

Nature's finest

Lanka Milk Foods (CWE) PLC
Annual Report 2012/13

Our Vision

To become the most desired entity and leader in the Sri Lankan dairy industry

Our Mission

Provide high-quality dairy products to all with a focus on safety and nutrition

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Nature's finest.

Nature's finest offerings are not always accessible for everyone. Yet the Brands' of Lanka Milk Foods Group have now become a household name with an outstanding range of delicious dairy products and beverages that are 100% pure, fresh and available everywhere.

Lanka Milk Foods. Experience nature's finest.

Our Products



Lakspray Milk Powder

This is the flagship brand of the LMF Group and also the pioneer milk powder brand in the country. Lakspray has nourished Sri Lankans for 45 years, thus obtaining the trust of many households. It is a natural full cream milk powder, produced from 100% pure cow's milk. Lakspray is creamier than instant milk powder; this enables our consumers to prepare a larger volume than other semi instant powdered milk, Lakspray is rich in milk proteins, vitamins and minerals,

Lakspray promotes healthy growth for children and well being for adults. Lakspray is currently available in multiple pack sizes: 50g, 100g, 200g, 400g and 1 Kg to suit different customer requirements. Lakspray Trim was renamed as Lakspray Non Fat and contains instant skim milk powder with vitamins and minerals to cater to the nutritional needs of health conscious consumers. This product is an agglomerated super instant mix, soluble in water of any temperature. This product comes in a 400g pack size.



Daily ACTIV UHT Treated Malt Chocolate Food Drink

ACTIV was the latest addition to the Daily brand, to meet the growing demand for malt based dairy beverages. Consumer research reveals younger consumers prefer refreshments whilst the older consumers focus on nutrition. ACTIV has met the consumer expectations with the right combination of taste and nutrition value. ACTIV is a sterling success among local youth and is associated with many of their activities and aspirations. This milk based product is full of the natural goodness and quality associated with our farms. ACTIV is also exported to the Maldivian market and won the hearts and minds of the young Maldivian consumers.



Daily UHT Treated Flavoured Milk

Daily is a land mark beverage brand as the first product in Sri Lanka to be packed using UHT treatment and aseptic process; fifteen years ago. Aseptic packaging is the world's most advanced food preservation technology, enabling the food content to be preserved for prolonged periods without using any artificial additives or preservatives. Daily flavoured milk has shelf life of 6 months under this technology. Daily milk is produced using premium quality milk from Ambewela Farms, which is a principal dairy farm in Sri Lanka using modern farming techniques. This brand comes in a 200ml pack size and consists of eight delicious flavours – vanilla, chocolate, strawberry, banana, coffee, mango, Faluda and Kulfi. The one litre take-home pack was introduced under the Faluda variant to cater to the higher demand during the Ramadan season, but now remains a consistency pack-line throughout the year Daily milk is also popular in the Maldives, and many queries have been received from a number of countries, regarding the import of Daily milk from LMF.

Ambewela Dairy Range

The Ambewela dairy brand was launched in 2004, with the vision of providing premium quality dairy products to the Sri Lankan consumers and to contribute towards the development of the local dairy industry. Full Cream liquid milk (pure fresh milk) was introduced first under the Ambewela brand. Ambewela is produced using premium quality pure cow's milk from Ambewela Farm. In the farms, milking is done under strict hygienic conditions, according to the best international dairy practices, resulting in only the purest quality fresh milk, conforming to highest international dairy standards. Ambewela Full Cream milk is UHT processed and aseptically packed, with a shelf life of six months at room temperature. Ambewela has no artificial additives or preservatives. Ambewela milk is gradually becoming the most sought after milk product by parents, as it is perceived to be the best option for their children's healthy growth.

In 2009, realising the quantum of consumer equity built within the short span of five years, the Ambewela brand was extended to other forms of liquid milk such as UHT Non-fat milk, UHT flavoured milk, Cheese and Yoghurt.

Ambewela Yoghurt

Ambewela Yoghurt was introduced to the market as a product extension of the Dairy products portfolio in 2009. Ambewela Yoghurts are produced with the highest quality milk sourced from our farms which gives the product an unparalleled advantage in taste and colour. The highest quality standards maintained by the Group have led the way in making the yoghurt the product of choice by many consumers. At present the demand outweighs the supply and the production capability, The Management has taken steps to build capacity to cater to ever increasing demand. At present APPL (Ambewela Products Pvt Ltd) produces around two million cups a month. With the increased capacity, a further three million of yoghurt can be produced taking a total monthly figure to five million.

New product development is a core policy of the Group and we are hoping to introduce some exciting flavours to our yoghurt range in the near future which will add a whole new dimension to drive further revenue to the Group

Our Products

Ambewela Cheese

Under the Brand Name of Ambewela, two key varieties of cheeses are produced both at the New Zealand farm in Pattipola and APPL(Ambewela Products Pvt Ltd) in Ambewela. We use milk sourced only from Ambewela in the process to ensure the highest quality standards, thus delivering on the brand promise to the consumers.

APPL

The modern state of the art factory has the capability of producing cheese on a mass scale using mechanised processors. However the types of cheeses produced are more for the European pallet as APPL caters primarily for the hospitality sector than the domestic market. APPL produces the following varieties of cheese. The flavour, texture, weight, size and quality can be managed better in this form of mechanised production process.

- Ambewela Edam 2500 g Block (Estimated Weight)
- Ambewela Gouda 2500 g Block(Estimated Weight)

New Zealand Farm - Pattipola

Cheese produced at the New Zealand farm uses a more traditional process where the production is more labour intense. The cheese produced is broadly classified as cottage cheese and is under the supervision of the cheese maker (in the case of the farm – Assistant Manager Dairy Products) thus having a slight variation on the flavour owing to the human touch. The cheeses produced at the New Zealand Farm are as follows

- Ambewela Edam 250 g & 400 g Ball Cheese
- Ambewela Gouda 250 g & 400 g Ball Cheese
- **Flavours**
 - Plain
 - Garlic
 - Pepper
 - Chili
 - Cumin
- Ambewela Gouda 2500 g Block (Estimated Weight)
- Ambewela Parmesan 2500 g Block (Estimated Weight)
- Ambewela Gouda 100 g Shredded
- Ambewela Parmesan 100 g Grated



Ambewela Goat Milk

The farm produces goat milk under the board of Ambewela. The product remains a popular choice among goat milk consumers owing to the high quality maintained by the processes of the New Zealand farm. This is the corner stone of its success.



BLU Energy Drink

BLU Energy drink was launched in 2012, and now has a staggering growth in the Sri Lankan energy drink market. BLU is an internationally acclaimed brand which is available in more than 40 countries worldwide. It is a product of Poland and is manufactured using the latest technologies and highest water purification methodologies, in the most pristine of conditions to guarantee the highest quality standards to its consumers worldwide. Research and development has led to the creation of this next-generation energy drink which provides great tasting, sustained and hydrating energy without the usual bitter after tastes associated with this product category. BLU was launched with two variants – Regular & Cranberry Flavour. However with the tremendous growth, a third variant Lemon Lime was introduced to the market. BLU is available in cans of 250ml.

MyJuicee Fruit Drink

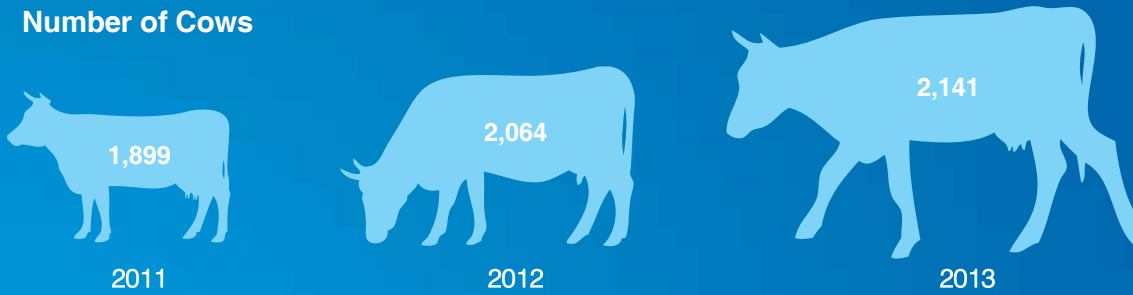
MyJuicee is one of many fruit drinks in the market, providing daily dietary requirements of vitamin C. This product is processed using premium quality fruit pulps and concentrates sourced both locally and internationally, in keeping with international quality standards. This brand is presently targets the young adult market of Sri Lanka, not only as a refreshing thirst quencher but also as a nutritious beverage. The product is aseptically packed under extreme hygienic conditions and is available in Apple, Mango, Mixed Fruit and Orange variants. MyJuicee promises some phenomenal returns with projected extensions and is available in pack sizes of 200ml, to consume while on the move, and 1 liter as a take home family pack. The Fruit Nectar is packed to cater to the Ready To Drink requirement of the consumers.



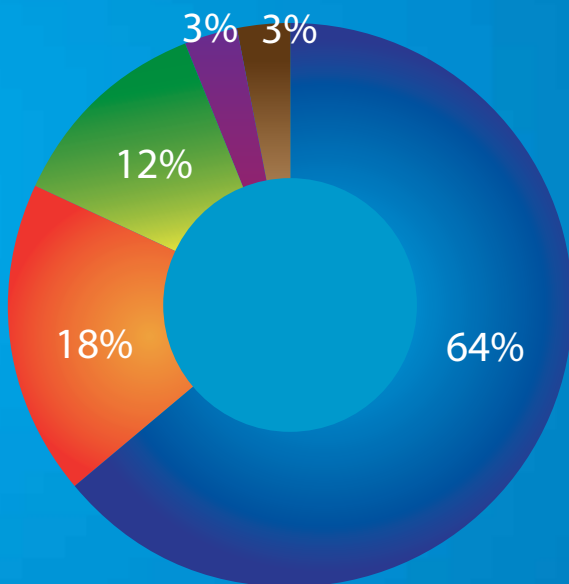
Financial Highlights

		Group			Company		
		2013	2012	Change %	2013	2012	Change %
Revenue	Rs. Mn.	5,436,654	4,994,877	8.84	3,711,003	3,408,036	8.89
Gross Profit	Rs. Mn.	913,858	722,302	26.52	514,890	388,821	32.42
Profit Before Tax	Rs. Mn.	408,400	173,551	135.32	263,876	35,846	636.14
Taxation	Rs. Mn.	(43,864)	(54,742)	(19.87)	(32,516)	(31,245)	4.07
Profit for the year	Rs. Mn.	364,536	118,809	206.83	231,360	4,601	4,928.47
Non-current Assets	Rs. Mn.	8,373,321	6,914,685	21.09	7,339,356	6,521,400	12.54
Current Assets	Rs. Mn.	2,199,028	2,012,429	9.27	2,292,285	2,016,498	13.68
Total Assets	Rs. Mn.	10,572,349	8,927,114	18.43	9,631,641	8,537,898	12.81
Total Equity	Rs. Mn.	8,625,488	7,484,778	15.24	8,516,730	7,509,196	13.42
Non-Current Liabilities	Rs. Mn.	400,198	161,369	148.00	85,776	115,372	(25.65)
Current Liabilities	Rs. Mn.	1,546,663	1,280,966	20.74	1,029,135	913,330	12.68
Net Assets	Rs. Mn.	8,590,030	7,441,780	15.43	8,516,730	7,509,196	13.42
RATIOS							
Earning per Share Rs.		9.30	2.83	227.46	5.78	0.12	4,716.67
Dividend per Share Rs.		1.50	1.00	50.00	1.50	1.00	50.00
Dividend Cover (Times)		6.20	2.84	118.31	3.85	0.12	3,108.33
Net Assets per Share Rs.		214.76	186.05	15.43	212.93	187.74	13.42
Market Value per Share Rs.		108.30	97.80	10.74	108.3	97.80	10.74
Price Earning Ratio (Times)		11.65	34.44	(66.17)	18.74	815.00	(97.70)
Return on Equity %		4.23	1.59	166.04	2.72	0.06	4,433.33
Return on Total Assets %		3.45	1.33	159.40	2.40	0.05	4,700.00
Debt to Equity %		3.67	1.29	184.50	0.75	1.28	(41.41)
Gross Profit Ratio %		16.81	14.46	16.25	13.87	11.41	21.56
Net Profit Ratio %		6.70	2.38	181.51	6.23	0.14	4,350.00
Current Ratio (Times)		1.42	1.57	(9.55)	2.23	2.21	0.90
Liquid Ratio (Times)		0.77	0.67	14.93	1.62	1.35	20.00

Number of Cows



Total Revenue as a percentage



Profit in Mn.



Management Information

The flavour





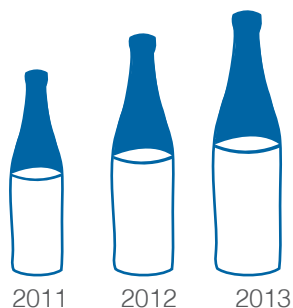
of Excellence

“ ... all the Brands of LDL have contributed the largest share of profit to the LMF Group with the revenue growth which is in excess of 14%... ”



“ In 2012/13, Lanka Milk Foods (CWE) PLC Group recorded a 206% growth over the previous year with a profit after tax of Rs. 365 Million and revenue of Rs. 5 Billion. ”

Chairman's Review



Revenue

Rs. **5,436.7**Mn.

It gives me great pleasure to place before you the Annual Report and Audited Accounts for the year ended 31st March 2013. I am further pleased to report that the Company succeeded in sustaining the impressive growth achieved in 2011/12 by strengthening its product portfolio substantially during the period under review in spite of challenging macro economic conditions.

Satisfactory Macro Economic Performance

The agriculture sector performed better in 2012 as compared to 2011 despite adverse weather conditions in the second half of the year. The sector grew by 5.8% in 2012, recovering from a slow growth of 1.4% in 2011. This recovery was achieved amidst drought conditions in the third quarter of the year and heavy monsoonal rains and floods in the latter part of the year. The performance of the agriculture sector was boosted by improved vegetable and highland crop cultivation and a significant increase in fish production during the year.

Sector Review

The Central Bank reveals that milk production increased by 16% during 2012, supported by the government's focused efforts to promote the local dairy industry. Furthermore, imports of milk powder decreased by approximately 11% in 2012 due to the upward revision of duties applicable on milk powder imports, with a view to encouraging domestic milk production. Further, development programmes launched by the government to boost milk production in the country and the rearing of cattle have helped in the increase of the milk production. Sri Lanka plans to increase its domestic dairy production to 100% self-sufficiency by 2016. This is a challenging task, given the current state of the industry which merely supplies approximately 35% of the domestic requirements. Moreover, the limited landmass in Sri Lanka poses a Herculean challenge to make the country self sufficient in liquid milk. However, we remain optimistic about the government's objective,

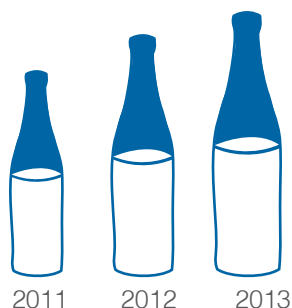
Lanka Milk Foods driven greater innovation in the liquid milk range during the year is striving to upgrade packaging while expanding packaging capacity for the future.

Challenging Operating Environment

The year under review witnessed a downward trend in the consumption of full cream milk powder due to the increase in retail price, which was a direct result of high import tariffs and increase in milk powder prices globally. Exacerbating the situation further, the Consumer Affairs Authority maintaining the ceiling price, which left the Company no choice but to operate on smaller margins. The prices of milk powder in the world market have now stabilised with slight variations. Although the government is leading an effort to curb the import of milk powder and increase the production of liquid milk, there are many factors to be considered. In order to enhance the output of milk, Sri Lanka needs more cows of high milk yielding breeds which can adapt to our environmental conditions.

Unfortunately, the country's fresh milk consumption requirements cannot be met solely by the domestic liquid milk production in today's context. Unlike in 1977, today's milk requirement has grown with the demand for other dairy produce. In addition to this change, the lack of awareness about the nutritional benefits of liquid milk amongst Sri Lankan consumers leads them to prefer the powdered

Chairman's Review



Total Assets

Rs. **10,572** Mn.

version. Consumers tend to cite ease of use for this preference and would rather not sift fact from fiction in the fresh versus powdered milk debate.

Moreover, increase in the availability of good quality fresh milk and the increase of milk powder prices have resulted in a drastic change in consumer purchasing patterns. In the case of powder milk there has been a drop in consumption levels due to financial constraints experienced by consumers, owing to an overall higher cost of living. However, our liquid milk range performed well and volumes grew on the back of strategic promotions carried out by the Company. Lanka Milk Foods driven greater innovation in the liquid milk range during the year is striving to upgrade packaging while expanding packaging capacity for the future.

Performance Highlights

In 2012/13, Lanka Milk Foods (CWE) PLC Group recorded a 206% growth over the previous year with a profit after tax of Rs. 364 Million and revenue of Rs. 5 Billion. The liquid milk and yogurt segments witnessed high demand during the period. The Company strategy of widening product range distribution, especially in liquid milk and yoghurt, has yielded a positive growth. The LMF group has embarked on milk, yoghurt and cheese production by leveraging on strategic promotions in each product line, which has helped boost sales and revenue growth, creating a steady cash flow for smooth operations despite challenging macro economic factors.

The Ambewela Tetra range of liquid milk includes both fresh milk and non-fat milk and volumes grew substantially during the year.

Subsidiary Performance

Lanka Dairies (Pvt) Ltd

The Company sustained its positive growth momentum from the previous financial year. An investment of Rs. 1 billion has been allocated to assist and boost production efficiency and produce deliverable value to the consumer. This timely investment for the proposed expansion goes hand in glove with the drive by the government to enhance the use of liquid milk. The expansion programme not only increases the production capacity, but also introduces a screw cap to the one litre packs, and changes the shape of all packs to slim, in line with consumer preferences. Furthermore, this investment will also serve to enhance the packaging of Ambewela milk and MyJuicee to international standards and will be an incentive to broaden the Company's reach to overseas markets.

The Ambewela Tetra range of liquid milk includes both fresh and non-fat milk and volumes grew substantially during the year. Ambewela fresh milk has grown by 12% in volume while non-fat milk has grown by 8% respectively in comparison to the previous financial year.

Further, the flavoured milk packed under the 'Daily' brand recorded an increase in revenues. During the last financial year, a major rival had entered the market and challenged the growth of our flavoured Daily range. However, Lanka Dairies was quick to put into place a series of strategies to ensure that the Daily brand retained its market share, thereby successfully pre-empting any attempts by the rival brand to erode Daily's market share.

Meanwhile, MyJuicee fruit nectar achieved a remarkable growth rate of almost 50% for the current year in comparison to the previous year, largely due to the re-launch of the product with enhanced international flair. The improved exports to the regional market and the increase in domestic demand for our product can be directly correlated to the new formulation of our MyJuicee range.

Ambewela Products Pvt Ltd

The continuous effort in providing the highest quality products in a mouth-watering range remains the cornerstone of our success. Ambewela Products Pvt Ltd produces set yoghurt, flavoured milk pouches and a variety of cheese. The demand for our yoghurt exceeded the production capability during the period under review. As a result, a new machine has been installed at a cost of Rs. 75 million to cater to the upsurge in demand and we envisage enhancing our yoghurt range further in keeping with the growth in healthy lifestyles.

Ambewela Livestock Company Ltd and Pattipola Livestock Company Ltd

The two farms have shown tremendous growth over the year and continue to yield profits. Despite numerous difficulties in obtaining import permits for the import of rye-grass seeds, to be cultivated in the farms as rye-grass provides a high content of proteins and produces more milk, quality has never been compromised and in fact both farms have been able to sustain profitability. The farm management strives to practice the best farming methodologies and is in a continuous state of development to maintain international standards in all aspects of its functioning. Ambewela and Pattipola dairy farms maintained under Lanka Milk Foods are two model farms in the island.

Acknowledgements

Our vision for the Company has been ably realised by the Company's Management team and staff, who have invested exhaustive resources in building our brands in a sustainable manner. The Board members have extended their support and co-operation through out the year. As a Company, we truly value our partnerships with our dealers, suppliers and distributors who remain the pillars of our success. The trust placed in us by our valued shareholders strengthens the Company's vision and mission into the foreseeable future. Furthermore, I wish to thank our loyal consumers for rewarding our efforts to provide them with wholesome quality goodness by consuming more of our products. Our products, characterised by wholesome goodness, are at the forefront of helping consumers to lead a healthy lifestyle.



D. H. S. Jayawardena

Chairman

22nd August 2013

Annual Report of the Board of Directors

The Board of Directors of Lanka Milk Foods (CWE) PLC has the pleasure in presenting their Annual Report together with the Audited Financial Statements of the Company for the year ended 31 March 2013.

General

Lanka Milk Foods (CWE) PLC is a public limited liability company incorporated in Sri Lanka on 12th November 1981, quoted on the Colombo Stock Exchange in 1983 and registered under the provisions of the Companies Act No 07 of 2007. The Company was managed by the Cooperative Wholesale Establishment till its privatisation in 1991.

Principal Activities of the Company and Review of Performance during the Year

The Company manufactures, imports, exports, re-packs, markets and distributes powdered milk, dairy products, allied beverages and trades in caffeine infused carbonated canned beverages. The core activities of LMF Group are; trading of value added consumables, trading of internationally originated commodities to both domestic and regional markets.

A review of the business of the Company and its performance during this financial year with the comments on the financial results, future strategies and prospects are contained in the Chairman's Review and Management Discussion of this report. This report together with the Financial Statements, reflect the position of the Company.

Financial Statements

The audited financial statements of the Company and the Group together with the Notes to the Accounts are presented on pages 44 to 86 of this report. The Board of Directors approved the financial statements herein on 22nd August 2013.

The Summary of Financial Results of the Group

Period	2012/2013 Rs. 000	2011/2012 Rs. 000
Profit From Operations	438,542	264,538
Profit before Tax	408,400	173,551
Income Tax Expense	(43,864)	(54,742)
Profit for the Year	364,536	118,809

Auditors' Report

The Report of the Auditors, Messrs KPMG, is presented on page 43 for the benefit of all stakeholders.

Accounting Policies

The accounting policies adopted by the Group are in accordance with the Sri Lanka Accounting Standards. The preparation of the Financial Statements are detailed on pages 49 - 56 of this report.

Directorate

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 24 -26

Mr. D H S Jayawardena	-	<i>Chairman</i>
Mr. R K Obeyesekere	-	<i>Director</i>
Mr. Zaki Alif	-	<i>Director</i>
Mr. C. R. Jansz	-	<i>Director</i>
Ms. D. S. C. Jayawardena	-	<i>Director</i>
Mr. D. S. K Amarasekera	-	<i>Independent Non Executive Director</i>
Dr. A. Shakthevale	-	<i>Independent Non Executive Director</i>

Interests Register

The Interests Register as per the Companies Act No. 7 of 2007 is maintained by the Group.

Remuneration of Directors

The Directors' remuneration is disclosed in Note 33.2 to the Financial Statements on page 72.

Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements of the Group to reflect a true and fair view of the state of its affairs.

Directors' Shareholding

None of the Directors of the Company held any shares of the Company during the period under review.

Name of the Director	Number of Shares	
	2012/2013	2011/2012
Mr. D H S Jayawardena	Nil	Nil
Mr. R K Obeyesekere	Nil	Nil
Mr. Zaki Alif	Nil	Nil
Mr. C. R. Jansz	Nil	Nil
Ms. D. S. C. Jayawardena	Nil	Nil
Mr. D. S. K Amarasekera	Nil	Nil
Dr. A. Shakthevale	Nil	Nil

Auditors

Messrs KPMG, served as the Auditors during the year under review. The Auditors do not have any interest in the Group other than as Auditors.

The Auditors have expressed their willingness to continue in office. A resolution to re-appoint the Auditors and to authorise the Directors to determine their remuneration will be proposed at the Annual General Meeting.

Stated Capital

The Stated Capital of the Company is Rs. 999,950,000 represented by 39,998,000 Ordinary Shares.

Related Party Disclosures

Transactions with entities that are controlled, jointly controlled or significantly influenced by key managerial personnel or their close members of family or shareholders who have either control, significant influence or joint control over entity are set out in Note 33 to the Financial Statements.

