

FRESH

LANKA MILK
FOODS (CWE) PLC
ANNUAL REPORT
2015/16



SUSTAINABILITY & GOVERNANCE

**OUR PARTNERS IN THE VALUE CHAIN
AND END CONSUMERS ARE AT THE
HEART OF OUR BUSINESS – PG – 25**



MANAGEMENT DISCUSSION & ANALYSIS

**NOURISHING THE NATION BY PROVIDING
HIGH QUALITY DAIRY PRODUCTS – PG – 19**

FRESH

Pure. Healthy. Fresh.

At Lanka Milk Foods we take pride in delivering a top quality range of fine dairy products and other consumables to thousands of loyal customers in Sri Lanka. Today, our brands have become an intrinsic part of family life in homes across the island.

The year under review was a challenging one, yet your company remains positive about our future prospects and we look forward with anticipation to the promise of fresh value we see in the year ahead.

The Lanka Milk Foods Group is in the business of manufacturing, importing, exporting, packing, marketing and distributing powdered milk, dairy products, allied beverages and trading carbonated canned beverages. The group's brands include Lakspray, Ambewela, Daily, My Juicee and BLU.

Lanka MILK Foods (CWE) PLC was incorporated in 1981 and is based in Welisara, Ragama, Sri Lanka.

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Vision

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

Mission

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

VISION & MISSION



ABOUT THE COMPANY

Lanka Milk Foods (CWE) PLC (LMF) is a group of companies which includes five subsidiary organisations. The Group is into importing, packing, manufacturing, marketing and distributing some of Sri Lanka's best known dairy and beverage brands.

The Company's flagship brand "Lakspray" is a household name in Sri Lanka which has nourished generations of Sri Lankans for over 50 years. In addition the company markets many other leading brands including Ambewela, Daily and My Juicee. The company has identified many growth categories within the dairy industry which it will be expanding into.

FINANCIAL HIGHLIGHTS

		Group			Company		
		2016	2015	Change %	2016	2015	Change %
OPERATIONS							
Revenue	Rs. '000	5,048,510	3,952,277	27.74	2,394,015	1,957,046	22.33
Gross Profit	Rs. '000	733,442	310,735	136.04	222,274	63,033	252.64
Profit Before Tax	Rs. '000	119,483	(33,302)	458.78	(37,470)	22,029	(270.09)
Taxation	Rs. '000	1,114	31,571	(96.47)	20,014	46,264	(56.74)
Profit/(Loss) for the Year	Rs. '000	120,597	(1,731)	7,066.90	(17,456)	68,293	(125.56)
Profit Attributable to Equity Holders	Rs. '000	126,988	2,885	4,301.66	(17,456)	68,293	(125.56)
Revenue Per Employee	Rs. '000	6,859.39	5,614.03	22.19	7,849.23	6,501.81	20.73
FINANCIAL POSITION							
Non-current Assets	Rs. '000	9,865,741	11,338,182	(12.99)	8,838,333	10,154,686	(12.96)
Current Assets	Rs. '000	1,790,653	1,968,720	(9.04)	1,567,493	2,038,196	(23.09)
Total Assets	Rs. '000	11,656,394	13,306,902	(12.41)	10,405,826	12,192,882	(14.65)
Total Equity	Rs. '000	10,158,993	11,394,013	(10.84)	10,000,059	11,370,598	(12.05)
Non-Current Liabilities	Rs. '000	556,378	594,848	(6.47)	44,765	38,826	15.30
Current Liabilities	Rs. '000	941,023	1,318,041	(28.60)	361,002	783,458	(53.92)
Net Assets Attributable to Equity Holders	Rs. '000	10,147,173	11,375,802	(10.80)	10,000,059	11,370,598	(12.05)
RATIOS							
Earning per Share (Rs.)		3.17	0.07	4,428.58	(0.44)	1.71	(125.73)
Dividend per Share (Rs.)		1.25	1.25	-	1.25	1.25	-
Dividend Cover (Times)		2.54	0.06	4,133.34	(0.35)	1.37	(125.55)
Interest Cover (Times)		1.79	7.56	(76.33)	0.59	(0.56)	205.36
Net Assets per Share (Rs.)		253.69	284.41	(10.81)	250.01	284.28	(12.06)
Market Value per Share (Rs.)		114.50	140.00	(18.22)	114.50	140.00	(18.22)
Price Earning Ratio (Times)		36.12	2,000.00	(98.20)	(260.22)	81.87	(417.85)
Debt/Equity (%)		13.76	16.06	(14.33)	4.06	7.24	(43.93)
Return on Equity (%)		1.19	(0.02)	6,580	(0.18)	0.60	(130.00)
Return on Total Assets (%)		1.04	(0.02)	5,300	(0.18)	0.56	(132.15)
Gross Profit Ratio (%)		14.53	7.87	84.63	9.29	3.22	188.57
Net Profit Ratio (%)		2.39	(0.05)	4,880	(0.73)	3.49	(120.92)
Current Ratio (Times)		1.90	1.49	27.52	4.34	2.60	66.93
Liquid Ratio (Times)		1.02	0.71	43.67	3.40	1.81	87.85

OUR PRODUCTS

The Lanka Milk Foods (CWE) PLC Group of Companies has built a sustainable business over decades of fine-tuning our products until they reach the right balance between wholesome goodness and nutrition, taste appeal and hygiene.

Lakspray

Lakspray is the pioneer milk powder brand in Sri Lanka, which has nourished the nation for over 50 years. Lakspray, being a natural milk powder produced from 100% pure cows' milk, free of chemical additives and preservatives makes a creamier glass of milk or a teacup enriched with milk proteins, vitamins and minerals. It's far better than any instant milk powder and a close substitute for liquid milk. Lakspray Full Cream Milk Powder is available in a wider pack range from 50 g to 01 kg for a better and wider consumer choice.

Lakspray Non Fat, a natural milk powder with its fat extracted, is available in a 400 g pack to cater to the needs of the health-conscious individual.



Daily



DAILY UHT Treated Flavoured Milk

Daily was the pioneer product in Sri Lanka to be packed using the UHT treatment and aseptic processes and it has become the landmark beverage brand of the country ever since. Daily is celebrating its 20th Anniversary this year.

This flavoured milk is produced using premium quality milk from Ambewela Farms, which is a prime dairy farm complex in Sri Lanka operating under modern farming techniques. The product is shelf stable for six months, under ambient temperature and it's free of artificial additives or preservatives

Daily is available in 200 ml packs of Vanilla, Chocolate, Strawberry, Banana, Iced Coffee & Faluda flavours. A one litre pack is available for the Faluda variant. This range is exported to Maldives and is very popular amongst the Maldivian youth.

Daily ACTIV – UHT Treated Malt Chocolate Food Drink

ACTIV was launched under the brand – 'Daily' 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 great achievement. ACTIV is most famous among the youth and is associated with many of their activities and aspirations.

This 200 ml 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.



My Juicee Fruit Drink

MyJuicee is a ready to drink fruit drink that provides the daily dietary requirements of Vitamin C. It's processed using premium quality fruit pulps and concentrates sourced both locally and internationally, on keeping with international quality standards. The product is aseptically packed under extreme hygienic conditions and is available in Apple, Mango, Mixed Fruit and Orange variants and pack sizes of 200ml, to consume while on the move, and 1 litre as a take home family pack.



Ambewela Dairy Range

The Ambewela brand has become the most established dairy brand in Sri Lanka for its premium quality dairy products produced from the finest cow's milk from our own dairy farms situated in Ambewela where milking is done under strict hygienic conditions, according to the best international dairy practices and highest international dairy standards.

Ambewela Full Cream milk and **Ambewela Non-Fat milk** are UHT processed and aseptically packed in a Tetra brick aseptic pack with a cap to suit the modern lifestyle needs of our liquid milk consumers.

Ambewela UHT flavoured milk is available in 180 ml pouch packs, in chocolate and vanilla flavours.

Ambewela Butter is a 200 g tub introduced to the market in December 2014 and now available in all super markets island wide.



Ambewela Cheese

Cheese is a nutrient dense food and the company has introduced four different types to cater to the diversified requirements of the consumers and the hospitality industry.

In New Zealand Farm - Pattipola, cheese is produced using a more traditional approach and Cheese produced is broadly classified as cottage cheese. The Cheese varieties include Edam, Gouda and Parmesan cheese. Ambewela Gouda can be found in the forms of ball cheese, blocks, grated and shredded types, and varieties of Plain, Chili, Garlic, Cumin and Pepper flavours.

Ambewela Products (Pvt) Ltd (APPL) - Ambewela, produces Cheeses that are into the European palate as APPL caters to the hospitality sector rather than the domestic market. The varieties include cheese blocks of Edam, Gouda and 50 ml Ambewela Spread Cheese cup.



Ambewela Set Yoghurt

Ambewela Yoghurt was introduced to the market in year 2009 as a product extension of the Dairy products portfolio of APPL. It's produced with the highest quality milk sourced from our own dairy farms which gives the product an unparalleled advantage. It has captured the hearts & minds of many consumers due to its superior taste, serene colour, fine texture and nutritive value.

At present the demand outweighs the supply and the production capacity, and the management is focused on building capacity to produce more to cater to ever increasing demand.



BLU Drink

BLU is an internationally acclaimed brand, available in more than 40 countries worldwide. BLU was launched by LMF in Sri Lanka in 2012, and is having an amazing growth in the Sri Lankan market.

It is a product of Poland, 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.

This pasteurized product is available in four variants which includes Regular, Cranberry, Lemon – Lime, and Blu Day in cans of 250 ml.

Ambewela Goat Milk

Ambewela Farms feature an optimum climate for raising healthy goats, which are cared by a dedicated team of veterinary professionals. Ambewela Goat Milk is a ready to drink sterilized product available in a 190 ml bottle.



During the year under review, an increase in demand was experienced for the Group's product range, which reflects the brand acceptance backed by the sound credentials of the Group

63%

Popular flavoured milk Daily, improved its sales by 63% with a 56% increase in cases sold

31%

A rise in fresh milk consumption during the year led to an improved turnover of 31%, mirroring this trend

Ambewela Drinking Yoghurt

Lanka Dairies (Pvt) Ltd (LDL) has introduced a 200 ml pack of vanilla flavoured drinking yoghurt in tetra packing in February 2016. The product contains no preservatives at all, and it is shelf stable for four months without refrigeration.

LDL hopes to introduce additional flavours of the product in future.

Ambewela drinking yoghurt is now available in supermarkets islandwide.



INTRODUCING

CHAIRMAN'S REVIEW

The Group's sustained focus on consolidating its market leadership in the liquid milk and flavoured milk categories resulted in a positive financial outcome in the year under review.



It gives me pleasure to present the Annual Report and the Audited Financial Statements of Lanka Milk Foods (CWE) PLC, the Company and the Group, for the financial year ended 31st March 2016. The Group's sustained focus on consolidating its market leadership in the liquid milk and flavoured milk categories resulted in a positive financial outcome in the year under review.

The Lanka Milk Foods (CWE) PLC Group of Companies recorded an impressive increase in net profit for the 2015/16 financial year, once again demonstrating its resilience. The strategic decision to consolidate our strengths by way of expanding both the UHT plant of Lanka Dairies (Pvt) Ltd and the yoghurt manufacturing plant in Ambewela Products (Pvt) Ltd proved a judicious one, as far as sustaining profitability is concerned.

Our stakeholders will be proud to note that the Group is earning a reputation as one that nourishes the nation and is an ethically-run business that provides safe, hygienic and wholesome products to the people of Sri Lanka, as the market leader in quality liquid milk.

However, the year under consideration was not without its set of hurdles. The prevailing challenges in the milk powder sector continued to persist as global prices

too witnessed an upward trend, posing an obstacle for this segment of the business, mostly due to the increase in foreign exchange value.

Although the 2015/16 year-end demonstrated a slight positive trend of CIF prices coming down, we expect it will become time before world prices decline. As a result, we have been forced to adopt a 'wait and watch' strategy, much against our will.

Ambewela Products (Pvt) Ltd is poised as a modern factory that processes and packs milk and milk related products especially Ambewela Yoghurt, which has the preferred brands for discerning customers who seek nothing but the best quality for their loved ones. Apart from fresh and flavoured milk, the company's product diversification strategy into cheese and butter is delivering good results, and as the year under review witnessed an increase in sales of these new categories as well, Ambewela brand has now become a household name.

We are delighted to note that the habit of consuming fresh liquid milk is on the rise and we take pride in being one of the driving factors. The freshness, hygiene and delicious taste of Ambewela fresh milk has converted many consumers habituated to drinking milk powder to switch to Ambewela fresh milk. We are proud to take the credit

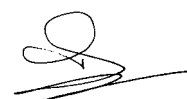
for this. Lanka Milk Foods (CWE) PLC and its subsidiaries are leveraging on this lifestyle change by enhancing capacity to cater to the rapidly-growing demand. The Company has earned a reputation for quality milk.

Lanka Dairies (Pvt) Ltd can lay claim to the most modern machinery to process and pack liquid milk. In addition to the milk and milk allied products, the product range also includes fruit juices, which are experiencing a steady growth despite severe competition from imported brands. Lanka Dairies (Pvt) Ltd is proud to introduce the 200 ml Ambewela Yoghurt Drink which has become a great success from its initiation.

Ambewela Dairy Farm & New Zealand Dairy Farms continue to do good work in dairy farming, adopting best practices in managing the farms. Our dairy livestock, which consists of imported breeds of cows, ensures high yield and excellent quality of milk. The Group places great emphasis on strict monitoring of the entire value chain, from superior animal feed to all veterinary services improve their yield while maintaining quality. Despite our market leadership, we remain focused on improving systems and processes to sustain our commitment to the people of the nation.

Acknowledgements

I take this opportunity to thank my fellow directors of the Board for their support. The senior management and the entire team have made an exceptional effort in sustaining profitability for the Group as a whole. Our shareholders and customers too need to be appreciated for their loyalty and commitment to the company. The Board has recommended a final dividend of Rs. 1.25/- per share for approval at the Annual General Meeting for the year under review.



D H S Jayawardena

Chairman

29th July 2016

CONTINUED FOCUS ON QUALITY AND NATURAL GOODNESS

DIRECTOR'S REVIEW

The LMF Group recorded a favourable profit after tax amounting to Rs. 120.6 Million for the year compared to the loss of Rs.1.7 Million in the preceding year. The Group earned revenues of Rs. 5,048 Million during the financial year under review, delivering a Group Gross Profit of Rs. 733 Million.

AN UNWAVERING COMMITMENT TO CREATING VALUE

Despite challenging market conditions, Lanka Milk Foods (CWE) PLC Group was able to deliver an enhanced performance in the 2015/16 financial year by achieving a profit of Rs. 120.6 Million compared to the loss of Rs. 1.7 Million recorded in the preceding year. Our renewed emphasis on investing in technology, talent and infrastructure has helped us progress toward our goals. Our management team and employees have built an exceptional organisation that is one of the most trusted and respected corporate entities in the country, which fills me with tremendous pride.

During the year under consideration, we continued to invest in the future of the company, its customers, and the community

that support our business. The successful implementation of ambitious expansion at our Ambewela and Welisara dairy plants has driven great success for all our brands. I am proud to state that many products from our company have acquired a majority share of the market and that their superior quality has helped raise the benchmark for the rest of the dairy industry.

The LMF Group recorded a favourable profit after tax amounting to Rs. 120.6 Million for the year compared to the loss of Rs.1.7 Million in the preceding year. Lanka Dairies (Pvt) Ltd and Ambewela Products (Pvt) Ltd were key contributors to the heightened performance, recording a turnover of Rs. 1,905 Million and Rs. 1,228 Million respectively in the year under

review, as against Rs. 1,326 Million and Rs. 955 Million in the previous year. The Group earned revenues of Rs. 5,048 Million during the financial year under review, delivering a Group Gross Profit of Rs. 733 Million. The company's diversified portfolio and prudent cost management has helped drive profitability for the Group during the period.

Financial Overview

During the year under review, an increase in demand was experienced for the Group's product range, which reflects the brand acceptance, backed by the sound credentials of the group. Many of the products were able to grow their market share and the strengthening of the distribution network further helped to

accelerate visibility of and access to the product range. Lanka Dairies (Pvt) Ltd posted a turnover growth of Rs. 579 Million and recorded Rs. 37.6 Million profit after tax compared to a loss of Rs. 61 Million in the previous year. This was mainly due to the increased sales as a result of growing demand for quality liquid milk products. Popular flavoured milk, Daily (200 ml) improved its sales by 63%, with a 56%

increase in cases sold. There was also a rise in fresh milk consumption during the year and Ambewela Fresh Milk mirrored this trend, improving its turnover by 31%. The My Juicee brand garnered a wider customer base, with the product recording 42% growth over the preceding year.

The group had embarked on fresh milk, flavoured milk, butter, yoghurt, cheese and

drinking yoghurt production by leveraging on strategic promotions in each product line, which has helped to boost sales and revenue growth in the dairy sector and holds much promise to growth in these segments.

Similarly, Ambewela Products (Pvt) Ltd recorded a profit of Rs. 111 Million against a loss of Rs. 5.8 Million in the preceding year mainly due to the increased sale of



Ambewela Yoghurt coupled with efficient cost management practices. Despite enhancing its yoghurt production facility, the company was unable to meet the steep demand for its high quality Ambewela Set Yoghurt, eventually closing the financial year under consideration with a turnover growth of 37%. We envision great potential to grow market share in this segment and will continue our marketing and promotional efforts to achieve our ambitious targets.

The company continues to nurture its legacy of innovation. The Ambewela Drinking Yoghurt introduced by Lanka Dairies (Pvt) Ltd during the year has proven the success of the Ambewela brand, judging by the market acceptance and accomplishment by way of sales during the short phase after introduction.

Lanka Milk Foods (CWE) PLC, which distributes Lakspray milk powder experienced a turnover increase of 14% over the previous year. The Company recorded a Gross Profit of Rs. 222 Million compared to Rs. 63 Million last year. Despite

Snapshot of 2016...

The group embarked on fresh milk, flavoured milk, butter, yoghurt, cheese and drinking yoghurt production by leveraging on strategic promotions in each product line, which has helped to boost sales and revenue growth in the dairy sector

AMBEWELA PRODUCTS (PVT) LTD

Ambewela Products (Pvt) Ltd recorded a profit of Rs. 111 Million against a loss of Rs. 5.8 Million in the preceding year mainly due to the increased sale of Ambewela Yoghurt coupled with efficient cost management practices.

