



Annual Report 2007



Bogala Graphite

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Chairman's Message

One of the significant events that happened during the period under review was the enactment of the new companies act which came in to force in May 2007.

In compliance with the provisions of the new act having sort legal advice we held an extraordinary general meeting despite the fact we improves our performance year on year for the last 4 years . Revenue increased from 297.6 million to 403 million during the year under review. Profit before interest and tax improved from 45 million to 72 million and profit after tax improved from 22.5 million to 34.5 million.

The new Plant at Bogala is now fully operational and we should see better quality products coming out of our mines which should enhance our marketing capability in to the future.

Your management is taking very positive steps to enter in to new markets, particularly in the Asian region. I'm confident that the steps taken will bear fruit in the near future.

Management would continue to focus on productivity in all areas of activity enabling the company to maintain costs within reasonable limits.

Your board remains confident tat the company should grow in the future with greater momentum provided no un-foreseen event occurs which could impact on the companies performance.

My colleague Sydney Jayasinghe who was Deputy Chairman and CEO since privatization resigned his Executive position on the 31st of December 2007 he will continue to serve on the Board as a Non Executive Director. Sydney made a tremendous contribution in making Bogala grow from strength to strength under his stewardship. On behalf of all stake holders I wish to place on record our sincere appreciation for the immense contribution made by Sydney .

Your Board resolved to appoint Amila Jayasinghe the current Executive Director as M/D and CEO of the company .I'm confident under Amila's Stewardship the company will continue to Prosper.

I wish take this opportunity to thank my colleagues on the Board for their wise counsel and support, also our employees ,bankers ,share holders, and valued business partners for the confidence they continue to place in Management of the Company

Vijaya Malalasekera
Chairman
13th February 2007

Chief Executive Officer's Review

The last six years. The emphasis laid on the development of the mine, product range and human resources during this period is clearly evident from the current performance.

A major phase of development was completed during the year under review, with the relocation of the facility for the production of high value classified graphite powders becoming fully operational. The complete product range capacity of this processing facility is now being utilised for the production of classified graphite powders to the stringent quality standards and specifications demanded by international buyers.

The annual turnover increased by a remarkable 35.4% to reach Rs 403 million in the present year although quantity sold was 5178 metric tons, an increase of a mere 101 metric tons, revealing the effect of the introduction of the value added product range. A similar trend is shown in profits as well which increased by 60% and 53.3%, before and after tax respectively, in comparison with 2006. The run of mine, which is the total quantity of graphite extracted from the mine, was 6,450 metric tons.

The ready cooperation and the guidance offered by my Chairman and the Board of Directors are gratefully acknowledged. The assistance of our business partners and bankers too is acknowledged with thanks.

The parent company Graphit Kropfmuhl AG of Germany was always at hand to offer its assistance. Our employees work as a team with dedication and commitment and their might is the key to our achievements. I am indeed thankful to all of them for their valued contribution.

Amila Jayasinghe

Managing Director / Chief Executive Officer

Report of the Directors

ANNUAL REPORT ON THE AFFAIRS OF THE COMPANY

The Directors are pleased to present to the members the annual report on the affairs of the Company together with the audited financial statements of the Company for the year ended 31st December 2007.

Accounts

The financial position of the Company is shown in the financial statements annexed hereto.

State of the Company's Affairs

The state of the Company's affairs is described in the Chairman's Review and the Report of the Chief Executive Officer.

Corporate Governance

Corporate Governance is the responsibility of the Board of Directors. The Board of Directors establishes strategic aims and formulates policy guidelines in order to direct business activities for enhancing shareholder value and for this purpose they are guided by the code of best practice on Corporate Governance issued by the Institute of Chartered Accountants of Sri Lanka.

The main responsibilities of the Board of Directors are as follows.

- Setting the company's strategic directions.
- Ensuring that sound and effective internal control system in place and that all statutory obligations are met.
- Identifying and managing business risks
- Succession Planning includes appointment and training of Senior Management

The Board met on four occasions during the year. The Board reviews and approves Operational and Capital Budgets and monitors performance of the company against the budget. Interalia amongst other business matters requiring Board approval.

The Audit Committee met on four occasions during the financial year ending 31st December 2007 and proceedings of the Audit Committee meetings are reported to the Board.

- The Audit Committee reviews all accounts of the company and recommends same to the Board for approval and publication.
- The committee held meetings with the external auditors to review the scope of the audit and the preparation of the Annual Report to ensure the reliability of the process, consistency of the Accounting policies and methods and compliance with Sri Lanka Accounting Standards and also recommend the reappointment and remuneration of the External Auditors.
- The Audit Committee regularly monitors the effectiveness of the Internal & Financial Control procedures by means of reports from sectional heads on instances of non compliance.
- The Audit Committee regularly monitors the timely payments of all statutory obligations.

Dividends

The Directors do not recommend the payment of a dividend for the year ended 31st December 2007 due to the financial position of the Company.

Directors

The Directors of the Company as at 31st December 2007 were:

Mr. V. P. Malalasekera
Mr. M. Ebeling
(Mr. Achim Carstanjen) alternate to Mr. M. Ebeling
Mr. J. C. P. Jayasinghe
Mr. C. Cooper
Mr. N. A. De Mel
Mr. A. P. Jayasinghe
Mr. G. M. Popescu

Report of the Directors

In terms of Article 98 of the Articles of Association of the Company, the Director who has been in office for the longest period retires from the Board of Directors by rotation at the end of the Annual General Meeting and is eligible for re-election at such meeting. Accordingly, Mr. M.Ebeling retires and is proposed for re-election as a Director at the forthcoming Annual General Meeting.

Principal Activity

The principal activity of the Company is the extraction, processing and sale of graphite.

Directors Interest in Contracts

The Directors of the Company were not directly or indirectly interested in any contracts/proposed contracts with the Company during the year ended 31st December 2007 except as stated in note 21 to the financial statements.

Directors Remuneration

The Directors Emoluments & Fees for year 2007 are stated below.

a) Directors Emoluments	Rs 1,946,048.00
b) Directors Fees	Rs 270,000.00

Entries in the Interest Register

Mr Martin Ebeling is also a Director of Graphit Kropmuhl AG who owes 87.5% of the share holdings of Bogala Graphite Lanka PLC and had trading transactions as disclosed in note 21.1 of the Financial statements of the company.

Directors' Shareholding

As at 31st December 2007 none of the Directors held any shares in the Company.

Donations

During the year the Company made donations to charities amounting to Rs.214,028/-

Appointment of Auditors

Messrs. Ernst & Young, Chartered Accountants, have expressed their willingness to continue in office until the next Annual General Meeting at a remuneration to be agreed with them.

Auditors Remuneration

The Company's Auditors during the period under review were Messrs Ernst & Young Chartered Accountants.

As Audit fees and expenses Rs 474,480/- and as fees and expenses for other services Rs 214,990/- were made. Other services consisted of tax related work.

As far as the Directors are aware the Auditors do not have any relationship with the company other than those disclosed above. Auditors also do not have any interest in the company.

