



# LANKA MILK FOODS (CWE) PLC

Annual Report 2013/2014







## Our Vision

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

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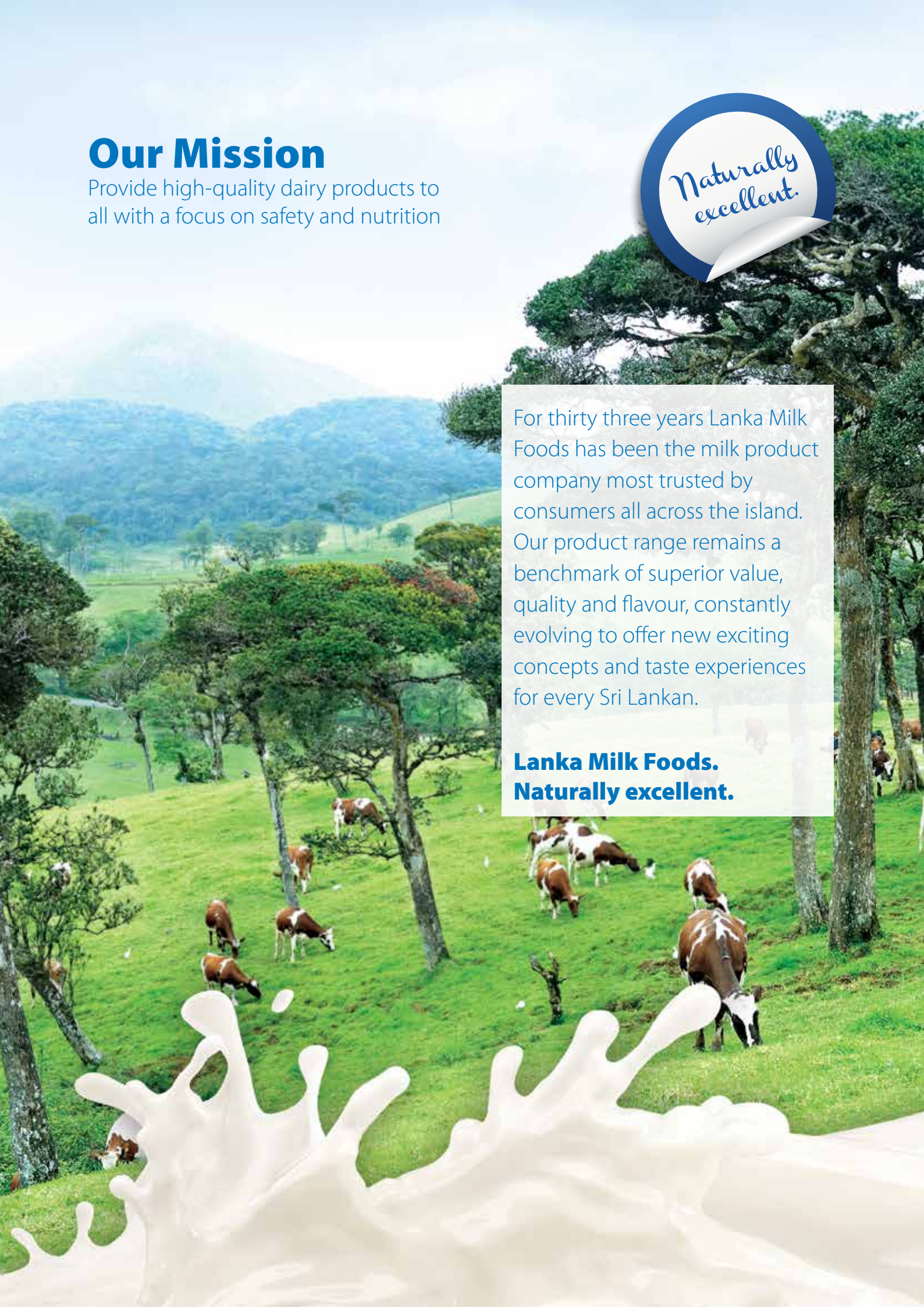
# Our Mission

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



For thirty three years Lanka Milk Foods has been the milk product company most trusted by consumers all across the island. Our product range remains a benchmark of superior value, quality and flavour, constantly evolving to offer new exciting concepts and taste experiences for every Sri Lankan.

**Lanka Milk Foods.**  
**Naturally excellent.**

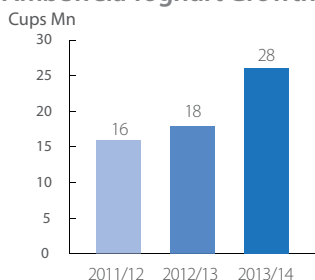


# FINANCIAL HIGHLIGHTS

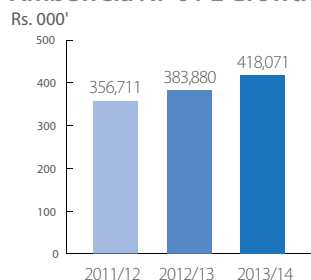
“Ambewela UHT Fresh milk recorded an 29% growth in sales volume, thereby retaining its dominance in the UHT treated white milk category.”

		Group			Company		
		2014	2013	Change %	2014	2013	Change %
<b>Revenue</b>	Rs. '000	4,571,997	5,436,654	(15.90)	2,446,113	3,711,003	(34.08)
Gross Profit	Rs. '000	472,593	913,858	(48.29)	171,232	514,890	(66.74)
Profit Before Tax	Rs. '000	26,524	411,480	(93.55)	14,062	263,707	(94.67)
Taxation	Rs. '000	21,903	(44,091)	(149.68)	29,957	(32,469)	(192.26)
Profit Attributable to Equity Holders	Rs. '000	61,059	374,929	(83.71)	44,019	231,238	(80.96)
Non-current Assets	Rs. '000	9,975,429	8,373,321	19.13	8,708,707	7,339,356	18.66
Current Assets	Rs. '000	1,611,624	2,199,028	(26.71)	1,762,864	2,292,285	(23.10)
Total Assets	Rs. '000	11,587,053	10,572,349	9.60	10,471,571	9,631,641	8.72
Total Equity	Rs. '000	9,993,200	8,625,489	15.86	9,882,818	8,516,730	16.04
Non-Current Liabilities	Rs. '000	622,506	400,198	55.55	30,028	85,776	(64.99)
Current Liabilities	Rs. '000	971,347	1,546,662	(37.20)	558,725	1,029,135	(45.71)
Net Assets attributable to Equity Holders	Rs. '000	9,970,373	8,590,030	16.07	9,882,818	8,516,730	16.04
<b>RATIOS</b>							
Earning per Share Rs.		1.53	9.37	(83.71)	1.10	5.78	(80.96)
Dividend per Share Rs.		-	1.50	(100.00)	-	1.50	(100.00)
Dividend Cover (Times)		-	6.25	(100.00)	-	3.85	(100.00)
Net Assets per Share Rs.		249.27	214.76	16.07	247.08	212.93	16.04
Market Value per Share Rs.		107.10	108.30	(1.11)	107.10	108.30	(1.11)
Price Earning Ratio (Times)		70.16	11.55	507.24	97.32	18.73	419.49
Return on Equity %		0.48	4.26	(88.62)	0.45	2.72	(83.60)
Debt/Equity %		5.18	3.29	57.47	-	0.36	(100.00)
Return on Total Assets %		0.42	3.47	(87.97)	0.42	2.40	(82.49)
Gross Profit Ratio %		10.34	16.81	(38.51)	7.00	13.87	(49.55)
Net Profit Ratio %		1.06	6.76	(84.33)	1.80	6.23	(71.12)
Current Ratio (Times)		1.66	1.42	16.70	3.16	2.23	41.65
Liquid Ratio (Times)		0.84	0.77	9.85	2.53	1.62	56.11

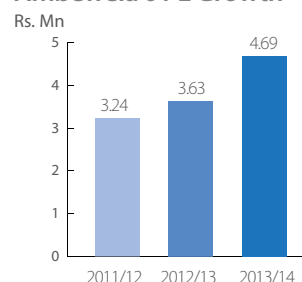
**Ambewela Yoghurt Growth**



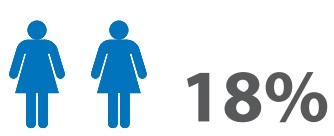
**Ambewela NF 01 L Growth**



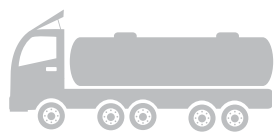
**Ambewela 01 L Growth**





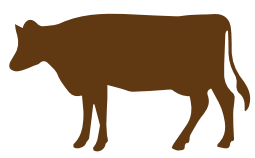


Employees



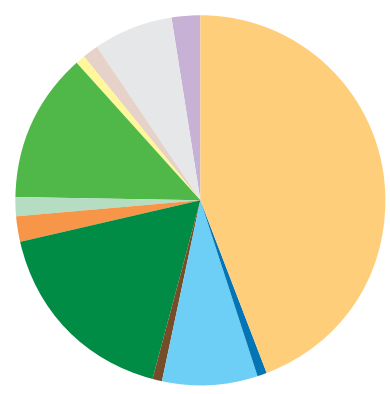
**8.4 Mn Ltrs.**

of Milk Collected for production during the year



**2,022**

Total cattle



Product-wise turnover (%)

Lakspray	44.27	Yoghurt	12.99
BLU	0.90	Cheese	0.82
Daily	8.23	Pouch	1.47
Activ	0.90	Fresh Milk	6.95
Ambewela	17.33	Other	2.27
MyJuicee	1.98		
Exports	1.89		

### Dairy Sri Lanka

The current fresh milk production in Sri Lanka caters to merely 35% of the country's demand for fresh milk, thereby offering tremendous potential for growth in this category, which is being actively pursued by us.

## Highlights

- Rs. 875 Mn was injected into Lanka Dairies (Pvt) Ltd (LDL) to expand production capacity from 2,650 litres to 8,500 litres per hour. The new state-of-the-art machinery now enables the company to supply milk in the latest screw cap one litre slim packs in keeping with international standards.
- Our popular fruit juice range MyJuicee, was launched with new branding before being re-launched in a new slim Tetra Brick Aseptic design.
- Ambewela Fresh Milk and Non Fat milk cartons underwent an improvement and are now available with a screw cap to suit evolving consumer preferences.
- Taking a cue from the rising sales volumes of our yoghurt products, Ambewela Products (Pvt) Ltd (APPL) invested Rs. 90 Mn in an expansion program to increase annual yoghurt production capacity to 4.5 million. We expect this investment to pay rich rewards in time to come.

# OUR PRODUCTS

## Lakspray Milk Powder

Lakspray, renown as the pioneer milk powder brand in the country has nourished the nation for more than 45 years and is the flagship brand of Lanka Milk Foods Group. It is a natural full cream milk powder prepared from 100% pure cow's milk and is free of chemical additives or preservatives. As a result Lakspray is creamier than other instant milk powder. Its rich and creamy nature enables our consumers to prepare a larger volume than other semi instant powdered milk. Being rich in milk proteins, vitamins and minerals Lakspray promotes healthy growth of kids and well being of adults.

Lakspray Non Fat is an instant skim milk powder with vitamins and minerals introduced to cater the nutritional needs of health conscious consumers. It is an agglomerated super



instant mix, soluble in water of any temperature. Lakspray is available in multiple pack sizes including 50 g, 100 g, 200 g, 400 g & 01 kg while Lakspray Non Fat, previously named as Lakspray Trim comes in a 400 g pack size.



## Daily - UHT Treated Flavoured Milk

Daily was the first product in Sri Lanka to be packed using the UHT treatment and aseptic processes eighteen years ago and it has become the landmark beverage brand of the

country ever since. Aseptic packaging which is the world's most advanced food preservation technology enables the food content to be preserved for six months without using any artificial additives or preservatives. Thus, the product has a shelf life of six months under room temperature. Daily milk is produced using premium quality milk from Ambewela Farms, which is a principal dairy farm in Sri Lanka operating under modern farming techniques. Daily now comes in a 200 ml slim brick pack and has eight flavours including vanilla, chocolate, strawberry, coffee, banana, mango, Faluda and Kulfli. The one litre pack which now comes with a cap for ease of use was introduced for Faluda variant to cater the higher demand of the Ramadan season. The Daily range is also popular in the Maldives, and a number of countries have made requests regarding importing the product from LMF.



### Daily ACTIV – UHT Treated Malt Chocolate Food Drink

ACTIV was the latest added flavour to the Daily Brand, in order to meet the increasing demand for malt based dairy beverages among Sri Lankan consumers. ACTIV exceeds the consumer expectations with the right combination of taste and nutritional value and it has become a sterling success among local youth and is associated with many of their activities and aspirations. This milk based product is full of natural goodness and the quality associated with our farms. ACTIV is also exported to the Maldivian market and won the hearts and minds of the young Maldivian consumers.

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### Ambewela Dairy Range

The Ambewela dairy brand was launched in 2004, with the vision of providing a 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, realizing 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.

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# 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 in mass scale using mechanized processors. However the types of cheeses produced in a more European pallet as APPL caters to 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 mechanized production process.

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

## New Zealand Farm - Pattipola

Cheese produces at the New Zealand farm used a more traditional process where the production is more labour intense. The cheese produced are 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 Chilli Garlic Cumin Pepper

- 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 Yoghurt

In 2009, Ambewela Yoghurt was introduced to the market as a product extension of the Dairy products portfolio of APPL. Our 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 the production capability,

and the enhanced production capacity has enabled us to produce four million and five hundred thousand cups per month.

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





**“ Lanka Milk Foods products have become trusted brands over the years and are visible in households across the country. Our product range has both variety and wide ranging appeal. ”**



**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, on keeping with international quality standards. This brand is presently targeted at 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 the Ready To Drink requirement of the consumers. The Group is hopeful about introducing more variants to this brand in future.



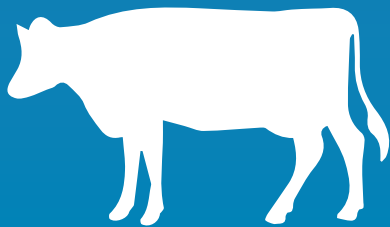
**BLU Drink**

BLU was launched in 2012, and is having an amazing growth in the Sri Lankan 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. And with their tremendous growth, a third variant Lemon Lime was introduced to the market. BLU is available in cans of 250ml.





Lanka Milk Foods products have become trusted brands over the years and are visible in households across the country. Our product range - both in terms of variety and wide ranging budgets, holds wide appeal.



## Superior value

We have sustained market leadership in several segments through accelerated innovation and a deeper and more meaningful engagement with consumers. Sharper cost management skills and enhanced operational and financial management performances were seen across the company in the year under review.









# CHAIRMAN'S REVIEW



I am pleased to present to you the Annual Report and Audited Accounts for the year ended 31st March 2014. Although overall country economic indicators improved during the year, the milk powder sector continued to face challenging conditions.

## Macro Economic Performance

In 2013, The Sri Lankan economy performed strongly, recording an annual real GDP growth of 7.3 per cent. Inflation declined to lower single digit levels during the year, paving the way for greater economic expansion. All sectors of the economy contributed positively, aided by favourable weather conditions and an uptick in export growth. Improved fiscal discipline during the year boosted growth prospects. The hitherto tight monetary policy of the previous year was eased during 2013/14, resulting in a marked improvement in the balance of payments (BOP) position. The resilience of most sectors of the economy served to further promote strong economic growth during the financial year under consideration.

**“ We expect to keep playing a positive role in society by leveraging on our competitive advantages and pursuing our sustainability agenda in the months and years ahead. ”**





## Sector Review

LMF has a rich history and heritage, and we remain committed to sustaining our competitive advantage. Lanka Milk Foods products have become trusted brands over the years and are visible in households across the country. Our product range has both variety and wide ranging appeal. During the year, we continued our emphasis on growing brand visibility and driving customer loyalty through strategic sales and marketing campaigns.

We have sustained market leadership in several segments through elements such as accelerated innovation and a deeper and more meaningful engagement with consumers. The LMF Group earned a revenue of Rs. 4,572 Mn. during the financial year under review, while the Group Gross Profit reached Rs. 472 Mn. Further, sharper cost management skills and enhanced operational and financial management performance were seen across the company in the year under review. We are confident that our strong management systems and newly improved operational processes will combine to deliver much stronger profitability in the upcoming financial year.

Our people give us the extra edge in the market and we continue to cherish and nurture their talents, providing them with ample avenues to unlock their potential. We believe that the growth and prosperity of our employees is critical to our success going ahead and therefore our talent management team has an effective programme to identify and encourage employees to realize their potential.

## Future Outlook

Looking ahead, I am hopeful that the government authorities and the Consumer Affairs Authority will take a well-informed decision to allow price increases in line with rising global prices of powdered milk in order to ensure a level playing field in the industry. Meanwhile, our objective is to be the leader in nutrition and taste, demonstrating an above industry financial performance year on year, thereby creating value for our shareholders. True to this aspiration, LMF Group supplies high quality fresh milk, powdered milk and related products which are essential for nutrition and growth, touching lives across the nation. Our brands are trusted because we have consistently delivered on our promises. The provision for enhanced manufacturing capacity now in place ideally positions the Group to generate greater profitability while keeping an unwavering focus on our sustainability commitment to all stakeholders.

## Rs. 4,572 Mn Revenue

The company was forced to operate in an extremely constrained environment during the 2013/4 Financial year.

## Rs. 472 Mn Gross Profit

We successfully leveraged on elements such as brand recognition, customer loyalty and aggressive marketing strategies to drive sales during the year.