AMBEWELA DRINKING YOGHURT

Introduced during the year, this product has proven the success of the Ambewela brand, judging by the market acceptance and accomplishment by way of sales during the short phase after introduction.

MY JUICEE RANGE.

The My Juicee brand garnered a wider customer base, with the product recording 42% growth over the preceding year.

The company continues to nurture its legacy of innovation. Built upon the pillars of nutrition, taste and quality, the LMF Group of Companies always does its best to deliver the highest quality and freshest milk to our consumers.

this, the company recorded a loss of Rs. 17 Million due to the decreased market value of investments, foreign exchange losses, increased operational costs and the selling price held stagnant for many years as controlled by Consumer Affairs Authority.

Meanwhile, the Ambewela Livestock Co. Ltd recorded a loss due to increased operational cost, mainly due to the increased cost of feed for the cattle. Pattipola Livestock Co. Ltd recorded a profit of Rs. 12.4 Million compared to a loss of Rs. 2 Million in the previous year as a result of enhanced and more efficient cost management methods. These dairy farms continue to support milk production for the Group's fresh milk and milk products, thereby making a significant contribution.

Sustainable Growth Aspirations

Apart from ensuring that we offer reasonable returns to shareholders, the company is also focused on sustainable manufacturing and ensures its employees and local communities are enriched by their interaction with the company. I am proud to declare that the LMF share performed strongly on the stock exchange, fluctuating between the ranges of Rs.180/= and Rs.110/=.

Our employees and communities in which we operate have been positively impacted by our caring initiatives. We believe that a happy workforce experiences more rewarding personal and professional lives, which is encouraged by the company.

The company adopts the highest animal husbandry and dairy farming practices by



taking steps to enhance cow comforts and veterinary services of our farms to the best international dairy farming standards. This enables us to improve our high quality milk supply and further results in improved contribution to the local liquid milk sector.

A Promising Future

Although the economic growth was slightly lower than what was achieved in the preceding year, the consumption-led nature of the financial year under consideration helped us deliver better financial results. Our products experienced a rise in demand

partly fuelled by greater purchasing power. The reduction in electricity tariffs and fuel and gas prices and the increase in public sector salaries further augmented the situation.

The horizon seems unending for the LMF Group despite some insurmountable hurdles. As mentioned in last year's annual report, the shortage of high quality raw milk to meet the increasing liquid milk demand continues to pose a challenge to meeting the needs of the sector. The Group is committed to marching towards its vision of making the nation self-sufficient in fresh milk.

Built upon the pillars of nutrition, taste and quality, the LMF Group of Companies always does its best to deliver the highest quality and freshest milk to our consumers.

Appreciation

I wish to express my gratitude to the Chairman and the Board of Directors for their guidance and support. I place my appreciation also to our shareholders for placing their confidence in us and to the management team and all employees for their unstinted dedication despite the many challenges that have come our way during the year. We look forward to next year with great optimism for envisaged improvements



We have realised that some of these challenges will be ongoing in the years ahead and have taken sufficient measures to safeguard the Group from being impacted to the greatest extent possible through product diversification, enhanced production capacity and strategic positioning, backed by the sound credentials of the LMF Group.

in the dairy sector. With a renewed focus on adding value to our products and to our stakeholders, we remain steady to grasp the opportunities and challenges of the ever-changing dairy market.

D. S. C. Jayawardena

Director

29th July 2016

Towards Sustainable Growth

During the year under consideration, we continued to invest in the future of the company, its customers, and the community that support our business.

Sustainable Manufacturing Practices

We focus on sustainable manufacturing and ensure our employees and local communities are enriched by their interaction with the company.

A Vision for the Nation

The Group is committed to marching towards its vision of making the nation self-sufficient in fresh milk.

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.

Mr. D. H. S. Jayawardena

Chairman



Mr. Harry Jayewardena is a business magnate who heads many successful enterprises in diversified fields of business arenas. He is the Founder Director and current Chairman/Managing Director of the Stassen Group of Companies – a premier conglomerate operating in export and import trade.

He is also the Chairman of 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., Milford Holdings (Pvt) Ltd., Milford Developers (Pvt) Ltd., Milford Exports (Ceylon) (Pvt) Ltd., Ceylon Garden Coir (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., Lanka Dairies (Pvt) Ltd, Ambewela Livestock Company Ltd, Pattipola Livestock Company Ltd, Ambewela Products (Pvt) Ltd, Indo Lanka Exports (Pvt) Ltd., and Bogo Power (Pvt) Ltd.

Mr. Jayawardena is 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. He is presently the Honorary Consul General for Denmark in Sri Lanka.

He is the only Sri Lankan to be honoured with the prestigious “Knight Cross of Dannebrog” by Her Majesty Queen Margrethe II of Denmark, for his significant contribution to the Danish arts, sciences and business life.

Mr. Jayawardena was elected Chairman of Lanka Milk Foods (CWE) PLC in October 2008 after serving as its Managing Director for almost 17 years.

Mr. R. K. Obeyesekere

Director



Mr. Rajpal Obeyesekere serves in the Boards of Pattipola Livestock Company Ltd, Lanka Dairies (Pvt) Ltd., Ambewela Livestock Company Ltd., Stassen Plantations Management Services (Pvt) Ltd and Ambewela Products (Pvt) Ltd.

Ceased to be a Director of Lanka Milk Foods (CWE) PLC with effect from 08th July 2016 and resigned from the Board of the Subsidiary Companies on 1st August 2016.

Mr. C. R. Jansz

Director



A Director to the Board of LMF since 1992. He has many years of experience in the Import/ Export field and services related to international trade including documentation, insurance, banking, and finance.

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

Mr Jansz is a Former Chairman of Sri Lanka Shippers Council and 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. He is a Chevening Scholar and a UN-ESCAP Certified Training Manager on Maritime Transport for Shippers

Ms. D. S. C. Jayawardena

Director



Ms. Sanjivani Jayawardena was appointed to the Board of Lanka Milk Foods (CWE) PLC in 2008.

She is also a Director to 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.

Mr. D. S. K. Amarasekera

Independent Non-Executive Director



Mr. Kamantha Amarasekera is a member of the Institute of Chartered Accountants of Sri Lanka and is an Attorney-at-Law of the Supreme Court of Sri Lanka. He also holds a degree in Business Administration from the University of Sri Jayawardenapura and began his career in the year 1998.

He is an eminent Tax Consultant and the Senior Tax and Legal Partner of Amarasekera & Company, a leading tax consultancy firm in the country.

Mr. Amarasekera was appointed as an Independent Director to LMF in year 2008. He is also a Director of Ceylon Leather Products PLC., Balangoda Plantation PLC., Browns Investments PLC., Eden Hotel

Lanka PLC., Browns Capital PLC., Browns Hydro Power PLC., Kelani Tyres PLC., Madulsima Plantations PLC., Palm Garden Hotels PLC., Environmental Resource PLC.

Dr. A. Shakthevale

Independent Non-Executive Director



Dr. Shakthevale is a Veterinarian cum Agricultural Economist with nearly 45 years of consulting, agricultural planning, project implementation, monitoring, and policy formulation experience. He has served in various positions towards the development, monitoring and administration of numerous agricultural sectors. He has experience working in the public (Agriculture, Livestock, Education and Health sectors) and private sector, central and provincial ministries and also at district levels.

He served as a Secretary at the Ministry of Rehabilitation and Social Service in North East Provincial Council; Additional Secretary (Livestock) at the Ministry of Agriculture and Livestock Development for six years; Board Director for MILCO and NLDB; Project Manager, Millennium Development Goals Project, funded by UNDP; Co-ordinating Secretary (Parliamentary Affairs) to the Minister of Policy Planning and Implementation; Member of the Sri Lanka Independent Finance Commission; President of the Veterinary Council of Sri Lanka. He has worked at FAO and UNDP,

UNHABITAT, Land O'Lakes, Oxfam GD. At present, he is a member of the Executive Council and a member of the General Forum of the Organization of Professionals Association of Sri Lanka and a freelance Consultant in the field of Livestock Development.

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

He is also a Director to Madulsima Plantations PLC, Balangoda Plantations PLC. And KAYPEE International (Pvt) Ltd

Mr. D. Hasitha S. Jayawardena

Non-Executive Director



Mr. Hasitha Jayawardena was appointed to the Board on 11th July 2016.

He serves as a Director in the Boards of Stassen Exports (Pvt) Ltd., Milford Exports (Ceylon) (Pvt) Ltd., Stassen International (Pvt) Ltd., Stassen Natural Foods (Pvt) Ltd., Stassen Foods (Pvt) Ltd., Ceylon Garden Coir (Pvt) Ltd., Milford Developers (Pvt) Ltd., C B D Exports (Pvt) Ltd., Distilleries Company of Sri Lanka PLC., Periceyl (Pvt) Ltd., Melstacorp Ltd., Zahra Exports (Pvt) Ltd. and Mcsen Range (Pvt) Ltd.



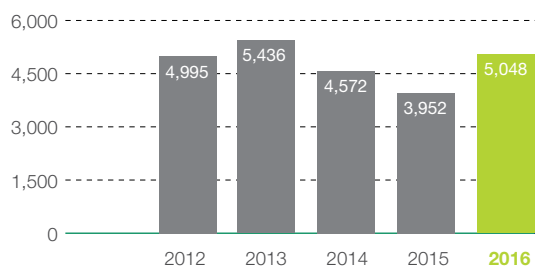
AMBEWELA



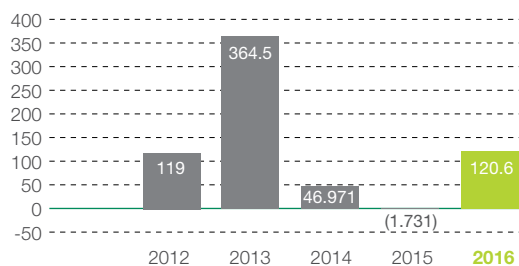
MANAGEMENT DISCUSSION & ANALYSIS

In a bid to strengthen the accessibility of our products and to reward our partners for their contribution to our profitability, the company plans to proactively improve distributor engagement and stakeholder relationships.

Group Revenue (Rs. Mn.)



Profit for the Year - Group (Rs. Mn.)



THE GROUP RECORDED AN IMPRESSIVE INCREASE IN NET PROFIT FOR THE 2015/16 FINANCIAL YEAR.

Overview of Dairy Sector

The increasing trend in total national milk production continued in 2015. Milk production increased by 12.1 per cent to 374 million litres in 2015 compared to the growth of 1.4 per cent recorded in the previous year, owing to favourable producer prices for milk and growing demand for raw milk from milk collectors.

The national average cost of production of milk reduced by Rs. 2.24 per litre to Rs. 32.42 per litre, while the average farm gate price increased by Rs. 7.34 per litre to Rs. 62.00 per litre leading to higher earnings for farmers.

Further, the guaranteed price of milk, which was increased to Rs. 60.00 per litre by the 2015 budget, was increased further to Rs. 70.00 per litre from June 2015.

Since the domestic production of milk is sufficient only to meet around 40 percent of the national requirement, it is vital to further encourage milk production while addressing the remaining bottlenecks. In addition, small scale milk processing should be encouraged because the output of such producers becomes important when prices of powdered milk increase in the international market.

Group Performance

The Lanka Milk Foods (CWE) PLC Group of Companies recorded an impressive increase in net profit for the 2015/16



financial year. This increase was mainly earned by the liquid milk sector, namely Lanka Dairies (Pvt) Ltd and Ambewela Products (Pvt) Ltd. Lanka Dairies (Pvt) Ltd experienced unprecedented demand for its Ambewela Fresh Milk 1 Litre Pack, and the 'Daily' Flavoured Milk Pack. The consumer demand for the above two products is beyond supply due to limited availability of fresh milk of superior quality.

Ambewela Yoghurt, being the best quality yoghurt with the highest consumer demand in the market, was able to earn an unprecedented net profit of over Rs. 100 million for the same period.

Product Performance

Ambewela Milk

Our impressive increase in profit was mainly earned by the liquid milk sector. We experienced unprecedented demand for its Ambewela Fresh Milk 1 Litre Pack, and the 'Daily' Flavoured Milk Pack.



Ambewela Yoghurt

Ambewela Yoghurt, being the best quality yoghurt with the highest consumer demand in the market, was able to earn an unprecedented net profit of over Rs. 100 million for the year.



Ambewela Cheese

Ambewela Cheese produced at Ambewela Products (Pvt) Ltd and Pattipola Livestock Company, has carved out a segment of loyal customers.

The latest product innovations introduced Ambewela Spread Cheese Cup and the Ambewela Butter Cup are also witnessing reasonable growth.



Looking Ahead

A decision has been taken by the management to expand the capacity of the manufacturing plant at Lanka Dairies and Ambewela Products as the current capacity is not sufficient to cater to the increasing market demand for dairy products. The expansion will be achieved within the upcoming year. In a bid to strengthen the accessibility of our products and to reward our partners for their contribution to our profitability, the company plans to proactively improve distributor engagement and stakeholder relationships. A conscious effort will be made going ahead to create greater brand awareness for Lakspray, Daily and Ambewela brands through innovative media campaigns.



Looking ahead...

LANKA MILK FOODS (CWE) PLC

The company has invested substantial resources in upgrading and gearing its operation to capture opportunities as they emerge in the future, notwithstanding the fact that global prices have been a discouraging factor in terms of profitability for the company.

LANKA DAIRIES (PVT) LTD.

We expect the strong growth trajectory to continue over the next few years. We are exploring further export opportunities for these brands and see bright future prospects for the company well into the future.

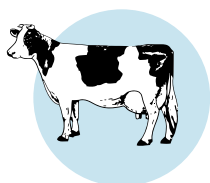
AMBEWELA PRODUCTS (PVT) LTD.

We aim to build on the brand loyalty and popularity in the market by introducing new products in the days ahead.



OUR FOCUS IS ON NOURISHING THE NATION BY PROVIDING HIGH QUALITY DAIRY PRODUCTS WITH EMPHASIS ON SAFETY AND NUTRITION.

A Snapshot of the Dairy Industry during the year



The increasing trend in total national milk production continued in 2015.

12.1%



The guaranteed price of milk, which was increased to Rs. 60.00 per litre by the Budget 2015, was increased further to Rs. 70.00 per litre from June 2015.

Company-wise Performance

Lanka Milk Foods (CWE) PLC

Lanka Milk Foods (CWE) PLC packages and distributes imported whole milk powder and skim milk powder - Lakspray and Lakspray Non Fat. It also distributes the BLU energy drink. The company was unable to earn profits during the year under review due to the increased import duty, the Consumer Affairs Authority controlled selling price, and the high C.I.F. price of full cream milk powder in the world market, especially during the first half of the financial year under consideration. The situation improved towards the end of the financial year, which is expected to sustain for the next financial year.

Looking Ahead

The company has invested substantial resources in upgrading and gearing its operation to capture opportunities as they emerge in the future, notwithstanding the fact that global prices have been a discouraging factor in terms of profitability for the company. We wait anxiously for the

— — — — —

There is no doubt that fresh milk and flavoured milk brands have carved out a lion's share of the market. The rise in consumption of fresh milk as opposed to powdered milk is a welcome trend and has benefitted the Group.

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tide to turn in our favour with the return of stability in global prices of milk powder. In the meantime, we remain committed to maintaining the highest standards in our systems and processes to deliver wholesome goodness for our customers.

Lanka Dairies (Pvt) Ltd.

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 names DAILY and DAILY ACTIV Food Drink; and fruit nectars under the MyJuicee brand.

During the year under review, the company doubled its sales of the Ambewela 1 Litre pack and trebled flavoured milk 'Daily', resulting in a remarkable increase in the turnover which touched Rs. 2 Bn. As a result of this breakout performance, the net profit too increased substantially. There is no doubt that the company's fresh milk and flavoured milk brands have carved out a lion's share of the market. The rise in consumption of fresh milk as opposed to powdered milk is a welcome trend and has benefitted the company.

Our ACTIV brand is making steady headway in the market while the MyJuicee range of juices is holding its own amongst international juice brands. We continue to improve our packaging to provide maximum appeal amongst consumers in keeping with international trends.

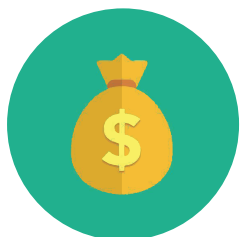
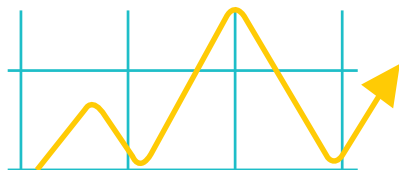
Ambewela Drinking Yoghurt is the newest member who joined the Ambewela family. The product was introduced by LDL in February 2016 in vanilla flavour and hopes to introduce additional flavours in future.



Our Daily Range

A Fresh Start for the Day

Ambewela Products (Pvt) Ltd experienced unprecedented profitability during the period under consideration. The remarkable demand for its flagship brand, Ambewela Yoghurt, resulted in the company recording a turnover of over Rs. 1 billion during the period.



The average milk production of the cows at Ambewela Farms has increased threefold since the privatisation of the farms.



Looking ahead

The company has consistently contributed to a major chunk of the Group's profits and we expect the strong growth trajectory to continue over the next few years. One of the key feedback points received from customers is the perception of hygiene and wholesome taste of our products and we will continue to safeguard and improve this further. We are exploring further export opportunities for these brands and see bright future prospects for the company well into the future.

Ambewela Products (Pvt) Ltd.

Ambewela Products (Pvt) Ltd experienced unprecedented profitability during the period under consideration. The remarkable demand for its flagship brand, Ambewela Yoghurt, resulted in the company recording a turnover of over Rs. 1 Billion during the period. Buoyed by the robust performance, the management took a strategic decision to increase its investment in expanding its production capacity with the addition of the latest machinery which will accelerate its productivity in order to meet the rising demand.

The company also produces Ambewela Cheese which has carved out a segment of loyal customers. The latest product innovations introduced in the previous year, namely, Ambewela Spread Cheese Cup and the Ambewela Butter Cup are witnessing reasonable growth. Ambewela Products also manufactures and distributes UHT milk

in chocolate and vanilla flavours, apart from yoghurt and cheese.