Public Shareholding

Number of shares held by Public	-	4,629,628
Percentage	-	11.65%

By Order of the Board
CORPORATE SERVICES LIMITED
Secretaries
BOGALA GRAPHITE LANKA PLC

Colombo, on this 7th day of March 2008.



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

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Fax Gen : (011) 2697369
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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BOGALA GRAPHITE LANKA PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Bogala Graphite Lanka PLC, which comprise the balance sheet as at December 31, 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended December 31, 2007 and the financial statements give a true and fair view of the Company's state of affairs as at December 31, 2007 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

In our opinion, these financial statements also comply with the requirements of Section 151(2) for Company of the Companies Act No. 07 of 2007.

Colombo
31st February 2008

Income Statement

Year ended 31 December 2007

	Note	Year Ended 31.12.2007 Rs.	Year Ended 31.12.2006 Rs.
Revenue	3	403,004,642	297,684,178
Cost of Sales		(245,342,334)	(198,189,775)
Gross Profit		157,662,308	99,494,403
Other Income and Gains	4	3,345,771	4,077,433
Selling and Distribution Costs	5	(63,458,579)	(39,030,342)
Administrative Expenses	5	(25,266,097)	(17,912,771)
Other Operating Expenses	5	-	(1,529,102)
Profit from Operating Activities		<u>72,283,403</u>	<u>45,099,621</u>
Finance Cost	6	(34,529,405)	(19,353,266)
Profit Before Tax		37,753,998	25,746,355
Income Tax Expense	7	(3,229,052)	(2,877,297)
Profit for the year		<u>34,524,946</u>	<u>22,869,058</u>
Basic Earnings Per Share	8	<u>0.87</u>	<u>0.58</u>

The accounting policies and notes on pages 6 through 21 form an integral part of the financial statements.

Colombo

12 February 2008

Balance Sheet

As at 31st December 2007

	Note	31.12.2007 Rs.	31.12.2006 Rs.
ASSETS			
Non-Current Assets			
Property, Plant & Equipment	9	270,928,745	215,430,050
Exploration Rights	10	6,182,500	6,182,500
Trade and Other Receivables	12	6,850,535	6,390,077
		<u>283,961,780</u>	<u>228,002,627</u>
Current Assets			
Inventories	11	127,799,760	82,760,677
Trade and Other Receivables	12	49,820,084	38,426,269
Cash and Cash Equivalents	13	32,515,317	16,175,357
		<u>210,135,161</u>	<u>137,362,303</u>
Total Assets		<u>494,096,941</u>	<u>365,364,930</u>
EQUITY AND LIABILITIES			
Capital and Reserves			
Stated Capital	14	397,290,000	397,290,000
Reserve	15	5,718,298	5,718,298
Retained Earnings / (Losses)		(243,022,754)	(277,547,700)
Total Equity		<u>159,985,544</u>	<u>125,460,598</u>
Non-Current Liabilities and Deferred Income			
Interest Bearing Loans & Borrowings	16	25,441,015	24,284,924
Provisions and Other Liabilities	17	30,292,860	28,788,479
		<u>55,733,875</u>	<u>53,073,403</u>
Current Liabilities			
Trade and Other Payables	18	37,976,610	16,915,430
Income Tax Liabilities		1,172,475	1,864,436
Interest Bearing Loans & Borrowings	16	239,061,037	167,883,663
Voluntary Retirement Compensation Payable		167,400	167,400
		<u>278,377,522</u>	<u>186,830,929</u>
Total Equity and Liabilities		<u>494,096,941</u>	<u>365,364,930</u>

Certified by:

.....
Financial Controller

The Board of Directors are responsible for the preparation and presentation of these Financial Statements. Signed for and on behalf of the Board of Directors by.

.....
Director

.....
Director

The accounting policies and notes on pages 6 through 21 form an integral part of the financial statements.
Colombo
12 February 2008

Cash Flow Statements

Year ended 31st December 2007

		31.12.2007	31.12.2006
		Rs.	Rs.
Cash Flows From / (Used in) Operating Activities			
Net Profit before Tax		37,753,998	25,746,355
Adjustments for			
Depreciation	9	31,941,817	25,258,217
Foreign Currency (Gains)/Losses	4	(2,507,440)	97,800
Income from Investments	4	(2,625,149)	(1,756,053)
Profit on sales of Property, Plant & Equipment	9	(1,364,348)	(1,284,503)
Write back of Creditors	-	-	(7,205)
Finance Cost	6	34,529,405	19,353,266
Provision for Defined Benefit Plan	17	<u>3,897,784</u>	<u>3,067,209</u>
Operating Profit/(Loss) before Working Capital Changes		<u>101,626,067</u>	<u>70,475,086</u>
(Increase)/Decrease in Inventories		(45,039,083)	191,795
(Increase)/Decrease in Trade and Other Receivables		(11,854,273)	7,013,238
Increase /(Decrease) in Trade and Other Payables		<u>21,061,180</u>	<u>8,735,912</u>
Cash Generated from Operations		<u>65,793,891</u>	<u>86,416,031</u>
Finance Cost paid		(34,529,405)	(19,353,266)
Defined Benefit Plan Costs paid	17	(2,393,403)	(1,385,430)
Income tax paid		<u>(3,921,012)</u>	<u>(6,048,286)</u>
Net Cash From/(Used in) Operating Activities		<u>24,950,071</u>	<u>59,629,049</u>
Cash Flows from / (Used in) Investing Activities			
Acquisition of Property, Plant & Equipment	9	(87,440,511)	(74,901,949)
Proceeds from Sale of Property, Plant & Equipment		1,364,348	3,043,478
Interest Received		<u>2,625,149</u>	<u>1,756,053</u>
Net Cash Flows Used in Investing Activities		<u>(83,451,014)</u>	<u>(70,102,418)</u>
Cash Flows from/(Used in) Financing Activities			
Proceeds from Interest Bearing Loans and Borrowings		23,000,626	-
Repayment of Interest Bearing Loans & Borrowings	16	(2,939,245)	(2,628,236)
Principal Payment under Finance Lease Liabilities		<u>(103,457)</u>	<u>-</u>
Net Cash Flows from/(Used in) Financing Activities		<u>19,957,924</u>	<u>(2,628,236)</u>
Effect of Exchange Rate Changes on Cash and Cash Equivalents		97,800	(97,800)
Net Increase/(Decrease) in Cash and Cash Equivalents		<u>(38,445,219)</u>	<u>(13,199,405)</u>
Cash and Cash Equivalents at the beginning of the year	13	<u>(148,764,682)</u>	<u>(135,565,277)</u>
Cash and Cash Equivalents at the end of the year	13	<u>(184,800,261)</u>	<u>(148,764,682)</u>

The Accounting Policies and Notes on pages 6 to 21 form an integral part of the Financial Statements.

Statement Of Changes In Equity

Year ended 31st December 2007

	Stated Capital Rs.	Revaluation Reserve Rs.	Retained Earnings/(Losses) Rs.	Total Equity Rs.
Balance as at 31 December 2005	397,290,000	5,718,298	(300,416,758)	102,591,540
Net Profit for the Year	-	-	22,869,058	22,869,058
Balance as at 31 December 2006	397,290,000	5,718,298	(277,547,700)	125,460,598
Net Profit for the Year	-	-	34,524,946	34,524,946
Balance as at 31 December 2007	<u>397,290,000</u>	<u>5,718,298</u>	<u>(243,022,754)</u>	<u>159,985,544</u>

The Accounting Policies and Notes on pages 6 to 21 form an integral part of these Financial Statements.