## In Conclusion

I would like to place on record my appreciation of the Directors on the Board for their unwavering support and to the management and executive team for their passion for the growth of our business. In Sri Lanka, people's lives are changing for the better and LMF is perfectly poised to make this transition pleasant by nourishing and quenching the thirst for growth and development sweeping the nation. We expect to keep playing a positive role in society by leveraging on our competitive advantages and pursuing our sustainability agenda in the months and years ahead.

**D. H. S. Jayawardena**  
Chairman

29th August 2014

# DIRECTOR'S MESSAGE



The 2013/14 financial year brought with it a fresh set of challenges that severely tested our mettle. However, I am proud to report that we were able to withstand these pressures and in fact were successfully able to transform many of these challenges into opportunities for the future. Although the unfavourable market conditions carrying over from the previous financial year showed no signs of easing in the period under review, we were able to summon up strength in the face of this adversity by consolidating our brands, our manufacturing operations, and our systems and processes - effectively strengthening our value chain to withstand any challenges in the future.

## Sector Performance

The government seems to be focused on its plan to increase its domestic dairy production to 100% self-sufficiency by 2016, although this seems like a challenging task, considering that the local fresh milk production caters merely to approximately 35% of the population. However, LMF is poised and prepared to offer the required support and backing to this state-backed initiative, as we continue to improve our internal productivity, efficiency and performance in fresh milk production.

## Challenges Faced

The profitability of the powdered milk arm suffered during the year due to the refusal by the Consumer Affairs Authority to allow companies engaged in the marketing and distribution of powdered milk to hike their prices in keeping with the global price rise in the rates of powdered milk. This ongoing and unfavourable status quo for the last two years is eroding the profitability of the powdered milk business in the country and gives rise to an urgent need for the renewed appraisal of price structures. We have made several recommendations to the appropriate authorities to consider the plight of powdered milk companies. However, no positive response has been forthcoming thus far.

On a more upbeat note, the demand for fresh milk reached a peak during the year, enabling us to function at optimum capacity. By the end of the period under review, demand for fresh milk outstripped supply.





## Performance Highlights

Ambewela yoghurt delivered a strong performance during the year, which helped to mitigate losses in other segments. This performance by our yoghurt segment was the result of a capacity expansion which was completed in October 2013, successfully enhancing our monthly production capacity of yoghurt from 2.5 Mn to 4.5 Mn. This capacity expansion was needed urgently as we have seen a steady rise in the demand for Ambewela yoghurt and this expanded capacity will enable us to meet market demand while simultaneously allowing for additional capacity for forecasted sales volumes for the next few years. As a direct result of this expansion in capacity, the sales turnover of Ambewela yoghurt increased from Rs. 411 Mn. to Rs. 592 Mn. which marks a 43% increase year on year. Buoyed by this performance, we are effectively strengthening our distribution network in order to reach all our target consumers.

In our financial highlights for the year, Ambewela Products recorded a turnover of Rs. 847 Mn in the period under review against Rs. 683 Mn in the previous year. Lanka Dairies earned a revenue of Rs. 1,215 Mn in the 2013/14 financial year as compared to Rs. 1,084 Mn in the previous year. Ambewela Products and Lanka Dairies were the two best performing companies in the Lanka Milk Foods Group in the period under review. Meanwhile, Lanka Milk Foods (CWE) PLC earned a revenue of Rs. 2,446 Mn. during 2013/14 and posted a Gross Profit of Rs. 171 Mn. during the same period.

## Strategic Developments

The upsurge in the demand for fresh milk has accelerated our expansion plans in order to expand capacity further to meet the higher demand. During the period under review, we sharpened our focus on automating and on infusing greater mechanization along the entire production chain, to improve efficiency and productivity. Profits are being ploughed back into upgrading and automating systems and processes incrementally every year, so that our production facilities match international standards.

The improved Tetrapack with screw cap introduced this year for fresh milk and fruit juice products has been received well by consumers. By giving a new look and feel to our product, there is buzz around our products in the market, which lends us greater visibility and preferred status. We understand that although customers may be loyal to our products, they are appreciative of the company taking care to ensure that their favourite products match latest trends in packaging and taste, and we believe that this gives them a sense of ownership of the brands. Meanwhile, we are incorporating more environmentally-friendly aspects into every stage of our

## 80% ▲ APPL Production Capacity

During the period under review, we sharpened our focus on infusing greater automation and mechanization along the entire production chain to make efficiency and productivity gains.

production chain, as we believe this will help the company hone its commitment to deepen ethical practices while delivering greater value to all its stakeholders.

## Outlook

Our heritage as a company runs deep and we realize that we have to cross many more milestones and operate on a larger canvas in time to come. In order to achieve this ambition, we need to strengthen our fundamentals and ensure that our sustainability commitment remains unwavering.

Our employees are critical to our success and we continue to invest in them. Our common passion for perfection fuels our growth. Our customers have given us their vote of confidence and we are dedicated to upholding their faith through the quality and innovation that transforms our company into a forward looking enterprise.

As a company, we believe we have much more to accomplish in the days and months ahead - and we are working tirelessly to achieve more, deliver more, above and beyond our stakeholders' expectations.

## Appreciation

I am grateful to the Chairman and the Board of Directors for their support and guidance during the year. While the 2013/14 financial year was challenging, we expect even greater challenges in the months ahead, but I am confident that the company's committed team of employees and our unique product mix will see us through. We remain steadfastly dedicated to the growth and prosperity of the company into the future.

**D. S. C. Jayawardena**  
Director

29th August 2014

# 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*



**Dr. A. Shakthevale**  
*Director*



**Mr. D. S. K. Amarasekera**  
*Director*

## BOARD OF DIRECTORS

### Mr. D. H. S. Jayawardena

#### Chairman

Mr. D.H.S. Jayawardena is one of the most successful and prominent business tycoons in Sri Lanka. He was elected Chairman of LMF in October 2008 after serving as its Managing Director for almost 17 years. He heads successful business enterprises in diversified fields of business.

#### Chairman

Lanka Milk Foods (CWE) PLC and Lanka Dairies (Pvt) Ltd, Ambewela Livestock Company Ltd, Pattipola Livestock Company Ltd, Ambewela Products (Pvt) Ltd, Aitken Spence PLC, Browns Beach Hotels PLC, Aitken Spence Hotel Holdings PLC, Aitken Spence Hotel Managements Asia (Pvt) Ltd., Negombo Beach Resorts (Pvt) Ltd., Lanka Power Projects (Pvt) Ltd., Stassen Exports (Pvt) Ltd., Milford Holdings (Pvt) Ltd., C B D Exports (Pvt) Ltd., Timpex (Pvt) Ltd., Texpro Industries Ltd., Distilleries Company of Sri Lanka PLC. and its subsidiaries Periceyl (Pvt) Ltd., Balangoda Plantations PLC., Lanka Bell (Pvt) Ltd., Telecom Frontier (Pvt) Ltd., Bell Solutions (Pvt) Ltd. and Melstacorp Limited., Bellvantage (Pvt) Ltd., Madulsima Plantations PLC., Indo Lanka Exports (Pvt) Ltd., Bogo Power (Pvt) Ltd.,

#### Managing Director

Stassen International (Pvt) Ltd., Stassen Natural Foods (Pvt) Ltd., Stassen Foods (Pvt) Ltd., Milford Exports (Ceylon) (Pvt) Ltd., Ceylon Garden Coir (Pvt) Ltd., Stassen Real Estate Developers (Pvt) Ltd., Milford Developers (Pvt) Ltd.

#### Director

Stassen Plantation Management Services (Pvt) Ltd.

#### Other

- A former Director of Hatton National Bank PLC, the largest listed bank in Sri Lanka and the former Chairman of Ceylon Petroleum Corporation and Sri Lankan Airlines
- Presently the Honorary Consul General for Denmark in Sri Lanka.
- The only Sri Lankan honoured with the prestigious "Knight Cross of Dannebrog" by Her Majesty Queen Margrethe II of Denmark, for his significant contribution to Danish arts, sciences and business life.

### Mr. R. K. Obeyesekere

#### Director

Mr. Obeyesekere was elected Director to the Board of LMF in 1991. He counts over 30 years of experience in the export sector.

He also serves on the Boards of the Distilleries Company of Sri Lanka PLC, Madulsima Plantation PLC, Balangoda Plantation PLC., Stassen Exports (Pvt) Ltd., Stassen International (Pvt) Ltd., Stassen Natural Foods (Pvt) Ltd., Milford Exports (Ceylon) (Pvt) Ltd., Lanka Dairies (Pvt) Ltd., Ceylon Garden Coir (Pvt) Ltd., Stassen Real Estate Developers (Pvt) Ltd., Milford Developers (Pvt) Ltd., Milford Holdings (Pvt) Ltd., Ambewela Livestock Company Ltd., Periceyl (Pvt) Ltd., Stassen Plantations Management Services (Pvt) Ltd., Lanka Power Projects (Pvt) Ltd., Melstacorp Limited., Zahara Exports (Private) Ltd., Ambewela Products (Pvt) Ltd., Pattipola Livestock Company Ltd.

### Mr. Zaki Alif

#### Director

Mr. Alif was elected Director to the Board of LMF in 1992. He serves on the Board of 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, Lanka Milk Foods (CWE) PLC, Ambewela Livestock Company Ltd, Pattipola Livestock Company Ltd, Stassen Plantation Management Services (Pvt) Ltd, Ambewela Products (Pvt) Ltd, Madulsima Plantations PLC and CBD Exports Limited.





### Mr. C. R. Jansz

#### Director

A Director on the Board of LMF since 1992, Mr. Jansz has many years of experience in the Import/ Export field and services related to international trade.

Currently Mr. Jansz is the Chairman of DFCC Bank PLC. He serves on the Boards of Lanka Milk Foods (CWE) PLC, Balangoda Plantations PLC., Distilleries Company of Sri Lanka PLC. Ambewela Livestock Company Ltd., Ambewela Products (Pvt) Ltd., Melstacorp Ltd., Lanka Bell (Pvt) Ltd., Lanka Dairies (Pvt) Ltd., Lanka Power Projects (Pvt) Ltd., Milford Holdings (Pvt) Ltd., Pattipola Livestock Company Ltd., Periceyl (Pvt) Ltd., Indo Lanka Exports (Pvt) Ltd., and DFCC Vardhana Bank PLC

#### Other

- Former Chairman of Sri Lanka Shippers Council and a former member of the National Trade Facilitation Committee of Sri Lanka.
- He holds a Diploma in Banking and finance from the London Guildhall University, UK
- A Chevening Scholar and a UN-ESCAP Certified Training Manager on Maritime Transport for Shippers

### Ms. D. S. C. Jayawardena

#### Director

Appointed Director in 2008. Miss D S C Jayawardena is a Director of Lanka Milk Foods (CWE) PLC., Hatton National Bank PLC Lanka Dairies (Pvt) Ltd, Ambewela Livestock Company Ltd, Pattipola Livestock Company Ltd, Ambewela Products (Pvt) Ltd and Indo Lanka Exports (Pvt) Ltd. She worked as an Intern for the Clinton Foundation in 2008.

Miss Jayawardena holds a B.A. (Commercial Law, Criminology, Sociology) from Monash University, Australia, Professional Certificate in Marketing (CIM), Diploma in Marketing (CIM) and a Professional Postgraduate Diploma in Marketing (CIM). She is also a Certified Auditor (DNV-Norway), a Member of the Chartered Institute of Marketing (UK) (MCIM) and a Chartered Marketer.

### Mr. D. S. K. Amarasekera

#### Independent Non-Executive Director

Madulsima Plantations PLC Balangoda Plantations PLC.

A 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.

Mr. Amarasekera was appointed to LMF as an Independent Director in 2008.

### Dr. A. Shakthevale

#### Independent Non-Executive Director

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

Dr. Shakthevale is a Veterinarian cum Agricultural Economist with nearly 40 years of consulting, monitoring, project implementation, agricultural planning, and policy formulation experience. He served in various positions towards the development, monitoring and administration of numerous agricultural sectors

Dr. Shakthevale was appointed to LMF as an Independent Director in 2008.

He served as a Board Director for MILCO and NLDB; Secretary, Ministry of Rehabilitation and Social Service in North East Provincial Council; Additional Secretary (Livestock) for the Ministry of Agriculture and Livestock Development for six years. He has worked at FAO and UNDP, UNHABITAT, Land O'Lakes, Oxfam GD and the University of Jaffna. At present, he is a freelance consultant in the field of livestock development.

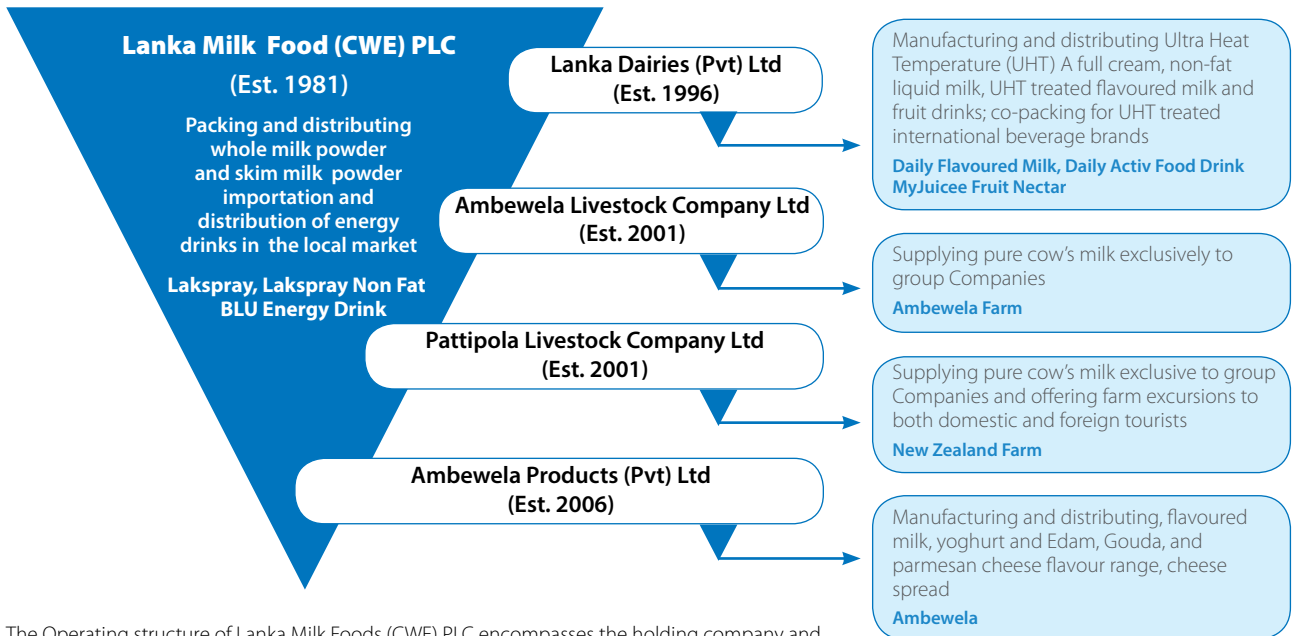
# MANAGEMENT DISCUSSION & ANALYSIS



**“As a Group, we remain uncompromising in our pursuit of maintaining and in upholding the highest safety standards.”**

Lanka Milk Foods (CWE) PLC is a group of companies which consists of five subsidiary organizations. It is a dynamic group engaged in importing, packing, manufacturing, marketing and distributing some of Sri Lanka's best-known dairy and beverage brands. Most of the company's famous brands are household names in the country and have been nourishing generations of Sri Lankans over decades. The company has identified many emerging growth avenues and in addition to its modern manufacturing and packaging facilities, it also owns two of Sri Lanka's largest farms.





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



**Lanka Milk Foods (CWE) PLC**

The company is engaged in the packaging and distribution of imported whole milk powder and skim milk powder, namely, Lakspray and Lakspray Non Fat, and in the distribution of the BLU energy drink in the local market.

The period under review proved to be even more challenging than the previous one, as the company was further impacted by the inability to raise the prices of its powdered milk product in line with global price hikes. This had a direct impact, substantially shrinking our profit margins, hurting the profitability of this segment of our business. As a result, profits in this segment declined from Rs. 181 Mn last year to Rs. 11 Mn this year.

The decision by authorities to deny companies engaged in distribution and marketing of milk powder a price hike has become a pressing issue for the entire industry. Moreover, the increase in prices of fuel have further added to our costs, making it next to impossible to maintain a profitable cost structure. As a company, we have had to take recourse to innovative cost-cutting measures across the depth and breadth of the company in a bid to exercise cost control without compromising the high quality of our products.

However, the stability in the exchange rate of the rupee against international currencies stemmed any further losses from milk powder imports for the company. Lakspray full cream milk powder is available in pack sizes of 50 g, 100 g,

## MANAGEMENT DISCUSSION & ANALYSIS



200 g, 400 g & 01 kg and Lakspray Non Fat is available in packs of 400 g in order to be accessible to consumers from varied income segments. Unfortunately, the high cost of living has made smaller pack sizes an inescapable reality for most FMCG companies.

We continued to invest in upgrading and mechanizing various aspects of our factory processes at Welisara and are confident of automating to a greater extent to derive maximum efficiencies and higher productivity wherever possible. The existing ISO 9001:2008 certification acquired in 2001 has strengthened our value chain. As a company, we remain uncompromising in our pursuit of maintaining and in upholding the highest safety standards. The entire supply chain is subject to several checks and balances to ensure pure and hygienic products.