Looking Ahead

We aim to build on the brand loyalty and popularity in the market by introducing new products in the days ahead. The consumption of dairy and dairy related products is on the rise amongst people and we will leverage on this favourable trend by offering the entire range of dairy products under our brand umbrella. Ambewela Set Yoghurt continues to enjoy market leader status and we will continue to reinforce its position by growing sales volumes.

Pattipola Livestock Company and Ambewela Livestock Company

The average milk production of the cows at Ambewela Farms has increased threefold since the privatisation of the farms. The milk so produced is undoubtedly the best in quality of milk produced in Sri Lanka and the Ultra High Temperature (UHT) processing, supported by the Tetra Pak packaging guarantees its nutritional value to the consumers. The farms continue to rear Ayrshire and Friesian breeds of cattle.

Pattipola Livestock Company offers farm excursions for nature lovers and dairy enthusiasts including tourists and the New Zealand Dairy Farm welcomes its visitors with its natural New Zealand like weather and green grazing sceneries. The farm sells, its produces, including home-grown fresh milk, natural cheeses and goat milk at the

Product Performance

ACTIV

Our ACTIV brand is making steady headway in the market.

MyJuicee

The MyJuicee range of juices is holding its own amongst international juice brands.

Ambewela Farms

The average milk production of the cows at Ambewela Farms has increased threefold since the privatisation of the farms. The milk so produced is undoubtedly the best in quality of milk produced in Sri Lanka and the Ultra High Temperature (UHT) processing, supported by the Tetra Pak packaging guarantees its nutritional value to the consumers.

farm outlet, and visitors always remember to taste a glass of fresh warm milk.

Looking Ahead

The BOD and the Farm Management look forward to further enhance the cow comforts and veterinary services of the farms to the best international dairy farming standards. This would enable us to improve our high quality milk supply.

Group Operational Overview

LMF Group has always focused on nourishing the nation by providing high quality dairy products to all with a focus on safety and nutrition. This mission of the Group has steered the prolonged success with our vision to become the most desired entity in the Sri Lankan dairy industry. Our brands have reached the hearts of thousands of households not with excessive marketing gimmicks but with their freshness and goodness.

This year, our marketing and sales initiatives have contributed in no small measure to the accessibility and visibility of our whole product range. We have succeeded in accomplishing the targeted reach of new outlets throughout the island, ensuring that customers can access our products with greater ease.

During the year, our distribution network was expanded with a special focus on Northern, Eastern & Western Provinces. The efficacy of the group's distribution was enhanced in Jaffna, Trincomalee and areas of the deep South. New channels were introduced and existing channels were improved, as a result of which the product range can be accessed at hotels, restaurants, catering services, tea boutiques, schools and other institutions.

A channel-focused distribution system was adopted to improve customer service by providing a consistent supply. Customer service levels were assessed and improved by identifying gaps and steps were taken to

A channel-focused distribution system was adopted to improve customer service by providing a consistent supply. Customer service levels were assessed and improved by identifying gaps and steps were taken to strengthen weak areas.

strengthen weak areas. The route frequency was improved in order to further enhance availability of the entire product range.

Brand awareness efforts were sustained through the period under review to promote visibility for Ambewela Drinking Yoghurt, which is a new product, Lakspray, Daily and Ambewela range.

The group's sales force was strengthened with additional recruitment which enhances the reach of our sales field staff. Continuous performance reviews were carried out at regular intervals to ensure best performance. Staff development programs were initiated and on the job training were provided during the year. These efforts have noticeably served in motivating staff to deliver better results. Restructuring the incentive scheme has encouraged in driving for success for them personally and for the company as a whole. Individuals who performed exceptionally well were recognised and appreciated to heighten motivation. During the period under review, the payment system to suppliers and distributors was enhanced and streamlined to speed up transactions.

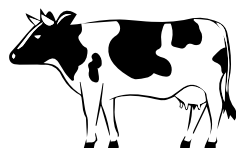


SUSTAINABILITY REPORT

The Lanka Milk Foods (CWE) PLC Group of Companies has built a sustainable business over decades of fine-tuning our products until they reach the right balance between wholesome goodness and nutrition, taste appeal and hygiene. We believe our sustainability goal to be nourishing lives and we try every single day to do this better. Our partners in the value chain and end consumers are at the heart of our business, as are the environment and the community at large, within which we operate. All our actions are taken keeping in mind that our operations should have minimal impact on all these stakeholders. Therefore, while we create value for shareholders, we are also proud to be known as a respected business entity nourishing the nation through sustainable products for health and nutrition.

Stakeholder Engagement

Our stakeholders consist of customers, employees, suppliers and the environment and community at large and we interact with these stakeholder groups on a regular basis. We define as stakeholders everyone who is affected by our business and everyone who affects it. We consider our stakeholders as crucial business partners in our journey towards prosperity. We honour our commitment to these stakeholders through sound business practices that relate specifically to each stakeholder group.



Our stakeholders consist of customers, employees, suppliers and the environment and community at large and we interact with these stakeholder groups on a regular basis. We engage closely with stakeholder groups to understand their concerns and analyse and implement ways in which we can satisfy their demands.

Our operations embody sustainable practices so that we can uphold our commitment to these groups. As a company policy, we engage closely with stakeholder groups to understand their concerns and analyse and implement ways in which we can satisfy their demands.

Employees

Employees are the driving force of the company and we are proud of our reputation of being an employer that values diversity and offers an equitable work culture. Engaged in a people-intensive business such as ours, our people drive the company's goals and objectives. We have ensured an optimal work environment for employees that strike the right balance between personal and professional lives.

During the year, the company focused on ensuring its employees acquired new skills and underwent training, and received effective reward and recognition for their achievements. The company enjoys a low attrition rate and with a loyal and committed workforce.



As of 31st March 2016, the LMF Group provided employment to 736 personnel compared to 704 in the preceding year.

Majority of the total cadre is represented by factory and farmworkers.

Gender ratio is approximately 4:1 (male: female) owing to the high labour intensive work required at the farm and the factory floor.

Total Number of Employees				
	2015		2016	
	Male	Female	Male	Female
Executives	61	4	58	4
Non-Executives	358	29	377	30
Casual /Check Roll	169	83	178	89
TOTAL	588	116	613	123
	704		736	

Training & Development

A culture of learning and development has been nurtured over the years and we encourage employees to take full advantage of training opportunities to improve their competence and achieve career progression. The company's farms are proving to be an 'agricultural and dairy university' for students, who gain practical insights into farming during their pursuit of studies in agriculture.

Occupational Health & Safety

Worker health and safety is uppermost in our minds. The company strives for incident-free operations and to attain this there is strong emphasis on taking

the necessary precautions. Our staff is actively involved in ensuring the absence of injuries and environmental hazards that could impact the workforce. Protective gear is mandatory for workers engaged in specific operations, while the workforce in general is educated on safety and hygiene aspects of the operation. Our products have become reputed for their hygiene and safety standards and we protect this positioning closely by ensuring high standards of cleanliness.

Employee Well-being

Welfare and protection is a valuable tool for the company to bond with employees. The local communities surrounding our factories have benefitted immensely from the company as an important employment creator. By recruiting locally, the company is able to uplift the livelihoods of youth in the area that would otherwise have to migrate to satellite towns in search of gainful employment. Realising the aspirations of its workforce, many of whom hail from rural towns and villages, the company offers a comprehensive bouquet of staff benefits, which ensure an ideal work-life balance for its workforce. Some of

the benefits that employees receive are a comprehensive medical cover for all staff, subsidised 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. Leisure and recreational opportunities are provided regularly to promote further fellowship amongst staff members.

Our Suppliers

Suppliers are vital partners in our journey of providing responsible products and as a result we have a stringent supplier screening process that ensures the highest quality raw material is procured at competitive prices. We also ensure that our suppliers are practicing socially and environmentally responsible methods. The company conducts periodical site visits and ongoing communication with the suppliers to ensure the stability and continuity of business. The company also engages closely with suppliers, for example, the farming community, by extending credit, technical know-how and support to uplift the local dairy industry at the grassroots.

Our Customers

Customers are the inspiration for our products and our operations are directed towards garnering a wider customer base by offering sustainably manufactured products that are safe for consumption. As a result of our stringent quality standards, our brands are found in millions of households. Our ability to recognise and respond to changing customer needs, obtaining the knowledge of customers and engaging with them has a sustainable competitive advantage. Such a mechanism helps us develop our products to meet the changing lifestyle demands of our



Ambewela Fresh Milk

Nourishing Lives

OUR ABILITY TO RECOGNISE AND RESPOND TO CHANGING CUSTOMER NEEDS, OBTAINING THE KNOWLEDGE OF CUSTOMERS AND ENGAGING WITH THEM HAS A SUSTAINABLE COMPETITIVE ADVANTAGE.

consumers, improve our customer relationship management system and deliver a better customer service.

Our state-of-the-art modern manufacturing enables us to deliver high quality products to the market. We have obtained ISO 9001 quality certification for quality management. We continue to adhere to the product labelling requirements specified in the Food Act No. 26 of 1980, the regulations contained in the Food Labelling and Advertising Regulations of 2005 and the Consumer Affairs Authority Act No. 9 of 2003 for all our products. Our products hold appeal across age and income barriers and to grow our share of the market further, a number of focused promotional and marketing activities are held in strategic locations to engage the target group. The company enjoys a social media presence through which it is able to engage with its younger consumers.

Product Responsibility

The company takes a serious view of manufacturing responsible foods and ensures that the factors of safety, nutrition, quality and value are scrutinised and controlled under the most stringent quality standards. As the manufacturers and distributors of dairy and dairy related products, it is vital that our entire operational value chain adopts the highest safety standards as not only are our consumers impacted by our operations, but also farmers and our pasture lands. Our sustainability commitment ensures that



Sustainability at LMF...

PRODUCT RESPONSIBILITY

The company ensures that the factors of safety, nutrition, quality and value are scrutinised and controlled under the most stringent quality standards. Our sustainability commitment ensures that our brands are associated with the highest hygiene and health standards because we exercise controls across our value chain.

EMPLOYEE WELL-BEING

Welfare and protection is a valuable tool for the company to bond with employees. The local communities surrounding our factories have benefitted immensely from the company as an important employment creator.

OUR SUPPLIERS

We ensure the highest quality raw material is procured at competitive prices, and that our suppliers are practicing socially and environmentally responsible methods.

our brands are associated with the highest hygiene and health standards because we exercise controls across our value chain. Clear labelling of all our products enables consumers to make informed decisions. The company has installed a host of quality assurance systems to produce safe products that meet customers' expectations. Looking at another aspect of product responsibility, the company has pioneered low fat options for health conscious consumers so as to promote awareness about lifestyle diseases such as high cholesterol, heart disease and diabetes, which are on the rise in Sri Lanka. As a responsible and ethical entity, we would like to guide the future generations to make the right food choices.

Quality Assurance

The company has acquired a range of internationally recognised Quality Management System (QMS) standards which span all the critical processes from the point of sourcing to the storage of finished goods. We operate advanced fully equipped chemical and microbiological laboratories to test samples before they are released for processing. The Quality Assurance Division controls all aspects of quality and maintenance of environmental, hygiene and sanitation standards. We also operate our own laundry, water purification and janitorial services so as to maintain stringent control over hygiene of the processes.

On the farms, the company adopts international cattle rearing practices for its European breeds, Ayrshire and Friesian, selected for their capacity to produce large quantities of milk. Every aspect from cattle feed to health of the cattle is monitored by professional agriculturalists. In terms of packaging of products, we can lay claim to one of the most modern packaging plants with automated packing systems for optimum hygiene.

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By operating closely with surrounding communities in the vicinity of our factories, we strive to provide them with a better standard of living by contributing to social, health and educational causes.

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Community

Communities are at the heart of our business and our commitment is built on genuine interaction with all stakeholders. We value our relationships with the community at large and maintain the support of the local communities where we operate. We take a long-term approach to listening and responding to the needs of our stakeholders, and contributing to the development of communities through targeted investments. Our community engagement process is very involved and has resulted in a perception of a company that delivers valuable service to every level of the economic and social pyramid. By operating closely with surrounding communities in the vicinity of our factories, we strive to provide them with a better standard of living by contributing to social, health and educational causes.

CSR Initiatives in 2015/16:

Facilitating Pilgrims: The Company embraces cultural and religious diversity and engages with the local community in various events that bring people together on a common platform. We continued

CSR Initiatives

FACILITATING PILGRIMS:

The Company embraces cultural and religious diversity and engages with the local community in various events that bring people together on a common platform.

NOURISHING YOUNG LIVES:

The Company sustained its practice of providing nutritious milk to children from underprivileged schools in order to promote their health and well-being.

PROMOTING SCHOOL TRIPS:

The Company welcomes school trips to the factory to familiarise children with the milk production process while emphasising the importance of consuming milk and milk products.

SUPPORTING THE UNDERPRIVILEGED:

The Company provided free refreshments and nourishment to residents of welfare homes for the aged and underprivileged, donating generous rations of milk powder.



EVERY ASPECT OF OUR OPERATIONS IS RENDERED SUSTAINABLE BY ENSURING RECYCLING AND RENEWAL TO THE GREATEST EXTENT POSSIBLE.

our practice of distributing free milk for devotees of all faiths during religious events and occasions at various places of worship during the year.

Nourishing Young Lives: The Company sustained its practice of providing 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 benefitted through our practice of distributing milk and milk products.

Promoting School Trips: The Company welcomes school trips to the factory to familiarise children with the milk production process while emphasising on the importance of consuming milk and milk products. This is an ongoing feature through the year and free milk and milk products are supplied to the children when they tour the factory premises.

Supporting the Underprivileged: The Company provided free refreshments and nourishment to residents of welfare homes for the aged and underprivileged, donating generous rations of milk powder. The company has been engaged in this practice for the last 17 years.

Making a Difference at the Grassroots: The Company's sustainability commitment compels it to improve the livelihoods of the farming community by enhancing their knowledge on improving yield and quality of fresh milk so that they can raise their earnings. Farmers are provided technical know-how and information on the latest



cattle rearing practices. Farmer communities are also educated on hygiene and sanitation practices in order to ensure products of the highest quality.

Environment

Environmental sustainability allows for the needs of man to be met without jeopardising the ability of future generations to meet their needs. This realisation has inspired us to adopt sustainable dairy farming techniques that protect the environment and minimise any harmful impacts. The company practices a variety of international dairy farming practices that give priority to the preservation and long term sustenance of nature. An effective waste water treatment plant ensures that all water in the production process is treated before being released into the environment. By treating waste water effluents before releasing them into the environment, we ensure that we minimise any inadvertent instances of environmental pollution in any way.

As the market leader in the dairy sector, we feel that the group should take ownership of demonstrating environmental stewardship. Every aspect of our operations is rendered sustainable by ensuring recycling and renewal to the greatest extent possible. Dairy farming is a source that future generations have to benefit from and towards that end we intend to ensure that our farms remain productive far into the future.

Our packaging operation too, uses aseptic recycled packaging material. Further, disposal of solid waste is conducted in a controlled manner to ensure it is disposed of in the optimum way. Our self-burning incinerator for solid waste has proven to be an eco-friendly method to dispose waste. The water effluent treatment plant at Lanka Dairies (Pvt) Ltd., recycles water for safe reuse of water on the plant premises, thereby protecting the environment.

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 39-41.

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.

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 and Mr. D. Hasitha S. Jayawardena with effect from 11th July 2016.

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

The Board comprises of the following Directors

Name of the Director	Status
Mr. D. H. S. Jayawardena	Chairman
Mr. R. K. Obeyesekere	Director (Ceased to be a Director from 8th July 2016)
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
Mr. D. Hasitha Stassen Jayawardena	Non-Executive Director (With effect from 11th July 2016)

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

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

The report of the Remuneration Committee is given on page 38.

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 37.

Compliance Report

The Directors confirm that to the best of their knowledge, all taxes and duties are paid by the Company. All contributions,

levies and all taxes payable on behalf of the employees of the Company, and also all other statutory duties as at the Reporting Date have been paid on behalf of the Company.

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)	Non Executive Directors Two or at least one third of Non-Executive Directors which ever higher should be independent	Complied	Three out of six Directors are Non-Executive Directors
7.10.2(a)	Independent Directors Two or one third of Non-Executive Directors which ever higher should be independent	Complied	Two of the Non-Executive Directors are Independent.
7.10.2(b)	Independent Directors' Declaration 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)	Disclosure Relating to Directors Names of Independent Directors should be disclosed in the Annual Report	Complied	The names of the Independent Directors are provided on pages 16 - 17 of the Annual Report.
7.10.3 (c)	Disclosure Relating to Directors A brief resume of each Director should be included in the Annual Report including the area of expertise.	Complied	A brief resume of each Director is provided on pages 16 -17 of the Annual Report.

Disclosure Regarding the Remuneration Committee			
Rule No	Applicable requirement	Compliance Status	Details
7.10.5	Remuneration Committee Listed Company shall have Remuneration Committee	Complied	The Remuneration Committee comprises of Mr. D.S.K Amarasekera and Dr. A. Shakthevale
7.10.5 (a)	Composition of the Remuneration Committee * Shall compromise of Non-Executive directors a majority of whom will be Independent * The Chairman of the Committee shall be a Non-Executive Director.	Complied	Please refer page 38.
7.10.5 (b)	The functions of the Remuneration Committee The Remuneration Committee shall recommend the remuneration payable to the Board and the executive officers.	Complied	Please refer page 38 of the Annual Report
7.10.5 (c)	Disclosure in the Annual Report The Annual Report should set out; 1. Names of Directors in the Remuneration Committee 2. Statement of remuneration policy 3. The aggregated remuneration paid to Executive and Non-Executive Directors	Complied Complied Complied	Please refer page 38 of the Annual Report Please refer page 38 of the Annual Report Please refer page 60 of the Annual Report

Content Under The Audit Committee			
Rule No	Applicable requirement	Compliance Status	Details
7.10.6 (a)	Composition of the Audit Committee One Non-Executive Director shall be appointed as the Chairman of the committee. Chief Executive Officer and Chief Financial Officer should attend Audit committee meetings. The Chairman of the Audit Committee or one member of a professional accounting body. Shall comprise of Non Executive Directors a majority of whom will be Independent	Complied	Please refer page 37 of the Annual Report
7.10.6 (b)	Audit Committee functions Should be as outlined in the section 7.10.6(b) of the listing rules	Complied	Please refer page 37 of the Annual Report
7.10.6 (c)	Disclosure in the Annual Report relating to the Audit Committee 1. The Names of Directors in the Audit Committee 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	Complied	Please refer page 37 of the Annual Report

ENTERPRISE RISK MANAGEMENT

Risk Management can be viewed as a fundamental pillar on which companies build their corporate strategy. This should be transparent and comprehensive enough to ensure long term sustainability of the operations of a business. Failing to address its risks properly might prompt entities to face even greater risks as a result. Therefore every vulnerability, probability, threat and weakness needs to be carefully addressed to ensure that risk in any venture is mitigated to the best of the capabilities of the corporation.

