



LANKA MILK FOODS (CWE) PLC
ANNUAL REPORT 2018/19

**IT'S
SECOND
NATURE**



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IT'S SECOND NATURE

For over 50 years, Lanka Milk Foods has built brands that endure in the hearts and minds of the discerning consumer, offering a range of wholesome, natural products that nourish a nation.

As reviewed in this report, the Group has taken steps to further enhance the quality of our products, streamline our processes and hone our strategy – all because we care. Our sole aspiration is to ensure our stakeholders are always satisfied, which is why we uphold principles of long-term sustainability and practise good governance across the board. We're accustomed to an in-depth, comprehensive approach towards business – in fact to us, it's second nature.



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ABOUT THIS REPORT

WELCOME TO OUR INTEGRATED ANNUAL REPORT

We are committed to the principles of Integrated Reporting, and hope to build on the foundation put in place last year by providing readers with a balanced and concise evaluation of how we create and deliver value to our stakeholders in a sustainable manner. In addition to the relevant financial reporting standards, statutory requirements and sustainability reporting guidelines, the Annual Report aims to fulfil the information requirements and expectations of our stakeholders, providing a transparent overview of our financial, social and environmental performance during the year.

SCOPE AND BOUNDARY

This Annual Report and Financial Statements of Lanka Milk Foods (CWE) PLC (“Lanka Milk Foods” or “Company”) and its subsidiaries Lanka Dairies (Pvt) Ltd, Ambewela Products (Pvt) Ltd, Pattipola Livestock Company Limited, Ambewela livestock Company Limited, United Dairies Lanka (Pvt) Ltd, Indo Lanka Exports (Pvt) Ltd (collectively referred to as “Group”) present the performance for the financial year ending 31st March 2019. The financial and non-financial information presented in the narrative report represents all entities unless otherwise stated. There have been no significant changes to the organisation or its supply chain compared to the previous year.

LANKA MILK FOODS (CWE) PLC

STANDARDS AND PRINCIPLES

The Financial Statements have been prepared in accordance with the Sri Lanka Financial Reporting Standards and are in compliance with the requirements of the Companies Act No. 7 of 2007 and the Listing Requirements of the Colombo Stock Exchange.

ASSURANCE

We adopt various assurance mechanisms and voluntary accreditations to ensure the transparency and reliability of our information. Messrs. KPMG Chartered Accountants audited the Financial Statements while Messrs. KPMG also provided assurance on the sustainability reporting.

FEEDBACK

We remain committed to continuously enhancing the quality and readability of our Annual Report and welcome your suggestions and comments.

Kindly address your feedback to,
Finance Manager
Lanka Milk Foods (CWE) PLC
Welisara,
Ragama
Email - finance@lmfgroup.lk

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

OUR PRODUCTS



LAKSPRAY

For over 50 years, Lakspray has nurtured the nation as the pioneer milk powder brand in Sri Lanka. Lakspray is a natural full cream milk powder made of pure cows' milk and is free of chemical additives and preservatives. As a result, Lakspray is creamier than other instant milk powder. Being rich in milk proteins, vitamins and minerals Lakspray promotes healthy growth of kids and wellbeing of adults. It is available in multiple pack sizes including 50 g, 100 g, 200 g, 400 g & 01 kg.

LAKSPRAY NON FAT caters to the needs of health-conscious individuals. It is a natural milk powder with its fat extracted and is available in a 400 g box pack.

AMBEWELA DAIRY RANGE

Over the years since introduction, AMBEWELA brand and its products have grown to be the trusted source of dairy nutrition in Sri Lankan households. Ambewela milk, which comes from luscious pasturelands of Sri Lanka's greenest hills, ensures that the milk they produce retains its freshness and quality throughout the entire production process from grass to udder to pack and beyond. AMBEWELA always keeps its brand promise by providing the most nutritious and quality dairy products to our consumers.

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. The milk is sourced from Ambewela Farms, which is a prime dairy farm complex in Sri Lanka operating under modern farming techniques. These milk packs are available in both 200ml and 01 litre sizes.



AMBEWELA SET YOGHURT

In year 2009, Ambewela Products (Pvt) Ltd introduced AMBEWELA SET YOGHURT, an 80ml cup well known for its' superior taste, serene colour, fine texture and nutritive value, manufactured at our dairy plant in Ambewela.

Another popular product from Ambewela Products (Pvt) Ltd is the UHT, chocolate and vanilla flavoured milk, available in 180ml pouch packs.

Ambewela Butter 200g is also manufactured at our Ambewela plant. It was introduced to the market in December 2014 and it is available in all super markets island-wide.



AMBEWELA FLAVOURED MILK

In year 2017, Lanka Dairies (Pvt) Ltd. launched Ambewela Flavoured Milk. This is a one litre flavoured milk pack, aseptically packed in a Tetra brick aseptic pack with a cap. It is available in chocolate and vanilla flavours.



AMBEWELA KIDDOS

Ambewela KIDDOS Flavoured Milk pack is a 160ml milk pack and is the latest addition to our Ambewela dairy range. It is tailor-made to suit the palate of Sri Lankan kids, with their nutritional requirements in mind. Added with essential vitamins that are required for their growing age, the product is a healthy and convenient solution for parents to meet the daily nutritional requirements of their children at an affordable and competitive price.

AMBEWELA CHEESE

We produce four different types of cheese, to cater to the varied requirements of our 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. Cheese can be found in the forms of ball cheese, blocks, grated and shredded types, in varieties of Plain, Chili, Garlic, Cumin and Pepper flavours.

Ambewela Products (Pvt) Ltd 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 and slices of Edam, Gouda and AMBEWELA SPREAD CHEESE cup of 100 ml.



OUR PRODUCTS

AMBEWELA DRINKING YOGHURT

Lanka Dairies (Pvt) Ltd introduced the vanilla flavoured Ambewela yoghurt drink, in February 2016. The product has a shelf life of four months without refrigeration and contains no preservatives at all.



AMBEWELA GOAT MILK

This 190 ml ready to drink sterilized goat milk bottle, is manufactured from the milk of healthy goats raised at our New Zealand Farm, Pattipola.

DAILY - UHT TREATED FLAVOURED MILK

Our 200ml DAILY flavoured milk pack is manufactured at Lanka Dairies (Pvt) Ltd, Welisara plant using premium quality milk from Ambewela Farms. This was the pioneer dairy product in Sri Lanka to be packed in Tetra Pak using the UHT treatment and aseptic processes.

The product is shelf stable for six months, under ambient temperature and it is free of artificial additives or preservatives. DAILY is available in 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





DAILY ACTIV UHT TREATED MALT CHOCOLATE FOOD DRINK

DAILY ACTIV 200 ml milk pack is a malt based dairy product, full of natural goodness and the quality of milk associated with our farms. With the right combination of taste and nutritional value, it has become a great achievement of Lanka Dairies (Pvt) Ltd. ACTIV is most famous among the youth and is associated with many of their activities and aspirations. This product is also exported to the Maldivian market and won the hearts and minds of the young Maldivian consumers.

MY JUICEE FRUIT DRINK

This is a ready to drink fruit beverage filled with our daily dietary requirements of Vitamin C. The product is manufactured and aseptically packed at Lanka Dairies Welisara plant under extreme hygienic conditions and is available in Apple, Mango, Mixed Fruit and Orange variants. In keeping with international quality standards, it is processed using premium quality fruit pulps and concentrates sourced locally and internationally. My Juicee is available in pack sizes of 200ml to consume while on the move and 1 litre as a take-home family pack.