BLU, the popular carbonated energy drink, is available in a range of exciting flavours. On its entry, BLU made a positive impact on both the top line and bottom line growth of the Company and held much promise for the years ahead. Despite the fact that the product received an overwhelming reception in the market, the energy drinks category as a whole fell victim to malicious media campaigns and articles, which touted the harmful effects of energy drinks. Although this criticism might have been directed at other products, our product, BLU, which has been formulated with special care and scientific insight into its safety for consumption, also bore the brunt of this criticism. As a result, sales declined during the year.

### Outlook

The company has predicted an uphill task for the milk powder business to regain previous profitability due to the deep impact of the price ceilings despite rising prices of powdered milk globally. We have taken a strategic decision to mitigate the loss by diversifying into new growth avenues. The company is investing in strengthening its management accounting practices and other processes to rein in any leaks in expenditure, while exercising greater financial discipline.

### Lanka Dairies (Pvt) Ltd (LDL)

The company is involved in manufacturing and distributing Ultra Heat Temperature (UHT) treated full cream, non-fat liquid milk, UHT treated flavoured milk and fruit drinks; as well as co-packing for UHT treated international beverage brands. 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 DAILY ACTIV Food Drink; and fruit nectars under the MyJuicee brand.

The company has made a significant contribution to the revenue growth of the Group, recording Rs. 40 Mn profit during the year under review. The Company's brands have contributed the largest share of profit to the LMF Group, with revenue growth in excess of 12%. The demand for fresh milk spiked upwards during the year, which ensures that while our production capacity was optimized to the fullest, we were still unable to meet the upsurge in demand from the market. The volumes of the Ambewela Tetra range of liquid milk grew substantially during the year. The brand now stands distinctly apart as the leading fresh milk brand in the country and is commended by consumers for its taste and hygiene.





## “ The existing ISO 9001:2008 certification acquired in 2001 has strengthened our value chain. ”

Ambewela is proud to translate the country's vision to become self-sufficient in milk production a reality. Ambewela UHT Fresh milk recorded an 29% growth in sales volume, thereby retaining its dominance in the UHT treated white milk category. Our commitment to sustainability spurred us to improvise UHT Non Fat Milk for health conscious consumers and the sales of this recorded a growth of 9% to reach Rs. 59 Mn during the year under review. The expansion programme envisaged will increase production capacity and facilitate the convenient and latest screw-cap slim pack shapes.

Our flavoured milk drinks have become the preferred choice as a nutritious thirst quencher on-the-go for people of all ages and demand has been steadily rising for the DAILY brand. Presently, the company is operating at 100% capacity, which reflects the growing popularity of the DAILY brand. The brand ACTIV also shows positive signs of becoming yet another success story for LDL. We have recorded marginal growth in export sales to the Maldives, where the Company exports an average of 6792 cases of liquid products per month, but we are confident of growth potential in this market.

The MyJuicee range of juices have also received a resounding response from customers and remains a brand to reckon with, by offering the equivalent value proposition of imported juices, but at a lower price point. We are actively seeking to penetrate foreign markets with the MyJuicee brand, since our R&D feedback has shown that it has taste and wide appeal.

### Outlook

The company is growing by leaps and bounds and this accelerated growth has inspired us to study ways in which we can expand capacity and enhance our product range in the months and years ahead. Both products have ample potential for export to regional markets and we are keenly exploring these options simultaneously. We foresee tremendous growth potential for both DAILY and MyJuicee products into the future.

### Ambewela Products

The company manufactures and distributes UHT milk in chocolate and vanilla flavours; yoghurt; and cheese. This

year we were able to reap the benefits of the new yoghurt machine installed in the previous year, empowering us to provide enhanced volumes to cater to the steep demand for our yoghurt in the market. The company underwent an expansion program in order to enhance the machine capacity which amounted to around Rs. 90 Mn. We continue efforts to strengthen our distribution chain in order to make these products available to all segments of the market.

### Outlook

Plans are in the offing to enhance production and the introduction of more dairy related product for consumers. Our consumers are increasingly taking to consumption of Ambewela cheeses and we envisage greater potential to diversify and popularize products in this category. In January 2014, we introduced a new Spread Cheese to this product range in order to offer quality cheese at a reasonable price to our local consumers.

Our set yoghurt is already the market leader and we expect this position to be boosted with the increase in capacity of our yoghurt machines.

### Pattipola Livestock Company and Ambewela Livestock Company

The Pattipola farm supplies goat milk exclusively to Group Companies and offers farm excursions for both domestic and foreign tourists on its New Zealand Farm. The Ambewela farm supplies pure cow's milk exclusively to Group Companies. The year under review proved eventful for both farms as the market recorded high demand for fresh milk. Lanka Dairies is the main client for fresh milk from these farms. The proposed expansion of capacity at Lanka Dairies portends well for the future of the farms, which will also have to enhance yields to meet the demand from Lanka Dairies.

### Outlook

Strong demand has helped optimal capacity utilization for both the farms and set the stage for improved performance in the year ahead. Meanwhile, the New Zealand Farm is adding immense value to the tourism industry by welcoming a large number of local and foreign visitors. It has now become a must-visit for tourists in the vicinity. The farms also earn revenue from the sale of home-grown fresh milk, natural hand processed cheeses, goat milk and potatoes. We are optimistic about the emerging opportunities that we see in the near future.



**Sustainability is embedded in our DNA and it is cascaded across our entire value chain. Every year, the company raises the bar in sustainable operations a notch higher and this is evident in the innovative sustainability initiatives launched each year.**



## Transforming lives

Our sustainability initiatives are transforming the quality of lives of our stakeholders, employees, customers and farmers. By minimizing any negative impact of the company's operations while uplifting the living standards of those in need, the company aims to spread well-being and a sense of oneness across our communities both internal and external.







**Daily Activ**  
TASTY REFRESHING MALT  
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# SUSTAINABILITY REPORT



**“ We are committed to continued engagement with our stakeholders, whose insights have helped shape our thinking and actions. ”**

Lanka Milk Foods is strongly positioned on a foundation of wholesome goodness and nutrition and this platform defines our operational ethics across the depth and breadth of our enterprise. By delivering on our promise unfailingly over the years, our customers have come to expect nothing but the best from the company. As a result of their unwavering faith in us, we are extremely sensitive to sustainability concerns - both that of the company and our stakeholders. Sustainability is embedded in our DNA and it is cascaded across our entire value chain. Every year, the company raises the bar in sustainable operations a notch higher and this is evident in the innovative sustainability initiatives launched each year.



### Stakeholder Engagement

Our sustainability initiatives are transforming the quality of lives of our stakeholders, employees, customers and farmers. By minimizing any negative impact of the company's operations while uplifting the living standards of those in need, the company aims to spread well-being and a sense of oneness across our communities both internal and external. We remain committed to enhance stakeholder value by adhering to all legal and food safety and hygiene rules and regulations so that we offer value for money coupled with high quality products. We are committed to continued engagement with our stakeholders, whose insights have helped shape our thinking and actions.

### Product Responsibility

Our promise of wholesome goodness depends on our ability to control and regulate the entire supply chain, so that the end product fulfils the high standards we have set for ourselves. Since the company owns its own farms, we are able to control our operations every step of the way for producing safe, high-quality products to meet the demands of our business and the expectations of our consumers, customers and other stakeholders. This is no mean task considering that we have to monitor scores of farmers and other raw material suppliers. However, we ensure that no compromises are made when it comes to fulfilling the expectations held of us in the marketplace. The company continually invests in product improvement through the adoption of systems and processes and purchase of new equipment to maintain the highest food safety standards.

### Stringent Quality Practices

Sustaining the highest quality product is the cornerstone of our business success and our internationally certified Quality Management System (QMS), which complies with ISO 9001:2008 standards, reflects our commitment to adhere to globally accepted norms. This system spans all critical processes from the point of sourcing to the storage of finished goods.

Testing to local and international standards is carried out at our own advanced fully-equipped chemical and microbiological laboratories. The Quality Assurance Division continuously monitors the quality of the products while also supervising the maintenance of environmental, hygiene and sanitation standards within the plant and in its immediate vicinity. Moreover, swab and exposure tests are carried out on a weekly basis. The company has established its own laundry, water purification and janitorial services so as to maintain

stringent control over these functions which are critical to maintaining hygiene.

The company owns lush farms spanning 1500 acres, which are well maintained to ensure optimum yield from our valuable cows. We have adopted international cattle rearing practices to ensure their health and well-being. 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 are remain in optimal health.

### Putting Customers First

As our primary product is fresh milk, we are duty bound to ensure its freshness, hygiene, taste and nutrition a value. Customers are our key growth driver and as a company we strive to deliver customer satisfaction across our product categories, raising loyalty and bringing greater commitment to our sustainability goals.

We believe in close customer engagement and have instituted a transparent feedback process which allows customers to approach the company directly with any complaints and suggestions. We have a clear process outlined for customer grievance handling and take great pains to ensure that our customers find us responsive and considerate.

Consumers in Sri Lanka are aware of packaging and food safety measures that companies need to take and we are constantly upgrading our tastes, texture and packaging of our products so that they are in line with international products consumers might use as a yardstick.

### Our People, Our Assets

Our employees add value to our organization with their talent, skills and diversity. These qualities also empower the company and lend it a competitive edge in the industry. Our employees have enabled us to achieve both our financial and sustainability goals. During the period under review, the company focused on ensuring its employees enjoyed an optimum work-life balance, acquired new skills and underwent training, honed their leadership capabilities, achieved performance targets with the help of senior management and received effective reward and recognition. The company enjoys a low attrition rate and with a loyal and committed workforce, it is easy to work towards a common vision.



# SUSTAINABILITY REPORT

As of March 2014, the LMF Group provided employment to 686 personnel which includes executives and non executives. Approximately 89% of the total cadre is represented by factory and farmworkers. Gender ratio is approximately 10:1 (male:female) owing to the high labour intensive work required at the farm and the factory floor.

## Total Number of Employees

	Male	Female
Executives	51	4
Non-Executives	285	29
Casual	155	28
Check Roll	70	64
<b>TOTAL</b>	<b>561</b>	<b>125</b>
	<b>686</b>	

## Staff Benefits

The company has introduced a variety of benefits to promote a healthy and happy workforce. Some of the benefits that employees receive at LMF are a comprehensive medical cover for all staff, subsidized nutritious lunch for staff and a quota of company products. They are also liable to receive 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 initiates several opportunities for camaraderie and relaxation away from the workplace by organizing sport and leisure activities for staff, which engenders a strong sense of fellowship amongst them.

## Training & Development

Learning and development form the keystone of our focal point on developing our people. The Company allocates significant budgetary and other resources towards training staff in technical, sales and marketing aspects. Top performers are sponsored for overseas training in their field of specialization so that the Company and the employee both benefit. New employees are familiarized 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.

Our trainee programme provides opportunities for new graduates to gain exposure by working within the LMF Group. 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 at local universities.

## Health & Safety

Management of worker health safety and working environment is an essential component of our operational excellence and a fundamentally important part of our business. We strive to prevent injuries, occupational illnesses and environmental incidents. Towards this end, we have stimulated a sense of ownership amongst employees, with managers and shop-floor staff taking an active part in improvement initiatives and developing and setting standards. We recognise that we get the best results by involving the people that do the work in analysing risks and defining the best way of doing the work.

All factory and farm workers are provided with protective gear. Immediate care is provided for those with injuries or illnesses and a visiting medical practitioner 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, Our World

To us, Environmental Sustainability translates as the need to innovate new methods to cut costs and minimize our impact on the environment through energy and water conservation as well as reduced use of packaging material. This facet of sustainable operations lies at the core of a company's sustainability into the future. Therefore, over the years we have initiated a slew of measures to ensure that we progress to the forefront of environmental stewardship.

**“ As a responsible corporate entity, we envisage LMF playing an influential role in driving change in our communities by touching the lives of people in a positive way ”**



All our factory operations adhere to environmental standards. We are constantly innovating and inviting suggestions from employees on how we can minimize waste and eliminate any negative impact of our operations on the environment.

Packaging forms an important component of our product, for although we promise a fresh product, our packaging needs to be equally hygienic in order to keep the product fresh till it reaches the consumer. Only aseptic packaging is used to hold our products due to its bio- degradable and environmental friendly qualities.

Our waste water treatment plant is making a positive contribution to reducing environmental hazards. By treating waste water effluents before releasing them into the environment, we ensure that we minimize any inadvertent instances of environmental pollution in any way. Furthermore, we have installed a self-burning incinerator for solid waste, thereby using an eco-friendly method to dispose of waste. The company has worked closely with the Central Environment Authority (CEA) to acquire the EN license.

# SUSTAINABILITY REPORT

## Our Society, Our Community

### ***Be the change you want to see in the world.***

Mahatma Gandhi

We believe that the responsibility of making a change for the better in our communities begins with each one of us. As a responsible corporate entity, we envisage LMF playing an influential role in driving change in our communities by touching the lives of people in a positive way, so that they too can share the similar sense of support and togetherness when they reach out to the world.

As a company whose stakeholders range from the farmer at the grassroots level in the country to the customers who will eventually consume our products, we have learnt to engage with different elements in society. As a provider of wholesome goodness and health, which primarily relates to children when it comes to fresh milk, we keep close ties with the nation's young generation, engaging with them across different platforms to promote healthy nutritious choice. Lifestyle diseases such as high cholesterol, heart disease and diabetes are on the rise in Sri Lanka, and we like to believe that our intervention is helping the younger generation make the right food choices.

Some of the initiatives undertaken during 2013/14 are:

- Supporting Pilgrims: In continuation of our proud tradition for the last 15 years, we take pleasure in distributing free milk to devotees of all faiths at kovils, temples and churches during religious events and occasions at all these places of worship. The company's customer base is diverse and we respect this diversity by practicing equality in our own unique way.
- Engaging with children from underprivileged schools: The Company continues to provide nutritious milk to children from underprivileged schools in order to promote their health and well-being. In practice for the last decade, an entire generation of school children has benefited through our practice of distributing milk and milk products.
- Encouraging School visits: With regard to our efforts to underline the importance of milk and milk products, we encourage schools to visit our factory premises. This is an ongoing feature through the year and free milk and milk products are supplied to the children when they tour our factory.
- Assisting Worthy Institutions: The Company takes on the additional responsibility of providing free refreshments and nourishment to the inmates of welfare homes for the aged and underprivileged. During the year under review, LMF donated generous rations of milk powder. The Company has been engaged in this endeavour for the last 15 years.
- We support farmer communities by improving their knowledge. For example, we work with our farming communities to improve the yield and quality of fresh milk from cows by providing them with technical know-how and updating them on latest cattle rearing practices. The farmer communities are also apprised of hygiene and sanitation in order that the end product is of high quality and meets our stringent quality standards.





# CORPORATE GOVERNANCE

## The Board of Directors

The Board of Directors 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 key responsibilities of the Board are;

- To enhance Shareholder value
- Provide direction and guidance in formulating corporate strategies
- Approving major investments
- Monitoring systems and procedures especially with regard to internal controls and risk management.

The Directors' interests in the affairs of the Company are explained on pages 38 to 40.

## 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 for each subsidiary are held whenever they are required to review performance of the Company, with reference to the Financial Statements, investments

proposals and any other important matters relating to the group. However during the last financial year Board decisions were passed via circular resolution.

The Board comprises of the following Directors.

<b>Name of the Director</b>	<b>Status</b>
Mr. D. H. S. Jayawardena	- Chairman
Mr. R. K. Obeyesekere	- Director
Mr. Z. 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

## 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.

## Remuneration Committee

The following two Independent Non-Executive Directors are appointed to the Remuneration Committee.

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

Mr. D.S.K. Amarasekera, Member of the Institute of Chartered Accountants of Sri Lanka is appointed as the Chairman of

## CORPORATE GOVERNANCE

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.

The report of the Remuneration Committee is given on page 37.

### Audit Committee

The Audit Committee comprises of two Independent Non-Executive Directors as follows.

Mr. D. S. K. Amarasekera

Dr. A. Shakthevale

The detailed report of the Audit Committee is on page 36.

### 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 Balance Sheet date have been paid on behalf of the Company.

The Company's compliance with the CSE Listing rules and the best practices are set out in the Code of Best Practice on Corporate Governance issued jointly by ICASL and SEC is set out in the below table.

Disclosure Regarding the Board of Directors			
Section	Applicable Requirement	Compliance Status	Compliance Details
7.10.1(a) to (c)	<b>Non Executive Directors</b> Two or at least one third of Non-Executive Directors which ever higher should be independent	Complied	Two out of seven Directors are Non-Executive Directors
7.10.2(a)	<b>Independent Directors</b> Two or one third of Non-Executive Directors which ever higher should be independent	Complied	All Non Executive Directors are Independent.
7.10.2(b)	<b>Independent Directors' Declaration</b> Each Non-Executive Director submit assigned declaration of Independent or Non independent in the prescribed format	Complied	Non-Executive Directors have submitted the above declaration in the prescribed format.
7.10.3 (a)	<b>Disclosure Relating to Directors</b> Names of Independent Directors should be disclosed in the Annual Report	Complied	The names of the Independent Directors are provided on pages 14 to 17 of the Annual Report.
7.10.3 (c)	<b>Disclosure Relating to Directors</b> A brief resume of each Director should be included in the Annual Report including the area of expertise.	Complied	A brief resume of each Director is provided on pages 16 to 17 of the Annual Report.



