

ANNUAL REPORT 2019/20



Lanka Ceramic PLC

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Lanka Ceramic PLC

“At Lanka Ceramic, we work towards creating a positive social and environmental impact through every milestone we reach. We believe that our main responsibility is to leave our successor generation a meaningful future. Our best achievement is when our belief is put into action.”

“We evaluate our performance and the success of our strategy and business model by utilising Key Performance Indicators. We have chosen to measure these Key Performance Indicators because we believe they best demonstrate how we are driving the business and creating value for our stakeholders”

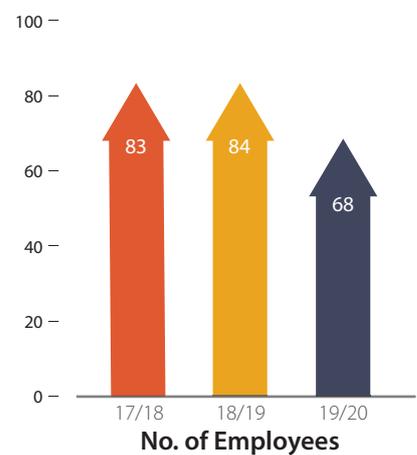
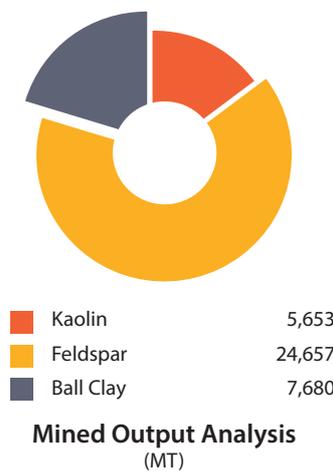
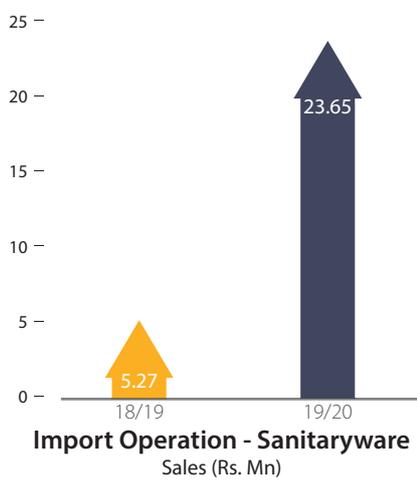
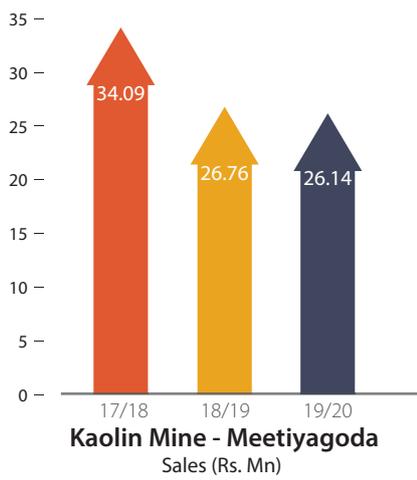
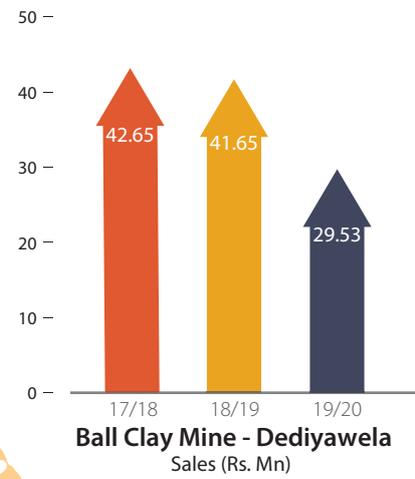
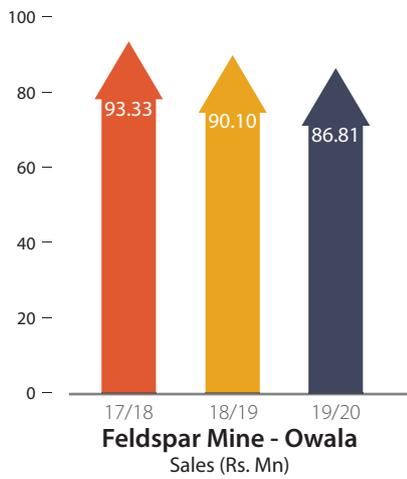
OVERVIEW





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OPERATIONAL HIGHLIGHTS



FINANCIAL HIGHLIGHTS

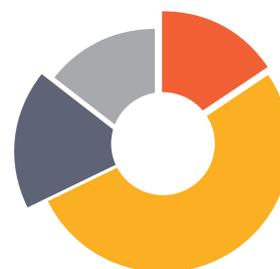
Company at a Glance	2019/20	2018/19	
For the year ended 31st March	Rs.'000	Rs.'000	Change %
Profitability			
Revenue	166,132	163,772	1%
Gross Profit	57,603	62,208	-7%
Profit Before Tax	28,257	144,919	-81%
Profit After Tax	23,201	137,590	-83%
Financial Position			
Investment Property	910,496	908,445	0.23%
Non-Current Assets	1,020,479	1,035,557	-1%
Current Assets	139,401	114,949	21%
Total Assets	1,159,880	1,150,506	1%
Key Indicators			
Interest Cover (Times)	3.05	7.71	
Current Ratio	2.17:1	2.05:1	
Quick Asset Ratios	2.07:1	1.95:1	
Profit Before Tax to Revenue (%)	17.01	88.49	
Share Performance			
As at 31st March			
No. of Shares	6,000	6,000	
Basic Earnings Per Share (Rs.)	3.87	22.93	
Market Price Per Share (Rs.)	77.10	139.90	



Rs
23.2 Mn
PROFIT AFTER TAX



Rs
166.1 Mn
REVENUE



Kaolin	26.14
Feldspar	86.81
Ball Clay	29.53
Sanitaryware	23.65

Composition of Income
(Rs. Mn)

CHAIRMAN'S MESSAGE

“We also have ambitious plans through the operations at the Meetiyagoda mine and feldspar mine which we hope to grow in the coming years. As a means to this objective, going ahead, the Company has already set the foundation for growth.”

I consider it my privilege to welcome you to the 29th Annual General Meeting of Lanka Ceramic PLC and to place before you the annual report and audited financial statements for financial year 2019/20. Your Company recorded reasonable profits in what was clearly a challenging year.

At the start of 2019/20 financial year, the Easter Bombings created havoc and then at the end of the financial year the COVID-19 pandemic caused a global shutdown. We are still experiencing the impact specially the policy changes created due to this pandemic. Lanka Ceramic PLC demonstrated its resilience by recording a profit after tax of Rs. 23Mn in the period under consideration.

OPERATING ENVIRONMENT

Investor and consumer sentiments took a downturn after the Easter Sunday attacks which created panic and security uncertainty causing Sri Lanka's economic growth to a mere 2.3% in 2019. Thereafter the COVID-19 lockdown caused the global economy to slow down to an estimated 2.9% from 3.6% in 2018. This pandemic put a halt to the entire supply chain, halting operation with many countries shutting down borders, and travel restrictions to contain the virus.

COMPANY PERFORMANCE

Despite the challenges that prevailed during the period under review, our Company was able to persevere itself backed by its operational excellence and financial prudence. Over the last few years, Lanka Ceramic PLC has grown significantly as a result of its commitment to enhance shareholder wealth which reflects the enduring vision of the Company.

The overall performance of Lanka Ceramic PLC stood still during the financial year 2019/20. Revenue grew at a marginal 1% from the previous year closing the year at Rs. 166Mn in comparison to Rs. 164Mn in the previous year. Revenue generated from the mining operations fell below expectation by Rs. 17Mn in comparison to the previous year's Rs. 159Mn. However, this decrease was compensated by the increase in revenue of 18Mn generated by the sanitaryware operations. A drop in dividend income and disposal gains in both shares and land had a direct effect which was witnessed as a decrease in other income which fell to Rs. 46Mn from Rs. 75Mn in the previous financial year.

The Company's profit before tax declined to Rs. 28Mn compared to Rs. 145Mn in the previous year. This drop of 81 % was mainly due to the loss of other income amounting to Rs. 30Mn and revaluation gain amounting to Rs. 79Mn, along with an increase in cost of Rs. 8Mn. The closing down of the refinery operations at Meetiyagoda also impacted the bottom line due to payment of Rs. 5Mn as compensation to the employees.

FUTURE OUTLOOK

Moderate economic growth, political and policy uncertainty combined with rising interest rates present several challenges for the year that has commenced. Given this stark scenario, we need to seek opportunities with renewed vigour to drive growth. Our core businesses will continue to expand during the year through both organic growth and acquisitions. The Company has a keen focus on delivering improved profits as we embed lean production initiatives throughout the group.

The import business (sanitaryware) which is yet in its fledgling period is expected to deliver higher levels of activity during the year supporting improved profits. We also have ambitious plans through the operations at the Meetiyagoda mine and feldspar mine which we hope to grow in the coming years. As a means to this objective, going ahead, the Company has already set the foundation for growth. The Company is also looking into diversifying into other mineral mining areas which would improve the organic growth of the Company.

APPRECIATION

I take this opportunity to thank my colleagues on the Board for their active participation in all Board matters. I wish to thank our Managing Director Mr. Mahendra Jayasekera and his team for their work and delivering reported results in the current financial year. I also would like to extend my heartfelt thanks to all our stakeholders; for their continuous trust and support which they have placed in us.



A.M. Weerasinghe

Chairman

02nd July 2020

MANAGING DIRECTOR'S REVIEW

“Lanka Ceramic PLC has been a pioneer in the mining and supplying of raw materials to the ceramic industry in Sri Lanka. Being part of a diversified group helps us to build a solid framework and also align our strategies to emerge as a strong player in this growing industry.”

The start of the 2019 financial year sent the country into a downward spiral with the tragic Easter Sunday bombings which rocked the nation. The end of 2019 didn't just cause chaos to Sri Lanka but the world over. The COVID-19 pandemic caused a global shutdown and its economic impact to Sri Lanka is being rolling in the 2020/21 financial year as well. Through all these adversities Lanka Ceramic PLC remains optimistic.

Lanka Ceramic PLC has been a pioneer in the mining and supplying of raw materials to the ceramic industry in Sri Lanka. Being part of a diversified group helps us to build a solid framework and also align our strategies to emerge as a strong player in this growing industry.

STRONGER FOOTING

Even with the economic difficulties faced by the country as well as the Company Lanka Ceramic PLC was able to close this year on a satisfactory note. The restructuring done in 2017/18 proved to be a good strategic move which has reaped benefits in 2019/20 financial year and we expect it to continue.

The timely decision made to change the operational process at the Meetiya goda mine located in Ambalangoda from a Kaolin mining and refining plant to a singular process of mining reduced the operational costs because it eliminated the time for refining and also reduced the number of staff needed to operate it. In order to remain competitive this mine is now used to dredge raw Kaolin which is sold directly to the manufacturers at a lower cost.

The Owala Feldspar mine deposit is the largest in the country with expansion possibilities. Therefore, Lanka Ceramic PLC is in the process of making improvement to upgrade the mine's license to an A-grade status because it has potential to be a strong contributor to the profitability even though the performance of this mine has been hampered due to inclement weather conditions.

The Company intends to increase its mining capacity of Ball Clay and is looking at possibilities to acquire lands which have this type of clay. However, the shortage of such lands is one of the obstacles we face along with regulatory restrictions pertaining to the filling of mined lands, and illegal mining done by individuals.

We started importing and selling 'Deluxe' branded sanitaryware last year and this has proven to be a growing and successful venture which we hope to continue into the coming years. In contrast, the Meetiya goda outlet did not achieve its anticipated profits during the year because of the common obstacles faced by the construction sector due to the slowdown of economic activities due to the bombings and COVID-19. However, the Company is optimistic that this sector will recover due to the growing number of projects in the construction sector.

GOVERNANCE, RISK AND COMPLIANCE

Lanka Ceramic PLC has made significant improvements to the internal controls and the overall governance. It also complies 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.

The Audit Committee and the Related Party Transactions Review Committee attend to all governance and risk related issues which arise. These strategically formed committees play a key role in ensuring the transparency of transactions during the period under review.

FUTURE STRATEGY

This year's performance shows that Lanka Ceramic PLC is aligned with the overall objectives of the Group and is on a growth trajectory. The Company is also optimistic that it will be able to double its profits in the coming year despite the economic effects of the COVID-19 pandemic.

The business will expand during the year through both organic growth and acquisitions. Several projects in their gestation periods are expected to deliver higher levels of revenue and profits during the financial year 2020/21. We are well poised in reaching industrial excellence with a well-honed team consisting of industry experts in their relevant fields.

CONCLUSION

Throughout history Lanka Ceramic PLC had never faced two significant events which negatively affected the markets in the same year. The Easter Bombings and COVID-19 lockdown slowed down and disrupted business activity at the beginning and end of the financial year.

Many changes for improvement were introduced to the Company at many levels. The internal changes strengthened the operational efficiencies and cohesion of the organisation. These were supported by enhanced governance and risk management systems, which laid the foundation for stronger financial growth.

I take this opportunity to thank the Chairman and Board of Directors for the confidence, support and guidance during a very challenging year. I also thank our shareholders for the continued trust placed in the Company. A deep sense of appreciation to the management and employees whose support and cooperation was a source of strength during this difficult period. I acknowledge with gratitude the services provided by our bankers and suppliers and thank all our stakeholders, specially our customers for their continued patronage.



J.A.P.M. Jayasekera
Managing Director

02nd July 2020

BOARD OF DIRECTORS

MR. A.M. WEERASINGHE

Chairman

Founder of Royal Ceramics Lanka PLC in 1990. He is a Gem Merchant by profession. Has been in the business field for more than 35 years involved in Real Estate, Construction, Transportation and Hospital Industry and has been a Landed Proprietor. In addition to the above, he is also the Chairman of Singhe Hospitals PLC, Weerasinghe Property Development (Pvt) Ltd., Trade Huts (Pvt) Ltd., and Weerasinghe Gems (Pvt) Ltd, Deputy Chairman of Royal Ceramics Lanka PLC, Lanka Tiles PLC, Lanka Walltiles PLC and serves as a Director of Swisstek (Ceylon) PLC and Swisstek Aluminum Limited.

MR. J.A.P.M. JAYASEKERA

Managing Director

Mr. Mahendra Jayasekera is the Managing Director of Lanka Walltiles PLC, Lanka Tiles PLC, Swisstek (Ceylon) PLC and Swisstek Aluminium Ltd. 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. SIVAKUMAR SELIAH

Director

Dr. Selliah holds an MBBS degree and a Master's Degree (M.Phil). He has over two decades of diverse experience in varied fields.

Currently he is the Deputy Chairman of Asiri Hospitals Holdings PLC and the Deputy Chairman of Asiri Surgical Hospital PLC. He is a Director of HNB Assurance PLC, Lanka Tiles PLC, Softlogic Holdings PLC, ODEL PLC, Lanka Walltiles PLC, ACL Cables PLC, Swisstek (Ceylon) PLC and Swisstek Aluminium Ltd. He is also the Deputy Chairman of Central Hospital (Pvt) Ltd.

Dr. Selliah is also the Chairman of JAT Holdings (Pvt) Ltd, Cleanco Lanka (Pvt) Ltd, Greensands (Pvt) Ltd and Vydexa (Lanka) Power Corporation (Pvt) Ltd.

He also serves on the following Board Sub Committees of some of the Companies listed above as a member or Chairman: Human Resource and Remuneration Committee, Related Party Transactions Review Committee, Audit Committee, Investment Committee and Strategic Planning Committee.

MR. THARANA THORADENIYA

Director

Mr. Thoradeniya has over two decades of senior management experience in multi- industry scenarios. He is the Group Director Marketing and Business Development of Royal Ceramics Lanka PLC. He sits on the Boards of several public quoted and privately held Companies, including Royal Ceramics Lanka PLC, Lanka Walltiles PLC, Lanka Tiles PLC, Hayleys Fibre PLC, Delmege Ltd, Vallibel Plantation Management Ltd, Dipped Products (Thailand) Ltd, Unidil Packaging (Pvt) Ltd, Fentons Ltd and Swisstek Aluminium Ltd, among others. He has been credited as a proven business innovator across industries. A marketer by profession, he was in the pioneering batch of Chartered Marketers of the Chartered Institute of Marketing (UK).

MR. K.D.G. GUNARATNE

Director

Mr. Gunaratne presently serves as Chairman of Lanka Hotels and Residencies (Pvt) Ltd (Sheraton Colombo), Board Member of Swisstek Ceylon PLC, Regnis Lanka PLC, Singer Industries (Ceylon) PLC, Dipped Products PLC, Lanka Walltiles PLC, Lanka Tiles PLC and Hayleys PLC.

Previously he has served as Vice Chairman of National Water Supply and Drainage Board.