BLU DRINK

BLU drink 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. Lanka Milk Foods (CWE) PLC introduced BLU to the Sri Lankan market in year 2012.

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

FINANCIAL HIGHLIGHTS

For the year ended 31st March	Group			Company			
	2019	2018	Change %	2019	2018	Change %	
OPERATIONS							
Revenue	Rs. '000	5,385,534	5,278,777	2.02	1,922,137	1,840,687	4.42
Gross Profit	Rs. '000	487,442	800,809	(39.13)	26,721	100,936	(73.53)
Profit from Operations	Rs. '000	87,761	666,338	(86.83)	200,602	249,523	(19.61)
Profit/(Loss) Before Tax	Rs. '000	(44,712)	631,766	(107.08)	115,405	278,346	(58.54)
Profit/(Loss) for the Year	Rs. '000	(126,627)	580,531	(121.81)	101,483	276,401	(63.28)
Profit/(Loss) Attributable to Equity Holders	Rs. '000	(126,312)	580,784	(121.75)	101,483	276,401	(63.28)
Revenue per Employee	Rs. '000	7,771	7,379	5.31	7,067	6,075	16.32
FINANCIAL POSITION							
Non-Current Assets	Rs. '000	8,168,743	11,598,080	(29.57)	7,406,345	10,494,934	(29.43)
Current Assets	Rs. '000	2,448,635	2,195,399	11.53	1,608,901	1,582,904	1.64
Total Assets	Rs. '000	10,617,378	13,793,479	(23.03)	9,015,246	12,077,838	(25.36)
Total Equity	Rs. '000	8,856,988	12,470,426	(28.98)	8,319,369	11,701,440	(28.90)
Non-Current Liabilities	Rs. '000	476,154	494,501	(3.71)	58,007	62,227	(6.78)
Current Liabilities	Rs. '000	1,284,236	828,552	55.00	637,870	314,171	103.03
Net Assets Attributable to Equity Holders	Rs. '000	8,845,959	12,459,082	(29.00)	8,319,369	11,701,440	(28.90)
RATIOS							
Earning per Share	Rs.	(3.16)	14.52	(121.76)	2.54	6.91	(63.24)
Dividend per Share	Rs.	1.25	2.50	(50.00)	1.25	2.50	(50.00)
Dividend Cover	(Times)	(2.53)	5.81	(143.55)	2.03	2.76	(26.45)
Dividend payout Ratio	%	(39.58)	17.22	(329.85)	49.27	36.18	36.18
Interest Cover	(Times)	1.50	10.62	(85.88)	40.90	52.71	(22.41)
Net Assets per Share	Rs.	221.16	311.49	(29.00)	207.99	292.55	(28.90)
Market Value per Share	Rs.	110.00	158.10	(30.42)	110.00	158.10	(30.42)
Price Earning Ratio	(Times)	(34.81)	10.89	(419.65)	42.96	22.88	87.76
Debt/Equity	%	19.92	10.61	87.75	8.36	3.22	159.63
Return on Equity	%	(1.43)	4.66	(130.69)	1.22	2.37	(48.52)
Return on Total Assets	%	1.19	4.21	(71.73)	1.12	2.29	(51.09)
Gross Profit Ratio	%	9.05	15.17	(40.34)	1.39	5.48	(74.64)
Net Profit/(Loss) Ratio	%	(2.35)	11.00	(121.36)	5.28	15.02	(64.85)
Current Ratio	(Times)	1.91	2.65	(27.92)	2.52	5.04	(50.00)
Liquid Ratio	(Times)	0.80	1.31	(38.93)	1.03	1.59	(35.22)

GROUP REVENUE

The growth in Group Revenue during the time span of years 2000 to 2019 is depicted below.





GROUP REVENUE

Rs. 5,386 million

Total Group revenue for the year amounted to Rs. 5,385 million.

(Rs. 5,279 million in 2017/2018)

GROUP PROFIT FROM OPERATIONS

Rs. 88 million

The Group profit from operations for the financial year was Rs. 88 million

(Rs. 666 million in 2017/2018)

PROFIT / (LOSS) BEFORE TAX

Rs. (45) million

The Group reported a loss Rs. 45 million before tax.

(Rs. 632 million in 2017/2018)

GROUP PROFIT / (LOSS) AFTER TAX

Rs. (127) million

The Group recorded a loss of Rs. 127 million after tax for the reporting year

(Rs. 580 million in 2017/2018)

TOTAL ASSETS

Rs. 10,617 million

The Group total assets as at 31st March 2019 was Rs. 10,617 million

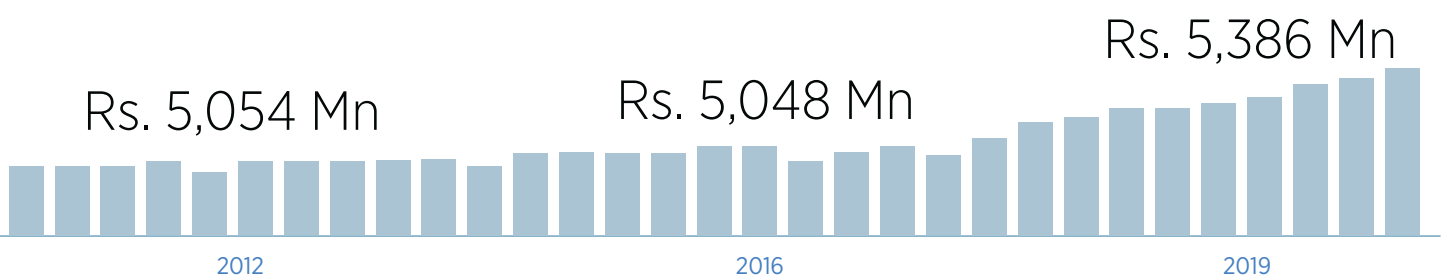
(Rs. 13,793 million in 2017/2018)

DIVIDEND PER SHARE

Rs. 1.25

A final dividend of Rs. 50 million is recommended by the Board of Directors for the reporting year.

(Rs. 2.50 Per Share in 2017/2018)





Our focus continues to be on maintaining and increasing our cattle herd to address demand, increasing our milk production capacity through our new company, United Dairies Lanka (Pvt) Ltd.



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CHAIRMAN'S MESSAGE



A stylized, handwritten signature in black ink, consisting of a large loop at the top and a long, sweeping underline.

D. H. S. JAYAWARDENA

Chairman

“THE GROUP’S FOCUS HAS ALWAYS BEEN ON DISTRIBUTING QUALITY AND WHOLESOME GOODNESS ACROSS THE ISLAND, AND CONTINUES TO DEDICATE ITS EFFORTS TOWARDS SUSTAINABLE NATIONAL GROWTH AND WELFARE.”

We continue to sustain our nation with a range of nutritious products and trusted brands, using foresight and decades of experience to propel us along our journey of growth.

Dear valued stakeholder,

I am pleased to present to you the integrated annual report and audited financial statements of Lanka Milk Foods (CWE) PLC, and provide an account of Group's activities during the financial year ended 31st March 2019. It is worth noting that despite the Sri Lankan economy's exposure to global and domestic disturbances, the country's total milk production recorded a considerable expansion in 2018, reaching an overall increase of 16%, in comparison to 2017. This increase is a clear reflection of the long-term gains resulting from favourable policies introduced in the previous year, towards which the Group contributed through continuous lobbying with the relevant authorities, in addition to increased private sector investment.

