Plantation PLC	Swisstek (Ceylon) PLC	Swisstek Aluminium Limited	Beyond Paradise Collection Limited	Lankatiles (Pvt) Ltd
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Operating	417,142	247,252	41,325	101,538	-	(957)
Investing	(336,408)	(252,141)	(162,918)	(489,727)	-	-
Financing	(591,920)	(1,588)	88,350	368,192	-	12,239
Net increase / (decrease) in cash and cash equivalents	(511,186)	(6,477)	(33,243)	(19,997)	-	11,282

**Summarised cash flow information for year ending 31 March 2017:**

	Lanka Tiles PLC	Horana Plantation PLC	Swisstek (Ceylon) PLC	Swisstek Aluminium Limited	Beyond Paradise Collection Limited	
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Operating	1,484,796	163,183	134,156	84,525	174,905	
Investing	(134,949)	(205,507)	(21,019)	(103,636)	(171,303)	
Financing	(488,462)	25,632	(54,166)	173,892	-	
Net increase / (decrease) in cash and cash equivalents	861,385	(16,692)	58,971	154,781	3,601	

## Notes to the Financial Statements

### 36. RESTATEMENT

#### 36.1. Capital commitments

Impact on prior period error identified in Bearer Biological Assets and Other Tangibles

As per LKAS 17 "Leases", leased assets should be depreciated over the shorter of the lease term and its useful life. However, the Company has incorrectly depreciated certain leased assets over the period shorter of remaining lease period or useful lives of those assets. Accordingly, this error has now been corrected retrospectively in accordance with Sri Lanka Accounting Standard 8, "Accounting Policies, changes in Accounting Estimates and Errors". The effect of the restatement of the balances referred to above is summarized below;

#### 36.1.1. Impact to the balances reported in the statement of financial position

	Impact of Error Correction		
	As previously reported	Adjustments	As restated
	Rs.000	Rs.000	Rs.000
<b>Bearer Biological Assets</b>			
Balance as at 1st April 2016	1,960,187	(34,016)	1,926,171
Balance as at 31st March 2017	2,085,018	(43,061)	2,041,957
<b>Other Tangibles Assets</b>			
Balance as at 1st April 2016	9,982,867	(16,315)	9,966,552
Balance as at 31st March 2017	10,967,044	(20,564)	10,946,480
<b>Deferred Tax Liability</b>			
Balance as at 1st April 2016	980,802	(7,046)	973,756
Balance as at 31st March 2017	1,051,846	(8,907)	1,042,939
<b>Retained earnings</b>			
Balance as at 1st April 2016	5,590,940	(22,075)	5,568,864
Balance as at 31st March 2017	6,625,095	(27,906)	6,597,189
<b>Non Controlling interest</b>			
Balance as at 1st April 2016	3,360,147	(21,210)	3,338,937
Balance as at 31st March 2017	3,791,375	(26,812)	3,764,563

**36.1.2. Impact to the balances reported in the statement of profit or loss and OCI**

For the year ended 31st March 2017

	Impact of Error Correction		
	As previously reported	Adjustments	As restated
	Rs.000	Rs.000	Rs.000
Cost of Sales	(10,770,391)	(13,085)	(10,783,477)
Administrative Expenses	(1,007,361)	(209)	(1,007,570)
Income Tax Expense	(666,452)	1,861	(664,591)
Profit for the year	1,958,784	(11,433)	1,947,351
Impact on earning per share (Rs.)	25.52	(0.11)	25.41

**36.1.3. Impact to the balances reported in the statement of cash flows**

For the year ended 31st March 2017

	Impact of Error Correction		
	As previously reported	Adjustments	As restated
	Rs.000	Rs.000	Rs.000
Loss before Tax	(2,625,236)	(13,294)	(2,638,530)
Adjustments for Depreciation & amortisation	622,815	13,294	636,109
Operating profit before working capital changes	3,618,761	-	3,618,761

RIVA

RIVA

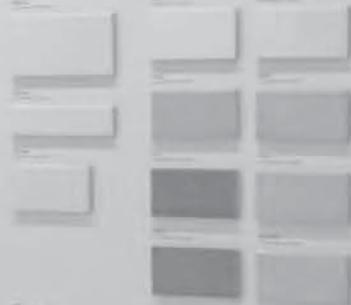


Riva wall

Realizzazione di una cucina con Riva wall e Riva wall in ceramica

Size

Colors



Size list





# Strengthening our Core Competencies

## Supplementary Information

We are investing our every effort to ensure we grow and maintain the standards we are recognised for across the world.