MS. A.M.L. PAGE

Director

Ms. Anjalie Page holds a BSc (Hons) Psychology (First Class) Degree 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. J.D. NIHAL KEKULAWALA

Director

Mr. Kekulawala has held senior positions in the Hatton National Bank PLC including Chief Financial Officer, Senior Deputy General Manager Strategy and 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 of Sri Lanka and a Fellow of the Chartered Institute of Bankers in England. He holds a MBA from the University of Manchester.

MR. D.J. SILVA

Director

Mr. Dulanjana Silva is a graduate in Computer Science and Engineering and holds qualifications from the National University of Singapore and the University of Sunderland, UK. Having begun his career at the Port of Singapore Authority, he has experience in planning, developing, deploying, and supporting a wide range of IT solutions. At present, he is the Chief Operating Officer at Arimac Lanka (Pvt) Ltd and also serves as a Director at Delmege Forsyth Group and Rocell Bathware Ltd.

MR. S.M. LIYANAGE

Director

(Appointed w.e.f 21st February 2020)

Mr. Liyanage is a respected professional with over 8 years experience and a record for exceptional performance. He has demonstrated transformational leadership in business transformation for the Companies under the Vallibel One PLC Group.

He has a degree in Bachelor of Science in Industrial Management and Statistics from the Wayamba University of Sri Lanka and Master of Business Administration from University of Kelaniya. He holds a Diploma in Information Technology from University of Colombo.

He currently serves as an Assistant General Manager Continuous Improvement and Research at Vallibel One PLC, where he is responsible for business strategic planning, supply chain development, developing new business and coordinating manufacturing excellence projects at the Vallibel Group of Companies.

He was certified as a Lean Six Sigma Black Belt and has trained as a Lean Six Sigma Master Black Belt. He was also declared as a certified TPM practitioner and has a publication on the topic of Lean Six Sigma 4.0 at the OELSS conference in Colombo.

Mr. Liyanage is a Member of the Alumina Association of SSMI Asia and Global. He has participated in International Business and Management at MSU, Malaysia.

MANAGEMENT DISCUSSION AND ANALYSIS



MANAGEMENT DISCUSSION AND ANALYSIS

“Lanka Ceramic PLC which has dotted the Sri Lankan landscape for the past seven decades, has been a front runner in supplying vital raw materials to the Ceramic Industry. The Company currently owns three mining operations which are located in Meetiyagoda, Owala and Dediawela from which Kaolin, Feldspar and Ball Clay are mined.”

ECONOMIC ENVIRONMENT

The global economic growth slowed down to an estimated 2.9% as opposed to 3.6% in 2018, reflecting trade tensions, implications arising from natural disasters and climate change. While certain markets witnessed geopolitical stresses as well as country specific issues. The global economic implications of COVID-19 are unprecedented; and given the fluidity of the current scenario, it is difficult to assess the exact impact that it would bring about. Amongst these sentiments, the IMF affirms a global recession in 2020. As most economies implement stringent social distancing measures including total lockdowns, consumer demand will fall drastically while disruptions to global supply chains will directly influence industrial and manufacturing activities.

The Sri Lankan economy also presented numerous domestic challenges, mainly due to heightened security concerns following the April terror attacks, which led to a sharp downturn in investor and consumer sentiments. Economic growth moderated to 2.3% in 2019, while expansion of the Agriculture sector along with the Service sector also dipped to 0.6% and 2.3% respectively. However, the Industrial sector grew by 1.2% from the previous year to 2.7% reflecting moderate improvements in mining, quarrying and construction.

Given Sri Lanka's reliance on tourism and exports for foreign currency generation, the short-to-medium impact of COVID-19 is expected to be significant. Job losses are likely to be high, particularly in the tourism, exports and apparel sectors. The government has very rightly placed precedence on public health objectives, implementing proactive measures in order to control and halt the spread of the pandemic. The government has also announced several relief measures including debt moratoriums for selected sectors, relief on personal loans, downward revision of policy rates and the reduction of pricing of essential goods in order to lessen the burden on the population.

ABOUT LANKA CERAMIC PLC

Lanka Ceramic PLC which has dotted the Sri Lankan landscape for the past seven decades, has been a front runner in supplying vital raw materials to the Ceramic Industry. The Company currently owns three mining operations which are located in Meetiyagoda, Owala and Dediawela from which Kaolin, Feldspar and Ball Clay are mined. Being part of a large conglomerate, Lanka Ceramic PLC's parent entity is Royal Ceramics Lanka PLC while the ultimate parent entity is Vallibel One Plc. As a standalone entity, mining remains the core business and the main revenue generator. The Company operates as the mining arm of the group and satisfies the raw material requirement of the

MANAGEMENT DISCUSSION AND ANALYSIS

two largest tile manufacturers in Sri Lanka. While previous year saw the sanitaryware business breaking ground, the move has been a success for Lanka Ceramic PLC which earned its name as the pioneer in sanitaryware in the 1950's. In addition to these the Company owns and manages investment property which significantly contributes to the Company's profitability and operates a Lanka Tile showroom as a franchise partnership.

FINANCIAL REVIEW

The multiplicity of the group's operations has enabled the Company to build a strong foundation for sustainability during the grey years.

REVENUE

The overall performance of Lanka Ceramic PLC stood still in the financial year 2019/20. The Company revenue increased marginally by 1% compared with Rs.164Mn in the previous year to Rs.166Mn during the year under review. Revenue from the mining operation fell below the expectation by Rs.17Mn compared to the last year which was compensated by the increase in the revenue of sanitaryware operation by Rs.18Mn.

COST OF SALES

The Company Cost of Sales increased by 7% to Rs.109Mn in 2019/20 compared to Rs.102Mn last year. This is mainly driven by the increasing cost of labour, raw material and energy while depreciation of exchange rate increased the cost of Sanitaryware operation. Several cost saving initiatives were implemented during the year to control the increase of the cost and maintain at the current level.

GROSS PROFITS AND MARGINS

The Company Gross Profits declined by 7% to Rs. 58Mn despite the 1% growth in the revenue. This was mainly due to escalation in cost of production, which was not passed on to consumers as operating environment of the ceramic industry was toughened during the year.

OPERATING COSTS AND EARNINGS BEFORE INTEREST AND TAX

Operating costs of the Company amounted to Rs. 77Mn, a 5% increase from last year. Although distribution and administration costs increased during the year which include compensation payment of Rs. 5Mn, the impact was subdued to a certain extent by the decrease in finance cost by 36% from Rs. 22Mn to Rs. 14Mn as the Company borrowings decreased.

“While the Meetiyagoda mine was in the business of mining and refining Kaolin for the market, the refining operation was ceased in May 2019. Since August 2019 this mine supplies raw Kaolin to its group of Companies and is now in the process of growing the boundaries of this business due to increase in demand.”

Other incomes of the Company fell to Rs. 46Mn during the year from Rs. 75Mn in the previous financial year with a 39% decrease. Loss of Rs. 22Mn investment income and Rs. 11Mn land disposal profit earned during last year were the main reasons behind this. The Rs. 81Mn fair value gain recognised from the investment property in the last financial year diminished to Rs. 2Mn in the year under review due to property values been impacted as a result of the pandemic situation prevailed in the country.

Given this scenario profit before tax of the Company plummeted to Rs. 28Mn compared to Rs. 145Mn last year recording a decrease of 81%.

TAXATION

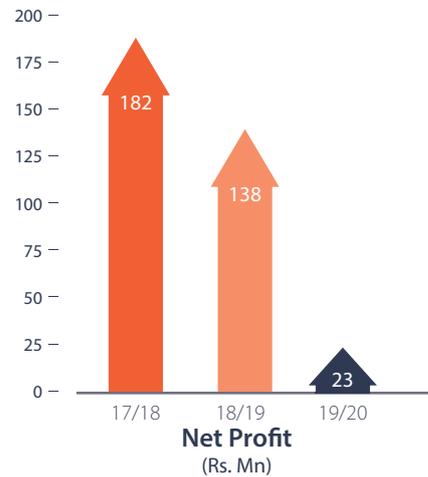
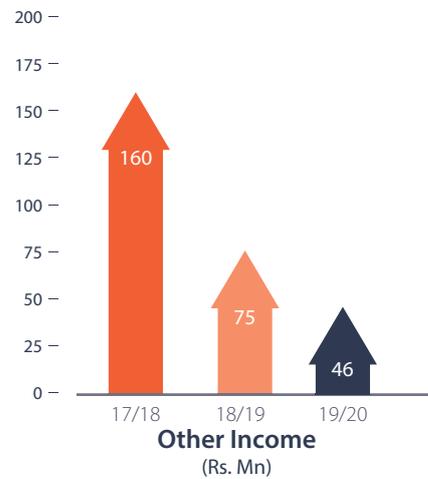
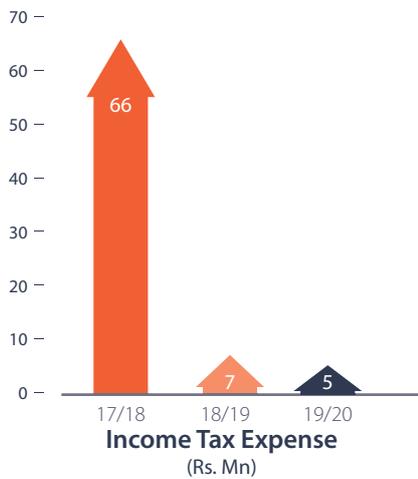
Income tax expenditure decreased to Rs. 5Mn compared to Rs. 7Mn in the previous financial year due to changes in deferred taxation provision. The Company does not have any income tax liability to be paid due to the utilisation of brought forward tax losses.

PROFIT AFTER TAX

The Company profit after tax declined by 83% to Rs. 23Mn compared to the last year of Rs.138Mn. Lower margins, increasing operational cost and loss of investment income and revaluation gains were the main contributors to this.

CAPITAL EXPENDITURE

The Company spent Rs. 22Mn to acquire property, plant and equipment to upgrade the plant and machinery and store facilities in the last financial year and spent only Rs. 0.8Mn during the year under review as economic conditions of the country did not encourage capital expenditure. Hence the Company maintained fixed asset base at the current levels.



OTHER FINANCIAL REVIEW

- The share price as at 31st March 2019 was Rs. 139.90 and ended as at 31st March 2020 at Rs. 77.10.
- Earnings per share stood at Rs. 3.87 in the financial year 2019/20 and Rs. 22.93 in the financial year 2018/19.
- The Net Asset Value per share moved up from Rs. 136.42 to Rs. 140.48.
- The gearing ratio improved from 15% to 11% with the decrease of borrowings.

OPERATIONAL REVIEW

The Company faced many challenges during the year and therefore was unable to function at its full potential. These included both internal and external factors such as disruptions to mining operations, inclement weather conditions, delays in granting of mining licenses

and ad hoc policy changes. While sluggish economic conditions obstructed economic growth, which in turn declined the demand of products, forcing the Company to reduce production levels.

Regulatory restrictions which have been implemented on the mining of ball clay in paddy fields created a shortage of mining lands, resulting in demands not been met.

While the Meetiyagoda mine was in the business of mining and refining Kaolin for the market, the refining operation was ceased in May 2019. Since August 2019 this mine supplies raw Kaolin to its group of Companies and is now in the process of growing the boundaries of this business due to increase in demand.

In addition, the Company has started the importing and sale of sanitaryware since March 2019 and has recorded a significant increase in sale of Rs. 23.65Mn compared to the last financial year of Rs. 5.27Mn.

MANAGEMENT DISCUSSION AND ANALYSIS



The Franchised tile outlet which was established at Meetiyagoda Factory premises in December 2017 is also showing growth potential with the boom in the construction activities in the southern province.

Owala Mine is one of the largest Feldspar deposits in Sri Lanka. Feldspar is one of the main raw materials, which is used in the ceramic and glass industry. The capacity of this mine can be further expanded and the Company is hence looking at upgrading of this mine's license to A-grade status in order to ensure that mining operations are carried out in a sustainable manner. The Company is assured that this mine will prove to be a strong contributor to profitability of the Company in the near and long term.

The Company is impassioned about enhancing the mining operations and to this extent is scouting for new lands for mining of ball clay. The Company has identified new lands and already embarked on having a geological survey conducted by the relevant authorities. The Company intends to purchase new lands to ensure an enhanced supply of raw materials for the tiling industry and improve profits from the mining operations. Another land extent was identified for kaolin mining and it is felt that these two lands will significantly augment enhanced production.

The franchise operation in Meetiyagoda is expected to generate profits, which will contribute positively to the Company's bottom line. The Company has taken a strategic decision to divest lands that do not meet its feasibility standards. Although the Company would have held on to such lands in the past, it is becoming increasingly difficult to manage such lands due to illegal encroachments.

HUMAN CAPITAL

While labour remains an integral part of the Company's growth along with profitability, in this particular industry, labour retention remains a dire issue. However, despite these issues the Company was able to end the year on a positive note, with zero work related hazards. The Company at all times ensures that they provide employees with the relevant knowledge and skills which encourage them to innovate and lead change in the industry. Our staff includes some of the industry's best, who have been handpicked by the senior management.

Our mentoring and coaching system provides an excellent channel which empowers team members to be in control of their careers by obtaining feedback on their concerns regarding their leadership potential, career prospects and competency development. We strive to build a good relationship between all tiers of management and employees, ensuring that all disputes are cordially discussed and a mutually agreed upon.

Given the negative outlook which shrouded the country, the Company invested in Spiritual Development for all its employees across all tiers. The Company also engaged in inbound training which was carried out at factory premises for operatives and staff-category employees. The middle management and technical employees underwent technical based programs with the involvement of relevant Government Institutions related to the business. As a result of which the following improvements have been identified within the production of the Company.

- Resource allocation effectiveness
- Development of innovation
- Efficiency of the process

The upgrading of the recruitment and selection process along with the wage system was yet another initiative which was embarked on by the Company and which saw positive feedback from the employees.

WORKPLACE HEALTH AND SAFETY

Health and safety are a key priority as a significant proportion of our employees are engaged in mining related activities. During the year the following initiatives were carried out in accordance with occupational health and safety requirements,

1. Supply of personal protective equipment to prevent the hazards in the work place.
2. Risk assessments carried out in order to ensure the compliance of the Government Rules and Regulations related to the health and safety were in place.
3. Safety committee meetings are organised involving employees and line managers in order to ensure the safety of the employees to be maintained at all times.
4. Outbound trainings were organised to develop the 'Physical wellbeing' while also harping on correct nutritional practices.

EMPLOYEE EVENTS

While focusing on workplace benefits, the Company also organised informal social events for employees to facilitate networking and relationship building outside the work environment.

These included an Annual Trip for Executives, an Annual Trip for Non- Executives in the factory and head office. Various other religious activities were also carried out in order to develop the 'spiritual' aspect of all the employees.

SUSTAINABLE BUSINESS MODEL

In our view, success and sustainability are inextricably linked. We are totally committed to ensuring the mitigation of negative impact on the environment. Therefore, environmental responsibility and sustainable practices are integral to our operational philosophy. During the year under review, further investments were made throughout the Company to ensure the best possible results in terms of regulatory compliance, energy efficiency and land rehabilitation.

COMMUNITY OUTREACH

Since the Company mines are located near communities, the Company engages closely with government institutions in the area and with local communities by supporting them with financial assistance for religious and cultural events. During the year the Company funded several programs in the communities which they are present, these included,

- Medical camp
- Eye camp for elders including free cataract surgeries
- Dengue prevention programs
- Renovation of places of worship

The Company maintains strong relationships with all government and local authorities in all fields and areas of business. Clear and transparent communication, as well as absolute compliance is paramount.

OUR VISION

Despite the dampened economic conditions, which are prevalent the Company is confident about its future growth prospects and foresees steady growth with emerging opportunities.

The continued improvements to financial performance and operational efficiency gains remain the core focus of the Company. As our business models become more profitable, returns for all stakeholders will improve. We are confident this objective is within our reach, if we remain focused on our goal and continue to strive towards this objective.

CORPORATE GOVERNANCE



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RISK MANAGEMENT

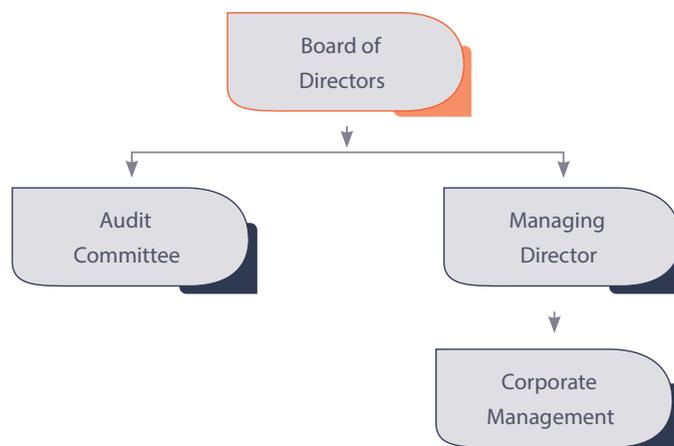
INTRODUCTION

Risk management is a critical requirement for any Company operating in a rapidly-changing competitive business environment. We recognise the importance of risk management and the process of risk management is developed to ensure that key risks are pro-actively identified and managed effectively with a view to protecting the shareholder value, thereby reducing and eliminating risks.