As we strive to achieve our vision of self-sufficiency in national milk production, I am proud to state that the Group made further strides towards this goal, recording a 19% increase in dairy production, from 6.1 million litres to 7.3 million litres during the year.

Financial Highlights

During the year under review, the Lanka Milk Foods Group recorded a loss of Rs. 127 million after tax, due to the combined result of increasing global powdered milk prices, the upward trend of the exchange rate, and the increased cost of milk production in farms. Despite this setback, we are purposefully investing towards long-term growth, capitalising on our strengths, and expanding our potential to create immense stores of value in the years to come. The Consumer Affairs Authority is very slow in granting a request for a price adjustment. This unfortunate situation has put us into the great inconvenience of not being able to cover the cost incurred. Today, as in the past there is a steep increase in milk powder prices in the world market.

The Nature of Value Creation

As evidenced by this year's annual report, generating exceptional, sustainable value comes naturally to your Group. Harnessing

“OUR WELL-KNOWN AMBEWELA FRESH MILK AND NON-FAT MILK RECORDED A TOTAL REVENUE INCREASE OF RS. 101 MILLION THIS YEAR. WE MUST REITERATE THAT AMBEWELA MILK IS THE FRESH MILK THAT WE OBTAIN FROM OUR OWN FARMS WITHOUT USING ANY OTHER MILK SOURCED FROM OTHER FARMERS.”



DIVIDEND PER SHARE

Rs. 1.25

(Rs. 2.50 Per Share 2017/2018)



GROUP REVENUE

Rs. 5,386 million

(Rs. 5,279 million in 2017/2018)

the power of people, processes and innovation, we continue to sustain our nation with a range of nutritious products and trusted brands, using foresight and decades of experience to propel us along our journey of growth. The Group's focus has always been on distributing quality and wholesome goodness across the island, and continues to dedicate its efforts towards sustainable national growth and welfare.

We continue to maintain stakeholder satisfaction at the centre of our operations, practicing principles of good governance and business excellence, and distributing consistent value and returns to our customers, shareholders, employees and the surrounding community.

Operating Environment

The Group faced a challenging economic environment during the year, substantiated by a modest expansion in real economic activity amidst a low inflation environment. Despite the commendable growth in national milk production, only 45% of the country's demand is met at present, with the remaining component being met by powdered milk imports, thus leaving considerable room for domestic growth. However, it is heartening to note that consumer lifestyles are transitioning from powdered milk to consumption of liquid milk, and your Group is ideally positioned to leverage on our strengths and tap into this emerging market, having invested into increasing milk production and engaging in expansion as discussed in detail further in this report.

Brand Performance

Lanka Milk Foods (CWE) PLC, the Company recorded a profit of Rs. 101 million during the year under review, as against Rs. 276 million in the previous year. As mentioned previously, this decline in performance was attributed by the increased exchange rates and escalating international milk powder prices, and we are confident of an improved financial climate, following the approval received from the Consumer Affairs Authority to increase prices in the coming fiscal year.

The Ambewela brand continued to maintain its status as the highest performer in the Group. Our well-known Ambewela fresh milk and non-fat milk recorded a total revenue increase of Rs. 101 million this year. We must reiterate that Ambewela milk is the fresh milk that we obtain from our own farms without using any other milk sourced from other farmers.

As a Group that prides itself on delivering holistic value, over the years Lanka Milk Foods has perfected a sustainable business model that is built on pillars of excellence,

CHAIRMAN'S MESSAGE

quality, nutrition, taste and hygiene – reinforced by principles of integrity, trust and good governance across the board. Our name is synonymous with health, nutrition and sustainable goodness, achieved through a portfolio of brands that consistently fulfil their promise to sustain and nourish lives across the nation.

With state-of-the-art facilities, our cutting-edge dairy factory continues to contribute towards Group performance, producing a range of products that are loved by all consumers, leading the way in the fresh milk category in the local market. Our factories engage in the manufacture of Ambewela Yoghurt, Ambewela Cheese and flavoured milk, Ambewela Fresh Milk 1 Litre and 200ml packs, in addition to the Daily 200ml flavoured milk range consisting of five variations and the Active 200ml malt chocolate milk. With the rising demand for dairy products, we anticipate continued growth in this segment in the years to come.

Manufactured and processed using the best quality milk produced in our farms, Ambewela natural cheeses continue to capture the hearts and minds of the market. Our pristine dairy farms are at the core of our success, generating the nation's highest average milk production on par with international standards.

Considering the increasing demand for fresh milk, your Group is investing Rs. 3 billion in establishing United Dairies Lanka (Pvt) Ltd, a new company which is anticipated to increase milk production by up to 40 litres per cow per day, supported by modern facilities, scientific dairy management, premium feed and specialised veterinary care. Our exports also have increased, unfortunately due to shortage of milk we cannot meet the demand that has been established.

Future Outlook

Despite a challenging economic environment, your Group continues to invest in expansion and in enhancing quality, while supporting the country's goal of being self-sufficient in the production of fresh milk. Our focus continues to be on maintaining and increasing our cattle herd to address demand, increasing our milk production capacity through our new company, United Dairies Lanka (Pvt) Ltd. Furthermore, we continue to invest in expanding your Group's market share across all our categories, expanding distribution channels and investing in the automation of our sales force, while effectively managing costs.

As a Group, we remain committed to upholding the highest standards of quality. Customer-centricity has always been the key to our longstanding success, and therefore we continue to pursue product improvements and innovation, focused on adding value through consumer-friendly packaging and enhancing quality across the board. We believe that upon considering current consumer trends and economic forces, we are uniquely positioned to grow and maintain our reputation as the nation's best-loved dairy provider in the years that lie ahead.

Appreciations

I wish to place on record my gratitude to my fellow Directors on the Board for their unstinted support and confidence in me. We are pleased to announce that during the year, Lanka Milk Foods (CWE) PLC recruited a young and energetic Group Chief Executive Officer Mr. Manjula Dahanayake CIM, MBA who possesses a vast experience of over 30 years in the marketing field. We are confident that under his leadership the Group will undoubtedly grow and flourish.

I also wish to thank the management and staff, who continue to drive the Group's vision forward, and our valued shareholders for their unwavering faith and support amid a challenging year of operations. Finally, I would like to thank all our customers, suppliers and other stakeholders for continuing to collaborate with us over the years.

We must also record the fact that our customers have placed great faith in our products which has been maintained over the years, and we salute them for their confidence.

D. H. S. Jayawardena
Chairman

06th August 2019

DIRECTOR'S REVIEW



C. R. JANSZ

Director

“OUR JOURNEY TOWARDS ACHIEVING SELF-SUFFICIENCY IN NATIONAL MILK PRODUCTION CONTINUES, WITH THE GROUP CONTRIBUTING 7.3 MILLION LITRES OF MILK TO THE COUNTRY’S OUTPUT DURING THE YEAR.”

Our three dairy farms, namely Ambewela Dairy Farm, Pattipola Dairy Farm and APPL Dairy Farm, are home to 2600 cattle.

DIRECTOR'S REVIEW

“WE ARE CONFIDENT THAT GIVEN OUR LONG-TERM VISION, TIMELY STRATEGIES AND PRUDENT INVESTMENTS, THE GROUP IS POISED TO DELIVER EVEN GREATER VALUE IN THE YEARS TO COME.”