Lanka Milk Foods (CWE) PLC, (LMF) applies 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 mitigation activities are presented here in the areas of operations, financial reporting and compliance with applicable laws and regulations.

Administrative Support for Managing Risk

Here at LMF, 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.

Our Aspiration

To promote a culture of Risk Management to help the Enterprise maintain the provision of quality products while ensuring appropriate relationships with our customers and other stakeholders.

Legal Function

The Group's centralised 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 are taken to ensure full compliance with statutory requirements.

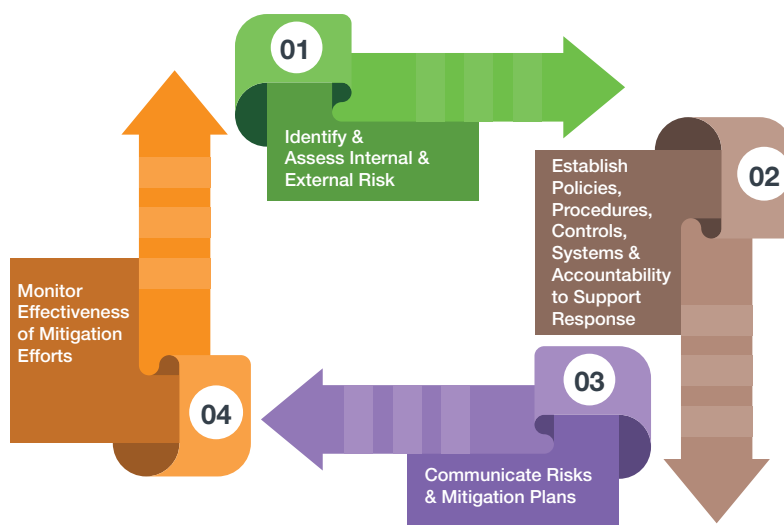
Financial Reporting Function

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.



Risk & Implication	Mitigation Activities
FINANCIAL RISKS	
Interest Rate Risk	
<p>This is the risk of exposure of an entity's financial condition in to adverse movements in interest rates.</p>	<ul style="list-style-type: none"> • Striking a balance between short term vs long term borrowings and fixed vs floating rate borrowings. • Negotiating with banks and financiers. • Monitoring interest rates and socioeconomic circumstances to create accurate forecasts. • Assessing the impacts of movements of interest rates on financial statements
Foreign Exchange Risk	
<p>This is the risk of an investment/ receivable/ payable's value changing due to changes in the foreign currency exchange rates.</p>	<ul style="list-style-type: none"> • Monitoring exchange exposures and leading or lagging payments/ receipts. • Being thoroughly familiar to the frequent changes seen in foreign currency rates with our bankers • Monitoring local and international events and news related to economics which can impact to exchange rates
Liquidity Risk	
<p>This relates to not having sufficient funds to meet the financial commitments in a timely manner. This refers to both short term cash flow risk and long term funding risk.</p>	<ul style="list-style-type: none"> • The Company regularly reviews its liquidity position and ensures its ability to generate adequate funds for operations, financing activities and investments. • Projected borrowings are covered by committed facilities and a healthy industry related gearing ratio is maintained. • Enhanced banking facilities and financial assistance obtained through our excellent relationship management with related institutions provide us with more strength in this area.
Credit Default Risk	
<p>This is the risk of losses arising from a debtor being unable to meet his obligations in full or the debtor is overdue for more than an agreeable period.</p>	<ul style="list-style-type: none"> • Covering the financial commitment of each party in financial transactions through bank guarantees and cash deposits for certain order levels • Structured approval levels for credit limits for each customer • Periodical evaluation of customers • Supervision and recovery procedures on overdue amounts and legal procedures for long outstanding amounts.
Investment Risk	
<p>Risk and return go hand in hand and a business must invest and reinvest its returns in order to ensure future growth, expansion and sustainability.</p>	<ul style="list-style-type: none"> • The Group has mainly invested in its dairy farms, the sophisticated modern dairy complex at Ambewela Farms and the expansion project at Lanka Dairies (Pvt) Ltd. With the rapid increase in demand and the government policy to improve the dairy sector, the management is confident that the investments will pay high in time.

Risk & Implication	Mitigation Activities
BUSINESS RISKS	
Scarcity of Raw Material	
<p>Due to seasonal fluctuations in the supply of raw material Company faces challenging circumstances in meeting the market demand.</p> <p>E.g. Raw Cow Milk</p>	<ul style="list-style-type: none"> • Increased number of cows in our own farms ensures a static flow of raw milk for production lines in Ambewela Products (Pvt) Ltd and Lanka Dairies (Pvt) Limited. • Effective supply chain management under competitive circumstances has taken the Group to a beneficial edge. • Effective forecasting and assessing market trends.
Quality Risk	
<p>This is a major risk component to a company that's in the business of food and beverages. Therefore employees of all levels are responsible for the quality of the product.</p>	<ul style="list-style-type: none"> • Proper training and awareness are given to the employees in production of all levels relating to the quality processes of the company and production. • The product and process improvements are implemented and revised periodically to meet the quality goals. • Revision of quality controls methods and testing methods for raw and powdered milk as per local and international standards • Measures are also taken to ensure quality throughout the whole supply chain • Maintaining the world renowned ISO 9001:2008 quality certification awarded for our products.
Natural Events	
<p>Adverse weather conditions may affect reduced consumer demand as well as the natural grazing system in our farms.</p>	<ul style="list-style-type: none"> • Whenever possible measures are taken to mitigate the effect of these natural events on the Group's strategic and operational goals & objectives.
Economic Environment & Government Policy changes	
<p>The Group's business operations are sensitive to the economic conditions such as consumer spending which is affected by the disposable income of the people, inflation, producer price controlling, minimum certified price for raw milk, changing import duties on milk powder.</p>	<ul style="list-style-type: none"> • These conditions are taken into account when purchasing raw materials and in the sales plans.
Compliance, Regulatory and Legal Risks	
<p>This refers to the possible legal actions against the company, compliance and regulatory requirements related risks.</p>	<ul style="list-style-type: none"> • The company always takes preventive measures to mitigate such risks by complying with all the relevant regulations and regulatory matters. • The management frequently review regulatory changes & asses impacts of new requirements over the business. • In case of breaching agreements, the company involves internal and external legal experts to mitigate such risks. • A comprehensive compliance checklist is reviewed periodically.

Risk & Implication	Mitigation Activities
IT RISK	
<p>This includes hardware and software failure, human error, spam, viruses and malicious attacks as well as natural disasters such as fires/ floods etc. It is of immense importance to develop a response plan in an event of crisis through identifying risks to the IT systems and data in order to reduce or manage such risks.</p>	<ul style="list-style-type: none"> • System backups are taken to mitigate software failures and the software's are regularly updated to the latest versions. • Root causes are found and problems fixed in respect of application failures. • Latest anti-spyware and anti-virus protection are installed to protect from virus while firewall & other security controls and passwords are used to prevent hacking and unauthorised intrusions to the computers. • Information security is guaranteed by graduated levels of access rights granted to selected employees depending on their operational needs & level of responsibility.
HUMAN RISK	
<p>This refers to the lack of ability in attracting, retaining, developing and motivating the best employees throughout the Group especially in the middle to senior management level. Losing key personnel and skilled workers for better job prospects abroad.</p> <p>This may impact on the group's ability to deliver its operational and strategic objectives. This may even affect product quality, output, market share and the company's reputation.</p>	<ul style="list-style-type: none"> • Our remuneration packages are benchmarked to ensure that we remain competitive. • Including incentive arrangements where appropriate. • Professional growth avenues. • Responding to grievances and staff complaints. • Providing a wide range of benefits to employees including surgical & hospitalisation cover for all employees, while providing a healthy and pleasant working environment. • Measures taken to retain and minimise casual / temporary labour turnover.
COMPETITION & CONSUMER PREFERENCES	
<p>The risk involved with competition is the risk that arises when competitors reduce the Group's market share and/or drive down margins in specific markets. The changing consumer preferences, lifestyle changes and global trends need to be met to mitigate unfavourable conditions</p>	<ul style="list-style-type: none"> • Improving our product lines. • Focus on brand development. • Ensuring that our prices offer good value. • Building stronger relationships with suppliers. • Ensuring the product quality and focusing on the global trends – healthy lifestyle, liquid milk consumption etc.

REPORT OF THE AUDIT COMMITTEE

Composition

The Audit Committee appointed by and responsible to the Board of Directors comprises of 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 2016 and both members of the Committee attended all these meetings which were also attended by the Finance Manager.

Financial Reporting

The Committee reviewed 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

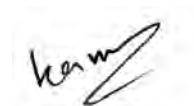
The Internal Audit function of the Company is carried out by the Internal Audit Division and the Audit Committee reviewed the effectiveness of the internal audit plan to ensure that it has been designed to provide reasonable assurance that the financial reporting system adopted by the Company can be 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 2017, 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 policies, and its assets are properly accounted for and adequately safeguarded.



Mr. D. S. K. Amarasekera
Chairman



Dr. A Shakthevale
Director

29th July 2016

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.

Remuneration Policy

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.

Meetings

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



Mr. D. S. K. Amarasekera

Chairman



Dr. A Shakthevale

Director

29th July 2016

ANNUAL REPORT OF THE BOARD OF DIRECTORS

The Board of Directors of Lanka Milk Foods (CWE) PLC has pleasure in presenting the 34th Annual Report together with the Audited Financial Statements of the Company and the Group for the year ended 31st March 2016.

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

The Group is in the business of manufacturing, importing, exporting, packing, marketing and distributing powdered milk, dairy products, allied beverages and trading 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 for the Financial Year

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 Statement, Director's Review and Management Discussion of this report. This report together with the Financial Statements,

reflect the position of the Company.

Financial Statements

The Financial Statements of the Company and the Group for the year ended 31st March 2016 as approved by the Board of Directors on 29th July 2016 are given on pages 46 to 87.

Auditors' Report

The Auditor's Report on the Financial Statements of the Company and the Group 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 presented on the pages 52 to 58.

Results and dividends

For the year ended 31st March	2015/2016	2014/2015
	Rs. '000	Rs.' 000
Profit from operations	270,029	29,412
Profit before tax	119,483	(33,302)
Income tax expense	1,114	31,571
Profit for the year	120,597	(1,731)

In respect of the year ended 31st March 2016, the Directors have declared a dividend of Rs.1.25 per share. (2015 – Rs.1.25 per share)

Stated Capital

The stated capital of the company is Rs. 999,950,000 and it consists of 39,998,000 Ordinary Shares. There was no change in the stated capital during the year.

Reserves

The total Group Reserves as at 31st March 2016 amounted to Rs. 9,147,223 Mn (2014 /15 – Rs. 10,375,852 Mn) The movements of reserves during the period are given under the Statement of changes in Equity on pages 48 – 49.

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 page 62 - 65.

Land Holdings

Details of leasehold land owned by the company are given in Note 12 to the Financial Statements on page 63.

Investments

Details of quoted and unquoted investments made by the Company as at 31st March 2016 are given in Note 14 to the Financial Statements on page 66.

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 88 - 90 under Investor Information.

Employees

The number of persons employed by the Company and Group as at 31st March 2016 was 305 (2014 /15 - 301) and 736 (2014 /15 -704) respectively.

Directorate

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 –17.

Directors' Remuneration

The remuneration of the Directors is given in note 8 on page 60 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:

	As at 31st March 2016	As at 31st March 2015
Mr. D H S Jayawardena	Nil	Nil
Mr. R K Obeyesekere	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
Mr. D. Hasitha Stassen Jayawardena	Nil	Nil

Donations

During the year donations amounting to Rs. 5,000 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 authorise 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 page 33 - 36.

Contingent Liabilities

Except as disclosed in Note 30 to the Financial Statements on page 75, 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

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 30 –32.

Going Concern

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

Annual General Meeting

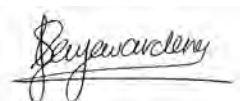
The 34th Annual General meeting of the Company will be held at Sri Lanka Foundation Institute on Monday, 22nd of August 2016 at 10.00 a.m. The Notice of Meeting appears on page 92 of the report.

Signed for and on behalf of the Board of Directors,



Mr. D. H. S. Jayawardena

Chairman



Ms. D. S. C. Jayawardena

Director



Mrs. W. C. Hewage

Company Secretary

Lanka Milk Foods (CWE) PLC

29th July 2016

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 reporting date.

The Board of Directors accepts the responsibility for the integrity and objectivity of the Financial Statements presented. The Directors confirm that proper accounting records and policies have been maintained in the preparation of the Financial Statements which have been prepared and presented in accordance with the Sri Lanka Accounting Standards and comply with the requirements in the Companies Act and the listing rules of the Colombo Stock Exchange. Further, the Directors confirm that the Financial Statements have been prepared on 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 financial statements.

Compliance Report

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

On behalf of the Board of Directors



Mrs. W. C. Hewage
Company Secretary

29th July 2016



FINANCIAL STATEMENTS

The Lanka Milk Foods (CWE) PLC Group of Companies recorded an impressive increase in net profit for the 2015/16 financial year. This increase was mainly earned by the liquid milk sector, namely Lanka Dairies (Pvt) Ltd and Ambewela Products (Pvt) Ltd.

Financial Statements

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Consolidated Statement of Financial Position	47
Consolidated Statement of Changes in Equity	48
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Independent Auditors' Report



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(Chartered Accountants)
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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 statement of financial position as at 31st March 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes set out on pages 46 to 87.

Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31st March 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following;

- a) The basis of opinion and scope and limitations of the audit are as stated above.
- b) In our opinion:
 - We have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.
 - The financial statements of the Company give a true and fair view of its financial position as at 31st March 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
 - The financial statements of the Company and the Group comply with the requirements of sections 151 and 153 of the Companies Act No. 07 of 2007.

Chartered Accountants

29 July 2016
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	P.Y.S. Perera FCA	C.P. Jayatilake FCA
T.J.S. Rajakarier FCA	W.W.J.C. Perera FCA	Ms. S. Joseph FCA
Ms. S.M.B. Jayasekara ACA	W.K.D.C. Abeyrathne FCA	S.T.D.L. Perera FCA
G.A.U. Karunaratne FCA	R.M.D.B. Rajapakse FCA	Ms. B.K.D.T.N. Rodrigo FCA
R.H. Rajan ACA		

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 31ST MARCH	Note	Group		Company	
		2016 Rs.000's	2015 Rs.000's	2016 Rs.000's	2015 Rs.000's
Revenue	5	5,048,510	3,952,277	2,394,015	1,957,046
Cost of Sales		(4,315,068)	(3,641,542)	(2,171,741)	(1,894,013)
Gross Profit		733,442	310,735	222,274	63,033
Other Operating Income	6	352,335	308,967	198,177	183,835
Administrative Expenses		(336,371)	(308,057)	(172,743)	(140,115)
Distribution Expenses		(408,111)	(298,768)	(186,768)	(130,339)
Other Operating Expenses		(71,266)	(42,289)	(6,749)	(4,766)
Profit/(Loss) from Operations		270,029	29,412	54,191	(28,352)
Finance Income		4,383	98,232	807	87,559
Finance Expense		(154,929)	(102,122)	(92,468)	(37,178)
Net Finance (Expense)/Income	7	(150,546)	(3,890)	(91,661)	50,381
Profit/(Loss) Before Taxation	8	119,483	(33,302)	(37,470)	22,029
Income Tax Reversal	9	1,114	31,571	20,014	46,264
Profit/(Loss) for the Year		120,597	(1,731)	(17,456)	68,293
Other Comprehensive Income					
Items that are or may be reclassified to profit or loss					
Net change in Fair value of Available for Sale Investments		(1,302,080)	1,423,556	(1,302,080)	1,423,556
Items that will never be reclassified to profit or loss					
Actuarial Gain/(Loss) on Defined Benefit Obligation(Net of tax)		(3,539)	(5,771)	(1,005)	(4,069)
Other Comprehensive Income/(Expense) for the Year		(1,305,619)	1,417,785	(1,303,085)	1,419,487
Total Comprehensive Income/(Expense)		(1,185,022)	1,416,054	(1,320,541)	1,487,780
Profit/(Loss) Attributable to :					
Owners of the company		126,988	2,885	(17,456)	68,293
Non controlling interest		(6,391)	(4,616)	-	-
Profit/(Loss) for the Year		120,597	(1,731)	(17,456)	68,293
Total Comprehensive Income Attributable to					
Owners of the company		(1,173,202)	1,420,670	(1,320,541)	1,487,780
Non controlling interest		(11,820)	(4,616)	-	-
Total Comprehensive Income/(Expense) for the Year		(1,185,022)	1,416,054	(1,320,541)	1,487,780
Basic Earnings/(Loss) Per Share	10	3.17	0.07	(0.44)	1.71

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 52 to 87.