Colombo

12th February, 2008

Notes to the Financial Statements

Year ended 31 December 2007

1. CORPORATE INFORMATION

1.1 General

Bogala Graphite Lanka PLC ("Company") is a limited liability Company incorporated and domiciled in Sri Lanka. The registered office of the Company is located at 210, De Saram Place, Colombo 10 and the principal place of business is situated at Bogala Mine in Aruggamma.

1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the Company were mining, separation, refining, treating, processing and preparation and sale of graphite.

1.3 Parent Entity and Ultimate Parent Entity

The Company's parent entity is Graphit Kropmuhl AG of Germany.

1.4 Date of Authorization for Issue

The Financial Statements of Bogala Graphite Lanka PLC for the year ended 31 December 2007 were authorized for issue in accordance with a resolution of the board of directors on 12 February 2008.

1.5 Number of Employees

Number of employees at the end of the year was 401 (2006 - 370).

2.0.

2.1 BASIS OF PREPARATION

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

The Financial Statements have been prepared on a historical cost basis, except for land and buildings that have been measured at fair value. The Financial Statements are presented in Sri Lankan Rupees.

2.1.1 Statement of compliance

The Financial Statements of Bogala Graphite Lanka PLC has been prepared in accordance with Sri Lanka Accounting Standards (SLAS).

2.1.2 Going Concern

The Directors have made an assessment of the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease trading.

2.1.3 Comparative Information

The accounting policies have been consistently applied by the Company and, except for the changes in accounting policy (policies) discussed more fully in 2.2; are consistent with those used in the previous year. Where necessary, comparative figures have been rearranged to comply with current presentation.

2.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year except where the Company has adopted the revised standards mandatory.

SLAS 18 Property, Plant and Equipment (Revised 2005)

Notes to the Financial Statements

Year ended 31 December 2007

The Company now determines the depreciation charge separately for each significant part of an item of property, plant and equipment and begin to depreciate when it is available for use, rather than adopting a method whereby property, plant and equipment are depreciated in the year of purchase with no charge being accounted for in the year of disposal.

In addition to the standards referred to above, the Company has resolved to adopt the following revised standards during the year.

- SLAS 3 Presentation of Financial Statements (Revised 2005);
- SLAS 5 Inventories (Revised 2005);
- SLAS 10 Accounting Policies, Changes in Accounting Estimates and Errors (Revised 2005);
- SLAS 12 Events after the Balance Sheet Date (Revised 2005);
- SLAS 18 Property, Plant & Equipment (Revised 2005);
- SLAS 19 Leases (Revised 2005);
- SLAS 21 The Effects of Changes in Foreign Exchange Rates (Revised 2005)
- SLAS 30 Related Party Disclosures (Revised 2005);
- SLAS 34 Earnings per Share (Revised 2005).

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 balance sheet 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 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 balance sheet 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.

The export sales of the Company are entitled to a concessionary income tax rate of 15% from income tax under Section 52 of the Inland Revenue Act No. 10 of 2006 as amended amendment Act No. 10 of 2007.

Notes to the Financial Statements

Year ended 31 December 2007

Deferred Taxation

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

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 balance sheet 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 balance sheet date.

Sales Tax

Revenues, expenses and assets are recognised net of the amount of sales tax except where the sales tax incurred on a purchase of assets or service 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 that 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 receivables and payables in the Balance Sheet.

2.3.3 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 capitalized as part of that asset.

2.3.4 Exploration Rights

The expenditure has been incurred in obtaining the Right to mine from Aluketiya Graphite Mines (Pvt) Limited and Rajagedara Mines for the two projects, Aluketiya project and Rajagedara project respectively. In this regard the total rights to mine have been surrendered by the two respective entities to Bogala Graphite Lanka Limited.

The Company has made an application to Geological Survey and Mines Bureau (GSMB) in 2000, for license to mine. However to date GSMB has not issued for license.

Notes to the Financial Statements

Year ended 31 December 2007

Accordingly the Company is treating the exploration as a non-current asset in the Balance Sheet until the license is issued.

2.3.5 Inventories

Inventories of graphite are valued on a Weighted Average Cost basis either at cost of production or net realizable value whichever is lower.

Inventories of graphite containing less than 70% of carbon content are not valued.

Consumable inventories are stated at the lower of cost or net realizable value. In general, cost is determined on a Weighted Average Cost basis and includes transport handling costs. Net realizable value is the price at which inventories can be sold in the normal course of business after allowing for the costs of realization.

Provision is made, where necessary, for obsolete, slow-moving and defective inventories.

2.3.6 Trade and Other Receivables

Trade receivables are stated at the amounts they are estimated to realise net of allowances for bad and doubtful receivables.

Other receivables and dues from Related Parties are recognised at cost less allowances for bad and doubtful receivables.

2.3.7 Cash and Cash Equivalents

Cash and cash equivalents are 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 cash flow statement, cash and cash equivalents consist of cash in hand and deposits in banks net of outstanding bank overdrafts. Investments with short maturities i.e. three months or less from the date of acquisition are also treated as cash equivalents.

2.3.8 Property, Plant and Equipment

Plant and equipment is stated at cost, excluding the costs of day to day servicing, less accumulated depreciation. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met.

The Property, Plant & Equipment, which were transferred from Government Owned Business Undertaking of State Mining and Mineral Development Corporation, were at a valuation.

Depreciation is calculated on a straight line basis over the useful life of the assets.

Any revaluation surplus is credited to the revaluation reserve included in the equity section of the balance sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except that a deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve.

Notes to the Financial Statements

Year ended 31 December 2007

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 derecognition 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.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

2.3.9 Leases - Company as a lessee

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged reflected in the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term. The depreciation policy for depreciable leased assets is consistent with that for depreciable asset that are owned as described in 2.3.8.

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

2.3.10 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, where 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 assets but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

2.3.11 Retirement Benefit Obligations

a) Defined Benefit Plan Gratuity

Gratuity is a Defined Benefit Plan. The Company is liable to pay gratuity in terms of the relevant statute. In order to meet this liability, a provision is carried forward in the balance sheet, equivalent to an amount calculated based on a half month's salary of the last month of the financial year of all employees for each completed year of service, commencing from the first year of service. The resulting difference between brought forward provision at the beginning of a year net of any payments made, and the carried forward provision at the end of a year is dealt with in the income statement.

Notes to the Financial Statements

Year ended 31 December 2007

However, as per the Gratuity Act No. 12 of 1983, the liability for payment arises only upon completion of 5 years of continued service with the Company.

The gratuity liability is not funded nor actuarially valued. This item is grouped under provision and Other Liabilities in the Balance Sheet.

b) Defined Contribution Plans - Employees' Provident Fund & Employees' Trust Fund

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with the respective statutes and regulations. The Company contributes 12% and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively.