GROUP GROSS PROFIT

Rs. 487 million

(Rs. 801 million in 2017/2018)

Dear shareholders,

On behalf of the Board of Directors, I welcome you with pleasure to the 37th Annual General Meeting of Lanka Milk Foods (CWE) PIC. The year under review was a challenging one with rising costs and unfavourable economic conditions globally and nationwide that led the Group towards a strategic focus on optimising costs and expanding on key growth areas for the future.

Our journey towards achieving self-sufficiency in national milk production continues, with the Group contributing 7.3 million litres of milk to the country's output during the year, while investing in further capacity enhancements and increase in output through our new company, United Dairies Lanka (Pvt) Ltd. We are confident that given our long-term vision, timely strategies and prudent investments, the Group is poised to deliver even greater value in the years to come.

Group Performance

The profitability of the powdered milk sector was directly impacted by the increased CIF price of milk powder in the world market, coupled with the increased foreign exchange value of the US Dollar, resulting in Lanka

Milk Foods (CWE) PLC, your Company, recording a profit of Rs. 101 million as against Rs. 276 million in the previous year. Despite numerous requests to mirror the changes taking place in the international market, the Consumer Affairs Authority took steps to increase the selling price of milk only following the close of the financial year, thus impacting the Group's overall profitability during the year under review. However, it is projected that the coming financial year, 2019/20, will be better, provided milk powder prices are adjusted in line with the market.

The highly nutritious, wholesome Ambewela 1 litre milk packs and the popular flavoured milk 'Daily', have both grown to become household names. As a result of rising consumer demand for liquid milk, the sales volumes of the Ambewela 1 litre UHT pack is increasing continuously, while Ambewela yogurt and Ambewela artisan and other cheeses are generating large increases in demand. The Ambewela brand is now firmly established in the minds of consumers.

Our three dairy farms, namely Ambewela Dairy Farm, Pattipola Dairy Farm and APPL Dairy Farm, are home to 2600 cattle. The European breeds of black and white Friesians and brown and white Ayrshires at our dairy farms produce an average of 26 litres of milk per cow per day, which is, by far, the highest average production in Sri Lanka. In order to maintain and increase production, our herd has to be maintained in an extremely good condition. Achieving such excellence is costly. During the year under review, costs rose as we improved the quality of the herd. As a result, all three farms were impacted financially. The Group appointed a dairy expert from South Africa with vast experience in the industry who specialises in increasing production to improve the quality of our cattle, and the milk output. We are confident that during the current financial year, the improvements we are now making will return all three farms to profitability.

It should also be mentioned here that Pattipola Farm (New Zealand Farm) has become a major attraction for local and foreign tourists alike, with over 10,000 persons visiting the farm during a typical peak day. All three farms provide practical training opportunities, primarily to university undergraduates following agriculture degrees. We also provide an opportunity to large numbers of school children to visit the farm during school holidays on field trips, in order to see a scientifically maintained modern dairy farm.

Our extremely popular Ambewela yoghurt brand continued to sustain its growth momentum, and with the increased consumption of dairy products, we believe we are well placed to meet the country's demand in the future. Ambewela Products (Pvt) Ltd recorded a profit of Rs. 93 million as against Rs. 206 million of the previous year, once again dragged down by the costs incurred in improving the quality and output of our cows. We are confident these improvements will favourably impact profits moving forward.

Plans for the Future

Since the privatisation of Ambewela and Pattipola farms in the year 2001, the production of milk has increased to an average of 26 litres per cow per day from 8 litres per cow per day. The number of cattle has increased to 2600 from 1200. Considering the increasing herd and the future demand for more fresh milk, the management decided to establish a new Company named United Dairies Lanka (Pvt) Ltd to achieve this objective. This new company will be located on both the Ambewela and Pattipola Farms and will comprise 2 ultra-modern cattle sheds and one sophisticated milking parlour at each location. This project will cost in the region of Rs. 3 billion. The purpose

of this investment will be to increase the production of milk up to 40 litres per cow per day, using scientific dairy management, premium comfort and feed, with specialised veterinary care. Two experienced veterinary surgeons are already in residence, dedicated towards providing round-the-clock veterinary care to the herds. This new project is not only expected to earn substantial profit but is also designed to supply a large quantity of quality milk to the country's dairy industry, which will bring about a considerable saving in terms of foreign exchange, now spent on the import of powdered milk.

The Pattipola farm is famous for its cheese products such as Gouda, Parmesan and other varieties of cheese that is in high demand, not only among the locals but also among foreign visitors. We are now in the process of producing hand-crafted artisan cheeses which will be positioned as a high-end product for discerning consumers.

Generating Sustainable Value

As we face a future that is challenging on multiple fronts, we are confident in the strengths of the Lanka Milk Foods Group, and in the foresight and vision that has ensured our stable, steadfast operations over the years. Our commitment to quality, wholesomeness and natural goodness continues to build loyalty in the hearts and minds of our consumers, while our delivery of holistic value enables us to sustain your Group well into the future. Our partnerships are key to our success, and we are invested in ensuring the highest levels of stakeholder satisfaction in all we do.

As an organisation that relies on the environment and its people, the Group is deeply committed towards sustainability initiatives – ensuring our environmental impact is minimal, and focusing on building a healthy and safe working environment, while encouraging employee satisfaction and welfare throughout the year.

Appreciation

The Chairman is the driving force behind the Company, and I would like to thank him for his leadership. I also thank the other directors for their invaluable guidance and support during the year. As we invest in the future and continue to make strides in the dairy industry, we are grateful to our shareholders for their consistent support, and to our employees who continue to be an integral force in making our long-term vision a reality.

Of course, we would be nothing without our customers, and my grateful thanks go out to them for their confidence in our products. We assure you that the Company will strive to ensure that every product we manufacture will be to the highest international standards.

C. R. Jansz
Director

06th August 2019

GROUP CHIEF EXECUTIVE OFFICER'S MESSAGE



A handwritten signature in black ink, appearing to read 'M. Dahanayake', with a long horizontal line extending to the right.

M. DAHANAYAKE

Group Chief Executive Officer

“AS AN ORGANISATION WE REMAIN STEADFAST AND CLEAR IN TERMS OF OUR VISION – WITH RESPECT TO THE DIRECTION WE INTEND TO MOVE IN WITHIN THE ENSUING SHORT AND LONG-TERM PERIODS.”

This is clearly an eye-opener for us to think in a more futuristic perspective and ensure that our strategy is well in place to cater to the demand which is to be generated in the years ahead.

Dear valued stakeholders,

The future of the Group is at present looking rather impressive as we have seen a considerable consumer shift towards fresh milk and milk-based products. The ever-changing consumer and the shopper are both continuously looking for more innovative products while the younger generation is now beginning to choose healthier lifestyle options which enables us to think differently in order to face the future. I believe that these developments are challenging, and will open more avenues for us to ensure that we offer the right mix of products to meet future consumer demand.

Therefore, as an organisation we remain steadfast and clear in terms of our vision – with respect to the direction we intend to move in within the ensuing short and long-term periods. This is clearly an eye-opener for us to think in a more futuristic perspective and ensure that our strategy is well in place to cater to the demand which is to be generated in the years ahead.