Consolidated Statement of Financial Position

AS AT 31ST MARCH	Note	Group		Company	
		2016 Rs.000's	2015 Rs.000's	2016 Rs.000's	2015 Rs.000's
Assets					
Non Current Assets					
Property, Plant and Equipment	12	1,584,723	1,789,252	186,883	214,959
Investment in Subsidiaries	13	-	-	755,495	762,244
Available for Sale Investments	14.1	7,827,661	9,129,741	7,827,661	9,129,741
Biological Assets	15.1	385,063	371,253	-	-
Deferred Tax Asset	23	68,294	47,936	68,294	47,742
		9,865,741	11,338,182	8,838,333	10,154,686
Current Assets					
Inventories	16	826,306	1,031,396	339,698	618,716
Biological Assets	15.2	10,245	9,350	-	-
Financial Assets Held for Trading	14.2	247,029	305,929	247,029	305,929
Trade Receivables	17	502,103	465,344	193,650	231,173
Other Receivables	18	67,574	74,187	20,265	17,688
Amounts Due from Related Parties	19	54,298	35,870	730,416	837,739
Income Tax Receivables		38,625	24,297	18,942	11,184
Cash and Cash Equivalents	20	44,473	22,347	17,493	15,767
		1,790,653	1,968,720	1,567,493	2,038,196
Total Assets		11,656,394	13,306,902	10,405,826	12,192,882
Equity and Liabilities					
Equity					
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		7,589,961	8,892,041	7,589,961	8,892,041
Revenue Reserves		1,452,146	1,378,695	1,305,032	1,373,491
Total Equity attributable to Equity Holders of the Company		10,147,173	11,375,802	10,000,059	11,370,598
Non Controlling Interests		11,820	18,211	-	-
Total Equity		10,158,993	11,394,013	10,000,059	11,370,598
Liabilities					
Non Current Liabilities					
Loans and Borrowings	25	384,172	450,984	-	-
Deferred Tax Liability	23	99,778	83,042	-	-
Retirement Benefit Obligations	24	72,428	60,822	44,765	38,826
		556,378	594,848	44,765	38,826
Current Liabilities					
Trade and Other Payables	26	214,414	321,653	68,895	182,721
Amounts Due to Related Parties	27	28,039	17,675	26,022	27,689
Income Tax Payable		1,776	1,021	-	-
Loans and Borrowings	25	66,812	466,812	-	400,000
Bank Overdraft	20	629,982	510,880	266,085	173,048
		941,023	1,318,041	361,002	783,458
Total Liabilities		1,497,401	1,912,889	405,767	822,284
Total Equity and Liabilities		11,656,394	13,306,902	10,405,826	12,192,882

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 52 to 87. 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
29 July 2016
Colombo



D.S.C. Jayawardena
Director

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31ST MARCH Group	Attributable to Equity Holders of the Company						Non-Controlling Interest	Total Equity
	Stated Capital	Revaluation Reserve	Dairy Development Project Reserve	Available for Sale Reserve	Retained Earnings	Total		
	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's
Balance as at 1st April 2014	999,950	105,116	110,000	7,468,485	1,271,581	9,955,132	22,827	9,977,959
Total Comprehensive Income								
Profit/(Loss) for the year	-	-	-	-	2,885	2,885	(4,616)	(1,731)
Other Comprehensive Income								
Net change in Fair Value of Available for Sale Investments	-	-	-	1,423,556	-	1,423,556	-	1,423,556
Actuarial Loss on Defined Benefit Obligation, Net of Tax	-	-	-	-	(5,771)	(5,771)	-	(5,771)
Total Comprehensive income	-	-	-	1,423,556	(2,886)	1,420,670	(4,616)	1,416,054
Dividend Paid	-	-	-	-	-	-	-	-
Balance as at 31st March 2015	999,950	105,116	110,000	8,892,041	1,268,695	11,375,802	18,211	11,394,013
Balance as at 1st April 2015	999,950	105,116	110,000	8,892,041	1,268,695	11,375,802	18,211	11,394,013
Total Comprehensive Income								
Profit/(Loss) for the year	-	-	-	-	126,988	126,988	(6,391)	120,597
Other Comprehensive Income								
Net change in Fair Value of Available for Sale Investments	-	-	-	(1,302,080)	-	(1,302,080)	-	(1,302,080)
Actuarial Loss on Defined Benefit Obligation, Net of Tax	-	-	-	-	(3,539)	(3,539)	-	(3,539)
Total Comprehensive income	-	-	-	(1,302,080)	123,449	(1,178,631)	(6,391)	(1,185,022)
Dividend Paid	-	-	-	-	(49,998)	(49,998)	-	(49,998)
Balance as at 31st March 2016	999,950	105,116	110,000	7,589,961	1,342,146	10,147,173	11,820	10,158,993

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 52 to 87.

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31ST MARCH Company	Attributable to Equity Holders of the Company					
	Stated Capital	Revaluation Reserve	Dairy Development Project Reserve	Available for Sale Reserve	Retained Earnings	Total
	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's
Balance as at 1st April 2014	999,950	105,116	110,000	7,468,485	1,199,267	9,882,818
Total Comprehensive Income						
Profit for the year	-	-	-	-	68,293	68,293
Other Comprehensive Income						
Net change in Fair Value of Available for Sale Investments	-	-	-	1,423,556	-	1,423,556
Actuarial Gain on Defined Benefit Obligation, Net of Tax	-	-	-	-	(4,069)	(4,069)
Total Comprehensive income	-	-	-	1,423,556	64,224	1,487,780
Dividend Paid	-	-	-	-	-	-
Balance as at 31st March 2015	999,950	105,116	110,000	8,892,041	1,263,491	11,370,598
Balance as at 31st March 2015	999,950	105,116	110,000	8,892,041	1,263,491	11,370,598
Total Comprehensive Income						
Loss for the year	-	-	-	-	(17,456)	(17,456)
Other Comprehensive Income						
Net change in Fair Value of Available for Sale Investments	-	-	-	(1,302,080)	-	(1,302,080)
Actuarial Loss on Defined Benefit Obligation, Net of Tax	-	-	-	-	(1,005)	(1,005)
Total Comprehensive income	-	-	-	7,589,961	(18,461)	(1,320,541)
Dividend Paid	-	-	-	-	(49,998)	(49,998)
Balance as at 31st March 2016	999,950	105,116	110,000	7,589,961	1,195,032	10,000,059

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 52 to 87.

Consolidated Cash Flow Statements

FOR THE YEAR ENDED	Group		Company	
	2016	2015	2016	2015
	Rs.000's	Rs.000's	Rs.000's	Rs.000's
Cash Flow from Operating Activities				
Profit/(Loss) before tax	119,483	(33,302)	(37,470)	22,029
Adjustments for;				
Depreciation on property, plant and equipment	227,012	230,269	29,204	31,317
Change in fair value of held for trading investments	58,900	(70,923)	58,900	(70,923)
Provision for impairment of investments in subsidiary	-	-	6,749	4,765
Provision / (Reversal) of impairment of trade receivables	12,750	6,076	11,494	1,809
Gain on disposal of property, plant and equipment	(192)	(74)	(21)	(54)
Gain on disposal of financial assets held for trading	-	(535)	-	(535)
Loss on translation of foreign currency	8,855	-	8,855	-
Provision for retirement benefit obligation	13,001	10,631	7,848	6,201
Provision for obsolete of inventories	2,244	-	2,244	-
Change in fair gain of biological assets	(75,003)	(106,561)	-	-
Loss/(gain) on disposal of biological assets	46,038	(23,483)	-	-
Dividend income	(121,225)	(129,829)	(121,225)	(129,829)
Interest income	(887)	(11,525)	(807)	(1,048)
Interest expense	87,174	102,122	24,713	37,178
Operating profit/(loss) before working capital changes	378,150	(27,134)	(9,516)	(99,090)
(Increase)/decrease in inventories	202,846	(237,139)	276,774	(267,084)
(Increase)/decrease in trade and other receivables	(51,751)	(91,428)	14,597	(7,818)
(Increase)/decrease in related party balances	(8,064)	(65,629)	105,656	(37,486)
Increase/(decrease) in trade and other payables	(107,239)	(225,665)	(113,826)	(233,195)
Cash flows generated from/(used in) operations	413,942	(646,995)	273,685	(644,673)
Interest paid	(87,174)	(102,122)	(24,713)	(37,178)
Income tax paid	(15,496)	(5,680)	(7,905)	(3,333)
Retiring Gratuity paid	(5,518)	(6,836)	(3,305)	(2,759)
Net cash flows generated from/(used in) operations	305,754	(761,633)	237,762	(687,943)
Cash Flow from Investing Activities				
Interest received	887	11,525	807	1,048
Dividend received	121,225	129,829	121,225	129,829
Acquisition of biological assets	(31,784)	(69,557)	-	-
Proceeds from disposal of held for trading investments	-	1,981	-	1,981
Proceeds from disposal of property, plant and equipment	209	396	38	54
Proceeds from sale of biological assets	46,043	141,305	-	-
Purchase and construction of property, plant and equipment	(22,500)	(57,046)	(1,145)	(10,763)
Net cash flows generated from/(used in) investing activities	114,080	158,433	120,925	122,149

FOR THE YEAR ENDED	Group		Company	
	2016	2015	2016	2015
	Rs.000's	Rs.000's	Rs.000's	Rs.000's
Cash Flow from Financing Activities				
Borrowings during the year	-	400,000	-	-
Repayment of borrowings during the year	(466,812)	(47,672)	(400,000)	400,000
Dividend paid	(49,998)	-	(49,998)	(30,968)
Net Cash flows generated from/(used in) financing activities	(516,810)	352,328	(449,998)	369,032
Net increase/(decrease) in cash and cash equivalents	(96,976)	(250,872)	(91,311)	(196,762)
Cash and cash equivalents at the beginning of the year	(488,533)	(237,661)	(157,281)	39,481
Cash and cash equivalents at the end of the year (Note 20)	(585,509)	(488,533)	(248,592)	(157,281)
Note B				
Analysis of cash and cash equivalents at the end of the year				
Cash and cash equivalents	44,473	22,347	17,493	15,767
Bank overdraft	(629,982)	(510,880)	(266,085)	(173,048)
	(585,509)	(488,533)	(248,592)	(157,281)

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 52 to 87.

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 Group as at and for the year ended 31st March 2016 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

The principal activity of the Company is importing, packaging and distribution of milk allied products. Description of the nature of the operation and principal activities of the subsidiaries are given in Note 29 to the Financial Statements.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The consolidated and separate 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 July 2016.

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, which are measured on an alternative basis on each reporting date.

i.	Available-for-sale financial assets	Fair value.
ii.	Defined Benefit Obligation	Actuarially valued and recognised at present value of the defined benefit obligation
iii.	Biological assets	Fair value less costs to sell
iv.	Non derivative financial assets at fair value through profit or loss	Fair value.

No adjustments have been made for inflationary factors affecting the financial statements.

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.

All amounts have been given rounded to the nearest thousand, unless otherwise indicated.

2.4 Use of Estimates and Judgments

In preparing these consolidated and separate financial statements, management has made judgments, estimates and assumptions that affect the application of policies and the 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 judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 March 2016 is included in the following notes.

Note 15	–	Biological Assets
Note 23	–	Deferred Tax Assets; availability of future taxable profit against which tax losses carried forward can be used.
Note 24	–	Retirement Benefit Obligations; key actuarial assumptions
Note 17	–	Impairment Loss; key assumptions underlying recoverable amounts
Note 26 & 30	–	Provisions and contingencies; key assumptions about likelihood and magnitude of an outflow of resources

2.5 Going Concern

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The Group has consistently applied the following accounting policies to all periods presented in these consolidated and separate financial statements.

3.1 Basis of Consolidation

3.1.1 Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised 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 recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed

3.1.2 Non-controlling interests

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

3.1.3 Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

3.1.4 Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted

investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.1.5 Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

3.2 Statement of Financial Position

3.2.1 Property, Plant and Equipment

3.2.1.1 Recognition and Measurement

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

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

3.2.1.2 Subsequent Expenditure

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

3.2.1.3 De-recognition

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

3.2.1.4 Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using straight line method over their estimated useful lives, and is generally recognised in profit or loss. This most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

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 of property, plant and equipment for current and comparative periods are as follows:

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

Buildings on leasehold land are depreciated over the unexpired period of lease. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3.2.1.5 Capital Work in Progress

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

3.2.1.6 Operating Leases

The land occupied by the Group is on 50 years operating lease from the Government of Sri Lanka. Payments made under operating leases are recognised in profit or loss on a straight line basis over the term of the lease.

3.2.1.7 Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss is reversed for other assets except goodwill 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.

3.2.2 Biological Assets

Biological Assets are measured at fair value less cost to sell, with any change therein recognised in profit or loss except Non Perennial Agricultural Crop is stated at its cost incurred on cultivation.

3.2.3 Financial Instruments

The Group classifies non derivative financial assets into following categories: available for sale financial assets, loans and receivables, held to maturity financial assets and financial assets at fair value through profit or loss.

The Group classifies non derivative financial liabilities into other financial liabilities category

3.2.3.1 Non-derivative financial assets

The Group initially recognises loans and receivables and debt securities issued on the date at which they are originated. All other financial assets (including assets designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expires, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Subsequent measurement

(a) Available for sale financial assets

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.

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised in OCI and accumulated in fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

Dividend income was recognised in profit or loss when the Group becomes entitled to the dividend. 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.

(b) Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payment that are not quoted in an active market. These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using effective interest method. These include trade receivables, other receivables, amounts due from related parties, cash and cash equivalents.

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.

(c) Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income, are recognised in profit or loss. These include quoted equity securities.

3.2.3.2 Non-derivative financial liabilities

Other financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

Other financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to the initial recognition, these liabilities are measured at amortised cost using effective interest rate method.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

(a) 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.

(b) Non-Current Liabilities

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

3.2.3.3 Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, Group 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 Group establishes fair value using a valuation technique.

3.2.3.4 Impairment of Financial Assets (Non-Derivatives)

Financial assets not classified as at fair value through profit or loss are assessed at each reporting date to determine whether there is an objective evidence of impairment.

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 or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

Financial assets carried at Amortised Cost

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

Available for Sale Financial Assets (AFS)

Impairment losses on available for sale financial assets are recognised by reclassifying the losses accumulated in the available for sale reserve to profit or loss. The amount reclassified is the difference between acquisition cost (net of any principal repayment and

amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss.

If the fair value of an impaired available for sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale are not reversed through profit or loss.

3.2.4 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.

3.2.5 Retirement Benefit Obligations

a) Defined Benefit Plan – Gratuity

The defined benefit obligation is calculated by using the Projected Unit Credit Method based on the valuation performed by an independent professional actuary as prescribed in Sri Lanka Accounting Standard 19, “Employee Benefits”.

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 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 recognises all actuarial gains and losses arising from the defined benefit 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 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 Group. The liability is not externally funded.

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

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

c) Short term employee benefits

Short term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.2.6 Stated Capital

Ordinary Shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

3.2.7 Provisions

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

3.3 Statement of Profit or Loss

3.3.1 Revenue

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

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

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

3.3.2 Interest Income

Interest income is recognised using effective interest rate method.

3.3.3 Disposal of Property, Plant and Equipment

Gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

3.3.4 Sale of Farm products

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

3.3.5 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 profit or loss.

3.3.6 Other Income

Other income is recognised on an accrual basis.

3.3.7 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 profit or loss, 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.

3.3.8 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.

3.3.9 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.

3.3.10 Income Tax

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

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.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year and any adjustments to the tax

payable or receivable in respect of previous years. It is measured using tax rates enacted at the reporting date.

Deferred Taxation

Deferred tax is recognised in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. Deferred tax relating to items recognised directly in equity is recognised in equity.

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

3.4 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.

3.5 Earnings Per Share

The Group 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.

3.6 Segment Reporting

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

3.7 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 amortisation and the best estimate of the expenditure required settling the obligations.

3.8 Materiality Aggregation

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

3.9 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.

3.10 Comparative Information

The Group 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.

3.11 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.

3.12 Commitments and Contingencies

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

4 NEW 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 April 2016. Accordingly, these Standards have not been applied in preparing these financial statements.

- SLFRS 15 – Revenue from contract with customers

This standard establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 – 'Revenue', LKAS 11 – 'Construction Contracts' and IFRIC 13 – 'Customer Loyalty Programmes'.

SLFRS 15 is effective for annual periods beginning on or after 1st January 2018 with early adoption permitted.

- Sri Lanka Accounting Standard – SLFRS 9 "Financial Instruments: Classification and Measurement

SLFRS 9 – "Financial Instruments: Classification and Measurement" replaces the existing guidance in LKAS 39 - 'Financial Instruments: Recognition and measurement'. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments including a new expected credit loss model for calculating impairment on financial assets.

SLFRS 9 is effective for annual periods beginning on or after 1st January 2018 with early adoption permitted.

	Group		Company	
	2016 Rs.000's	2015 Rs.000's	2016 Rs.000's	2015 Rs.000's
5 REVENUE				
Gross Revenue	5,160,780	4,037,296	2,442,948	1,996,948
Less : Nation Building Tax	(112,270)	(85,019)	(48,933)	(39,902)
	5,048,510	3,952,277	2,394,015	1,957,046
6 OTHER OPERATING INCOME				
Gain on disposal of property, plant and equipment	192	74	21	54
Gain on disposal of Financial Assets Held for Trading	-	535	-	535
Gain on disposal of Biological Assets	566	-	-	-
Change in Fair Value of Biological Assets	75,003	106,561	-	-
Commission Income	66,170	45,809	66,170	45,809
Dividend income	121,225	129,829	121,225	129,829
Sundry Income	79,472	26,159	1,054	7,608
Storage Income	9,707	-	9,707	-
	352,335	308,967	198,177	183,835
7 NET FINANCE EXPENSE				
Finance Income				
Interest on fixed deposits	23	158	23	158
Interest on loans and receivables	377	690	377	690
Interest from Trade Receivables	487	10,677	407	200
Gain on translation of foreign currency	3,496	15,784	-	14,031
Interest on amount due from Related Companies	-	-	-	1,557
Net gain in Fair value of Financial Assets Held for Trading	-	70,923	-	70,923
	4,383	98,232	807	87,559
Finance Expense				
Interest on Bank Overdraft	(38,142)	(30,353)	(15,940)	(12,007)
Interest on long term borrowings	(49,032)	(71,769)	(8,773)	(25,171)
Interest on bills discounting	-	-	-	-
Net loss on change in fair value of Financial Assets Held for Trading	(58,900)	-	(58,900)	-
Loss on translation of foreign currency	(8,855)	-	(8,855)	-
	(154,929)	(102,122)	(92,468)	(37,178)
Net Finance Expense	(150,546)	(3,890)	(91,661)	50,381

	Group		Company	
	2016 Rs.000's	2015 Rs.000's	2016 Rs.000's	2015 Rs.000's
8 PROFIT BEFORE TAXATION				
<i>Profit is stated after charging all the expenses including the followings.</i>				
Directors' Emoluments	6,217	5,755	6,217	5,755
Auditors' Remuneration				
- Audit Services	3,607	3,400	2,310	2,200
- Non Audit services	494	1,080	494	1,010
Impairment of Investment in Subsidiaries	-	-	6,749	4,165
Depreciation on Property, Plant and Equipment	227,012	230,269	29,204	31,317
Lease Rent for Land	28,520	26,612	67	67
Provision (Reversal) for Impairment Loss on Trade Receivables	12,750	6,076	11,494	1,809
Management fees	1,160	1,060	1,160	1,060
Provision for obsolete inventory	-	-	2,244	-
Personnel Costs (Note 8.1)	403,587	320,156	219,602	182,466
8.1 Personnel Costs				
Defined Contribution Plan Costs - EPF and ETF	33,924	21,997	16,539	13,059
Defined Benefit Plan Cost - Retirement Benefit Obligation	13,001	10,631	7,848	6,201
Other Staff Costs	356,662	287,528	195,215	163,206
	403,587	320,156	219,602	182,466
Total Numbers of Employees as at the end of the year	736	704	305	301
9 INCOME TAX				
Income Tax for the year (Note 9.1)	1,923	2,017	147	191
Deferred Taxation Charge / (Reversal) for the year (Note 23.1)	(3,037)	(33,588)	(20,161)	(46,455)
	(1,114)	(31,571)	(20,014)	(46,264)

- 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 profit of the Ambewela Products (Private) Limited, a subsidiary company is exempt from income tax for a period of 10 years from the year of assessment the company commences to make profits or any year of assessment not later than two years reckoned from the date of commencement of commercial operation of the company, whichever comes first. The said exemption was commenced with effect from the Y/A 2011/12.