2.3.12 Pneumoconiosis Compensation

Provision has been made in the financial statements for compensation payable to all employees who have been medically identified by a medical board as having pneumoconiosis.

2.3.13 Revenue Recognition

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

A) Sale of Goods

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

b) Interest

Interest Income is recognised on an accrual basis unless collectibility is in doubt.

c) Others

Other income is recognised on an accrual basis. 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

Year ended 31st December 2007

	Year Ended 31.12.2007	Year Ended
31.12.2006	Rs.	Rs.
3. REVENUE		
Summary		
Sales - Export	401,142,720	295,405,113
Sales - Domestic	1,861,922	2,279,065
	403,004,642	297,684,178
<p>Income from local sales are liable for Value Added Tax (VAT) at the standard rate of 15%. Income from exports are liable for VAT at zero rate. The above revenue is stated after deducting VAT which amounted to Rs. 279,288/- (2006 - Rs. 341,860/-).</p>		
4. OTHER INCOME		
Interest Income	2,625,149	1,756,053
Write Back of creditors	3	7,205
Estate Income	131,387	31,008
Income from Sale of Obsolete Items	729,206	436,938
Profit on sales of Property, Plant and Equipment	1,575,216	1,284,503
Exchange Gain/(Loss)	(2,507,440)	97,800
Penalty From Employees	14,241	25,083
Miscellaneous Income	778,009	438,843
	<u>3,345,771</u>	<u>4,077,433</u>
5. PROFIT FROM CONTINUING OPERATIONS		
Stated after Charging /(Crediting)		
<i>Included in Cost of Sales</i>		
Depreciation	30,460,571	24,190,814
Staff Costs includes		
- Defined Benefit Plan Costs -Gratuity (included in staff cost)	3,176,306	2,628,239
- Defined Contribution Plan Costs - EPF and ETF		
(included in staff cost)	3,882,605	3,759,134
- Other staff Costs	48,104,117	43,220,050
Technical Services Fee (5.1)	20,150,232	-
Legal Expenses	240,120	235,694

Notes to the Financial Statements

Year ended 31st December 2007

	Year Ended 31.12.2007 Rs.	Year Ended 31.12.2006 Rs.
<i>Included in Administrative Expenses</i>		
Depreciation	1,481,247	2,067,403
Auditors' Remuneration (Fees and Expenses)	367,400	303,600
Contingent Lease Rent on Operating Leases	200000	-
Donations	214,028	171,200
Staff Costs includes		
- Defined Benefit Plan Costs -Gratuity (included in staff cost)	378,595	272,760
- Defined Contribution Plan cost - EPF & ETF (included in Staff cost)	894,694	690,471
- Other Staff Cost	<u>8,282,886</u>	<u>6,079,714</u>
<i>Included in Selling Distribution Expenses</i>		
Advertisement Costs	79,360	160,200
Transport Costs	4,660,948	3,319,900
Royalty paid to the Government	14,327,438	11,326,459

5.1 A Technical Services Agreement has been entered into with Graphit Kropfmuhl AG the parent company for provision of know how in mining, processing and manufacturing of Graphite and training of personnel in upgrading of their skills. This agreement is effective from 1st January 2007.

6. FINANCE COST

Interest Expense on Overdrafts	31,361,111	15,035,515
Interest Expense on Interest Bearing Loans and Borrowings	2,067,541	2,378,550
Finance Charges on Lease Liabilities	87,028	-
Interest Expense on Packing Credit	<u>1,013,725</u>	<u>1,939,201</u>
	<u>34,529,405</u>	<u>19,353,266</u>

7. INCOME TAX

The major components of income tax expense for the years ended 31 December are as follows :

Income Statement

Current Income Tax

Current Income Tax charge (7.1)	3,229,052	3,102,736
Over Provision of current taxes in respect of prior years	(945)	(225,439)

Deferred Income Tax

Deferred Taxation Charge/(Reversal) (7.2)	-	-
Income tax expense reported in the Income Statement	<u>3,228,107</u>	<u>2,877,297</u>
	<u>3,228,107</u>	<u>2,877,297</u>

Notes to the Financial Statements

Year ended 31st December 2007

7.1 A Reconciliation between Tax Expenses and the product of Accounting Profit multiplied by the statutory tax rate is as follows :

	31.12.2007	31.12.2006
	Rs.	Rs.
Accounting Profit Before Tax from Continuing Operations	37,753,998	25,746,355
Aggregate Disallowed Items	38,501,418	30,302,048
Aggregate Allowable Expenses	(46,089,993)	(25,981,515)
Aggregate Other Income	<u>2,625,149</u>	<u>1,756,053</u>
	<u>32,790,572</u>	<u>31,822,941</u>
Losses (limited to 35% of the Statutory Income)7.1.1	<u>(11,476,700)</u>	<u>(11,138,029)</u>
Taxable Profit/(Loss)	21,313,872	20,684,912
Statutory Tax Rate		
- Income Tax Rate	15%	15%
- Social Responsibility Levy	1%	1%
Income Tax expenses reported in the income tax statement	<u>3,229,052</u>	<u>3,102,736</u>
7.1.1 Tax Losses Brought Forward	166,967,326	178,105,355
Adjustment due to revised Income Tax Computation	133,427	-
Set off against current year profits	<u>(11,476,700)</u>	<u>(11,138,029)</u>
Tax Losses Carried Forward	<u>155,624,053</u>	<u>166,967,326</u>

7.1.2 The Company is liable for Income Tax at the rate of 15% (31.12.2006 - 15%) on profit derived from Export Sales. The profit derived from local sales is taxable at 30% (31.12.2006 - 30%). A provision has been made in these financial statements on account of income taxes in view of adjusted taxable profits of the Company. The carried forward tax losses of the Company as at 31.12.2007 amounts to Rs. 155,624,053/- (provisional) (31 December 2006 - Rs. 167,100,753/-).

Notes to the Financial Statements

Year ended 31st December 2007

7.2 Deferred Tax Assets, Liabilities and Income Tax relates to the following;

	Balance Sheet		Income Statement	
	2007	2006	2007	2006
	Rs.	Rs.	Rs.	Rs.
Deferred Tax Liability				
Capital allowances for tax purposes	<u>7,735,218</u>	<u>11,391,395</u>	<u>3,656,177</u>	<u>9,842</u>
	<u>7,735,218</u>	<u>11,391,395</u>	<u>3,656,177</u>	<u>9,842</u>
Deferred Tax Assets				
Provisions and Other Liabilities	(4,543,929)	(4,318,272)	225,657	252,267
Voluntary Retirement Compensation Payable	(25,110)	(25,110)	-	-
	<u>(4,569,039)</u>	<u>(4,343,382)</u>	<u>225,657</u>	<u>252,267</u>
Brought forward Losses	(3,166,179)	(7,048,013)	(3,881,834)	(262,109)
Deferred income tax income/ (expense)			<u>-</u>	<u>-</u>
Net Deferred Tax Liability	<u>-</u>	<u>-</u>		

7.2.1. Deferred Tax Liability arising from temporary differences is set-off against the brought forward losses to its extent, Deferred Income Tax Asset arising from the remaining carried forward losses amounting to Rs. 152,457,874/- (2006 - Rs. 160,052,740/-) have not been recognized in the Company's financials statements, as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilized due to the ongoing capital investment program.