Major Shareholders, Distribution Schedule and Other Information

Information on the twenty largest shareholders of the Company, the distribution of shareholding, percentage of shares held by the public, market values per share as per the requirements of the Listing Rules of the Colombo Stock Exchange are given on pages 87 - 88 under Shareholder Information.

Reserves

The movements of reserves during the year are given under the Statement of Changes in Equity on pages 46 - 47.

Property, Plant & Equipment

Details and movements of Property, Plant and Equipment owned by the Group and the Company are given in Note 12 to the Financial Statements on page 60

Land Holdings

Details of leasehold land owned by the Group are given in Note 12 to the Financial Statements on page 60

Investments

Details of quoted and unquoted investments made by the Company as at 31st March 2013 are given in Note 14 to the Financial Statements on page 63.

Dividend

In respect of the financial year ended 31st March 2013, the Directors have recommended a first and final dividend of Rs. 1.50 per share for the year.

Donations

The Company made donations to the value of Rs. 20,000 during the year.

Internal Controls

The Board of Directors has taken adequate steps to ensure the implementation of an effective and comprehensive system of internal controls covering aspects of financial, operational and compliance controls within the Group.

Risk Management

The Risk Management processes currently practised by the Group to identify and manage potential risks are given on page 29 - 30.

Contingent Liabilities

Except as disclosed in Note 31 to the Financial Statements on page 70, there were no material Contingent Liabilities as at the reporting date.

Statutory Payments

The Directors confirm that, to the best of their knowledge, all taxes, duties and levies payable by the Group and contributions, levies and taxes payable on behalf of and in respect of the employees of the Group and all other known statutory dues as were due and payable by the Group as at the reporting date, have been paid or, where relevant, provided for.

Annual Report of the Board of Directors

Events occurring after the reporting date

No material circumstances have arisen as up to the date of the Financial Statement, which would require adjustment to, or disclosure in the Financial Statements.

Corporate Governance

The Company aspires to adhere to the best practices in Corporate Governance and the Corporate Governance Rules of the Colombo Stock Exchange. The Corporate Governance practices are presented on pages 31 - 33.

An Audit Committee and a Remuneration 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. D. S. K. Amarasekera
Dr. A. Shakthevale

Remuneration Committee

Mr. D. S. K. Amarasekera
Dr. A. Shakthevale

Annual General Meeting

The Annual General meeting will be held on 30th of September 2013.

The Notice of the Annual General Meeting appears on page 90.

Going concern

The Board is satisfied that the Company has adequate resources to continue its operations in the foreseeable future.

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



Mr. D. H. S. Jayawardena
Chairman



Ms. D. S. C. Jayawardena
Director



Mrs. W. C. Hewage
Company Secretary

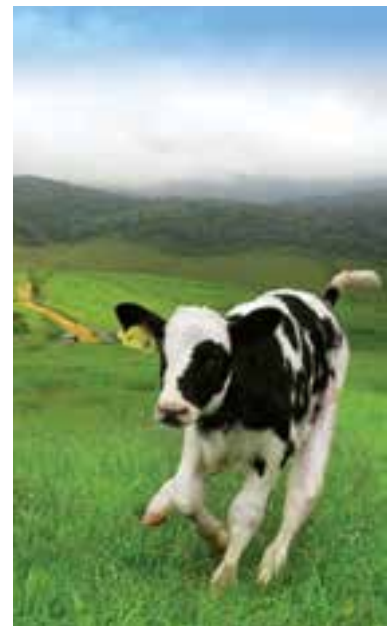
Lanka Milk Foods (CWE) PLC
22 August 2013

Management Discussion and Analysis

The Operating structure of Lanka Milk Foods (CWE) PLC encompasses the holdings company and five subsidiary companies, which engage in extension services related to the main business.

A brief introduction to the Group is given in the table below:

Company	Core Business/s	Brands
Lanka Milk Food (CWE) PLC (Est. 1981)	Packing and distributing whole milk powder and skim milk powder importation and distribution of energy drinks in the local market	Lakspray Lakspray Non Fat BLU Energy Drink
Lanka Dairies (Pvt) Ltd (Est. 1996)	Manufacturing and distributing Ultra Heat Temperature (UHT) treated A full cream, non-fat liquid milk, UHT treated flavoured milk and fruit drinks; co-packing for UHT treated international beverage brands	Daily Flavoured Milk, Daily ACTIV Food Drink MyJuicee Fruit Nectar
Ambewela Products (Pvt) Ltd (Est. 2006)	Manufacturing and distributing, flavoured milk, yoghurt and cheese	Ambewela
Ambewela Livestock Company Ltd (Est. 2001)	Supplying pure cow's milk exclusively to Group Companies	Ambewela Farm
Pattipola Livestock Company Ltd (Est. 2001)	Supplying pure cow's milk, goat milk exclusive to Group Companies and offering farm excursions to both domestic and foreign tourists	New Zealand Farm
Indo Lanka Export (Pvt) Ltd. (Est. 2009)	Manufacturing and exporting fruit juices.	Beverages



Management Discussion and Analysis



The highest safety standards are constantly followed in sourcing and purchasing the best form of natural milk that is re-packed at the Welisara factory. Our quality assurance policy and ISO process is key in delivering consistent high quality product to all our valued consumers.

Lanka Milk Foods (CWE) PLC (LMF)

During the year, Lanka Milk Foods (CWE) PLC operated under relatively unfavourable conditions due to the increase in the retail price of milk powder. The existence of the price ceiling and government levy structure imposed on imported milk powder has driven the margins down. This became a critical issue for the entire sector, resulting in many players curbing their spending patterns mainly on customer communication. Implementing cost saving activities and controlling internal costs were actioned by the players in the industry. Local companies were the most affected by this issue, as multinationals were able to leverage on their parent companies and their access to inimitable resources.

Despite these difficult conditions, LMF was able to post 10% growth in revenue from Milk powder sales. The profit grew upto Rs. 231 Million which included the sales of the imported energy drink BLU. The performance during the past year were noteworthy as it justified the Company's prudent practices and strategies. The financial decision involving forward booking milk powder stocks and purchasing of milk powder assisted to mitigate losses during this crucial period. The risk arising from price increases and Foreign Exchange fluctuations were an imminent threat during the period under review owing to the macro economic climate of the country.

Sales volumes of Lakspray averaged 450 – 500 metric tons per month, while the popularity of smaller pack sizes continued among consumers, as inflation took its toll on spending power. An extensive positioning exercise was undertaken for Lakspray during 2012, as LMF was of the opinion that the 45 year old brand needed a fresh outlook to reinforce consumer confidence, and needed to compete with multinational milk powder brands.

The milk powder procured for Lakspray complies with the highest safety standards constantly maintained in sourcing and purchasing the best form of natural milk that is re-packed at the Welisara factory. Our quality assurance policy and ISO process was key in delivering consistent high quality product to all our valued consumers.

The Company entered the carbonated energy drinks market in the latter part of the last financial year. The product started to grow during the year after the launch of BLU, an internationally popular energy drink. BLU had already made a positive impact on both the top line and bottom line growth of the Company, and was a segment to watch in the years to come. The Company plans to extend the BLU energy drink product range by introducing more flavours to the market in the next financial year while tapping into new channels to extend product distribution. At present the sales growth and volumes for the BLU energy drink range is from our General Trade channel.



The gap in LDL's portfolio for a refreshing, nutritious malt based drink and a void in the market was the reason for the launch of ACTIV and it is still in its growth stage. The brand ACTIV is showing positive signs of becoming yet another success story for LDL. The liquid milk content in ACTIV cannot be rivalled by any other competitor in the "Ready To Drink" food drink category.

Lanka Dairies (Pvt) Ltd (LDL)

Lanka Dairies (Pvt) Ltd manufactures and distributes UHT treated fresh milk and Non-Fat milk under the brand of Ambewela: flavoured milk and food-drinks under the brand name of DAILY and fruit nectars under the MyJuicee brand. The Brands have contributed the largest share of profit to the LMF Group with the revenue growth in excess of 14%. LDL is continuously striving to improve efficiency while reducing the down time of machinery and wastage, with elimination on the points of waste and non-productivity with a mission of curbing operating costs and a stringent quality assurance system to minimise defects in the final output. The sales growth rate was curbed to some extent with the unusually high rain fall during the period in question, coupled with the tension created with the religious certification process.

The Daily brand of UHT Flavoured Milk, manufactured and marketed by LDL, recorded an 8% growth in sales revenue during this year compared to 2011/12. The initiative was taken by the government to stress the usage of dairy based produce and the banning of carbonated drinks availability in schools, thus assisting the dairy and fruit based beverage consumption by the schooling population.

Management Discussion and Analysis

The MyJuicee fruit drink brand recorded a solid 25% volume growth over the previous year and successfully challenged many international brands of fruit juice by offering the equivalent value proposition at a lower price. However the situation had a tilt to change with some major players both local and international entering the market. MyJuicee will be challenged in the future yet the solid platform created, will be leveraged to build and create sustenance.

Daily ACTIV malt chocolate food drink is an emergent brand; with the future holding positive signs of revenue generation. The gap in LDL's portfolio for a refreshing, nutritious malt based drink and a void in the market was the reason for the launch of ACTIV and it is still in its growth stage. The brand ACTIV is showing positive signs of becoming yet another success story for LDL. The liquid milk content in ACTIV cannot be rivalled by any other competitor in the "Ready To Drink" food drink category.

LDL's continuous striving has yielded positive results in regional markets. Significant growth has been recorded in export sales to the Maldives, where the Company exports an average of 3500 cases of liquid products a month. Continuous explorations are carried out in other regional markets where the products of LDL could be a source of additional revenue generation to the Group.

The growing demand for liquid milk and fruit juice in the domestic market and potential for exports prompted the management to build capacity at the LDL plant. LDL has undertaken the installation of the next generation TetraPak aseptic packaging machinery, enabling higher production efficiency and modifying the existing packaging to deliver better handling, storage and user convenience to all stakeholders.

The Company's main line of business – processing UHT treated beverages in aseptic packaging - is a nascent industry. The access to electricity and chilling facilities are growing yet they are sluggish. Under this backdrop LDL is aptly geared in the medium term for liquid beverage storage. The enhancement of living standards and the gradual urbanisation of Sri Lanka creates a demand for goods of high quality and LDL is focused on providing this expectation.



The increase in demand and the investment in new machinery for yoghurt production too will add immense demand for milk from the farms.

Pattipola Livestock Company and Ambewela Livestock Company

At both Ambewela & Pattipola Farms, raw milk production has significantly increased, resulting in a notable profit growth in their holding companies. Over the past five years, milk production in the farms increased from 4.7million litres to 5.1 million litres per annum, recording a 8.5% growth, whereas the average productivity of a cow reached 19 litres a day from 14 litres a day, which is a 35% growth. Both companies have profited from the sales growth experienced by LDL, which remains the primary customer of their raw milk, directly allocated to the production of UHT fresh milk, non fat milk and flavoured milk. The increase in demand and the investment in new machinery for yoghurt production too will add immense demand for milk from the farms. The Cheese production capability was underutilised owing to the lack of milk in the past but with the build-up in capacity, APPL is hoping to cater to the demand for cheese as well.

The government's decision to support the local dairy industry by reviewing the floor price of a litre of raw milk to Rs 50.00 also helped supplement the profits generated by the livestock companies. Both Ambewela and Pattipola livestock companies also reaped the benefits of streamlined operations and better management practices which led to lower operational costs. This has led to an increased sales record at Pattipola Farm outlet as it welcomed a large number of both local and foreign visitors. The Farm outlet sells products such as fresh milk, natural hand processed cheeses, goat milk and potatoes. Furthermore the farm remains as a popular stop over for visitors to the region.

Management Discussion and Analysis



The company's new product development strategy will include introducing more health-focused value addition to its Ambewela range of liquid dairy products. Plans are also in the pipeline to market farm outputs of the livestock companies, such as ball cheese

Ambewela Products (Pvt) Ltd

Although a comparatively new entrant to the market, Ambewela has become a household brand name, with growing demand from consumers for its offering of premium quality milk and allied products. The brand supports the government's vision of self sufficiency in milk production by the year 2016 and the state initiatives to promote consumption of locally produced liquid milk.

Ambewela UHT Fresh milk recorded a 12% growth in sales volume, attributable to a marked shift in consumer preference from powdered milk to fresh liquid milk. Ambewela Fresh milk dominates the UHT treated white milk category and research shows that the brand has won the trust of consumers who perceive it to be the best quality milk in the country. Undoubtedly Ambewela fresh milk is unmatched by any rival in the local market.

The rapid spread of health issues such as high cholesterol, diabetes and high blood pressure among Sri Lankans has created a health-conscious segment which demands healthier options. In order to cater to this market segment, Ambewela UHT Non Fat milk was introduced to the market, year on year the product has grown in revenue and is currently enjoying an 8% growth in volume.

Ambewela set yoghurt achieved an impressive growth of 12%, due to its popularity increasing among consumers who preferred its unique taste. A third yoghurt filling machine was installed during the latter part of the financial year. The increasing demand for Ambewela yoghurts was imminent throughout the past few years and with this new addition, APPL has the capacity of meeting the market demand for yoghurt. Ambewela yoghurt is now widely available in the market and the Company is taking steps to expand its distribution in general trade by appointing new distributors with cold storage and distribution facilities in areas of high potential.



The Group will continue to invest further in the state of the art manufacturing plant and dairy complex of Ambewela Products (Pvt) Ltd., in order to increase production capacities.

The Company's new product development strategy will include introducing more health-focused value addition to its Ambewela range of liquid dairy products. Plans are also in the pipeline to market farm outputs of the livestock companies, such as ball cheese, under the Ambewela brand, in order to enhance revenue streams. The ball cheese range is scheduled to be re-launched targeting the forthcoming Christmas season, with an attractive packaging to be on par with international standards.

Board of Directors

Standing form left to right
Ms. D. S. C. Jayawardena
Mr. D. H. S. Jayawardena
Mr. D. S. K. Amarasekera
Dr. A. Shakthevale
Mr. C. R. Jansz
Mr. R. K. Obeyesekere
Mr. Zaki Alif (Absent)





Board of Directors

Mr. D. H. S. Jayawardena

Chairman

Public Quoted Companies

Aitken Spence PLC, Distilleries Company of Sri Lanka PLC, Lanka Milk Foods (CWE) PLC, Balangoda Plantations PLC, Madulsima Plantations PLC, Browns Beach Hotels PLC, Aitken Spence Hotel Holdings Plc

Chairman

Private Companies

Stassen Exports (Pvt) Ltd, Lanka Dairies (Pvt) Limited, CBD Exports (Pvt) Ltd, Milford Holdings (Pvt) Ltd, Ambewela Livestock Company Limited, Ambewela Products (Pvt) Limited, Pattipola Livestock Company Limited, Aitken Spence Hotel Management Asia (Pvt) Ltd, Negombo Beach Resorts (Pvt) Ltd, Ace Power Generation Matara (Pvt) Ltd, Ace Power Generation Horana (Pvt) Ltd, Bogo Power (Pvt) Ltd, Lanka Power Projects (Pvt) Ltd, Periceyl (Pvt) Limited, Timpex (Pvt) Ltd, Texpro Industries Limited, Lanka Bell (Pvt) Limited, Lanka Bell Services (Pvt) Limited, Bell Solutions (Pvt) Limited, Bell Vantage (Pvt) Ltd, Indo Lanka Export (Pvt) Ltd, Continental Insurance Lanka Limited, Collision Repair Centre

Managing Director

Stassen International (Pvt) Ltd, Stassen Natural Foods (Pvt) Ltd, Stassen Foods (Pvt) Ltd, Milford Exports (Ceylon) (Pvt) Limited, Ceylon Garden Coir (Pvt) Limited, Stassen Real-estate Developers (Pvt) Ltd, Milford Developers (Pvt) Limited

Director

Stassen Plantation Management Services (Pvt) Ltd, Melsta Corp Pvt Limited.

Others

Honorary Consul General for Denmark in Sri Lanka
- Knighted with the prestigious honour of "Knight Cross of Dannebrog" by Her Majesty the Queen of Denmark on 9th February 2010

Mr. R. K. Obeyesekere

Director

Public Quoted Companies

Distilleries Company of Sri Lanka PLC, Balangoda Plantations PLC, Madulsima Plantations PLC, Lanka Milk Foods (CWE) PLC,

Director

Private Companies

Periceyl (Pvt) Limited, Zahara Exports (Pvt) Limited, Lanka Power Projects (Pvt) Limited, Milford Exports (Ceylon) Limited, Lanka Dairies (Pvt) Limited, Ceylon Garden Coir (Pvt) Limited, Milford Developers (Pvt) Limited, Ambewela Livestock Company Limited, Ambewela Products (Pvt) Limited, Pattipola Livestock Company Limited. Stassen International (Pvt) Ltd, Stassen Natural Foods (Pvt) Ltd, Stassen Foods (Pvt) Ltd, Stassen Real-estate Developers (Pvt) Ltd, Stassen Exports (Pvt) Ltd, Stassen Plantation Management Services (Pvt) Ltd, Melsta Corporation (Pvt) Ltd, Milford Holdings (Pvt) Ltd

Mr. Zaki Alif

Director

Public Quoted Companies

Lanka Milk Foods (CWE) PLC, Madulsima Plantations PLC

Director

Private Companies

Stassen Exports (Pvt) Limited, Stassen International (Pvt) Limited, Stassen Natural Foods (Pvt) Limited, Stassen Foods (Pvt) Limited, Milford Exports (Ceylon) (Pvt) Limited, Lanka Dairies (Pvt) Limited, Ceylon Garden Coir (Pvt) Limited, Stassen Real Estate Developers (Pvt) Ltd, Milford Developers (Pvt) Ltd, Ambewela Livestock Company Ltd, Pattipola Livestock Company Ltd, Stassen Plantation Management Services (Pvt) Ltd, Ambewela Products (Pvt) Ltd, CBD Exports Limited.

Mr. C. R. Jansz

Director

Public Quoted Companies

Distilleries Company of Sri Lanka PLC, Balangoda Plantations PLC, DFCC Bank Plc, Lanka Milk Foods (CWE) PLC,

Director

Private Companies

Periceyl (Pvt) Limited, Lanka Bell (Pvt) Limited, Milford Holdings (Pvt) Limited, Ambewela Products (Pvt) Limited, Pattipola Livestock Company Limited, Ambewela Livestock Company Limited, Lanka Power Projects (Pvt) Limited, Lanka Dairies (Pvt) Limited, Indo Lanka Exports (Pvt) Ltd, Melsta Corp. (Pvt) Ltd.

Ms. D. S. C. Jayawardena

Director

Public Quoted Companies

Lanka Milk Foods (CWE) PLC, Hatton National Bank PLC

Director

Private Companies

Ambewela Livestock Company Limited, Pattipola Livestock Company Limited, Lanka Dairies (Pvt) Limited, Ambewela Products (Pvt) Limited, Indo Lanka Exports (Pvt) Ltd,

Mr. D. S. K. Amarasekera

Independent Non-Executive Director

Madulsima Plantations PLC, Balangoda Plantations PLC.

Senior Tax and Legal Partner of Amarasekera & Company, Tax Consultant, Member of the Institute of Chartered Accountants of Sri Lanka, and an Attorney-at-Law of the Supreme Court of Sri Lanka

Dr. A. Shakthevale

Independent Non-Executive Director

Madulsima Plantations PLC, Balangoda Plantations PLC, KAYPEE International (Pvt) Ltd.

Retired, Additional Secretary (Livestock), from the Ministry of Agriculture and Livestock in 2002, served as the Secretary, Ministry of Rehabilitation and Social Service in the Northeast Provincial Council, Served as a Board Director for MILCO and NLDB, Worked for FAO, UNDP, UNHABITAT, Land O'Lakes, Oxfam GB, Past President of Sri Lanka Veterinary Association, Past President of Sri Lanka Veterinary Council, worked for several leading local livestock organizations and at present is a freelance Consultant in the field of livestock development.

Statement of Directors' Responsibilities

The Directors under the Companies Act No.7 of 2007 are responsible for ensuring compliance with the requirements set out therein to prepare Financial Statements for each financial year giving a true and fair view of the state of affairs such as profit and loss of the Company and its subsidiaries as at the reporting date.

The Board of Directors accepts the responsibility for the integrity and objectivity of the Financial Statements presented. The Directors confirm that proper accounting records and policies have been maintained in the preparation of the Financial Statements which have been prepared and presented in accordance with the Sri Lanka Accounting Standards and comply with the requirements in the Companies Act and the listing rules of the Colombo Stock Exchange. Further, the Directors confirm that the Financial Statements have been prepared on a ongoing basis and are of the view that sufficient funds and other resources are available within the Group to continue its operations which in the long run will enable the Group to facilitate planned future expansions and capital commitments.

The Directors have taken adequate measures to safeguard the assets of the Group and have established implementation of appropriate internal control systems in order to prevent and detect fraud and other irregularities.

The Directors are also confident that the Company would satisfy the solvency test requirement in the Companies Act No. 07 of 2007 under Section 56 (2) on the payment of the proposed dividend and have obtained a certificate of solvency from its Auditors.

The External Auditors were provided with all the necessary information and explanations to enable them to form their opinion on the Groups and the Company's financial statements.

Compliance Report

The Directors confirm to the best of their knowledge that all statutory payments pertaining to the government and employees that were due in respect of the Company and its subsidiaries have been paid as at the reporting date.



On behalf of the Board of Directors

Mrs. W. C. Hewage
Company Secretary

22nd August 2013

Our Team



Standing Left to Right

Mr. Brito Fernando - *Manager Quality Control*, Mr. Wasantha Senadeera - *Internal Auditor*,
Mr. Dinuka Karunaratna - *Food Technologist*, Mr. Upali Wickramasinghe - *Manager IT*

Seated Left to Right

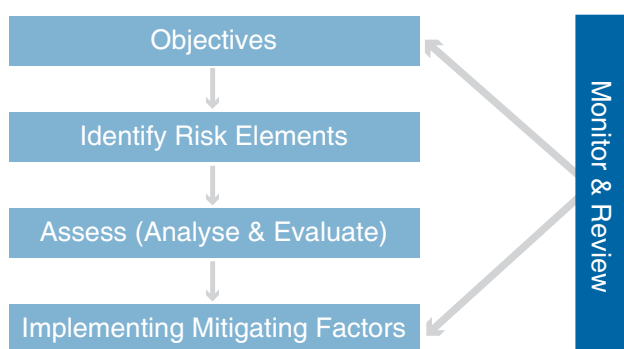
Mr. E. M. Hemarathne - *General Manager (Lanka Dairies (Pvt) Ltd.)*, Mr. R. N. Attygalle - *Manager Finance*,
Mr. Patrick Wickramasinghe - *General Manager (Sales and Distribution)*



Risk Management

Over several years Lanka Milk Foods' strategy of diversification has increased the overall risk for the Group. The responsibility of managing the risk is vested in the Board. Assessing risk, monitoring risk and ensuring that it is managed by formulating and implementing risk control mechanisms are a core responsibility of the Board.

The Group risk management framework is illustrated below.



An effective risk management framework enables us to prioritise and allocate the necessary resources against those risks that underscore the ongoing sustainability of the organisation. The principal risks in achieving the Group objective of enhancing shareholder value and safeguarding Group assets have been identified below. The nature and scope of risk are subject to change and not all the factors listed are within the control of the Group. It should be noted that other factors besides those listed may affect the performance of the business. Common risks which the Group is exposed to are elaborated below.

Business Risk

Business risk management is a dynamic process due to constant change in the operating environment of the Group. Worldwide natural disasters such as floods, droughts and earthquakes can have an adverse impact on global milk powder prices. The future milk powder price in the world market is due to rise and is showing signs. The increase in the price of sugar in world markets too will impact the value added liquid products of the Group.

The price of local raw milk also increased due to the current inflation in the country. Price fluctuations in the dairy market, which were a direct result of regulations

imposed by the relevant authorities, also impacted the Group's business risk, demonstrating that the business operations of the Group are subject to a variety of risk factors. The Group has mitigated some of these risks through avoidance, reduction, alternative actions and share or insure on same.