Disclosure Regarding the Remuneration Committee			
Rule No	Applicable Requirement	Compliance Status	Details
7.10.5	<b>Remuneration Committee</b> A Listed Company shall have a Remuneration Committee	Complied	The Remuneration Committee comprises of Mr. D.S.K Amarasekera and Dr. A. Shakthevale
7.10.5 (a)	<b>Composition of the Remuneration Committee</b> * Shall comprise of Non-Executive directors, a majority of whom will be Independent	Complied	Please refer page 37.
	* The Chairman of the committee shall be a Non-Executive Director.		
7.10.5 (b)	<b>The functions of the Remuneration Committee</b> The Remuneration Committee shall recommend the remuneration payable to the Board and the executive officers.	Complied	Please refer page 37 of this Annual Report
7.10.5 (c)	<b>Disclosure in the Annual Report</b> The Annual Report should set out;		
	1. Names of Directors in the Remuneration Committee	Complied	Please refer page 37 of this Annual Report
	2. Statement of remuneration policy	Complied	Please refer page 37 of this Annual Report
	3. The aggregated remuneration paid to Executive and Non-Executive Directors	Complied	Please refer page 59 of this Annual Report

Content Under The Audit Committee			
Rule No	Applicable Requirement	Compliance Status	Details
7.10.6 (a)	<b>Composition of the Audit Committee</b> Shall comprise of Non-Executive Directors a majority of whom will be independent; One Non-Executive Director shall be appointed as the Chairman of the committee; The Chief Executive Officer and Chief Financial Officer should attend Audit Committee meetings; The Chairman or one member of the Committee should be a member of a professional accounting body.	Complied	Please refer page 36 of this Annual Report
7.10.6 (b)	<b>Audit Committee functions</b> Should be as outlined in the section 7.10.6(b) of the listing rules	Complied	Please refer page 36 of this Annual Report
7.10.6 (c)	<b>Disclosure in the Annual Report relating to the Audit Committee</b>	Complied	Please refer page 36 of this Annual Report
	1. The Names of Directors in the Audit Committee		
	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		



# RISK MANAGEMENT

## What is Risk?

Risk is an inalienable part of the world of business and therefore risk management should be viewed as the foundation on which companies build their corporate strategy. A company's enterprise risk management should be transparent and comprehensive to ensure long term sustainability of operations. Every vulnerability, probability, threat and weakness needs to be carefully addressed in order to ensure that risk in any venture is mitigated to the best capabilities of the corporation. Failing to address its risks properly might force an entity to face even greater risks as a result. Therefore, it is imperative that identified and assessed risks are managed according to an established risk management framework, so that there is an optimal trade-off between risk and return.

In the modern market context, risk is defined as the probability or threat of a liability, loss or other negative occurrence caused by external or internal vulnerabilities, which would affect the desired objectives. Thus, Lanka Milk Foods (LMF) employs numerous policies, procedures and practices that work in conjunction to arrive at coordinated and economical solutions that mitigate the probability and impact of identified vulnerabilities by embedding risk management in the daily management of the business. Risk and methodology of mitigation are presented here in the areas of operations, financial reporting and compliance with applicable laws and regulations.



## Administrative Support for Managing Risk

In the Lanka Milk Foods Group, the Board considers risk management as imperative in achieving the Group objectives, and considers it the responsibility of the Board to monitor and manage risks in an acceptable manner.

The Board, with the help of the senior management, is required to take decisions that would increase the shareholder value of the Group in terms of investing in capital assets, which would enhance its future earning capacity

## Legal Function

The Group's centralized legal department ensures that the Group complies with laws and regulations. All legal agreements are thoroughly analysed by the Company Secretary and compliance with the Companies Act is ensured. Possible adverse impacts resulting from laws and regulations are assessed and necessary action plans are formulated to mitigate the impact of such risks on the business. The opinions of the Group's tax consultants pertaining to all tax matters are considered and necessary steps taken to ensure full compliance with statutory requirements.

## Financial Reporting Function

Documentation and reporting also plays a key role in managing risk. The Financial Reporting division makes sure that all financial reporting aspects are addressed while coordinating with all relevant authorities and institutions. The Board reviews reports of all financial related information and publicizes relevant data.

## Internal Controls and Internal Audit Function

The Internal Audit function is mainly engaged in matters such as monitoring internal controls, examining financial information, and in reviewing the efficiency and effectiveness of the operations in order to achieve the management's objective of ensuring orderly and efficient conduct of business, detecting and preventing fraud and error, thus safeguarding Group assets.



## Overview of Risks Affecting the Business

Risk	Mitigating Actions
<b>Business Risk</b>	
<p>The dairy business operates in a competitive environment and the Group uses a competitive pricing strategy to maintain a leadership position, while providing premium quality milk to its customers.</p>	<p>Our manufacturing facilities are maintained to the best of food manufacturing standards and satisfactory margins are earned with the effectively controlled input costs, while pricing products to compete successfully in different markets.</p> <p>However, fluctuating milk powder import prices, government-imposed import duties and controlled selling prices for milk powder enforced by the Consumer Affairs Authority to increase local milk production adds pressure on the industry and has a marginally adverse effect on the milk powder business, although the increased demand for fresh milk ensures future growth for the liquid milk industry</p>
<b>Financial Risk</b>	
<b>Credit Default Risk</b>	
<p>This is an Inherent financial risk to any business and to avoid any losses to the business precautionary actions need to be taken.</p> <p>Discussed in note 34.1 to the financial statements.</p>	<p>The Group aims to reduce this risk by routinely monitoring and taking necessary actions to neutralize it by implementing rigorous credit control procedures. Further precautions are also taken to cover the financial commitment of each party in financial transactions.</p>
<b>Liquidity Risk</b>	
<p>This is the difficulty the Company will encounter in meeting the financial obligations on uncertain liquidity. This also includes the inability to manage the Company's working capital needs with the existing cash inflows.</p> <p>Discussed in note 34.2 to the financial statements.</p>	<p>Liquidity risk is managed by the Company by ensuring sufficient liquidity to meet the financial obligations when due, under normal and stressed conditions.</p> <p>The Company regularly monitor its financial capabilities and ensure its ability to generate adequate funds for its operations, investments and financing activities.</p> <p>The enhanced banking facilities and financial assistance obtained through our excellent relationship management with related institutions provide us more strength in this area.</p>

# RISK MANAGEMENT

Risk	Mitigating Actions
<b>Market Risk</b>	
<p>This is the risk that changes in market prices such as interest rates that would impact Group's Income or the value of investment in financial instruments.</p> <p>The objective of managing market risk is to manage and control market risk exposures within acceptable parameters while optimizing returns.</p> <p>Discussed in note 34.3 to the financial statements.</p>	<p>The Company adopts a policy of ensuring borrowings are maintained at manageable levels while optimizing returns. Interest rates are negotiated leveraging on the strength of the Company and thereby ensuring the availability of cost effective funding at all times, while minimizing the negative effect of market fluctuations.</p>
<b>Regulatory and Political Environment</b>	
<p>Any corporate organization operates in a business environment where it is directly and indirectly governed by certain related bodies and the government.</p> <p>The regulatory and political environment of any country never stays the same. So it is the responsibility of the organization to ensure compliance and its contribution to the community as a whole while safeguarding the stakeholders' wealth.</p>	<p>Being subject to various regulations prevailing in the country related to pricing of finished product, quality controls of imported milk powder and labelling, the Group takes actions to adhere to all such related regulations.</p> <p>All uncertainties in the external environment are considered when developing strategy and reviewing performance and we remain cautious of future changes while contributing to important changes in public policy whenever possible.</p>
<b>People Related Risk</b>	
<p>Human capital brings a great value to an organization. Recruiting and retaining skilled and qualified staff is mandatory to ensure smooth operations.</p>	<p>Three out of five of the companies in the Group are situated in difficult areas where the temperature varies from 4°C to 20 °C, misty and severely cold. Due to these weather conditions. It has become extremely difficult to recruit skilled staff for these companies. Therefore, the Group has taken steps to improve the incentives and remuneration packages in order to retain staff.</p>
<b>Investment Risk</b>	
<p>With return comes risk and a successful business must invest and re-invest its returns in order to ensure future growth, expansion and sustainability.</p>	<p>The Group made large investments in the dairy farms, the sophisticated modern dairy complex at Ambewela Farms, and the expansion program at Lanka Dairies (Pvt) Ltd, for processing and packaging an increased quantity of fresh milk. With the rapid increase in demand for liquid milk and the government policy of developing the dairy industry in Sri Lanka, the Board is confident that the Return on Investment (ROI) will certainly be satisfactory.</p>
<b>Information Security Risk</b>	
<p>This refers to events when the Company is exposed to data loss and the loss of confidentiality of data.</p>	<p>Our systems are updated regularly with the latest available versions and backups of data and information is made on a daily basis. This minimizes the threat of losing important corporate information. Access rights are granted to selected employees depending on their operational needs and level of responsibility in order to guarantee information security.</p>





Risk	Mitigating Actions
<b>Quality Risk</b>	
<p>This is the risk of poor product quality due to bad conditions of raw materials or errors in any process within the organization's value chain including machinery and equipment at our processing plants.</p>	<p>The company has deployed an experienced and qualified quality assurance team headed by a senior Quality Assurance Manager. Measures are taken to make sure that quality is assured throughout all processes within the Company's entire value chain.</p> <p>We are also in the continuous process of maintaining the world renowned Quality Certifications awarded for our products. (ISO 9001:2008)</p>
<b>Reputational Risk and Product Safety</b>	
<p>Failure to protect the Group's reputation and brands could lead to a loss of trust and confidence and this would in turn result in a decline in the customer base and affect the ability to recruit and retain high-calibre people.</p> <p>Customer loyalty has helped us in our expansion and growth and we thereby take action to safeguard such loyalty, keeping stakeholder views in mind in every operation, while maintaining good relationships with our customers, employees and suppliers.</p>	<p>Product quality and safety is of paramount importance to LMF Group, along with maintaining customer trust and confidence. There are strict product safety processes and regular management reports to ensure product integrity. We work in partnership with suppliers to ensure mutual understanding of the standards required, while monitoring developments in areas including health, safety and nutrition in order to address varying customer requirements and new legislation.</p>

# REPORT OF THE AUDIT COMMITTEE

## Composition

The Audit Committee appointed by and responsible to the Board of Directors comprise two Independent Non-Executive Directors. The Chairman of the committee is Mr. D.S.K. Amarasekera, an Attorney-At-Law and Chartered Accountant and 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 2014 and both members of the Committee attended all these meetings which were attended by the Finance Manager and the Head of Internal Audit Department 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 2015, 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 Shaktevale**  
Director

29th August 2014



# REPORT OF THE REMUNERATION COMMITTEE

The Remuneration Committee of Lanka Milk Foods (CWE) PLC, appointed and responsible to the Board of Directors, comprises of two Independent Non-Executive Directors. They are namely Mr. D S K Amarasekera who chairs the committee and Dr. A Shakthevale. This committee is responsible for determining the remuneration policy relating to key management personnel.

The remuneration policy of the Company is to attract motivate and retain 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.

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

A handwritten signature in black ink, appearing to read "D S K Amarasekera".

**Mr. D. S. K. Amarasekera**  
Chairman

A handwritten signature in black ink, appearing to read "Dr. A Shakthevale".

**Dr. A Shakthevale**  
Director

29th August 2014



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

The Board of Directors of Lanka Milk Foods (CWE) PLC has pleasure in presenting their Annual Report together with the Audited Financial Statements of the Group for the year ended 31 March 2014.

## 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 privatization in 1991.

## Activities

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

## Review of Performance during the Period

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, reflects the position of the Company.

## Financial Statements

The audited financial statements comprising the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flow and Notes to the Financial Statements of the Company and the Group for the financial year ended 31 March 2014 given on pages 46 to 80 form an integral part of the Annual Report of the Board.

## Auditors' Report

The auditors' report is set out on page 45.

## Accounting Policies

The accounting policies adopted in the preparation of the financial statements are in accordance with Sri Lanka Accounting Standards and are given on the pages 51 to 58.

## The Summary of Financial Results of the Group

For the year ended 31st March	2013/2014	2012/2013
	Rs. '000	Rs. '000
Profit from operations	96,339	441,622
Profit before tax	26,524	411,488
Income tax (expense) / Reversal	21,903	(44,091)
Profit for the year	48,427	367,389

In respect of the year ended 31st March 2014, the Directors have not declared a dividend. (2013 – Rs. 1.50 per share)

## Reserves

The movements of reserves during the period are given under the Statement of changes in Equity on pages 48 to 49.

## Stated Capital

The stated capital of the company is Rs. 999,950,000 represented by 39,998,000 Ordinary Shares.

## Property, Plant & Equipment

Details and movements of Property, Plant and Equipment owned by the Company are given in Note 12 to the Financial Statements on pages 61 to 63.

## Land Holdings

Details of leasehold land owned by the company are given in Note 12 to the Financial Statements on page 62.

## Investments

Details of quoted and unquoted investments made by the Company as at 31st March 2014 are given in Note 14 to the Financial Statements on page 64.

## 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 81 to 82 under Investor Information.



## Directorates

The Directors listed on the inner back cover have been directors of the company throughout the year under review and their brief profiles appear on pages 16 to 17.

## Directors' Remuneration

The remuneration of the directors is given in note 8 on page 59 to the consolidated financial statements.

## Directors' Responsibility for Financial Reporting

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

## 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.

## Interests Register

The company maintains an Interests Register conforming to the Provisions of the Companies Act No. 07 of 2007.

## Directors' shareholdings

The Directors' shareholdings in the Company were as follows:

Name of the Directors	As at 31st March 2014	As at 31st March 2013
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

## Donations

During the year donations amounting to Rs. 20,000 were made by the Company.

## Auditors

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

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

## Events after the Reporting period

No material circumstances have arisen as at the date of the Auditors' Report, which would require adjustment to, or disclosure in the Financial Statements.

## Statutory Payments

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

## 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 practiced by the Company to identify and manage potential risks are given on pages 32 to 35.

## Contingent Liabilities

Except as disclosed in Note 30 to the Financial Statements on page 71, there were no materials Contingent Liabilities as at the Reporting Date.

## Environment

The Company has not engaged in any activity that was detrimental to the environment and has been in due compliance with all applicable laws and regulations of the country to the best of its ability

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

## 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 29 to 31.

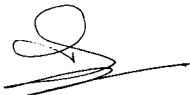
## Annual General Meeting

The Annual General meeting will be held on Tuesday, 30th of September 2014. The Notice of the Annual General Meeting appears on page 84.

## 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**  
29th August 2014





# STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors under the Companies Act No.7 of 2007 are responsible for ensuring compliance of the requirements set out therein to prepare Financial Statements for each financial year giving true and fair view of the state of affairs such as profit and loss of the Company and its subsidiaries as at the balance sheet 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 an 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 Company 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 External Auditors were provided with all the necessary information and explanations to enable them to form their opinion on 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 balance sheet date.

On behalf of the Board of Directors

**Mrs. W. C. Hewage**

Company Secretary

29th August 2014



**Most of the company's famous brands are household names in the country and have been nourishing generations of Sri Lankans over decades. The company has identified many emerging growth avenues and in addition to its modern manufacturing and packaging facilities, it also owns two of Sri Lanka's largest farms.**



## **Creating value**

We continued to invest in upgrading and mechanizing various aspects of our factory processes at Welisara and are confident of automating to a greater extent to derive maximum efficiencies and higher productivity wherever possible.









# FINANCIAL INFORMATION

• Independent Auditors' Report 45 • Statement of Comprehensive Income 46 • Statement of Financial Position 47  
• Statement of Changes In Equity 48 • Cash Flow Statement 50 • Notes to the Financial Statements 51 • Analysis  
of Ordinary Shares 81 • Twenty Major Shareholders 82 • Ten Year Summary 83

# INDEPENDENT AUDITORS' REPORT



**KPMG**  
(Chartered Accountants)  
32A, Sir Mohamed Macan Markar Mawatha,  
P. O. Box 186,  
Colombo 00300,  
Sri Lanka.

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+94 - 11 244 6058  
+94 - 11 254 1249  
+94 - 11 230 7345  
Internet : www.lk.kpmg.com

## TO THE SHAREHOLDERS OF LANKA MILK FOODS (CWE) PLC

### Report on the Financial Statements

We have audited the accompanying financial statements of Lanka Milk Foods (CWE) PLC ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the statements of financial position as at 31st March 2014, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information set out on pages 46 to 80 of the annual report.

### Management's Responsibility for the Financial Statements

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

### Scope of Audit and Basis of Opinion

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

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

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

### Opinion - Company

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31st March 2014 and the financial statements give a true and fair view of the financial position of the Company as at 31st March 2014, and of its financial performance and its cash flow for the year then ended in accordance with Sri Lanka Accounting Standards.

### Opinion - Group

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries dealt with thereby as at 31st March 2014, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Sections 153(2) to 153(7) of the Companies Act No. 07 of 2007.

Chartered Accountants  
29th August 2014  
Colombo.