## Five Year Summary Statement of Profit or Loss

	GROUP				
	2018 Rs.000	2017 Rs.000 (Restated)	2016 Rs.000	2015 Rs.000	2014 Rs.000
Revenue	18,313,245	16,000,150	15,545,188	14,596,214	13,419,770
Cost of Sales	(12,995,860)	(10,783,477)	(10,763,886)	(10,855,981)	(10,282,638)
Gross Profit	5,317,386	5,216,673	4,781,301	3,740,233	3,137,132
Other Income	189,020	135,843	175,479	189,012	167,148
Distribution Costs	(1,798,905)	(1,466,625)	(1,272,084)	(987,637)	(829,354)
Administrative Expenses	(1,027,033)	(1,007,570)	(998,379)	(822,113)	(722,631)
Finance Cost	(480,146)	(408,928)	(255,710)	(327,204)	(600,231)
Finance Income	110,617	142,549	62,458	5,913	23,266
Profit/(Loss) Before Tax	2,310,938	2,611,942	2,493,065	1,798,203	1,175,330
Income Tax (Expense) / Reversal	(699,774)	(664,591)	(680,373)	(347,607)	(254,701)
Profit/(Loss) for the Year	1,611,165	1,947,351	1,812,692	1,450,596	920,629
Profit for the Year	1,611,165	1,947,351	1,812,692	1,450,596	920,629
Profit attributable to :					
Equity holders of the parent	1,086,902	1,387,503	1,334,339	1,043,793	605,703
Non controlling interest	524,262	559,849	478,354	406,803	314,925
Profit for the year	1,611,165	1,947,351	1,812,692	1,450,596	920,628
Basic Earnings Per Share - Profit Attributable to Ordinary Equity Holders	19.91	25.41	24.44	19.12	11.09

	COMPANY				
	2018 Rs.000	2017 Rs.000	2016 Rs.000	2015 Rs.000	2014 Rs.000
Revenue	3,316,247	3,345,337	3,209,561	3,078,121	2,599,659
Cost of Sales	(2,106,806)	(2,013,573)	(2,053,751)	(2,142,319)	(1,951,099)
Gross Profit	1,209,441	1,331,764	1,155,809	935,802	648,560
Other Income	424,965	309,426	283,146	277,718	245,093
Distribution Costs	(445,167)	(381,220)	(324,033)	(292,894)	(285,389)
Administrative Expenses	(208,646)	(210,028)	(201,519)	(201,007)	(186,504)
Finance Cost	(113,185)	(105,269)	(112,023)	(165,140)	(226,973)
Profit/(Loss) Before Tax	867,409	944,673	801,380	554,479	194,787
Income Tax (Expense) / Reversal	(176,368)	(171,908)	(158,002)	(37,426)	(755)
Profit/(Loss) for the Year	691,041	772,765	643,378	517,052	194,032
Profit for the Year	691,041	772,765	643,378	517,052	194,032
Profit attributable to :					
Equity holders of the parent	972,313	786,036	643,378	517,052	194,032
Profit for the year	972,313	786,036	643,378	517,052	194,032
Basic Earnings Per Share - Profit Attributable to Ordinary Equity Holders	12.66	14.15	11.78	9.47	3.55