The Group utilized a high level of electric power for climatic controlled storage conditions and the cost of power is on the increase. This posed a risk that impacted on the cost of production which resulted in a higher retail price for the products. The risk factor that needs to be focused on mainly is on the powdered milk as a ceiling price is imposed, thus the risk of an operating loss to the Group is an imminent threat.

Management constantly monitors and evaluates risk factors in order to respond effectively. Manufacturing and operating facilities are maintained to the best possible food manufacturing and operating standards.

Legal and Regulatory Risk

Risk arising from non-compliance with statutory and regulatory requirements is a real possibility in light of sudden and frequent changes to compliance requirements. Depending on the product manufactured by the Group, legal and regulatory requirements also differed. Acts, such as the Food Act No. 26 of 1980 and the Consumer Affairs Act No. 09 of 2003, also affected the business. The Group's legal and marketing departments conducted regular reviews of compliance with prevailing statutory and legal requirements, to mitigate legal and regulatory risk.

Human Risk

The Group was exposed to a risk arising from the difficulty in attracting and retaining skilled staff at middle to senior management while losing skilled labour and operational staff. These work categories were highly skilled blue-collar jobs. International level job placement agencies constantly head-hunted such skilled labour forces to fill job opportunities arising overseas. Losing trained, skilled staff created a significant impact on the cost of operations. Aside from the mitigation of the recruitment and training costs, the loss in efficiency in production processes are also placed a great strain on the Group. Therefore, the Group took steps to improve its incentive and remuneration structure in order to retain staff and labour involved in key processes. The Group has also taken steps to improve its employee safety standards

Risk Management

in the production facilities and provided required protective gear to those staff that needed it.

Investment Risk

The Group handled a significant amount of investments in dairy projects to ensure their smooth processing. The Chairman together with the Finance Manager constantly evaluated the investment regularly. Through critical analysis of the dairy projects, the Management team conducted exercises and developed contingency plans to enhance productivity and project returns. Further, clearly formulated governance structures were in place to give robust support and guidance on matters related to capital expenditure, which were reviewed by the Audit Committee as well as by the Internal Audit Division.

Technological Risks

This type of risk stems largely from the failure in operations and information technology. The specialised machinery used in the Group's production facilities such as the sterilising, filling and distribution machines, faced a critical risk in spare parts and software, due to both running the risk of becoming obsolete. The Group being required to monitor and upgrade relevant software systems and machinery or spare parts before they reached obsolescence. These measures were proactively taken care of by the Group and regular upgrading/repair work was undertaken.

The management and operation divisions took total care and responsibility to ensure that the production process was not disrupted through predictive maintenance on all technologies.

In relation to information systems, the IT division identified risks associated with the system and implemented strict barriers, such as password protection and restricted access, stringent user guidelines, contingency plans and physical security measures, all of which were closely monitored. Furthermore the Group invested in new software to enhance the Management's productivity in decision making which was aligned with the homogeneous change in the business environment.

Operational Risks

Operational risk is the risk of loss resulting from inadequate or failed internal processes, systems or from external events. Dairy products are by nature

highly sensitive and can easily be contaminated. There are risks associated with the quality of the finished products which depends on quality processes. Instances of failure were very rare and if at all were due to unforeseeable reasons. However these instances were detrimental to the Company and its brands. The Group took steps to ensure that quality related issues were addressed by adding many protective measures into the manufacturing and packing processes and by identifying faulty equipment well in advance.

Credit Risks

This risk is where a customer of the Group is unable to meet his financial obligations on time. The Group engaged in large volumes of credit sales to supermarkets and distributors, which was an inherent characteristic of the sales and distribution methods used in the fast moving consumer goods industry in Sri Lanka. However this resulted in a significant amount of credit risk especially in the current economic context where distributors may not be able to settle their debts.

To mitigate such risks,

Aggressive and effective credit management/recovery systems were implemented and contractual agreements were made with all parties, to ensure the Company has legal recourse should debtors default. At present, the level of credit exposure faced by the Group is managed by retaining adequate levels of bank guarantees. Further more strict policies have been set in place to protect the distributor from loosing out and frequent credit checks on the trade were conducted. The training of our staff and distributor staff was also carried out to mitigate the credit risk.

Conclusion

Risk is a factor that cannot be nullified; further unforeseen risk may appear in the future. There is a likelihood of risk on the horizon. However at present the Group is in a positive position to face this level of risk with effective risk management procedure in place, to minimise and mitigate potential losses in both finance and reputation.

Corporate Governance

Members of the Board

The Board of Directors on a fully informed basis, with due diligence in the best interest of the company is responsible for the governance of the Company in good faith, in a manner that protects the rights and interests of the shareholders and all other stakeholders. The shareholders' role in governance is to appoint Directors who adhere to appropriate corporate governance in the Company.

The Directors of Lanka Milk Foods (CWE) PLC maintain the highest standards of integrity and transparency in their governance and have implemented many procedures which are guided by the code of practice of the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka, together with the provisions of Companies Act No. 07 of 2007 and the Listing Rules of Colombo Stock Exchange.

It is also a reflection of the company's prestigious history, its values and its corporate social responsibilities. The Directors' interest / involvement in the affairs of the Company is explained on pages 14, 15 and 16 and the Corporate Governance Compliance Table is shown on page 33.

Company Secretary

The Company Secretary is qualified to act as per the provisions of the Companies Act No. 7 of 2007, and also functions as the Legal Advisor to the Company.

Disclosure

According to the Policy of the Company all relevant information is disclosed to the shareholders.

In addition, Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards and Companies Act and in conformity with the Stock Exchange requirements.

Internal Controls

The Board of Directors are of the unanimous view that the Company's internal control within the business as for publication purposes, provides reasonable assurance of safeguarding assets, maintenance of proper accounting records and the reliability of financial information.

The Company has an Internal Audit Division which submits its reports on a regular basis to the Chairman.

Board Meetings

The Board Meetings of the Company and each subsidiary are held whenever they are required to review performance of the Company its Financial Statements and investment proposals. During the last financial year all resolution were passed via circular resolution and The Board comprises of the following Directors.

Mr. D. H. S. Jayawardena	-	<i>Chairman</i>
Mr. R. K. Obeyesekere	-	<i>Director</i>
Mr. Z. Alif	-	<i>Director</i>
Mr. C. R. Jansz	-	<i>Director</i>
Ms. D. S. C. Jayawardena	-	<i>Director</i>
Mr. D. S. K. Amarasekera	-	<i>Independent Non-Executive Director</i>
Dr. A. Shakthevale	-	<i>Independent Non-Executive Director</i>

Future Company Assets

The Board of Directors after reviewing the Financial Statements and Cash Flow of the Group is extremely confident that for the reasonable future the Group has more than adequate resources to continue their day to day operations.

Non-Executive Directors

As per the Colombo Stock Exchange listing rules set out in Section 6, Lanka Milk Foods (CWE) PLC has appointed

Mr. D. S. K. Amarasekera and Dr A Shakthevale as Independent Non-Executive Directors with effect from 1st May 2008.

Independence of Directors

The Board of Directors of Lanka Milk Foods (CWE) PLC, having studied the criteria in accordance under Section 7.10 of Rules of Corporate Governance declares the two Non-Executive Directors to be independent Directors.

Corporate Governance

Remuneration Committee

The following two Independent Non-Executive Directors are appointed to the Remuneration Committee. Mr. D.S.K. Amarasekera, Member of the Institute of Chartered Accountants of Sri Lanka is appointed as the Chairman of the Audit Committee. The two Independent Non-Executive Directors are not paid any remuneration. Aggregate remuneration paid to the Board of Directors is declared in Note 8 of the Annual Report.

Mr. D. S. K. Amarasekera
Dr. A. Shakthevale

Audit Committee

The following two Independent Non-Executive Directors are appointed to the Audit Committee. Mr. D. S. K. Amarasekera, Member of the Institute of Chartered Accountants of Sri Lanka is appointed as the Chairman of the Audit Committee.

Mr. D. S. K. Amarasekera
Dr. A. Shakthevale

The Audit Committee recommends that the Board selects KPMG, as independent Auditors to audit and report on the annual consolidated Financial Statements of the Company.

Compliance Report

The Directors confirm that to the best of their knowledge, all taxes and duties are paid by the Company. All contributions, levies and all taxes payable on behalf of the employees of the Company, and also all other statutory duties as at the reporting date have been paid on behalf of the Company.

Disclosure Regarding the Board of Directors			
Rule No	Subject	Applicable requirement	Compliance Details
7.10.1(a) to (c)	Non Executive Directors	Two or at least one third of Non-Executive Directors which ever higher should be independent	Two out of seven Directors are Non-Executive Directors
7.10.2(a)	Independent Directors	Two or one third of Non-Executive Directors which ever higher should be independent	All Non Executive Directors are Independent.
7.10.2(b)	Declaration of independence Directors	Each Non-Executive Director submit assigned declaration of Independent or Non independent in the prescribed format	Non-Executive Directors have submitted the above declaration in the prescribed format.
7.10.3 (a)	Disclosure relating to Directors	Names of Independent Directors should be disclosed in the Annual Report	The names of the Independent Directors are provided on page 26 of the Annual Report.
7.10.3 (c)	Disclosure relating to Directors	A brief resume of each Director should be included in the Annual Report including the area of expertise.	A brief resume of each Director is provided on page 26 of the Annual Report.

Disclosure Regarding the Remuneration & Remuneration Committee.

Rule No	Subject	Applicable requirement	Details
7.10.5 (a)	Composition of the Remuneration Committee	* Shall comprises of Non-Executive directors a majority of whom will be Independent	Please refer page 35.
		* The Chairman of the committee shall be a Non-Executive Director.	
7.10.5 (a)	Remuneration Committee	Listed Company shall have Remuneration Committee	The Remuneration Committee comprises of Mr.D.S.K Amarasekera and Dr. A. Shakthevale
7.10.5 (b)	Disclosure of the function of the Remuneration Committee	The Remuneration Committee shall recommend the remuneration payable to the Board and the executive officers.	Please refer page 35 Annual Report
7.10.5 (c)	Disclosure in the Annual Report relating to the Remuneration Committee	The Annual Report should set out	
		1. Names of Directors in the Remuneration Committee	Please refer page 35 Annual Report
		2. Statement of remuneration policy	Please refer page 35 Annual Report
		3. The aggregated remuneration paid to Executive and Non-Executive Directors	Please refer page 35 Annual Report

Content Under The Audit Committee

Rule No	Subject	Applicable requirement	Details
7.10.6 (a)	Composition of the Audit Committee	Non-Executive Director shall be appointed as the Chairman of the committee Chief Executive Officer and Chief Financial Officer should attend Audit committee meetings The Chairman of the Audit Committee or one member of a professional accounting body shall comprise of Non Executive Directors a majority of whom will be Independent	Please refer page 34 Annual Report
7.10.6 (b)	Audit Committee functions	Should be as outlined in the section 7.10.6(b) of the listing rules	Please refer page 34 Annual Report
7.10.6 (c)	Disclosure in the Annual Report relating to the Audit Committee	1. The Names of Directors in the Audit Committee	Please refer page 34 Annual Report
		2. Basis of determination of the Independence of the Auditors and disclose the basis for such determination	
		3. The Annual Report shall contain a Report of the Audit Committee	

Report of the Audit Committee

Mr. D.S.K. Amarasekera, an Attorney-At-Law and Chartered Accountant is the Chairman of the Committee while Dr. A Shakthevale the Independent Non Executive Director is the other member of the Audit Committee. They possess the requisite knowledge to carry out their roles effectively and to discuss matters that come within their purview independently and professionally.

Meetings and Reviews

The committee met every quarter during the financial year ended 31st March 2013 and both members of the Committee attended all these meetings which were attended by the Finance Manager and the Internal Auditor of the Company.

Financial Reporting

The Committee reviewed and discussed the financial reporting system adopted by the Company in the preparation of its quarterly and Annual Financial statements with the Management and the External Auditors to ensure reliability of the process and consistency of the Accounting Policies adopted and in its compliance with the Sri Lanka Accounting Standards and the provision of the Companies Act No. 7 of 2007.

Internal Audit

The Internal Audit function of the Company is carried out by the Internal Audit Division and the Audit Committee reviewed the effectiveness of the internal audit plan to ensure that it has been designed to provide reasonable assurance that the financial reporting system adopted by the Company can be relied on, in the preparation and presentation of financial statements.

Recommendation

The Audit Committee has recommended to the Board of Directors that Messrs KPMG be appointed as Auditors for the financial year ending 31st March 2014, subject to the approval of the share holders at the Annual General Meeting. The independence of the External Auditors is assessed by the Audit Committee and confirmed as satisfactory.

Conclusion

The Audit Committee is satisfied that the Company's accounting policies, operational controls and risk management processes provide reasonable assurance that the affairs of the Company are managed in accordance with the Company's policies, and its assets are properly accounted for and adequately safeguarded.



Mr. D. S. K. Amarasekera

Chairman



Dr. A Shakthevale

Director

22nd August 2013

Report of the Remuneration Committee

The Remuneration Committee which consists of two Independent Non-Executive Directors namely the Chairman - Mr. D S K Amarasekera and Dr. A Shakthevale, is responsible for determining the remuneration policy relating to key management personnel.

The remuneration policy of the Company is to attract the best professional and managerial talent to the Company and also to motivate and encourage staff to perform at the highest possible level. The Committee is responsible for monitoring the remuneration policy of the Company for its executives and other senior staff, in line with the competitive market for talent.

The Committee meets once in every quarter. Members of the Committee and the Finance Manager attend these meetings.



Mr. D. S. K. Amarasekera

Chairman



Dr. A Shakthevale

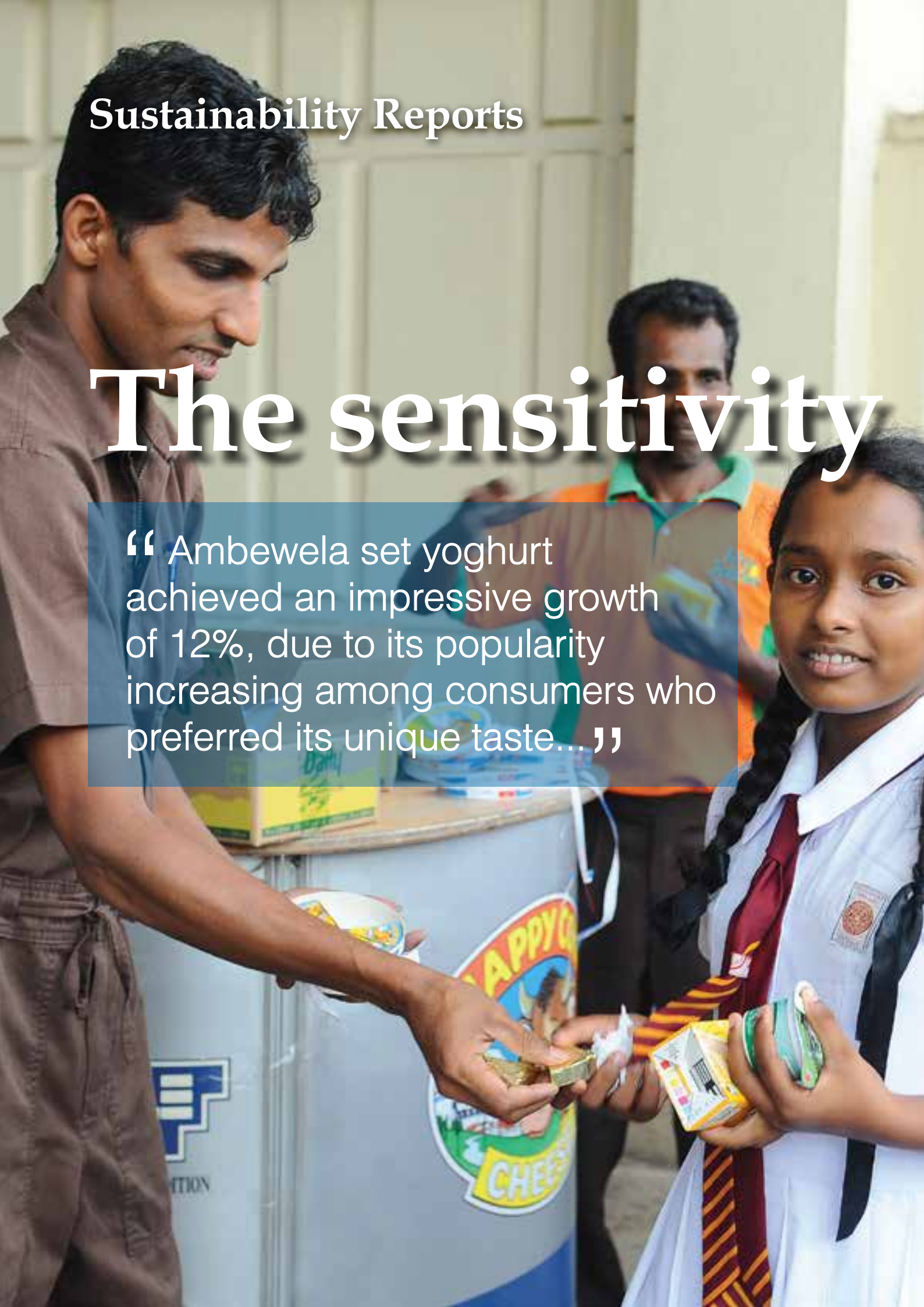
Director

22nd August 2013

Sustainability Reports

The sensitivity

“ Ambewela set yoghurt achieved an impressive growth of 12%, due to its popularity increasing among consumers who preferred its unique taste...”



of Nature



Corporate Sustainability Report

Sustainability is a key pillar of Lanka Milk Foods (CWE) PLC's business operations. Our dairy products are a trusted source for wholesome goodness in the country and the same stringent focus on quality and innovation that has brought us to the forefront of the dairy industry - powers our sustainability efforts today. Our sustainability commitment is impacting the lives of our stakeholders, employees, customers and farmers for the better. We aim to optimise resources by reducing waste while continuing to support systems and processes that improve our local communities. As a Company we believe that our stakeholders value our efforts to operate in an ethical, environmentally sustainable and socially responsible manner.

Product Responsibility

Lanka Milk Foods strives to sustain ongoing product improvement systems which guarantee hygiene, safety and nutrition on a socially sustainable platform. Our product integrity over the years has generated a loyal customer base and we nurture this responsibility seriously. As a manufacturer and distributor of food products, we are subject to a number of food-related regulations, which govern our processes. Moreover, our advanced laboratory testing systems form an essential component of product quality by leveraging on our internationally certified quality management system (QMS) which complies with ISO 9001:2008 standards.

Adhering to Quality

Our QMS system encompasses all critical processes from the point of sourcing to the storage of finished goods. The Company operates fully equipped chemical and microbiological laboratories which follow local and international testing standards. The Quality Assurance Division continuously monitors the quality of the products while also supervising the maintenance of environmental, hygiene and sanitation standards, both within the plant and its surroundings. Swab and exposure tests are carried out on a weekly basis. Further, functions such as laundry, water purification, and janitorial services are operated in-house, under the supervision of qualified officers.

Our farms maintain a highly productive environment for the cows by ensuring adherence to international practices in rearing of cows with regards to their nutrition, hygiene and cleanliness, ensuring they remain healthy and produce optimal volumes of fresh milk. Our farms span 1500 acres and the Company rears two European breeds, Ayrshire and Friesian, selected for their propensity to produce large quantities of milk in comparison to Asian breeds. We retain strict control over the supply chain by manufacturing cattle

feed at our in-house feed mill to ensure there is no adulteration of the feed and that thereby our cows too remain in optimal health.

Customer Satisfaction

We acknowledge our responsibility for producing milk and milk products which have good taste and are in keeping with quality standards, produced under clean, sanitary conditions. All these measures lead to customer satisfaction which remains a key growth driver for the Company. We are attuned to evolving customer tastes and continually track customer satisfaction levels in an ongoing manner so that we retain a fine balance of taste and quality that exceeds customer requirements. We have put into place a feedback process which allows customers to directly engage with the Company. In the case of a customer complaint, if any, we have a grievance process that follows up the matter to the satisfaction of the consumer in a transparent manner.

Our Employees

The commitment of our technically skilled workforce drives innovation and dynamism across the Company. Today, Lanka Milk Foods (CWE) PLC is perceived as a preferred employer and our employees can avail of an unparalleled work culture coupled with career progression opportunities. The Company has established strong pathways for a mutually respectful and robust employer-employee relationship that has stood the test of time and surmounted economic challenges. As of March 2013, the LMF Group provided employment to 690 personnel which includes executives and non executives. Approximately 89% of the total cadre is represented by factory and farm workers. Gender ratio is approximately 10:1 (male: Female) owing to the high labour intensive work available at the farm and the factory floor. The Group propagates a culture of meritocracy and we are proud to announce that our revenue per employee was Rs. 7,879,208 during the year under review.

Benefits

The Company strives to ensure an optimal work-life balance for its employees and has introduced a variety of benefits to promote a healthy and happy workforce. Comprehensive medical cover for all staff is provided along with other benefits such as lunch for staff along with a certain quota of Company products for employees. The Company offers cash incentives above the industry standards, including monthly sales incentives, attendance incentives for non-executive staff, leave encashment for unutilised leave and ex-gratia payments. The Company also provides

opportunities for recreation and relaxation away from the workplace by supporting sport and leisure activities for staff, which engenders a sense of companionship and cooperation.

Learning & Development

Learning and development form the cornerstone of our focus on developing our people. The Company allocates substantial budgetary and other resources towards training staff in technical, sales and marketing aspects. Top performers are sponsored for overseas training in their field of specialisation so that the Company and the employee both benefit. At the time of induction, new employees are familiarised with the Company culture and values in an in-depth orientation programme. Further, senior employees are tasked with mentoring and grooming younger employees to aspire to the high standards expected of them.

We are delighted to note the positive impact of our trainee programme which provides opportunities for new graduates to gain exposure by working within the LMF Group. Commenced in 2012, this programme has enabled graduates to gain valuable work experience which has stood them in good stead in their careers. Our farms in particular have proved to be an invaluable training ground for undergraduate agriculture students of the local universities.

Health & Safety

Occupational health and safety standards are strictly enforced to ensure optimal employee safety at all times whether in the factory or in the field. All factory and farm workers are provided with protective gear. Our factory premises include a medical centre that provides immediate care for those with injuries or illnesses and a visiting medical practitioner who visits the premises on a weekly basis. Apart from maintaining a safe workplace, our employees are also trained in the strict quality standards followed by the Company. Our products have become reputed for their hygiene and safety standards and we protect this positioning closely by ensuring high standards of cleanliness.

Our Environment

LMF is highly conscious of the impact its operations can have on the environment and responds to this responsibility by adhering to environmental laws and regulations to ensure minimal negative impact of its operations. The Company constantly explores new avenues for promoting environmentally friendly practices within the Company and by setting industry best practices in this regard. We use aseptic packaging since it is bio degradable in nature and

proves more environmental friendly. Further, we have installed state of the art waste treatment plants in order to treat solids and liquid wastes before they are released into the environment. Lanka Dairies has also reduced its noise pollution by minimising its use of generators, by switching to batteries for power supply. The Company is also exploring the use of energy efficient fuels to operate its boilers.