RISK GOVERNANCE

The Board is responsible for risk management of the Company and Audit Committee review the risk in more detail. Corporate management is responsible for the identification of the emerging risk and communicating to the Managing Director to develop appropriate mitigating action plans. Managing Director communicates the material risks to the board where necessary. The Board also monitors the risk landscape and provide necessary guidelines to manage the risk effectively.



RISK ENVIRONMENT

We have identified a range of risks relevant to the environment in which the industry operates and undertook a comprehensive assessment of all that needs to be actively managed in order to safeguard the interest of the stakeholders. Financial year 2019/20 was in fact a challenging year with severe risks at the beginning of the year as well as at the end of the year with Easter attack in April 2019 and outbreak of COVID-19 pandemic in March 2020. We continue to adopt a holistic approach in managing risk and developed relevant risk management measures.

RISK MANAGEMENT

PRINCIPAL RISKS IN 2019/20

KEY RISKS	IMPACT	RISK INDICATORS	MITIGATING FACTORS
Political and Policy Uncertainty	Changing laws could be detrimental to the Company's capacity to conclude important transactions, enforce contractual agreements or implement specific strategies and activities. The Company is exposed to high political and regulatory risk as formulation of new laws and amendments to the existing laws and regulations are possibly unfavorable to the Company's competitive position and its capacity to efficiently conduct business.	<ul style="list-style-type: none"> ● Introduction and implementation of new government policies affecting mining operations ● Extended and rigid approval process to obtain mining licenses ● Additional approvals from Agrarian development department and archaeology department 	<ul style="list-style-type: none"> ● Lanka Ceramic PLC is a member of Ceramic and Glass council, employer's federation and Ceylon Chamber of Commerce ● Maintain close relationship with government and public institutes ● Assist government institutions in formulation of new laws and regulations
Subdued Economic Growth	Subdued economic growth will result in reducing customer demand for constructions which lead to low demand for tiles which will eventually reduce demand for raw materials.	<ul style="list-style-type: none"> ● Weakening economy ● Rising Interest rates ● Lower demand from large scale tile manufacturers ● Loss of small-scale customers 	<ul style="list-style-type: none"> ● Explore opportunities to enter in to new export markets ● Attempts to diversify the existing product portfolio ● Closing down the Kaolin refinery process and supply Raw Kaolin to reduce operational costs and price of the product
Shortage of Non-Renewable Mineral Resources	Declining commercially exploitable reserves of ballclay, kaolin, feldspar, and quartz is a major issue experienced by the industry which has led to reduce production capacities and rising cost of production.	<ul style="list-style-type: none"> ● Lack of proper assessment of the mineral resources in Sri Lanka ● Difficulties in locating commercially exploitable mineral resources. ● Lands with deposits already occupied for residential, cultivation purposes 	<ul style="list-style-type: none"> ● Carrying out systematic and organised geological survey activities in collaboration with Geological and Mines Bureau of Sri Lanka ● Initiating planned exploitation programs to conserve these valuable raw materials ● Incorporating process efficiencies to utilise all the available resources to the highest extent possible by minimising the waste

KEY RISKS	IMPACT	RISK INDICATORS	MITIGATING FACTORS
Restrictions on License to Operate	License to operate has evolved beyond the narrow focus on social and environmental issues. There are now increasing expectations of true shared value outcomes from mining projects. Any irregularity can impact the ability to access capital or even result in a total loss of license.	<ul style="list-style-type: none"> ● Increased Government regulations and supervision ● An increase in societal participation ● The rise of minority voices ● A rise in litigation: There will be more litigation, especially for past damages 	<ul style="list-style-type: none"> ● Compliance with all the Government rules and regulations ● Empower the business to make decisions that consider more than just financial returns and using tools to better value the broader returns ● Make social development decisions that deliver lasting outcomes ● Improve the collaboration with the society and branding of the sector
Occupational Health and Safety	The mining industry is a high health risk occupation. Occupational health and safety management is essential to reduce work-related fatalities and increase the Company's efficiency.	<ul style="list-style-type: none"> ● Higher Susceptibility to work place injuries. ● Very fine mineral dust particles from blasting and drilling can cause diseases 	<ul style="list-style-type: none"> ● Supply of Personal Protective Equipment to prevent the hazards in the work place ● Compliance of the Government Rules and Regulation related to the workplace health and safety ● Conducting regular safety committee meetings to raise awareness ● Carrying out training and development programs and regular supervision
Climate Change	Unprecedented weather patterns causing disruptions to the operations.	<ul style="list-style-type: none"> ● Extremely Serious changes are taking place in climatic factors due to climate change ● During the last few years, Sri Lanka has witnessed a number of extreme rainfall events 	<ul style="list-style-type: none"> ● Water drainage systems are developed and maintained at the mining sites ● Compliance with environmental standards ● Safe disposal of water ● Maintains adequate buffer stock

RISK MANAGEMENT

PRINCIPAL RISKS IN 2019/20

KEY RISKS	IMPACT	RISK INDICATORS	MITIGATING FACTORS
Reputation Risk	Current and prospective impact on earnings and enterprise value arising from negative stakeholder opinion.	<ul style="list-style-type: none"> Non-compliance to regulations, standards and certification could impair the Company's reputation Highly active social and electronic media 	<ul style="list-style-type: none"> Maintained stringent compliance to minimise environmental damages and rules and regulations of Central Environmental Authority Actively engage with government bodies, regulators and industry associations. Environmental policies were up to date
Market Risk	Demand on the supply of the ceramic raw materials fluctuated due to the adverse impact arising in the industry.	<ul style="list-style-type: none"> There are few established rivals and a couple of new entrance in the ceramic raw materials industry. Importation of raw materials at lower cost 	<ul style="list-style-type: none"> Being a member of the largest ceramic manufacturing conglomerate, the Company has successfully overcome the challenges it faced in respect of market share The Company regularly monitors customer requirements and takes appropriate steps to meet their requirements The Company being the pioneer in the industry always maintains a very healthy business relationship with all major ceramic manufacturing Companies
Financial Risk	Higher borrowing costs, lower investment yields or decreased asset values that result in financial risks. Movements in prices, rates, indices and such affect the value of the Company's financial assets and stock price, which may additionally impact its costs of capital and its ability to raise capital.	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Credit limits and given credit is reviewed through a detailed approval process reducing risk of debt and monthly overdue debtors are reported to the Board for necessary action Both floating and fixed rate debt are maintained and structured using loans share capital and internal fund management to reduce borrowings Having conducted internal audit processes regularly, the Company monitors the compliance of best financial practices and statutory regulations to detect any deviations

KEY RISKS	IMPACT	RISK INDICATORS	MITIGATING FACTORS
Compliance Risk	Risk on going concern as well as the reduction in profitability due to legal/consultancy fees incurred	<ul style="list-style-type: none"> ● Frequent changes in law or regulatory requirements applicable to the Company under any circumstances 	<ul style="list-style-type: none"> ● Conducting periodical assessments on the extent of compliance with the statutory requirements ● Strictly following the expert advice on issues related to income and other taxation ● The Management team continuously reviews changes in regulations and takes necessary action to ensure that the Company is in compliance with the regulatory requirements
Transaction Risk	The cost of foreign obligations could rise as a result of a weaker domestic currency.	<ul style="list-style-type: none"> ● Fluctuation of the Spot exchange rate due to the results arising out of the imports and exports exposure in the country 	<ul style="list-style-type: none"> ● Negotiated with suppliers on pricing and trading terms. ● Involved in a variety of hedging strategies through various Money Market and Capital Market Instruments.
Procurement Risk	Degrading quality standards of materials purchase affecting the underline operating margin of the Company adversely	<ul style="list-style-type: none"> ● Material/Services price variations and their unavailability will adversely affect the progress of the business 	<ul style="list-style-type: none"> ● Entering into contracts for sanitaryware purchases ● Establishing relationships with several sanitaryware suppliers to reduce over-dependency on a single supplier

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE

The compliance of Lanka Ceramic PLC to the Code of Best Practice on Corporate Governance 2013 issued by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka is as follows.

GOVERNANCE PRINCIPLE	LANKA CERAMIC PLC ADHERENCE	COMPLIANCE STATUS																		
A. DIRECTOR																				
A.1 The Board																				
Frequency of Board Meeting	<p>The Board met five times during the year under review.</p> <p>The Board meeting attendance of the Directors is given below.</p> <table border="0"> <tr> <td>1. Mr. A.M. Weerasinghe</td> <td>(5/5)</td> </tr> <tr> <td>2. Mr. J.A.P.M. Jayasekera</td> <td>(5/5)</td> </tr> <tr> <td>3. Mr. T.G. Thoradeniya</td> <td>(5/5)</td> </tr> <tr> <td>4. Dr. S. Selliah</td> <td>(5/5)</td> </tr> <tr> <td>5. Ms. A.M.L. Page</td> <td>(3/5)</td> </tr> <tr> <td>6. Mr. K.D.G. Gunaratne</td> <td>(4/5)</td> </tr> <tr> <td>7. Mr. D.J. Silva</td> <td>(1/5)</td> </tr> <tr> <td>8. Mr. K.D.N. Kekulawala</td> <td>(5/5)</td> </tr> <tr> <td>9. Mr. S.M. Liyanage</td> <td>(0/0)</td> </tr> </table> <p><i>(Appointed w.e.f 21st February 2020)</i></p>	1. Mr. A.M. Weerasinghe	(5/5)	2. Mr. J.A.P.M. Jayasekera	(5/5)	3. Mr. T.G. Thoradeniya	(5/5)	4. Dr. S. Selliah	(5/5)	5. Ms. A.M.L. Page	(3/5)	6. Mr. K.D.G. Gunaratne	(4/5)	7. Mr. D.J. Silva	(1/5)	8. Mr. K.D.N. Kekulawala	(5/5)	9. Mr. S.M. Liyanage	(0/0)	Compliant
1. Mr. A.M. Weerasinghe	(5/5)																			
2. Mr. J.A.P.M. Jayasekera	(5/5)																			
3. Mr. T.G. Thoradeniya	(5/5)																			
4. Dr. S. Selliah	(5/5)																			
5. Ms. A.M.L. Page	(3/5)																			
6. Mr. K.D.G. Gunaratne	(4/5)																			
7. Mr. D.J. Silva	(1/5)																			
8. Mr. K.D.N. Kekulawala	(5/5)																			
9. Mr. S.M. Liyanage	(0/0)																			
Responsibility of the Board	<p>The Board is responsible for</p> <ol style="list-style-type: none"> The formulation and implementation of a sound business strategy. Monitoring compliance of governance, laws and regulations. Overseeing systems of internal control and risk management. Approving annual budgets and strategic plans. Appointing and reviewing the performance of the Managing Director. Approving any change in the Company's business portfolio and sanction of major investments and disinvestment in accordance with set parameters. Ensuring that effective remuneration, required recognition policies are in place to assist employees in giving their best. Submitting themselves for re-election at regular intervals and at least once in every three years. 	Compliant																		
Compliance with applicable Laws	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 Messrs. P W Corporate Secretarial (Pvt) Ltd, is 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 judgment to the decision making process.	Compliant																		
Dedication and 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																		

GOVERNANCE PRINCIPLE	LANKA CERAMIC PLC ADHERENCE	COMPLIANCE STATUS
Appropriate training for Directors	All Directors have considerable experience in managing companies in the ceramic industry. Relevant training opportunities are made available to all Directors.	Compliant
A.2 Chairman and Managing Director		
Division of responsibilities between the Chairman and Managing Director	There is a clear division of responsibility at the head of the Company which is placed between the running of the Board and the executive responsibility of overseeing the Company's business. No single individual has liberal powers with regard to decision making.	Compliant
A.3 Role of Chairman		
Ensure good corporate governance and facilitate effective discharge of Board functions	The Chairman is responsible for the efficient conduct of Board meetings. The Chairman maintains close contact with all Directors and holds informal meetings with Non-Executive Directors whenever necessary.	Compliant
A.4 Financial Acumen		
Availability of sufficient financial acumen and knowledge	The Board includes Directors who possess the necessary knowledge and competence to offer the Board guidance on financial matters. The Managing Director is a Chartered Accountant.	Compliant
A.5 Board Balance		
The Board should have an adequate number of Directors with balance of Executive and Non-Executive Directors of sufficient calibre along with Independent Directors	<p>The Board comprises nine members, eight of whom including the Chairman are Non-Executive Directors. The Board has determined that five of such Non-Executive Directors are independent as per the listing Rules of the Colombo Stock Exchange.</p> <p>Directors' status during the financial year was as follows:</p> <p>Mr. A.M. Weerasinghe (Chairman) - Non-Executive Mr. J.A.P.M. Jayasekera - (Managing Director) - Executive Mr. T.G. Thoradeniya - Non-Executive Mr. D.J. Silva - Non-Executive - Independent Dr. S. Selliah - Non-Executive - Independent Mr. K.D.G. Gunaratne - Non-Executive - Independent Ms. A.M.L. Page - Non-Executive - Independent Mr. J.D.N. Kekulawala - Non-Executive - Independent Mr. S.M. Liyanage - Non-Executive (<i>Appointed w.e.f 21st February 2020</i>)</p> <p>Dr. S. Selliah, Mr. K.D.G. Gunaratne, Ms. A.M.L. Page and Mr. J.D.N. Kekulawala are also directors of Lanka Walltiles PLC and Lanka Tiles PLC. Mr. D.J. Silva is a Director of Rocell Bathware Ltd. However, after taking into consideration the fact that they are not actively involved in the management of those companies' 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, Mr. D.J. Silva 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

CORPORATE GOVERNANCE

GOVERNANCE PRINCIPLE	LANKA CERAMIC PLC ADHERENCE	COMPLIANCE STATUS
A.6 Supply of Information		
Relevant information and agenda to be circulated in a timely manner to the Board	The Board papers are circulated a week prior to the Board meetings with an adequate briefing on relevant information.	Compliant
A.7 Appointments to The Board		
Procedure for the appointment and disclosure of new Directors and assessment of Board Composition	The appointment to the Board is undertaken by the Board itself, taking into consideration the Board composition required and the strategic input required. All Board appointments are informed to the CSE as per the existing regulations.	Compliant
A.8 Re-Election		
Re-election of Directors at regular intervals	As per the Articles of Association one-third of the Directors for the time being retire from office and offer themselves for re-election each year by the Shareholders.	Compliant
A.9 Appraisal of Board Performance		
Board should periodically appraise its own performance in order to ensure that responsibilities are discharged in a satisfactory manner	The Board regularly evaluates its performance based on achievement of results, implementation of strategy, risk management, internal controls, compliance with laws and stakeholder requirements.	Compliant
A.10 Disclosure of Information with Respect to Directors		
Shareholders at all times should be aware of relevant details with respect to Directors	All directors have declared their details in pages 10 to 11 as Directors' Profiles.	Compliant
A.11 Appraisal of Managing Director		
The Board is required to assess the performance of the Managing Director annually	The Managing Director is evaluated each year as per the yearly targets that have been agreed with the annual budget.	Compliant
B. REMUNERATION		
B.1 Remuneration Procedure		
Formal and transparent procedure for developing policies on remuneration composition and disclosure of the members of the Remuneration Committee	The Board has implemented a formal and transparent procedure for developing policies on remuneration by setting up a Remuneration Committee. The Remuneration Committee assists the Board in matters relating to compensation of the Company's Directors, Executive Officers and such other employees as determined by the Committee.	Compliant
B.2 The level and Make-up of Remuneration		
Levels of remuneration	Remuneration levels have been designed to attract, retain and motivate Directors and Senior Management required to run the Company successfully, while remaining within the industry's remuneration standards.	Compliant

GOVERNANCE PRINCIPLE	LANKA CERAMIC PLC ADHERENCE	COMPLIANCE STATUS
B.3 Disclosure of Remuneration		
Disclosure of remuneration in the Annual Report	Details of the Remuneration Committee and the Statement of Remuneration Policy are provided in the Annual Report. The aggregate remuneration paid to Executive and Non-Executive Directors is disclosed on page 73 of this Report.	Compliant
C. RELATIONS WITH SHAREHOLDERS		
C.1 Constructive use of the Annual General Meeting		
The Board 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 of Lanka Ceramic PLC.	Compliant
C.2 Major Transactions		
Disclosure of major corporate transactions that will materially affect the net asset base	The transactions during the year under review, which fall within the definition of major transactions in terms of the Companies Act are adequately and properly disclosed.	Compliant
C.3 Communication with Shareholders		
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
D. ACCOUNTANCY AND AUDIT		
D.1 Financial Reporting		
The Board should present a balanced and understandable assessment of the Company's financial position, performance and prospects	The Annual Report of the Company provides a balanced and understandable assessment of the Company which is in addition to the accounts of the management and financial review, Directors' Report and responsibility structures.	Compliant
D.2 Internal Control		
The Board should maintain a sound system of internal control to safeguard shareholders' investments and the Company's assets	The Board has taken necessary steps to ensure the integrity of the Company's accounting, financial reporting and internal control systems and also review and monitor on a periodic basis.	Compliant
D.3 Audit Committee		
The Board should establish formal and transparent arrangements in the manner in which they select and apply accounting policies, financial reporting, and internal control principles and maintain an appropriate relationship with the Company Auditors	The Audit Committee Report on page 37 of the report addresses this section in full.	Compliant