	Group		Company	
	2016 Rs.000's	2015 Rs.000's	2016 Rs.000's	2015 Rs.000's
9.1 Reconciliation of Accounting Profit/(Loss) to Income Tax Expense				
Profit/(Loss) before Tax	119,483	(33,302)	(37,470)	22,029
Non business income	(946)	(11,626)	(807)	(1,049)
Disallowable expenses	427,281	381,490	121,857	49,158
Tax deductible expenses	(494,557)	(544,376)	(20,745)	(27,616)
Tax exempt income	(196,988)	(316,268)	(121,246)	(201,341)
(Gain)/Loss of Ambewela Product (Private) Limited	(64,846)	61,127	-	-
Business Loss	(210,573)	(473,563)	(58,411)	(158,819)
Non business income	946	11,626	807	1049
Tax loss claimed during the year	(9,796)	(4,069)	(282)	(367)
Qualifying Payments during the year	(3)	(352)	-	-
Taxable Income	(8,853)	7,205	525	682
Income tax @ 28%	161	2,017	147	191
Income tax @ 10%	1,762	-	-	-
Income tax expense	1,923	2,017	147	191
9.2 Accumulated Tax Losses				
Tax loss brought forward	1,059,100	589,606	264,706	106,255
Adjustments related to prior years	2,320	-	-	-
Loss for the Year	210,573	473,563	58,411	158,818
Tax loss claimed during the Year	(9,796)	(4,069)	(282)	(367)
Tax loss carried forward	1,262,197	1,059,100	322,835	264,706
10 BASIC EARNINGS/(LOSS) PER SHARE				
The calculation of basic earnings per share is based on the Profit/(Loss) after tax attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding during the year.				
	Group		Company	
	2016	2015	2016	2015
Profit/(Loss) Attributable to Ordinary Shareholders (Rs.'000)	126,988	2,885	(17,456)	68,293
Weighted Average Number of Ordinary Shares ('000)	39,998	39,998	39,998	39,998
Basic Earnings/(Loss) Per Share (Rs.)	3.17	0.07	(0.44)	1.71
11 DIVIDENDS PER SHARE				
Dividend Per Share (Rs.)	1.25	1.25	1.25	1.25

Dividend proposed are taken in to consideration for computation of dividend per share. Proposed final dividend has not been recognised as a liability as at the reporting date until it is approved at the Annual General meeting.

12 PROPERTY, PLANT AND EQUIPMENT

12.1 Group

	As at 01/04/2015 Rs.000's	Additions/ Transfers Rs.000's	Disposals/ Transfers Rs.000's	As at 31/03/2016 Rs.000's
Cost /Deemed Cost				
Leasehold buildings	818,482	6,397	-	824,879
Plant and machinery	1,800,295	6,988	-	1,807,283
Laboratory equipment	9,875	259	-	10,134
Factory equipment	206,149	11,912	-	218,061
Canteen equipment	2,986	21	-	3,007
Office equipment	9,451	431	-	9,882
Fire fighting equipment	4,255	-	-	4,255
Furniture and fittings	10,148	231	-	10,379
Fixtures	179	-	-	179
Computers	13,188	1,203	(95)	14,296
Motor vehicles	210,400	3	-	210,403
Milk collection equipment	3,660	-	-	3,660
Motor roads and others	57,847	5,192	-	63,039
	3,146,915	32,637	(95)	3,179,457

	As at 01/04/2015 Rs.000's	Charge for the year Rs.000's	Disposals Rs.000's	As at 31/03/2016 Rs.000's
Accumulated Depreciation				
Leasehold buildings	335,447	22,451	-	357,898
Plant and machinery	679,936	155,018	-	834,954
Laboratory equipment	6,487	150	-	6,637
Factory equipment	111,454	19,767	-	131,221
Canteen equipment	2,247	96	-	2,343
Office equipment	8,447	398	-	8,845
Fire fighting equipment	4,255	-	-	4,255
Furniture and fittings	8,345	719	-	9,064
Fixtures	165	-	-	165
Computers	11,223	794	(78)	11,939
Motor vehicles	158,272	21,242	-	179,514
Milk collection equipment	3,659	1	-	3,660
Motor roads and others	37,915	6,376	-	44,291
	1,367,852	227,012	(78)	1,594,786
Written Down Value	1,779,063			1,584,671
Capital Work in Progress	10,189		(10,137)	52
	1,789,252			1,584,723

	2016 Rs.000's	2015 Rs.000's
Written Down Value		
Leasehold buildings	466,981	483,035
Plant and machinery	972,329	1,120,359
Laboratory equipment	3,497	3,388
Factory equipment	86,840	94,695
Canteen equipment	664	739
Office equipment	1,037	1,004
Fire fighting equipment	-	-
Furniture and fittings	1,315	1,803
Fixtures	14	15
Computers	2,357	1,965
Motor vehicles	30,889	52,128
Milk collection equipment	-	-
Motor roads and others	18,748	19,932
	1,584,671	1,779,063
Capital Work in Progress	52	10,189
	1,584,723	1,789,252
(a) The cost of fully depreciated property, plant and equipment as at the reporting date are as follows;		
Lanka Milk Foods (CWE) PLC	181,148	180,284
Lanka Dairies (Private) Limited	136,120	109,196
Ambewela Livestock Company Limited	91,389	83,165
Pattipola Livestock Company Limited	54,438	49,014
Ambewela Products (Private) Limited	39,598	31,745
	502,693	453,404

- (b) The factory and all 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 lease are as follows;

Name of the Company	Annual Lease rental Rs.	Lease commenced from
Lanka Milk Foods (CWE) PLC	67,000	1st Feb 1983
Ambewela Livestock Company Limited	16,951,040	3rd Oct 2001
Pattipola Livestock Company Limited	11,502,740	3rd Oct 2001
	28,520,780	

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

12.2 Company

	As at 01/04/2015 Rs.000's	Additions/ Transfers Rs.000's	Disposals/ Transfers Rs.000's	As at 31/03/2016 Rs.000's
Cost /Deemed Cost				
Leasehold buildings	358,951	-	-	358,951
Plant and machinery	176,321	233	-	176,554
Laboratory equipment	2,843	-	-	2,843
Factory equipment	9,076	56	-	9,132
Canteen equipment	2,986	21	-	3,007
Office equipment	7,864	270	-	8,134
Fire fighting equipment	4,223	-	-	4,223
Furniture and fittings	3,904	47	-	3,951
Fixtures	164	-	-	164
Computers	9,912	515	(95)	10,332
Motor vehicles	110,251	3	-	110,254
	686,495	1,145	(95)	687,545
Accumulated Depreciation				
Leasehold buildings	213,626	8,548	-	222,174
Plant and machinery	149,559	4,456	-	154,015
Laboratory equipment	2,808	7	-	2,815
Factory equipment	4,862	642	-	5,504
Canteen equipment	2,247	96	-	2,343
Office equipment	6,952	371	-	7,323
Fire fighting equipment	4,223	-	-	4,223
Furniture and fittings	3,309	255	-	3,564
Fixtures	164	-	-	164
Computers	8,589	555	(78)	9,066
Motor vehicles	75,197	14,274	-	89,471
	471,536	29,204	(78)	500,652
Written Down Value	214,959			186,883

	2016 Rs.000's	2015 Rs.000's
Written Down Value		
Leasehold buildings	136,777	145,325
Plant and machinery	22,539	26,762
Laboratory equipment	27	35
Factory equipment	3,629	4,214
Canteen equipment	664	739
Office equipment	810	912
Fire fighting equipment	-	-
Furniture fittings	385	595
Fixtures	-	-
Computers	1,268	1,323
Motor vehicles	20,778	35,054
	186,883	214,959

13 INVESTMENT IN SUBSIDIARIES

Company	2016			2015	
	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 Investment in subsidiaries (Note 13.1)			(388,057)		(381,308)
			755,495		762,244

13.1 Provision for Impairment of Investment in Subsidiaries

	2016 Rs.000's	2015 Rs.000's
Balance as at 1st April	381,308	376,543
Charge for the year	6,749	4,765
Balance as at 31st March	388,057	381,308

14 INVESTMENT IN EQUITY SECURITIES

	2016		2015	
	No of Shares	Fair Value Rs.000's	No of Shares	Fair Value Rs.000's
14.1 Available for Sale Investments				
Group/Company				
Distilleries Company of Sri Lanka PLC	37,961,500	7,827,661	37,961,500	9,129,741
		7,827,661		9,129,741
14.2 Financial Assets Held for Trading				
Group/Company				
Browns Beach Hotels PLC	1,251,558	40,676	1,251,558	31,289
Colombo Dockyard PLC	219,948	23,776	219,948	36,401
Commercial Bank of Sri Lanka PLC - Voting	1,454,797	182,577	1,418,085	238,239
		247,029		305,929

15 BIOLOGICAL ASSETS

	Group		Company	
	2016 Rs.000's	2015 Rs.000's	2016 Rs.000's	2015 Rs.000's
15.1 Livestock				
Balance as at 1st April	371,253	306,446	-	-
Additions during the year	19,595	60,207	-	-
Increase in Fair Value during the year	75,003	106,561	-	-
Disposals during the year	(80,787)	(101,961)	-	-
Balance as at 31st March	385,064	371,253	-	-
15.2 Non Perennial Crops - At Cost				
Balance as at 1st April	9,350	15,861	-	-
Additions during the year	12,189	9,350	-	-
Disposals during the year	(11,294)	(15,861)	-	-
Balance as at 31st March	10,245	9,350	-	-

The group has used the following significant criteria in determining the fair value of the Biological Assets as at 31st March 2016.

Weight
Pregnancy
Milk Production
Lactations
Age

15.3 Measurement of Fair Values

a) Fair Value Hierarchy

The fair value measurements of the standing livestock have been categorised as Level 2 fair values based on observable market sales data.

b) Level 2 Fair Values

The break down of the total gains (losses) in respect of Level 2 fair values is shown below.

Group	2016 Rs.000's	2015 Rs.000's
Gain included in other income		
Change in fair value (realised)	566	-
Change in fair value (unrealised)	75,003	106,561
	75,569	106,561
Loss included in other operating expense		
Change in fair value (realised)	46,604	23,483
	46,604	23,483

15.4 Valuation Techniques Used

Type

Livestock comprises cattle characterised as commercial or breeders

Valuation Technique

Market Comparison Technique:

The fair values are based on the market price of livestock of similar age, weight, pregnancy, lactations and milk production.

15.5 Sensitivity Analysis

Sensitivity Variation on Selling Price

Values as appearing in the statement of Financial Position are sensitive to sales price changes with regard to the average price applied. Simulations made for Livestock show that an increase or a decrease by 10% of the estimated future selling price has the following effect on the net present value of Biological Assets.

As at 31st March Group	-10% Rs. Rs.000's	2016 Rs. Rs.000's	+ 10% Rs. Rs.000's
Livestock	346,557	385,063	423,569
Total	346,557	385,063	423,569

Sensitivity Variation on Average Animal Weight

Values as appearing in the statement of Financial Position are sensitive to average animal weight changes. Simulations made for Livestock show that an increase or a decrease by 10kg of average animal weight has the following effect on the net present value of Biological Assets.

As at 31st March Group	-10% Rs. Rs.000's	2016 Rs. Rs.000's	+ 10% Rs. Rs.000's
Livestock	352,136	385,063	417,720
Total	352,136	385,063	417,720

16 INVENTORIES

	2016 Rs.000's	2015 Rs.000's	2016 Rs.000's	2015 Rs.000's
Raw Materials and Consumables	719,699	821,999	285,787	472,019
Finished Goods	83,102	88,882	45,353	42,325
Work in progress	11,958	15,970	10,802	9,938
Goods in Transit	38,453	129,207	-	94,434
	850,968	1,056,058	341,942	618,716
Less : Provision for Obsolete Inventories (Note 16.1)	(26,906)	(24,662)	(2,244)	-
	826,306	1,031,396	339,698	618,716
16.1 Provision for Obsolete Inventories				
Balance as at 1st April	24,662	24,662	-	-
Charge for the year	2,244	-	2,244	-
Balance as at 31st March	26,906	24,662	2,244	-
17 TRADE RECEIVABLES				
Trade Receivables	583,325	533,816	238,904	264,933
Less: Provision for Impairment (Note 17.1)	(81,222)	(68,472)	(45,254)	(33,760)
	502,103	465,344	193,650	231,173
17.1 Provision for Impairment Loss				
Balance as at 1st April	68,472	62,396	33,760	31,951
Charge for the year	26,398	6,076	14,494	1,809
Write off during the year	(13,648)	-	(3,000)	-
Balance as at 31st March	81,222	68,472	45,254	33,760
18 OTHER RECEIVABLES				
Deposits and Prepayments	27,242	22,096	7,743	1,640
Other Taxes Recoverable (Note 18.1)	9,770	24,753	2,791	5,236
Sundry Receivables	23,340	19,871	4,614	4,730
Staff Loans and Advances	7,222	7,467	5,117	6,082
	67,574	74,187	20,265	17,688
18.1 Other Taxes Recoverable				
With holding Tax	29	29	-	-
Nation Building tax	2,791	-	2,791	-
Value Added Tax	6,950	24,724	-	5,236
	9,770	24,753	2,791	5,236

19 AMOUNT DUE FROM RELATED PARTIES

	Group		Company	
	2016 Rs.000's	2015 Rs.000's	2016 Rs.000's	2015 Rs.000's
Lanka Dairies (Private) Limited	-	-	369,769	321,235
Stassen Exports Ltd	47,430	30,608	10,415	11,665
Ambewela Products (Private) Limited	-	-	21,225	180,994
Ambewela Livestock Company Limited	-	-	316,265	314,180
Aitken Spence PLC	1,485	1,448	1,363	1,387
Distilleries company of Sri Lanka PLC	5,358	3,784	5,348	3,782
Maudulsima Plantation PLC	-	18	-	18
Lanka Bell (Private) Limited	25	12	25	12
Pattipola Livestock Company Limited	-	-	198,331	196,791
	54,298	35,870	922,741	1,030,064
Less : Provision for Impairment of related party receivables	-	-	(192,325)	(192,325)
	54,298	35,870	730,416	837,739

20 CASH AND CASH EQUIVALENTS

Cash at Bank and in Hand	36,009	22,347	9,029	15,767
Call Deposit	8,464	-	8,464	-
	44,473	22,347	17,493	15,767
Less : Bank Overdraft	(629,982)	(510,880)	(266,085)	(173,048)
Cash and cash equivalents for the purpose of cash flow statement	(585,509)	(488,533)	(248,592)	(157,281)

20.1 Security details over bank overdraft facilities

Name of the company	Bank	Facility Value (Rs.Mn)	Nature of assets pledged
Lanka Milk Foods (CWE) PLC	HNB	300	Investment in quoted shares of Distilleries Company of Sri Lanka PLC,
	HSBC	100	Inventories and Trade Receivables
Lanka Dairies (Private) Limited	HNB	200	Corporate Guarantee from Lanka Milk Foods(CWE) PLC
Ambewela Products (Private) Limited	HNB	100	Corporate Guarantee from Lanka Milk Foods(CWE) PLC
Ambewela Livestock (Private) Limited	HNB -WATTALA	40	Corporate Guarantee from Lanka Milk Foods(CWE) PLC
	HNB -Nuwaraeliya	10	
Pattipola Livestock Company Limited	HNB-WATTALA	40	Corporate Guarantee from Lanka Milk Foods(CWE) PLC
	HNB -Nuwaraeliya	10	

21 STATED CAPITAL

	Group		Company	
	2016 Rs.000's	2015 Rs.000's	2016 Rs.000's	2015 Rs.000's
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 difference between the revalued amount and the carrying value of Property, Plant and Equipment at the date of revaluation. The revaluation was carried out during the financial year ended 31st March 1990 in order to incorporate the value of the buildings on leasehold land prior to the privatisation of the company. The revalued amounts of Property plant and equipment were considered as deemed cost at the date of acquisition.