KPMG, a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA  
T.J.S. Rajakarier FCA  
Ms. S.M.B. Jayasekara ACA  
G.A.U. Karunaratne ACA  
P.Y.S. Perera FCA  
W.W.J.C. Perera FCA  
W.K.D.C. Abeyrathne ACA  
R.M.D.B. Rajapakse ACA  
C.P. Jayatilake FCA  
Ms. S. Joseph FCA  
S.T.D.L. Perera FCA  
Ms. B.K.D.T.N. Rodrigo ACA  
Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st March	Note	Group		Company	
		2014 Rs.000's	2013 Rs.000's	2014 Rs.000's	2013 Rs.000's
<b>Revenue</b>	5	4,571,997	5,436,654	2,446,113	3,711,003
Cost of Sales		(4,099,404)	(4,522,796)	(2,274,881)	(3,196,113)
<b>Gross Profit</b>		472,593	913,858	171,232	514,890
Other Operating Income	6	236,423	211,407	125,847	144,747
Administrative Expenses		(293,714)	(299,837)	(140,458)	(136,538)
Distribution Expenses		(256,184)	(352,795)	(109,985)	(247,723)
Other Operating Expenses		(62,779)	(31,011)	(7,156)	(8,499)
<b>Profit from Operating Activities</b>		96,339	441,622	39,480	266,877
Finance Income		5,125	26,023	10,171	31,596
Finance Cost		(74,940)	(56,165)	(35,589)	(34,766)
Net Finance Cost	7	(69,815)	(30,142)	(25,418)	(3,170)
<b>Profit before Taxation</b>	8	26,524	411,480	14,062	263,707
Income Tax (Expense) / Reversal	9	21,903	(44,091)	29,957	(32,469)
<b>Profit for the Year</b>		48,427	367,389	44,019	231,238
<b>Other Comprehensive Income</b>					
Net change in Fair value of Available for Sale Investments		1,385,595	816,172	1,385,595	816,172
Actuarial Gain/(Loss) on Retirement Benefit Obligation (Net of Tax)		(6,314)	(2,853)	(3,529)	122
Other Comprehensive Income for the Year (Net of Tax)		1,379,281	813,319	1,382,066	816,294
<b>Total Comprehensive Income</b>		1,427,708	1,180,708	1,426,085	1,047,532
<b>Profit attributable to :</b>					
Owners of the Company		61,059	374,929	44,019	231,238
Non - Controlling Interest		(12,632)	(7,540)	-	-
<b>Profit for the Year</b>		48,427	367,389	44,019	231,238
<b>Total comprehensive income attributable to :</b>					
Owners of the Company		1,440,340	1,188,248	1,426,085	1,047,532
Non - Controlling Interest		(12,632)	(7,540)	-	-
<b>Total Comprehensive Income For the Year</b>		1,427,708	1,180,708	1,426,085	1,047,532
<b>Basic Earnings Per Share (Rs.)</b>	10	1.53	9.37	1.10	5.78
<b>Dividend Per Share (Rs.)</b>	11	-	1.50	-	1.50

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 51 to 80

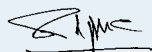


## STATEMENT OF FINANCIAL POSITION

As at 31st March	Note	Group		Company	
		2014 Rs.000's	2013 Rs.000's	2014 Rs.000's	2013 Rs.000's
<b>Assets</b>					
<b>Non Current Assets</b>					
Property, Plant and Equipment	12	1,962,797	1,786,025	235,513	244,602
Investment in Subsidiaries	13	-	-	767,009	774,165
Available for Sale Financial Assets	14.1	7,706,185	6,320,589	7,706,185	6,320,589
Biological Assets	15.1	306,447	266,707	-	-
<b>Total Non Current Assets</b>		<b>9,975,429</b>	<b>8,373,321</b>	<b>8,708,707</b>	<b>7,339,356</b>
<b>Current Assets</b>					
Inventories	16	794,257	1,014,269	351,631	627,150
Biological Assets	15.2	15,861	16,367	-	-
Financial Assets Held for Trading	14.2	236,453	227,893	236,453	227,893
Trade Receivables	17	372,587	545,373	209,065	364,009
Other Receivables	18	81,591	102,577	33,787	15,300
Amounts Due from Related Parties	19	25,723	39,159	874,609	832,193
Income Tax Receivables		19,613	7,970	8,042	-
Cash and Cash Equivalents	20	65,539	245,420	49,277	225,740
<b>Total Current Assets</b>		<b>1,611,624</b>	<b>2,199,028</b>	<b>1,762,864</b>	<b>2,292,285</b>
<b>Total Assets</b>		<b>11,587,053</b>	<b>10,572,349</b>	<b>10,471,571</b>	<b>9,631,641</b>
<b>Equity and Liabilities</b>					
<b>Equity</b>					
Stated Capital	21	999,950	999,950	999,950	999,950
Capital Reserves		105,116	105,116	105,116	105,116
Available for Sale Reserve		7,468,485	6,082,890	7,468,485	6,082,890
Revenue Reserves		1,396,822	1,402,074	1,309,267	1,328,774
<b>Total Equity attributable to Equity Holders of the Company</b>		<b>9,970,373</b>	<b>8,590,030</b>	<b>9,882,818</b>	<b>8,516,730</b>
Non Controlling Interests		22,827	35,459	-	-
<b>Total Equity</b>		<b>9,993,200</b>	<b>8,625,489</b>	<b>9,882,818</b>	<b>8,516,730</b>
<b>Liabilities</b>					
<b>Non Current Liabilities</b>					
Loans and Borrowings	25	517,797	283,825	-	30,967
Deferred Tax Liability	23	55,321	79,177	295	32,253
Retirement Benefit Obligations	24	49,388	37,196	29,733	22,556
<b>Total Non Current Liabilities</b>		<b>622,506</b>	<b>400,198</b>	<b>30,028</b>	<b>85,776</b>
<b>Current Liabilities</b>					
Trade and Other Payables	26	547,319	1,127,286	415,916	745,635
Amounts Due to Related Parties	27	73,157	186,137	102,045	212,925
Income Tax Payable		-	8,752	-	7,876
Loans and Borrowings	25	47,671	32,678	30,968	32,678
Bank Overdrafts	20	303,200	191,809	9,796	30,021
<b>Total Current Liabilities</b>		<b>971,347</b>	<b>1,546,662</b>	<b>558,725</b>	<b>1,029,135</b>
<b>Total Liabilities</b>		<b>1,593,853</b>	<b>1,946,860</b>	<b>588,753</b>	<b>1,114,911</b>
<b>Total Equity and Liabilities</b>		<b>11,587,053</b>	<b>10,572,349</b>	<b>10,471,571</b>	<b>9,631,641</b>

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 51 to 80.

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:

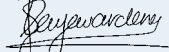


**D.H.S. Jayawardena**

Chairman

29th August 2014

Colombo



**D.S.C. Jayawardena**

Director

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March 2014

Group	Attributable to Equity Holders of the Company					Total	Non-Controlling Interest	Total Equity
	Stated Capital	Capital Reserve	Dairy Development Project Reserve	Available for Sale Reserve	Retained Earnings			
	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's			
Balance as at 1st April 2012	999,950	105,116	110,000	5,266,718	959,996	7,441,780	42,999	7,484,779
Profit for the year	-	-	-	-	374,929	374,929	(7,540)	367,389
Other Comprehensive Income								
Net change in Fair Value of								
Available for Sale Investments	-	-	-	816,172	-	816,172	-	816,172
Actuarial Loss on Retirement Benefit Obligation					(2,853)	(2,853)		(2,853)
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	8,625,489
<b>Balance as at 1st April 2013</b>	999,950	105,116	110,000	6,082,890	1,292,074	8,590,030	35,459	8,625,489
<b>Profit for the year</b>	-	-	-	-	61,059	61,059	(12,632)	48,427
Other Comprehensive Income								
Net change in Fair Value of								
Available for Sale Investments	-	-	-	1,385,595	-	1,385,595	-	1,385,595
Actuarial Loss on Retirement Benefit Obligation	-	-	-	-	(6,314)	(6,314)	-	(6,314)
Total Comprehensive Income				1,385,595	54,745	1,440,340	(12,632)	1,427,708
Dividend Paid	-	-	-	-	(59,997)	(59,997)	-	(59,997)
<b>Balance as at 31st March 2014</b>	999,950	105,116	110,000	7,468,485	1,286,822	9,970,373	22,827	9,993,200

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 51 to 80.

## For the year ended 31st March 2014

## Company

	Stated Capital	Capital Reserve	Dairy Develop ment 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 2012	999,950	105,116	110,000	5,266,718	1,027,412	7,509,196
Profit for the year	-	-	-	-	231,238	231,238
<b>Other Comprehensive Income</b>						
Net change in Fair Value of Available for Sale Investments	-	-	-	816,172	-	816,172
Actuarial Gain on Retirement Benefit Obligation	-	-	-	-	122	122
<b>Total Comprehensive Income</b>	-	-	-	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
<b>Balance as at 1st April 2013</b>	999,950	105,116	110,000	6,082,890	1,218,774	8,516,730
<b>Profit for the year</b>	-	-	-	-	44,019	44,019
<b>Other Comprehensive Income</b>						
<b>Net change in Fair Value of Available for Sale Investments</b>	-	-	-	1,385,595	-	1,385,595
<b>Actuarial Loss on Retirement Benefit Obligation</b>	-	-	-	-	(3,529)	(3,529)
<b>Total Comprehensive Income</b>	-	-	-	7,468,485	40,490	1,426,085
<b>Dividend Paid</b>	-	-	-	-	(59,997)	(59,997)
<b>Balance as at 31st March 2014</b>	999,950	105,116	110,000	7,468,485	1,199,267	9,882,818

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 51 to 80.

## CASH FLOW STATEMENT

For the year ended 31st March	Group		Company	
	2014 Rs.000's	2013 Rs.000's	2014 Rs.000's	2013 Rs.000's
<b>Cash Flow from Operating Activities</b>				
Profit before tax	26,524	411,480	14,062	263,707
<b>Adjustments for;</b>				
Depreciation on property, plant and equipment	175,680	129,319	29,269	23,632
Changes in Fair Value of Held for Trading Investments	(8,561)	(18,955)	(8,561)	(18,955)
Provision for Impairment of Investments in Subsidiary	-	-	7,156	8,499
Provision / (Reversal) of Impairment of Trade Receivables	5,499	5,295	(7,321)	(1,253)
Gain on Disposal of Property, plant and equipment	(20,636)	(881)	(787)	(818)
Provision for Retirement benefit obligation	8,497	6,732	5,073	3,873
Provision for obsolete of Inventories	12,960	11,702	-	-
Change in Fair Value of Biological Assets	(73,902)	(61,191)	-	-
Loss on Disposal of Biological Assets	28,582	2,144	-	-
Dividend income	(114,773)	(115,317)	(114,773)	(124,317)
Interest income	(4,843)	(3,264)	(10,171)	(12,947)
Interest expense	57,806	56,165	18,457	34,766
<b>Operating profit / (Loss) before working capital changes</b>	<b>92,833</b>	<b>423,229</b>	<b>(67,596)</b>	<b>176,187</b>
Decrease in inventories	207,052	126,476	275,519	160,132
(Increase)/decrease in trade and other receivables	188,273	(109,393)	143,778	(166,922)
(Increase)/decrease in related parties	(99,544)	85,034	(153,296)	44,143
Increase/(decrease) in trade and other payables	(579,967)	354,389	(329,719)	128,158
<b>Cash flows generated from/(used in) operations</b>	<b>(191,353)</b>	<b>879,735</b>	<b>(131,314)</b>	<b>341,698</b>
Interest Paid	(57,806)	(56,165)	(18,457)	(34,766)
Income Tax Paid	(21,054)	(8,202)	(16,547)	(130)
Retiring Gratuity Paid	(3,913)	(3,798)	(2,797)	(2,943)
<b>Net Cash flows generated from/(used in) operating activities</b>	<b>(274,126)</b>	<b>811,570</b>	<b>(169,115)</b>	<b>303,859</b>
<b>Cash Flow from Investing Activities</b>				
Interest received	4,843	3,264	10,171	12,947
Dividend received	114,773	115,317	114,773	124,317
Acquisition of Biological Assets	(30,997)	(33,362)	-	-
Proceeds from Disposal of Property, plant and equipment	23,890	726	787	879
Proceeds from sale of Biological Assets	37,083	48,308	-	-
Purchase and construction of property, plant and equipment	(355,706)	(730,828)	(20,180)	(33,973)
<b>Net Cash flows generated from/(used in) investing activities</b>	<b>(206,114)</b>	<b>(596,575)</b>	<b>105,551</b>	<b>104,170</b>
<b>Cash Flow from Financing Activities</b>				
Borrowings during the year	281,642	252,858	-	-
Repayment of borrowings during the year	(32,677)	(32,678)	(32,677)	(32,678)
Dividend paid	(59,997)	(39,998)	(59,997)	(39,998)
<b>Net Cash flows generated from/(used in) financing activities</b>	<b>188,968</b>	<b>180,178</b>	<b>(92,674)</b>	<b>(72,676)</b>
Net increase/(decrease) in cash and cash equivalents	(291,302)	395,173	(156,238)	335,353
Cash and cash equivalents at the beginning of the year	53,611	(341,562)	195,719	(139,634)
Cash and cash equivalents at the end of the year (Note 20)	(237,661)	53,611	39,481	195,719
<b>Note B</b>				
<b>Analysis of cash and cash equivalents at the end of the year</b>				
Cash and cash equivalents	65,539	245,420	49,277	225,740
Bank overdraft	(303,200)	(191,809)	(9,796)	(30,021)
	(237,661)	53,611	39,481	195,719

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 51 to 80.



# 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 2014 comprises 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 29 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.

The consolidated financial statements were authorised for issue by the Board of Directors on 29th August 2014.

### 2.2 Basis of Measurement

The consolidated and separate financial statements of the Group and the Company have been prepared on the historical cost basis except for the following material items in the statement of financial position

- i. Financial assets available-for-sale are measured at fair value.
- ii. Employee benefit liability, recognised based on actuarial valuation (LKAS 19).
- iii. Biological assets are measured at fair value less cost to sell (LKAS 41)
- iv. Financial Assets held for trading are measured at fair value.

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 nearest thousand, unless stated otherwise.

### 2.4 Use of Estimates and Judgments

The preparation of financial statements in conformity with Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka requires management to make judgments, 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 recognized 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 judgment in applying accounting policies that have been most significant affect on the amount recognized in the financial statement include in the following notes.

Note 24 – Retirement Benefit Obligations

Note 23 – Deferred Tax Liability

Note 15 – Biological Assets

### 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.

## NOTES TO THE FINANCIAL STATEMENTS

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, where applicable and deviations if any, have been disclosed accordingly.

### 2.6 Change in Accounting Policy

#### Defined Benefit Plans

The Company adopted LKAS 19 – ‘Employee Benefits’ (Revised 2013) which became effective from 1st January 2013 as part of its mandatory application and changed its basis for determining the income or expense related to defined benefit plan.

As a result of the change, the Company now recognizes all the re measurements of the net defined benefit liability in other comprehensive income. Re measurements of the net defined benefit liability comprise of Actuarial gain or loss.

Previously, the Company recognized actuarial gain or losses in profit or loss.

#### Impact of change in accounting policy

The change in accounting policy has been applied retrospectively. The following table summarizes the financial effects on the financial statements on implementation of the new accounting policy:

Description	Group	Company
	2013	2013
	Rs 000's	Rs 000's
<b>Consolidated Statement of Comprehensive Income</b>		
Comprehensive Income	3080	(169)
Other Comprehensive Income	(3080)	169

The change in Accounting policy has no material impact on income tax and the deferred tax computations as at the above dates.

## 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 - i.e. when 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. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognized amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed

#### 3.1.2 Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

#### 3.1.3 Non-controlling interests

The total profit and loss for the year of the Company and its subsidiaries included in consolidation are shown in the consolidated statement of comprehensive income with the proportion of profit and loss after taxation pertaining to minority shareholders of subsidiaries being deducted as “Non- controlling interest”. All assets and liabilities of the Company and of its subsidiaries included in consolidation are shown in the consolidated statement of financial position. The interest of minority shareholders of subsidiaries in the fair value of net assets of the Group are indicated separately in the consolidated statement of financial position under the heading “Non-controlling interest”.

Changes in the Group’s interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

#### 3.1.4 Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group’s interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

### 3.1.5 Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss.

## 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 recognizes 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 recognized in the income statement as an expense as incurred.

#### 3.2.1.3 De-recognition

The carrying amount of an item of property, plant and equipment is de-recognized 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 of the 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
Motor Vehicles	5 years
Fixtures and Fittings	5 years
Computers and Accessories	5 years
Office Equipment	5 years
Motor Roads	5 years

Buildings on leasehold land are depreciated over the unexpired period of lease.

#### 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 utilization 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 recognized 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 recognized in the Income Statement 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 Instruments

#### 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.

Loans and advances are initially recognised on the date at which they are originated at fair value which is usually the loan amount granted and subsequent measurement is at amortised cost.

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

## NOTES TO THE FINANCIAL STATEMENTS

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

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.

### 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 to maturity investment - non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity are measured at amortised cost.
- Held-for-trading - financial assets held-for-trading measured at fair value of which changes in fair value recognised in the income statement.
- Available-for-sale 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 Group has transferred its contractual right to receive the cash flows of the financial assets, and either:

- Substantially all the risks and rewards of ownership have been transferred; or
- 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.

### 3.2.3.5 Loans and receivables

Loans and receivables are financial assets with fixed or determinable payment that are not quoted in an active market. Such assets are recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

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.

### 3.2.3.6 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, 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 not classified as fair value through profit or loss 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.

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 both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been



incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

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

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**

#### **3.6.1 Defined Benefit Plan – Gratuity**

The defined benefit obligation is calculated by using "Projected Unit Credit Method" based on the valuation performed by an independent professional actuary as prescribed in Sri Lanka Accounting Standard No.19 - Employee Benefits.

## NOTES TO THE FINANCIAL STATEMENTS

The present value of defined benefit obligation is determined by discounting the estimated future cash flows using the interest rates of high quality corporate bonds that are denominated in currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related retirement obligations.

The Group recognizes all actuarial gains and losses arising from the defined benefits plans immediately in the other comprehensive income. The liability is disclosed under Non-current liabilities in the Statement of Financial Position.