## Five Year Summary Statement of Financial Position

	GROUP				
	2018 Rs.000	2017 Rs.000 (Restated)	2016 Rs.000	2015 Rs.000	2014 Rs.000
<b>Non-current assets</b>					
Property, plant & equipment	14,316,493	12,988,436	11,943,053	10,061,471	9,796,164
Consumable biological assets	536,575	490,535	453,884		
Investment property	459,407	-	-	-	-
Intangible assets - goodwill	24,519	24,519	24,519	24,519	24,519
Long term receivables	27,285	27,285	27,285	27,285	27,285
Deferred tax asset	14,686	12,176	12,527	52,183	22,729
	15,378,965	13,542,950	12,461,269	10,165,458	9,870,697
<b>Current assets</b>					
Inventories	6,113,247	4,313,824	3,139,621	3,473,262	3,648,372
Trade and other receivables	3,450,285	2,885,572	2,198,681	2,327,095	2,444,967
Amounts due from related parties	55,427	8,729	4,784	1,263	-
Income tax receivable	60,851	24,674	-	34,092	21,884
Short term investments	3,239	3,296	3,078	2,964	3,624
Cash and cash equivalents	660,879	1,423,632	1,784,641	977,467	168,900
	10,343,928	8,659,727	7,130,805	6,816,143	6,287,747
<b>Total assets</b>	<b>25,722,893</b>	<b>22,202,677</b>	<b>19,592,074</b>	<b>16,981,601</b>	<b>16,158,444</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity attributable to equity holders of the parent</b>					
Stated capital	787,765	787,765	787,765	787,765	787,765
Reserves	2,566,671	2,409,494	2,306,645	1,004,516	936,147
Retained earnings	7,162,378	6,597,189	5,590,940	4,705,023	4,018,704
Shareholders' funds	10,516,814	9,794,448	8,685,350	6,497,305	5,742,616
Non controlling interest	3,897,935	3,764,563	3,360,147	2,750,143	2,383,029
<b>Total equity</b>	<b>14,414,749</b>	<b>13,559,011</b>	<b>12,045,497</b>	<b>9,247,448</b>	<b>8,125,645</b>
<b>Non-current liabilities</b>					
Amounts due to related parties					
Interest bearing liabilities	1,712,118	1,773,267	1,725,466	1,742,100	1,923,947
Deferred tax liabilities	2,032,023	1,042,939	980,802	702,135	596,455
Retirement benefit liability	778,830	656,086	699,951	691,213	642,946
Deferred income & Capital grants	136,532	138,189	134,301	121,613	118,411
	4,659,503	3,610,480	3,540,520	3,257,061	3,281,759
<b>Current liabilities</b>					
Trade and other payables	2,714,644	1,789,552	1,524,474	1,649,064	1,356,977
Income tax liabilities	81,847	168,839	339,336	165,450	45,764
Amounts due to related parties	48,528	17,045	22,723	28,782	2,456
Current portion of interest bearing liabilities	3,803,622	3,057,748	2,119,524	2,633,796	3,345,843
	6,648,641	5,033,184	4,006,057	4,477,092	4,751,040
<b>Total equity and liabilities</b>	<b>25,722,893</b>	<b>22,202,677</b>	<b>19,592,074</b>	<b>16,981,601</b>	<b>16,158,444</b>