23 DEFERRED TAXATION

	Group		Company	
	2016 Rs.000's	2015 Rs.000's	2016 Rs.000's	2015 Rs.000's
Balance as at the beginning	35,106	70,563	(47,742)	295
Origination/(Reversal) of temporary differences	(3,621)	(35,457)	(20,552)	(48,037)
Balance as at the end	31,485	35,106	(68,294)	(47,742)
Deferred tax asset	(174,154)	(47,936)	(102,928)	(47,742)
Deferred tax liability	205,639	83,042	34,634	-
	31,485	35,106	(68,294)	(47,742)

23.1 The amounts shown in the statement of financial position represents the followings;

Company	2016			2015		
	Deferred tax assets	Deferred tax liabilities	Net deferred tax (asset) / liability	Deferred tax assets	Deferred tax liabilities	Net deferred tax (asset) / liability
Lanka Milk Foods (CWE) PLC	(102,928)	34,634	(68,294)	(84,990)	37,248	(47,742)
Lanka Dairies (Private) Limited	(58,994)	65,296	6,302	(46,089)	45,894	(195)
Ambewela Products (Private) limited	(746)	89,371	88,625	(412)	77,360	76,948
Pattipola Livestock Company Limited	(11,486)	16,338	4,852	(11,497)	17,591	6,094
	(174,154)	205,639	31,485	(142,987)	178,093	35,106

23.2 Deferred Taxation

The deferred tax liability/(asset) is attributable to the followings;

Company	2016		2015	
	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect
	Rs.	Rs.	Rs.	Rs.
On Property, plant and Equipment	123,695	34,634	133,028	37,248
On Retirement Benefit Obligations	(44,765)	(12,534)	(38,826)	(10,872)
On Tax Losses carried forward	(322,836)	(90,394)	(264,709)	(74,118)
		(68,294)		(47,742)

Group	2016		2015	
	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect
	Rs.	Rs.	Rs.	Rs.
On Property, plant and Equipment	1,168,509	176,041	923,162	147,410
On Retirement Benefit Obligations	64,014	(14,832)	54,496	(12,646)
On Tax Losses carried forward	(1,012,119)	(159,322)	826,952	(130,343)
On Biological Assets	218,376	29,598	231,528	30,685
		31,485		35,106

Deferred tax assets have not been recognised in the Financial Statements of subsidiary of the Group (Ambewela 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 2016 is Rs. 10,214,091.

24 RETIREMENT BENEFIT OBLIGATIONS

	Group		Company	
	2016 Rs.000's	2015 Rs.000's	2016 Rs.000's	2015 Rs.000's
Balance as at 1st April	60,822	49,387	38,826	29,733
Interest cost	6,083	4,938	3,883	2,973
Current service cost	6,918	5,693	3,965	3,228
Actuarial loss for the year	4,123	7,640	1,396	5,651
Payments during the year	(5,518)	(6,836)	(3,305)	(2,759)
Balance as at 31st March	72,428	60,822	44,765	38,826

24.1 The total amount charged to Profit or Loss and other Comprehensive Income in respect of Retirement Benefit Obligations made up as follows;

Interest cost	6,083	4,938	3,883	2,973
Current service cost	6,918	5,693	3,965	3,228
Expense recognised in the Profit or Loss	13,001	10,631	7,848	6,201
Actuarial Loss	4,123	7,640	1,396	5,651
Expense recognised in Other Comprehensive Income	4,123	7,640	1,396	5,651

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

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

	2016	2015
i.) Discount rate	10.5%	10%
ii.) Annual salary increment rate	5%-12%	12%
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 defined 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		Company	
	Defined benefit obligation		Defined benefit obligation	
	One percentage point increase Rs.000's	One percentage point decrease Rs.000's	One percentage point increase Rs.000's	One percentage point decrease Rs.000's
Effect on the discounting rate	(68,955)	76,295	(42,715)	47,032
Effect on the salary escalation rate	76,262	(68,923)	47,029	(42,681)

25 LOANS AND BORROWINGS

	Group		Company	
	2016 Rs.000's	2015 Rs.000's	2016 Rs.000's	2015 Rs.000's
Term Loans - Secured				
Balance as at beginning	917,796	565,468	400,000	30,968
Add : Loans obtained during the year	200,000	400,000	200,000	400,000
Less : Repayments during the year	(666,812)	(47,672)	(600,000)	(30,968)
Balance as at end	450,984	917,796	-	400,000
Amount payable within one year	66,812	466,812	-	400,000
Amount Payable after one year	384,172	450,984	-	-
	450,984	917,796	-	400,000

26 TRADE AND OTHER PAYABLES

	Group		Company	
	2016 Rs.000's	2015 Rs.000's	2016 Rs.000's	2015 Rs.000's
Trade and Other Payables	188,083	209,747	56,905	80,780
Accrued Expenses	23,036	17,242	8,695	7,277
Outstanding letters of credit	-	91,464	-	91,464
Unclaimed Dividend	3,295	3,200	3,295	3,200
	214,414	321,653	68,895	182,721

27 AMOUNTS DUE TO RELATED PARTIES

	Group		Company	
	2016 Rs.000's	2015 Rs.000's	2016 Rs.000's	2015 Rs.000's
Stassen Exports (Private) Limited	5,738	11,472	814	178
Indo Lanka Exports (Private) Limited	-	-	23,512	24,123
Aitken Spence PLC	1,535	979	1,329	237
Aitken Cargo (Private) Limited	1,068	-	-	-
Milford Exports (Ceylon) Limited	-	2,725	-	2,725
Distilleries company of Sri Lanka PLC	19,351	2,089	38	16
Maudulsima Plantation PLC	281	366	281	366
Lanka Bell (Private) Limited	66	44	48	44
	28,039	17,675	26,022	27,689

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.

28.1.1 Future minimum lease payments

At 31st March, the minimum future lease payments under non-cancellable leases were as follows;

	Group		Company	
	2016 Rs.000's	2015 Rs.000's	2016 Rs.000's	2015 Rs.000's
Less than one year	28,588	27,813	67	67
Between one and five years	153,764	111,184	335	335
More than five years	920,102	861,054	737	804
	1,102,454	1,000,051	1,139	1,206

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

Ambewela Livestock Company Limited and Pattipola Livestock Company Limited have annual commitments of Rs.15,854,087/- and Rs. 10,757,802/- 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. PRINCIPAL SUBSIDIARIES

As at 31st March 2016

Company	Principal Activities	Class of shares held	Group Interest %	Non-controlling Interest %
Lanka Dairies (Private) Limited	Producing, Packing and selling of UHT products, "Daily", "Ambewela Farm Fresh Milk" and Fruit Juice.	Ordinary	100%	-
Ambewela Livestock Company Limited	Rearing of cattle to produce and sale of cow milk and agricultural development of the farm.	Ordinary	100%	-
Pattipola Livestock Company Limited	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.	Ordinary	100%	-
Ambewela Products (Private) limited	Rearing of cattle to produce milk, processing and packaging of processed fat and liquid milk and milk allied products such as Yoghurt.	Ordinary	100%	-
Indo Lanka Exports (Private) Limited	Manufacturing and exporting fruit juices.	Ordinary	51%	49%

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 Dairies (Private) Limited	HNB	325
Lanka Dairies (Private) Limited	DFCC	535
Ambewela Products (Private) limited	HNB	150
Ambewela Livestock Company Limited	HNB	60
Pattipola Livestock Company Limited	HNB	60
Indo Lanka Exports (Private) Limited	HNB	31.6

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 other than the following.

The board of directors has recommended a final dividend of Rs. 1.25 per share amounting to Rs. 49,997,500 for the year ended 31st March 2016. This is to be approved by the Annual General Meeting to be held on 22nd August 2016.

32. SEGMENTAL REPORTING

	Powdered milk		Liquid Milk and Others		Agriculture		Elimination		Group	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	Rs. 000's	Rs. 000's	Rs. 000's	Rs. 000's	Rs. 000's	Rs. 000's	Rs. 000's	Rs. 000's	Rs. 000's	Rs. 000's
Total Revenue	2,394,015	1,957,046	3,133,629	2,281,392	324,409	338,273	(803,543)	(624,434)	5,048,510	3,952,277
Profit or loss from operations	54,191	(28,352)	208,486	(5,323)	(2,408)	(6,190)	9,760	10,453	270,029	29,412
Financing Income/(Cost)	(91,661)	50,381	(54,458)	(59,493)	(4,427)	5,222	-	-	(150,546)	(3,890)
Income Tax Expenses	20,014	46,264	(18,245)	(11,627)	(655)	(3,066)	-	-	1,114	31,571
Profit/(loss) for the Year	(17,456)	68,293	135,783	(76,443)	(7,490)	(4,034)	-	-	120,597	(1,731)
Segment Asset	10,405,826	12,192,882	2,351,270	2,327,324	506,161	488,535	(1,606,863)	(1,701,839)	11,656,394	13,306,902
Segment Liabilities	405,767	822,284	1,384,155	1,496,004	695,686	668,024	(988,207)	(1,073,422)	1,497,401	1,912,889
Segment Net Assets	10,000,059	11,370,598	967,115	831,320	(189,525)	(179,489)	(618,656)	(628,417)	10,158,993	11,394,013
Segment Capital Expenditure	1,145	10,763	12,900	55,698	15,303	14,480	-	-	29,348	80,941
Depreciation on Property, plant and equipment	29,204	31,317	190,622	192,934	10,197	11,706	(3,011)	(5,688)	227,012	230,269

33. RELATED PARTY DISCLOSURES

33.1 Transactions with Subsidiary Companies

Name of the Company	Name of Common Directors	Nature of Transaction	Amount	
			2016 Rs.	2015 Rs.
Lanka Dairies (Private) Limited	Mr. D.H.S Jayawardena	Sale of Goods	211,160,667	71,325,547
	Mr. R.K Obeyesekere*	Expense Reimbursement	49,988,999	47,302,576
	Mr. C.R. Jansz	Inter Company Debtor Settlement	4,914,819	101,910,889
	Ms. D.S.C. Jayawardena	Funds Received	-	170,900,453
		Funds Transfer	-	267,395,616
		Material Received and Others	-	723,617
		Settlement of Goods Sales	207,701,219	226,665,408
		Bank Guarantee Provided	885,000,000	885,000,000
Ambewela Livestock Company Limited	Mr. D.H.S Jayawardena	Expense Reimbursement	2,075,634	2,489,653
	Mr. R.K Obeyesekere*	Material received and others	-	6,129
	Mr. C.R. Jansz	Sale of Goods	545,090	574,687
	Ms. D.S.C. Jayawardena	Funds Received	-	8,624,000
		Funds Transfer	-	8,000,000
		Settlement of Goods Sales	535,748	653,031
		Bank Guarantee Provided	60,000,000	60,000,000
Pattipola Livestock Company Limited	Mr. D.H.S Jayawardena	Expense Reimbursement	1,579,239	1,984,955
	Mr. R.K Obeyesekere*	Sale of Goods	881,731	387,816
	Mr. C.R. Jansz	Material received and others	-	145,809
	Ms. D.S.C. Jayawardena	Funds Received	-	8,000,000
		Funds Transfer	-	10,000,000
		Settlement of Goods Sales	920,990	431,588
		Bank Guarantee Provided	60,000,000	60,000,000
Ambewela Products (Private) Limited	Mr. D.H.S Jayawardena	Sale of Goods	80,596,433	64,188,204
	Mr. R.K Obeyesekere*	Expense Reimbursement	5,610,908	19,786,415
	Mr. C.R. Jansz	Settlement of Goods Sales & Others	245,975,909	83,974,619
	Ms. D.S.C. Jayawardena	Funds Transfer	-	10,000,000
		Funds Received	-	156,680,923
		Loan Interest	-	1,556,627
		Bank Guarantee Provided	150,000,000	150,000,000
Indo Lanka Exports (Private) Limited	Mr. D.H.S Jayawardena	Inter Company Transactions	-	64,644
	Mr. C.R Jansz	Expense Reimbursement	611,731	8,083,297
	Ms. D.S.C. Jayawardena	Bank Guarantees Provided	31,600,000	31,600,000

* Ceased to be a Director w.e.f 1st August 2016.

33. RELATED PARTY DISCLOSURES (CONTD.)

33.2 Transactions with Other Related Companies

Name of the Company	Name of Common Directors	Nature of Transaction	Amount	
			2016 Rs.	2015 Rs.
Milford Exports Ceylon Limited	Mr. D.H.S Jayawardena	Management Fee	1,060,000	1,000,000
	Ms. D.S.C. Jayawardena	Director Fee	1,665,000	1,500,000
		Dividend Paid	16,783,175	-
Stassen Exports Limited	Mr. D.H.S Jayawardena	Sale of Goods	17,753,926	21,036,693
	Ms. D.S.C. Jayawardena	Services Rendered and Others	83,809,372	50,809,074
		Reimbursement Expenses	9,202,001	4,650,820
		Related Party Settlement	89,136,759	45,473,814
		Services obtained and Other	5,763,844	932,492
Hatton National Bank PLC	Ms. D.S.C. Jayawardena	Interest Paid	24,656,401	35,620,966
		Interest Received	23,200	158,370
		Bank Chargers	1,329,590	247,656
		Bank Overdraft	265,547,803	172,536,427
		Import loan	200,000,000	400,000,000
Distilleries Company of Sri Lanka PLC	Mr. D.H.S Jayawardena	Sale of Milk Foods and Energy Drinks	13,413,170	12,049,238
	Mr. C.R. Jansz	Dividend Income Received	116,656,514	123,374,875
		Dividend Paid	954,666	-
		Services obtained and others	531,322	1,077,589
		Related party settlement	12,356,293	13,758,977
Aitken Spence and Company PLC	Mr. D.H.S Jayawardena	Sale of Goods	13,567,464	16,313,725
		Services Obtained and Others	5,386,588	5,698,513
		Related party settlement	16,941,838	16,941,838
Lanka Bell (Private) Limited	Mr. D.H.S Jayawardena	Telephone Chargers	824,274	735,150
	Mr. C.R. Jansz	Commission Income on cards sale	380,079	648,848
		Sale of Goods	88,412	26,226
Madulsima Plantation PLC	Mr. D.H.S Jayawardena	Sale of Goods	207,867	207,588
	Mr.D S K Amarasekara	Services obtained & Others	1,115,512	1,155,361
	Dr.A Shakthevale			

33.3 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 Group.

a) Loans to Directors

There are no loans have been granted to the Directors of the Company.

b) Key Management Personnel Compensation

	Group		Company	
	2016 Rs.000's	2015 Rs.000's	2016 Rs.000's	2015 Rs.000's
Short-term employee benefits	4,717	4,255	4,717	4,255
Post employment benefits	499	428	499	428
	5,216	4,683	5,216	4,683

c) Other Transactions with Key Management Personnel

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

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	
	2016 Rs.000's	2015 Rs.000's	2016 Rs.000's	2015 Rs.000's
Trade Receivables	583,325	533,816	238,904	264,933
Other Receivables	67,574	74,187	20,265	17,688
Amounts Due from Related Parties	54,298	35,870	730,416	837,739
Cash and cash equivalents	44,473	22,347	17,493	15,767
Available for sale Investments	7,827,661	9,129,741	7,827,661	9,129,741
Financial Assets Held for Trading	247,029	305,929	247,029	305,929
	8,824,360	10,101,890	9,081,768	10,571,797

34 FINANCIAL RISK MANAGEMENT (CONTD.)

34.1 Credit risk (Contd.)

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;

As at	31st March 2016		31st March 2015	
	Gross Balance	Impairment	Gross Balance	Impairment
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Group				
Past due 0-60 days	243,549	35	412,329	70
Past due 60-180 days	170,604	101	49,800	1,298
Past due 180-365 days	78,310	4,447	3,509	151
More than one year	90,862	76,639	68,178	66,953
Total	583,325	81,222	533,816	68,472
Company				
Past due 0-60 days	103,431	32	214,773	-
Past due 60-180 days	52,374	3	13,940	-
Past due 180-365 days	34,642	4,241	2,620	151
More than one year	48,457	40,981	33,600	33,609
Total	238,904	45,254	264,933	33,760

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.44,473 ('000) as at 31st March 2016 which represent its maximum credit exposure on these assets.

34.1.5 Guarantees

The Group's policy is to provide corporate guarantees to its subsidiaries. Following represents all the corporate 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 Dairies (Private) Limited	Hatton National Bank	325,000
Lanka Dairies (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
Indo Lanka Exports (Private) Limited	HSBC	31,600

34.2 Liquidity risk

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

The following are the contractual maturities of financial liabilities.

As at 31st March	2016				
	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
Group					
Financial Liabilities (Non Derivatives)					
Trade and Other Payables	214,414	127,483	35,781	51,150	-
Amounts Due to Related Parties	28,039	3,882	19,328	4,829	-
Interest bearing loans and borrowings	450,984	-	-	66,812	384,172
Bank Overdraft	629,982	573,710	56,272	-	-
	1,323,419	705,075	111,381	122,791	384,172
Company					
Financial Liabilities (Non Derivatives)					
Trade and Other Payables	68,895	56,050	8,677	4,168	-
Amounts Due to Related parties	26,022	26,022	-	-	-
Bank Overdraft	266,085	266,085	-	-	-
	361,002	348,157	8,677	4,168	-

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

34 FINANCIAL RISK MANAGEMENT (CONTD.)

34.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices 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 to the extent that there is mismatch between the currencies in which sales, purchases and borrowings 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;

As at 31st March	2016 USD	2015 USD
Group		
Trade and Other Payables	(2,494)	(853,283)
Gross statement of financial position exposure	(2,494)	(853,283)
Company		
Trade and Other Payables	-	(680,000)
Gross statement of financial position exposure	-	(680,000)

The following significant exchange rates were applicable during the year;

	Average rate		Reporting date spot rate	
	2016	2015	2016	2015
	Rs.	Rs.	Rs.	Rs.
USD	138.74	131.17	149.33	133.32

34.3.1.2 Sensitivity Analysis

A strengthening of the LKR, as indicated below, against the USD at 31st March 2016 would have increased/ (decreased) the equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	Strengthening	Weakening	
	“Profit or Loss Rs.”	“Equity Rs.”	“Equity Rs.”
31st March 2016			
USD (10% movement)	37,243	37,243	(37,243)
31st March 2015			
USD (10% movement)	11,375,964	11,375,964	(11,375,964)

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	
	2016 Rs.'000	2015 Rs.'000	2016 Rs.'000	2015 Rs.'000
Variable Rate Instruments				
Financial Liabilities				
Loans & Borrowings	450,984	917,796	-	400,000
Bank Overdrafts	629,982	510,880	266,085	173,048
	1,080,966	1,428,676	266,085	573,048

34.4 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.

34.5 Equity Price Risk

Values as appearing in the statement of Financial Position are sensitive to quoted price of the investment. Simulations made for available for sale investments and financial assets held for trading that an increase and decrease of Rs.10 has the following effect on the fair value of available for sale investments.