The key assumptions used in the computation are disclosed in Notes to the Financial Statements.

However, according to the Payment of Gratuity Act No.12 of 1983, the liability for gratuity payment to an employee arises only after the completion of five years continued service with the company.

This liability is not externally funded. The item is grouped under non-current liabilities in the Statement of Financial Position.

### 3.6.2 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 recognized 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 recognized in the Statement of Financial Position.

### 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 recognized 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 recognized 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 in the Statement of 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. 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.

### 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 recognized in Statement of Comprehensive Income except to the extent that it relates to items recognized directly in equity, in which case it is recognized 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 are recognized 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 utilized.

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 utilized. Unrecognised deferred tax assets are reassessed at each reporting date and are recognized 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 realized 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 recognized directly in equity is recognized 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 chief 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 Financial Guarantees

Liabilities under financial guarantee contracts are recorded initially at their fair value, which is generally the fee as per market rate. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortization and the best estimate of the expenditure required settling the obligations.

## 3.14 Materiality Aggregation

Each material class of similar items is presented separately in the financial statements. Items of a dissimilar nature

## NOTES TO THE FINANCIAL STATEMENTS

or function are presented separately unless they are immaterial.

### 3.15 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.

### 3.16 Comparative Information

The Accounting Policies have been consistently applied by the Group and are consistent with those of the previous year's figures and phrases which have been re-arranged wherever necessary to conform to the current presentation.

### 3.17 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.

### 3.18 Commitments and Contingencies

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

## 4. EFFECT OF ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

### New Accounting Standards Issued but not effective as at Reporting Date

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 Future periods. 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.

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

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee ; and

- 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 is effective from 1 April 2014 for the Group with early adoption permitted. This SLFRS supersedes 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 framework for measuring fair value; and requires disclosures about fair value measurements.

This SLFRS is 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.

The application of this standard has been currently deferred by the Institute of Chartered Accountants of Sri Lanka, consequent to the International Accounting Standard Board's (IASB) decision to defer the mandatory effective date of IFRS 9. However SLFRS 9 will be available for early adoption.



For the year ended 31st March		Group		Company	
		2014 Rs.000's	2013 Rs.000's	2014 Rs.000's	2013 Rs.000's
<b>5</b>	<b>REVENUE</b>				
	Gross Revenue	4,657,131	5,538,016	2,489,771	3,778,683
	Less : Nation Building Tax	(84,134)	(101,362)	(43,658)	(67,680)
		4,571,997	5,436,654	2,446,113	3,711,003
<b>6</b>	<b>OTHER OPERATING INCOME</b>				
	Gain on disposal of property, plant and equipment	20,636	881	787	818
	Change in Fair Value of Biological Assets	73,903	61,190	-	-
	Change in Fair value of Financial Assets Held for Trading	8,561	18,955	8,561	18,955
	Dividend income	114,773	115,317	114,773	124,317
	Sundry Income	18,550	15,064	1,726	657
		236,423	211,407	125,847	144,747
<b>7</b>	<b>NET FINANCE COSTS</b>				
	<b>Finance Income</b>				
	Interest on fixed deposits	1,144	944	1,144	944
	Interest on loans and receivables	722	657	686	657
	Interest from Trade Receivables	2,977	1,663	1,625	1,523
	Gain on translation of foreign currency	282	22,759	-	18,649
	Interest on amount due from Related Companies	-	-	6,716	9,823
		5,125	26,023	10,171	31,596
	<b>Finance Cost</b>				
	Interest on Bank Overdraft	(28,617)	(42,401)	(11,741)	(24,943)
	Interest on long term borrowings	(28,105)	(9,823)	(6,716)	(9,823)
	Interest on bills discounting	(1,084)	(3,941)	-	-
	Loss on translation of foreign currency	(17,134)	-	(17,132)	-
		(74,940)	(56,165)	(35,589)	(34,766)
	<b>Net Finance Costs</b>	(69,815)	(30,142)	(25,418)	(3,170)
<b>8</b>	<b>PROFIT BEFORE TAXATION</b>				
	Profit before taxation is stated after charging all the expenses including the followings.				
	Directors' Emoluments	5,215	3,400	5,215	3,400
	Auditors' Remuneration				
	- Audit Services	3,578	3,850	2,100	2,000
	- Audit related services	957	980	957	980
	- Non Audit services	275	1,067	275	358
	Impairment of Investment in Subsidiaries	-	-	7,156	8,449
	Depreciation on Property, Plant and Equipment	175,680	129,310	29,269	23,632
	Lease Rent for Land	24,622	21,500	67	67
	Provision / (Reversal) for Impairment Loss on Trade Receivables	5,499	5,295	(7,321)	-
	Management fees	1,120	1,120	1,120	1,120
	Personnel Costs (Note 8.1)	328,965	290,362	176,660	174,886
<b>8.1</b>	<b>Personnel Costs</b>				
	Defined Contribution Plan Costs - EPF and ETF	25,974	20,652	12,081	11,006
	Defined Benefit Plan Cost - Retirement Benefit Obligation	7,911	6,732	5,073	3,873
	Other Staff Costs	295,080	262,978	159,506	160,007
		328,965	290,362	176,660	174,886
	Total number of employees as at the end of the year	686	690	263	284

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March		Group		Company	
		2014 Rs.000's	2013 Rs.000's	2014 Rs.000's	2013 Rs.000's
<b>9</b>	<b>INCOME TAX EXPENSE / (REVERSAL)</b>				
	Income Tax for the year (Note 9.1)	659	30,518	629	30,195
	Deferred Taxation Charge / (Reversal) for the year (Note 23)	(22,562)	12,862	(30,586)	2,274
	Deemed Dividend Tax	-	711	-	-
		(21,903)	44,091	(29,957)	32,469

- a) The Profits and income of Lanka Milk Foods (CWE) PLC is liable for income tax at the rate 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	
		2014 Rs.000's	2013 Rs.000's	2014 Rs.000's	2013 Rs.000's
<b>9.1</b>	<b>Reconciliation of Accounting Profit to Income Tax Expense</b>				
	Profit before Tax	26,524	411,480	14,062	263,707
	Non business income	(4,894)	(4,300)	(3,455)	(3,124)
	Disallowable expenses	263,782	264,226	42,508	47,146
	Tax deductible expenses	(562,261)	(201,376)	(28,378)	(55,800)
	Tax exempt income	(130,869)	(203,582)	(132,201)	(147,214)
	Loss of Ambewela Products (Private) Limited	62,952	8,499	-	-
	Statutory Income from Business	(344,766)	274,947	(107,464)	104,546
	Non business income	4,894	3,418	3,455	3,124
	Tax loss claimed during the year	(1,714)	(334)	(1,209)	-
	Qualifying Payments during the year	(827)	(155,640)	-	-
	Taxable Income	3,180	122,391	2,246	107,670
	Income tax @ 28%	659	30,360	629	30,195
	Income tax @ 10%	-	158	-	-
	Income tax expense	659	30,518	629	30,195
<b>9.2</b>	<b>Accumulated Tax Losses</b>				
	Tax loss brought forward	246,544	549,092	-	-
	Adjustments during the year	-	(302,214)	-	-
	Loss for the Year	344,766	-	107,464	-
	Tax loss claimed during the Year	(1,714)	(334)	(1,209)	-
	Tax loss carried forward	589,596	246,544	106,255	-

## 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.

### For the year ended 31st March

	Group		Company	
	2014	2013	2014	2013
Profit Attributable to Ordinary Shareholders (Rs.'000)	61,059	374,929	44,019	231,238
Weighted Average Number of Ordinary Shares ('000)	39,998	39,998	39,998	39,998
Basic Earnings Per Share (Rs.)	1.53	9.37	1.10	5.78

## 11 DIVIDENDS PER SHARE

Dividend Per Share (Rs.)	-	1.50	-	1.50
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Dividend proposed are taken into consideration for computation of dividend per share. Proposed final dividend has not been recognized as a liability as at reporting date until it is approved at the Annual General Meeting.

## 12 PROPERTY, PLANT AND EQUIPMENT

### 12.1 Group

	As at 01/04/2013 Rs.000's	Additions/ Transfers Rs.000's	Disposals/ Transfer Rs.000's	As at 31/03/2014 Rs.000's
<b>Cost /Deemed Cost</b>				
Leasehold buildings	756,569	56,921	-	813,490
Plant and machinery	897,556	921,912	(49,545)	1,769,923
Laboratory equipment	9,820	55	-	9,875
Factory equipment	197,935	9,997	-	207,932
Canteen equipment	2,721	231	-	2,952
Office equipment	9,371	78	-	9,449
Fire fighting equipment	4,255	-	-	4,255
Furniture and fittings	9,030	621	-	9,651
Fixtures	164	-	-	164
Computers	14,682	906	(3,189)	12,399
Motor vehicles	155,088	28,030	(400)	182,718
Milk collection equipment	1,939	1,720	-	3,659
Motor roads and others	45,862	4,287	-	50,149
	2,104,992	1,024,758	(53,134)	3,076,616

	As at 01/04/2013 Rs.000's	Charge for the year Rs.000's	Disposals During the year Rs.000's	As at 31/03/2014 Rs.000's
<b>Accumulated Depreciation</b>				
Leasehold buildings	293,321	20,009	-	313,330
Plant and machinery	459,332	95,466	(46,291)	508,507
Laboratory equipment	6,184	151	-	6,335
Factory equipment	81,509	26,269	-	107,778
Canteen equipment	2,077	73	-	2,150
Office equipment	7,637	453	-	8,090
Fire fighting equipment	4,255	-	-	4,255
Furniture and fittings	6,468	926	-	7,394
Fixtures	164	-	-	164
Computers	12,031	1,312	(3,189)	10,154
Motor vehicles	113,130	21,644	(400)	134,374
Milk collection equipment	1,939	1,720	-	3,659
Motor roads and others	23,868	7,657	-	31,525
	1,011,915	175,680	(49,880)	1,137,715
<b>Written Down Value</b>	1,093,077			1,938,901
<b>Capital Work in Progress</b>	692,948			23,896
	1,786,025			1,962,797

## NOTES TO THE FINANCIAL STATEMENTS

### 12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

#### 12.1 Group (Continued)

As at 31st March	2014 Rs.000's	2013 Rs.000's
<b>Written Down Value</b>		
Leasehold buildings	500,160	463,248
Plant and machinery	1,261,416	438,224
Laboratory equipment	3,540	3,636
Factory equipment	100,154	116,426
Canteen equipment	802	644
Office equipment	1,359	1,734
Fire fighting equipment	-	-
Furniture and fittings	2,257	2,562
Fixtures	-	-
Computers	2,245	2,651
Motor vehicles	48,344	41,958
Milk collection equipment	-	-
Motor roads and others	18,624	21,994
	1,938,901	1,093,077
Capital Work in Progress	23,896	692,948
	1,962,797	1,786,025

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

As at 31st March	2014 Rs.000's	2013 Rs.000's
Lanka Milk Foods (CWE) PLC	181,145	182,438
Lanka Dairies (Private) Limited	49,767	147,047
Ambewela Livestock Company Limited	75,363	72,711
Pattipola Livestock Company Limited	42,075	39,146
	348,350	441,342

(b) All factory and office buildings are constructed on leasehold lands obtained from the Government of Sri Lanka on a 50 years lease. Lease rentals are paid annually. Details of the Lands obtained from the Government of Sri Lanka under operating 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	14,629,504	3rd Oct 2001
Pattipola Livestock Company Limited	Pattipola	9,926,860	3rd Oct 2001
		24,623,364	

(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 privatization 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 lease hold 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.



## 12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### 12.2 Company

	As at 01/04/2013 Rs.000's	Additions/ Transfers Rs.000's	Disposals/ Transfers Rs.000's	As at 31/03/2014 Rs.000's
<b>Cost /Deemed Cost</b>				
Leasehold buildings	358,951	-	-	358,951
Plant and machinery	160,419	10,989	-	171,408
Laboratory equipment	2,843	-	-	2,843
Factory equipment	9,076	-	-	9,076
Canteen equipment	2,721	231	-	2,952
Office equipment	7,800	62	-	7,862
Fire fighting equipment	4,223	-	-	4,223
Furniture and fittings	3,827	70	-	3,897
Fixtures	164	-	-	164
Computers	11,909	763	(3,189)	9,483
Motor vehicles	77,350	28,025	(400)	104,975
	639,283	40,140	(3,589)	675,834

	As at 01/04/2013 Rs.000's	Charge for the year Rs.000's	Disposals During the year Rs.000's	As at 31/03/2014 Rs.000's
<b>Accumulated Depreciation</b>				
Leasehold buildings	196,530	8,548	-	205,078
Plant and machinery	141,916	3,325	-	145,241
Laboratory equipment	2,794	7	-	2,801
Factory equipment	3,576	646	-	4,222
Canteen equipment	2,077	73	-	2,150
Office equipment	6,197	380	-	6,577
Fire fighting equipment	4,223	-	-	4,223
Furniture and fittings	2,791	265	-	3,056
Fixtures	164	-	-	164
Computers	10,089	954	(3,189)	7,854
Motor vehicles	44,284	15,071	(400)	58,955
	414,641	29,269	(3,589)	440,321
<b>Written Down Value</b>	224,642			235,513
<b>Capital Work in Progress</b>	19,960			-
	244,602			235,513

As at 31st March	2014 Rs.000's	2013 Rs.000's
<b>Written Down Value</b>		
Leasehold buildings	153,873	162,421
Plant and machinery	26,167	18,503
Laboratory equipment	42	49
Factory equipment	4,854	5,500
Canteen equipment	802	644
Office equipment	1,285	1,603
Fire fighting equipment	-	-
Furniture fittings	841	1,036
Fixtures	-	-
Computers	1,629	1,820
Motor vehicles	46,020	33,066
	235,513	224,642
Capital Work in Progress	-	19,960
	235,513	244,602

## NOTES TO THE FINANCIAL STATEMENTS

### 13 INVESTMENT IN SUBSIDIARIES

Company As at 31st March	2014			2013	
	Holding Percentage	No. of Shares	Cost Rs.000's	No. of Shares	Cost Rs.000's
Lanka Dairies (Private) Limited	100%	500,000	5,000	500,000	5,000
Ambewela Livestock Company Limited	100%	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
Ambewela Products (Private) Limited	100%	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
Less : Provision for Impairment of Investments			(376,543)		(369,387)
			767,009		774,165

### 14 INVESTMENT IN EQUITY SECURITIES

As at 31st March	2014		2013	
	No of Shares	Fair Value Rs.000's	No of Shares	Fair Value Rs.000's
<b>14.1 Available for Sale Investments</b>				
<b>Group/Company</b>				
Distilleries Company of Sri Lanka PLC	37,961,500	7,706,185	37,961,500	6,320,589
		7,706,185		6,320,589
<b>14.2 Financial Assets Held for Trading</b>				
<b>Group/Company</b>				
Asia Capital PLC	60	1	60	1
Browns Beach Hotels PLC	1,251,558	23,905	1,251,558	21,526
Colombo Dockyard PLC	219,948	38,095	219,948	47,090
Commercial Bank of Sri Lanka PLC - Voting	1,418,085	173,007	1,394,732	157,604
Merchant Bank of Sri Lanka PLC	103,471	1,438	103,471	1,665
Seylan Bank PLC - Voting	81	5	80	5
Seylan Bank PLC - Non Voting	82	2	80	2
		236,453		227,893

**15 BIOLOGICAL ASSETS**

As at 31st March	Group		Company	
	2014	2013	2014	2013
	Rs.000's	Rs.000's	Rs.000's	Rs.000's
<b>15.1 Livestock</b>				
Balance as at 1st April	266,707	224,445	-	-
Additions during the year	14,693	16,995	-	-
Increase in Fair Value during the year	73,903	61,190	-	-
Disposals during the year	(48,856)	(35,923)	-	-
Balance as at 31st March	306,447	266,707	-	-
<b>15.2 Non Perennial Crops - At Cost</b>				
Balance as at 1st April	16,367	14,529	-	-
Additions during the year	16,304	16,367	-	-
Disposals during the year	(16,810)	(14,529)	-	-
Balance as at 31st March	15,861	16,367	-	-

The group has used the following significant criteria in determining the fair value of the Biological Assets as at 31st March 2014.

Weight  
Pregnancy  
Milk Production  
Lactations  
Age

The biological assets as at 31st March 2014 was valued by an independent professional valuer based on the physically verified numbers provided by the Group.