8. EARNINGS PER SHARE

8.1 Basic Earnings Per Share is calculated by dividing the net profit/(loss) for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstandings during the period.

Amounts Used as the Numerators:	31.12.2007	31.12.2006
	Rs.	Rs.
Net Profit Attributable Ordinary shareholders for basic Earning Per Share	<u>34,524,946</u>	<u>22,869,058</u>

Notes to the Financial Statements

Year ended 31st December 2007

Number of Ordinary Shares used as Denominators:		2007	2006
		Rs.	Rs.
Number of Ordinary Shares applicable to basic Earning Per Share		39,729,000	39,729,000

	Balance as at 01.01.2007 Rs.	Additions/ Transfers Rs.	Disposals/ Rs.	Balance As at 31.12.2007 Rs.
9. PROPERTY, PLANT & EQUIPMENT				
9.1 Gross Carrying Amounts At Cost or Valuation				
Buildings on freehold land	20,983,925	9,860,916	-	30,844,841
Freehold Land	1,272,000	-	-	1,272,000
Road Development	1,015,066	-	-	1,015,066
Access Tunnels	97,192,312	28,737,874	-	125,930,186
Plant & Machinery	137,804,240	61,730,804	-	199,535,044
Other Equipments	20,176,553	9,442,764	-	29,619,317
Office Equipments	3,692,025	449,444	-	4,141,469
Furniture and Fittings	911,105	1,283,910	-	2,195,015
Computer Equipments	4,139,711	2,743,806	(164,833)	6,718,684
Motor Vehicles	23,204,421	3,877,106	(854,273)	26,227,254
	<u>310,391,358</u>	<u>118,126,624</u>	<u>(1,019,106)</u>	<u>427,498,876</u>
At Valuation				
Freehold Land	10,150,000	-	-	10,150,000
	<u>10,150,000</u>	<u>-</u>	<u>-</u>	<u>10,150,000</u>
Assets on Finance Leases				
Motor Vehicles	-	7,800,000	-	7,800,000
	<u>-</u>	<u>7,800,000</u>	<u>-</u>	<u>7,800,000</u>
9.2 In the Course of Construction				
	Balance as at 01.01.2007 Rs.	Incurred During The Year Rs.	Transferred During The Year Rs.	Balance as at 31.12.2007 Rs.
Access Tunnels	24,206,039	30,212,534	(28,737,875)	25,680,698
Branwell Project -	27,790,249	20,460,729	(48,250,978)	-
Buildings on Freehold Land	2,007,108	3,813,570	(5,820,678)	-
Plant & Machinery	10,163,415	2,240,443	(12,403,858)	-
Total Gross Carrying Amount	<u>64,166,811</u>	<u>56,727,276</u>	<u>(95,213,389)</u>	<u>25,680,698</u>
Total Value of Assets	<u>384,708,169</u>	<u>182,653,900</u>	<u>(96,232,495)</u>	<u>471,129,574</u>

Notes to the Financial Statements

Year ended 31st December 2007

PROPERTY, PLANT AND EQUIPMENT (Contd....)

9.3 Depreciation and Impairment At Cost or Revaluation

	Balance as at 01.01.2007 Rs.	Charge for the Year Transfers Rs.	Disposals/ Transfers /Discontinued Rs.	Balance As at 31.12.2007 Rs.
Buildings	11,972,929	997,596	-	12,970,525
Road Development	543,875	543,875	-	1,087,750
Access Tunnels	25,433,324	13,040,802	-	38,474,126
Plant & Machinery	95,467,345	11,943,675	-	107,411,020
Other Equipments	11,737,414	1,887,983	-	13,625,397
Office Equipments	3,016,279	141,452	-	3,157,731
Furniture and Fittings	684,209	186,952	-	871,161
Computer Equipments	3,582,770	811,534	(164,833)	4,229,471
Motor Vehicles	16,839,974	2,700,316	(854,273)	18,686,017
	<u>169,278,119</u>	<u>32,254,185</u>	<u>(1,019,106)</u>	<u>200,513,198</u>

Assets on Finance Leases

Motor Vehicles	-	130,000	-	130,000
	-	130,000	-	130,000
	<u>169,278,119</u>	<u>32,384,185</u>	<u>(1,019,106)</u>	<u>200,643,198</u>

9.4 Net Book Values

At Cost or Valuation

Buildings on Freehold Land	17,874,316	9,010,996
Freehold Land	1,272,000	1,272,000
Road Development	369,684	471,191
Access Tunnels	87,456,060	71,758,988
Plant and Machinery	92,124,024	42,336,895
Other Equipments	15,993,920	8,439,139
Office Equipment	983,738	675,746
Furniture and Fittings	1,323,854	226,896
Computer Equipments	2,489,213	556,941
Motor Vehicles	7,541,238	6,364,447
	<u>227,428,047</u>	<u>141,113,239</u>

31.12.2007
Rs.

31.12.2006
Rs.

Notes to the Financial Statements

Year ended 31st December 2007

PROPERTY, PLANT AND EQUIPMENT (Contd....)

	2007 Rs.	2006 Rs.
Assets on Finance Leases		
Motor Vehicles	7,670,000	-
	<u>7,670,000</u>	<u>-</u>
At Valuation		
Freehold Land	10,150,000	10,150,000
	<u>10,150,000</u>	<u>10,150,000</u>
In the Course of Construction		
Access Tunnels	25,680,698	24,206,039
Branwell Project	-	27,790,249
Buildings on Freehold Land	-	2,007,108
Plant and Machinery	-	10,163,415
	<u>25,680,698</u>	<u>64,166,811</u>
Total Carrying Amount of Property, Plant and Equipment	<u>270,928,745</u>	<u>215,430,050</u>

9.5 The land was revalued during the financial year 2001 by Messrs Chulanda Wellappili (an independent valuer). The result of such revaluation was incorporated in these financial statements from its effective (reported) date which is 15.11.2001. Such asset was valued on an open market value on an existing use basis. The surplus arising from the revaluation was transferred to a revaluation reserve.

9.6 Property, Plant and Equipment includes fully depreciated assets having a gross carrying amounts of Rs. 74,563,613/- (2006 - Rs. 70,685,056/-).

9.7 During the financial year, the Company acquired Property, Plant and Equipment to the aggregate value of Rs. 87,440,511/- (2006 - Rs. 74,901,948/-). Acquisitions through Cash payments amounting to Rs. 80,640,511/- (2006 - Rs. 74,901,948/-) and finance leases amounting to Rs. 6,800,000/- (2006 - nil) were made during the year for purchase of Property Plant & Equipment.