CORPORATE GOVERNANCE

GOVERNANCE PRINCIPLE	LANKA CERAMIC PLC ADHERENCE	COMPLIANCE STATUS
D.4 Related Party Transactions Review Committee		
The Board should establish a procedure to ensure that the Company doesn't engage in transactions with "related parties" in a manner that would grant such parties "more favorable 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 page 39 of this report.	Compliant
D.5 Code of Business Conduct and Ethics		
Companies must adopt a Code of Business conduct and Ethics for the Directors and members of the Senior Management Team and promptly disclose any waivers of the Directors or others	The Code of Best Practices issued by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission is adopted by the Directors, who then ensure that the Company and the employees behave ethically.	Compliant
D.6 Corporate Governance Disclosures		
Directors should be required to disclose the extent to which the Company adheres to established principles and practices of good Corporate Governance	Adhered to as per the Corporate Governance report in the Annual Report on pages 24 to 30.	Compliant
E. SHAREHOLDERS		
E.1 Shareholder Voting		
Institutional shareholders should be encouraged to ensure their voting intentions are translated into practice	All Institutional shareholders are encouraged to participate and their views are communicated to all concerned parties.	Compliant
E.2 Evaluation of Governance Disclosures		
Institutional investors should be encouraged to give due weight to all relevant factors drawn to their attention	The Report contains the Company's Corporate Governance process and structure for investor's attention.	Compliant
E.3 Investing/Divesting Decision		
Individual shareholders, should be encouraged to carry out adequate analysis in investing or divesting decision	The Annual Report contains sufficient information to make an informed decision. The report is hosted on the Colombo Stock Exchange website with the quarterly reports to facilitate investors and shareholders to make informed decisions.	Compliant

GOVERNANCE PRINCIPLE	LANKA CERAMIC PLC ADHERENCE	COMPLIANCE STATUS
E.4 Shareholder Voting		
Individual shareholders should be encouraged to participate in the General Meeting of Companies and exercise their voting rights	All shareholders are encouraged to participate at the Annual General Meeting/ Extraordinary General Meeting and cast their votes. AGMs are noticed in advance as per the Companies Act and held in an accessible area to ensure shareholders can participate effectively.	Compliant
Compliance with the Continuing Listing Rules on Corporate Governance of the CSE		
The extent of adherence to corporate governance rules under Section 7.10 of Continuous Listing requirements of the Colombo Stock Exchange is given below		
7.10.1 Non -Executive Directors		
The Board of Directors should include at least two Non-Executive Directors or such number of Non-Executive Directors equivalent to one-third of the total number of Directors, whichever is higher	Lanka Ceramic PLC has eight Non-Executive Directors out of nine as given in terms A.5 in the CA Sri Lanka adherence table, which is above the minimum requirement.	Compliant
7.10.2. Independent Directors		
The Board of Directors should include two or one-third of Non-Executive Directors appointed to the Board of Directors, whichever is higher, shall be independent	The Company has five independent Directors out of nine as given in item A.5 in CA Sri Lanka adherence table, which is above the minimum level.	Compliant
7.10.3 Disclosure Relating to Directors		
The Board shall make a determination annually as to the independence or non-independence of each 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 in the Annual Report. Please refer Note 7. 10. 4 below.	Compliant
7.10.4 Criteria for Defining Independence		
The Colombo Stock Exchange identified criteria of independence should be met by the Independent Directors of the Company	All Independent Directors meet the above criteria.	Compliant

CORPORATE GOVERNANCE

GOVERNANCE PRINCIPLE	LANKA CERAMIC PLC ADHERENCE	COMPLIANCE STATUS
7.10.5 Remuneration Committee		
a. Composition of Remuneration Committee		
The Remuneration Committee shall comprise of at least two Directors in which a majority shall be independent	As per the Remuneration Committee report given on page 38 the Remuneration Committee comprises three Independent Non- Executive Directors of the Parent Company, Royal Ceramics Lanka PLC.	Compliant
b. Functions of Remuneration Committee		
The Remuneration Committee shall recommend the remuneration payable to the Executive Directors and Chief Executive Officer of the listed entity to the Board of the listed Entity among other defined functions	As per the Remuneration Committee report given on page 38 the Remuneration Committee recommends the remuneration of the Senior Management of the Company to the Board.	Compliant
c. Disclosure in the Annual report		
The Annual Report should set out the names of Directors in comprising the Remuneration Committee and contain a statement of the Remuneration Policy and set out the aggregate remuneration paid to Executive and Non-Executive Directors	The Remuneration Committee report given on page 38 sets out the names of the Directors in the Remuneration Committee and aggregate remuneration paid to all Directors is given on page 73 in Note 24.2	Compliant
7.10.6 Audit Committee		
a. Composition of Audit Committee		
The audit committee shall comprise of at least two Non- Executive Directors a majority of whom shall be independent	The Audit Committee consists of three Independent Non-Executive Directors.	Compliant
b. Functions of Audit Committee		
Overseeing of the preparation, presentation and adequacy of disclosures in the Financial Statements of a listed entity, in accordance with Sri Lanka Accounting Standards	The Audit Committee Report given on page 37 of the Annual Report explains the functions of the Audit Committee which has executed the above function.	Compliant
c. Disclosure in the Annual Report relating to Audit committee		
The names of the Directors comprising the Audit Committee should be disclosed	The Audit Committee report in page 37 has addressed this requirement.	Compliant

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

The Directors of Lanka Ceramic PLC have pleasure in presenting their Annual Report together with the Audited Financial Statements of the Company for the year ended 31st March 2020.

GENERAL

Lanka Ceramic PLC is a public limited liability Company which was incorporated under the Companies Act No. 17 of 1982 on 19th January 1990 and re-registered as per the Companies Act, No.7 of 2007 on 5th June 2008 with PQ 157 as the new number assigned to the Company.

Both the registered office of the Company and its Head Office are situated at No. 23, Narahenpita Road, Nawala.

PRINCIPAL ACTIVITIES OF THE COMPANY AND REVIEW OF PERFORMANCE DURING THE YEAR

The main activities of the Company during the year ended 31st March 2020 were mining, processing and sales of raw materials and allied products, managing investment property, importing and selling of sanitaryware products and operates a Lanka Tile showroom as a franchise partnership.

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

TRANSFER TO THE DIRI SAVI BOARD

The listed shares of the Company were transferred to the Diri Savi Board on 2nd July 2018.

FINANCIAL STATEMENTS

The complete Financial Statements of the Company duly signed by two Directors on behalf of the Board and the Auditors are given on pages 44 to 76.

AUDITORS' REPORT

The Report of the Auditors on the Financial Statements of the Company is given on pages 41 to 43.

ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the Financial Statements are given on pages 48 to 58. Except as stated in Note 2.1.4 to the Financial Statements there were no significant changes to the accounting policies used by the Company during the year under review vis-à-vis those used in the previous year.

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 10 to 11.

EXECUTIVE DIRECTORS

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

NON - EXECUTIVE DIRECTORS

Mr. A.M. Weerasinghe - Chairman

Mr. T.G. Thoradeniya - Director

Mr. S.M. Liyanage - Director

(Appointed w.e.f. 21st February 2020)

INDEPENDENT NON - EXECUTIVE DIRECTORS

Dr. S. Selliah - Director

Mr. K.D.G. Gunaratne - Director

Ms. A.M.L. Page - Director

Mr. J.D.N. Kekulawala - Director

Mr. D.J. Silva - Director

Mr. A.M. Weerasinghe and Mr. K.D.G. Gunaratne retire by rotation at the conclusion of the Annual General Meeting in terms of Articles 102 and 103 of the Articles of Association and being eligible are recommended by the Directors for re-election.

Mr. S.M. Liyanage who was appointed to the Board on 21st February 2020 shall retire in terms of the Articles of Association of the Company and being eligible is recommended by the Directors for re-election.

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 relevant interests of Directors in the shares of the Company as at 31st March 2020 as recorded in the Interests Register are given in this Report under Directors' shareholding.

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

DIRECTORS' REMUNERATION

The Directors' remuneration is disclosed under Key Management Personnel compensation in Note 24.2 to the Financial Statements on page 73.

DIRECTORS' INTERESTS IN CONTRACTS

Except for the transactions referred to in Note 24 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 related entities of directors as described in Annexure [A] on page 35. Directors have no direct or indirect interest in any contract or proposed contract with the Company.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of Financial Statements of the Company to reflect a true and fair view of the state of its affairs. A further statement in this regard is included on page 36.

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 other non-audit services.

A total amount of Rs. 508,000 is payable by the Company to the Auditors for the year under review comprising Rs. 383,000 as audit fees and Rs. 125,000 for non audit services.

The Auditors have expressed their willingness to continue in office. The Audit Committee at a meeting held on 11th June 2020 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.

Independence of Auditors

Based on the declaration provided by Messrs. Ernst & Young, Chartered Accountants and to the extent that the Directors are aware, the Auditors do not have any relationship with (other than that of the Auditor), or interest in, the Company, which in the opinion of the Board, may reasonably be considered to have a bearing on their independence within the meaning of the Code of Professional Conduct and Ethics issued by The Institute of Chartered Accountants of Sri Lanka as at the reporting date.

STATED CAPITAL

The Stated Capital of the Company is Rs. 300Mn.

The number of shares issued by the Company stood at 6,000,000 fully paid ordinary shares as at 31st March 2020. There were no changes in the Stated Capital of the Company during the year.

DIRECTORS' SHAREHOLDING

The relevant interests of Directors in the shares of the Company as at 31st March 2020 and 31st March 2019 are as follows.

	Shareholding as at 31/03/2020	Shareholding as at 31/03/2019
Mr. A.M. Weerasinghe	-	-
Mr. J.A.P.M. Jayasekera	20	20
Mr. T.G. Thoradeniya	-	-
Dr. S. Selliah	-	-
Mr. K.D.G. Gunaratne	-	-
Ms. A.M.L. Page	-	-
Mr. D.J. Silva	-	-
Mr. J.D.N. Kekulawala	-	-
Mr. S.M. Liyanage	-	-

Royal Ceramics Lanka PLC is the major shareholder of the Company holding 4,413,390 shares constituting 73.557% of the shares representing the stated capital of the Company. Mr. A.M. Weerasinghe, Mr. T.G. Thoradeniya and Mr. S.M. Liyanage are Directors of Royal Ceramics Lanka PLC.

SHAREHOLDERS

There were 1550 shareholders registered as at 31st March 2020 (1,478 shareholders as at 31st March 2019). The details of distribution are given on page 78 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 pages 77 to 79 under Share Information and 10 year summary.

EMPLOYMENT POLICY

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

As at 31st March 2020 68 persons were in employment (84 persons as at 31st March 2019).

RESERVES

The reserves of the Company with the movements during the year are given in Note 10 to the Financial Statements on page 65.

LAND HOLDINGS

The Company's land holdings referred to in Notes 3 and 5 of the Financial Statements comprise of the following:

Location	No. of Buildings	Land Extent	Net Written Down Value as at 31.03.2020 Rs.'000
Mining Land at Owala	7	26A-3R-17.00P	2,305
Land at Meetiyyagoda	13	45A-0R-32.33P	28,467
Land at Dediyyawala	-	38A-3R-23.48P	24,529
	20	110A-3R-32.81P	55,301

Location	No. of Buildings	Land Extent	Market Value as at 31.03.2020 Rs.'000
Land at Kollupitiya	1	0A-1R-1.12P	781,280

PROPERTY, PLANT AND EQUIPMENT

Details and movements of Property, Plant and Equipment are given under Note 3 to the Financial Statements on pages 59 to 61.

DIVIDENDS

The Company has not declared dividends for the financial year ended 31st March 2020.

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 19 to 23.

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

As disclosed in Note 25 to the Financial Statements on page 73, there were no material contingent liabilities as at the Balance Sheet date.

EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

As disclosed in Note 26 to the Financial Statements on page 74 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 Colombo Stock Exchange.

An Audit Committee, Remuneration Committee and a Related Party Transactions 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
Mr. K.D.G. Gunaratne
Ms. A.M.L Page

REMUNERATION COMMITTEE

The Remuneration Committee of the Parent Company, Royal Ceramics Lanka PLC acts as the Remuneration Committee and the names of the members are as follows,

Mr. S.H. Amarasekera - Chairman
Mr. R.N. Asiriwatham
Mr. L.N. De S. Wijeyeratne

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

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

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

The Directors declare that the Company is in compliance with Rule 9 of the Listing Rules of the Colombo Stock Exchange pertaining to Related Party Transactions during the Financial Year ended 31st March 2020.

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 24 to 30 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 17 of this Report.

ANNUAL GENERAL MEETING

The Notice of the Twenty Ninth (29th) Annual General Meeting appears on page 80.

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



A.M. Weerasinghe
Chairman



J.A.P.M. Jayasekera
Managing Director



P W Corporate Secretarial (Pvt) Ltd.
Secretaries

02nd July 2020

ANNEXURE A- RELATED PARTY TRANSACTIONS

Recurrent Related Party Transactions

Name of the Related Party	Relationship	Nature of the Transaction	Aggregate Value of Related Party Transactions entered into during the Financial Year Rs.	Aggregate Value of Related Party Transactions as a % of the Revenue	Terms and Conditions of Related Party Transactions
Lanka Tiles PLC	Affiliated Company	Sale of raw materials	134,298,993	82%	Based on commercial rates
		Receiving of commission income	3,871,179	2%	Based on commercial rates
		Reimbursement of expenses	1,252,109	1%	Actual expense incurred
			139,422,281	85%	
Lanka Walltiles PLC	Affiliated Company	Sale of raw materials	11,085,850	7%	Based on commercial rates
		Receiving of commission income	564,421	0.3%	Based on commercial rates
		Sale of finished goods	26,766,059	16%	Based on commercial rates
		Reimbursement of expenses	609,381	0.37%	Actual expense incurred
			39,025,711	24%	
Royal Ceramics Lanka PLC	Parent Company	Sale of raw materials	69,660	0.04%	Based on commercial rates
		Reimbursement of expenses	35,044,179	21%	Actual expense incurred
			35,113,839	21%	
Rocell Bathware Ltd	Affiliated Company	Sale of raw materials	5,529,191	3%	Based on commercial rates
Swisstek (Ceylon) PLC	Affiliated Company	Sale of raw materials	342,129	0.21%	Based on commercial rates
Swisstek Aluminium Ltd	Affiliated Company	Payment of rent expenses	2,588,526	2%	Based on commercial rates
Horana Plantations PLC	Affiliated Company	Purchase of goods	70,500	0.04%	Based on commercial rates

STATEMENT OF DIRECTORS' RESPONSIBILITY

The responsibility of the Directors in relation to the Financial Statements of the Company is set out in the following statement. The responsibility of the Auditors, in relation to the Financial Statements, prepared in accordance with the provision of the Companies Act No. 07 of 2007, is set out in the Independent Auditors' Report appearing on page 41.

The Companies Act No. 07 of 2007 stipulates that Directors are responsible for the preparation of Financial Statements for each financial year and place before a general meeting financial statements, comprising Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position which presents a true and fair view of the state of affairs of the Company as at the end of the financial year and which comply with the requirements of the above Act.

The Financial Statements have been prepared and presented in accordance with Sri Lanka Accounting Standards. In preparing the Financial Statements appropriate accounting policies have been selected and applied consistently, whilst reasonable and prudent judgments and estimates have been made.

As per Section 148 of the Act, the Directors are required to maintain sufficient accounting records to disclose with reasonable accuracy the financial position of the Company and to ensure that the Financial Statements presented comply with the requirements of the Companies Act.

The Directors are also responsible for devising proper internal controls for safeguarding the assets of the Company against unauthorised use or disposition and prevention and detection of fraud and for reliability of financial information used within the business or publication.

The Directors continue to adopt the going concern basis in preparing accounts and after making inquiries and following a review of the Company's budget for the financial year 2020/21 including cash flows and borrowing facilities, consider that the Company has adequate resources to continue in operation.

The Board of Directors is of the opinion that Board has discharged its responsibilities as set out above.

By order of the Board of
Lanka Ceramic PLC



P W Corporate Secretarial (Pvt) Ltd.
Secretaries

Colombo
02nd July 2020

AUDIT COMMITTEE REPORT

COMPOSITION OF THE AUDIT COMMITTEE

The Audit Committee is appointed by the Board of Directors of the Company and reports directly to the Board.