As I mentioned previously, with respect to the short term trends, the full cream milk powder users (FCMP) show a continued migration towards fresh milk usage, reflecting the trends in the global market. This trend has been observed primarily among the more affluent and top end base of consumers, consisting of Socio Economic Classes (SEC) A and B, and a significant component of C.

The question remains – how do we as a leading dairy producer take control of this situation and provide a rapid solution? Any dairy company will eventually face the challenge of collecting fresh milk in a nation where the country at present only fulfils half of the nation's demand. Furthermore, due to increase in demand, the cost of a litre of milk displays an upward trend, which augments the challenge we face, bringing the possibility of investing in our own facilities to a standstill.

The process of increasing the Group's milk production has already begun with the introduction of our new project which

“WE ARE IN THE PROCESS OF CONTINUOUSLY IMPROVING THE QUALITY OF OUR PRODUCTS, ENSURING THAT WE CONTINUE TO UPHOLD OUR PHILOSOPHY OF BEING UNCOMPROMISING WITH RESPECT TO QUALITY AT ANY GIVEN TIME”



GROUP REVENUE
Rs. 5,386 million
 (Rs. 5,279 million in 2017/2018)

will enable us to triple our capacity by the 3rd quarter of 2020. The Chairman and the Board have decided to authorise the highest ever investment made by any dairy company in the country to ensure that we will not miss out on this momentous opportunity.

The project will kick off in the month of August this year and we are currently in the stage of acquiring necessary approvals from the Central Environmental Authority. The project team is thus working tirelessly in order to meet the specified deadlines.

Furthermore, we are in the process of continuously improving the quality of our products, ensuring that we continue to uphold our philosophy of being uncompromising with respect to quality at any given time.

Distribution

We are also in the process of focusing on increasing the numeric distribution across all our brands as I envision enormous potential with respect to this aspect of our operations. We intend to improve distribution and ensure that all our products are available around the country, depending on the availability of milk which is a challenge at this point of time. Efforts are already in place to increase the distribution reach and

the sales team is very confident of moving forward to achieve the desired goal by end of 2019.

Future Brands Outlook

Modern consumers/shoppers are ever-changing, and we have all the necessary ammunition in place to face this challenge. I believe **Innovation** will be key to our success in future. Furthermore, the **Communication** of our brand message to our consumers will play a pivotal role which will change the perception and the outlook of the Group and its performance. The sales **Activation** and proper **Execution** of our brands in the future will further ensure that the continuous demand for our products will remain stable and constant.

In line with **Innovation**, we will strive to provide a new look and feel to our brand portfolio in line with better identifying with the typical consumer's mind, and tapping into their needs. Most importantly the brand **Communication** for our products will be given a more modern flavour to register unforgettable moments and positive associations in the hearts and minds of our consumers. Through brand **Activation** and **Execution**, we have a number of plans in place to reach to the doorstep of our consumers, with the end goal of ensuring that they will continue to indulge in our products and enjoy their iconic taste, quality and nutrition.

Appreciation

As I extend my appreciation to the Chairman and Board of Directors who have put their faith in me, I thank you all for your support, and look forward to a positive year filled with immense potential to grow, and future of nation-wide development and progress.

M. Dahanayake
 Group Chief Executive Officer

06th August 2019

BOARD OF DIRECTORS



“OURS IS A VISION OF AN INDUSTRY DRIVEN BY INNOVATION AND CHANGE, AS WE WORK TOWARDS ACHIEVING OUR NATION’S LONG-TERM SUCCESS...”

1

MR. D. H. S. JAYAWARDENA

Executive Chairman

Mr. Harry Jayawardena is one of the most successful and legendary entrepreneurs in Sri Lanka. He heads many successful enterprises in diversified business fields. Mr. Jayawardena was elected Chairman of Lanka Milk Foods (CWE) PLC in October 2008 after serving as its Managing Director for almost 17 years. He is the Founder Director and current Chairman/Managing Director of the Stassen Group of Companies – a diversified group 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., 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., Melstacorp PLC., and its subsidiaries Distilleries Company of Sri Lanka PLC., Periceyl (Pvt) Ltd., Balangoda Plantations PLC., Lanka Bell Ltd., Telecom Frontier (Pvt) Ltd., Bell Solutions (Pvt) Ltd. and 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., United Dairies Lanka (Pvt) Ltd., and Bogo Power (Pvt) Ltd. He also serves as a Director in the Boards of Melsta Gama (Pvt) Ltd and Melsta Health (Pvt) Ltd.

Mr. Jayawardena is a former Director of Hatton National Bank PLC, the largest listed bank in Sri Lanka and a former Chairman of Ceylon Petroleum Corporation and Sri Lankan Airlines. He is the Honorary Consul General for Denmark in Sri Lanka and 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.

He was awarded the title “Deshamanya” in recognition of his service to the motherland in year 2005.



2

MR. C. R. JANSZ

Executive Director

Appointed Director to the Board of LMF on 01st October 1992. He has many years of managerial experience in the Import/ Export field and services related to international trade including logistics, documentation, insurance, banking, and finance.

Mr Jansz serves on the Boards of Lanka Dairies (Pvt) Ltd, Ambewela Livestock Company Ltd, Pattipola Livestock Company Ltd, Ambewela Products (Pvt) Ltd., Indo Lanka Exports (Pvt) Ltd., United Dairies Lanka (Pvt) Ltd., Balangoda Plantations PLC., Distilleries Company of Sri Lanka PLC. Melstacorp PLC., Lanka Bell Ltd., Lanka Power Projects (Pvt) Ltd., Milford Holdings (Pvt) Ltd., Periceyl (Pvt) Ltd., Stassen Exports (Pvt) Ltd. and Milford Exports (Ceylon) (Pvt) Ltd.

Mr. Jansz is the former Chairman of DFCC Bank PLC., The 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 London Metropolitan University (Formerly London Guildhall University) – UK. He is a Chevening Scholar and a UN-ESCAP Certified Training Manager on Maritime Transport for Shippers.



3

MS. D. S. C. JAYAWARDENA

Executive Director

Ms. Sanjivani Jayawardena was appointed to the Board of Lanka Milk Foods (CWE) PLC on 15th October 2008.

She is also a Director to Lanka Dairies (Pvt) Ltd, Ambewela Livestock Company Ltd, Pattipola Livestock Company Ltd, Ambewela Products (Pvt) Ltd, Indo Lanka Exports (Pvt) Ltd. United Dairies Lanka (Pvt) Ltd., Stassen Exports (Pvt) Ltd., Milford Exports (Ceylon) (Pvt) Ltd., Stassen International (Pvt) Ltd., Stassen Natural Foods (Pvt) Ltd., Ceylon Garden Coir (Pvt) Ltd., Milford Developers (Pvt) Ltd., Stassen Foods (Pvt) Ltd., C B D Exports (Pvt) Ltd.

BOARD OF DIRECTORS



4

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 in working in the public (Agriculture, Livestock, Education and Health sectors) and private sector, central and provincial ministries and at district levels.

Dr. Shakthevale was appointed to the Board LMF as an Independent Director on 01st May 2008. He was appointed as a Director to the Board of United Dairies Lanka (Pvt) Ltd on 23rd July 2018.

He is also a Director to Madulsima Plantations PLC and Balangoda Plantations PLC.

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; Coordinating 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 and President of the Senior Veterinary Surgeons Association 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, the General Forum of the Organization of Professionals Association of Sri Lanka, Technical Committee of All Island Dairy Association and a freelance Consultant in the field of Livestock Development.