Our Social Responsibility

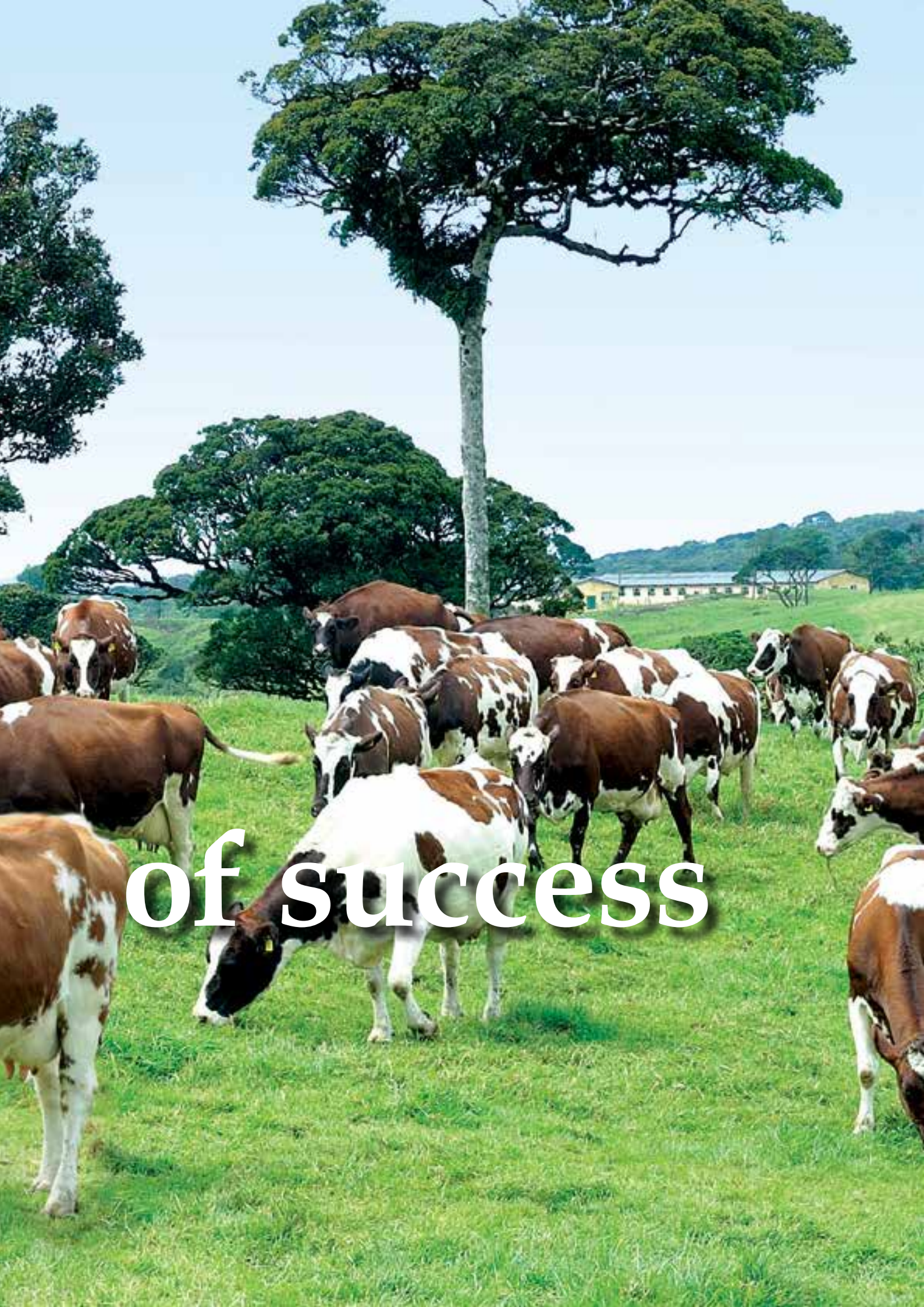
The Company is deeply cognisant of giving back to society by reaching out to local communities within which it operates. We regularly engage with the community by participating and supporting cultural, educational and religious events. Some of the initiatives undertaken during 2012/13 are:

- Blood Donation Camps: The Company joined hands with several blood donation camp organisers to involve its employees in donating blood across the Gampaha and Colombo Districts.
- Kapila Washu Sarwanga Dathu: This sacred relic was exposed to the public in 2012 and the Company supported the historic religious event by providing free refreshments to pilgrims who waited patiently for hours for a glimpse of the relic at Gangarama Temple and the Kelaniya Raja Maha Viharaya.
- Distribution of milk for Churches, Kovils and Temples: In keeping with our practice for the last 15 years, we provide free milk for devotees of all faiths during various events and occasions at all these places of worship to strengthen religious values in the community.
- Donation of milk and milk products to underprivileged school children: The Company continues to provide nutritious milk to underprivileged schools and this initiative has been ongoing for the last 10 years.
- Assisting Needy Institutions: The Company considers it its responsibility to provide free refreshments and nourishment to inmates of Mount Lavinia Crest Elders Home, Cancer Society and Pamunugama Children's Home in the form of free milk powder every month. This is an ongoing programme with continuous support provided on a monthly basis.

Financial Information

The taste

“...maintaining a highly productive environment for the cows by adhering to international practices in rearing them with regards to their nutrition, hygiene and cleanliness...”



of success

Key Performance Indicators

Rs. 5,437 Mn

GROUP TURNOVER | Growth 8.84%

(2012 - Rs. 4,995 Mn)

Rs. 408 Mn

GROUP PROFIT BEFORE TAX | Growth 134.48%

(2012 - Rs. 174 Mn)

Rs. 8,590 Mn

SHARE HOLDERS' FUNDS | Growth 15.42%

(2012 - Rs. 7,442 Mn)

Rs. 10,572 Mn

TOTAL ASSETS | Growth 18.44%

(2012 - Rs. 8,927 Mn)

Rs. 9.30

EARNING PER SHARE (GROUP) | Growth 227%

(2012 - Rs. 2.83)

Statement of Comprehensive Income

For the year ended 31st March	Note	Group		Company	
		2013 Rs.000's	2012 Rs.000's	2013 Rs.000's	2012 Rs.000's
Revenue	5	5,436,654	4,994,877	3,711,003	3,408,036
Cost of Sales		(4,522,796)	(4,272,575)	(3,196,113)	(3,019,215)
Gross Profit		913,858	722,302	514,890	388,821
Other Operating Income	6	211,407	176,034	144,747	97,268
Administrative Expenses		(302,917)	(275,843)	(136,369)	(136,154)
Distribution Expenses		(352,795)	(271,329)	(247,723)	(190,885)
Other Operating Expenses		(31,011)	(86,626)	(8,499)	(53,834)
Profit from Operations		438,542	264,538	267,046	105,216
Finance Income		26,023	2,148	31,596	11,382
Finance Expense		(56,165)	(93,135)	(34,766)	(80,752)
Net Finance Expense	7	(30,142)	(90,987)	(3,170)	(69,370)
Profit before Taxation	8	408,400	173,551	263,876	35,846
Income Tax Expenses	9	(43,864)	(54,742)	(32,516)	(31,245)
Profit for the Year		364,536	118,809	231,360	4,601
Other Comprehensive Income					
Net change in Fair value of Available for Sale Investments		816,172	(1,328,652)	816,172	(1,328,652)
Other Comprehensive Income for the Year		816,172	(1,328,652)	816,172	(1,328,652)
Total Comprehensive Income		1,180,708	(1,209,843)	1,047,532	(1,324,051)
Profit attributable to :					
Owners of the Company		372,076	113,310	231,360	4,601
Non controlling interest		(7,540)	5,499	-	-
Profit for the Year		364,536	118,809	231,360	4,601
Total comprehensive income attributable to					
Owners of the Company		1,188,248	(1,215,342)	1,047,532	(1,324,051)
Non controlling interest		(7,540)	5,499	-	-
Total comprehensive Income For the Year		1,180,708	(1,209,843)	1,047,532	(1,324,051)
Basic Earnings Per Share	10	9.30	2.83	5.78	0.12
Dividend Per Share	11	1.50	1.00	1.50	1.00

Figures in brackets indicate deductions.

The Financial Statements are to be read in conjunction with related notes, which form a part of the Financial Statements of the Group set out in pages 49 to 86.

Statement of Financial Position

As at	Group			Company			
	31/03/2013 Rs.000's	31/03/2012 Rs.000's	01/04/2011 Rs.000's	31/03/2013 Rs.000's	31/03/2012 Rs.000's	01/04/2011 Rs.000's	
Assets							
Non Current Assets							
Property, Plant and Equipment	12	1,786,025	1,185,823	1,255,944	244,602	234,319	233,790
Investment in Subsidiaries	13	-	-	-	774,165	782,664	818,447
Available for Sale Investments	14.1	6,320,589	5,504,417	6,833,070	6,320,589	5,504,417	6,833,070
Biological Assets	15.1	266,707	224,445	180,922	-	-	-
		8,373,321	6,914,685	8,269,936	7,339,356	6,521,400	7,915,907
Current Assets							
Inventories	16	1,014,269	1,154,284	1,043,406	627,150	787,282	786,613
Biological Assets	15.2	16,367	14,529	11,057	-	-	-
Financial Assets Held for Trading	14.2	227,893	208,941	260,152	227,893	208,941	260,152
Trade Receivables	17	545,373	442,415	357,397	364,009	200,772	244,129
Other Receivables	18	102,577	98,454	61,481	15,300	10,362	38,794
Amounts Due from Related Parties	19	39,159	24,224	84,348	832,193	746,558	811,164
Tax Receivables		7,970	25,453	21,936	-	22,189	15,950
Cash and Cash Equivalents	20	245,420	44,129	31,501	225,740	40,394	29,167
		2,199,028	2,012,429	1,871,278	2,292,285	2,016,498	2,155,369
Total Assets		10,572,349	8,927,114	10,141,214	9,631,641	8,537,898	10,071,276
Equity and Liabilities							
Equity							
Stated Capital	21	999,950	999,950	999,950	999,950	999,950	999,950
Capital Reserves		105,116	105,116	105,116	105,116	105,116	105,116
Available for sale Reserve		6,082,890	5,266,718	6,595,370	6,082,890	5,266,718	6,595,370
Revenue Reserves		1,402,074	1,069,996	956,686	1,328,774	1,137,412	1,132,811
Total Equity attributable to Equity Holders of the Company		8,590,030	7,441,780	8,657,122	8,516,730	7,509,196	8,833,247
Non Controlling Interests		35,458	44,999	-	-	-	-
Total Equity		8,625,488	7,484,779	8,657,122	8,516,730	7,509,196	8,833,247
Liabilities							
Non Current Liabilities							
Loans and Borrowings	25	283,825	63,645	96,323	30,967	63,645	96,323
Deferred Tax Liability	23	79,177	66,542	50,978	32,253	29,932	27,618
Retirement Benefit Obligations	24	37,196	31,182	26,494	22,556	21,795	18,046
		400,198	161,369	173,795	85,776	115,372	141,987
Current Liabilities							
Trade and Other Payables	26	1,127,286	772,896	855,133	745,635	617,477	802,322
Amounts Due to Related Parties	27	186,137	86,175	113,495	212,925	83,147	110,231
Income Tax Payable		8,753	3,526	-	7,876	-	-
Loans and Borrowings	25	32,678	32,678	32,678	32,678	32,678	32,678
Bank Overdraft	20	191,809	385,691	308,991	30,021	180,028	150,811
		1,546,663	1,280,966	1,310,297	1,029,135	913,330	1,096,042
Total Liabilities		1,946,861	1,442,335	1,484,092	1,114,911	1,028,702	1,238,029
Total Equity and Liabilities		10,572,349	8,927,114	10,141,214	9,631,641	8,537,898	10,071,276

The Financial Statements are to be read in conjunction with the related notes, which form a part of the Financial Statements of the Group set out on pages 49 to 86.

I certify that the financial statements have been prepared in compliance with the requirements of the Companies Act No. 7 of 2007.


 R.N. Attygalle
 Finance Manager

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.
 Approved and signed for and on behalf of the Board;


 D.H.S. Jayawardena
 Chairman


 D.S.C. Jayawardena
 Director

22nd August 2013
 Colombo

Statement of Changes in Equity

For the year Ended								
Group	Attributable to Equity Holders of the Company							
	Stated Capital	Revaluation Reserve	Dairy Development Project Reserve	Available for Sale Reserve	Retained Earnings	Total	Non-Controlling Interests	Total Equity
	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's
Balance as at 1st April 2011 as previously stated	999,950	105,116	110,000	-	658,326	1,873,392	-	1,873,392
Impact of adopting of SLFRS as at 1st April 2011	-	-	-	6,595,370	188,360	6,783,730	-	6,783,730
Restated balance as at 1st April 2011	999,950	105,116	110,000	6,595,370	846,686	8,657,122	-	8,657,122
Profit for the year	-	-	-	-	113,310	113,310	5,499	118,809
Other Comprehensive Income								
Net change in Fair Value of Available for Sale Investments	-	-	-	(1,328,652)	-	(1,328,652)	-	(1,328,652)
Total Comprehensive income	-	-	-	(1,328,652)	113,310	(1,215,342)	5,499	(1,209,843)
Transactions with Owners of the Company, Recognised directly in Equity								
Acquisition of Subsidiary	-	-	-	-	-	-	37,500	37,500
Balance as at 31st March 2012	999,950	105,116	110,000	5,266,718	959,996	7,441,780	42,999	7,484,779
Balance as at 1st April 2013	999,950	105,116	110,000	5,266,718	959,996	7,441,780	42,999	7,484,779
Profit for the year	-	-	-	-	372,076	372,076	(7,540)	364,536
Other Comprehensive Income								
Net change in Fair Value of Available for Sale Investments	-	-	-	816,172	-	816,172	-	816,172
Total Comprehensive income	-	-	-	816,172	372,076	1,188,248	(7,540)	1,180,708
Dividend Paid	-	-	-	-	(39,998)	(39,998)	-	(39,998)
Balance as at 31st March 2013	999,950	105,116	110,000	6,082,890	1,292,074	8,590,030	35,459	8,625,488

Figures in brackets indicate deductions.

The Financial Statements are to be read with conjunction in the related notes, which form a part of the Financial Statements of the Group set out on pages 49 to 86.

For the year Ended

Company	Attributable to Equity Holders of the Company					
	Stated Capital	Revaluation Reserve	Dairy Development Project Reserve	Available for Sale Reserve	Retained Earnings	Total
	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's
Balance as at 1st April 2011 as previously stated	999,950	105,116	110,000	-	810,768	2,025,834
Impact of adopting SLFRS as at 1st April 2011	-	-	-	6,595,370	212,043	6,807,413
Restated balance as at 1st April 2011	999,950	105,116	110,000	6,595,370	1,022,811	8,833,247
Profit for the year	-	-	-	-	4,601	4,601
Other Comprehensive Income						
Net change in Fair Value of Available for Sale Investments	-	-	-	(1,328,652)	-	(1,328,652)
Total Comprehensive income	-	-	-	(1,328,652)	4,601	(1,324,051)
Balance as at 31st March 2012	999,950	105,116	110,000	5,266,718	1,027,412	7,509,196
Balance as at 1st April 2013	999,950	105,116	110,000	5,266,718	1,027,412	7,509,196
Profit for the year	-	-	-	-	231,360	231,360
Other Comprehensive Income						
Net change in Fair Value of Available for Sale Investments	-	-	-	816,172	-	816,172
Total Comprehensive income	-	-	-	816,172	231,360	1,047,532
Dividend Paid	-	-	-	-	(39,998)	(39,998)
Balance as at 31st March 2013	999,950	105,116	110,000	6,082,890	1,218,774	8,516,730

Figures in brackets indicate deductions.

The Financial Statements are to be read in conjunction with the related notes, which form a part of the Financial Statements of the Group set out on pages 49 to 86.

Cash Flow Statement

For the year ended 31st March	Note	Group		Company	
		2013 Rs.000's	2012 Rs.000's	2013 Rs.000's	2012 Rs.000's
Cash Flow from Operating Activities					
Profit before tax		408,400	173,551	263,876	35,846
Adjustments for;					
Depreciation on property, plant and equipment		129,319	110,022	23,632	19,764
Negative Goodwill on Acquisition of Subsidiary		-	(8,431)	-	-
Changes in Fair Value of Held for Trading Investments		(18,955)	53,144	(18,955)	53,144
Provision for impairment of investments		-	6,580	8,499	66,383
Reversal of Impairment for Amount due from Related Parties		-	(55,689)	-	-
Provision/(Reversal) of Impairment of Trade Receivables		6,447	-	(1,253)	1,154
Gain on Disposal of Held for Trading Investment		-	(1,042)	-	(1,042)
Gain on Disposal of Property, plant and equipment		(881)	(2,469)	(818)	(1,815)
Provision for Retirement benefit obligation		9,812	8,155	3,704	6,250
Change in Fair Value of Biological Assets		(61,191)	(56,872)	-	-
Loss on Disposal of Biological Assets		2,144	-	-	-
Dividend income		(115,317)	(94,338)	(124,317)	(94,338)
Interest income		(243,580)	(1,579)	(3,124)	(11,382)
Interest expense		65,988	31,693	24,943	20,207
Provision for impairment of Inventories		11,702	-	-	-
Operating profit before working capital changes		193,889	218,414	176,187	38,501
(Increase) / decrease in inventories and Biological Assets		126,475	(57,651)	160,132	(669)
(Increase)/decrease in trade and other receivables		(112,383)	(32,911)	(166,922)	70,635
(Increase)/decrease in related party balances		85,034	(52,157)	44,143	62,611
Increase/(decrease) in trade and other payables		354,389	(104,725)	128,158	(184,845)
Cash flows generated from/(used in) operations		647,404	(29,030)	341,698	(13,767)
Interest paid		(65,988)	(31,693)	(24,943)	(20,207)
Income Tax paid		(8,202)	(39,167)	(130)	(35,170)
Retiring Gratuity paid		(3,798)	(3,467)	(2,943)	(2,501)
Net Cash flows generated from/(used in) operations		569,416	(103,357)	313,682	(71,645)
Cash Flow from Investing Activities					
Interest received		243,580	1,579	3,124	11,382
Dividend received		115,317	94,338	124,317	94,338
Investment in Held for Trading Investment		-	(8,297)	-	(8,297)
Acquisition of Biological Assets		(16,995)	(13,450)	-	-
Proceeds from Disposal of Held for Trading Investments		-	7,406	-	7,388
Proceeds from Disposal of Property, plant and equipment		725	3,170	879	1,815
Proceeds from sale of Biological Assets		33,779	26,799	-	-
Purchase and construction of Property, plant and equipment		(730,828)	(40,602)	(33,973)	(20,293)
Net Cash flows generated from/(used in) investing activities		(354,421)	70,943	94,347	86,333
Cash Flow from Financing Activities					
Borrowings during the year		252,854	-	-	-
Repayment of borrowings during the year		(32,678)	(32,678)	(32,678)	(32,678)
Dividend paid		(39,998)	-	(39,998)	-
Net Cash flows generated from/(used in) financing activities		180,178	(32,678)	(72,676)	(32,678)
Net increase/(decrease) in cash and cash equivalents		395,173	(65,093)	335,353	(17,990)
Cash and cash equivalents at the beginning of the year		(341,562)	(277,490)	(139,634)	(121,644)
Cash and cash equivalents on acquisition of Subsidiary		-	1,021	-	-
Cash and cash equivalents at the end of the year (Note 20)		53,611	(341,562)	195,719	(139,634)
Note B					
Analysis of cash and cash equivalents at the end of the year					
Cash and cash equivalents		245,420	44,129	225,740	40,394
Bank overdraft		(191,809)	(385,691)	(30,021)	(180,028)
		53,611	(341,562)	195,719	(139,634)

The Financial Statements are to be read in conjunction with the related notes, which form a part of the Financial Statements of the Group set out on pages 49 to 86.

Notes to the Financial Statements

1. Corporate Information

1.1 Reporting Entity

Lanka Milk Foods (CWE) PLC ("the Company") is a limited liability Company incorporated and domiciled in Sri Lanka. The registered office of the Company is located at No 579/1, Welisara, Ragama. The Ordinary shares of the Company have a primary listing on the Colombo Stock Exchange.

The Consolidated financial statements of the Company as at and for the year ended 31st March 2013 comprises of the Company and its Subsidiaries (together referred to as the "Group" and individually as "Group entities").

Description of the nature of the operation and principal activities of the Company and its subsidiaries are given in Note 30 to the Financial Statements.

2. Basis Of Preparation

2.1 Statement of Compliance

The Consolidated Financial Statements have been prepared in accordance with the Sri Lanka Accounting standards issued by the Institute of Chartered Accountants of Sri Lanka and the requirements of the Companies Act No. 7 of 2007.

These are the Group's first Financial Statements prepared in accordance with Sri Lanka Financial Reporting Standards (SLFRS) and SLFRS 1, "First-time Adoption of Sri Lanka Accounting Standards" has been applied. An explanation of how the transition to SLFRSs has affected the reported financial position and financial performance of the Group is provided in note 35 to the financial statements.

2.2 Basis of Measurement

The Financial Statement have been prepared on the historical cost basis except for the following material items in the statement of financial position

- i. Available-for-sale Financial assets are measured at fair value.
- ii. Liability for defined benefit obligation is carried at the present value of the define benefit obligation.
- iii. Biological assets are measured at fair value (LKAS 41)
- iv. Assets held for trading are measured at fair value less cost to sell.

No adjustments have been made for inflationary factors affecting the financial statements. Certain comparative amounts have been reclassified to conform with the current year's presentation.

2.3 Functional and Presentation Currency

The Group adopted Sri Lanka Rupee as the functional currency since it is used to a significant extent in the operations and is useful to reflect the economic substance of the underlying events and circumstances relevant to the Group entities.

These financial statements are presented in Sri Lanka rupees and have been given to the nearest thousand, unless stated otherwise.

2.4 Use of Estimates and Judgements

The preparation of financial statements in conformity with the Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka requires Management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Information about significant areas of uncertainty and critical judgement in applying accounting policies that have the most significant effect on the amount recognised in the financial statement is included in the following notes.

Note 15 – Biological Assets

Note 23 – Deferred Tax Liability

Note 24 – Retirement Benefit Obligations

Notes to the Financial Statements

2.5 Going Concern

The Board of Directors have made an assessment of the Group's ability to continue as a going concern in the foreseeable future and they do not intend to liquidate or cease trading.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing opening SLFRS Statement of Financial Position as at 1st April 2011, for the purpose of transmission to SLFRS unless otherwise stated.

3. Significant Accounting Policies

3.1 Basis of Consolidation

3.1.1 Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Audited financial statement of the Company and its subsidiaries are used to prepare the consolidated financial statement of the Group.

3.1.2 Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. In assessing the control, the group takes into consideration potential voting rights that are currently accessible.

Acquisition method of accounting is used when subsidiaries are acquired by the Company. Cost of acquisition is measured at the fair value of the consideration, including contingent consideration, given at the date of exchange. Acquisition related costs are recognised as an expense in the profit or loss in the period in which they are incurred. The acquired identifiable assets, liabilities and contingent liability are generally measured at their fair value at the date of acquisition

Goodwill is measured as the excess of the aggregate consideration transferred, the amount of non-controlling interest and the fair value of Company previously held equity interest, if any, over the net of the amounts of the identifiable assets acquired and the liabilities assumed.

3.1.3 Transactions Eliminated on Consolidation

Intra-Group balances and transactions and any unrealised gains arising from intra-Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains.

3.1.4 Principal Accounting Policies

Accounting policies are the specific principles, bases, conventions, rules and practices applied consistently by the Group in presenting and preparing the financial statements.

Consequent to first time adoption of Sri Lanka Financial Reporting Standards (SLFRS) effective from 1st April 2012, new accounting policies have been formulated and have been retrospectively applied for the comparative year to 31st March 2012. Retrospective application of the new accounting policies necessitated restatement of Statement of Financial Positions as at 1st April 2011 and 31st March 2012.

3.2 Assets and Bases of their Valuation

3.2.1 Property, Plant and Equipment

3.2.1.1 Cost

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. This also includes costs of dismantling and removing the items and restoring the site on which they are located. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property plant and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

3.2.1.2 Subsequent Expenditure

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is

probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense incurred.

3.2.1.3 De-recognition

The carrying amount of an item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal.

3.2.1.4 Depreciation

Depreciation is recognised in profit and loss on a straight line basis over the estimated useful lives of items of property, plant and equipment.

Depreciation of an asset begins when it is available for use and ceases at the earlier date that the asset is classified as held for sale and the date that the asset is derecognised.

The estimated useful lives are as follows:

Class of Assets	Useful Lifetime
Plant and Equipment	10 years
Farm Equipment	10 years
Vehicles	5 years
Fixtures and Fittings	5 years
Computers and Accessories	5 years
Office Equipment	5 years
Roads	5 years

Buildings on leasehold land are depreciated over the shorter of the lease term and their useful lives.

3.2.1.5 Capital Work in Progress

Capital work in progress is transferred to the respective asset accounts at the time of the first utilisation or at the time the asset is commissioned.

3.2.1.6 Operating Leases

The land occupied by the Company is on 50 years operating lease from the Government of Sri Lanka. The lease payments under the operating lease are recognised as an expense.

3.2.2 Biological Assets

Biological Assets are stated at fair value less cost to sell with any resultant gain or loss recognised in the Profit

or Loss except Non Perennial Agricultural Crop which is stated at its cost incurred on cultivation.