## NOTES TO THE FINANCIAL STATEMENTS

As at 31st March	Group		Company	
	2014 Rs.000's	2013 Rs.000's	2014 Rs.000's	2013 Rs.000's
<b>16 INVENTORIES</b>				
Raw Materials and Consumables	721,041	566,040	332,184	218,077
Finished Goods	46,882	87,234	19,288	52,065
Goods in Transit	50,996	372,697	159	357,008
	818,919	1,025,971	351,631	627,150
Less : Provision for Obsolete Inventories	(24,662)	(11,702)	-	-
	794,257	1,014,269	351,631	627,150
<b>17 TRADE RECEIVABLES</b>				
Trade Receivables	434,983	602,270	241,016	403,281
Less: Provision for Impairment Loss	(62,396)	(56,897)	(31,951)	(39,272)
	372,587	545,373	209,065	364,009
<b>18 OTHER RECEIVABLES</b>				
Deposits and Prepayments	37,708	33,307	22,504	393
Insurance Receivables	190	-	190	-
Other Taxes Recoverable (Note 18.1 )	24,559	24,113	4,565	4,988
Sundry Receivables	14,095	41,909	2,320	6,671
Staff Loans and Advances	5,039	3,248	4,208	3,248
	81,591	102,577	33,787	15,300
<b>18.1 Other Taxes Recoverable</b>				
Withholding Tax	28	28	-	-
Turnover Tax	2,604	2,604	2,604	2,604
National Security Levy	509	509	509	509
Value Added Tax	24,531	24,085	4,565	4,988
	27,672	27,226	7,678	8,101
Less: Provision for NSL and TT Recoverable	(3,113)	(3,113)	(3,113)	(3,113)
	24,559	24,113	4,565	4,988
<b>19 AMOUNT DUE FROM RELATED PARTIES</b>				
Lanka Dairies (Private) Limited	-	-	231,590	200,314
Stassen Exports Limited	23,381	36,994	1,899	1,947
Ambewela Products (Private) Limited	-	-	326,118	319,895
Ambewela Livestock Company Limited *	-	-	312,218	309,187
Aitken Spence PLC	632	903	575	903
Distilleries company of Sri Lanka PLC	1,710	1,217	1,710	1,182
Madulsima Plantation PLC	-	45	-	45
Pattipola Livestock Company Limited	-	-	192,824	191,045
	25,723	39,159	1,066,934	1,024,518
Less : Provision for Impairment	-	-	(192,325)	(192,325)
	25,723	39,159	874,609	832,193

\* The amount due from Ambewela Products (Private) Limited as at 31st March 2014 includes interest payable advance of 30,968 (Rs 000) as at the same date. The Company has recovered interest income of 6,716 (Rs 000) during the year ended 31st March 2014. The interest has been charged at the market interest rate and the balance advances are repayable on demand.



As at 31st March	Group		Company	
	2014 Rs.000's	2013 Rs.000's	2014 Rs.000's	2013 Rs.000's
<b>20 CASH AND CASH EQUIVALENTS</b>				
Cash at Bank and in Hand	55,539	235,420	49,277	225,740
Call Deposit	10,000	10,000	-	-
	65,539	245,420	49,277	225,740
Less : Bank Overdraft	(303,200)	(191,809)	(9,796)	(30,021)
Cash and cash equivalents for the purpose of cash flow statement	(237,661)	53,611	39,481	195,719
<b>21 STATED CAPITAL</b>				
39,998,000 Ordinary Shares	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 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 privatization of the company. The revalued amounts of Property were considered as deemed cost at the date of acquisition.

**22.2 Dairy Development Project Reserve**

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

**23 DEFERRED TAXATION**

As at 31st March	Group		Company	
	2014 Rs.000's	2013 Rs.000's	2014 Rs.000's	2013 Rs.000's
Balance as at 1st April	79,177	66,542	32,253	29,932
Origination/(Reversal) of temporary differences	(23,856)	12,635	(31,958)	2,321
Balance as at 31st March	55,321	79,177	295	32,253
<b>Deferred Tax - Provision / (Reversal)</b>				
Statement of Comprehensive Income	(22,562)	12,862	(30,586)	2,274
Other Comprehensive Income	(1,294)	(227)	(1,372)	47
	(23,856)	12,635	(31,958)	2,321

## NOTES TO THE FINANCIAL STATEMENTS

### 23 DEFERRED TAXATION (CONTINUED)

The deferred tax liability is attributable to the followings;

Company As at 31st March	2014		2013	
	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect
	Rs. 000's	Rs. 000's	Rs. 000's	Rs. 000's
On Property, plant and Equipment	137,043	38,372	137,497	38,500
On Retirement Benefit Obligations	(29,733)	(8,325)	(22,556)	(6,247)
On tax losses	(106,255)	(29,752)	-	-
	1,055	295	114,941	32,253

Group As at 31st March	2014		2013	
	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect
	Rs. 000's	Rs. 000's	Rs. 000's	Rs. 000's
On Property, plant and Equipment	638,158	113,572	364,898	86,127
On Retirement Benefit Obligations	(36,594)	(9,136)	(24,822)	(6,950)
On tax losses	(299,891)	(49,115)	-	-
	301,673	55,321	340,076	79,177

Deferred tax assets have not been recognised in the Financial Statements of subsidiaries of the Group (Ambewela Livestock Company Limited, Pattipola Livestock Company Limited) since it is not probable that future taxable profits will be available against which the company can utilise the benefit there from. The Deferred Tax Assets have been recognised in the Financial Statements to the extent of deferred tax liability. The unrecorded Deferred Tax Assets of subsidiaries as at 31st March 2014 is Rs. 25,998,061.

### 24 RETIREMENT BENEFIT OBLIGATIONS

As at 31st March	Group		Company	
	2014 Rs.000's	2013 Rs.000's	2014 Rs.000's	2013 Rs.000's
Balance as at 1st April	37,196	31,182	22,556	21,795
Interest cost	4,091	3,458	2,481	2,397
Current service cost	4,406	3,274	2,592	1,476
Actuarial (gain)/loss	7,608	3,080	4,901	(169)
Benefits paid	(3,913)	(3,798)	(2,797)	(2,943)
Balance as at 31st March	49,388	37,196	29,733	22,556

24.1 The total amount charged to total Comprehensive Income in respect of Retirement Benefit Obligation is made up as follows;

Interest cost	4,091	3,458	2,481	2,397
Current service cost	4,406	3,274	2,592	1,476
Expense recognised in Profit and Loss	8,497	6,732	5,073	3,873
Actuarial (Gain) / Loss	7,608	3,080	4,901	(169)
Expense recognised in Other Comprehensive Income	7,608	3,080	4,901	(169)

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 benefit obligation as at the reporting date.

	2014	2013
i.) Discount rate	10%	11%
ii.) Annual salary increment rate	10%	5%
iii.) Retirement Age	55 years	55 years

The calculation of the retirement benefit obligation is sensitive to the assumptions set out above. The following table summarises how the impact on the Retirement benefit obligation at the end of the reporting period would have increased / (decreased) as a result of a change in the respective assumptions by one percent.

	Group Retirement benefit obligation		Company Retirement benefit obligation	
	One percentage point increase	One percentage point decrease	One percentage point increase	One percentage point decrease
Effect on the discounting rate	(1,849)	2,017	(1,128)	1,229
Effect on the salary escalation rate	2,098	(1,960)	1,312	(1,227)

## 25 LOANS AND BORROWINGS

As at 31st March	Group		Company	
	2014 Rs.000's	2013 Rs.000's	2014 Rs.000's	2013 Rs.000's
Term Loans - Secured				
Balance as at 1st April	316,503	96,323	63,645	96,323
Add : Loans obtained during the year	281,642	252,858	-	-
	598,145	349,181	63,645	96,323
Less : Repayments during the year	(32,677)	(32,678)	(32,677)	(32,678)
Balance as at 31st March	565,468	316,503	30,968	63,645
Amount payable within one year	47,671	32,678	30,968	32,678
Amount Payable after one year	517,797	283,825	-	30,967
	565,468	316,503	30,968	63,645

The Company has obtained a term loan of Euro 2.1 Mn.(Rs. 260 Mn.) from DFCC Bank PLC 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. Principle amount is repayable over a period of 8 years in 16 consecutive semi annual instalments 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 of the Company and corporate guarantee by Lanka Milk Foods (CWE) PLC. Interest would be paid 1.25% per annum above the Average Weighted Prime Lending Rate (AWPR) rounded upwards to the nearest 0.5% per annum.

## NOTES TO THE FINANCIAL STATEMENTS

As at 31st March	Group		Company	
	2014	2013	2014	2013
	Rs.000's	Rs.000's	Rs.000's	Rs.000's
<b>26 TRADE AND OTHER PAYABLES</b>				
Trade and Other Payables	183,632	546,098	60,715	174,450
Accrued Expenses	16,524	21,189	8,038	11,186
Outstanding letters of credit	344,248	557,490	344,248	557,490
Unclaimed Dividend	2,915	2,509	2,915	2,509
	547,319	1,127,286	415,916	745,635
<b>27 AMOUNTS DUE TO RELATED PARTIES</b>				
Stassen Exports Limited	65,574	169,626	65,345	169,626
Indo Lanka Exports (Private) Limited	-	-	32,271	36,325
Aitken Spence PLC	2,738	6,293	1,618	2,965
Continental Insurance Lanka Limited	-	2,500	-	1,204
Milford Exports (Ceylon) Limited	2,750	2,750	2,750	2,750
Distilleries company of Sri Lanka PLC	2,048	4,913	14	-
Lanka Bell (Private) Limited	47	55	47	55
	73,157	186,137	102,045	212,925

### 28 COMMITMENTS

#### 28.1 Operating Lease Commitments

In accordance with the agreements entered by the Company and Group Entities, 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 factory and office complex has been constructed.

##### b) Group Entities

Ambewela Livestock Company Limited and Pattipola Livestock Company Limited have annual commitments of Rs.14,629,504/- and Rs.9,926,860/- 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 Commitments

There are no material capital commitments as at the reporting date.



## 29. GROUP STRUCTURE

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

## 30. CONTINGENT LIABILITIES

There are no significant contingent liabilities as at the reporting date, which require adjustments to or disclosures in the financial statements except for the following.

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 Diaries (Private) Limited	HNB	325
Lanka Diaries (Private) Limited	DFCC	535
Ambewela Products (Private) Limited	HNB	150
Ambewela Livestock Company Limited	HNB	60
Pattipola Livestock Company Limited	HNB	60

## 31. EVENTS OCCURRING AFTER THE REPORTING DATE

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

## NOTES TO THE FINANCIAL STATEMENTS

### 32. SEGMENTAL REPORTING

As at 31st March	Powdered milk		Trading		Liquid Milk and Others		Agriculture		Elimination		Group	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	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	1,786,249	2,911,705	659,864	799,298	2,063,322	1,811,616	347,509	328,879	(284,947)	(414,844)	4,571,997	5,436,654
Profit or loss from operation	28,830	209,363	10,650	57,514	44,224	143,543	1,770	27,953	10,865	-	96,339	441,622
Net Finance Cost	(18,561)	(2,487)	(6,857)	(683)	(42,560)	(23,723)	(1,837)	(3,249)	-	-	(69,815)	(30,142)
Income tax (Expenses) / Reversal	29,853	(25,513)	104	(7,003)	(10,715)	(11,189)	(25)	(158)	700	-	21,903	(44,091)
Profit/(loss) for the Year	40,121	181,531	3,898	49,828	(9,051)	108,631	347,442	24,546	-	-	48,427	367,389
Segment Asset	7,646,993	7,557,243	2,824,578	2,074,398	2,430,486	2,256,662	462,487	410,489	(1,777,461)	(1,726,443)	11,587,053	10,572,349
Segment Liabilities	421,820	874,789	166,933	240,122	1,511,886	2,330,281	633,415	578,430	(1,138,288)	(2,076,760)	1,593,853	1,946,860
Segment Net Assets	7,225,173	6,682,454	2,657,645	1,834,276	895,773	(73,616)	(170,928)	(167,938)	(639,173)	314,854	9,970,373	8,590,030
Segment Capital Expenditure	29,312	35,220	10,828	9,668	986,910	677,746	21,604	25,682	-	-	1,048,654	748,315
Depreciation on Property, plant and equipment	21,373	18,543	7,896	5,090	139,767	97,844	10,353	7,843	(3,709)	-	175,680	129,319

### 33. RELATED PARTY DISCLOSURES

#### 33.1 Transactions with Subsidiary Companies

Name of the Company	Name of Common Directors	Nature of Transaction	Amount	
			2014 Rs.	2013 Rs.
Lanka Diaries (Private) Limited	Mr. D.H.S Jayawardena	Service rendered and Others	188,285,425	116,309,423
	Mr. R.K Obeyesekere	Funds Received	320,000,000	240,000,000
	Mr. Zaki Alif	Funds Transfer	180,000,000	240,000,000
	Mr. C.R. Jansz	Service obtained and Others	17,008,528	75,467,075
	Ms. D.S.C. Jayawardena	Dividend Income	-	9,000,000
		Bank Guarantee Provided	860,000,000	885,000,000
Ambewela Livestock Company Limited	Mr. D.H.S Jayawardena	Services rendered	3,105,344	5,158,029
	Mr. R.K Obeyesekere	Services obtained and others	74,227	28,256
	Mr. Zaki Alif	Sales of Milk foods and Energy drinks	455,597	420,949
	Mr. C.R. Jansz	Bank Guarantee Provided	60,000,000	60,000,000
Pattipola Livestock Company Limited	Mr. D.H.S Jayawardena	Services rendered and others	2,006,424	2,798,134
	Mr. R.K Obeyesekere	Sales of Milk foods and Energy drinks	455,597	420,949
	Mr. Zaki Alif	Services obtained and others	227,424	140,455
	Mr. C.R. Jansz	Bank Guarantee Provided	60,000,000	60,000,000
Ambewela Products (Private) Limited	Mr. D.H.S Jayawardena	Loan Interest (Paid)	6,716,442	9,822,583
	Mr. R.K Obeyesekere	Funds Transfer	-	42,550,000
	Mr. Zaki Alif	Funds Received	60,000,000	30,000,000
	Mr. C.R. Jansz	Services rendered and others	70,014,060	47,302,890
	Ms. D.S.C. Jayawardena	Services obtained and others	10,507,345	25,195,134
		Advance Payment	-	1,000,000
		Bank Guarantee Provided	150,000,000	150,000,000
Indo Lanka Exports (Private) Limited	Mr. D.H.S Jayawardena	Funds transfer and interest	5,722,800	7,134,400
	Mr. C.R Jansz	Fund received	2,500,000	47,700,000
	Ms. D.S.C. Jayawardena	Service rendered and others	830,657	513,044
		Bank Guarantees Provided	-	230,000,000

### 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 the Board of Directors of the company and of its parent.

#### a) Loans to Directors

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

#### b) Key Management Personnel Compensation

	Group		Company	
	2014 Rs.000's	2013 Rs.000's	2014 Rs.000's	2013 Rs.000's
Short-term employee benefits	3,715	2,675	3,715	2,675
Post employment benefits	357	285	357	285
	4,072	2,960	4,072	2,960

#### c) Other Transactions with Key Management Personnel

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

### 33. RELATED PARTY DISCLOSURES

#### 33.3 TRANSACTIONS WITH OTHER RELATED COMPANIES

Name of the Company	Name of Common Directors	Nature of Transaction	Amount	
			2014 Rs.	2013 Rs.
Milford Exports Ceylon Limited	Mr. D.H.S Jayawardena	Management Fee	1,000,000	1,000,000
	Mr. R.K Obeyesekere	Director Fee	1,500,000	1,500,000
	Mr. Zaki Alif	Dividend paid	20,139,810	13,426,540
Stassen Exports Limited	Mr. D.H.S Jayawardena	Sale of Milk Foods	14,098,464	14,409,824
	Mr. R.K Obeyesekere	Services Rendered and Others	7,641,634	10,818,914
	Mr. Zaki Alif	Purchases of food items to sell	654,095,898	782,144,109
		Services Obtained and Others	2,743,116	3,153,576
Hatton National Bank PLC	Ms. D.S.C. Jayawardena	Interest Paid	7,535,737	9,185,625
		Interest Received	1,107,222	850,084
		Bank Chargers	171,522	229,820
		Bank Overdraft	9,795,515	29,107,125
Distilleries Company of Sri Lanka PLC	Mr. D.H.S Jayawardena	Sale of Milk Foods	6,151,215	5,972,570
	Mr. R.K Obeyesekere	Dividend Income	108,225,153	108,618,860
	Mr. C.R. Jansz	Dividend Paid	1,145,600	763,733
		Purchases of Goods and Services	1,726,261	2,477,474
Aitken Spence and Company PLC	Mr. D.H.S Jayawardena	Sale of Milk Foods	9,646,272	13,130,604
		Clearing Charges and Others	11,192,879	11,157,540
		Services Obtained and Others	65,944	3,900,199
Lanka Bell (Private) Limited	Mr. D.H.S Jayawardena	Telephone Chargers	939,464	1,003,359
	Mr. C.R. Jansz	Purchases Bell Cards to Sell	92,476,318	58,521,853
Madulsima Plantation PLC	Mr. D.H.S Jayawardena	Sale of Milk Foods	321,901	262,199
	Mr. R.K Obeyesekere	Casual Wages Paid	1,157,808	803,075
	Mr. Zaki Alif			
	Mr. D.S.K. Amarasekera			
DFCC Bank	Mr. C.R. Jansz	Loan Repayment	32,677,564	32,677,564
		Loan Interest Paid	6,716,442	9,822,583
Periceyl (Private) Limited	Mr. D.H.S Jayawardena	Sale of Milk Foods	78,094	54,893
	Mr. R.K Obeyesekere			
	Mr. C.R. Jansz			

## 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.

#### 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	
	2014 Rs.'000	2013 Rs.'000	2014 Rs.'000	2013 Rs.'000
Trade Receivables	372,587	545,373	209,065	364,009
Other Receivables	81,591	102,577	33,787	15,300
Amounts Due from Related Parties	25,723	39,159	874,609	832,193
Cash and cash equivalents	65,539	245,420	49,277	225,740
	545,440	932,529	1,166,738	1,437,242

#### 34.1.1 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.



### 34.1.2 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 2014		31st March 2013	
	Gross Balance	Impairment	Gross Balance	Impairment
	Rs:'000	Rs:'000	Rs:'000	Rs:'000
Past due 0-60 days	327,188	(156)	471,697	(1,414)
Past due 60-180 days	38,716	(189)	65,649	(3,701)
Past due 180-365 days	1,206	(435)	16,011	(2,869)
More than one year	67,873	(61,616)	48,913	(48,913)
Total	434,983	(62,396)	602,270	(56,897)

Company As at	31st March 2014		31st March 2013	
	Gross Balance	Impairment	Gross Balance	Impairment
	Rs:'000	Rs:'000	Rs:'000	Rs:'000
Past due 0-60 days	208,856	-	353,037	(559)
Past due 60-180 days	-	-	10,420	(786)
Past due 180-365 days	338	(129)	3,132	(1,235)
More than one year	31,822	(31,822)	36,692	(36,692)
Total	241,016	(31,951)	403,281	(39,272)

### 34.1.3 Investments

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

### 34.1.4 Cash and Cash Equivalents

The Group held cash and cash equivalents of Rs.65,539,264 as at 31st March 2014 (Rs.245,419,611 as at 31st March 2013) which represent its maximum credit exposure on these assets.