5

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.

He is an eminent Tax Consultant and the Senior Tax and Legal Partner of Amarasekera & Company, a leading tax consultancy firm in the country. On 01st May 2008, Mr. Amarasekera was appointed to the Board of Lanka Milk Foods as an Independent Director. He was appointed as a Director to the Board of United Dairies Lanka (Pvt) Ltd on 23rd July 2018.

He is also a Director of Balangoda Plantation PLC., Madulsima Plantations PLC., Browns Investments PLC., Browns Capital PLC., Kelani Tyres PLC., Eden Hotel Lanka PLC., Palm Garden Hotels PLC., and Agstar PLC.



6

**MR. D. HASITHA.
S. JAYAWARDENA**
Non- Independent Non-Executive
Director

Mr. Hasitha Jayawardena holds a Bachelor's Degree in Business Administration BBA (Hons) from the University of Kent in the United Kingdom. He was appointed to the Board of Lanka Milk Foods on 11th July 2016.

Mr. Jayawardena joined the Stassen Group in February 2013. 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 PLC., Lanka Dairies (Pvt) Ltd., Ambewela Livestock Company limited., Pattipola Livestock Company Limited., Ambewela Products (Pvt) Ltd., Zahra Exports (Pvt) Ltd., Balangoda Plantations PLC., Madulsima Plantations PLC., Mcsen Range (Pvt) Ltd., Melsta Gama (Pvt) Ltd, Melsta Health (Pvt) Ltd and United Dairies Lanka (Pvt) Ltd.

Mr. Jayawardena has also worked as an Intern at the Clinton Global Initiative programme (CGI) in New York in 2007.



The Group's focus has always been on distributing quality and wholesome goodness across the island, and continues to dedicate its efforts towards sustainable national growth and welfare.



MANAGEMENT DISCUSSION & ANALYSIS

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MANAGEMENT DISCUSSION & ANALYSIS

“AT LANKA MILK FOODS, OVER THE YEARS WE HAVE CRAFTED A SUSTAINABLE BUSINESS MODEL THAT NOURISHES A NATION.”

Leveraging on a wide-ranging portfolio that balances taste and quality with wholesome goodness and nutrition, we provide equitable development.



Macro-economic Environment

During the year under review, the Lanka Milk Foods Group operated against a challenging backdrop, facing headwinds arising from an unfavourable domestic and external environment. In response to the aforementioned global and domestic disturbances, the Sri Lankan economy displayed a moderate growth pace of 3.2% in 2018, in comparison to the 3.4% growth recorded in 2017, with a modest expansion in real economic activity amid a low inflation environment during the year.

“DURING THE YEAR UNDER REVIEW, THE LANKA MILK FOODS GROUP OPERATED AGAINST A CHALLENGING BACKDROP.”

On a more positive note, favourable weather conditions that prevailed throughout the year in major cultivation areas across Sri Lanka enabled a strong recovery in terms of agricultural activities, while the livestock sector recorded a positive performance.

The Dairy Industry

Overall, domestic milk production recorded a considerable expansion during the year 2018, with total production increasing by 19.0% to 471.6 million litres, in comparison to 396.2 million litres recorded in the previous year. This was largely due to the increase in cow milk production, which increased by 17.7% to reach 385.7 million litres, while the output of buffalo milk increased by 25.3%, contributing 85.9 million litres towards national production. In contrast, milk production levels at the National Livestock Development Board (NLDB) decreased slightly to 14.7 million litres in 2018, from 15.0 million litres in the previous year.

“FOREIGN EXCHANGE COMMITMENTS APPEARED ALARMING DURING THE LATTER PART OF THE YEAR, DUE EXCHANGE RATES REGISTERING AN INCREASED GROWTH THROUGHOUT THE YEAR.”

Furthermore, the number of milking cows increased by 11.2% to 32,380, with the number of milking buffalo cows increasing by 8.9% to 94,200 during the year. However, despite the increase in milk production, the powdered milk sector recorded an increase in imports of 6.3% to reach 99,028 metric tonnes, valued at Rs. 50.3 billion during the year.

As domestic milk production is sufficient to meet only approximately 45% of the nation’s total demand at present, in the interests of national progress it is vital to address the existing issues and concerns within the sector, and to further encourage milk producers to enhance and expand their production capacity in the years ahead.

The average cost of milk production increased to reach Rs. 47.67 per litre during the year due to the escalating prices of concentrate feeds. However, the average farm gate price remained largely stagnant, at a rate of Rs. 66.88 per litre, as in the previous year.

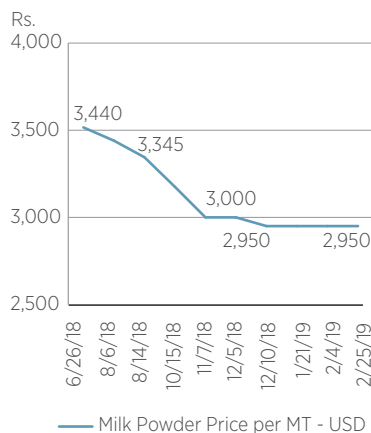
The Powdered Milk Industry

Following October 2018, the customs duty waiver on milk powder registered a decrease, reaching Rs. 210 per kg in comparison to the rate of Rs. 223 per kg in the previous year, with the applicable duty rate being Rs. 15 per kg.

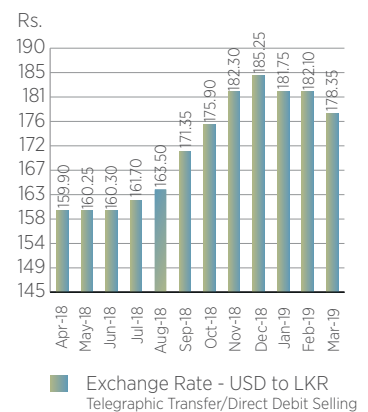


Foreign exchange commitments appeared alarming during the latter part of the year, due to exchange rates registering an increased growth throughout the year. Despite these developments, the Consumer Affairs Authority did not increase the prices of milk powder products until 15th March 2019, following the close of the financial year. We anticipate that the CAA price increase would reflect a more positive performance in the immediate future.

Milk Powder Price per MT - USD



Exchange Rate - USD to LKR
Telegraphic Transfer/Direct Debit Selling



MANAGEMENT DISCUSSION & ANALYSIS

Sustainable Development Goals

At Lanka Milk Foods, over the years we have crafted a sustainable business model that nourishes a nation. Leveraging on a wide-ranging portfolio that balances taste and quality with wholesome goodness and nutrition, we provide equitable development through our focus on the United Nation’s Sustainable Development Goals, and our stakeholder-centric strategies that deliver value across the board.



The UN’s Sustainable Development Goals (UN SDGs) serve as a blueprint that would address specific global issues, and provide a path towards shared peace and prosperity for both people and planet. The SDGs cover 17 aspects, and are a key focus area in our everyday operations, with the Lanka Milk Foods Group contributing towards the advancement of 10 of these goals. The Group continues to adhere to these sustainable practices, and is currently working towards expanding its scope to introduce further SDG related initiatives in the future.

The Group’s contribution towards these goals is further described within the capital reports, found on pages 32 - 43.





Stakeholder Engagement

At Lanka Milk Foods, we believe in a holistic, multi-faceted approach towards value creation, focusing on the needs and concerns of every stakeholder group we impact. From our farms to our end consumer, our value chain spans across multiple stakeholder categories, who serve as crucial business partners in our shared journey towards sustainable growth and prosperity.