	COMPANY				
	2018	2017	2016	2015	2014
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
<b>Non-current assets</b>					
Property, plant & equipment	4,114,548	3,323,749	3,321,976	2,233,154	2,306,044
Investments in subsidiaries	1,276,096	1,276,097	1,276,097	1,276,096	1,276,096
	5,390,644	4,599,845	4,598,073	3,509,250	3,582,140
<b>Current assets</b>					
Inventories	1,606,272	1,335,580	1,196,576	1,349,134	1,363,613
Trade and other receivables	725,049	499,333	517,726	681,483	720,176
Amounts due from related parties	34,628	17,739	15,374	272	10,399
Income tax receivable	-	-	-	34,092	21,884
Short term investments	3,239	3,296	3,078	2,964	3,624
Cash and cash equivalents	61,004	43,372	41,223	34,805	12,187
	2,430,193	1,899,320	1,773,977	2,102,750	2,131,883
<b>Total assets</b>	<b>7,820,837</b>	<b>6,499,165</b>	<b>6,372,050</b>	<b>5,612,000</b>	<b>5,714,023</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity attributable to equity holders of the parent</b>					
Stated capital	787,765	787,765	787,765	787,765	787,765
Reserves	1,531,815	1,237,011	1,237,011	296,294	296,294
Retained earnings	2,661,459	2,494,799	2,118,262	1,886,370	1,728,484
Shareholders' funds	4,981,039	4,519,575	4,143,038	2,970,429	2,812,543
<b>Total equity</b>	<b>4,981,039</b>	<b>4,519,575</b>	<b>4,143,038</b>	<b>2,970,429</b>	<b>2,812,543</b>
<b>Non-current liabilities</b>					
Amounts due to related parties	-	-	-	-	-
Interest bearing liabilities	165,180	324,981	584,245	358,697	560,105
Deferred tax liabilities	887,282	367,375	338,863	167,892	131,840
Retirement benefit liability	108,706	75,825	82,569	67,027	58,310
	1,161,169	768,181	1,005,676	593,616	750,255
<b>Current liabilities</b>					
Trade and other payables	479,476	414,318	373,246	360,937	300,805
Income tax liabilities	23,833	72,265	39,476	-	-
Amounts due to related parties	167,860	86,707	93,856	138,180	250,281
Current portion of interest bearing liabilities	1,007,459	638,118	716,759	1,548,839	1,600,140
	1,678,628	1,211,412	1,223,337	2,047,956	2,151,226
<b>Total equity and liabilities</b>	<b>7,820,837</b>	<b>6,499,165</b>	<b>6,372,050</b>	<b>5,612,000</b>	<b>5,714,023</b>

## Major Shareholders

### 20 MAJOR SHAREHOLDERS OF THE COMPANY

NAME	No of shares		No of shares	
	31.03.2018	(%)	31.03.2017	(%)
1 ROYAL CERAMICS LANKA PLC	28,418,758	52.049	580,170	1.063
2 MR. A A PAGE	5,159,756	9.450	915,356	1.676
3 CT HOLDINGS PLC	1,499,628	2.747	1,499,628	2.747
4 LANKA CERAMICS PLC	1,365,460	2.501	33,957,014	62.192
5 ARUNODHAYA INDUSTRIES (PRIVATE) LIMITED	1,262,669	2.313	1,176,000	2.154
6 ARUNODHAYA (PRIVATE) LIMITED	1,262,669	2.313	1,176,000	2.154
7 ARUNODHAYA INVESTMENTS (PRIVATE) LIMITED	1,262,669	2.313	1,176,000	2.154
8 MR. D F G DALPETHADO AND MRS H F A K D FONSEKA	1,002,316	1.836	652,670	1.195
9 SRI LANKA INSURANCE CORPORATION LTD-LIFE FUND	807,600	1.479	807,600	1.479
10 MRS. A SELLIAH	746,779	1.368	689,000	1.262
11 MRS. A KAILASAPILLAI	697,334	1.277	628,000	1.150
12 SEYLAN BANK PLC/ W D N H PERERA	449,000	0.822	0	0.000
13 ANDYSEL PRIVATE LIMITED	420,000	0.769	420,000	0.769
14 FIRST CAPITAL LIMITED	398,816	0.730	398,816	0.730
15 MR. A H UDESHI	379,594	0.695	300,000	0.549
16 MILLON BANK N A - COMMONWELTH OF MASSACHUSETTS	337,315	0.618	337,315	0.618
17 MR.K ARAVINTHAN	336,000	0.615	336,000	0.615
18 BANK OF CEYLON A/C CEYBANK CENTURE GROWTH FUND	236,421	0.433	236,421	0.433
19 MR. P K C P SAMARASINGHE	220,034	0.403	220,034	0.403
20 AMES TILES & STONE LTD	177,450	0.325	177,450	0.325
SUB TOTAL	46,440,268	85.055	44,067,173	83.669
OTHER 10,996	8,159,732	14.945	10,532,827	16.331
ISSUED CAPITAL	54,600,000	100.000	54,600,000	100.000