The Audit Committee of Lanka Ceramic PLC consisted of three Independent Non-Executive Directors during the financial year:

- **Mr. J.D.N. Kekulawala** - *Chairman*
(Independent Non-Executive Director)
- **Mr. K.D.G. Gunaratne** - *Member*
(Independent Non-Executive Director)
- **Ms. A.M.L. Page** - *Member*
(Independent Non-Executive Director)

The composition of the members of the Audit Committee satisfies the criteria as specified in the standards on Corporate Governance for Listing Companies.

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

ROLE OF THE AUDIT COMMITTEE

The Audit Committee is empowered to examine all matters pertaining to the financial affairs of the Company and assists the Board of Directors in effectively discharging their duties. The Audit Committee examines the preparation, presentation and adequacy of disclosure with the Sri Lanka Accounting Standards (SLFRS/LKAS) and whether the financial reporting requirements are in accordance with the Companies Act No.07 of 2007 and other relevant financial reporting related regulations and requirements.

The Audit Committee reviewed and approved the annual and interim financial statements prior to the final approval by the Board. In all instance, the Audit Committee obtained relevant declarations from the Managing Director and Company Secretary stating that the respective financial statements are in conformity with the applicable Accounting Standards, Company Law and other statues including Corporate Governance Rules and that the presentation of such Financial Statements are consistent with those of the previous quarterly statements of year as the case may be and further states any departures from financial reporting statutory requirements and group policies (if any).

This Audit Committee also reviewed the adequacy and proper continuous functioning of the internal control procedures of the Company to obtain reasonable assurances that the financial statements of the Company accurately reflect the state of affairs of the Company and the results for the period to which it relates. An independent internal audit is carried out as and when required, Internal Audit Reports are reviewed and discussed with management with a view to further strengthening the internal control environment within the Company. The Audit Committee also assessed major business and control risks of the Company.

MEETINGS

The Audit Committee meetings were held quarterly during the year. Audit Committee Meeting attendance of the members is as follows,

Mr. J.D.N. Kekulawala	(4/4)
Mr. K.D.G. Gunaratne	(3/4)
Ms. A.M.L. Page	(3/4)

The Managing Director and Group Financial Controller also attended the meeting by the invitation of the Audit Committee. The Company Secretary functions as the Secretary to the Committee. Representatives of the External Auditors also attended Audit Committee meetings by invitation.

EXTERNAL AUDIT

The Audit Committee, having assessed the independence and performance of the External Auditors Messrs. Ernst & Young Chartered Accountants, recommended to the Board of Directors that they be re-appointed as Auditors of the Company for the year ending 31st March 2021, subject to the approval by the shareholders at the Annual General Meeting. The Committee reviewed the Management Letter arising from the audit of Annual Statements together with the management response.



Mr. J.D.N. Kekulawala
Chairman-Audit Committee

02nd July 2020

REMUNERATION COMMITTEE REPORT

The Board of Directors resolved to appoint the Remuneration Committee of the Parent Company, Royal Ceramics Lanka PLC, to act as the Remuneration Committee of the Company. The said Committee, comprises of the following Non-Executive Independent Directors.

- **Mr. S.H. Amarasekera** - *Chairman*
- **Mr. R.N. Asiriwatham** - *Member*
- **Mr. L.N. De S. Wijeyeratne** - *Member*

POLICY

The remuneration policy of the Company endeavors to attract, motivate, and retain quality management in a competitive environment with the relevant expertise necessary to achieve the objectives of the Company. The Committee focuses on and is responsible for ensuring that the total package is competitive to attract the best talent for the benefit of the Company. The remuneration framework of the Company for the Non-Executive Chairman, Managing Director and Corporate Management is designed to create and enhance value to all stakeholders of the Company and to ensure alignment qua the short and long term interests of the Company and its Executives and in designing competitive compensation packages, the Committee consciously balances the short-term performance with medium to long-term goals of the Company.

SCOPE

The Committee reviews all significant changes in the Corporate sector in determining salary structures and terms and conditions relating to staff at senior Executive level. In this decision making process, necessary information, and recommendations are obtained from the Managing Director. The Committee deliberates and recommends to the Board of Directors the remuneration packages and annual increments and bonuses of the Managing Director, members of the Corporate Management and senior Executive staff and lays down

guidelines for the compensation structure for all Executive staff and overviews the implementation thereof. The Managing Director who is responsible for the overall management of the Company attends all meetings by invitation and participates in the deliberations except when his own performance and compensation package is discussed.

FEES

All Non-Executive Directors receive a fee for attendance at Board Meetings and serving on sub-committees. They do not receive any performance or incentive payments. The total remuneration to Directors is shown in Note 24.2 on page 73.

MEETINGS

The Committee met once during the financial year under review. A report of the decisions approved and recommended to the Board by the Committee has been approved by the Board of Directors.

PROFESSIONAL ADVICE

The Committee has the authority to seek external professional advice on matters within its purview.



Mr. S.H. Amarasekera

Chairman - Remuneration Committee

02nd July 2020

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

The Related Party Transactions Review Committee (RPTRC) of the Company was formed by the Board in January 2016 in accordance with Section 9 of the Listing Rules of the Colombo Stock Exchange to ensure compliance with those Rules facilitating independent review, approval and oversight of Related Party Transactions of the Company.

PURPOSE OF THE COMMITTEE

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

COMPOSITION OF THE COMMITTEE

As at the date of this report, the Committee of LCPLC consists of three (03) Directors. The members of the Committee during the year were:

- **Dr. S. Selliah** - *Chairman*
(Independent Non-Executive Director)
- **Ms. A.M.L. Page** - *Member*
(Independent Non - Executive Director)
- **Mr. K.D.G. Gunaratne** - *Member*
(Independent Non - Executive Director)

PW Corporate Secretarial (Pvt) Ltd., the Company Secretary, functions as the Secretary to the Committee. The Managing Director and Group Financial Controller attend the meetings by invitation.

MEETINGS

Meetings were held quarterly during the year under review. The minutes of the Committee meeting were tabled at the Board meeting, for the review of the Board. The Related Party Transactions Review Committee meeting attendance of the members is as follows,

Dr. S. Selliah	(4/4)
Ms. A.M.L. Page	(3/4)
Mr. K.D.G. Gunaratne	(3/4)

PROCEDURES FOR REPORTING RPT'S

The Managing Director is responsible for reporting to the Committee, for its review and approval of the information set out under Rule 30 of the Code at the minimum, in respect of each related party transaction proposed to be entered into other than the exceptions given in Rule 27 of the code. Moreover, on a quarterly basis, the Managing Director 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 four quarters of the financial year 2019/20. It was observed that related party transactions entered during the year were of a recurrent, trading nature and were necessary for the day-to-day operations of the Company.

In relation to the non-recurrent related party transactions entered during the year the Company has complied with the requirements stipulated by the Securities and Exchange Commission of Sri Lanka.

The Committee has communicated the comments/observations in relation to related party transactions to the Board of Directors.

In the opinion of the Committee, the terms of these transactions were not more favorable 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 24 to the Financial Statements, on page 73 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 31 to 35 of this Annual Report.



Dr. S. Selliah

Chairman - Related Party Transactions Review Committee

02nd July 2020

FINANCIAL INFORMATION

FINANCIAL CALENDAR

1st Quarter 2019/20 Interim Financial Report (Unaudited)	02nd August 2019
2nd Quarter 2019/20 Interim Financial Report (Unaudited)	05th November 2019
3rd Quarter 2019/20 Interim Financial Report (Unaudited)	05th February 2020
4th Quarter 2019/20 Interim Financial Report (Unaudited)	11th June 2020
Annual Report 2019/20	02nd July 2020
29th Annual General Meeting	30th July 2020

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INDEPENDENT AUDITOR'S REPORT



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eysl@lk.ey.com
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TO THE SHAREHOLDERS OF LANKA CERAMIC PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Lanka Ceramic PLC ("the Company"), which comprise the statement of financial position as at 31 March 2020, 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 give a true and fair view of the financial position of the Company as at 31 March 2020, 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 Company 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
<p>CARRYING VALUE OF THE INVESTMENT PROPERTY</p> <p>Included within Investment Property is land and building carried at fair value. As of reporting date, such Land and Building amounted to Rs. 910.496Mn. The fair values of land and building were determined by an independent external valuer engaged by the Company.</p> <p>The valuation of land and building was considered a key audit matter due to the use of significant judgments and estimates which included the assessment of the impact of the COVID-19 outbreak on such valuations as disclosed in note 5 in the financial statements.</p>	<p>Our audit procedures included the following;</p> <ul style="list-style-type: none"> ● We evaluated the competence, capability and objectivity of the external valuer engaged by the Company; ● We read the external valuer's report and understood the key estimates made and the approach taken by the valuer in determining the valuation of land and building; ● We engaged our internal specialised resources to assist us in assessing appropriateness of the valuation techniques used and the reasonableness of the significant judgments and assumptions such as per perch price and value per square foot used by the valuer; and ● We have also assessed the adequacy of the disclosures made in note 5 to the financial statements.

Partners: W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA ACMA 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 Sajewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principals: G B Goudian ACMA A A J R Perera ACA ACMA T P M Ruberu FCMA FCCA

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INDEPENDENT AUDITOR'S REPORT

Other information included in the Company's 2020 Annual Report

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

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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company'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.

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 Company's internal control.
- 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 Company'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 Company 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.

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 relevant ethical requirements in accordance with the Code of Ethic 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.



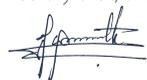
02nd July 2020

Colombo

STATEMENT OF FINANCIAL POSITION

As at 31 March	Note	2020 Rs.'000	2019 Rs.'000
ASSETS			
Non-current assets			
Property, plant and equipment	3	99,958	122,874
Leasehold rights over mining lands	4	1,619	4,238
Investment property	5	910,496	908,445
Right-of-use assets	6	8,406	-
		1,020,479	1,035,557
Current assets			
Inventories	7	6,369	5,724
Trade and other receivables	8	126,098	94,424
Cash and cash equivalents	22	6,934	14,801
		139,401	114,949
Total assets		1,159,880	1,150,506
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Stated capital	9	300,000	300,000
Reserves	10	216,766	216,766
Retained earnings		326,117	301,732
Total equity		842,883	818,498
Non-current liabilities			
Interest bearing liabilities	11	70,920	96,613
Deferred tax liabilities	12	159,578	154,062
Retirement benefit liability	13	7,157	10,335
Other non-current liabilities	14	15,000	15,000
		252,655	276,010
Current liabilities			
Trade and other payables	15	38,655	27,702
Interest bearing liabilities	11	25,687	28,296
		64,342	55,998
Total equity and liabilities		1,159,880	1,150,506

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



B.G.W. Sarathchandra

Group Finance Controller

The Board of Directors is responsible for these financial statements.

Signed for and on behalf of the Board,



A.M. Weerasinghe

Chairman



J.A.P.M. Jayasekera

Managing Director

The accounting policies and notes on pages 48 to 76 form an integral part of the financial statements.

02nd July 2020

Colombo

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year ended 31 March	Note	2020 Rs.'000	2019 Rs.'000
Revenue	16	166,132	163,772
Cost of sales		(108,529)	(101,564)
Gross profit		57,603	62,208
Fair value gain on investment property	5	2,051	80,845
Other income	17	45,504	75,072
Distribution costs		(11,470)	(8,232)
Administrative expenses		(51,674)	(43,375)
Finance cost	18	(13,757)	(21,599)
Profit before tax	19	28,257	144,919
Income tax expense	20.1	(5,056)	(7,329)
Profit for the year		23,201	137,590
Other comprehensive income			
Actuarial gain/ (loss) on retirement benefit liability	13	1,644	(813)
Deferred tax on components of other comprehensive income	20.1	(460)	195
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):		1,184	(618)
Total comprehensive income for the year		24,385	136,972
Earnings per share- from continuing operations (Rs.)	21	3.87	22.93

The accounting policies and notes on pages 48 to 76 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

For the Year ended 31 March	Stated capital Rs.'000	Revaluation reserve Rs.'000	Retained earnings/(loss) Rs.'000	Total Rs.'000
Balance as at 01 April 2018	300,000	218,370	163,156	681,526
Transfer from revaluation reserve on disposal of land	-	(1,604)	1,604	-
Profit for the year	-	-	137,590	137,590
Other comprehensive income	-	-	(618)	(618)
Total comprehensive income	-	-	136,972	136,972
Balance as at 31 March 2019	300,000	216,766	301,732	818,498
Profit for the year	-	-	23,201	23,201
Other comprehensive income	-	-	1,184	1,184
Total comprehensive income	-	-	24,385	24,385
Balance as at 31 March 2020	300,000	216,766	326,117	842,883

The accounting policies and notes on pages 48 to 76 form an integral part of the financial statements.

STATEMENT OF CASH FLOWS

For the Year ended 31 March	Note	2020 Rs.'000	2019 Rs.'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax from continuing operations		28,257	144,919
Adjustments for			
Depreciation	3	11,526	14,986
Amortisation of leasehold right over land	4	2,619	2,298
Amortisation of Right-of-use assets	6	2,942	-
Variable lease over mining land	19	2,992	-
(Profit)/ loss on sale of property, plant and equipment		331	(11,650)
Finance costs	18	13,757	21,599
Disposal gain on quoted shares		-	(14,412)
Provision for retirement benefit obligations	13	1,756	1,685
Revaluation gain on investment property	5	(2,051)	(80,845)
Operating profit before working capital changes		62,129	78,580
Working capital adjustments			
(Increase)/ decrease in inventories		(645)	(15)
(Increase)/ decrease in trade and other receivables		(31,674)	(15,847)
Increase /(decrease) in trade and other payables		10,769	6,044
Cash generated from operations		40,579	68,762
Finance costs paid		(13,757)	(21,599)
Retirement benefit plan costs paid	13	(3,290)	(2,159)
Income tax paid		-	(4,111)
Net cash flows from operating activities		23,532	40,893
CASH FLOWS FROM / (USED IN) INVESTING ACTIVITIES			
Acquisition of property, plant and equipment	3	(757)	(21,972)
Proceeds from sale of property, plant and equipment		469	13,877
Proceeds from sale of quoted shares		-	148,773
Net cash flows from/(used in) investing activities		(288)	140,678
CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES			
Repayment of interest bearing borrowings	11.1	(24,960)	(124,874)
Repayment of Lease		(3,342)	(3,127)
Variable lease payment over mining land		(2,809)	-
Net cash flows used in financing activities		(31,111)	(128,002)
Net increase/(decrease) in cash and cash equivalents		(7,867)	53,569
Realisation of restricted cash		-	3,500
Cash and cash equivalents at the beginning of the year	22	14,801	(42,268)
Cash and cash equivalents at the end of the year	22	6,934	14,801

The accounting policies and notes on pages 48 to 76 form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

1.1 General

Lanka Ceramic PLC ("Company") is a limited liability Company incorporated and domiciled in Sri Lanka and listed on the Colombo Stock Exchange. The registered office of the Company is located at No. 23, Narahenpita Road, Nawala.

1.2 Principal activities and nature of operations

During the year, principal activities of the Company were to provide raw materials to ceramic industry, managing investment property, importing and selling of sanitaryware and operates a Lanka Tile showroom as a franchise partnership.

1.3 Parent enterprise and ultimate parent enterprise

The Company's parent entity is Royal Ceramics Lanka PLC and the Company's ultimate parent undertaking and controlling party is Vallibel One PLC.

1.4 Date of authorisation for issue

The Financial Statement of Lanka Ceramic PLC for year ended 31 March 2020 was authorised for issue in accordance with a resolution of the Board of Directors dated 02nd July 2020.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

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

1. Lands and buildings
2. Investment property

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 have been prepared in accordance with Sri Lanka Accounting Standards ("SLFRS") as issued by the 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

The Board together with the management is committed to withstand the negative effects and short-term uncertainty that has been created by the COVID-19 pandemic and confident that Company is in the possession of required resources and capabilities to achieve this. Accordingly, the board of directors have made an assessment of the Company's ability to continue as a going concern in the foreseeable future and they do not foresee a need for liquidation or cessation of trading.

2.1.4 Changes in accounting policies and disclosure

New and amended standards and interpretations

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Company's financial statements for the year ended 31 March 2019, except for the adoption of new standards effective as of 1 April 2019. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Company applied SLFRS 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

Several other amendments and interpretations apply for the first time in 2019/20, but do not have an impact on the financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

a) SLFRS 16 Leases

Definition of a Lease

Previously, the Company determined, at contract inception, whether an arrangement is or contains a lease under LKAS/IFRIC. Under SLFRS 16, the Company assesses whether a contract is or contains a lease based on the definition of lease as explained in Note 2.3.8.

On transition, the Company elected to apply SLFRS 16, only to contracts that were previously identified as leases. Contracts that were not identified as leases under LKAS 17/SLFRS 16 was applied only to contracts entered in to or charged on or after 1 April 2019.