A gain or loss arising on initial recognition of biological assets at fair value less cost to sell and for the changes in fair value less cost to sell of biological assets included in the profit or loss in the period in which arise.

3.2.3 Financial Investments

3.2.3.1 Recognition and Measurement

The financial asset is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction cost that are directly attributable to its acquisition.

3.2.3.1 Recognition and Measurement

Loans and receivables are initially recognised on the date they are originated.

All other financial assets are initially recognised on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment

3.2.3.2 Classification

At the inception, a financial asset is classified as measured at amortised cost or fair value:

- Loans and receivables - at amortised cost.
- Held-for-trading - financial assets held-for-trading measured at fair value which changes in fair value recognised in the income statement.
- Available-for-sale - this is measured at fair value and is the residual classification with fair value changes recognised in other comprehensive income.

3.2.3.3 Derecognition

Financial assets are derecognised when the contractual right to receive cash flows from the asset has expired; or when the Group has transferred its contractual right to receive the cash flows of the financial assets and either:

Notes to the Financial Statements

- Substantially all the risks and rewards of ownership have been transferred; or
- The Group has neither retained nor transferred substantially all the risks and rewards, but has not retained control of the financial asset.

3.2.3.4 Available for sale

Available-for-sale investments are non-derivative investments that were designated as available-for-sale or not classified as another category of financial assets. These include quoted equity securities. They are carried at fair value. Dividend income was recognised in profit or loss when the Group becomes entitled to the dividend. Fair value changes are recognised in other comprehensive income until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in other comprehensive income are reclassified to profit or loss as a reclassification adjustment

In the parent Company's financial statements, investments in subsidiaries are carried at cost less impairment losses in accordance with the Parent Company's accounting policy for investments in Subsidiaries.

3.2.3.5 Fair Value Measurement

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a market for a financial instrument is not active, the Company establishes fair value using a valuation technique.

3.2.4 Impairment

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

A financial asset not classified as at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and if the loss event that had an impact on the estimated future cash flows of that asset can be estimated reliably. Objective evidence that financial assets are impaired includes default or delinquency by a debtor, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers and economic conditions that correlate with defaults.

The Company considers evidence of impairment for financial assets, measured at amortised cost, at collective level. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

The Group's Non - financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income.

3.2.4.1 Calculation of Recoverable Amount

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

3.2.4.2 Reversal of Impairment

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) if no impairment loss had been recognised.

3.3 Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

The cost of milk powder inventories is based on weighted average principle and cost of packing material and engineering spares are based on first in first out (FIFO) method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

3.4 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 change in value. For the purpose of the Cash Flow Statement, cash and cash equivalents consists of cash in hand and deposits in banks net of outstanding bank overdrafts.

3.5 Financial Liabilities

Financial Liabilities are initially recognised in the Statement of Financial Position when, and only when, the entity becomes a party to contractual provision of the instrument.

A financial liability is measured initially at fair value plus, transaction costs that are directly attributable to its acquisition or issue.

Subsequent measurement of financial liability is at amortised cost.

The amortised cost of a financial liability is the amount, at which the financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

3.5.1 Current Liabilities

Liabilities classified as current liabilities in the Statement of Financial Position are those obligations expected to be settled in the entity's normal operating cycle and due to be settled within twelve months after the reporting date, or the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

3.5.1.2 Non Current Liabilities

All liabilities other than current are classified as non-current.

3.6 Retirement Benefit Obligations

a) Defined Benefit Plan – Gratuity

A defined contribution benefit plan is a post employment benefit plan other than a defined contribution plan.

The Retirement Benefit Plan adopted is as required under the Payment of Gratuity Act No. 12 of 1983. This item is grouped under Retirement Benefit Obligation in the Statement of Financial Position.

Provision for Gratuity on the employees of the Group is on an actuarial basis using the Projected Unit Credit Method (PUC Method) as recommended by Sri Lanka Accounting Standard 19 "Employee Benefits" which became effective from the financial year commencing after 1st January 2012.

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

All employees who are eligible for Employees' Provident Fund contribution and Employees' Trust Fund contribution are covered by relevant contribution funds in line with respective statutes and regulations. The Group contributes 12 % and 3% of gross emoluments of employees to Employees' Provident Fund and Employees' Trust Fund respectively.

3.7 Provisions

Provisions are recognised if as a result of a past event the Group has a present legal or constructive Obligation that can be estimated reliably and it is probable that an outflow of economic benefit will be required to settle the obligation. Provisions and liabilities are recognised in the Statement of Financial Position.

Notes to the Financial Statements

3.8 Statement of Comprehensive Income

3.8.1 Revenue

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

Revenue is recognised when the risks and rewards of ownership has been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Revenue is recorded at invoice value net of brokerage and other levies related to revenue.

3.8.2 Interest Income

Interest income is recognised as the interest accrues, unless future collection is in doubt.

3.8.3 Disposal of Property, Plant and Equipment

Gains or losses of a revenue nature on the disposal of Property, Plant and Equipment are accounted for in the comprehensive income.

3.8.4 Sale of Farm products

Sales are recognised when the risks and rewards of ownership has been transferred to the buyer.

3.8.5 Fair Value Adjustment on the Biological Assets

Gain or loss arising from changes in fair value of Biological assets is dealt with in the comprehensive income.

3.8.6 Other Income

Other income is recognised on an accrual basis.

3.8.7 Expenditure Recognition

- a) All expenditure incurred in running of the business and in maintaining the Property, Plant and Equipment in a state of efficiency has been charged to revenue in arriving at the profit for the year.
- b) For the purpose of presentation of Statement of Comprehensive Income, the Directors are of the opinion that the function of expenses method present fairly the elements of the enterprise's performance, hence such presentation method is adopted.

3.8.8 Foreign Exchange Gain/Loss

Transactions in foreign currencies are recorded in the functional currency at the average spot exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the average spot exchange rate ruling at the reporting date (Date of the Statement of Financial Position). The average spot exchange rate used is the middle rate of the commercial bank's spot rates quoted for purchase or sale of the relevant foreign currency. The Group do not have any non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency.

The Company does not have any foreign operation that is a subsidiary or a branch and therefore, there is no exchange differences recognised in other comprehensive income.

3.8.9 Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred, except to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset, in which case they are capitalised as part of the cost of that asset.

3.8.10 Income Tax Expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

3.8.11 Current Income Tax

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 Inland Revenue Act No. 10 of 2006 and subsequent amendments thereon.

3.8.12 Deferred Taxation

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

Deferred Tax assets and liabilities are recognised for all deductible temporary differences, carry-forward of unused tax credits 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 credits and unused tax losses can be utilised.

The carrying amount of deferred 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 tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the year when the asset is realised or liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted as at the reporting date. Income tax relating to items recognised directly in equity is recognised in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3.9 Related Party Transactions

Disclosure has been made in respect of the transactions in which one party has the ability to control or exercise significant influence over the financial and operating policies/decisions of the other, irrespective of whether a price is being charged.

3.10 Earnings Per Share

The Company presents basic Earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of shares outstanding during the period.

3.11 Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments operating results are reviewed regularly by the Group's operating decision maker to make decisions about the resources to each segment and to assess its performance, and for which discrete financial information is available.

3.12 Offsetting Financial Assets and Financial Liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously..

3.13 Materiality Aggregation

Each material class of similar items is presented separately in the financial statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.

3.14 Cash Flow Statement

The cash flow statement is prepared under the Indirect Method. Interest paid is classified as operating cash flows whereas interest received and dividend received are classified as investing cash flows.

3.15 Events After the Reporting Date

All material events occurring after the reporting date have been considered and where appropriate adjustments or disclosures have been made in the Financial Statements.

3.16 Commitments and Contingencies

Commitments and contingencies as at the reporting period are disclosed in the Financial Statements.

4. New Standards and Interpretations not yet Adopted

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standards which will become applicable for financial periods beginning on or after 1st January 2014 and 2015. Accordingly, these Standards have not been applied in preparing these financial statements.

- Sri Lanka Accounting Standards –SLFRS 10 “Consolidated financial statements”

The objective of this SLFRS is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

Notes to the Financial Statements

An investor is expected to control an investee if and only if the investor has all the following:

- (a) power over the investee;
- (b) exposure, or rights, to variable returns from its involvement with the investee ; and
- (c) the ability to use its power over the investee to affect the amount of the investor's returns

This Standard will require the Company to review the Group structure in the context of the new Standard and its requirements. Accordingly adoption of this standard is expected to have an impact on the Group structure, and consolidated reporting.

SLFRS 10 will become effective from 1 April 2014 for the Group with early adoption permitted. This SLFRS will supersede the requirements relating to consolidated financial statements in LKAS 27 Consolidated and Separate Financial Statements.

- **Sri Lanka Accounting Standard - SLFRS 13 "Fair Value Measurement"**

This SLFRS defines fair value, sets out in a single SLFRS a framework for measuring fair value; and requires disclosures about fair value measurements.

This SLFRS will become effective for the Group from 1 April 2014. Earlier application is permitted.

This SLFRS shall be applied prospectively as of the beginning of the annual period in which it is initially applied. The disclosure requirements of this SLFRS need not be applied in comparative information provided for periods before initial application of this SLFRS.

- **Sri Lanka Accounting Standard – SLFRS 9 "Financial Instruments"**

The objective of this SLFRS is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

An entity shall apply this SLFRS to all items within the scope of LKAS 39 Financial Instruments: Recognition and Measurement.

Sri Lanka Accounting Standard – SLFRS 9 "Financial Instruments" (Continued)

This SLFRS will become effective for the Group from 1 April 2015. Earlier application is permitted for the financial period beginning on or after 01 January, 2013. However, if the Group elects to apply this SLFRS early, it must apply all of the requirements in this SLFRS at the same time

For the year ended 31st March		Group		Company	
		2013 Rs.000's	2012 Rs.000's	2013 Rs.000's	2012 Rs.000's
5	Revenue				
	Gross Revenue	5,538,016	5,075,378	3,778,683	3,469,772
	Less : Nation Building Tax	(101,362)	(80,501)	(67,680)	(61,736)
		5,436,654	4,994,877	3,711,003	3,408,036
6	Other Operating Income				
	Gain on disposal of property, plant and equipment	881	2,469	818	1,815
	Negative goodwill on acquisition of subsidiary	-	8,431	-	-
	Gain on disposal of investments	-	1,042	-	1,042
	Change in Fair Value of Biological Assets	61,190	56,872	-	-
	Gain on Fair value of Financial Assets Held for Trading	18,955	-	18,955	-
	Dividend income	115,317	94,338	124,317	94,338
	Sundry Income	15,064	12,882	657	73
		211,407	176,034	144,747	97,268
7	Net Finance Income/(Expense)				
	Finance Income				
	Interest on fixed deposits	944	463	944	447
	Interest on loans and receivables	657	532	657	532
	Interest from Trade Receivables	1,663	584	1,523	584
	Gain on translation of foreign currency	22,759	569	18,649	-
	Interest on amount due from Related Companies	-	-	9,823	9,819
		26,023	2,148	31,596	11,382
	Finance Expense				
	Interest on Bank Overdraft	(42,401)	(21,198)	(24,943)	(10,388)
	Interest on long term borrowings	(9,823)	(9,819)	(9,823)	(9,819)
	Interest on bills discounting	(3,941)	(676)	-	-
	Loss on translation of foreign currency	-	(61,442)	-	(60,545)
		(56,165)	(93,135)	(34,766)	(80,752)
	Net Finance Expense	(30,142)	(90,987)	(3,170)	(69,370)
8	Profit Before Taxation				
	<i>Profit Before Taxation is stated after charging all the expenses including the followings.</i>				
	Directors' Emoluments	3,400	2,840	3,400	2,840
	Auditors' Remuneration				
	- Audit Services	3,850	2,516	2,150	1,815
	- Audit related services	980	-	980	-
	Non Audit services	1,067	686	358	274
	Impairment on Investment in Subsidiaries	-	-	8,449	10,695
	Depreciation on Property, Plant and Equipment	129,310	110,022	23,632	19,764
	Lease Rent for Land	21,500	21,500	67	67
	Provision for Impairment Loss on Trade Receivables	5,295	6,579	-	1,154
	Management fees	1,120	1,000	1,120	1,000
	Personnel Costs (Note 8.1)	293,442	244,435	174,717	141,700
8.1	Personnel Costs				
	Defined Contribution Plan Costs - EPF and ETF	20,652	20,104	11,006	10,071
	Defined Benefit Plan Cost - Retiring Gratuity	9,812	8,155	3,704	6,250
	Other Staff Costs	262,978	216,176	160,007	125,379
		293,442	244,435	174,717	141,700
	Total number of employees as at the end of the year	690	716	284	300

Notes to the Financial Statements

For the year ended 31st March	Group		Company	
	2013	2012	2013	2012
	Rs.000's	Rs.000's	Rs.000's	Rs.000's
9 Income Tax Expense				
Income Tax for the year (Note 9.1)	30,518	23,953	30,195	14,308
Adjustment for prior years	-	14,623	-	14,623
Deferred Taxation Charge	12,635	15,564	2,321	2,314
Deemed Dividend Tax	711	602	-	-
	43,864	54,742	32,516	31,245

- a) The Profits and income of Lanka Milk Foods (CWE) PLC is liable for income tax at the rate of 28% in terms of the Provisions of the Inland Revenue Act No.10 of 2006 and subsequent amendments thereto.
- b) In terms of the provisions of Inland Revenue Act No.10 of 2006 and subsequent amendments thereto, the profits and income of Lanka Dairies (Private) Limited, Pattipola Livestock Company Limited and Ambewela Livestock Company Limited generated from agricultural undertaking and animal husbandry are taxed at the rate of 10% . Other income are liable for Income tax at the rate of 28%.
- c) As per the agreement entered into with Board of Investment of Sri Lanka, the profits and income of Ambewela Products (Private) Limited, enjoy a ten year tax holiday from the Year of Assessment in which the entity commences to make profits or any Year of Assessment not later than two years reckoned from the date of commencement of commercial operations which ever is earlier.

For the year ended 31st March	Group		Company	
	2013	2012	2013	2012
	Rs.000's	Rs.000's	Rs.000's	Rs.000's
9.1 Reconciliation of Accounting Profit to Income Tax Expense				
Profit before Tax	408,400	173,551	263,876	35,846
Non business income	(4,300)	(165,723)	(3,124)	(108,820)
Disallowable expenses	267,306	233,698	46,977	130,585
Tax deductible expenses	(201,376)	(155,811)	(55,800)	(14,836)
Tax exempt income	(203,582)	(14,214)	(147,214)	-
Loss of Abewela Product (Private) Limited	8,499	98,484	-	-
Business income	264,947	169,983	104,715	42,775
Non business income	3,418	8,900	3,124	8,324
Tax loss claimed during the year	(334)	(31,647)	-	-
Qualifying Payments during the year	(155,640)	-	-	-
Taxable Income	112,391	147,565	107,839	51,099
Income tax @ 28%	30,360	14,307	30,195	14,308
Income tax @ 10%	158	9,646	-	-
Income tax expense	30,518	23,953	30,195	14,308
9.2 Accumulated Tax Losses				
Tax loss brought forward	549,092	580,738	-	-
Loss for the Year	(504,222)	-	-	-
Tax loss claimed during the Year	(334)	(31,647)	-	-
Tax loss carried forward	240,566	549,091	-	-

10 Basic Earnings Per Share

The calculation of basic earnings per share is based on the profit after tax attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding during the year.

<i>For the year ended 31st March</i>	Group		Company	
	2013	2012	2013	2012
Profit Attributable to Ordinary Shareholders (Rs.'000)	372,076	113,310	231,360	4,601
Weighted Average Number of Ordinary Shares ('000)	39,998	39,998	39,998	39,998
Basic Earnings Per Share (Rs.)	9.30	2.83	5.78	0.12

<i>For the year ended 31st March</i>	Group		Company	
	2013	2012	2013	2012
11 Dividends Per Share				
Dividend Per Share (Rs.)	1.50	1.00	1.50	1.00

Dividends proposed, are taken in to consideration for computation of dividend per share. Proposed dividend has not been recognised as a liability as at the Reporting Date until it is approved at the Annual General meeting.

Notes to the Financial Statements

12 Property, Plant and Equipment

12.1 Group

Cost / Deemed Cost	As at 01/04/2011 Rs.000's	Additions/ Transfers Rs.000's	Disposals/ Transfers Rs.000's	As at 31/03/2012 Rs.000's	As at 01/04/2012 Rs.000's	Additions/ Transfers Rs.000's	Disposals/ Transfers Rs.000's	As at 31/03/2013 Rs.000's
Leasehold buildings	732,824	23,388	-	756,212	756,212	357	-	756,569
Plant and machinery	867,389	23,912	-	891,301	891,301	6,322	(67)	897,556
Laboratory equipment	9,089	205	-	9,294	9,294	526	-	9,820
Factory equipment	176,898	5,109	(103)	181,904	181,904	16,163	(132)	197,935
Canteen equipment	2,728	157	(241)	2,644	2,644	77	-	2,721
Office equipment	7,753	1,514	-	9,267	9,267	104	-	9,371
Fire fighting equipment	4,255	-	-	4,255	4,255	-	-	4,255
Furniture and fittings	6,946	298	-	7,244	7,244	1,786	-	9,030
Fixtures	164	-	-	164	164	-	-	164
Computers	13,081	1,090	-	14,171	14,171	511	-	14,682
Motor vehicles	143,787	799	(6274)	138,312	138,312	17,476	(700)	155,088
Milk collection equipment	1,939	-	-	1,939	1,939	-	-	1,939
Motor roads and others	33,067	749	-	33,816	33,816	12,046	-	45,862
	1,999,920	57,221	(6618)	2,050,523	2,050,523	55,368	(899)	2,104,992

Accumulated Depreciation	As at 01/04/2011 Rs.000's	Charge for the year Rs.000's	Disposals/ Transfers Rs.000's	As at 31/03/2012 Rs.000's	As at 01/04/2012 Rs.000's	Charge for the Year Rs.000's	Disposals/ Transfers Rs.000's	As at 31/03/2013 Rs.000's
Leasehold buildings	257,510	17,102	-	274,612	274,612	18,709	-	293,321
Plant and machinery	353,979	52,725	-	406,704	406,704	52,637	(9)	459,332
Laboratory equipment	5,985	90	-	6,075	6,075	109	-	6,184
Factory equipment	36,538	17,616	(103)	54,051	54,051	27,493	(35)	81,509
Canteen equipment	2,192	62	(241)	2,013	2,013	64	-	2,077
Office equipment	6,820	265	-	7,085	7,085	552	-	7,637
Fire fighting equipment	4,255	-	-	4,255	4,255	-	-	4,255
Furniture and fittings	5,207	507	-	5,714	5,714	754	-	6,468
Fixtures	164	-	-	164	164	-	-	164
Computers	9,458	1,341	-	10,799	10,799	1,232	-	12,031
Motor vehicles	82,386	14,768	(5573)	91,581	91,581	22,249	(700)	113,130
Milk collection equipment	1,939	-	-	1,939	1,939	-	-	1,939
Motor roads and others	12,801	5,546	-	18,347	18,347	5,521	-	23,868
	779,234	110,022	(5,917)	883,339	883,339	129,310	(744)	1,011,915
Written Down Value	1,220,686			1,167,184				1,093,077
Capital Work in Progress	35,258			18,639				692,948
	1,255,944			1,185,823				1,786,025

12. Property, Plant and Equipment (Continued)

12.1 Group (Continued)

	31/03/2013 Rs.000's	31/03/2012 Rs.000's	01/4/2011 Rs.000's
Written Down Value			
Leasehold buildings	463,248	481,600	475,314
Plant and machinery	438,225	484,597	513,410
Laboratory equipment	3,636	3,219	3,104
Factory equipment	116,426	127,853	140,360
Canteen equipment	644	631	536
Office equipment	1,733	2,182	933
Fire fighting equipment	-	-	-
Furniture and fittings	2,562	1,530	1,739
Fixtures	-	-	-
Computers	2,651	3,372	3,623
Motor vehicles	41,958	46,731	61,401
Milk collection equipment	-	-	-
Motor roads and others	21,994	15,469	20,266
	1,093,077	1,167,184	1,220,686
Capital Work in Progress	692,948	18,639	35,258
	1,786,025	1,185,823	1,255,944

(a) The cost of fully depreciated property, plant and equipment as at the reporting date are as follows;

	2013 Rs.000's	2012 Rs.000's
Lanka Milk Foods (CWE) PLC	182,438	182,105
Lanka Dairies (Private) Limited	147,047	147,036
Ambewela Livestock Company Limited	72,711	68,652
Pattipola Livestock Company Limited	39,146	30,753
	441,442	428,546

(b) All factory and office buildings has been constructed on leasehold lands obtained from the Government of Sri Lanka on a 50 years lease. Lease rentals are paid annually. Details of the Land obtained from the Government of Sri Lanka under lease are as follows;

Name of the Company	Location	Annual Lease rental (Rs.)	Lease commenced from
Lanka Milk Foods (CWE) PLC	Welisara	67,000	1st Feb 1983
Ambewela Livestock Company Limited	Ambewela	12,768,610	3rd Oct 2001
Pattipola Livestock Company Limited	Pattipola	8,664,150	3rd Oct 2001
		21,499,760	

(c) The Company carried out a valuation of buildings during the financial year ended 31st March 1990 in order to incorporate the value of buildings prior to privatisation of the Company. The corresponding increase in the carrying amount was credited to revaluation reserve. The resulting carrying amount has been deemed to be the cost of buildings which have been subsequently measured at cost less accumulated depreciation and accumulated impairment losses.

(d) The leasehold rights of land and buildings and immovable plant and machinery amounting to Rs.900 Mn. have been pledged as security against letter of credit facility obtained from Hatton National Bank PLC.