## Shareholder Information

### DISTRIBUTION OF SHAREHOLDINGS AS AT 31ST MARCH 2018

Size of shareholdings	No of holders	No of Shares	Holdings %
Number			
1 - 1,000	10,234	2,164,828	3.96
1,001 - 10,000	630	1,845,875	3.38
10,001 - 100,000	126	3,387,408	6.20
100,001 - 1,000,000	18	5,967,964	10.93
Over 1,000,000	8	41,233,925	75.52
	11,016	54,600,000	100.00

### CATEGORIES OF SHAREHOLDERS

	No of Holders	No of Shares	Holdings %
Local Individuals	10,655	14,188,576	25.99
Local Institutions	265	39,744,320	72.79
Foreign Individuals	90	111,120	0.20
Foreign Institutions	6	555,984	1.02
	11,016	54,600,000	100.00

## Shareholder Information

### DIRECTORS' AND CEO'S SHAREHOLDING AS AT 31ST MARCH 2018

Name of Director	No. of Shares	%
Mr. Dhammika Perera	-	-
Mr. A M Weerasinghe	6,610	0.0120
Mr. J A P M Jayasekera	199	0.000
Dr. S Selliah	-	-
Mr. T G Thoradeniya	-	-
Mr. K D G Gunaratne	-	-
Ms. A M L Page	-	-
Mr. M W R N Somaratne	11,000	0.020
Mr. J D N Kekulawala	-	-

\* The fractional shares of 35 and 7 arising from the capitalization of revenue reserves issue were issued jointly in the names of Mr. A A Page and Mr. L De Chikera

The fractional shares of 489 arising from the consolidation and Sub-Division/ capitalization of revenue reserves issue were issued jointly in the names of Mr. A A Page and Mr. J A P M Jayasekera

### SHARE PRICE FOR THE YEAR

Market price per share	
Highest during the year	Rs. 130.50 (07-07-2017)
Lowest during the year	Rs. 99.10 (04-04-2017)
As at end of the year	Rs. 98.40
Number of Transactions during the year	3,102
Number of Shares traded during the year	3,457,434
Value of shares traded during the year (Rs.)	355,731,997.40

### PUBLIC HOLDING

The Percentage of shares held by the Public	36.340%
No of shareholders representing the above percentage	11,002

## Statement of Value Added

Year ended 31st March	2018	%	2017	%	2016	%	2015	%	2014	%
	Rs. 000		Rs. 000		Rs. 000		Rs. 000		Rs. 000	
			(Restated)							
Group										
Turnover	18,313,245		16,000,150		15,545,188		14,596,214		13,419,770	
Other income	299,637		278,392		237,937		194,925		167,148	
Cost of material and services purchased	(12,438,227)		(10,303,206)		(10,322,806)		(10,000,114)		(8,981,656)	
<b>Value Added</b>	<b>6,174,655</b>		<b>5,975,336</b>		<b>5,460,319</b>		<b>4,791,025</b>		<b>4,605,262</b>	
Distributed as follows										
To employees as remuneration	3,037,814	49.2	2,747,892	46.0	2,611,915	47.8	2,489,768	52.0	2,349,132	51.0
To providers of funds as interest	486,146	7.9	408,146	6.8	255,710	4.7	327,204	6.8	576,965	12.5
To state as taxes	699,774	11.3	664,591	11.1	680,373	12.5	347,607	7.3	254,701	5.5
To shareholders as dividends	518,700	8.4	409,500	6.9	409,500	7.5	354,900	7.4	109,200	2.4
Retained in the business										
Depreciation	709,855	11.5	636,109	10.6	616,904	11.3	585,227	12.2	551,174	12.0
Reserves	722,366	11.7	1,109,098	18.6	885,917	16.2	686,319	14.3	764,090	16.6
<b>Total</b>	<b>6,174,655</b>	<b>100.0</b>	<b>5,975,336</b>	<b>100.0</b>	<b>5,460,319</b>	<b>100.0</b>	<b>4,791,025</b>	<b>100.0</b>	<b>4,605,262</b>	<b>100.0</b>