The Company applies SLFRS 16 using the modified retrospective approach and thereby the comparative figures were not restated and continue to be reported under LKAS 17.

As a Lessor

Lessor accounting under SLFRS 16 is substantially unchanged from LKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in LKAS 17. Therefore, SLFRS 16 does not have an impact for leases where the Company is the lessor.

As a Lessee

As a lessee, the Company previously classified lease as operating, or finance leases based on its assessment of whether the lease transferred significant all of the risks and rewards incidental to the Company. Under SLFRS 16, the Company recognises right of use assets and lease liabilities for most leases except for short term leases and leases of low-value assets to which the lease, applied recognition exemptions under SLFRS 16.

The Company did not have material impact on the financial statements with the adoption of SLFRS 16 for the year beginning 1st April 2019.

b) IFRIC Interpretation 23 “Uncertainty over Income Tax Treatment”

The Interpretation clarifies how to apply the recognition and measurement requirement in LKAS 12 when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax assets or liability, applying the requirement in LKAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this interpretation.

IFRIC 23 does not apply to taxes or levies outside the scope of LKAS 12 and does not specifically include requirement relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- How an entity determines taxable profit/(tax loss), tax bases, unused tax losses, unused tax credits

- and tax rates (The most likely amount – the single most likely amount in a range of possible outcomes or
- the expected value – the sum of the probability-weighted amounts in a range of possible outcomes
- How an entity considers changes in facts and circumstances

The interpretation is effective for annual reporting period beginning on or after 1 April 2019.

The Interpretation did not have an impact on Financial Statements of the Company that would require separate disclosure in the Financial Statements.

2.2 Significant Accounting Judgments, Estimates and Assumptions

2.2.1 Judgements

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

a) Useful life-time of the property, plant and equipment

The Company reviews the useful lives and methods of depreciation of assets at each reporting date. Judgment of the management is exercised in the estimation of these values, rates, methods and hence they are subject to uncertainties.

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.

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 Company is disclosed in Note 13 together with assumptions used in the valuations and the sensitivities thereof.

NOTES TO THE FINANCIAL STATEMENTS

b) Fair value of freehold land and buildings (Property, Plant and Equipment)

The Company measures freehold land and buildings at fair value with changes in fair value being recognised in other comprehensive income. 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 summarised in the Note 3 to the financial statements.

c) 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.

d) Fair Value of investment properties

The Company carries its Investment Properties at fair value, with changes in fair values being recognised in the Statement of profit or loss. The Company engaged an independent valuer to determine the fair value as at 31 March 2020. The valuation of investment property, management require to make significant estimates such as current market price per perch, market rent per similar properties and yield rate which are based on current and future market or economic conditions.

Fair value related disclosures for assets measured at fair value are summarised in the Note 5 to the financial statements.

e) 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 significant 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 11.4.

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 Company'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 assets and liabilities that are not measured at fair value, for which fair values are disclosed, are summarised in the Note 3. (f), Note 11.4 and Note 5.1 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 Company 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 Company 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 Company 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 total 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 recognised 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 recognised 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.

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 recognised in statement of comprehensive income using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS

The amounts of borrowing cost which are eligible for capitalisation are determined in accordance with LKAS 23- "Borrowing Costs".

2.3.5 Inventories

Inventories are valued at the lower of cost and net realisable value, after making due allowances for obsolete and slow moving items. Net realisable value is the price at which inventories can be sold in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

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

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 on first-in-first-out basis.

Spares and Consumables

At actual cost on first-in-first-out basis.

2.3.6 Financial instruments

Financial assets

Initial recognition and measurement

Financial assets within the scope of SLFRS 9, are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Subsequent measurement

The Company classifies all of its financial assets in the measurement category of financial assets at amortised cost and Financial assets at fair value through profit or loss. Categories of financial assets as per SLFRS 9 are limited only for the followings.

a) **Financial assets at amortised cost**

This category is the most relevant to the Company. The Company measures financial assets at amortised cost if both of the following conditions are met:

- ⦿ The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows and
- ⦿ The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost includes trade and other receivables and cash and cash equivalents.

b) **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Derecognition

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

- ⦿ The rights to receive cash flows from the asset have expired
- ⦿ The Company 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 Company recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed. The amount of

ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of SLFRS 9 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, payables 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 plus, in the case of loans and borrowings, directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, bank overdrafts and loans and borrowings. Accordingly, Company financial liabilities have been classified as loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification:

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 that 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.

NOTES TO THE FINANCIAL STATEMENTS

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.

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.

Freehold lands and buildings are measured at fair value less accumulated depreciation on buildings. Valuations are performed every 3-5 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 Policy applicable before 1st April 2019

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfillment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

Finance leases

Assets obtained under finance lease, which effectively transfer to the Company substantially the entire risks and benefits incidental to ownership of the leased assets, are treated as if they have been purchased outright and are capitalised 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 amortised 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.

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 recognised 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 recognised as an expense in the period in which termination takes place.

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards of ownership of an classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease added to the carrying amount of the leased asset and recognised over the lease term on the same basis rental income. Contingent rents are recognised as revenue in the period in which they are earned.

2.3.8.2 Policy applicable After 1st April 2019

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group considered whether;

- The contract involves the use of an identified asset. This may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified.
- The Group has right to obtain substantially all of the economic benefits of asset throughout the period of use; and
- The Group has right to direct the use of the asset. The Group has this right when it has decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either;
 - i) The Group has right to operate the asset; or
 - ii) The Group designated the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered into, or changed, on after 1 April 2019.

a) Company as the Lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(i) Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The right-of-use assets are subsequently depreciated using the straight-line method from the commencement date to the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment and are in the range of 4 to 20 years.

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment. Refer to the accounting policies in section 2.3.12 - Impairment of non-financial assets.

(ii) Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments

NOTES TO THE FINANCIAL STATEMENTS

made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset. (Refer Note No.6)

(iii) Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

The accounting policies applicable to the Company as a lessor in the comparative period were not difference from SLFRS 16.

2.3.9 Investment properties

Properties held for capital appreciation and properties held to earn rental income have been classified as Investment Property. Investment Property is recognised if it is probable that future economic benefits that are associated with the Investment Property will flow to the Company and cost of the Investment Property can be reliably measured.

Initial measurement

An Investment Property is measured initially at its cost. The cost of a purchased Investment Property comprises of its purchase price and any directly attributable expenditure. The cost of a self-constructed investment is its cost at the date when the construction or development is complete.

Subsequent measurement

The Company applies the Fair Value Model for Investment Properties in accordance with Sri Lanka Accounting Standard 40 (LKAS 40), - "Investment Property". Accordingly, land and buildings classified as Investment Properties are stated at Fair Value.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic

benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement of comprehensive income in the period of derecognition. Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change.

2.3.10 Provisions

Provisions are recognised when the Company 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 Company 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.

2.3.11 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. Interest expense and the current service cost related to the liability is recognised in profit or loss and actuarial gain or loss is recognised in other comprehensive income.

Accordingly, the employee benefit liability is based on the actuarial valuation as of 31 March 2020.

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 recognised as an expense in the statement of income as incurred.

The Company contributes 12% and 15% and 3% of gross emoluments of the employees to Employees' Provident Fund and Employees' Trust Fund respectively.

2.3.12 Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Company 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 group 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.

2.3.13 Cash and Cash Equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of the statement cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above.

2.3.14 Revenue recognition

Revenue from contracts with customers

The Company extracts and provide raw materials to ceramic within the geographic regions of Sri Lanka. Revenue from contracts with customers is recognised when control of the goods are transferred to the customer at an amount that reflects the consideration to which the Company expects to

be entitled in exchange for those goods. The Company is the principal in its revenue arrangements, as it typically controls the goods before transferring them to the customer.

Revenue from sale of raw materials is recognised at the point in time when control of the goods is transferred to the customer, generally on delivery of the goods which include one performance obligation.

Following accounting policies in the context of below income sources have consistently applied in all the periods.

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.

Gains and Losses

Net gains and losses of a revenue nature on the disposal of property, plant and 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 re-valued 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.

NOTES TO THE FINANCIAL STATEMENTS

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

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

Amendments to LKAS 1 and LKAS 8: Definition of Material

Amendments to LKAS 1 Presentation of Financial Statements and LKAS 8 Accounting policies, Changes in accounting Estimates and Errors are made to align the definition of "material" across the standard and to clarify certain aspects of the definition. The new definition states that, "information is material if omitting or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments are applied prospectively for the annual periods beginning on or after 1 January 2020 with early application permitted.

Amendments to SLFRS 3: Definition of a Business

Amendments to the definition of a business in SLFRS 3 Business Combinations are made to help the entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definition of a business and of outputs, and introduce an optional fair value concentration test.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

Amendments to references to the conceptual framework in SLFRS standards

Revisions to the Conceptual Framework were made because some important issues were not covered and some guidance was unclear or out of date. The revised Conceptual Framework includes: a new chapter on measurement; guidance on reporting financial performance; improved definitions of an asset and a liability, and guidance supporting these definitions; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The amendments are effective for annual periods beginning on or after 1 January 2020, with early application is permitted

3. PROPERTY, PLANT AND EQUIPMENT

	Balance as at 01.04.2019 Rs.'000	Additions Rs.'000	Disposals/ Transfers Rs.'000	Balance as at 31.03.2020 Rs.'000
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(a) Gross carrying amounts				
At cost				
Plant and machinery	67,922	-	(5,000)	62,922
Tools, implements, furniture and fittings and electrical appliances and computer software	9,617	757	-	10,375
Transport and communication equipment	12,832	-	-	12,832
	90,371	757	(5,000)	86,129
At valuation				
Freehold land and clay mining land	59,823	-	-	59,823
Buildings	34,642	-	-	34,642
	94,465	-	-	94,465
Assets on finance lease				
Plant and machinery	15,487	-	(15,487)	-
Transport and communication equipment	4,530	-	(4,530)	-
	20,017	-	(20,017)	-
Total	204,853	757	(25,017)	180,594

	Balance as at 01.04.2019 Rs.'000	Charge for the Year Rs.'000	Disposals/ Transfers Rs.'000	Balance as at 31.03.2020 Rs.'000
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(b) Depreciation				
At cost				
Plant and machinery	48,025	5,334	(4,200)	49,158
Tools, implements, furniture and fittings and electrical appliances and computer software	6,006	1,986	-	7,992
Transport and communication equipment	9,596	1,315	-	10,911
Total	63,627	8,635	(4,200)	68,060
At valuation				
Freehold and clay mining land	4,235	287	-	4,522
Buildings	5,450	2,604	-	8,054
	9,685	2,891	-	12,576
Assets on finance lease				
Plant and machinery	6,509	-	(6,509)	-
Transport and communication equipment	2,160	-	(2,160)	-
	8,669	-	(8,669)	-
Total	81,981	11,526	(12,869)	80,636

NOTES TO THE FINANCIAL STATEMENTS

3. PROPERTY, PLANT AND EQUIPMENT CONTD.

	2020 Rs.'000	2019 Rs.'000
(c) Net book value of assets		
At cost		
Plant and machinery	13,764	19,898
Tools, implements, furniture and fittings and electrical appliances and computer software	2,383	3,612
Transport and communication equipment	1,921	3,236
At valuation		
Freehold land and clay mining land	55,301	55,588
Buildings	26,588	29,192
Assets on finance leases		
Plant and machinery	-	8,978
Transport and communication equipment	-	2,370
Net assets value	99,958	122,874

(d) Fair value measurement disclosure related to properties carried at valuation are as follows;

Location	Extent	Valuer	Valuation Date	Valuation Details	Significant unobservable input : price per perch/ acre/range	Fair value measurement using significant unobservable inputs (Level 3) Rs.'000
Mining Land at Owala	25A-2R-15P	Mr.P.B.Kalugalagedera	31 March 2016	Market based evidence	Rs. 100,000/- to Rs. 250,000/- per acre	4,809
Land situated at Owala	1A-1R-2P	Mr.P.B.Kalugalagedera	31 March 2016	Market based evidence	Rs. 400,000/- per acre	500
Factory building and office building at Owala mine	7038 Sq.ft	Mr.P.B.Kalugalagedera	31 March 2016	Depreciated Cost method	Rs. Nil to Rs. 1,000/- per sq.ft	5,157
Mining Land at Meetiyyagoda	37A-2R-4.33P	Mr.P.B.Kalugalagedera	31 March 2016	Market based evidence	Rs. 300,000/- to Rs. 1,000,000/- per acre	17,051
Mining Land at Dediawala	38A-3R-23.39P	Mr.P.B.Kalugalagedera	31 March 2016	Market based evidence	Rs. 200,000/- per acre	7,779
Land situated at Meetiyyagoda	7A-2R-28P	Mr.P.B.Kalugalagedera	31 March 2016	Market based evidence	Rs. 750,000/- to Rs. 1,750,000/- per acre	12,931
Factory building and office building at Meetiyyagoda mine	39,512sq.ft	Mr.P.B.Kalugalagedera	31 March 2016	Depreciated cost method	Rs. 100/- to Rs. 500/- per sq.ft	13,557

Significant increases/ (decreases) in estimated price per acre and per Sq.ft. in isolation would result in a significantly higher (lower) fair value.

(e) The useful lives of the assets are estimated as follows ;

	2020 Years Units of production basis	2019 Years Units of production basis
Mining Land		
Buildings on free hold land and roadway	25,40 & 50	25,40 & 50
Plant and machinery	3 to 10	3 to 10
Tools, implements, furniture and fittings and electrical appliances and computer software	2,4,5 & 10	2,4,5 & 10
Transport and communication equipment	3, 4 & 5	3, 4 & 5

(f) 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,

	Company			
	Cost	Accumulated depreciation	Net carrying amount	Net carrying amount
	2020 Rs.'000	2020 Rs.'000	2020 Rs.'000	2019 Rs.'000
Freehold land and mining land	4,354	4,354	-	144
Freehold building	34,468	27,224	7,244	9,249
	38,822	31,578	7,244	9,393

(g) During the financial year, the Company acquired property, plant and equipment to the aggregate value of Rs. 757,480 (2018/19 - Rs. 21,972,095). Cash payments amounting to Rs.757,480 (2018/19- Rs. 21,972,095) were made during the year for the purchase of the Property, Plant and Equipment.

(h) Fixed assets include fully depreciated assets and the cost of which at the reporting date amounted to Rs.40,488,439 (2018/2019 - Rs. 32,758,436).

(i) The Company does not anticipate any impairment provision on the carrying value of the assets in the statement of financial position due to the impact of COVID-19.

4. LEASEHOLD RIGHT OVER MINING LANDS

	2020 Rs.'000	2019 Rs.'000
Cost		
At the beginning of the year	15,800	15,800
At the end of the year	15,800	15,800
Accumulated Depreciation / Amortisation		
At the beginning of the year	11,562	9,264
Charge for the year	2,619	2,298
At the end of the year	14,181	11,562
Written down value	1,619	4,238

** The Company also make monthly payments based on quantity of clay extracted from these lease hold lands.

NOTES TO THE FINANCIAL STATEMENTS

5. INVESTMENT PROPERTY

5.1	2020 Rs.'000	2019 Rs.'000
At the beginning of the year	908,445	827,600
Change in fair value	2,051	80,845
Balance at the end of the year	910,496	908,445

As at 31 March 2020, the investment property includes land and building at No 696,696 1/1,696 2/1,696 3/1,696 4/1, Kolupitiya Road, Colombo 03 (1R - 1.12 P).

5.2 Fair value of investment property

The fair value of freehold land and buildings were determined by A.A.M. Fathihu a chartered independent valuer (Valuation report dated 31 March 2020). The basis of valuation is the Depreciated Replacement Cost Method using the depreciated value of buildings and Current Open Market Value of land.

Investment property	Fair value measurement using significant unobservable inputs (Level 3) Rs. 31 March 2020	Fair value measurement using significant unobservable inputs (Level 3) Rs. 31 March 2019
Date of valuation	31 March 2020	31 March 2019
Land	781,280,000	781,280,000
Building	129,216,000	127,164,500
Significant unobservable input :		
Price per perch	19,000,000	19,000,000
Price per square foot	Rs. 7,600/- 'Rs. 10,450/-	Rs. 7,000/- Rs. 9,800/-

"As a result of the COVID-19 outbreak in Sri Lanka during the last part of the quarter ending 31st March 2020, a reassessment of the valuation was obtained by the independent professional valuer who determined no significant change to the revalued carrying amount provided as at 31st March 2020."

Significant increases/ (decrease) in estimated price per perch/ price per square foot in isolation would result in a significantly higher/ (lower) fair value.

5.2.1 Rental Income earned from Investment Property by the Company amounted to Rs. 36.75Mn. (2019 - Rs. 36.75Mn). Direct operating expenses incurred by the Company amounted to Rs. 1.58Mn.(2019 - Rs. 1.64Mn.).