As at 31st March Group/Company	-10% Rs.000's	2016 Rs.000's	+ 10% Rs.000's
Available for sale investments	7,044,895	7,827,661	8,610,427
Financial Assets Held for Trading	222,326	247,029	271,732
	7,267,221	8,074,690	8,882,159

34.6 Capital management

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

As at 31st March	Group		Company	
	2016 Rs.'000	2015 Rs.'000	2016 Rs.'000	2015 Rs.'000
	Total liabilities	1,497,401	1,912,889	405,767
Less:				
Cash and cash equivalents	(44,473)	(22,347)	(17,493)	(15,767)
Net debts	1,452,928	1,890,542	388,274	806,517
Total equity	10,158,993	11,394,013	10,000,059	11,370,598
Net debt to equity ratio	0.14	0.17	0.04	0.07

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.

35 FAIR VALUE MEASUREMENT

The Group 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

35.1 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 categorised.

	Group/Company			Total Rs.'000
	Level 1 Rs.'000	Level 2 Rs.'000	Level 3 Rs.'000	
As at 31st March 2016				
Available for sale investments	7,827,661	-	-	7,827,661
Financial Assets Held for Trading	247,029	-	-	247,029
	8,074,690	-	-	8,074,690
As at 31st March 2015				
Available for sale investments	9,129,741	-	-	9,129,741
Financial Assets Held for Trading	305,929	-	-	305,929
	9,435,670	-	-	9,435,670

35.2 Fair value of Financial Instruments carried at amortised cost

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

As at 31st March 2016	Group		Company	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets				
Cash and cash equivalents	44,473	44,473	17,493	17,493
Trade and Other receivables	569,677	569,677	213,915	213,915
Amounts due from Related Companies	54,298	54,298	730,416	730,416
Liabilities				
Bank Overdraft	629,982	629,982	266,085	266,085
Trade and Other Payables	214,414	214,414	68,895	68,895
Amounts Due to Related Parties	28,039	28,039	26,022	26,022
Loans and Borrowings	450,984	450,984	-	-

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.

36 ACCOUNTING CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES AS AT THE REPORTING DATE

Group	Classification			
	Loans and Receivables	Available for sale investments	Fair value through profit or loss investments	Held to maturity investments
Financial Instrument	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Trade and Other Receivables	569,677	-	-	-
Amount due from Related Parties	54,298	-	-	-
Cash and Cash Equipment's	44,473	-	-	-
Available For Sale Investments	-	7,827,661	-	-
Financial Assets Held for Trading	-	-	247,029	-

Financial liabilities	Classification	
	Fair value through profit or loss investments	Amortised cost
	Rs.'000	Rs.'000
Trade and Other Payables	-	214,414
Interest Bearing Borrowings	-	66,812
Amounts Due to Related Parties	-	28,039
Bank Overdraft	-	629,982

Company Financial Instrument	Classification			
	Loans and Receivables	Available for sale investments	Fair value through profit or loss investments	Held to maturity investments
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Trade and Other Receivables	213,915	-	-	-
Amount due from Related Parties	730,416	-	-	-
Cash and Cash Equipment's	17,493	-	-	-
Available For Sale Investments	-	7,827,661	-	-
Financial Assets Held for Trading	-	-	247,029	-

Financial liabilities	Classification	
	Fair value through profit or loss investments	Amortised cost
	Rs.'000	Rs.'000
Trade and Other Payables	-	68,895
Amounts Due to Related Parties	-	26,022
Bank Overdraft	-	266,085

SHAREHOLDER AND INVESTOR INFORMATION

1 STOCK EXCHANGE LISTING

The issued ordinary shares of the Company are listed with Colombo Stock Exchange

Date of listing Colombo Stock Exchange (CSE)-01.01.1983

Abbreviation in Colombo Stock Exchange (CSE)-"LMFN".

Ticker symbol - LMF - N0000

ISIN - LK0112N00009

Stated Capital No.of Ordinary Shares -39,998,000

2 COMPOSITION ORDINARY SHAREHOLDERS

Category	No of Share Holders 31/03/2016	Total Shares 31/03/2016	Percentage (%) 31/03/2016	No of Share Holders 31/03/2015	Total Shares 31/03/2015	Percentage (%) 31/03/2015
Up to - 500	2,348	307,347	0.77	2,373	316,485	0.79
501 - 1,000	283	241,012	0.60	289	247,096	0.62
1,001 - 5,000	387	1,017,244	2.54	393	1,089,201	2.72
5,001 - 10,000	104	775,404	1.94	102	784,545	1.96
10,001 - 50,000	83	1,611,530	4.03	108	2,211,178	5.52
50,001 - 10,0000	19	1,425,095	3.56	14	1,118,286	2.80
100,001 - 1,000,000	21	5,782,611	14.46	25	7,393,910	18.49
1,000,001 & Over	5	28,837,757	72.10	4	26,837,299	67.10
Total	3,250	39,998,000	100.00	3,308	39,998,000	100.00

3 ANALYSIS OF ORDINARY SHARES

Category	No of Share Holders 31/03/2016	Total Shares 31/03/2016	Percentage (%) 31/03/2016	No of Share Holders 31/03/2015	Total Shares 31/03/2015	Percentage (%) 31/03/2015
Individuals -Local	3,018	6,290,152	15.73	3,076	6,017,092	15.05
Individuals - Overseas	47	324,980	0.81	50	345,513	0.86
Companies - Local	178	23,565,510	58.92	175	24,920,537	62.30
Companies - Overseas	7	9,817,358	24.54	7	8,714,858	21.79
Total	3,250	39,998,000	100.00	3,308	39,998,000	100.00

4 DIRECTORS' SHARES

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

		COMPANY	
		2015/2016	2014/2015
5	VALUE PER SHARE		
	Earnings	Rs. (0.44)	1.71
	Dividend	Rs. 1.25	1.25
	Net Assets	Rs. 250.01	284.28
6	MARKET VALUE PER SHARE		
	Highest Price during the year	Rs. 180.00	143.50
	Lowest Price during the year	Rs. 110.00	106.00
	Value as at last trading date (31st March)	Rs. 114.50	140.00
7	SHARE TRADING		
	No. of Transactions	925	2137
	No. of shares traded during the year	2,574,202	4,518,600
	Value of shares traded during the year	Rs. 379,066,370	582,966,582
	No. of days traded	150	197
	Market Capitalisation	Rs. 4,579,971	5,599,720

8 TWENTY MAJOR SHAREHOLDERS

	Name	As at 31st March 2016		Name	As at 31st March 2015	
		No. of Shares	% of Issued Capital		No. of Shares	% of Issued Capital
1	Milford Exports (Ceylon) (Pvt) Limited	13,426,540	33.57	Milford Exports (Ceylon) (Pvt) Limited	13,426,540	33.57
2	Melstacorp Limited	6,710,084	16.78	Mills Enterprises Limited	6,120,290	15.30
3	Mills Enterprises Limited	6,120,290	15.30	Melstacorp Limited	5,946,351	14.87
4	Mellon Bank N.A Commonwealth of Massachus	1,346,814	3.37	Waldock Mackenzie Ltd/Mr H.m.s Abdulhussein	1,344,118	3.36
5	Pershing Llc S/A Averbach Grauson & Co.	1,234,029	3.09	Pershing Llc S/A Averbach Grauson & Co.	907,607	2.27
6	Mellon Bank N.A The Frontier Emerging Markets	643,075	1.61	Distilleries Company of Sri Lanka Plc.	763,733	1.91
7	E.W Balasuriya & Co. (Pvt) Ltd	619,212	1.55	Mellon Bank N.a-The Frontier Emerging Marke	643,075	1.61
8	Yusuf Husseinally Abdulhussein	601,933	1.50	E.W Balasuriya & Co. (Pvt) Ltd	619,212	1.55
9	Waldock Mackenzie Ltd/Mr H.m.s Abdulhussein	547,118	1.37	Mellon Bank N.A-Commonwealth of Massachus	557,665	1.39
10	Rukaiya Husseinally Abdulhussein	400,000	1.00	Trading Partners (Pvt) Ltd	382,327	0.96
11	Husseinally Mohsinally Shaikh Abdulhussein	280,266	0.70	J.B Cocoshell (Pvt) Ltd	332,661	0.83
12	Saema Enayat Lokhandwalla	280,000	0.70	Husseinally Mohsinally Shaikh Abdulhussein	280,266	0.70
13	Commercial Bank of Ceylon Plc A/C No.04	250,000	0.63	Saema Enayat Lokhandwalla	280,000	0.70
14	Hallsville Trading Group Inc.	249,221	0.62	Commercial Bank of Ceylon Plc A/C No.04	250,000	0.63
15	Commercial Bank of Ceylon Plc/Sithijaya Fund	200,772	0.50	Hallsville Trading Group Inc.	249,221	0.62
16	Essajee Carimjee Insurance Brokers (Pvt) Ltd	185,689	0.46	Commercial Bank of Ceylon Plc/Sithijaya Fund	214,778	0.54
17	Deutsche Bank Ag-Namal Growth Fund	185,000	0.46	Phillip Securities Pte Ltd	202,000	0.51
18	Dinesh Nagendra Sellamuttu	183,502	0.46	Yusuf Husseinally Abdulhussein	201,933	0.50
19	Phillip Securities Pte Ltd	182,000	0.46	Essajee Carimjee Insurance Brokers (Pvt) Ltd	185,689	0.46
20	Gulamhussein Moshinally Abdulhussein	153,222	0.38	Dinesh Nagendra Sellamuttu	183,502	0.46
	Sub Total	33,798,767	84.51	Sub Total	33,090,968	82.74
	Other Shareholders	6,199,233	15.49	Other Shareholders	6,907,032	17.26
	Grand Total	39,998,000	100.00	Grand Total	39,998,000	100.00

	Public Shareholders as at 31st March 2016	No. of Public Shareholders	Public Share Holding %	Public Shareholders as at 31st March 2015	No. of Public Shareholders	Public Share Holding %
	Public Shareholding	3247	34.35	Public Shareholding	3304	34.35

TEN YEAR SUMMARY

Company-Rs.000	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
OPERATING RESULT										
Turnover	2,394,015	1,957,046	2,446,113	3,711,003	3,408,036	3,190,564	3,259,460	2,969,741	3,161,061	2,814,514
Gross Profit	222,274	63,033	171,232	514,890	388,821	292,266	547,064	370,366	583,530	424,079
Profit before Tax	(37,470)	22,029	14,062	263,876	35,846	26,817	309,883	26,817	193,508	148,096
Taxation	20,014	46,264	29,957	(32,516)	(31,245)	(10,706)	(107,466)	2,169	(94,722)	(54,406)
Profit after Tax	(17,456)	68,293	44,019	231,360	4,601	16,111	202,417	28,986	98,786	93,690
Dividends	49,998	49,998	-	59,998	39,998	-	59,997	-	38,998	29,998
STATEMENT OF FINANCIAL POSITION										
Property, Plant and Equipment	186,883	214,959	235,513	244,602	234,319	233,790	194,607	201,177	210,223	212,157
Investment	247,029	305,929	236,453	227,893	208,941	260,152	293,312	313,028	313,028	393,776
Current Assets	1,567,493	2,038,196	1,762,864	2,292,285	2,016,498	2,155,369	1,206,060	1,046,059	1,984,676	1,275,627
Total Assets	10,405,826	12,192,882	10,471,571	9,631,641	8,537,898	10,071,276	2,663,192	2,365,851	3,102,264	2,256,399
Total Equity	10,000,059	11,370,598	9,882,818	8,516,730	7,509,196	8,833,247	1,376,841	1,174,424	1,180,930	11,112,142
Non Current Liabilities	44,765	38,826	30,028	85,776	115,372	141,987	182,632	203,891	244,951	248,456
Current Liabilities	361,002	783,458	558,725	1,029,135	913,329	1,096,042	1,103,719	987,536	1,676,383	895,801
RATIOS										
Earnings per shares (Rs.)	(0.44)	1.71	1.10	5.78	0.12	0.46	6.75	0.97	3.29	3.12
Dividend per shares (Rs.)	1.25	1.25	-	1.50	1.00	-	1.50	-	1.30	1.00
Dividend cover (Times)	(0.35)	1.37	-	6.20	2.84	-	4.50	-	2.53	3.12
Price earning ratio (Times)	(260.22)	81.87	97.32	18.74	815.00	254.13	12.19	39.33	14.35	12.81
Total assets to equity (Times)	1.04	1.07	1.06	-	1.49	1.14	1.93	2.01	2.01	0.20
Net assets per Share (Rs.)	250.01	284.28	247.08	212.93	187.24	220.84	34.42	29.36	29.52	277.82
Market Value per share (as at 31st March) (Rs.)	114.50	140.00	107.10	108.30	97.80	116.90	82.25	38.00	47.25	40.00
Return on equity (%)	(0.18)	0.61	0.45	2.72	0.06	0.18	14.70	2.47	8.37	0.84
Return on Total Assets (%)	(0.18)	0.56	0.42	2.40	0.05	0.16	7.60	1.23	3.18	4.15
Gross Profit Ratio (%)	9.29	3.22	7.00	13.87	11.41	9.16	16.78	12.47	18.46	15.07
Net Profit Ratio (%)	(0.73)	3.49	1.80	6.23	0.14	0.50	37.00	7.83	16.93	3.33
Current Ratio (Times)	4.34	2.60	3.16	2.23	2.21	1.57	1.09	1.06	1.18	1.42
Liquidity Ratio (Times)	3.40	1.81	2.53	1.62	0.67	0.85	1.70	1.60	1.38	1.64

NOTICE OF MEETING

Notice is hereby given that the Thirty Fourth (34th) Annual General Meeting of Lanka Milk Foods (CWE) PLC is convened on Monday the 22nd August 2016 at the Auditorium of Sri Lanka Foundation Institute at NO. 100, Independence Square, 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 2016 with the Auditors' Report thereon.
2. To approve a final dividend of Rs. 1.25 per share as recommended by the Directors.
3. To re-elect Mr. C. R. Jansz who retires by rotation at the Annual General Meeting in terms of Article No.94 of the Articles of Association, as a Director of the company.
4. To re-elect Mr. D. Hasitha Stassen Jayawardena, who retires at the Annual General Meeting in terms of Article No. 100 of the Articles of Association, as a Director of the Company.
5. To re-elect Mr. D.H.S. Jayawardena, who is over the age of 70 years and who retires 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 attained the age of 70 on 17th August 2012 be and is hereby re-elected as a Director of the Company and it is hereby 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."

6. To re-elect Dr. A. Shakthevale who is over the age of 70 years and who retires 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 Dr. A. Shakthevale who attained the age of 70 on 04th September 2012 be and is hereby re-elected as a Director of the Company and it is hereby 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."

7. To re-appoint KPMG as the Auditors for the ensuing year and to authorise the Directors to determine their remuneration.
8. To authorise the Directors to determine payments for the year 2017, 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 July 2016

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 19th August 2016.

FORM OF PROXY

LANKA MILK FOODS (CWE) PLC

34th ANNUAL GENERAL MEETING

I/We.....

..... of.....

being a member/members of the above named Company hereby appoint:

Don Harold Stassen Jayawardena, or failing him

Cedric Royle Jansz, or failing him

D. S. Kamantha Amarasekera, or failing him

Shakthevale Arinesarajah, or failing him

Don Sanjivani Clarinda Jayawardena, or failing her

Don Hasitha Stassen Jayawardena, or failing him

..... of.....

as my/our proxy to represent me/us and to vote for me/us and on my /our behalf at the Thirty Fourth Annual General Meeting of the Company to be held on Monday, 22nd August 2016 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

Signed this day

of 2016

(.....)

Folio No

.....

Signature/s

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

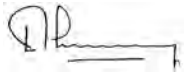
Notice is hereby given to the shareholders that the Thirty Fourth (34th) Annual General Meeting of Lanka Milk Foods (CWE) PLC will be convened on Monday, the 22nd August 2016 at the Auditorium of Sri Lanka Foundation Institute at No. 100, Independence Square, Colombo 07 at 10.00 a. m. For identification 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 July 2016

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 දමිළ භාෂාවෙන් සකසනලද පිටපත් අවශ්‍ය නම්,
ඒ වඩා ලේකම්, සී.ස. ලංකා මිලික් ෆුඩ්ස් (සී.ඩබ්ලිව්.ඊ) පී.එල්.සී., වැලිසරා, රාගම
යන ලිපිනයට 2016 අගෝස්තු 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, நாகம எனும் முகவரிக்கு கடிதமூலம் 2016 ஓகஸ்ட் 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 August 2016.

ATTENDANCE SLIP

Please bring this Attendance Slip and your National identity Card when attending the Annual General Meeting to be held at the Auditorium of Sri Lanka Foundation Institute at No. 100, Independence Square, Colombo 07 at 10.00 a. m. on Monday, the 22nd August 2016.

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

Name of the Company	Lanka Milk Foods (CWE) PLC
Legal Form	A Public Quoted Company with Limited Liability under the provisions of Companies Act No. 7 of 2007
Accounting Year End	31st March
Registered Office	Welisara, Ragama, Sri Lanka Tel : +9411 2956263-5, +9411 5222600 Fax : +9411 2956266 Email : lakspray@lmfgroup.lk
Date of Incorporation	12th November 1981
Company Registration Number	PQ 142
Company Secretary	Mrs. W. C. Hewage
Board of Directors	Mr. D. H. S. Jayawardena - Chairman Mr. R. K. Obeyesekere - Director (Ceased to be a Director from 8th July 2016) 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 Mr. D. Hasitha Stassen Jayawardena - Non-Executive Director (With effect from 11th July 2016)
Auditors	Messrs. KPMG (Chartered Accountants) 32A, Sir Mohamed Macan Markar Mawatha P O Box 186 Colombo 3, Sri Lanka.
Subsidiary Companies	Lanka Dairies (Private) Limited Ambewela Livestock Company Limited Pattipola Livestock Company Limited Ambewela Products (Private) Limited Indo Lanka Exports (Private) Limited
Bankers	Bank of Ceylon Hatton National Bank PLC Hongkong & Shanghai Banking Corporation Ltd Commercial Bank PLC DFCC Bank PLC
Website	www.lmfgroup.lk



www.lmfgroup.lk