9.8 The useful lives of the assets is estimated as follows

	2007	2006
Buildings	25 Years	25 Years
Road Development Cost	10 Years	10 Years
Access Tunnels	10 Years	10 Years
Plant and Machinery	10 Years	10 Years
Other Equipments	10 Years	10 Years
Office Equipment	05 Years	05 Years
Furniture and Fittings	05 Years	05 Years
Motor Vehicles	05 Years	05 Years
Computer Equipments (Upto 31.12.2000 Over 05 Years)	03 Years	03 Years

Notes to the Financial Statements

Year ended 31st December 2007

10. EXPLORATION RIGHTS

	2007 Rs.	2006 Rs.
Aluketiya Project	5,925,000	5,925,000
Rajagedara Project	257,500	257,500
	<u>6,182,500</u>	<u>6,182,500</u>

11. INVENTORIES

Finished Goods	51,748,344	21,171,599
Consumables and Spares	76,051,416	61,589,078
	<u>127,799,760</u>	<u>82,760,677</u>

12. TRADE AND OTHER RECEIVABLES

	Current 2007 Rs.	Non Current 2007 Rs.	2007 Rs.	2006 Rs.
Trade Debtors - Related Parties (12.2)	8,277,823	-	8,277,823	2,127,413
- Others	3,764,776	-	3,764,776	5,572,554
	12,042,599	-	12,042,599	7,699,967
Other Debtors	19,374,175	-	19,374,175	17,228,497
Advances and Prepayments	13,439,041	-	13,439,041	9,070,595
Loans to Company Officers (12.3)	4,964,269	6,850,535	11,814,804	10,817,287
	49,820,084	6,850,535	56,670,619	44,816,346

12.2 Trade Debtors - Related Parties

	Relationship	2007 Rs.	2006 Rs.
Branwell Graphite Limited	Affiliate	8,216,398	143,085
Graphit Kropfmuhl AG	Parent Company	61,425	1,984,328
		<u>8,277,823</u>	<u>2,127,413</u>

12.3 Summary

	Balance as at 01.01.2007 Rs.	Loans Granted During the Year Rs.	Repayments Rs.	Balance as at 31.12.2007 Rs.
Loans to Company Officers	10,817,287	6,853,583	(5,856,066)	11,814,804
	<u>10,817,287</u>	<u>6,853,583</u>	<u>(5,856,066)</u>	<u>11,814,804</u>

Notes to the Financial Statements

Year ended 31st December 2007

13. CASH AND CASH EQUIVALENTS IN THE CASHFLOW STATEMENT

Components of Cash and Cash Equivalents	2007 Rs.	2006 Rs.
13.1 Favourable Cash and Cash Equivalents Balance		
Cash and Bank Balances	22,515,317	6,175,257
Fixed Deposits	<u>10,000,000</u>	<u>10,000,000</u>
	<u>32,515,317</u>	<u>16,175,257</u>
13.2 Unfavourable Cash and Cash Equivalent Balances		
Bank Overdraft	(217,315,578)	(164,940,039)
Total Cash and Cash Equivalents For the purpose of Cash Flow Statement	<u>(184,800,261)</u>	<u>(148,764,782)</u>

14. STATED CAPITAL

	2007 Number	2006 Number
14.1 Number of Ordinary Shares Issued and Fully Paid	<u>39,729,000</u>	<u>39,729,000</u>
	<u>39,729,000</u>	<u>39,729,000</u>
	Rs.	Rs.
14.2 Issued and Fully Paid Ordinary Shares	<u>397,290,000</u>	<u>397,290,000</u>
	<u>397,290,000</u>	<u>397,290,000</u>

14.3 With the enactment of the Companies Act No. 07 of 2007 applicable with effect from 3rd May 2007 the concept of authorised capital and par value is no longer applicable. Therefore comparable figures have been restated accordingly. The total amount received by the Company or due and payable to the Company in respect of the issue of the shares are referred to as stated capital.

15. RESERVES

Summary Capital Reserves	2007 Rs.	2006 Rs.
Revaluation Reserve (15.1)	<u>5,718,298</u>	<u>5,718,298</u>
	<u>5,718,298</u>	<u>5,718,298</u>

Notes to the Financial Statements

Year ended 31st December 2007

	2007 Rs.	2006 Rs.
15.1 REVALUATION RESERVES		
On: Property, Plant & Equipments		
Balance as at the beginning of the year	5,718,298	5,718,298
Transfer of surplus during the year	-	-
Balance as at the end of the year	<u>5,718,298</u>	<u>5,718,298</u>

16. INTEREST BEARING LOANS AND LIABILITIES

	2007 Amount Repayable Within 1 Year Rs.	2007 Amount Repayable After 1Year Rs.	2007 Total Rs.	2006 Amount Repayable Within 1 Year Rs.	2006 Amount Repayable After 1 Year Rs.	2006 Total Rs.
Bank Loans (16.1)	3,259,013	21,030,292	24,289,305	2,943,624	24,284,924	27,228,548
Bank Overdrafts	217,315,578	-	217,315,578	-	164,940,039	164,940,039
Short Term Loan - Packing Credit	16,200,626	-	16,200,626	-	-	-
Finance Lease (16.2)	<u>2,285,820</u>	<u>4,410,723</u>	<u>6,696,543</u>	-	-	-
	<u>239,061,037</u>	<u>25,441,015</u>	<u>264,502,052</u>	<u>167,883,663</u>	<u>24,284,924</u>	<u>192,168,587</u>

	As at 01.01.2007 Rs.	Loans Obtained Rs.	Repayment Rs.	As at 31.12.2007 Rs.
16.1 Bank Loans				
Lanka Phosphate Limited (16.1.1)	<u>27,228,550</u>	-	<u>(2,939,245)</u>	<u>24,289,305</u>
	<u>27,228,550</u>	-	<u>(2,939,245)</u>	<u>24,289,305</u>

	2007 Rs.	2006 Rs.
16.1.1 Lanka Phosphate Ltd.		
Gross Liability	30,040,707	35,047,491
Finance Charges allocated to Future Periods	<u>(5,751,402)</u>	<u>(7,818,943)</u>
Net Liability	<u>24,289,305</u>	<u>27,228,548</u>

16.1.2 The repayment terms of borrowing and the security offered to each loan (other than leases) are set out below,

- ¹ Rate of Interest 12%
- ² Term of Repayment - Equal Monthly instalments of Rs. 417,232/- each
- ³ Repayment commencement month began from January 1999 and expiring in 2013.
- ⁴ No security offered.

Notes to the Financial Statements

Year ended 31st December 2007

16.2 Finance Leases

	As at 01.01.2007 Rs.	Loans Obtained Rs.	Repayment Rs.	As at 31.12.2007 Rs.
Finance Lease - Motor Vehicle	-	9,143,280	(190,485)	8,952,795
Gross Liability	-	9,143,280	(190,485)	8,952,795
Finance Charges allocated to future periods	-	-	-	(2,256,252)
Net liability	-	-	-	6,696,543

17. PROVISIONS AND OTHER LIABILITIES

	2007 Rs.	2006 Rs.
Retirement Benefit Obligations - Gratuity (17.1)	29,054,928	27,550,547
Pneumoconiosis Compensation (17.2)	1,237,932	1,237,932
	<u>30,292,860</u>	<u>28,788,479</u>
17.1 Balance as at the beginning of the Period	27,550,547	25,868,767
Charge for the Period	3,897,784	3,067,210
Payments made during the Period	(2,393,403)	(1,385,430)
Balance as at the end of the Period	<u>29,054,928</u>	<u>27,550,547</u>
17.2 Balance as at the beginning of the Period	1,237,932	1,237,932
Charge for the Period	-	-
Payments made during the Period	-	-
Balance as at the end of the Period	<u>1,237,932</u>	<u>1,237,932</u>

17.3 During the current year no new employees had been identified by the medical board as having Pneumoconiosis. The Directors have therefore concluded that no further provision is required for the current period.