5.2.2 Rental income receivable under the operating lease agreement of investment property as follows;

	Rental income receivable					
	< 1 year Rs.'000	1 - 2 Year Rs.'000	2 - 3 Year Rs.'000	3 - 4 Year Rs.'000	4 - 5 Year Rs.'000	Over 5 Years Rs.'000
2019-20	36,750	36,750	36,750	36,750	-	-
2018-19	36,750	36,750	36,750	36,750	36,750	-

6. RIGHT- OF -USE ASSETS

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year.

	Plant and machinery	Transport and communication equipment	Total
	Rs.'000	Rs.'000	Rs.'000
Cost			
Balance as at 1 April 2019*	15,487	4,530	20,017
Balance as at 31 March 2020	15,487	4,530	20,017
Accumulated Amortisation			
Balance as at 1 April 2019*	6,509	2,160	8,669
Charge for the year	2,036	906	2,942
Balance as at 31 March 2020	8,545	3,066	11,610
Net book value as at 31 March 2020	6,942	1,464	8,406

*Net book value of the lease assets presented under Note 3, Property, Plant and Equipment as at 31 March 2019 has been transferred to Right-to-use Assets with the adoption of SLFRS 16-Leases, with effect from 1 April 2019. Prior period amounts has not been restated.

The carrying amounts of lease liabilities presented under Note 11, Interest Bearing Liabilities.

7. INVENTORIES

	2020	2019
	Rs.'000	Rs.'000
Raw materials	-	40
Finished goods	137	194
Goods in transit	576	228
Consumables and spares	6,175	5,781
Allowances for obsolete and slow moving inventory	(519)	(519)
Total	6,369	5,724

8. TRADE AND OTHER RECEIVABLES

	2020	2019
	Rs.'000	Rs.'000
Trade debtors - Related parties (8.1)	73,777	48,713
- Other	5,444	3,859
	79,221	52,572
Other debtors	55,720	54,432
Less: Allowances for doubtful debts	(26,200)	(26,200)
	108,741	80,804
Loans to Company officers	90	132
	108,831	80,936
Advance and prepayments	8,493	8,444
Other statutory receivables	8,774	5,044
Total	126,098	94,424

NOTES TO THE FINANCIAL STATEMENTS

Lanka Ceramic PLC when formed in 1990 took over the business and assets and liabilities, except for one division of Ceylon Ceramic Corporation. The division not taken over, continues to operate under the Corporation and a sum of approximately Rs. 26.2 Mn reflected as due from the Corporation at the time of the take over of business is still outstanding in the books of the Company and fully impaired as at 31 March 2020.

8.1 Amounts due from related parties

	2020	2019	
	Rs.'000	Rs.'000	
Company	Relationship		
Lanka Tiles PLC	Affiliated Company	52,919	37,482
Lanka Walltiles PLC	Affiliated Company	17,309	8,887
Rocell Bathware Ltd	Affiliated Company	1,582	528
Royal Ceramics Lanka PLC	Parent Company	1,857	1,644
Royal Porcelain (Pvt) Ltd	Affiliated Company	-	172
Swisstek Ceylon PLC	Affiliated Company	110	-
Total		73,777	48,713

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

	Neither past due nor impaired Rs.'000	Past due but not impaired			Impaired Rs.'000	Total Rs.'000
		< 3 Months Rs.'000	3- 12 Months Rs.'000	> 1 Year Rs.'000		
2020	717	57,982	12,804	7,718	-	79,221
2019	6,542	37,163	1,805	7,062	-	52,572

9. STATED CAPITAL

9.1 Issued and fully paid

	2020	2019
	Rs.'000	Rs.'000
Balance at the beginning of the year	300,000	300,000
Balance at the end of the year	300,000	300,000

9.2 Issued and fully paid

	2020	2019
	Rs.'000	Rs.'000
No. of Shares		
Balance at the beginning of the year	6,000	6,000
Balance at the end of the year	6,000	6,000

9.3 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.

10 RESERVES

	2020	2019
	Rs.'000	Rs.'000
Revaluation reserve (10.1)	216,766	216,766
	216,766	216,766

10.1 Revaluation reserve

	2020	2019
	Rs.'000	Rs.'000
On: Property plant and equipment as at 01 April	216,766	218,370
Transfer from revaluation reserve on disposal of land	-	(1,604)
As at 31 March	216,766	216,766

11 INTEREST BEARING LIABILITIES

	2020	2019
	Rs.'000	Rs.'000
Non current		
Long term loans (11.1)	70,920	95,880
Leases (11.2)	-	733
	70,920	96,613
Current		
Long term loans (11.1)	24,960	24,960
Leases (11.2)	727	3,336
	25,687	28,296
Total	96,607	124,909

11.1 Long term loans

	2020	2019
	Rs.'000	Rs.'000
At the beginning of the year	120,840	245,714
Repayments	(24,960)	(124,874)
At the end of the year	95,880	120,840
Amount payable within one year	24,960	24,960
Amount payable after one year	70,920	95,880
	95,880	120,840

NOTES TO THE FINANCIAL STATEMENTS

11.2 Leases

	2020 Rs.'000	2019 Rs.'000
Gross liability	4,394	8,237
Repayments	(3,647)	(3,842)
Finance charges allocated to future period	(21)	(325)
Net liability	727	4,069
Amount payable within one year	727	3,336
Amount payable after one year	-	733
Total	727	4,069

11.3 Details of long term loans

Financial institution	Repayment terms	Interest Rate	Principal	Security	Balance as at 3/31/2020 Rs.'000	Balance as at 3/31/2019 Rs.'000
Hatton National Bank PLC	60 Monthly instalments	AWPLR plus margin	500,000	Mortgage for Rs, 500 Mn over investment property of land and building at No 696,696 1/1,696 2/1,696 3/1,696 4/1, Kolupitiya Road, Colombo 03 (1R - 1.12 P).	95,880	120,840
					95,880	120,840

11.4 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."

	Carrying amount		Fair value	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Financial assets				
Trade and other receivables	108,831	80,936	108,831	80,936
Cash and cash equivalents	6,934	14,801	6,934	14,801
Total	115,765	95,737	115,765	95,737
Financial liabilities				
Trade and other payables	38,655	27,702	38,655	27,702
Interest bearing liabilities	96,607	124,909	96,607	124,909
Total	135,262	152,611	135,262	152,611

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.

Interest-bearing loans and borrowings balances comprise floating rate instruments therefore fair value of the value due to banks approximate to the carrying value as at the reporting date.

Fair value of refundable deposits

The fair value of the refundable deposits (note 14) can not be measured reliably due to the difficulty in determining the time of realisation.

12. DEFERRED TAX LIABILITIES

	2020 Rs.'000	2019 Rs.'000
At the beginning of the year	154,062	145,983
Charge / (reversal) arising during the year	5,056	8,274
Deferred tax release on components of other comprehensive income	460	(195)
At the end of the year	159,578	154,062

12.1 Statement of financial position

Deferred tax liability		
Capital allowances	6,853	6,523
Revaluation surplus	84,298	84,298
Investment property	188,292	187,718
	279,443	278,539
Deferred tax assets		
Retirement benefit liability	2,004	2,894
Carried forward tax losses	110,354	114,076
Provision for obsolete and slow moving, consumables and spares	171	171
Allowances for doubtful debts	7,336	7,336
	119,865	124,477
Net Deferred tax liability	159,578	154,062

The Company has recognised a deferred tax asset against its reported tax losses and does not recognise any significant impact on the availability of taxable profits due to the impact of COVID-19 pandemic.

12.2 Statement of Comprehensive Income

	2020 Rs.'000	2019 Rs.'000
Deferred Tax Charge / (Reversal)		
Retirement Benefit Liability	460	(195)
	460	(195)

Deferred tax has been computed at the rate of 28%

13. RETIREMENT BENEFIT LIABILITY

	2020 Rs.'000	2019 Rs.'000
At the beginning of the year	10,335	9,996
Current service cost	619	685
Net interest on the net defined benefit liability (asset)	1,137	1,000
	1,756	1,685
Net actuarial (Gain) / loss for the year	(1,644)	813
Payments made during the Year	(3,290)	(2,159)
	(4,934)	(1,346)
At the end of the year	7,157	10,335

NOTES TO THE FINANCIAL STATEMENTS

- 13.1** 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 Ceramic PLC is as follows;

	2020 Rs.'000	2019 Rs.'000
Discount rate as at 31 March		
Effect on DBO due to decrease in the discount rate by 1%	296	373
Effect on DBO due to increase in the discount rate by 1%	(270)	(343)
Salary escalation rate as at 31 March		
Effect on DBO due to decrease in the salary escalation rate by 1%	(309)	(400)
Effect on DBO due to increase in the salary escalation rate by 1%	333	426

13.2 Distribution of present value of define benefit obligation

	Less than a year	Between 1-2 years Rs.'000	Between 2- 5 years Rs.'000	Over 5 years Rs.'000	Total Rs.'000
As at 31 March 2020	1,967	1,827	1,676	1,686	7,157
As at 31 March 2019	1,456	5,563	1,501	1,815	10,335

Weighted Average duration of defined benefit obligation (Years) 4.29

- 13.3** Messrs. Actuarial and Management Consultants (Pvt) Ltd., actuaries carried out an actuarial valuation for Lanka Ceramic PLC of the defined benefit plan gratuity as at 31 March 2020.

The principal assumptions used are as follows:

	2020	2019
Discount rate (per annum)	10%	11%
Salary scale (per annum)		
- Executives	8%	10%
- Non executives	8%	10%
Staff turnover rate	10%	10%
Retirement age	55 Years	55 Years

14. OTHER NON CURRENT LIABILITIES

	2020 Rs.'000	2019 Rs.'000
Refundable deposit	15,000	15,000
Total	15,000	15,000

15. TRADE AND OTHER PAYABLES

	2020	2019
	Rs.'000	Rs.'000
Trade creditors - Other	3,313	2,630
Other creditors - Related Parties [15.1]	2,612	1,298
	5,925	3,928
Sundry creditors including accrued expenses	32,730	23,774
Total	38,655	27,702

15.1 Other creditors - Related Parties

	2020	2019	
	Rs.'000	Rs.'000	
Company	Relationship		
Royal Ceramics Lanka PLC	Parent Company	2,003	-
Swisstek Aluminum Ltd	Affiliated Company	286	975
Delmege Forsyth & Co.Ltd	Affiliated Company	323	323
Total		2,612	1,298

16. REVENUE

Revenue from Contracts with Customers

	2020	2019
	Rs.'000	Rs.'000
Types of goods		
Feldspar	86,806	90,095
Ball clay	29,533	41,647
Kaoline	26,144	26,762
Sanitaryware	23,649	5,268
Total revenue from contract with customers	166,132	163,772
Timing of revenue recognition		
Goods transferred at a point in time	166,132	163,772

17. OTHER INCOME

	2020	2019
	Rs.'000	Rs.'000
Income from investments in related parties - quoted	-	7,510
Rental income	36,750	36,750
Disposal gain on property, plant and equipment	-	11,650
Franchise commission income	3,901	2,925
Disposal gain on quoted shares	-	14,412
Sundry income	4,853	1,825
	45,504	75,072

NOTES TO THE FINANCIAL STATEMENTS

18. FINANCE COST

	2020	2019
	Rs.'000	Rs.'000
Interest expense on overdrafts	146	1,007
Interest expense on bank loans	13,307	19,877
Finance charges on lease liabilities	304	715
	13,757	21,599

19. PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

Is stated after Charging /(Crediting)

	2020	2019
	Rs.'000	Rs.'000
<i>Included in cost of sales</i>		
Depreciation and amortisation	14,218	15,316
Defined benefit plan costs - gratuity	2,073	371
Defined contribution plan costs - EPF and ETF	1,211	1,549
Other staff cost	21,216	26,669
Variable lease over mining land	2,992	-
<i>Included in administration expenses</i>		
Depreciation and amortisation	2,870	1,965
Defined benefit plan costs - gratuity	(317)	1,315
Defined contribution plan costs - EPF and ETF	1,724	1,490
Other staff cost	20,064	17,314
Auditors remuneration		
- Audit fees	370	348
- Non Audit fees	186	317
Rent, rates and taxes	3,156	3,863
Staff compensation	4,686	-

20. INCOME TAX EXPENSES

20.1 The major components of income tax expense are as follows ;

	2020	2019
	Rs.'000	Rs.'000
Year ended 31 March		
(a) Current income tax		
Current income tax charge	-	-
Under/(Over) provision of current taxes in respect of prior years	-	(945)
	-	(945)
(b) Deferred income tax		
Deferred taxation charge	5,056	8,274
Income tax revised reported in the income statement	5,056	7,329
Deferred tax expense reported in the OCI	460	(195)
	5,516	7,134

20.2 Reconciliation between current tax expense and the product of accounting profit.

Year ended 31st March	2020 Rs.'000	2019 Rs.'000
Accounting profit before income tax from continuing operation	28,257	144,919
Income exempt from tax	-	(21,922)
Income considered as separate source of income	(36,750)	(36,750)
Non deductible expenses	20,423	37,187
Deductible Items	(14,836)	(110,740)
Business income	(2,905)	12,694
Investment income	36,750	36,750
Taxable profit/loss	33,845	49,444
Tax losses utilised	(33,845)	(49,444)
Current income tax expense		
Taxation -28%	-	-

20.3 Reconciliation between tax expense and the product of accounting profit

Year ended 31st March	2020 Rs.'000	2019 Rs.'000	
Adjusted accounting profit chargeable to income taxes	28,257	122,997	
Tax effect on chargeable profits	7,912	34,439	
Tax effect on non deductible expenses	110	7	
Tax effect on deductions claimed	(2,506)	(27,312)	
	5,516	7,134	
Tax loss brought forward (Provisional)	407,414	456,858	
Adjustments for prior years	20,553	-	
Utilised during the year	(33,844)	(49,444)	
Tax loss carried forward (Provisional)	394,123	407,414	
Deferred income tax			
	Applicable tax rate		
Capital allowances	28%	331	(27,150)
Retirement benefit liability	28%	429	100
Carried forward tax losses	28%	3,722	13,335
Provision for obsolete and slow moving, consumables and spares	28%	-	(25)
Investment Property - Revaluation surplus	28%	574	22,637
Reversal of revaluation surplus on disposal of Land	28%	-	(624)
		5,056	8,273
Effective income tax rate		17.89%	5.06%

NOTES TO THE FINANCIAL STATEMENTS

21. EARNINGS PER SHARE

Earnings per share - basic from continuing operations

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders of Lanka Ceramic 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.

	2020 Rs.'000	2019 Rs.'000
Amounts used as the numerator:		
Profit attributable to equity holders for basic earnings per share	23,201	137,590

	2020 Rs.'000	2019 Rs.'000
Weighted average number of ordinary shares in issue applicable to basic earnings per share (refer note 9)	6,000	6,000

22. CASH AND CASH EQUIVALENTS

	2020 Rs.'000	2019 Rs.'000
Favourable cash and cash equivalents balance		
Cash and bank balances	6,934	14,801
Total cash and cash equivalents for the purpose of cash flow statement	6,934	14,801

23. ASSETS PLEDGED

Other than the assets acquired on finance lease (note 3) and the details of assets pledged stated in note 11.3 no other assets have been pledged as a security as at the reporting date.

24. RELATED PARTY DISCLOSURES

Details of significant related party disclosures are as follows:

24.1 Transactions with the Related Entities

	Parent		Group Companies	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Nature of transaction				
Statement of profit or loss				
Sale of goods	66	22,939	178,092	148,412
Commission income	-	-	4,436	3,593
Purchase of goods / services	-	-	2,659	2,444
Reimbursement of expense net of fund transfer	(2,031)	(27,778)	(160,783)	(134,089)
Investment disposed by Company	-	150,201	-	-
Statement of financial position				
Due from related parties	1,857	1,644	71,920	47,069
Due to related parties	2,003	-	609	1,298

Transactions with group companies include Lanka Walltiles PLC, Lanka Tiles PLC, Rocell Bathware (Pvt) Limited, Swisstek Ceylon PLC and Swisstek Aluminium (Pvt) Limited.

The Company carried out above transactions under ordinary course of business at commercial rates. Fund transfer represents sales proceeds received by the Company from group companies and the parent.

24.2 Transactions with key management personnel of the Company

The key management personnel of the Company / Group are the members of its Board of Directors and that of its parent.

	2020 Rs.'000	2019 Rs.'000
Key management personnel compensation		
Short term employment benefits	4,860	4,905
	4,860	4,905

25. COMMITMENTS AND CONTINGENCIES

25.1 Capital commitments

There were no significant capital commitments as at reporting date in the Company except as detailed below,

Lease commitments

a). Lanka Ceramic PLC is committed to pay lease rental under finance leases as follows;

	Amount Rs.'000
Less than 1 year	727
Between 1 to 5 years	-

Lease commitments over mining lands (note 4).