### 34.1.5 Guarantees

The Group's policy is to provide financial guarantees to its subsidiaries. Following represents all the financial guarantees provided by the parent to its subsidiaries as at the reporting date.

Name of the Company	Name of the Bank	Amount of the Guarantee Rs:'000
Lanka Diaries (Private) Limited	Hatton National Bank	325,000
Lanka Diaries (Private) Limited	DFCC Bank	535,000
Ambewela Products (Private) Limited	Hatton National Bank	150,000
Ambewela Livestock Company Limited	Hatton National Bank	60,000
Pattipola Livestock Company Limited	Hatton National Bank	60,000

## NOTES TO THE FINANCIAL STATEMENTS

### 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.

#### Group

As at 31st March

	2014				
	Carrying amount	0-2 months	2-6 months	6-12 months	More than 1 year
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Financial Liabilities (Non Derivatives)</b>					
Trade and Other Payables	547,319	190,106	357,213	-	-
Amounts Due to Related Parties	73,157	40,886	32,271	-	-
Loans and borrowings	565,468	-	15,483	32,188	517,797
Bank Overdraft	303,200	203,200	100,000	-	-
	1,489,144	434,192	504,967	32,188	517,797

#### Company

As at 31st March

	2014				
	Carrying amount	0-2 months	2-6 months	6-12 months	More than 1 year
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Financial Liabilities (Non Derivatives)</b>					
Trade and Other Payables	415,916	69,753	346,163	-	-
Amounts Due to Related parties	102,045	69,774	32,271	-	-
Interest Bearing Loans and Borrowings	30,968	-	15,483	15,485	-
Bank Overdraft	9,796	9,796	-	-	-
	558,725	149,323	393,917	15,485	-

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 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.

### 34.3.1 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;

<b>Group</b>			
<b>As at 31st March</b>		<b>2014</b>	<b>2013</b>
		<b>USD</b>	<b>USD</b>
Trade and Other Receivables		-	78,762
Trade and Other Payables		(2,413,911)	(6,271,211)
Gross statement of financial position exposure		(2,413,911)	(6,192,449)
<b>Company</b>			
<b>As at 31st March</b>		<b>2014</b>	<b>2013</b>
		<b>USD</b>	<b>USD</b>
Trade and Other Payables		(2,600,960)	(4,344,320)
Gross statement of financial position exposure		(2,600,960)	(4,344,320)

The following significant exchange rates were applicable during the year;

	<b>Average rate</b>		<b>Reporting date spot rate</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
USD	126.82	129.53	132.32	128.33

#### 34.3.1.2 Sensitivity Analysis

A strengthening of the LKR, as indicated below, against the USD at 31st March 2014 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.

	<b>Strengthening</b>		<b>Weakening</b>	
	<b>Profit or Loss</b>	<b>Equity</b>	<b>Profit or Loss</b>	<b>Equity</b>
	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
<b>31st March 2014</b>				
USD (10% movement)	31,940,870	31,940,870	(31,940,870)	(31,940,870)
<b>31st March 2013</b>				
USD (10% movement)	79,467,697	79,467,697	(79,467,697)	(79,467,697)

## NOTES TO THE FINANCIAL STATEMENTS

### 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	
	2014 Rs.'000	2013 Rs.'000	2014 Rs.'000	2013 Rs.'000
<b>Variable Rate Instruments</b>				
Financial Liabilities				
Term Loan	(565,468)	(316,503)	(30,968)	(63,645)
Bank Overdrafts	(303,200)	(191,809)	(9,796)	(30,021)
	(868,668)	(508,312)	(40,764)	(93,666)

### 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 and Company's debt to adjusted capital ratio at the end of the reporting period was as follows;

As at 31st March	Group		Company	
	2014 Rs.'000	2013 Rs.'000	2014 Rs.'000	2013 Rs.'000
Total liabilities	1,593,853	1,946,860	588,753	1,114,911
Less:				
Cash and cash equivalents	(65,539)	(245,420)	(49,277)	(225,740)
Net debts	1,528,314	1,701,380	539,476	890,044
Total equity	9,970,373	8,590,030	9,882,818	8,516,730
Net debt to equity ratio	0.15	0.20	0.05	0.10

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



## 34 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 34.5 Fair Value Hierarchy

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1 : Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2 : Valuation techniques based on observable inputs.

Level 3 - Valuation techniques using significant unobservable inputs

#### Financial Instruments carried at Fair Value and Valuation Bases

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized.

As at 31st March 2014

	Group/Company			Total Rs:'000
	Level 1 Rs:'000	Level 2 Rs:'000	Level 3 Rs:'000	
Available for sale investments	7,706,185	-	-	7,706,185
Financial Assets Held for Trading	236,453	-	-	236,453
	7,942,638	-	-	7,942,638

### 34.6 Fair value of Financial Instruments carried at amortized cost

The following table summarizes the carrying amounts and the company's estimate of fair values of those financial assets and liabilities not presented on the Company's Statement of Financial Position at fair value.

As at 31st March 2014

	Group		Company	
	Carrying Amount Rs:'000	Fair Value Rs:'000	Carrying Amount Rs:'000	Fair Value Rs:'000
<b>Assets</b>				
Cash and cash equivalents	65,539	65,539	49,277	49,277
Trade and Other receivables	454,178	454,178	242,852	242,852
Amounts due from Related Parties	25,723	25,723	874,609	874,609
<b>Liabilities</b>				
Bank Overdraft	303,200	303,200	9,796	9,796
Trade and Other Payables	547,319	547,319	415,916	415,916
Amounts Due to Related Parties	73,157	73,157	102,045	102,045
Loans and Borrowings	565,468	565,468	30,968	30,968

## NOTES TO THE FINANCIAL STATEMENTS

### Cash and cash equivalents

The carrying amount of the cash and cash equivalents and balances with banks approximate the fair value as these are short term in nature.

### Trade and other Receivables / Amount due from Related Parties

Trade and other receivables are expected to be settled within one year from the reporting date and hence the discounting impact would be immaterial. Therefore carrying amount approximate the fair value as at the reporting date.

### Trade and other Payables / Amount due to Related Parties

Trade and other payables are expected to be settled within one year from the reporting date and hence the discounting impact would be immaterial. Therefore carrying amount approximate the fair value as at the reporting date.

### Loans and Borrowings / Bank Overdraft

Long term borrowings are repriced either monthly, quarterly or semi annually in line with the changes in the market rates. Hence carrying value of these borrowings approximate the fair value. Other borrowings are short term in nature and hence carrying value approximate the fair value.

### 34.7 Categorization of Financial Assets and Liabilities as at the Reporting Date

Group Financial Instrument	Classification			
	Loans and Receivables	Available for sale investments	Fair value through profit or loss	Held to maturity investment
	Rs:'000	Rs:'000	Rs:'000	Rs:'000
Trade and Other Receivables	454,178	-	-	-
Amount due from Related Parties	25,723	-	-	-
Cash and Cash Equipments	65,539	-	-	-
Available For Sale Investments	-	7,706,185	-	-
Financial Assets Held for Trading	-	-	236,453	-

Financial liabilities	Classification	
	Fair value through profit or loss investments	Amortized cost
	Rs:'000	Rs:'000
Trade and Other Payables	-	547,319
Loans & Borrowings	-	565,468
Amounts Due to Related Parties	-	73,157
Bank Overdraft	-	303,200

## ANALYSIS OF ORDINARY SHARES

### 1 Stock Exchange Listing

The issued ordinary shares of the Company are listed with 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 Composition Ordinary Shareholders

Category	No of Share Holders 31/03/2014	Total Shares 31/03/2014	Percentage (%) 31/03/2014	No of Share Holders 31/03/2013	Total Shares 31/03/2013	Percentage (%) 31/03/2013
Up to -500	2,483	342,866	0.86	2,531	352,728	0.88
501-1,000	332	285,492	0.71	335	288,132	0.72
1,001-5,000	437	1,135,395	2.84	442	1,135,330	2.84
5,001-10,000	110	831,536	2.08	115	856,290	2.14
10,001-50,000	118	2,428,436	6.07	118	2,463,477	6.16
50,001-10,0000	14	1,093,155	2.73	16	1,218,671	3.05
100,001-1,000,000	28	7,043,821	17.61	26	6,834,232	17.09
1,000,000 & Over	4	26,837,299	67.10	4	26,849,140	67.12
<b>Total</b>	<b>3,526</b>	<b>39,998,000</b>	<b>100.00</b>	<b>3,587</b>	<b>39,998,000</b>	<b>100.00</b>

### 3 Analysis of Ordinary Shares

Category	No of Share Holders 31/03/2014	Total Shares 31/03/2014	Percentage (%) 31/03/2014	No of Share Holders 31/03/2013	Total Shares 31/03/2013	Percentage (%) 31/03/2013
Individuals -Local	3,273	6,294,370	15.74	3,336	6,637,047	16.59
Individuals - Overseas	53	432,083	1.08	53	434,137	1.09
Companies - Local	194	26,272,263	65.68	193	26,356,653	65.89
Companies - Overseas	6	6,999,284	17.50	5	6,570,163	16.43
<b>Total</b>	<b>3,526</b>	<b>39,998,000</b>	<b>100.00</b>	<b>3,587</b>	<b>39,998,000</b>	<b>100.00</b>

## TWENTY MAJOR SHAREHOLDERS

### 4 TWENTY MAJOR SHAREHOLDERS

Name	As at 31st March 2014		As at 31st March 2013	
	No. of Shares	% of Issued capital	No. of Shares	% of 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 (PRIVATE) LTD	5,946,351	14.87	5,946,351	14.87
4. WALDOCK MACKENZIE LTD/MR H.M.S ABDULHUSSEIN	1,344,118	3.36	1,344,118	3.36
5. BANK OF CEYLON NO 1 ACCOUNT	775,151	1.94	775,151	1.94
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	619,212	1.55
8. PERSHING LLC S/A AVERBACH GRAUSON & CO.	422,773	1.06		
9. J.B COCOSHELL (PVT) LTD	332,805	0.83	516,158	1.29
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. SAEMA ENAYAT LOKHANDWALLA	280,000	0.70		
13. ASSOCIATED ELECTRICAL CORPORATION LTD	271,855	0.68	352,605	0.88
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. PHILLIP SECURITIES PTE LTD	202,000	0.51		
17. YUSUF HUSSEINALLY ABDULHUSSEIN	201,933	0.50	201,933	0.50
18. DINESH NAGENDRA SELLAMUTTU	183,502	0.46	178,754	0.45
19. ESSAJEE CARIMJEE INSURANCE BROKERS (PVT) LTD	179,569	0.45	175,100	0.44
20. GULAMHUSSEIN MOHSINALLY ABDULHUSSEIN	152,000	0.38	151,500	0.38
SUB TOTAL	32,316,864	80.81		
OTHER SHAREHOLDERS	7,681,136	19.19		
<b>GRAND TOTAL</b>	<b>39,998,000</b>	<b>100.00</b>		

The percentage of shares held by the public as at 31st March 2014 is 34.35%

### 5 DIRECTORS' SHARES

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

### 6 VALUE PER SHARE

		Company	
		2013/2014	2012/2013
Earnings	Rs.	1.10	5.78
Dividend	Rs.	0.00	1.50
Net Assets	Rs.	246.32	212.93

### 7 MARKET VALUE PER SHARE

Highest during the year	Rs.	131.00	126.00
Lowest during the year	Rs.	100.50	75.00
Value as at last trading date (31st March)	Rs.	107.10	108.30

### 8 SHARE TRADING

No. of shares traded during the year		2,166,614	2,070,657
Value of shares traded during the year		253,393,190	225,762,494
No. of days traded		210	199

## TEN YEAR SUMMARY

Ten Year Summary	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>OPERATING RESULT</b>										
Turnover	2,446,113	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
Gross Profit	171,232	514,890	388,821	292,266	547,064	370,366	583,530	424,079	367,007	162,314
Profit before Tax	14,062	263,707	35,846	26,817	309,883	26,817	193,508	148,096	121,413	(35,710)
Taxation	29,957	(32,469)	(31,245)	(10,706)	(107,466)	2,169	(94,722)	(54,406)	(20,679)	3,170
Profit after Tax	44,019	231,238	4,601	16,111	202,417	28,986	98,786	93,690	100,734	(32,540)
Dividends	-	59,998	39,998	-	59,997	-	38,998	29,998	29,998	-
<b>BALANCE SHEET</b>										
Property Plant and Equipment	235,513	244,602	234,319	233,790	194,607	201,177	210,223	212,157	224,705	237,474
Investment	236,453	227,893	208,941	260,152	293,312	313,028	313,028	393,776	374,159	373,654
Current Assets	1,762,864	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
Total Assets	10,471,571	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
Total Equity	9,882,818	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
Non Current Liabilities	30,028	85,776	115,372	141,987	182,632	203,891	244,951	248,456	198,361	55,196
Current Liabilities	558,725	1,029,135	913,329	1,096,042	1,103,719	987,536	1,676,383	895,801	645,553	608,078
<b>RATIOS</b>										
Earnings per shares	1.10	5.78	0.12	0.46	6.75	0.97	3.29	3.12	3.36	(1.08)
Dividend per shares	-	1.50	1.00	-	1.50	-	1.30	1.00	1.00	-
Dividend cover (Times)	-	3.85	2.84	-	4.50	-	2.53	3.12	3.36	-
Price earning ratio (Times)	97.32	18.73	815.00	254.13	12.19	39.33	14.35	12.81	7.82	(17.99)
Total assets to equity (Times)	1.06	1.13	1.49	1.14	1.93	2.01	2.01	0.20	1.80	1.70
Net assets per Share	247.08	212.93	187.24	220.84	34.42	29.36	29.52	277.82	34.95	31.60
Market Value per share (as at 31st March)	107.10	108.30	97.80	116.90	82.25	38.00	47.25	40.00	26.25	19.25
Return on equity	0.45	2.72	0.06	0.18	14.70	2.47	8.37	0.84	9.61	(3.43)
Return on Total Assets	0.42	2.40	0.05	0.16	7.60	1.23	3.18	4.15	5.32	(2.02)
Gross Profit Ratio	7.00	13.87	11.41	9.16	16.78	12.47	18.46	15.07	13.60	7.66
Net Profit Ratio	1.80	6.23	0.14	0.50	37.00	7.83	16.93	3.33	3.72	(1.54)
Current Ratio	3.16	2.23	2.21	1.57	1.09	1.06	1.18	1.42	1.75	1.71
Liquidity Ratio	2.53	1.62	0.67	0.85	1.70	1.60	1.38	1.64	0.98	1.08



# NOTICE OF MEETING

Notice is hereby given that the thirty second (32nd) Annual General Meeting of Lanka Milk Foods (CWE) PLC is convened on Tuesday the 30th of September 2014 at the Committee Room "B" of Bandaranaike Memorial International Conference (BMICH) Hall at Bauddhaloka 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 audited Financial Statements of the Company for the year ended 31st March 2014 with the Auditor's Report thereon.
2. To re-elect Mr. R. K. Obeyesekere 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.
3. 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."

4. 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."

5. To re-appoint KPMG as the Auditors for the ensuing year and to authorize the Directors to determine their remuneration.
6. To authorize the Directors to determine payments for the year 2015, 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  
29th August 2014

#### 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 2014.

# 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 Shaktevale Arinesarajah, or failing him D.S.C.Jayawardena, or failing her .....

.....  
 .....

..... of ..... as .....

my/our proxy represent me/us and to vote for me/us and on my /our behalf at the Thirty second Annual General Meeting to be held on Tuesday, 30th September 2014 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

Signed this ..... day

of ..... 2014

(.....)

*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 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-holding.

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 intend to be authenticated

# CIRCULAR TO SHAREHOLDERS

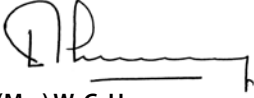
Notice is hereby given to the shareholders that the Thirty Second (32nd) Annual General Meeting of Lanka Milk Foods (CWE) PLC will be convened on Tuesday, the 30th of September 2014 at the Committee Room "B" of Bandaranaike Memorial International Conference (BMICH) Hall at Bauddhaloka Mawatha Colombo 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 license 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 license 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

29th August 2014

## 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 2014 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 2014 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 2014.

# 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 Bauddhaloka Mawatha Colombo 07 at 10.00 a. m. on Tuesday, the 30th of September 2014

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 INFORMATION

The Company	- Lanka Milk Foods (CWE) PLC
Legal Status	- A Public Quoted Company with Limited Liability under the provisions of 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 No.	- 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 Hongkong & Shanghai Banking Corporation Ltd Standard Chartered Bank PLC Commercial Bank PLC DFCC Vardhana Bank PLC

