

CONTENTS

	PAGE
01. Notice of Meeting	01
02. Corporate Information	02-03
03. Report of the Board of Directors	04-05
04. Auditors Report to the Members of Paranthan Chemicals Company Limited	06-07
05. Income Statement for the year ended 31 st December 2002	08
06. Balance Sheet as at 31 st December 2002	09
07. Statement of Changes in Equity for the year ended 31 st December 2002	10
08. Cash Flow Statement for the year ended 31 st December 2002	11
09. Notes to the Cash Flow Statement	12
10. Notes to the Financial Statements	13-20
11. Instrument Appointing a Proxy	21

PARANTHAN CHEMICALS COMPANY LIMITED

Notice of meeting

Notice is hereby given that the 12th Annual General Meeting of the Company will be held on Tuesday 15th July 2003 at 4.30 P.M. at the Head Office of the Company at 100/25, Sri Ramanathan Road, Colombo 13.

Agenda

1. To receive the Report of the Directors and Audited Accounts of the Company for the year ended 31st December 2002 with the Report of the Auditors thereon.
2. To elect Directors.
3. To appoint Auditors of the Company.
4. To declare dividend.

By order of the Board

N.Hewa Kandamby
Secretary

25th June 2003

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint a person to attend and vote on his behalf.
2. A proxy need not be a member of the Company.
3. A form of proxy accompanies this report.

CORPORATE INFORMATION

Name of Company	Paranthan Chemicals Company Limited (Government Owned)
Registered Office	100/25, Sri Ramanathan Road, Colombo 13.
Board of Directors	
Acting Chairman/ Executive Director	Mr. H.G.B.P.U. Silva
Director	Mr. A. W. Gamage
Director	Mr. Sudantha Leanage
Director	Mr. H. A. Nimal Soysa
Director	Mr. Nishantha Anagiyadda
Director	Mr. R. Sivarajah
Secretary	Mr. N. Hewa Kandamby (Attorney at law)

Bankers	Sampath Bank Hatton National Bank People's Bank Commercial Bank Standard Chartered Bank
Auditors	S. J. M. S. Associates Chartered Accountants
Head Office	100/25, Sri Ramanathan Road, Colombo 13.
Chlorine Stores	No. 1A, Industrial Zone, Industrial Estate, Horana.
Factory	Paranthan
Telegrams	"PARACHEMIC" P.O. Box 1489
Fax	437556 , 437830
Telephone	437831, 437830 , 387109 074-610278, 437557, 437555 435473, 437829

PARANTHAN CHEMICALS COMPANY LIMITED
100/25, Sri Ramanathan Road , Colombo 13.

REPORT OF THE BOARD OF DIRECTORS
FOR THE YEAR ENDED 31ST DECEMBER 2002

The Board of Directors of Paranthan Chemicals Company Limited hereby present Annual Report and Accounts together with the Audited Financial Statements for the year ended 31st December 2002.

A. INTRODUCTION

Paranthan Chemicals Company Limited was incorporated on 17.01.1991 as a Public Limited Liability Company under the conversion of Public Corporation or Government Owned Business Undertakings in to Public Companies Act no. 13 of 1987, to carry on the business that was carried out by Paranthan Chemicals Corporation.

B. BOARD OF DIRECTORS

The Board of Directors consisted of the following as at 1st January 2002. Mr. P. Thiyagarajah, Chairman, Prof. K. K. Y. W. Perera, , Mr. Hettiarachchige Banduratna, Mr. K. T. P. Upasena. Mr. N. Chandramohan, Mr. E. Annalingam. The Board was reconstituted on 12th March 2002, with Mr. H.G.B.P.U. Silva as Executive Director, and Mr. A.W. Gamage, Mr. Sudantha Leanage, Mr. H. A. Nimal Soysa, Mr. Nishantha Anagiyadda as Directors. With effect from 16th July 2002, Mr R Sivarajah became a member of the Board.

C. DIRECTORS INTEREST IN CONTRACTS

The Directors have no direct or indirect interest in any contract or proposed contract of the Company.

D. SHARE CAPITAL

No change has been made to the Share Capital of the Company during the year under review. Full total number of shares of the Company has been allotted to the Secretary to the General Treasury on behalf of the State.