25.2 Contingencies

The Company has no contingencies as at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

26. EVENTS OCCURRING AFTER THE REPORTING PERIOD

Subsequent to the outbreak of COVID-19 Pandemic, the Company has complied with all the directives issued by the Government of Sri Lanka to safeguard the health of employees, customers, suppliers and all other stakeholders. The Company has provided protective equipment and regular health checks are carried out to ensure the hygiene and well-being of all the employees.

The impact of this pandemic is uncertain and the recovery period is likely to take at least several months. The necessary cost controlling mechanisms have been implemented by the Company while initiating several measures to preserve liquidity and curtail losses. We anticipate that demand for our products will recover from current levels gradually and it is not possible at this time to predict the exact timing or extent of recovery.

The board together with the management is committed to withstand the negative effects and short-term uncertainty this pandemic has created and confident that the Company is in the possession of required resources and capabilities to achieve this.

Other than the above there have been no material events occurring after the balance sheet date that require adjustments or disclosure to these financial statements.

27. FINANCIAL RISK MANAGEMENT

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

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

Market risk

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) Cash flow interest rate risk – risk that future cash flows associated with a financial instrument will fluctuate.

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 Companies' 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. Subsequent to the COVID-19 pandemic the Central Bank of Sri Lanka has encouraged banks and financial institutions to reduce lending rates through consecutive reductions in policy rates and monetary easing policies. The Company analyses its interest rate exposure on a dynamic basis.

Interest rate sensitivity	Change in basis points	Change in profit before tax Rs.'000
2019-2020	0.1	1,376
2018-2019	0.1	2,160

Credit risk

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

The Company places its cash and cash equivalents with a number of creditworthy financial institutions. The Company's policy limits the concentration of financial exposure to any single financial institution. In order to minimise the impact of COVID-19 the Company is proactively engaged in minimising disputes and late collection risk. Further the receivable balances were reassessed to forecast the time of settlements. The maximum credit risk exposure of the financial assets of the Company is approximately the carrying amounts as at reporting date, except for trade receivables which are secured by bank guarantees. (Please refer Note 8.2 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 Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Company's operations and to mitigate the effects of fluctuations in cash flows. Due to the dynamic nature of the underlying business, the Company aims at maintaining flexibility in funding by keeping both committed and uncommitted credit lines available. The Company has looked in to possibility of obtaining new funds at concessionary rate under the Saubagya (Prosperity) Loan Scheme ("Saubagya COVID-19 Renaissance Facility") implemented by the Central Bank of Sri Lanka and obtaining debt moratorium for the already existing borrowings.

The table below analyses the Company's non-derivative financial liabilities into relevant maturity categories based on the remaining period at the statement of financial position date to the contractual maturity date.

At 31 March 2020	Less than 3 months	Between 3 months and 1 year	Between year 1 and year 2	Between year 2 and year 5	Over 5 years
Rs ('000)					
Bank borrowings	10,133	28,286	32,399	51,490	Nil
Trade and other payables	37,117	Nil	Nil	Nil	Nil

At 31 March 2019	Less than 3 months	Between 3 months and 1 year	Between year 1 and year 2	Between year 2 and year 5	Over 5 years
Rs ('000)					
Bank borrowings	10,914	31,375	36,268	83,889	Nil
Trade and other payables	24,601	Nil	Nil	Nil	Nil

NOTES TO THE FINANCIAL STATEMENTS

Capital management risk

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

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

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

The gearing ratio as at 31 March is as follows:

	2020 Rs.'000	2019 Rs.'000
Borrowings	96,607	124,909
Total equity	842,883	818,498
Gearing ratio ; Debt to Equity	11%	15%

TEN YEAR SUMMARY

	2019/20	2018/19	2017/18	2016/17	2015/16	2014/15	2013/14	2012/13	2011/12	2010/11
	Rs.'000									
Operating Results										
Revenue	166,132	163,772	178,932	282,830	236,534	163,271	184,878	158,324	242,472	222,351
Gross Profit	57,603	62,208	76,116	152,954	89,017	70,246	68,594	51,418	94,692	67,447
Fair value gain on investment property	2,052	80,845	1,21,600	178,750	-	-	-	-	-	-
Other Income	45,504	75,072	160,457	282,134	285,990	261,095	103,323	174,387	83,796	86,402
Administration Expenses	51,674	43,375	56,166	52,302	36,991	46,376	47,752	55,049	67,539	54,953
Selling & Distribution Expenses	11,470	8,232	14,153	30,022	7,766	1,430	1,659	1,979	11,521	13,972
Finance Cost	13,757	21,599	40,498	37,584	30,659	35,258	64,582	94,520	40,200	4,010
Profit before Tax	28,257	144,919	248,377	499,654	301,212	249,711	58,576	76,736	50,980	77,268
Profit after Tax	23,201	137,590	182,199	485,321	290,764	244,362	58,576	76,285	50,445	73,744
Total Comprehensive Income	24,385	136,972	97,192	485,241	309,532	243,897	57,676	80,980	93,807	73,744
Assets & Liabilities										
Non Current Assets	1,020,479	1,035,557	952,249	1,517,176	1,027,224	994,693	1,009,607	1,028,783	1,062,064	388,950
Current Assets	139,401	114,949	224,837	105,903	252,698	141,653	98,209	89,415	87,262	109,939
Total Assets	1,159,880	1,150,506	1,177,086	1,623,079	1,279,922	1,136,346	1,107,816	1,118,198	1,149,326	498,889
Current Liabilities	64,342	55,998	197,655	106,167	236,594	92,727	100,734	100,974	646,776	61,027
Non Current Liabilities	252,655	276,010	297,905	215,167	275,360	315,183	380,042	447,861	12,964	17,692
Retirement Benefit Obligation	7,157	10,335	9,996	9,399	8,850	7,521	6,942	8,771	8,818	10,780
Share Capital & Reserves										
Stated Capital	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
Reserves	216,766	216,766	218,370	303,292	303,292	283,320	283,320	283,320	315,656	271,852
Accumulated Profit	326,117	301,732	163,156	698,453	164,676	145,116	43,719	(13,957)	(126,070)	(151,682)
Key Indicators										
Earnings per Share (Rs.)	3.87	22.93	11.34	16.18	9.69	8.15	1.95	2.54	1.68	2.46
Dividend per Share (Rs.)	-	-	-	8.00	9.00	4.75	-	1.10	1.50	2.60
Net Assets value per Share (Rs.)	140.48	136.42	113.59	43.39	25.60	24.28	20.90	18.98	16.32	14.01
Dividend Yield (%)	-	-	-	6.96	6.92	4.07	-	1.69	2.11	1.78
Dividend payout Ratio (%)	-	-	-	49.45	92.86	58.32	-	43.26	89.21	105.77
Interest Cover (times)	3.05	7.71	7.13	14.29	10.82	8.08	1.91	1.81	2.27	20.27
Current Ratio	2.17:1	2.05:1	1.14:1	1.00:1	1.07:1	1.53:1	0.97:1	0.89:1	0.13:1	1.80:1
Quick Asset Ratio	2.07:1	1.95:1	0.89:1	0.94:1	1.05:1	1.47:1	0.92:1	0.83:1	0.12:1	1.08:1
Profit Before Tax to Revenue (%)	17.01	88.49	138.81	176.66	127.34	152.94	31.68	48.47	21.03	34.75

SHAREHOLDER AND INVESTOR INFORMATION

SHARE DISTRIBUTION AS AT 31ST MARCH 2020

From	To	No. of Holders	No. of Shares	%
1	1,000	1,406	246,648	4.11
1,001	10,000	126	234,834	3.91
10,001	100,000	16	355,128	5.92
100,001	1,000,000	1	750,000	12.50
Over 1,000,000		1	4,413,390	73.56
		1,550	6,000,000	100.00

Categories of Shareholders

Local Individuals	1,491	1,294,067	21.57
Local Institutions	53	4,704,532	78.41
Foreign Individuals	6	1,401	0.02
Foreign Institutions	-	-	-
	1,550	6,000,000	100.00

20 MAJOR SHAREHOLDERS OF THE COMPANY

Name	31.03.2020		31.03.2019	
	No. of Shares	%	No. of Shares	%
1 Royal Ceramics Lanka PLC	4,413,390	73.557	4,413,390	73.557
2 Mr. A.A. Page	750,000	12.500	750,000	12.500
3 National Savings Bank	89,190	1.487	89,190	1.487
4 Code-Gen International (Pvt) Limited	39,473	0.658	39,473	0.658
5 Bimpuh Finance PLC	28,838	0.481	28,838	0.481
6 TRL Holdings (Pvt) Limited	21,328	0.355	21,328	0.355
7 Vyjayanthi & Company Limited	20,000	0.333	20,000	0.333
8 Mrs. A. Kailasapillai	19,693	0.328	19,693	0.328
9 Mr. R. Maheswaran	18,735	0.312	18,735	0.312
10 Miss. M.P. Radhakrishnan	15,135	0.252	15,135	0.252
11 Miss. A. Radhakrishnan	15,134	0.252	15,134	0.252
12 Vingrows Business Solutions (Pvt) Limited	14,811	0.247	14,811	0.247
13 Arunodhaya Investments (Pvt) Limited	13,741	0.229	13,741	0.229
14 Arunodhaya (Pvt) Limited	13,741	0.229	13,741	0.229
15 Arunodhaya Industries (Pvt) Limited	13,741	0.229	13,741	0.229
16 Mr. P.K. Sambasivam	11,000	0.183	11,000	0.183
17 People's Leasing & Finance PLC/Mr.L.A.C.K Kodytuakku	10,301	0.172	10,301	0.172
18 Mr. Z.G. Carimjee	10,267	0.171	10,267	0.171
19 Mr. U.C. Bandaranayake and Mrs.L. Bandaranayake	10,000	0.167	10,000	0.167
20 Mrs. A. Selliah	9,161	0.153	9,161	0.153
Sub Total	5,537,679	92.295	5,537,679	92.295
Others	462,321	7.705	462,321	7.705
Issued Capital	6,000,000	100.000	6,000,000	100.000

DIRECTORS SHAREHOLDINGS AS AT 31ST MARCH 2020

	No. of Shares	%
Mr. A.M. Weerasinghe	-	-
Mr. J.A.P.M. Jayasekera	20	-
Dr. S. Selliah	-	-
Mr. T.G. Thoradeniya	-	-
Mr. K.D.G. Gunaratne	-	-
Ms. A.M.L. Page	-	-
Mr. D.J. Silva	-	-
Mr. J.D.N. Kekulawala	-	-
Mr. S.M. Liyanage (<i>Appointed w.e.f 21st February 2020</i>)	-	-

SHARE PRICES

	As at 3/31/2020	As at 3/31/2019
Market Price Per Share		
Highest during the year	Rs. 145.00	Rs. 178.00
Lowest during the year	Rs. 75.00	Rs. 129.20
As at end of the year	Rs. 77.10	Rs. 139.90

PUBLIC HOLDING AS AT 31ST MARCH 2020

The Percentage of shares held by the public -13.103%

No of shareholders representing the above percentage - 1,543

The float adjusted market capitalisation as at 31st March 2020 - Rs. 60,616,482.60

The float adjusted market capitalisation of the Company falls under Option two of Rule 7.13.1 (b) of the listing rules of the Colombo Stock Exchange and the Company has complied with the minimum public holding requirement applicable under the said option.

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Twenty Ninth (29th) Annual General Meeting of Lanka Ceramic PLC will be held by way of Electronic means on the 30th day of July 2020 at 3.30 p.m. centered at the Board Room of Royal Ceramics Lanka PLC, No.20, R.A. de Mel Mawatha, Colombo 03.

AGENDA

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 2020 and the Report of the Auditors thereon.
2. To re-elect Mr. A.M. Weerasinghe, who retires by rotation in terms of Articles 102 and 103 of the Articles of Association, as a Director of the Company.
3. To re-elect Mr. K.D.G. Gunaratne, who retires in terms of Articles 102 and 103 of the Articles of Association, as a Director of the Company.
4. To elect as a Director Mr. S.M. Liyanage who retires in terms of Article 110 of the Articles of Association of the Company.
5. To re-appoint Messrs. Ernst & Young, Chartered Accountants, the retiring Auditors and to authorise the Directors to determine their remuneration.
6. To authorise the Directors to determine payments for the year 2020/21 for charitable and other purposes as set out in the Companies Donations Act (Cap 147).

By Order of the Board

LANKA CERAMIC PLC



P W Corporate Secretarial (Pvt) Ltd

Director / Secretaries

At Colombo

02nd July 2020

Notes:

1. A shareholder entitled to participate and vote at the above virtual meeting is entitled to appoint a proxy to participate and vote in his/her place by completing the Form of Proxy enclosed herewith.
2. A proxy need not be a shareholder of the Company.
3. Shareholders who are unable to participate in the above virtual meeting are also encouraged to submit a duly completed Form of Proxy appointing the Chairman or any other Member of the Board to participate and vote on their behalf.
4. For more information on how to participate by virtual means in the above virtual meeting, please refer Guidelines and Registration Process enclosed herewith.

FORM OF PROXY

*I/We.....of..... being a *Shareholder /Shareholders of Lanka Ceramic PLC,
do hereby appointofor failing him/her

Mr. A.M. Weerasinghe	of Colombo or failing him
Dr. S. Selliah	of Colombo or failing him
Mr. J.A.P.M. Jayasekera	of Colombo or failing him
Mr. T. G. Thoradeniya	of Colombo or failing him
Mr. K.D.G. Gunaratne	of Colombo or failing him
Ms. A.M.L. Page	of Colombo or failing him
Mr. D.J. Silva	of Colombo or failing him
Mr. J.D.N. Kekulawala	of Colombo or failing him
Mr. S.M. Liyanage	

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 30th July 2020 at 3.30 p.m. and any adjournment thereof and at every poll which may be taken in consequence thereof.

	FOR	AGAINST
1) To re-elect as a Director Mr. A.M. Weerasinghe, who retires by rotation in terms of Article 102 and 103 of the Articles of Association as a Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
2) To re-elect as a Director Mr. K.D.G. Gunaratne who retires by rotation in terms of Article 102 and 103 of the Articles of Association as a Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
3) To elect as a Director Mr. S.M. Liyanage who retires in terms of Article 110 of the Articles of Association as a Director of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
4) To re-appoint Messrs. Ernst & Young as Auditors of the Company for the ensuing year and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
5) To authorise the Directors to determine payments for the year 2020/21 for charitable and other purposes as set out in the Companies Donations Act (Cap 147).	<input type="checkbox"/>	<input type="checkbox"/>

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

.....
Signature

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

INSTRUCTIONS AS TO COMPLETION

1. The full name, National Identity Card number and the registered address of the shareholder appointing the Proxy and the relevant details of the Proxy should be legibly entered in the Form of Proxy which should be duly signed and dated.
2. The Proxy shall –
 - (a) In the case of an individual be signed by the shareholder or by his/her Attorney, and if signed by an Attorney, a notarially certified copy of the Power of Attorney should be attached to the completed Proxy if it has not already been registered with the Company.
 - (b) In the case of a Company or Corporate / Statutory Body either be under its Common Seal or signed by its Attorney or by an Officer on behalf of the Company or Corporate / Statutory Body in accordance with its Articles of Association or the Constitution or the Statute (as applicable).
3. Please indicate with a 'X' how the Proxy should vote on each resolution. If no indication is given, the Proxy in his/her discretion will vote as he/she thinks fit.
4. To be valid, the completed Form of Proxy must be deposited with the Company Secretaries, P W Corporate Secretarial (Pvt) Ltd at No. 3/17, Kynsey Road, Colombo 08, Sri Lanka or must be emailed to cera.pwcs@gmail.com 48 hours before the time fixed for the meeting.

CORPORATE INFORMATION

NAME OF THE COMPANY

Lanka Ceramic PLC

LEGAL FORM

A Public Quoted Company Listed on the Colombo Stock Exchange with Limited Liability, Incorporated under the provision of Companies Act No 17 of 1982 and re-registered under the Companies Act No. 07 of 2007.

COMPANY REGISTRATION NUMBER

PQ 157

BOARD OF DIRECTORS

Mr. A.M. Weerasinghe – Chairman

Mr. J.A.P.M. Jayasekara – Managing Director

Dr. S. Selliah

Mr. T.G. Thoradeniya

Mr. K.D.G. Gunaratne

Ms. A.M.L. Page

Mr. D.J. Silva

Mr. J.D.N. Kekulawala

Mr. S.M. Liyanage - *(Appointed w.e.f 21st February 2020)*

COMPANY SECRETARIES

P W Corporate Secretarial (Pvt) Ltd

3/17, Kynsey Road, Colombo 8

Tel: +94 114640360

REGISTERED OFFICE

No. 23, Narahenpita Road, Nawala

Telephone: +94 114504610, +94 114504612

Facsimile: +94 114504614

AUDITORS

Ernst & Young

Chartered Accountants

No. 201, De Seram Place Colombo 10.

BANKERS

Hatton National Bank PLC

People's Bank