Notes to the Financial Statements

12. Property, Plant and Equipment (Continued)

12.2 Company

Cost / Deemed Cost	As at 01/04/2011 Rs.000's	Additions/ Transfers Rs.000's	Disposals/ Transfers Rs.000's	As at 31/03/2012 Rs.000's	As at 01/04/2012 Rs.000's	Additions/ Transfers Rs.000's	Disposals/ Transfers Rs.000's	As at 31/03/2013 Rs.000's
Leasehold buildings	358,951	-	-	358,951	358,951	-	-	358,951
Plant and machinery	149,164	7,420	-	156,584	156,584	3,902	(67)	160,419
Laboratory equipment	2,803	40	-	2,843	2,843	-	-	2,843
Factory equipment	2,935	3,574	(103)	6,406	6,406	2,670	-	9,076
Canteen equipment	2,728	157	(241)	2,644	2,644	77	-	2,721
Office equipment	6,221	1,496	-	7,717	7,717	83	-	7,800
Fire fighting equipment	4,223	-	-	4,223	4,223	-	-	4,223
Furniture and fittings	2,655	39	-	2,694	2,694	1,133	-	3,827
Fixtures	164	-	-	164	164	-	-	164
Computers	10,742	970	-	11,712	11,712	197	-	11,909
Motor vehicles	64,950	435	(4,200)	61,185	61,185	16,865	(700)	77,350
	605,536	14,131	(4,544)	615,123	615,123	24,927	(767)	639,283

Accumulated Depreciation	As at 01/04/2011 Rs.000's	Charge for the year Rs.000's	Disposals/ Transfers Rs.000's	As at 31/03/2012 Rs.000's	As at 01/04/2012 Rs.000's	Charge for the Year Rs.000's	Disposals/ Transfers Rs.000's	As at 31/03/2013 Rs.000's
Leasehold buildings	179,431	8,551	-	187,982	187,982	8,548	-	196,530
Plant and machinery	137,010	2,229	-	139,239	139,239	2,686	(9)	141,916
Laboratory equipment	2,781	6	-	2,787	2,787	7	-	2,794
Factory equipment	2,772	294	(103)	2,963	2,963	613	-	3,576
Canteen equipment	2,192	62	(241)	2,013	2,013	64	-	2,077
Office equipment	5,563	170	-	5,733	5,733	464	-	6,197
Fire fighting equipment	4,223	-	-	4,223	4,223	-	-	4,223
Furniture and fittings	2,572	34	-	2,606	2,606	185	-	2,791
Fixtures	164	-	-	164	164	-	-	164
Computers	8,194	1,013	-	9,207	9,207	882	-	10,089
Motor vehicles	31,596	7,405	(4,200)	34,801	34,801	10,183	(700)	44,284
	376,498	19,764	(4,544)	391,718	391,718	23,632	(709)	414,641
Written Down Value	229,038				223,405			224,642
Capital Work in Progress	4,752				10,914			19,960
	233,790				234,319			244,602

	31/03/2013 Rs.000's	31/03/2012 Rs.000's	01/04/2011 Rs.000's
Written Down Value			
Leasehold buildings	162,421	170,969	179,520
Plant and machinery	18,503	17,345	12,154
Laboratory equipment	49	56	22
Factory equipment	5,500	3,443	163
Canteen equipment	644	631	536
Office equipment	1,603	1,984	658
Fire fighting equipment	-	-	-
Furniture fittings	1,036	88	83
Fixtures	-	-	-
Computers	1,820	2,505	2,548
Motor vehicles	33,066	26,384	33,354
	224,642	223,405	229,038
Capital Work in Progress	19,960	10,914	4,752
	244,602	234,319	233,790

As at	31/03/2013			31/03/2012		01/04/2011	
	Holding Percentage	No. of Shares	Cost Rs.000's	No. of Shares	Cost Rs.000's	No. of Shares	Cost Rs.000's
13 Investment in Subsidiaries							
Lanka Dairies (Private) Limited	100%	500,000	5,000	500,000	5,000	500,000	5,000
Ambewela Livestock Company Limited	100%	3,000,000	51,137	3,000,000	51,137	3,000,000	51,137
Pattipola Livestock Company Limited	100%	1,000,000	46,815	1,000,000	46,815	1,000,000	46,815
Ambewela Products (Private) Limited	100%	1,000,000	1,010,000	1,000,000	1,010,000	1,000,000	1,010,000
Indo Lanka Exports (Private) Limited	51%	306,000	30,600	306,000	30,600		
			1,143,552		1,143,552		1,112,952
Less: Provision for Impairment of Investments			(369,387)		(360,888)		(294,505)
			774,165		782,664		818,447

	31/03/2013		31/03/2012		01/04/2011	
	No of Shares	Market Value Rs.000's	No of Shares	Market Value Rs.000's	No of Shares	Market Value Rs.000's
14 Investment in Shares						
14.1 Available for Sale Investments						
Group/Company						
Distilleries Company of Sri Lanka PLC	37,961,500	6,320,589	37,961,500	5,504,417	37,961,500	6,833,070
		6,320,589		5,504,417		6,833,070
14.2 Financial assets Held for Trading						
Group/Company						
Asia Capital PLC	60	1	60	2	29,260	2,569
Browns Beach Hotels PLC	1,251,558	21,526	1,251,558	18,272	1,251,558	26,658
Colombo Dockyard PLC	219,948	47,090	219,948	50,588	209,475	53,437
Commercial Bank of Sri Lanka PLC - Voting	1,394,732	157,604	1,370,406	137,040	635,439	168,899
Lanka Ventures PLC	-	-	-	-	100,000	3,800
Merchant Bank of Sri Lanka PLC	103,471	1,665	103,471	3,032	103,471	4,780
Seylan Bank PLC - Voting	80	5	80	5	80	6
Seylan Bank PLC - Non Voting	80	2	80	2	80	3
		227,893		208,941		260,152

Notes to the Financial Statements

	Group			Company		
	31/03/2013 Rs.000's	31/03/2012 Rs.000's	01/04/2011 Rs.000's	31/03/2013 Rs.000's	31/03/2012 Rs.000's	01/04/2011 Rs.000's
15 Biological Assets						
15.1 Livestock						
Balance as at the beginning	224,445	180,922	132,075	-	-	-
Additions during the year	16,995	13,450	17,979	-	-	-
Increase in Fair Value during the year	61,190	56,872	56,536	-	-	-
Disposals during the year	(35,923)	(26,799)	(25,668)	-	-	-
Balance as at the end	266,707	224,445	180,922	-	-	-
15.2 Non Perennial Crops - At Cost						
Balance as at the beginning	14,529	11,057	7,906	-	-	-
Additions during the year	16,367	3,651	11,057	-	-	-
Disposals during the year	(14,529)	(179)	(7,906)	-	-	-
Balance as at the end	16,367	14,529	11,057	-	-	-

The Group has used the following significant criterias in determining the fair value of the Biological Assets as at 31st March 2013.

Weight
Pregnancy
Milk Production
Lactations
Age

	Group			Company		
	31/03/2013 Rs.000's	31/03/2012 Rs.000's	01/04/2011 Rs.000's	31/03/2013 Rs.000's	31/03/2012 Rs.000's	01/04/2011 Rs.000's
16 Inventories						
Raw Materials and Consumables	566,040	852,761	591,470	218,077	534,080	352,684
Finished Goods	87,234	165,071	138,828	52,065	121,566	122,038
Goods in Transit	372,697	136,452	313,108	357,008	131,636	311,891
	1,025,971	1,154,284	1,043,406	627,150	787,282	786,613
Less : Provision for obsolete inventories	(11,702)	-	-	-	-	-
	1,014,269	1,154,284	1,043,406	627,150	787,282	786,613
17 Trade Receivables						
Trade Receivables	602,270	494,017	402,420	403,281	241,297	283,500
Less: Provision for Impairment	(56,897)	(51,602)	(45,023)	(39,272)	(40,525)	(39,371)
	545,373	442,415	357,397	364,009	200,772	244,129
18 Other Receivables						
Deposits and Prepayments	33,307	19,301	18,922	393	496	4,822
Less: Provision for Impairment	-	(61)	(61)	-	-	-
	33,307	19,240	18,861	393	496	4,822
Insurance Receivables	-	-	2,360	-	-	2,123
Other Taxes Recoverable (Note 18.1)	24,113	68,455	5,022	4,988	3,833	4,191
Sundry Receivables	41,909	4,987	30,807	6,671	1,647	24,166
Staff Loans and Advances	3,248	5,772	4,431	3,248	4,386	3,492
	102,577	98,454	61,481	15,300	10,362	38,794

As at	Group			Company		
	31/03/2013 Rs.000's	31/03/2012 Rs.000's	01/04/2011 Rs.000's	31/03/2013 Rs.000's	31/03/2012 Rs.000's	01/04/2011 Rs.000's
18.1 Other Taxes Recoverable						
Withholding Tax	29	29	29	-	-	
Turnover Tax	2,603	2,603	2,603	2,603	2,603	2,603
National Security Levy	509	509	509	509	509	509
Nation Building Tax	-	1,810	2,903	-	1,810	2,903
Value Added Tax	24,085	66,616	2,090	4,989	2,023	1,288
	27,226	71,567	8,134	8,101	6,945	7,303
Less: Provision for NSL and TT Recoverable	(3,113)	(3,112)	(3,112)	(3,113)	(3,112)	(3,112)
	24,113	68,455	5,022	4,988	3,833	4,191

As at	Group			Company		
	31/03/2013 Rs.000's	31/03/2012 Rs.000's	01/04/2011 Rs.000's	31/03/2013 Rs.000's	31/03/2012 Rs.000's	01/04/2011 Rs.000's
19 Amount due from Related Parties						
Lanka Dairies (Private) Limited	-	-	-	200,314	159,471	238,490
Stassen Exports Ltd	36,994	18,425	9,805	1,947	1,049	983
Indo Lanka Exports (Private) Limited	-	-	72,423	-	3,728	68,208
Ambewela Products (Private) Limited	-	-	-	319,895	276,415	233,180
Ambewela Livestock Company Limited	-	-	-	309,187	304,057	325,058
Aitken Spence PLC	903	1,626	1,449	903	1,626	1,449
Distilleries Company of Sri Lanka PLC	1,217	4,120	314	1,182	4,099	298
Maudulsima Plantation PLC	45	53	-	45	51	-
Browns Beach Hotel PLC	-	-	357	-	-	-
Pattipola Livestock Company Limited	-	-	-	191,045	188,387	191,512
	39,159	24,224	84,348	1,024,518	938,883	1,059,178
Less : Provision for Impairment	-	-	-	(192,325)	(192,325)	(248,014)
	39,159	24,224	84,348	832,193	746,558	811,164

Notes to the Financial Statements

As at	Group			Company		
	31/03/2013 Rs.000's	31/03/2012 Rs.000's	01/04/2011 Rs.000's	31/03/2013 Rs.000's	31/03/2012 Rs.000's	01/04/2011 Rs.000's
20 Cash and Cash Equivalents						
Cash at Bank and in Hand	235,420	36,485	24,118	225,740	32,750	21,784
Call Deposit	10,000	7,644	7,383		7,644	7,383
	245,420	44,129	31,501	225,740	40,394	29,167
Less : Bank Overdraft	(191,809)	(385,691)	(308,991)	(30,021)	(180,028)	(150,811)
Cash and cash equivalents for the purpose of cash flow statement	53,611	(341,562)	(277,490)	195,719	(139,634)	(121,644)

As at	Group			Company		
	31/03/2013 Rs.000's	31/03/2012 Rs.000's	01/04/2011 Rs.000's	31/03/2013 Rs.000's	31/03/2012 Rs.000's	01/04/2011 Rs.000's
21 Stated Capital						
39,998,000 Ordinary Shares	999,950	999,950	999,950	999,950	999,950	999,950

22 Reserves

22.1 Capital reserve on revaluation of property

The capital reserve on revaluation of property represents the difference between the revalued amount and the carrying value of Property, Plant and Equipment at the date of revaluation. The revaluation was carried out during the financial year ended 31st March 1990 in order to incorporate the value of the buildings on leasehold land prior to the privatisation of the Company. The revalued amounts of Property plant and equipment were considered as deemed cost at the date of acquisition.

22.2 Dairy Development Project Reserve

The dairy development project reserve relates to an amount set aside out of retained earnings for the development of dairy project.

As at	Group			Company		
	31/03/2013 Rs.000's	31/03/2012 Rs.000's	01/04/2011 Rs.000's	31/03/2013 Rs.000's	31/03/2012 Rs.000's	01/04/2011 Rs.000's
23 Deferred Taxation						
Balance as at the beginning	66,542	50,978	37,206	29,932	27,618	37,206
Origination/(Reversal) of temporary differences	12,635	15,564	13,772	2,321	2,314	(9,588)
Balance as at the end	79,177	66,542	50,978	32,253	29,932	27,618

The deferred tax liability is attributable to the followings;

Company	31/03/2013		31/03/2012		01/04/2011	
	Temporary Difference Rs.000's	Tax Effect Rs.000's	Temporary Difference Rs.000's	Tax Effect Rs.000's	Temporary Difference Rs.000's	Tax Effect Rs.000's
On Property, plant and Equipment	137,497	38,500	128,694	36,034	116,682	32,671
On Retirement Benefit Obligations	(22,556)	(6,247)	(21,795)	(6,102)	(18,046)	(5,053)
	114,941	32,253	106,899	29,932	98,636	27,618

Group	31/03/2013		31/03/2012		01/04/2011	
	Temporary Difference Rs.000's	Tax Effect Rs.000's	Temporary Difference Rs.000's	Tax Effect Rs.000's	Temporary Difference Rs.000's	Tax Effect Rs.000's
On Property, plant and Equipment	364,898	86,127	305,501	73,830	233,482	56,031
On Retirement Benefit Obligations	(24,822)	(6,950)	(23,910)	(7,287)	(18,045)	(5,053)
	340,076	79,177	281,591	66,542	215,437	50,978

Deferred tax assets have not been recognised in the Financial Statement of subsidiaries of the Group (Ambewela Livestock Company Limited and Pattipola Livestock Company Limited) since it is not probable that future taxable profits will be available against which the company can utilise the benefit therefrom. The Deferred Tax Asset has been recognised in the Financial Statements to the extent of deferred tax liability. The unrecorded Deferred Tax Assets of subsidiaries as at 31st March 2013 are Rs. 21,262,330.

As at	Group			Company		
	31/03/2013 Rs.000's	31/03/2012 Rs.000's	01/04/2011 Rs.000's	31/03/2013 Rs.000's	31/03/2012 Rs.000's	01/04/2011 Rs.000's
24 Retirement Benefit Obligations						
Balance as at the Beginning	31,182	26,494	27,788	21,795	18,046	16,424
Interest cost	3,458	1,986	3,057	2,397	1,985	1,971
Current service cost	3,274	3,483	2,097	1,476	1,579	1,312
Actuarial (gain)/loss	3,080	2,686	(2,517)	(169)	2,686	(41)
Payments during the year	(3,798)	(3,467)	(3,931)	(2,943)	(2,501)	(1,620)
Balance as at the end	37,196	31,182	26,494	22,556	21,795	18,046

The expense is recognised in the following items in the Statement of Comprehensive Income.

Cost of Sales	3,940	1,043	540	617	1,042	540
Administration Expenses	4,020	3,987	757	1,235	2,083	1,081
Distribution Expenses	1,852	3,125	1,340	1,852	3,125	1,621
	9,812	8,155	2,637	3,704	6,250	3,242

Notes to the Financial Statements

24 Retirement Benefit Obligations (Contd.)

The Retirement benefit obligations of the Group is based on the actuarial valuation carried out by Actuarial and Management Consultants (Private) Limited, a firm of professional actuaries.

LKAS 19 - Employee Benefit requires the use of actuarial techniques to make a reliable estimate of the amount of retirement benefit using the Projected Unit Credit Method in order to determine the present value of the retirement benefit obligation as at the reporting date. The following key assumptions were made in computing the retirement gratuity obligation as at the reporting date.

	31/03/2013	31/03/2012
i.) Discount rate	11%	11%
ii.) Annual salary increment rate	5%	5%
iii) Retirement Age	55 years	55 years

As at	Group			Company		
	31/03/2013 Rs.000's	31/03/2012 Rs.000's	01/04/2011 Rs.000's	31/03/2013 Rs.000's	31/03/2012 Rs.000's	01/04/2011 Rs.000's
25 Loans and Borrowings						
Term Loans - Secured						
Balance as at beginning	96,323	129,001	161,679	96,323	129,001	161,679
Add : Loans obtained during the year	252,858	-	-	-	-	-
	349,181	129,001	161,679	96,323	129,001	161,679
Less : Repayments during the year	(32,678)	(32,678)	(32,678)	(32,678)	(32,678)	(32,678)
Balance as at end	316,503	96,323	129,001	63,645	96,323	129,001
Amount payable within one year	32,678	32,678	32,678	32,678	32,678	32,678
Amount Payable after one year	283,825	63,645	96,323	30,967	63,645	96,323
	316,503	96,323	129,001	63,645	96,323	129,001

The Company obtained a term loan of Euro 2.1 Mn.(Rs. 260 Mn.) from DFCC Bank to fund Ambewela Dairy Project of Ambewela Products (Private) Limited. The Loan carries an interest rate of Average Weighted Prime Lending Rate (AWPLR) + 1% premium less 6 months average LIBOR rate. The Principle amount is repayable over a period of 8 years in 16 consecutive semi annual installments commencing from June 2007. This loan is secured by a corporate guarantee issued by Distilleries Company of Sri Lanka PLC .

Further The Group has obtained a long term loan of Rs. 560 Million for the purpose of an expansion project in Lanka Dairies (Private) Limited. This has been secured by a primary mortgage over movable machinery and corporate guarantee by the Lanka Milk Foods (CWE) PLC. Interest will be paid at 5.25% per annum above the Average Weighted Prime Lending Rate (AWPR) rounded upwards to the nearest 0.5% per annum.

As at	Group			Company		
	31/03/2013 Rs.000's	31/03/2012 Rs.000's	01/04/2011 Rs.000's	31/03/2013 Rs.000's	31/03/2012 Rs.000's	01/04/2011 Rs.000's
26 Trade and Other Payables						
Trade and Other Payables	546,098	604,117	514,433	174,450	465,624	470,538
Accrued Expenses	21,189	31,537	34,049	11,186	14,610	25,133
Outstanding letters of credit	557,490	130,384	292,362	557,490	130,384	292,362
Unclaimed Dividend	2,509	2,516	2,527	2,509	2,516	2,527
Security Deposits	-	4,343	11,762	-	4,343	11,762
	1,127,286	772,897	855,133	745,635	617,477	802,322

As at	Group			Company		
	31/03/2013 Rs.000's	31/03/2012 Rs.000's	01/04/2011 Rs.000's	31/03/2013 Rs.000's	31/03/2012 Rs.000's	01/04/2011 Rs.000's
27 Amounts Due to Related Parties						
Stassen Exports (Private) Limited	169,626	77,112	106,043	169,626	77,112	106,043
Indo Lanka Exports (Private) Limited	-	-	-	36,325	-	-
Aitken Spence PLC	6,293	3,729	2,960	2,965	3,207	1,071
Continental Insurance Lanka Limited	2,500	2,528	1,375	1,204	22	-
Milford Exports (Ceylon) Limited	2,750	2,806	2,857	2,750	2,806	2,857
Distilleries Company of Sri Lanka PLC	4,913	-	208	-	-	208
Maudulsima Plantation PLC	-	-	52	-	-	52
Lanka Bell (Private) Limited	55	-	-	55	-	-
	186,137	86,175	113,495	212,925	83,147	110,231

28 Commitments

28.1 Operating Lease Commitments

In accordance with the agreements entered into by the Company and Group Entities, the following operating lease commitments are outstanding as at the reporting date.

a) Company

The Company has an annual commitment of Rs.67,000/- per annum for 50 years from 1983 on the lease of the land at Welisara on which the factory and office complex has been constructed.

b) Group Entities

Ambewela Livestock Company Limited and Pattipola Livestock Company Limited have annual commitments of Rs.12,768,610/- and Rs.8,644,150/- per annum respectively to the Government of Sri Lanka for a period of 50 years from 2001 on the lease of lands on which farms are located.

28.2 Capital Investments

At Lanka Dairies (Pvt) Ltd an investment of Rs. 1 billion has been allocated for the expansion programme, which not only increases the production capacity, but also introduces a screw cap to the 1 Litre packs and changes the shape of all packs to slim, in line with consumer preference.

At Ambewela Products (Pvt) Ltd the demand for Yoghurt exceeded the production capacity during the period under review. As a result, a new machine was installed at a cost of Rs. 75 million to cater to the upsurge in demand.

29. Segmental Reporting

	Powdered milk		Trading		Liquid Milk and Others		Agriculture		Elimination		Group	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	Rs. 000's	Rs. 000's	Rs. 000's	Rs. 000's	Rs. 000's	Rs. 000's	Rs. 000's	Rs. 000's	Rs. 000's	Rs. 000's	Rs. 000's	Rs. 000's
Total Revenue	2,911,705	2,595,998	799,298	812,038	1,811,616	1,667,845	328,879	328,242	(414,844)	(409,246)	5,436,654	4,994,877
Profit from operations	209,531	80,146	57,514	25,070	143,543	86,689	27,953	57,205	-	15,428	438,542	264,538
Financing Income/(Cost)	(2,487)	(52,841)	(683)	(16,529)	(23,723)	(20,268)	(3,249)	(1,349)	-	-	(30,142)	(90,987)
Income tax Expenses	(25,513)	(23,800)	(7,003)	(7,445)	(11,189)	(23,003)	(158)	(494)	-	-	(43,863)	(54,742)
Profit/(loss) for the Year	181,531	3,505	49,829	1,096	108,631	43,418	24,546	55,362	-	15,428	364,536	118,809
Segment Asset	7,557,243	6,503,559	2,074,398	2,034,338	2,256,662	592,906	410,489	348,601	(1,726,443)	(552,290)	10,572,349	8,927,114
Segment Liabilities	874,789	783,592	240,122	245,111	2,330,281	1,811,306	578,430	752,091	(2,076,760)	(2,149,763)	1,946,861	1,442,336
Segment Net Assets	6,682,454	5,719,967	1,834,276	1,789,227	(73,616)	(136,459)	(167,938)	(192,325)	314,854	261,368	8,590,030	7,441,780
Segment Capital Expenditure	35,220	19,078	9,668	5,968	677,746	48,343	25,682	2,472	-	-	748,315	75,860
Depreciation on Property, plant and - equipment	18,543	15,055	5,090	4,709	97,844	81,999	7,843	8,259	-	-	129,319	110,022

Notes to the Financial Statements

30. Group Structure

Name of the Subsidiary	Effective Holding	Nature of the Operation
Lanka Dairies (Private) Limited	100%	Packing and selling of UHT products, "Daily", "Ambewela Farm Fresh Milk"
Ambewela Livestock Company Limited	100%	Rearing of cattle to produce milk, processing and packaging of processed fat and liquid milk and milk allied products.
Pattipola Livestock Company Limited	100%	Rearing cattle, goats, rabbits to produce and sell milk and milk allied products such as natural cheeses, youghurt, goat milk and meat and agricultural development of the farm.
Ambewela Products (Private) limited	100%	Rearing of cattle to produce and sale of cow milk and agricultural development of the farm.
Indo Lanka Exports (Private) Limited	51%	Manufacturing and exporting fruit juices.

31. Contingent Liabilities

The Company has provided corporate guarantees to the following companies for the financial facilities obtained by those companies.

Name of the company	Name of the Bank	Amount of the guarantee Rs. MN
Lanka Dairies (Private) Limited	HNB	325
	DFCC	560
Ambewela Products (Private) limited	HNB	150
Ambewela Livestock Company Limited	HNB	60
Pattipola Livestock Company Limited	HNB	60
Indo Lanka Exports (Private) Limited	HSBC	230

There are no significant contingent liabilities as at the reporting date, which require adjustments to or disclosures in the financial statements, other than what is disclosed above.

32. Events occurring after the Reporting date

There are no other material events occurring subsequent to the reporting date that require adjustment to or disclosure in the Financial Statements other than the following.

The Board of Directors has recommended a final dividend of Rs. 1.50 per share amounting to Rs. 39,998,000 for the year ended 31st March 2013. This is to be approved by the Annual General Meeting to be held on 30th September 2013.

33. Related Party Disclosures

33.1 Transactions with Subsidiary Companies

Name of the Company	Name of Common Directors	Nature of Transaction	Amount	
			2013 Rs.	2012 Rs.
Lanka Dairies (Private) Limited	Mr. D.H.S Jayawardena	Service rendered and Others	116,309,423	130,465,327
	Mr.R.K Obeyesekere	Funds Received	240,000,000	238,004,054
	Mr.Zaki Alif	Funds Transfer	240,000,000	90,000,000
	Mr. C.R. Jansz	Service obtained and Others	75,467	61,479,784
	Ms. D.S.C. Jayawardena	Dividend Income	9,000,000	
		Bank Guarantee Provided	885,000,000	325,000,000
Ambewela Livestock Company Limited	Mr. D.H.S Jayawardena	Services rendered	5,158,029	5,898,207
	Mr.R.K Obeyesekera	Funds Transfer	-	26,008,170
	Mr. Zaki Alif	Services obtained and others	28,256	923,795
	Mr. C.R. Jansz	Bank Guarantee Provided	60,000,000	60,000,000
	Ms. D.S.C. Jayawardena			
Pattipola Livestock Company Limited	Mr. D.H.S Jayawardena	Services rendered and others	2,798,134	3,848,207
	Mr.R.K Obeyesekera	Funds Transfer	-	6,008,554
	Mr. Zaki Alif	Services obtained and others	140,455	1,053,620
	Mr. C.R. Jansz	Bank Guarantee Provided	60,000,000	60,000,000
	Ms. D.S.C. Jayawardena			
Ambewela Products (Private) Limited	Mr. D.H.S Jayawardena	Loan Interest (Paid)	9,822,583	9,819,310
	Mr.R.K Obeyesekera	Funds Transfer	42,550,000	91,276,384
	Mr. Zaki Alif	Funds Received	30,000,000	83,000,000
	Mr. C.R. Jansz	Services rendered and others	47,302,890	41,395,217
	Ms. D.S.C. Jayawardena	Services obtained and others	25,195,134	14,754,027
		Advance Payment	1,000,000	1,502,265
		Bank Guarantee Provided	150,000,000	60,000,000
Indo Lanka Exports (Private) Limited	Mr. D.H.S Jayawardena	Funds transfer and interest	7,134,400	46,768,900
	Mr. C.R Jansz	Fund received	47,700,000	81,068,000
	Ms. D.S.C. Jayawardena	Service rendered and others	513,044	418,538
		Bank Guarantees Provided	230,000,000	230,000,000

Notes to the Financial Statements

33.2 Transactions with Key Management Personnel

Key Management Personnel (KMP) are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Company. Such KMPs include members of the Board of Directors of the Company and other personnel who are involve of in the above activities.

a) Loans to Directors

No loans have been given to the Directors of the Company.

b) Key Management Personnel Compensation

	Group		Company	
	2013 Rs.000's	2012 Rs.000's	2013 Rs.000's	2012 Rs.000's
Short-term employee benefits	2,675	2,055	2,675	2,055
Post employment benefits	285	201	285	201
	2,960	2,256	2,960	2,256

c) Other Transactions with Key Management Personnel

There were no other transactions with key management personnel during the year.