E. DIVIDEND

The Board recommends a dividend of Rs.1,000,000/- (Gross) to be paid out of the profit for the year 2002.

F. REVIEW OF THE YEAR

The Company had to face severe open market competition for sale of Caustic Soda. However we managed to sell 345.775M/Tons of Caustic Soda as against previous years sales of 728.955M/Tons. Sale of Liquid Chlorine increased from 977.916M/Tons to 1130.664M/Tons during the year under review. Company also sold 17.604 M/Tons of Hydrochloric Acid and 0.4740 M/Tons of Table Salt as against previous sales of 23.361 M/Tons and 0.0.4255 M/Tons respectively.

REVIEW OF LAST 5 YEARS

Net profit before tax

1998	Rs. 10,861,872/-
1999	Rs. 11,143,651/-
2000	Rs. 8,644,186/-
2001	Rs. 11,904,454/-
2002	Rs. 11,800,302/-

G. SALARIES OF REDUNDANT FACTORY EMPLOYEES

Salaries, E P F & E T F of the redundant factory employees amounting to Rs. 9,642,636.38 for the year 2002 were paid utilizing the funds of the Company,

H. PROPERTY PLANT & EQUIPMENT

Significant changes in Property Plant & Equipment during the period under review are given in note 06 to the accounts on page 18.

I. APPRECIATION

We take this opportunity to gratefully appreciate our customers for their continued patronage and also wish to place on record our appreciation of the co- operation, commitment, dedication and hard work rendered by members of the staff of the company during this period.

By order of the Board.

N.Hewa Kandamby
Secretary.

**AUDITORS' REPORT TO THE MEMBERS OF
PARANTHAN CHEMICALS COMPANY LIMITED**

We have audited the Balance Sheet of Paranthan Chemicals Company Limited as at 31st December 2002 and the related statements of Income, Changes in Equity and the Cash Flows for the year then ended , together with the accounting policies and notes.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for preparing and presenting these Financial Statements in accordance with the Sri Lanka Accounting Standards. Our responsibility is to express an opinion on these Financial Statements, based on our audit.

BASIS OF OPINION

We conducted our audit in accordance with the Sri Lanka Auditing Standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the said Financial Statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the said Financial Statements, assessing the accounting principles used and significant estimates made by the Directors, evaluating the overall presentation of the Financial Statements, and determining whether the said Financial Statements are prepared and presented in accordance with the Sri Lanka Accounting Standards. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

OPINION

- (a) Deferred taxation has not been provided in the Financial Statements as required by Sri Lanka Accounting Standard No. 14 Taxes on Income.
- (b) We were unable to verify the following amounts shown in Note 15 to the Financial Statements due to unavailability of sufficient evidence. The Company has only made a provision of Rs. 128,289.11 in respect of the unrecoverable value.

	<u>Rs.</u>
On account payment	= 79,697.50
Other Advances	= 220,270.00
Other Deposits	= 654,250.00
	<u>954,217.50</u>

(Contd.)

In our opinion, except for any adjustments arising from the matters referred to in paragraphs (a) and (b) above, so far as appears from our examination, the Company maintained proper books of account for the year ended 31st December 2002 and to the best of our information and according to the explanations given to us, the said balance sheet and related statements of Income, Changes in Equity and Cash Flows and the accounting policies and notes thereto, which are in agreement with the said books have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act No. 17 of 1982 and give a true and fair view of the Company's state of affairs as at 31st December 2002 and of its profit and cash flows for the year then ended.

DIRECTOR'S INTEREST IN CONTRACTS WITH THE COMPANY

According to the information made available to us, the Directors of the Company were not directly or indirectly interested in contracts with the Company during the year ended 31st December 2002, except as stated in Note 12 to these Financial Statements.

Sgd.
SJMS ASSOCIATES
Chartered Accountants.
Colombo.

16th June, 2003.