17.4 Provision was made in accordance with the Workmen Compensation (Amendment) Act No. 15 of 1990 for identified employees.

18. TRADE AND OTHER PAYABLES

	2007 Rs.	2006 Rs.
Trade Payable - Others	2,595,952	2,964,335
Other Creditors - Related Parties (Graphit Kropfmuhl AG)	20,503,662	-
Sundry Creditors	4,160,777	4,306,801
Accrued Expenses	10,716,219	9,644,294
	<u>37,976,610</u>	<u>16,915,430</u>

Notes to the Financial Statements

Year ended 31st December 2007

19. COMMITMENTS AND CONTINGENCIES

19.1 Capital Commitments

The Company does not have significant capital commitments as at the balance sheet date.

19.2 Contingent Liabilities

There were no contingent liabilities as at 31st December 2007 other than the following.

	2007 Rs.	2006 Rs.
a) Credit Guarantee - Deutsche Bank	16,254,000	887,346
b) Bank Guarantee for Custom Purposes - Deutsche Bank	6,742,498	2,991,277
c) Bills Purchased - Deutsche Bank	-	1,162,188
d) Bank Guarantee for Custom Purposes - Peoples Bank	8,751,171	6,224,830

20. ASSETS PLEDGED

There are no assets pledged as at the Balance Sheet date.

21. RELATED PARTY DISCLOSURES

Details of significant related party disclosures are as follows:

21.1 Transaction with the parent and related entities

Name of the Company	Name of the Directors	Relationship	Nature of Transaction	2007 Rs.	2006 Rs.
Graphit Kropfmuhl AG of Germany	Mr. Martin Ebeling	Managing Director	Sale of Graphite*	27,897,531	3,098,956
			Purchase of Assets	5,407,120	117,418
			Technical fee	20,503,662	-
Branwell Graphite Ltd., (Affiliate)	Mr. C.L. Cooper	Managing Director	Sale of Graphite	150,320,759	75,400,696
			Purchases	15,691,093	17,594,543
Qingdao Kropfmuehl Graphite Co.Ltd. (Affiliate)	Mr. Martin Ebeling	Director	Sale of Graphite	90,535	(1,916,211)
			Purchases	3,469,621	-

* Terms and Conditions :

Sales and purchase of goods and/or services to related parties were made at normal trading terms on arms length basis.

Technical Fees are made as explained in Note 5.1.

The balance receivable from / payable to related parties are disclosed in Notes 12.2 and 18 respectively.

Notes to the Financial Statements

Year ended 31st December 2007

21.2 Transactions with Key Management Personnel of the Company or parent

Key Management Personnel Compensation ¹

	2007	2006
	Rs.	Rs.
Short-term employee benefits	2,216,048	2,044,518
Termination benefit	468,900	391,200

¹ Key management personnel are the Board of Directors of the Company.

21.3 Transactions with other related parties

Transactions with entities that are controlled, jointly controlled or significantly influenced by Key Management Personnel or their close members are as follows;

The Company procured services valued at Rs. 856,164/- (2006 - Rs. 695,857/-) and supplied services valued at Rs. 1,640,681/- (2006 - Rs. 1,861,153/-) to a related party Company; and the sum receivable to the Company as at 31 December 2007 amounts to Rs. 819,826/- (2006 - Rs. 1,165,296/-).

22. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

There have been no material events occurring after the Balance Sheet date that require adjustments or disclosure in these financial statements.

Summary of Share Holders

Shareholding	No. of Shareholders	Total No. of Shares	%
1 - 1000	10,370	2,337,694	5.88
1001 - 5000	487	1,237,040	3.11
5001 - 10000	41	293,194	0.74
10001 - 50000	25	452,900	1.14
50001 - 100000	1	54,300	0.14
100001 - 500000	2	564,500	1.42
500001 - 1000000	0	0	0
over 1000000	1	34,789,372	87.57
Total	10,927	39,729,000	100.00

Net Assets value per share as at 31.12.2006 **Rs. 3.15**

Net Assets value per share as at 31.12.2005 **Rs. 2.58**

	Date	Price
Highest	19.02.2006	Rs. 37.75
Lowest	13.12.2006	Rs. 20.00

Market Value per share as at 31.12.2006 **Rs. 22.75**

BOGALA GRAPHITE LANKA LIMITED
TOP 20 SHAREHOLDERS as at 31/12/2007

Name	Number of Shares	Percentage
1) Graphitwerk Kropfmuhl A.G	34,789,372	86.88
2) Share Investments (Pvt) Ltd	310,000	0.78
3) Secretary to the Treasury	254,500	0.64
4) Alchemy Heavy Metals (Pvt) Ltd	54,300	0.19
5) Univogue Garments Ltd.	49,500	0.12
6) H.A.PIERIS	28,000	0.07
7) Gnanatilake, M.A.U	26,000	0.07
8) G. E. S. De Silva	25,200	0.06
9) DPMC Financial Services (Pvt) Ltd	23,000	0.06
10) M. I. Samsudeen	21,800	0.05
11) K. Sripanjan	20,000	0.05
12) Sunil Piyawardana Holding (Pvt) Ltd.	20,000	0.05
13) M. Sritharan	19,400	0.05
14) P. N. D. Coory	19,000	0.05
15) R. E. Rambukwelle	18,100	0.05
16) First Capital Markets Limited/ Mr. M. A. U. Gnanathilaka	15,100	0.04
17) S. S. Wagnarajah	14,700	0.04
18) U. G. L. Wimalasiri	14,700	0.04
19) G. D. A. N. A .Senevirathna	14,100	0.04
20) W.D. Rathnapala	13,800	0.03

Notice of Meeting

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN THAT the Seventeenth Annual General Meeting of the Company will be held at 10.00 a.m. on Saturday the 29th day of March 2008 at the Ceylon Chamber of Commerce Auditorium at No. 50, Navam Mawatha, Colombo 02 for the following purposes:

AGENDA

1. To receive and consider the Report of the Directors and the Statement of Accounts and Balance Sheet of the Company for the year ended 31st December 2007 together with the Auditors' Report thereon.
2. To re-elect Mr.M.Ebeling who retires by rotation at the end of this Annual General Meeting in terms of Article 98 of the Articles of Association of the Company and being eligible has offered him self for re-election.
3. To re-appoint Messrs. Ernst & Young, Chartered Accountants, as the Auditors of the Company until the next Annual General Meeting and to authorize the Directors to determine their remuneration.