33.3 Transactions with Other Related Companies

Name of the Company	Name of Common Directors	Nature of Transaction	Amount	
			2013 Rs.	2012 Rs.
Milford Exports Ceylon Limited	Mr. D.H.S. Jayawardena	Management Fee	1,000,000	1,000,000
	Mr. R.K. Obeyesekere	Directors' fee	1,500,000	1,500,000
	Mr. Zaki Alif	Dividend Paid	13,426,540	-
Stassen Exports Limited	Mr.D.H.S. Jayawardena	Sale of Milk Foods	14,409,824	12,135,910
	Mr. R.K. Obeyesekere	Services Rendered and Others	10,818,914	-
	Mr. Zaki Alif	Purchase of food items to sell	782,144,109	724,802,548
		Services obtained and other	3,153,576	3,824,928
Hatton National Bank PLC	Ms. D.S.C. Jayawardena	Interest Paid	9,185,625	8,954,861
		Interest Received	850,084	-
		Bank Charges	229,820	751,429
		Bank Overdraft	29,107,125	175,630,242
Distilleries Company of Sri Lanka PLC	Mr. D.H.S. Jayawardena	Sale of Milk Foods	5,972,570	9,701,083
	Mr. R.K. Obeyesekere	Dividend Income	108,618,860	88,846,613
	Mr. C.R. Jansz	Dividend Paid	763,733	-
		Purchase of Fixed Assets	-	5,714,284
		Purchase of Goods and Services	2,477,474	1,804,494

Name of the Company	Name of Common Directors	Nature of Transaction	Amount	
			2013 Rs.	2012 Rs.
Aitken Spence and Company PLC	Mr.D.H.S. Jayawardena	Sale of Milk Foods	13,130,604	10,532,165
		Clearing Charges and others	11,157,540	12,932,965
		Services Obtained and Others	3,900,199	-
Lanka Bell (Private) Limited	Mr.D.H.S. Jayawardena	Telephone Charges	1,003,359	1,220,117
	Mr. C.R. Jansz	Purchase Bell Cards to Sell	58,521,853	-
Maudulsima Plantation PLC	Mr.D.H.S. Jayawardena	Sale of Milk Foods	262,199	218,719
	Mr. R.K. Obeyesekere	Casual Wages Paid	803,075	879,861
	Mr. Zaki Alif			
Continental Insurance Lanka Limited	Mr.D.H.S. Jayawardena	Service obtained Marine insurance	3,552,989	2,374,043
		Service obtained Other insurance	23,317,928	23,428,606
DFCC Bank	Mr. C.R. Jansz	Overdraft interest	-	4,307
		Bank Charges	-	3,981
		Loan Repayment	32,677,564	32,677,564
		Loan Interest Paid	9,822,583	9,819,310
Periceyl (Private) Limited	Mr.D.H.S. Jayawardena	Sale of Milk Foods	54,893	-
	Mr. R.K. Obeyesekere			
	Mr. Zaki Alif			

The balance with the related parties are disclosed in Note 19 and Note 27 to the Financial Statements.

Notes to the Financial Statements

34 Financial Risk Management

Overview

The Group has exposure to the following risks from its use of financial instruments

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risks, and the Group's management of capital. Further, quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures, The Audit Committee is assisted in its oversight role by Internal Audit.

34.1 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

Exposure to Credit Risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows;

	Group		Company	
	2013 Rs.000's	2012 Rs.000's	2013 Rs.000's	2012 Rs.000's
Trade Receivables	545,373	442,415	364,009	200,772
Other Receivables	102,577	98,454	15,300	10,362
Amounts Due from Related Parties	39,159	24,224	832,193	746,558
Cash and cash equivalents	245,420	44,129	225,740	40,394
	932,529	609,222	1,437,242	998,086

34.1.2 Trade and Other Receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Management also considers the demographics of the Group's customer base, including the country in which customers operate, as these factors may have an influence on credit risk. However, geographically there is no concentration of credit risk. The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered.

34 Financial Risk Management (Continued)

34.1.3 Impairment losses

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of Trade and Other Receivables. The main component of this allowance is the collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The aging of trade receivables at the reporting date was as follows;

Group

As at	31st March 2013		31st March 2012		1st April 2011	
	Gross Balance Rs.'000	Impairment Rs.'000	Gross Balance Rs.'000	Impairment Rs.'000	Gross Balance Rs.'000	Impairment Rs.'000
Past due 0-60 days	471,697	1,414	323,084	973	345,607	8,543
Past due 60-180 days	65,649	3,701	40,261	2,307	17,008	22
Past due 180-365 days	16,011	2,869	85,448	3,098	4,174	827
More than one year	48,913	48,913	45,224	45,224	35,631	35,631
Total	602,270	56,897	494,017	51,602	402,420	45,023
Company						
Past due 0-60 days	353,037	559	189,434	284	234,200	2,696
Past due 60-180 days	10,420	786	10,710	653	9,820	220
Past due 180-365 days	3,131	1,235	2,398	833	3,849	824
More than one year	36,692	36,692	38,755	38,755	35,631	35,631
Total	403,280	39,272	241,297	40,525	283,500	39,371

34.1.4 Investments

The Group limits its exposure to credit risk by investing only in liquid securities which are listed in The Colombo Stock Exchange.

34.1.5 Cash and Cash Equivalents

The Group held cash and cash equivalents of Rs.198,044,415 as at 31st March 2013 (Rs.8,224,211 as at 31st March 2012) which represent its maximum credit exposure on these assets.

Notes to the Financial Statements

34 Financial risk management (Continued)

34.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities.

As at 31st March	Carrying amount Rs.'000	2013			
		0-2 months Rs.'000	2-6 months Rs.'000	6-12 months Rs.'000	More than 1 year Rs.'000
Group					
Trade and Other Payables	1,127,286	643,560	350,033	133,693	-
Amounts Due to Related Parties	186,137	184,151	1,986	-	-
Interest bearing loans and borrowings	316,503	-	16,339	16,339	283,825
Bank Overdraft	191,809	-	191,809	-	-
	1,821,735	827,711	560,167	150,032	283,825
Company					
Trade and Other Payables	745,635	403,770	339,356	2,509	-
Amounts Due to Related parties	212,925	212,925	-	-	-
Interest Bearing Loans and Borrowings	63,645	-	16,339	16,339	30,967
Bank Overdraft	30,021	-	30,021	-	-
	1,052,226	616,695	385,716	18,848	30,967

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

34.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates which will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

34 Financial risk management (Continued)

34.3 Market risk (Continued)

34.3.1 Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than Sri Lankan Rupees (LKR). The foreign currencies in which the set transactions primarily denominated are United States Dollars (USD) and Euro.

34.3.1.1 Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts;

Group

As at 31st March	2013		2012	
	USD	Euro	USD	Euro
Trade and Other Receivables	78,762	-	-	-
Trade and Other Payables	(6,271,211)	-	3,945	22
Gross statement of financial position exposure	(6,192,449)	-	3,945	22
Company				
Trade and Other Payables	4,344,320	-	3,945	22
Gross statement of financial position exposure	4,344,320	-	3,945	22

The following significant exchange rates were applicable during the year;

	Average rate		Reporting date spot rate	
	2013	2012	2013	2012
	Rs.	Rs.	Rs.	Rs.
USD	129.53	112.58	128.33	128.90
Euro	166.81	154.96	164.32	172.87

34.3.1.2 Sensitivity Analysis

A strengthening of the LKR, as indicated below, against the USD at 31st March 2013 would have increased/ (decreased) the equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	Strengthening		Weakening	
	Profit or Loss Rs.	Equity Rs.	Profit or Loss Rs.	Equity Rs.
31st March 2013				
USD (10% movement)	79,467,697	79,467,697	(79,467,697)	(79,467,697)
EURO(5% movement)	-	-	-	-
31st March 2012				
USD (10% movement)	50,851	50,851	(50,851)	(50,851)
EURO (5% movement)	386	386	(386)	(386)

Notes to the Financial Statements

34 Financial risk management (Continued)

34.3 Market risk (Continued)

34.3.2 Interest rate risk

At the reporting date, the Group's interest-bearing financial instruments were as follows;

As at 31st March	Carrying amount			
	Group		Company	
	2013	2012	2013	2012
	Rs.000's	Rs.000's	Rs.000's	Rs.000's
Fixed Rate Instruments	-	-	-	-
Variable Rate Instruments				
Financial Assets				
Financial Liabilities				
Term Loan	(316,503)	(96,323)	(63,645)	(96,323)
Bank Overdrafts	(191,809)	(385,691)	(30,021)	(180,028)
	(508,312)	(482,014)	(93,666)	(276,351)

34.3.2 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

34.4 Capital management

The Group's debt to adjusted capital ratio at the end of the reporting period was as follows;

	Group		Company	
	2013	2012	2013	2012
	Rs.000's	Rs.000's	Rs.000's	Rs.000's
Total liabilities	1,946,861	1,442,335	1,114,911	1,028,702
Less:				
Cash and cash equivalents	(245,420)	(44,129)	(225,740)	(40,394)
Net debts	1,701,441	1,398,207	889,171	988,308
Total equity	8,590,030	7,441,780	8,516,730	7,509,196
Net debt to equity ratio	0.20	0.19	0.10	0.13

There were no changes in the Company's approach to capital management during the year and the Company is not subject to externally imposed capital requirements.

35 Explanation of transition to SLFRSs

As stated in note 2.1 to the Financial Statements, these are the Group's first Financial Statements prepared in accordance with SLFRSs.

The accounting policies set out in note 3 to the Financial Statements have been applied in preparing the Financial Statements for the period ended 31st March 2013, the comparative information presented in these Financial Statements for the year ended 31st March 2012 and in the preparation of an opening SLFRS Statement of Financial Position as at 1st April 2011 (the Group's date of transition).

In preparing its opening SLFRS Statement of Financial Position, the Group has adjusted amounts reported previously in Financial Statements prepared in accordance with Sri Lanka Accounting Standards/ SLASs (previous GAAP). An explanation of how the transition from SLASs to SLFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

35 Explanation of transition to SLFRS (continued)

35.1 Reconciliation of Group comprehensive income

<i>For the year ended 31st March</i>					
	Note	As per SLAS Rs.	2012 Re- classification Rs.	Effect of transition to SLFRS Rs.	As per SLFRS/ LKAS Rs.
Revenue	35.6	5,054,241	(59,364)	-	4,994,877
Cost of sales	35.7	(4,272,072)	-	(503)	(4,272,575)
Gross profit		782,169	(59,364)	(503)	722,302
Other operating income	35.8 35.9	85,264	94,338	(3,568)	176,034
Administrative expenses	35.7	(275,340)	-	(503)	(275,843)
Distribution expenses	35.6 35.10	(327,742)	59,364	(2,916)	(271,294)
Other Operating Expenses	35.9 35.11	(33,482)	-	(53,144)	(86,626)
Profit From Operations		230,869	94,338	(60,634)	264,573
Finance income	35.8	96,486	(94,338)	-	2,148
Finance costs		(93,135)	-	-	(93,135)
Net finance income	3,351	(94,338)	-	(90,987)	
Profit before taxation		234,220	-	(60,634)	173,586
Income tax expense	35.13	(41,492)	-	(13,250)	(54,742)
Profit for the year		192,728	-	(73,884)	118,844
Other comprehensive income					
Net change in fair value of Available for sale investments	35.17	-	-	(1,328,652)	(1,328,652)
Other comprehensive income for the year		-	-	(1,328,652)	(1,328,652)
Total comprehensive income for the year		192,693	-	(1,402,536)	(1,209,843)

Notes to the Financial Statements

35 Explanation of transition to SLFRS (continued)

35.2 Reconciliation of Company comprehensive income

<i>For the year ended 31st March</i>					
	Note	As per SLAS Rs.	2012 Re- classification Rs.	Effect of transition to SLFRS Rs.	As per SLFRS/ LKAS Rs.
Revenue	35.6	3,428,867	(20,831)	-	3,408,036
Cost of sales	35.7	(3,018,712)	-	(503)	(3,019,215)
Gross profit		410,155	(20,831)	(503)	388,821
Other operating income	35.8	6,498	94,338	(3,568)	97,268
	35.9				
Administrative expenses	35.7	(135,651)	-	(503)	(136,154)
Distribution expenses	35.6	(211,137)	20,831	(579)	(190,885)
	35.10				
Other Operating Expenses	35.9	-	-	(53,834)	(53,834)
	35.11				
Profit From Operations		69,865	94,338	(58,987)	105,216
Finance income	35.8	105,720	(94,338)	-	11,382
Finance costs		(80,752)	-	-	(80,752)
Net finance income		24,968	-	-	(69,370)
Profit before taxation		94,833	94,338	(58,987)	35,846
Income tax expense		(31,245)	-	-	(31,245)
Profit for the year		63,588	-	(58,987)	4,601
Other comprehensive income					
Net change in Fair value of Available for sale Investments		-	-	(1,328,652)	(1,328,652)
Other comprehensive income for the year		-		(1,328,652)	(1,328,652)
Total comprehensive income for the year		63,588	-	(1,387,639)	(1,324,051)

35 Explanation of transition to SLFRS (continued)

35.3 Reconciliation of equity - Group

As At	31/03/2012					01/04/2011				
	Note	As per SLAS	Reclassifications	Effect of transition to SLFRS	As per SLFRS/LKAS	As per SLAS	Reclassifications	Effect of transition to SLFRS	As per SLFRS/LKAS	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
ASSETS										
Non current assets										
Property, plant and Equipment	35.7	1,173,231	-	12,592	1,185,823	1,242,341	-	13,603	1,255,944	
Available-for-sale investments	35.15	-	-	5,504,417	5,504,417	-	-	6,833,070	6,833,070	
Long Term Investments	35.15	237,700	-	(237,700)	-	237,700	-	(237,700)	-	
Biological Assets		224,445	-	-	224,445	180,922	-	-	180,922	
		1,635,376	-	5,278,157	6,914,685	1,660,963	-	6,608,973	8,269,936	
Current Assets										
Inventories		1,154,284	-	-	1,154,284	1,043,406	-	-	1,043,406	
Biological Assets		14,529	-	-	14,529	11,057	-	-	11,057	
Financial Assets Held for Trading	35.11	-	-	208,941	208,941	-	-	260,152	260,152	
Short Term investments	35.11	67,203	-	(67,203)	-	61,702	-	(61,702)	-	
Trade receivables	35.10	463,279	(17,592)	(3,279)	442,408	363,941	(6,184)	(363)	357,394	
Other receivables	35.12	101,792	(3,339)	-	98,454	64,504	(3,023)	-	61,481	
Amounts due from related parties	35.12	4,214	20,017	-	24,231	75,413	8,938	-	84,351	
Tax Receivables		25,453	-	-	25,453	21,936	-	-	21,936	
Cash and cash equivalents		44,129	-	-	44,129	31,501	-	-	31,501	
		1,874,883	(914)	138,459	2,012,429	1,673,460	(269)	198,087	1,871,278	
Total assets		3,510,259	(914)	5,417,768	8,927,114	3,334,423	(269)	6,807,060	10,141,214	
EQUITY AND LIABILITIES										
Stated capital		999,950	-	-	999,950	999,950	-	-	999,950	
Capital Reserves		105,116	-	-	105,116	105,116	-	-	105,116	
Retained earnings	35.16	955,555	-	114,441	1,069,996	768,326	-	188,360	956,686	
Available for Sale Reserve	35.17	-	-	5,266,718	5,266,718	-	-	6,595,370	6,595,370	
Equity attributable to owners of the Company		2,060,621	-	5,381,159	7,441,780	1,873,392	-	6,783,730	8,657,122	
Non controlling interest		42,999	-	-	42,999	-	-	-	-	
Total Equity		2,103,620	-	5,381,158	7,484,779	1,873,392	-	6,783,730	8,657,122	
Non current liabilities										
Loans and Borrowings		63,645	-	-	63,645	96,323	-	-	96,323	
Deferred tax liability	35.13	29,932	-	36,610	66,542	27,618	-	23,360	50,978	
Retirement benefit obligation		31,182	-	-	31,182	26,494	-	-	26,494	
		124,759	-	36,610	161,369	150,435	-	23,360	173,795	
Current liabilities										
Trade and other payables	35.12	776,838	(3,943)	-	772,896	859,679	(4,546)	-	855,133	
Amounts due to related parties	35.12	83,147	3,028	-	86,175	109,248	4,277	-	113,495	
Income Tax Payable		3,526	-	-	3,526	-	-	-	-	
Loans and borrowings		32,678	-	-	32,678	32,678	-	-	32,678	
Bank overdrafts		385,691	-	-	385,691	308,991	-	-	308,991	
		1,281,880	(914)	-	1,280,966	1,310,596	(269)	-	1,310,297	
Total liabilities		1,406,649	(914)	36,610	1,442,335	1,461,031	(269)	23,360	1,484,092	
Total equity and liabilities		3,510,259	(914)	5,417,768	8,927,114	3,334,423	(269)	6,807,090	10,141,214	

Notes to the Financial Statements

35 Explanation of transition to SLFRS (continued)

35.4 Reconciliation of equity - Company

As At	31/03/2012					01/04/2011			
	Note	As per SLAS	Reclassifications	Effect of transition to SLFRS	As per SLFRS/LKAS	As per SLAS	Reclassifications	Effect of transition to SLFRS	As per SLFRS/LKAS
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
ASSETS									
Non current assets									
Property, plant and equipment	35.7	221,727	-	12,592	234,319	220,188	-	13,603	233,790
Investment in subsidiaries	35.14	35,600	-	747,064	782,664	15,000	-	803,447	818,447
Available-for-sale investments	35.15	-	-	5,504,417	5,504,417	-	-	6,833,070	6,833,070
Long Term Investments	35.15	237,700	-	(237,700)	-	237,700	-	(237,700)	-
Amounts due from related parties	35.14	1,024,181	-	(1,024,181)	-	1,067,238	-	(1,067,238)	-
		1,519,208	-	5,002,192	6,521,400	1,540,126	-	6,375,782	7,915,907
Current Assets									
Inventories		787,282	-	-	787,282	786,613	-	-	786,613
Financial Assets Held for Trading	35.11	-	-	208,941	208,941	-	-	260,152	260,152
Short Term investments	35.11	67,203	-	(67,203)	-	61,702	-	(61,702)	-
Trade receivables	35.10	208,290	(6,939)	(579)	200,772	246,859	(2,730)	-	244,129
Other receivables		10,362	-	-	10,362	38,794	-	-	38,794
Amounts due from related parties	35.14	463,196	6,939	276,423	746,558	544,654	33,330	263,780	881,164
Tax Receivables		22,189	-	-	22,189	15,950	-	-	15,950
Cash and cash equivalents		40,394	-	-	40,394	29,167	-	-	29,167
		1,598,916	-	417,582	2,016,498	1,723,739	-	431,630	2,155,369
Total assets		3,118,124	-	5,419,774	8,537,898	3,263,865	-	6,807,412	10,071,276
EQUITY AND LIABILITIES									
Stated capital		999,950	-	-	999,950	999,950	-	-	999,950
Capital Reserves		105,116	-	-	105,116	105,116	-	-	105,116
Retained earnings	35.16	984,356	-	153,056	1,137,412	920,768	-	212,043	1,132,811
Available for Sale Reserve	35.17	-	-	5,266,718	5,266,718	-	-	6,595,370	6,595,370
		2,089,422	-	5,419,774	7,509,196	2,025,834	-	6,807,413	8,833,247
Non current liabilities									
Loans and Borrowings		63,645	-	-	63,645	96,323	-	-	96,323
Deferred tax liability		29,932	-	-	29,932	27,618	-	-	27,618
Retirement Benefit Obligations		21,795	-	-	21,795	18,046	-	-	18,046
		115,372	-	-	115,372	141,987	-	-	141,987
Current liabilities									
Trade and other payables		617,477	-	-	617,477	802,322	-	-	802,322
Amounts due to related parties		83,147	-	-	83,147	110,231	-	-	110,231
Loans and Borrowings		32,678	-	-	32,678	32,678	-	-	32,678
Bank overdrafts		180,028	-	-	180,028	150,811	-	-	150,811
		913,330	-	-	913,330	1,096,042	-	-	1,096,042
Total liabilities		1,028,702	-	-	1,028,702	1,238,029	-	-	1,238,029
Total equity and liabilities		3,118,124	-	5,419,774	8,537,898	3,263,865	-	6,807,413	10,071,276

35 Explanation of transition to SLFRS (continued)

35.5 Material adjustments to the cash flow statement for the year ended 31st March 2012

There are no material differences between the cash flow statement presented under SLFRS and the cash flows statement presented under previous GAAP other than stated in the Explanation of transition to SLFRS.

35.6 Reclassification of free issue discounts

The Company/Group under previous SLAS, recognised volume rebates granted to its distributors as distribution expenses. However under SLFRS, volume rebates paid to distributors have been reclassified and presented as a reduction from revenue. The impact arising from the change is summarised as follows;

<i>For the year ended</i>	31st March 2012	
	Group Rs. 000's	Company Rs. 000's
Statement of Comprehensive Income		
Revenue	(59,364)	(20,831)
Distribution expenses	59,364	20,831
	-	-

35.7 Incorrect Amortisation of Leasehold Building

The Company under previous SLASs, has incorrectly amortised its leasehold buildings over the period of the lease. This had been corrected as a prior period error and adjustment was made to the accumulated amortisation and written down value of the leasehold building as at 1st April 2011 and the comparative period. This is not a result of a change in accounting policies. The impact arising from the change is summarised as follows;

<i>For the period ended</i>	31st March 2012	
	Group Rs. 000's	Company Rs. 000's
Statement of Comprehensive Income		
Cost of sales	503	503
Administrative expenses	503	503
Adjustment before income tax	1,006	1,006

<i>As at</i>	31st March 2012		1st April 2011	
	Group Rs. 000's	Company Rs. 000's	Group Rs. 000's	Company Rs. 000's
Statement of Financial Position				
Accumulated Amortisation	12,592	12,592	13,603	13,603
Adjustment to retained earnings	12,592	12,592	13,603	13,603

35.8 Reclassification of Dividend Income

The Company/Group under previous SLAS, recognised dividend income as a finance income. However under SLFRS, dividend income received has been reclassified as other operating income.

The impact arising from the change is summarised as follows;

<i>For the year ended</i>	31st March 2012	
	Group Rs. 000's	Company Rs. 000's
Statement of Comprehensive Income		
Finance income	(94,338)	(94,338)
Other operating income	94,338	94,338
	-	-

Notes to the Financial Statements

35 Explanation of transition to SLFRS (continued)

35.9 Change in disposal gain on sale of investments

The Group under previous SLASs, recognised short term investment at cost. With the transition to SLFRs, the Group has classified such investment as investments held for trading and carried at fair value as at the reporting date. Due to this gain on sale of investment recognised under previous SLAS has been decreased as follows.

<i>For the year ended</i>	31st March 2012	
	Group Rs. 000's	Company Rs. 000's
Statement of Comprehensive Income		
Other income	(3,568)	(3,568)
Adjustment before income tax	(3,568)	(3,568)

35.10 Impairment of Trade Receivables

Under SLFRSs, the Group tests the impairment for trade receivables at both a specific asset and collective level. Under SLASs, the Group calculated the provision based on the aging of the receivables.