PARANTHAN CHEMICALS COMPANY LIMITED
BALANCE SHEET AS AT 31ST DECEMBER 2002

	Notes	31.12.2002 Rs.	31.12.2001 Rs.
ASSETS			
NON CURRENT ASSETS			
Property Plant & Equipment	6	31,851,457.60	25,348,234
CURRENT ASSETS			
Inventories		12,231,777.12	6,032,893
Trade & Other Receivables		24,129,080.53	38,181,353
Staff & Other Debtors		6,544,624.26	4,911,848
Deposits, Prepayments & Advances		1,908,114.51	4,210,889
Short Term Investments	7	26,192,198.51	32,225,000
Cash & Cash Equivalents		2,387,063.40	1,281,656
		<u>73,392,858.33</u>	<u>86,843,638</u>
 Total Assets		 <u><u>105,244,315.93</u></u>	 <u><u>112,191,872</u></u>
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Issued Capital	8	40,000,000.00	40,000,000
Accumulated Profit/(Loss)		36,638,668.21	31,166,185
Share Holders Fund		<u>76,638,668.21</u>	<u>71,166,185</u>
NON CURRENT LIABILITIES			
Retirement Benefit Obligation	9	17,639,525.50	18,159,496
CURRENT LIABILITIES			
Trade & Other payables		9,966,122.22	21,866,191
Dividend Payable		1,000,000.00	1,000,000
		<u>10,966,122.22</u>	<u>22,866,191</u>
 Total Equity & Liabilities		 <u><u>105,244,315.93</u></u>	 <u><u>112,191,872</u></u>

The Board is responsible for preparation of these Financial Statement.

Signed for and on behalf of the Board

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Directors

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PARANTHAN CHEMICALS COMPANY LIMITED
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2002

	2002	2001
	Rs.	Rs.
CASH FLOW FROM OPERATING ACTIVITIES		
Net Profit before Interest & Tax (Note a)	8,308,022.00	8,657,189
Adjustments for		
Depreciation	4,623,842.41	4,107,514
Profit/ (Loss) on Sale of Fixed Assets	851,200.00	(233,000)
Provision for Gratuity	1,129,679.50	8,042,884
Operating profit before working capital changes	<u>14,912,743.91</u>	<u>20,574,587</u>
CHANGES IN WORKING CAPITAL		
(Increase)/ Decrease in Inventories	(6,198,884.27)	1,299,416
(Increase)/ Decrease in Trade Receivable	13,315,411.00	(19,747,138)
(Increase)/ Decrease in Staff & Other Debtors	(1,632,776.28)	1,994,161
(Increase)/ Decrease in Deposits & Prepayments	2,302,774.10	(2,486,221)
(Increase)/ Decrease in Short Term Investments	6,032,801.49	(5,600,000)
Increase/ (Decrease) in Trade & Other Payables	<u>(14,613,754.00)</u>	<u>8,369,151</u>
	<u>(794,427.96)</u>	<u>(16,170,631)</u>
Cash generated from operating activities	14,118,315.95	4,403,956
Interest Paid	(10,164.04)	(7,468)
Income Tax Paid	(1,877,272.00)	(4,783,451)
Gratuity Paid	(1,649,649.75)	(735,513)
Net cash generated from operating activities	<u>10,581,230.16</u>	<u>(1,122,476)</u>
CASH FLOW FROM INVESTING ACTIVITIES		
Interest Income	3,502,443.66	3,254,734
Purchase of P P & E	(12,066,266.21)	(4,130,622)
Proceeds from Sale of P P & E	88,000.00	233,000
Net cash utilised in investing activities	<u>(8,475,822.55)</u>	<u>(642,888)</u>
CASH FLOW FROM FINANCING ACTIVITIES		
Dividend Paid	(1,000,000.00)	(1,000,000)
Net cash utilised in financing activities	<u>(1,000,000.00)</u>	<u>(1,000,000)</u>
Net Increase/(Decrease) in Cash & Cash Equivalents	1,105,407.75	(2,765,364)
Cash & Cash Equivalents at the beginning of the Year	1,281,655.65	4,047,020
	(Note b)	
Cash & Cash Equivalents at the end of the Year	<u>2,387,063.40</u>	<u>1,281,656</u>
	(Note c)	