## Notice of Meeting

NOTICE IS HEREBY GIVEN that the Forty First (41st) Annual General Meeting of Lanka Walltiles PLC will be held at the Winchester Hall, The Kingsbury Hotel, No. 48, Janadhipathi Mawatha, Colombo 01 on the 28th day of June 2018 at 10.40 a.m for the following purposes:

1. To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and the Statement of Accounts for the year ended 31st March 2018 and the Report of the Auditors thereon.
2. To re-elect Mr. T G Thoradeniya, who retires by rotation in terms of Articles 103 and 104 of the Articles of Association, as a Director of the Company.
3. To re-elect Mr. K D G Gunaratne, who retires by rotation in terms of Articles 103 and 104 of the Articles of Association, as a Director of the Company.
4. To re-appoint Messrs Ernst & Young, 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 WALLTILES PLC



P W Corporate Secretarial (Pvt) Ltd  
Director / Secretaries  
At Colombo

25th May 2018

### 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.





## Form of Proxy

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

Mr. Dhammika Perera	of Colombo or failing him*
Mr. Amarakone Mudiyanseelage 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 her*
Mr. Migel Wasam Rizvi Nandajith Somaratne	of Colombo or failing him*
Mr. Joseph Dacius Nihal Kekulawala	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 28th June 2018 at 10.40 a.m and any adjournment thereof and at every poll which may be taken in consequence thereof.

	FOR	AGAINST
1) To re-elect Mr. T G Thoradeniya, who retires by rotation in terms of Article 103 and 104 of the Articles of Association as a Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
2) To re-elect Mr. K D G Gunaratne, who retires by rotation in terms of Article 103 and 104 of the Articles of Association as a Director of the Company	<input type="checkbox"/>	<input type="checkbox"/>
3) To re-appoint M/s Ernst & Young as Auditors of the Company for the ensuing year and to authorize the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
4) To authorize the Directors to determine donations for the ensuing year	<input type="checkbox"/>	<input type="checkbox"/>

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

.....  
 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

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## NAME OF THE COMPANY

Lanka Walltiles PLC

## LEGAL FORM

Lanka Walltiles PLC is a public limited liability company which was incorporated under the Companies Ordinance No.51 of 1938 as a public company on 24th day of September 1975. Pursuant to the requirements of the new Companies Act No. 7 of 2007, the Company was re-registered on 24th July 2007 and bears registration number PQ 55.

## 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. M W R N Somaratne  
Mr. J D N Kekulawala

## REGISTERED OFFICE

215, Nawala Road, Narahenpita, Colombo 05  
Telephone : + 94 -11 - 4526700  
Facsimile : + 94 -11 - 2805463  
E-mail : info@lankatiles.com  
Website : www.lankatiles.com

## FACTORY

Meepe, Padukka  
Telephone : + 94 - 11 - 4309809  
Facsimile : + 94 - 11 - 2859168  
E-mail : meepe\_fac@lankatiles.com

## PARENT COMPANY

Royal Ceramics Lanka PLC  
No. 10, R A De Mel Mawatha  
Colombo 03  
Telephone : + 94 - 11 - 4799400  
Facsimile : + 94 - 11 - 4720077  
Website : www.rocell.com

## 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

## BANKERS

Commercial Bank of Ceylon PLC  
Hatton National Bank PLC  
Bank of Ceylon  
HSBC Bank  
People's Bank  
DFCC Bank PLC  
Sampath Bank PLC

## AUDITORS

Ernst & Young  
Chartered Accountants  
201, De Saram Place  
Colombo 10

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**emagewise**

Printed by Printage (Pvt) Ltd



[www.lankatiles.com](http://www.lankatiles.com)