The impact arising from the change is summarised as follows;

<i>For the year ended</i>	31st March 2012	
	Group Rs. 000's	Company Rs. 000's
Statement of Comprehensive Income		
Distribution expenses	(2,916)	(579)
Adjustment before income tax	(2,916)	(579)

<i>As at</i>	31st March 2012		1st April 2011	
	Group Rs. 000's	Company Rs. 000's	Group Rs. 000's	Company Rs. 000's
Statement of Financial Position				
Trade receivables	(3,279)	(579)	(363)	-
Adjustment to retained earnings	(3,279)	(579)	(363)	-

35.11 Reclassification of Financial Assets Held for Trading - Quoted investments

The Group under previous SLASs, recognised short term investment at cost. With the transition to SLFRs, the Group has classified such investment as Financial assets held for trading and carried at fair value as at the reporting date.

Difference between the fair value under SLFRSs/LKASs and carrying value under previous SLAS has been recognised in the statement of comprehensive income.

The impact arising from the change is summarised as follows;

<i>For the year ended</i>	31st March 2012	
	Group Rs. 000's	Company Rs. 000's
Statement of Comprehensive Income		
Other operating expenses	(56,712)	(56,712)
Adjustment before income tax	(56,712)	(56,712)

<i>As at</i>	31st March 2012		1st April 2011	
	Group Rs. 000's	Company Rs. 000's	Group Rs. 000's	Company Rs. 000's
Statement of Financial Position				
Financial assets held for trading	208,941	208,941	260,152	260,152
Investments at cost	(67,203)	(67,203)	(61,702)	(61,702)
Adjustment to retained earnings	141,738	141,738	198,450	198,450

35 Explanation of transition to SLFRS (continued)

35.12 Reclassification of Amounts Due from Related Parties

The Group/ Company under previous SLAS, recognised amounts due to/from other related parties as part of the trade and other receivables. However, under SLFRS, these balances have been reclassified as amounts due from related parties.

Further, the negative balances which was included under trade receivables was reclassified as trade and other payables.

As at	31st March 2012		1st April 2011	
	Group Rs. 000's	Company Rs. 000's	Group Rs. 000's	Company Rs. 000's
Statement of Financial Position				
Long Term Receivables	-	-	-	(30,600)
Trade Receivables	(17,592)	(6,939)	(6,184)	(2,730)
Other Receivables	(3,339)	-	(3,023)	-
Amounts due from related Parties	20,017	6,939	8,938	33,330
Trade and other Payables	3,943	-	4,546	-
Amounts due to Related Parties	(3,028)	-	(4,277)	-
Adjustment to retained earnings	-	-	-	-

35.13 Deferred tax Liabilities

During the previous year the subsidiaries, Lanka Dairies (Private) Limited and Ambewela Products (Private) Limited has not recognised deferred tax in its Financial Statements. This error was corrected during the financial year by way of an prior period adjustment in accordance with LKAS 9 "Accounting Policies, Changes in Accounting Estimates and Errors" The effect of these adjustments to the Group Financial Statements are summarised below.

For the year ended	31st March 2012	
	Group Rs. 000's	Company Rs. 000's
Statement of Comprehensive Income		
Income tax	13,250	-
Adjustment before income tax	13,250	-

As at	31st March 2012		1st April 2011	
	Group Rs. 000's	Company Rs. 000's	Group Rs. 000's	Company Rs. 000's
Statement of Financial Position				
Deferred tax liability	36,610	-	23,360	-
Adjustment to retained earnings	36,610	-	23,360	-

35.14 Reclassification of Related Party Receivables

With the adoption of SLFRS/LKAS with effect from 1st April 2011, the Company has classified Rs. 1 billion that was previously reclassified as Long Term receivable from Ambewela Products (Private) Limited as further investment in that Company. These funds were granted to Ambewela Products (Private) Limited to finance Ambewela Farm Dairy Project. These funds are payable to the Company at the option of the Ambewela Products (Private) Limited. Therefore, such funds were classified as equity investments.

As at	31st March 2012		1st April 2011	
	Group Rs. 000's	Company Rs. 000's	Group Rs. 000's	Company Rs. 000's
Statement of Financial Position				
Investment in subsidiaries	-	1,000,000	-	1,000,000
Long term loan to related parties	-	(1,276,415)	-	(1,233,180)
Amounts due from related parties	-	276,415	-	233,180
Provision for impairment of loan	-	(252,234)	-	(196,542)
Provision for Impairment of Investment	-	252,936	-	196,553
Adjustment to retained earnings	-	695	-	11

Notes to the Financial Statements

35 Explanation of transition to SLFRS (continued)

35.15 Reclassification of available for sale investments - Quoted investments

The Group under previous SLASs, recognised long term investment at cost. With the transition to SLFRs, the Group has classified such investment as available for sale investments and valued at fair value as at the reporting date.

The difference between the fair value under SLFRSs/LKASs and carrying value under previous SLAS has been recognised as a separate component of equity, in the available-for-sale reserve.

The impact arising from the change is summarised as follows;

As at	31st March 2012		1st April 2011	
	Group Rs. 000's	Company Rs. 000's	Group Rs. 000's	Company Rs. 000's
Statement of Financial Position				
Available for sale investments at fair value	5,504,417	5,504,417	6,833,070	6,833,070
Investments at cost	(237,700)	(237,700)	(237,700)	(237,700)
Adjustment to Available for Sale Reserve	5,266,717	5,266,717	6,595,370	6,595,370

35.16 Retained Earnings

As at	31st March 2012		1st April 2011	
	Group Rs. 000's	Company Rs. 000's	Group Rs. 000's	Company Rs. 000's
Adjustment to amortisation of Property, Plant and Equipment	12,592	12,592	13,603	13,603
Fair valuation of Assets Held for Trading	141,738	141,738	198,450	198,450
Allowance for impairment	(3,279)	(579)	(363)	-
Correction of deferred tax liabilities	(36,610)	-	(23,360)	-
Increase in impairment of subsidiary companies	-	(695)	-	(11)
	114,441	153,056	188,330	212,042

35.17 Other reserves - Available for sale Reserve

Investments in equity shares which are not held for trading purpose have been reclassified as available for sale investments. The difference between the cost and the fair value has been accounted for in the statement of changes in Equity through other comprehensive income.

The impact arising from the change is summarised as follows;

As at	31st March 2012		1st April 2011	
	Group Rs. 000's	Company Rs. 000's	Group Rs. 000's	Company Rs. 000's
Fair value adjustment on Available for Sale Investments	5,266,718	5,266,718	6,595,370	6,595,370
	5,266,718	5,266,718	6,595,370	6,595,370

Shareholder Information

1 Stock Exchange Listing

The issued ordinary shares of the Company are listed with The Colombo Stock Exchange Lanka Milk Foods (CWE) PLC is a public quoted company. Its issued ordinary shares are listed with the Colombo Stock Exchange.

Ticker symbol - LMF - N0000

ISIN - LK0112N00009

2 Analysis of Shareholders as at 31st March

Category	No of Share Holders 31/03/2013	Total Shares 31/03/2013	Percentage (%) 31/03/2013	No of Share Holders 31/03/2012	Total Shares 31/03/2012	Percentage (%) 31/03/2012
Up to -500	2,531	352,728	0.88	2,633	376,064	0.94
501-1,000	335	288,132	0.72	370	317,765	0.79
1,001-5,000	442	1,135,330	2.84	495	1,268,183	3.17
5,001-10,000	115	856,290	2.14	127	959,686	2.40
10,001-50,000	118	2,463,477	6.16	123	2,548,026	6.37
50,001-10,0000	16	1,218,671	3.05	17	1,339,073	3.35
100,001-1,000,000	26	6,834,232	17.09	25	6,426,652	16.07
1,000,001 & Over	4	26,849,140	67.12	4	26,762,551	66.91
Total	3,587	39,998,000	100.00	3,794	39,998,000	100.00

3 Categories of Shareholders

Category	No of Share Holders 31/03/2013	Total Shares 31/03/2013	Percentage (%) 31/03/2013	No of Share Holders 31/03/2012	Total Shares 31/03/2012	Percentage (%) 31/03/2012
Individuals -Local	3,336	6,637,047	16.59	3,537	7,205,105	18.01
Individuals - Overseas	53	434,137	1.09	53	416,965	1.04
Companies - Local	193	26,356,653	65.89	198	26,065,541	65.17
Companies - Overseas	5	6,570,163	16.43	6	6,310,389	15.78
Total	3,587	39,998,000	100.00	3,794	39,998,000	100.00

Shareholder Information

4 Twenty Major Shareholders

TWENTY MAJOR SHAREHOLDERS	As at 31st March 2013		As at 31st March 2012	
	No. of	% of	No. of	% of
	Shares	Issued capital	Shares	Issued capital
1. MILFORD EXPORTS (CEYLON) LIMITED	13,426,540	33.57	13,426,540	33.57
2. MILLS ENTERPRISES LIMITED	6,120,290	15.30	6,120,290	15.30
3. MELSTACORP LIMITED	5,946,351	14.87	5,860,661	14.65
4. WALDOCK MACKENZIE LTD/MR. H.M.S. ABDULHUSSEIN	1,355,959	3.39	1,355,060	3.39
5. BANK OF CEYLON NO. 1 ACCOUNT	775,151	1.94	716,600	1.79
6. DISTILLERIES COMPANY OF SRI LANKA PLC	763,733	1.91	763,733	1.91
7. E.W. BALASURIYA & CO. (PVT) LTD	619,212	1.55	618,212	1.55
8.J.B COCOSHELL (PVT) LTD	516,158	1.29		
9. ASSOCIATED ELECTRICAL CORPORATION LTD	352,605	0.88	715,100	1.79
10. NATIONAL SAVINGS BANK	311,300	0.78	311,300	0.78
11. HUSSEINALLY MOHSINALLY SHAIKH ABDULHUSSEIN	280,266	0.70	280,266	0.70
12. RUKAIYA HUSSEINALLY ABDULHUSSEIN	280,000	0.70	280,000	0.70
13. PERSHING LLC S/A AVERBACH GRAUSON & CO.	259,873	0.65		
14. RENUKA HOTELS PLC	253,466	0.63	253,466	0.63
15. COMMERCIAL BANK OF CEYLON PLC A/C NO.04	250,000	0.63	250,000	0.63
16.YUSUF HUSSEINALLY ABDULHUSSEIN	201,933	0.50	201,933	0.50
17. DINESH NAGENDRA SELLAMUTTU	178,754	0.45	178,754	0.45
18. SEYLAN BANK PLC/ARC CAPITAL (PVT) LTD	175,942	0.44		
19. ESSAJEE CARIMJEE & COMPANY (PVT) LTD	175,100	0.44	173,966	0.43
20. GULAMHUSSEIN MOHSINALLY ABDULHUSSEIN	151,500	0.38	155,633	0.39
SUB TOTAL	32,394,133	80.99	-	-
OTHER SHAREHOLDERS	7,603,867	19.01	-	-
TOTAL	39,998,000	100.00	-	-

The percentage of shares held by the public as at 31st March 2013 is 34.35%

5 Directors' Shares

Directors do not hold any shares of Lanka Milk Foods (CWE) PLC

		Company	
		2012/2013	2011/2012
6 Value Per Share			
Earnings	Rs.	5.78	0.12
Dividend	Rs.	1.50	1.00
Net Assets	Rs.	212.93	187.74
7 Market Value Per Share			
Highest during the year	Rs.	126.00	140.00
Lowest during the year	Rs.	98.00	80.00
Value as at last trading date (31st March)	Rs.	108.30	97.80
8 Share Trading			
No. of shares traded during the year		2,070,657	13,221,219
Value of shares traded during the year		225,762,494	1,409,066,710
No. of days traded		199	223

Ten Year Summary

Company Rs. Mn

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
OPERATING RESULT										
Turnover	3,711,003	3,408,036	3,190,564	3,259,460	2,969,741	3,161,061	2,814,514	2,706,477	2,117,906	1,980,337
Gross Profit	514,890	388,821	292,266	547,064	370,366	583,530	424,079	367,007	162,314	440,833
Profit before Tax	263,876	35,846	26,817	309,883	26,817	193,508	148,096	121,413	(35,710)	141,350
Taxation	(32,516)	(31,245)	(10,706)	(107,466)	2,169	(94,722)	(54,406)	(20,679)	3,170	(47,472)
Profit after Tax	231,360	4,601	16,111	202,417	28,986	98,786	93,690	100,734	(32,540)	95,878
Dividends	59,998	39,998	-	59,997	-	38,998	29,998	29,998	-	17,999
BALANCE SHEET										
Property, Plant and Equipment	244,602	234,319	233,790	194,607	201,177	210,223	212,157	224,705	237,474	248,450
Current Assets	2,292,285	2,016,498	2,155,369	1,206,060	1,046,059	1,984,676	1,275,627	1,126,581	1,039,949	770,118
Total Assets	9,631,641	8,537,898	10,071,276	2,663,192	2,365,851	3,102,264	2,256,399	1,892,364	1,610,990	1,352,135
Total Equity	8,516,730	7,509,196	8,833,247	1,376,841	1,174,424	1,180,930	11,112,142	1,048,450	947,716	998,255
Non Current Liabilities	85,776	115,372	141,987	182,632	203,891	244,951	248,456	198,361	55,196	57,797
Current Liabilities	1,029,135	913,330	1,096,042	1,103,719	987,536	1,676,383	895,801	645,553	608,078	296,083
RATIOS										
Earnings per shares (Rs.)	5.78	0.12	0.46	6.75	0.97	3.29	3.12	3.36	(1.08)	3.20
Dividend per shares (Rs.)	1.50	1.00	-	1.50	-	1.30	1.00	1.00	-	0.60
Dividend cover (Times)	6.20	2.84	-	4.50	-	2.53	3.12	3.36	-	5.33
Price earning ratio (Times)	18.74	815.00	254.13	12.19	39.33	14.35	12.81	7.82	(17.99)	7.04
Total assets to equity (Times)	1.13	1.14	7.31	1.93	2.01	2.01	0.20	1.80	1.70	1.35
Net assets per Share (Rs.)	212.93	187.74	220.84	34.42	29.36	29.52	277.82	34.95	31.60	33.28
Market Value per share (as at 31st March) (Rs.)	108.3	97.80	116.90	82.25	38.00	47.25	40.00	26.25	19.25	22.50
Return on equity	2.72	0.06	0.18	14.70	2.47	8.37	0.84	9.61	(3.43)	9.60
Return on Total Assets %	2.40	0.05	0.16	7.60	1.23	3.18	4.15	5.32	(2.02)	7.09
Gross Profit Ratio %	13.87	11.41	9.16	16.78	12.47	18.46	15.07	13.60	7.66	22.26
Net Profit Ratio %	6.23	0.14	0.50	37.00	7.83	16.93	3.33	3.72	(1.54)	(4.84)
Current Ratio (Times)	2.23	2.21	1.57	1.09	1.06	1.18	1.42	1.75	1.71	2.60
Liquidity Ratio (Times)	1.62	1.35	0.85	1.70	1.60	1.38	1.64	0.98	1.08	1.65

Notice of Meeting

Notice is hereby given that the thirty first (31st) Annual General Meeting of Lanka Milk Foods (CWE) PLC will be convened on Monday the 30th of September 2013 at the Committee Room "B" of Bandaranaike Memorial International Conference (BMICH) Hall at Baudhaloka Mawatha Colombo 07 at 10.00 a.m., when the following ordinary business will be transacted,

1. To receive and consider the Report of the Directors, the Statement of Accounts and the Balance Sheet of the Company for the year ended 31st March 2013 with the Auditor's Report thereon.
2. To declare a dividend as recommended by the Directors.
3. To re-elect Mr. Zaki Alif who retires by rotation at the Annual General Meeting in terms of Article No.94 of the Articles of Association, as a Director of the Company.
4. To re-elect Mr. D.H.S. Jayawardena, who has reached the age of 70 years, under and in terms of section 210 and 211 of the Companies Act No. 7 of 2007 as a Director of the company by passing the following Resolution.

"That Mr. D.H.S. Jayawardena who is over 70 years of age be and is hereby re-appointed a Director of the Company and it is further specially declared that the age limit of 70 years referred to in section 210 of the companies Act No.7 of 2007 shall not apply to the said Mr. D.H.S. Jayawardena."
5. To Re-elect Dr. A Shakthevale who has reached the age of 70 years, under and in terms of section 210 & 211 of the Companies Act No.7 of 2007 as a Director of the Company, by passing the following resolution.

"That Dr. A Shakthevale who is over 70 years of age be and is hereby re-appointed a Director of the Company and it is further specially declared that the age limit of 70 years referred to in section 210 of the companies Act No.7 of 2007 shall not apply to the said Dr. A Shakthevale."
6. To re-appoint KPMG as the Auditors for the ensuing year and to authorise the Directors to determine their remuneration.

7. To authorise the Directors to determine payments for the year 2014, for charitable and other purposes, as set out in the Company's donations Act (Cap 147).

By order of the Board



Mrs. W. C. Hewage

Company Secretary

Lanka Milk Foods (CWE) PLC
22nd August 2013

NOTES:

1. A Member entitled to attend, or to attend and vote at the Meeting, is entitled to appoint a Proxy to attend, or to attend and vote as the case may be, in his or her stead.
2. A Proxy need not be a Member of the Company. The Form of Proxy is enclosed herewith.
3. The completed Form of Proxy should be deposited at the registered office of the Company at Lanka Milk Foods (CWE) PLC, Welisara, Ragama, before 10 a.m. on 28th September 2013.

Form of Proxy

Lanka Milk Foods (CWE) PLC

I/We.....
..... of.....

being a member - members of the above named Company hereby appoint Don Harold Stassen Jayawardena, or failing him Rajapal Kumar Obeyesekere, or failing him Zaki Alif, or failing him Cedric Royle Jansz, or failing him D.S.K. Amarasekera, or failing him Shakthevale Arinesarajah, or failing him D.S.C.Jayawardena, or failing her
.....
..... ofas

my/our proxy to represent me/us and to vote for me/us and on my /our behalf at the Thirty first Annual General Meeting to be held on Monday, 30th September 2013 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

Signed this day

of 2013

(.....) .
Folio No

.....
Signature/s

Form of Proxy

Notes:

(a) In the terms of Article 72 of the article of Association of the Company:-

The Instrument appointing a proxy shall be in writing and,

- (i) In the case of an individual shall be signed by the appointer or by his attorney; and
- (ii) In the case of a Corporation shall be either under its common seal or signed by its attorney or an officer on behalf of the corporation.

The Company may, but shall not be bound to, require evidence of the authority of any such attorney of officer. A proxy need not be a member of the Company.

It terms of Article 73 of the Article of Association of the Company:-

The Instrument appointing a proxy shall be lodged and the power of attorney (if any) under which it is signed or a notarially certified copy thereof shall if required be deposited for inspection, at the office in each case not less than forty eight hours before the time appointed for holding the meeting or adjourned meeting, or in the case of a poll before the time appointed for the taking of the poll at which the person named in the instrument proposed to vote and in default the instrument of proxy shall not be treated as valid.

In terms of Article 67 of the Article of Association of the Company:-

In the case of joint-holders of a share the senior who tenders a vote, whether in person or by proxy or attorney or by representative, shall be accepted to the execution of the votes or the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint-holder.

The first joint-holder thereby has power to sign the proxy without the concurrence of the other joint-holding.

- (b) The full name and the registered address of the shareholder appointing the proxy should be legibly entered in the form of proxy.
- (c) In the case of non-resident shareholders the stamping can be attended to on return of the signed form of proxy to Sri Lanka.
- (d) To be valid the completed form of proxy should be deposited with the Secretary, Lanka Milk Foods (CWE) PLC at the registered office of the Company at Welisara, Ragama, not later than 48 hrs prior to the time appointed for the holding of the meeting.
- (e) Every alteration or addition to the form of proxy must be duly authenticated by the full signature of the shareholder signing form of proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intended to be authenticated.

Circular To Shareholders

Notice is hereby given to the shareholders that the Thirty First (31st) Annual General Meeting of Lanka Milk Foods (CWE) PLC will be convened on Monday, the 30th of September 2013 at the Committee Room "B" of Bandaranaike Memorial International Conference (BMICH) Hall at Bauddhaloka Mawatha Colombo 07 at 10.00 a.m. For identification purposes you are kindly requested to bring the National Identity Card or any other form of valid identity such as a driving licence or a passport.

A shareholder (other than a Director of the Company) appointing a Proxy to attend the meeting should indicate on the Proxy, the proxy holder's National Identity Card Number and where necessary the shareholders identification. The Proxy holders are also kindly requested to bring the National Identity Card or any other form of valid identity such as a driving licence or a passport for identification purposes.

We regret the inconvenience caused to shareholders as a result of adhering to the above procedures, which have been laid down considering the best interest of the Company.

By Order of the Board of

LANKA MILK FOODS (CWE) PLC



(Mrs) W. C. Hewage

COMPANY SECRETARY

22nd August 2013

Note :

01. A member is entitled to attend and vote at the meeting.
02. A member is also entitled to appoint a Proxy to attend and vote in his / her stead.
03. A Proxy need not be a member of the Company.

ඔබට සිංහල හෝ දමිල භාෂාවේ සකසනලද පිටපත් අවශ්‍ය නම්,
ඒ බව ලේකම්, සී.ස. ලංකා මිල්ස් ෆුඩ්ස් (සී.ඩබ්ලිව්.ඊ) පී.එල්.සී., වැලිසර, රාගම
යන ලිපිනයට 2013 සැප්තැම්බර් 15 වැනි දිනට ප්‍රථම දන්වන්න.

சிங்களம் அல்லது தமிழ் மொழி பெயர்ப்புகள் உங்களுக்குத் தேவையானால்
தயவு செய்து நிறுவனச் செயலாளர், லங்கா மில்க் புட்ஸ் (சி டபிள்யூ ஈ) பி.எல்.சி,
வெலிசர, ராகம எனும் முகவரிக்கு கடிதமூலம் 2013 செப்டெம்பர் 15 ஆம் திகதிக்கு
முன்னர் விண்ணப்பிக்கவும்.

If you require a translated copy in Sinhala or Tamil, please make a request
by a letter addressed to the Company Secretary, Lanka Milk Foods(CWE) PLC,
Welisara, Ragama on or before 15th September 2013.

Attendance Slip

Please bring this Attendance Slip and your National identity Card when attending the Annual General Meeting to be held at Committee Room "B" of Bandaranaike Memorial International Conference (BMICH) Hall at Baudhaloka Mawatha Colombo 07 at 10.00 a. m. on Monday, the 30th of September 2013

Signature of Shareholder :

Shareholder's Full Name :

Shareholder's NIC Number :

No. of Shares :

Folio Number :

Signature of Proxy Holder :

(if applicable)

Proxy Holder's Full Name :

Proxy Holder's NIC Number :

Corporate Profile

Name of Company	- Lanka Milk Foods (CWE) PLC
Legal Status provisions of	- A Public Quoted Company with Limited Liability under the Companies Act No. 7 of 2007
Registered Office	- Welisara, Ragama, Sri Lanka Tel : +9411 2956263-5, +9411 5222600 Fax : +9411 2956266 Email : lakspray@lmfgroup.lk Website : www.lmfgroup.lk
Date of Incorporation	- 12th November 1981
Company Registration Number	- PQ 142
Company Secretary	- Mrs. W. C. Hewage
Board of Directors	- Mr. D. H. S. Jayawardena - Chairman Mr. R. K. Obeyesekere - Director Mr. Zaki Alif - Director Mr. C. R. Jansz - Director Ms. D. S. C. Jayawardena - Director Mr. D. S. K. Amarasekera – Independent Non-Executive Director Dr. A. Shakthevale - Independent Non-Executive Director
Auditors	- Messrs. KPMG (Chartered Accountants) 32A, Sir Mohamed Macan Markar Mawatha P O Box 186 Colombo 3, Sri Lanka.
Subsidiary Companies	- Lanka Dairies (Pvt) Limited Ambewela Livestock Company Limited Pattipola Livestock Company Limited Ambewela Products (Pvt) Limited Indo Lanka Exports (Pvt) Limited
Bankers	- Bank of Ceylon Hatton National Bank PLC Seylan Bank PLC The Hongkong & Shanghai Banking Corporation Limited Standard Chartered Bank PLC Commercial Bank PLC DFCC Vardhana Bank PLC