PARANTHAN CHEMICALS COMPANY LIMITED
NOTES TO THE CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2002

	2,002	2,001
	Rs.	Rs.
a. Net profit before Interest & Taxation		
Net profit after Interest before Taxation	11,800,301.90	11,904,454
Adjustments: Interest Expenses	10,164.00	7,469
Interest Income	<u>(3502444.00)</u>	<u>(3254734.00)</u>
Net profit before Interest and Tax	<u>8,308,021.90</u>	<u>8,657,189</u>
	31.12.2002	31.12.2001
	Rs.	Rs.
b. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		
Cash at Bank	1,280,181.00	4,034,749
Cash in Hand	<u>1,475.00</u>	<u>12,271</u>
	<u>1,281,656.00</u>	<u>4,047,020</u>
	31.12.2002	31.12.2001
	Rs.	Rs.
c. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		
Cash at Bank	2,367,466.90	1,280,181
Cash in Hand	<u>19,596.50</u>	<u>1,475</u>
	<u>2,387,063.40</u>	<u>1,281,656</u>

PARANTHAN CHEMICALS COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2002

1. CORPORATE INFORMATION

1.1 DOMICILE & LEGAL FORM

Paranthan Chemicals Company Limited is a limited liability company incorporated and domiciled in Sri Lanka. The registered office and the principal place of business are located at 100/25, Sri Ramanathan Road, Colombo 13.

1.2 PRINCIPAL ACTIVITIES & NATURE OF OPERATIONS

During the year the principal activities of the company were import and sale of chemical products.

1.3 NUMBER OF EMPLOYEES

The number of employees of the end of the year was 163.(In 2001= 172 employees)

2. ACCOUNTING POLICIES

2.1. GENERAL

2.1.1 ACCOUNTING CONVENTION

The financial statements of the company are prepared in conformity with the generally accepted accounting principles and the Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka, applied consistently on a historical cost basis. Revenue and costs are accrued and recorded in the Financial Statements of the period to which they relate.

2.1.2 FOREIGN CURRENCY CONVERSION

Transactions arising in foreign currencies are converted into Sri Lankan Rupees at the rate of exchange prevailing at the time the transactions are effected.

All monetary Assets & Liabilities in foreign currencies are converted into Sri Lankan Rupees at the rate of exchange prevailing at the balance sheet date. The resulting gains or losses arising are charged to the Income Statement.

2.1.3 POST BALANCE SHEET EVENTS

All material events occurring after the balance sheet date are considered and where necessary adjustments are made in the financial statements.

2.2. ASSETS & BASES OF THEIR VALUATION

2.2.1. PROPERTY PLANT & EQUIPMENT

2.2.1.1. The assets are stated at cost or valuation less accumulated depreciation. The cost of Property Plant & Equipment (PP&E) is the cost of purchase or construction together with any expenses incurred in bringing the assets to their working condition for their intended use.

2.2.1.2. No depreciation is provided for land. The depreciation on all other PP&E is charged on a straight line basis to write off the cost over their estimated useful lives. The annual rates used for this purpose are consistent with those of the previous year, they are

Building Structures	5% p.a.
Motor Vehicles	25% p.a.
Containers	12.5%p.a.
Tools & Equipment	12.5%p.a.
Office Equipment	12.5%p.a.
Furniture & Fittings	12.5%p.a.
Plant & Machinery	12.5%p.a.

No depreciation is charged on additions made during the year while a full year's depreciation is provided in the year of disposal.

2.2.2 INVENTORIES

Inventories are valued at the lower of cost and estimated net realizable 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 normal course of business after allowing for cost of realization from their existing state to saleable condition. Cost is determined on first in first out basis.

2.2.3. TRADE RECEIVABLES & OTHER RECEIVABLES

Receivables are stated at the amounts estimated to be realized net of provision for bad and doubtful receivables.

Provision for Bad and Doubtful Debts are made as follows.

	Rate %
1-2 years	25
2-3 years	50
More than 3 years	100

2.2.4. INVESTMENTS SECURITIES

These are acquired and held for yield or capital growth in the medium term. Such securities are valued at cost. Interest and dividend income are accrued.

2.2.5. CASH & CASH EQUIVALENTS

Cash and Cash Equivalents are defined as cash in hand and demand deposits which are readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

For the purpose of Cash Flow Statement, Cash & Cash equivalents consist of cash in hand & deposits in banks,(net of outstanding bank overdrafts.)

2.3. LIABILITIES & PROVISIONS

2.3.1. LIABILITIES

All known liabilities as at the Balance sheet date are included in the financial statements and adequate provision is made for liabilities which are known to exist but the amount of which cannot be determined accurately.