By Order of the Board
CORPORATE SERVICES LIMITED
Secretaries
BOGALA GRAPHITE LANKA PLC

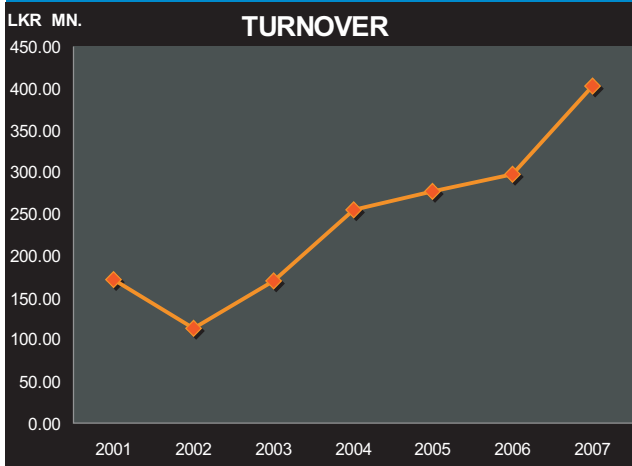
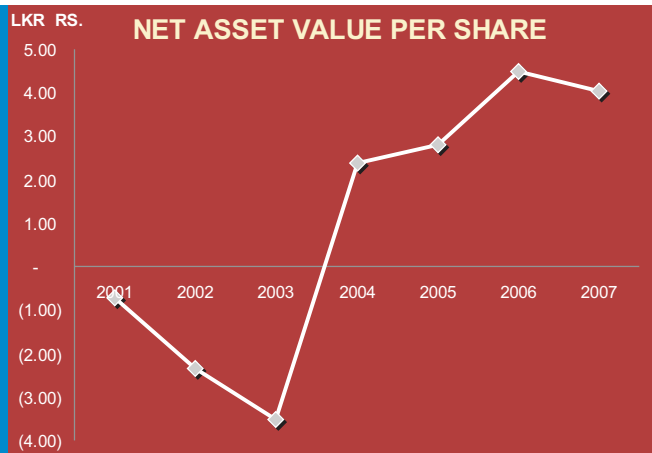
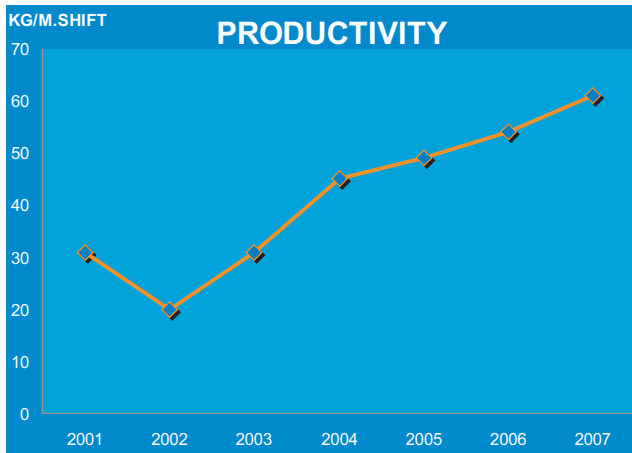
Colombo on this 07th day of March 2008

Note:

Any member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote in his/her stead and a form of proxy is sent herewith for this purpose. A proxy need not be a member of the Company. A proxy may not speak at the meeting unless specifically authorized to do so.

A completed form of proxy must be deposited at the Registered Office of the Company at No.216, De Saram Place, Colombo 10 not less than 48 hours before the time appointed for the holding of the meeting.

FINANCIAL HIGHLIGHTS (2001-2007)



Form of Proxy

FORM OF PROXY

I/Weof
.....being a member/s of BOGALA GRAPHITE
LANKA PLC hereby appointof.
.....or failing him Mr. V. P.
Malalasekera or failing him Mr. M. Ebeling or failing him Mr. J. C. P. Jayasinghe or failing him Mr.
C. Cooper or failing him Mr. N. A. De Mel or failing him Mr. A. P. Jayasinghe or failing him Mr. G. M.
Popescu as my/our proxy to speak/vote for me/us and on my/our behalf at the 17th Annual
General Meeting of the Company to be held on the 29th day of March 2008 at 10.00 a.m. and at
any adjournment thereof and at every poll which may be taken in connection with such meeting.

As witness my/our hands thisday of Two Thousand and Eight.

.....
Signature

Note:

Delete what is inapplicable.

*** Please bring your National Identity Card.**

INSTRUCTIONS AS TO COMPLETION

1. The instrument appointing a proxy may be in writing under the hands of the appointor or of its attorney duly authorized in writing under the hands of the appointor or of its attorney duly authorized in writing or if such appointor is a corporation under its common seal or the hand of its attorney or duly authorized person.
2. The instrument appointing a proxy and the Power of Attorney or other authority, if any, under which it is signed or a notarially certified copy of the Power of Attorney or other authority will have to be deposited at the Registered Office of the Company not less than 48 hours before the time appointed for the holding of the meeting.

Attendance Slip

Year ended 31st December 2007

I/We hereby record my/our presence at the Sixteenth Annual General Meeting of the Company at the Ceylon Chamber of Commerce Auditorium, No. 50, Nawam Mawatha, Colombo 02, at 10.00 a.m. on **Saturday the 24th day of March 2007.**

1. Full Name of Shareholder :
(in capital letters please)
2. Shareholder's NIC No. :
3. Number shares held :
4. Name of Proxy Holder :
5. Proxy Holder's NIC No.:
6. Signature of Attendee :

Note :

1. Shareholders/Proxy Holders are requested to bring the attendance slip with them when attending the meeting and hand it over at the entrance to the meeting hall after signing it.
2. Shareholders are also kindly requested to indicate any changes in their addresses by completing the following :

Certificate No. :

New Address :

.....

.....

*** Please bring your National Identity Card.**

Corporate Information

Directors

V. P. Malalasekera	(Chairman)
M. Ebeling	(Vice Chairman)
J. C. P. Jayasinghe	(Vice chairman)
A. P. Jayasinghe	Chief Executive Officer
C. Cooper	
N. A. De Mel	
G. M. Popescu	

Secretaries & Registrars

Corporate Services Ltd
216 De Saram Place
Colombo 10
Tel; 4718200

Auditors

Ernst & Young
201 De Saram Place
Colombo 10

Bankers

Deutsche Bank
Peoples Bank

Management

General Manager (Mines)	E. S. Dahanayake
Financial Controller	C. N. S.De Silva
Asst General Manager (Operations)	K. G. G. Kumburuhena
Asst General Manager (HR & ADM)	K. A. Padamasiri
Under ground Manager	E. M. C. D. K. Ekanayake
Plant Engineering Manager	R. M. D. U. Ekanayake
Marketing Manager	Mrs S. Waranasuriye
Customer Relation Manager	A. W. A. Wijesuriye
Supplies Manager	L. W.Ratnayake
Deputy Under Ground Manager	E. M. K. B.Ekanayake
Processing Manager	L. W. A. Liyanage
Accountant	Ms J. L. Jayakody
Stores And Inventory Manager	G. R. P. Gamalath

Business Address

No 20 Tickell Road
Colombo 8
Tel 2696145/2696146/2689292
Fax 2689291/2698708