2.3.2. RETIREMENT BENEFIT COSTS

a) Defined benefit Plan- Gratuity

Provision is made in the financial statements for gratuities payable to all employees under the payment of Gratuity Act. No. 12 of 1983 and in accordance with Sri Lanka Accounting Standard No.16 “Retirement Benefit Costs”.

The liability is not externally funded nor actuarially valued. This item is grouped under Non Current Liabilities in the balance sheet.

b) Defined Contribution Plan – Employees Provident Fund & Employees Trust Fund.

All employees who are eligible for Employees Provident Fund contributions & Employees Trust Fund contributions are covered by relevant contributory funds in line with respective statutes and regulations.

2.3.3. CAPITAL COMMITMENTS & CONTINGENCIES

Capital commitments & contingent liabilities as at the Balance Sheet date are disclosed in the respective notes to the Financial Statements.

2.3.4.TAXATION

The Company is liable for taxation under the Inland Revenue Act No. 38 of 2000 and its subsequent amendments. Provision is made for Taxation at 35% on the adjusted tax profit.

2.3.5. DEFERRED TAXATION

Provision, which is required by Sri Lanka Accounting Standard No.14 Taxes on Income has not been made for deferred taxation on the excess of net book value of assets on which depreciation allowance have been claimed over their tax written down value.

2.4. INCOME STATEMENT

2.4.1.TURNOVER

The turnover of the company represents the invoiced value of goods less returns.

2.4.2.REVENUE RECOGNITION

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured.

a) Sale of goods

Sales are recognized on an accrual basis.

b) Interest

Interest income is recognized as the interest accrues unless collectibility is in doubt.

c) Others

Other income is recognized on an accrual basis.

2.4.3. EXPENDITURE RECOGNITION

2.4.3.1 REVENUE EXPENDITURE

- a) The profit earned by the company as shown in the Income Statement is after providing for all known liabilities and for depreciation of Property, Plant & Equipment.
- b) For the purpose of presentation of Income Statement the Directors are of the opinion that the function of expenses method presents fairly the elements of the enterprise performance. Hence such presentation method is adopted.

2.4.3.2.CAPITAL EXPENDITURE

Expenditure incurred for the purpose of extending or improving assets of a permanent nature by means of which to carry on the business or for the purpose of increasing the earning capacity of the business is treated as capital expenditure.

2.4.3.3.Gains or Losses of a revenue nature on the disposal of PP&E are accounted for in the Income Statement.

		31.12.2002	31.12.2001
		Rs.	Rs.
7	SHORT TERM INVESTMENTS		
	Call Deposits		
	Sampath Bank	6,217,312.76	29,225,000
	Standard Chartered Bank	1,974,885.75	0
		<u>8,192,198.51</u>	<u>29,225,000</u>
	Fixed Deposit		
	Hatton National Bank	3,000,000.00	3,000,000
	Standard Chartered Bank	15,000,000.00	0
		<u>18,000,000.00</u>	<u>3,000,000</u>
		<u><u>26,192,198.51</u></u>	<u><u>32,225,000</u></u>
8	SHARE CAPITAL		
		Par Value	
		Rs.	
		At the beginning	At the end of the
		of the year	year
		Rs.	Rs.
	AUTHORISED		
	4,000,000 Ordinary Shares	10/-	
		<u>40,000,000.00</u>	<u>40,000,000</u>
	ISSUED & FULLY PAID		
	4,000,000 Ordinary Shares	10/-	
		<u>40,000,000.00</u>	<u>40,000,000</u>
		31.12.2002	31.12.2001
		Rs.	Rs.
9	RETIREMENT BENEFIT OBLIGATION		
	PROVISION FOR GRATUITY		
	Balance as at 01.01.2002	18,159,495.75	10,852,124
	Add: Provision for the year	1,129,679.50	8,042,885
		<u>19,289,175.25</u>	<u>18,895,009</u>
	Less: Payments made during the year	<u>(1,649,649.75)</u>	<u>(735,513)</u>
	Balance as at 31.12.2002	<u><u>17,639,525.50</u></u>	<u><u>18,159,496</u></u>