Our stakeholders consist of our shareholders, consumers, employees, suppliers and service providers, government and regulators, the environment and the community at large. These stakeholders remain at the heart of our business, and as a company policy, we engage closely with the identified stakeholder groups to understand their concerns and analyse their needs, implementing ways in which we can satisfy their demands, and according to the required level of engagement, determine the frequency and methods thereof. We are mindful that the livelihoods of many of our stakeholders depend on the sustainability of our operations, which is why we remain committed to upholding our reputation as an ethical business entity that takes a long-term view of the business.






The Group's stakeholder engagement process is detailed below:

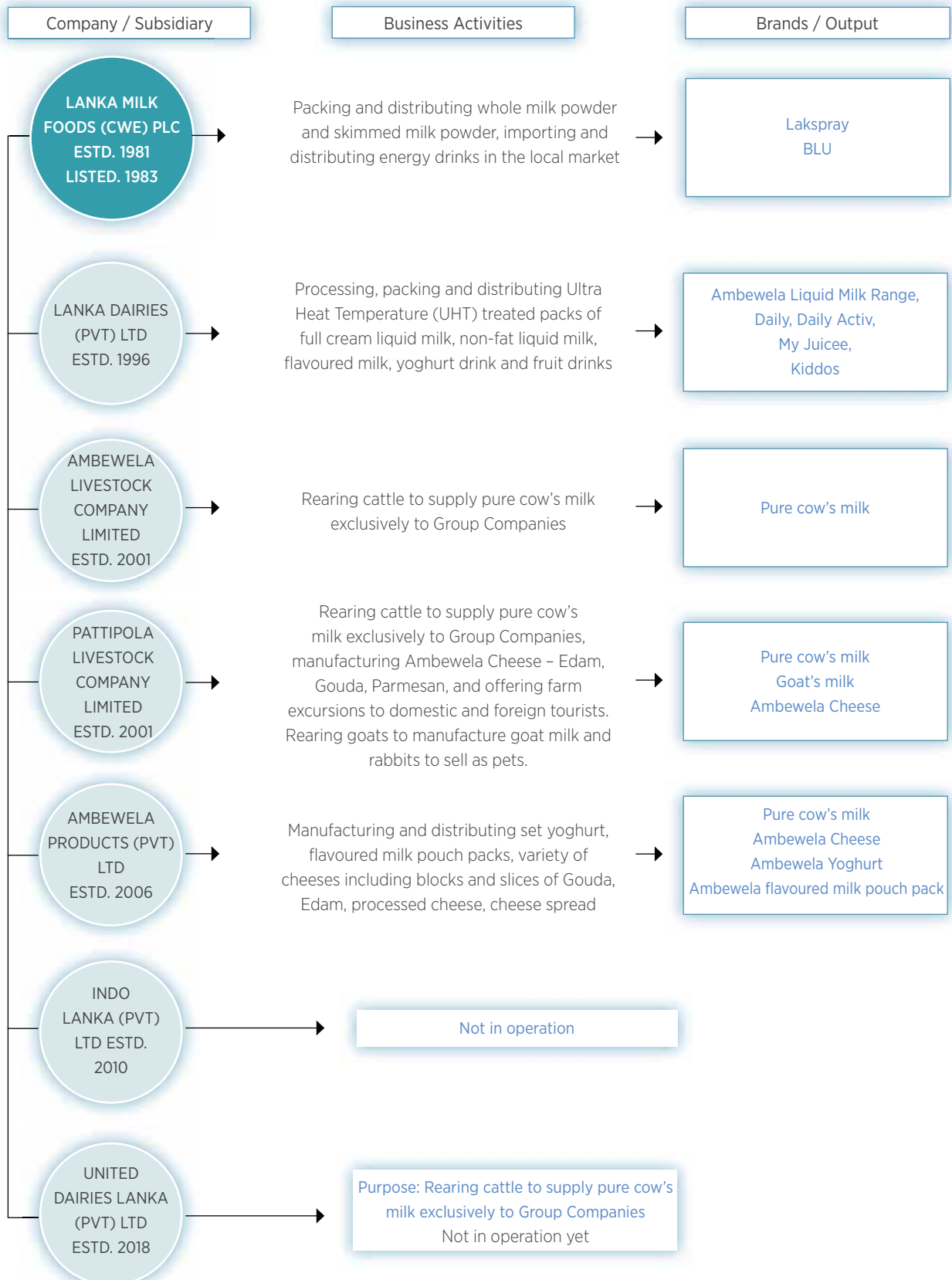
Key Stakeholders	Stakeholder Concerns	Strategic Response	Method of Engagement	Frequency of Engagement
Consumers 	<ul style="list-style-type: none"> • Value for money • Taste • Healthy and safe products • Quality • Price • Availability • Satisfaction 	<ul style="list-style-type: none"> Providing nutritious, quality products, high in taste Making our products available and easy to reach Product development Reasonable prices Foods safety and quality management 	<ul style="list-style-type: none"> Group website Consumer helpline Social media 	<ul style="list-style-type: none"> Regularly Regularly Regularly
Employees 	<ul style="list-style-type: none"> • Competitive remuneration packages • Benefits for self and family • Incentives and promotions to suit performance • Motivation - financially and non-financially • Career growth • Job security • Healthy and happy work environment • Work-life balance 	<ul style="list-style-type: none"> Providing safe, supportive living and working conditions Including family friendly policies Shared values and objectives Effective communication systems throughout the organisation 	<ul style="list-style-type: none"> Staff meetings Discussions Internal communication methods Training programs Recreational activities 	<ul style="list-style-type: none"> Regularly When necessary When necessary When necessary Regularly
Suppliers 	<ul style="list-style-type: none"> • On time payments Efficient communication • Growth in operations 	<ul style="list-style-type: none"> Focused Supply Chain Best procurement practices and prompt payments Fair treatment Ethical sourcing of material Providing adequate lead times 	<ul style="list-style-type: none"> Meetings Supplier visits Fair procurement practices 	<ul style="list-style-type: none"> When necessary When necessary Regularly
Distributors and retailers 	<ul style="list-style-type: none"> • Distributor and retailer margins • Satisfactory incentives for performance • Profitability of entity's operations 	<ul style="list-style-type: none"> Maintaining rewarding partnerships with the distributors Efficient communication Providing competitive incentive schemes 	<ul style="list-style-type: none"> Regular interactions through sales team Distributor agreements Distributor meetings Evaluations and monitoring performance Rewards and recognition for performance 	<ul style="list-style-type: none"> Regularly Annually When necessary Monthly, Quarterly Annually

MANAGEMENT DISCUSSION & ANALYSIS

The Group's stakeholder engagement process is detailed below:

Key Stakeholders	Stakeholder Concerns	Strategic Response	Method of Engagement	Frequency of Engagement
Investors 	<ul style="list-style-type: none"> Return for the investments and risks taken Opportunity cost Profitability and performance of the entity Sustainability and growth of the entity Risk Management 	<ul style="list-style-type: none"> Dividends paid for investments Sustainable operations Corporate Disclosure 	<ul style="list-style-type: none"> Performance updates through interim financial statements Announcements made to CSE Group website Annual General Meeting Extraordinary General meetings Publication of the Annual Report 	<ul style="list-style-type: none"> Quarterly When necessary Regularly Annually When necessary Annually
Society 	<ul style="list-style-type: none"> Ethical business operation Being a socially responsible entity Community development Employment opportunities 	<ul style="list-style-type: none"> Support of social infrastructure Environmentally responsible business operations Providing training opportunities for Agriculture graduates and undergraduates. 	<ul style="list-style-type: none"> Ongoing CSR activities Press releases 	<ul style="list-style-type: none"> Regularly When necessary
Regulatory Bodies 	<ul style="list-style-type: none"> Compliance Ethical business practices Support when required to conduct audits etc. 	<ul style="list-style-type: none"> Respecting and complying with local, national and international law. Adherence to regulations related to products and industry Responsible business operations through transparency in activities 	<ul style="list-style-type: none"> Interactions with local authorities Prompt and full payment of taxes Meetings and consultation visits Press releases 	<ul style="list-style-type: none"> When necessary Monthly, Quarterly When necessary When necessary

Group Operational Structure



MANAGEMENT DISCUSSION & ANALYSIS

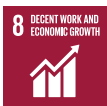
Capital Reports

At Lanka Milk Foods, we generate value based on six interconnected capitals – the resources and partnerships that have sustained our business over decades of operations. These six capitals, described below, underpin our success, and ensure our long-term survival and consistent growth.

<p>The traditional method of measuring performance; these are the funds that are available for use in producing or providing goods and services, in addition to the funding obtained from debt or equity financing.</p> <p>Financial Capital</p> 	<p>The relationships cultivated with external stakeholders of the organisation, encompassing engagement with stakeholders such as customers, suppliers, investors, and the surrounding community.</p> <p>Social & Relationship Capital</p> 	<p>This refers to the employees within an organisation - their experience, capabilities and competencies and improvements thereon, in addition to their alignment with organisational culture, vision and values.</p> <p>Human Capital</p> 
<p>Tangible, manufactured physical objects/assets used in the company's day to day operations - including plant, property and equipment, and surrounding infrastructure developed by the organisation.</p> <p>Manufactured Capital</p> 	<p>Consists of the collective knowledge base of the organisation, including intellectual property (patents, licenses copyrights, etc) and unique organisational knowledge, systems and/or procedures.</p> <p>Intellectual Capital</p> 	<p>These are the renewable/non-renewable resources found in the environment that provide goods or services that support the organisation's growth.</p> <p>Natural Capital</p> 

Financial Capital

Relevant SDGs:



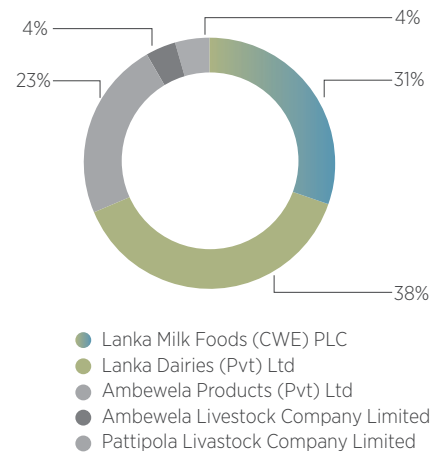
The Lanka Milk Foods Group reported an increase in revenue for the financial year, reaching Rs. 5,386 million, against the Rs. 5,279 million received in the previous year. Due to increased costs and the impact caused by rising prices and exchange rates in the global market, the Group recorded a loss of Rs. 127 million after tax. A dividend payout of Rs. 50 million is proposed for the year under review.

Revenue

During the year, the liquid milk product segment generated the highest revenue in comparison to other categories. Ambewela fresh milk retained its position as the highest contributor towards income, with a revenue growth of Rs. 101 million in comparison to the previous year.

With the intention of increasing the Group's turnover in the long term, Lanka Milk Foods has taken steps to utilize enhanced product mix strategies and provide premium quality products to our consumers in the future.

Group Revenue - 2019



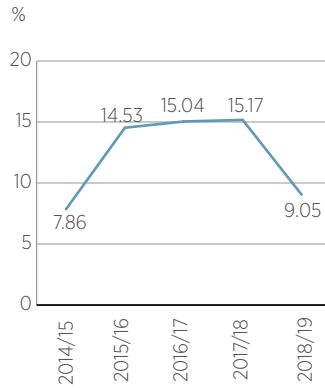


GROUP REVENUE
Rs. 5,386 million
 (Rs. 5,279 million in 2017/2018)

PROFIT / (LOSS) AFTER TAX
Rs. (127) million
 (Rs. 580 million in 2017/2018)

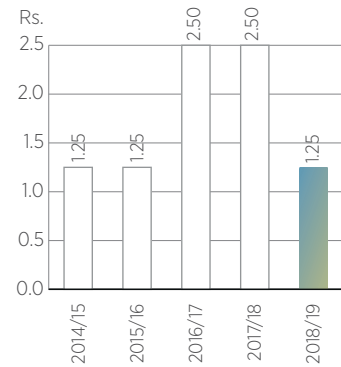
DIVIDEND RECOMMENDED
Rs. 50 million
 (Rs. 100 million in 2017/2018)

Gross Profit Margin



LMF share traded between a lowest price of Rs. 108.50 and a highest price of Rs. 177.90 during the year, and the last traded price as at 31st March 2019 was recorded as Rs. 110.00.

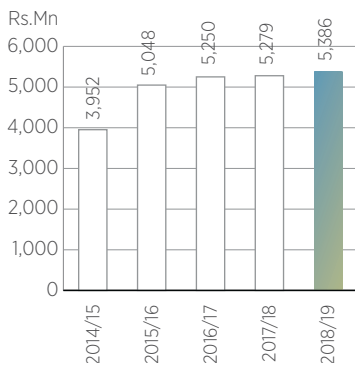
Dividends Per Share



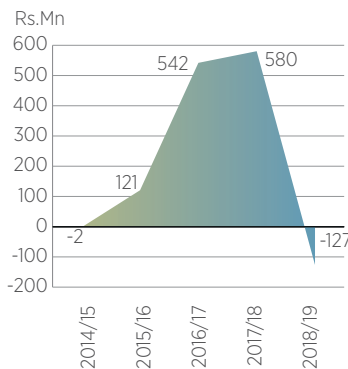
Profit After Tax

Due to the aforementioned factors, the Group recorded a net loss of Rs. 127 million for the year 2018/19, as against a profit after tax of Rs. 580 million in the previous year.

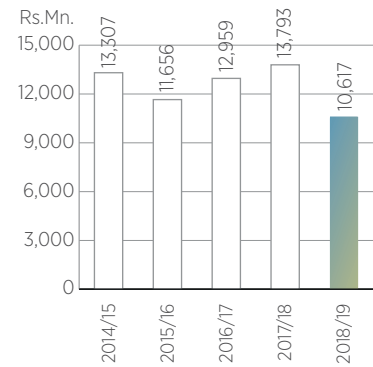
Revenue



Profit After Tax



Total Assets - Group



Gross Profit

Due to adversity in the international economic environment and increased exchange rates, an inevitable rise in the costs of milk powder ensued, with a similar increase demonstrated in imported and local cattle feed ingredients, in addition to most of the Group's packaging and raw material. This resulted in cost of sales elevating at a higher proportion to the growth in turnover, followed by the eventual 6.12% drop in gross profit margin. Looking forward, the Group is focused on taking the necessary measures to optimize costs and maintain the profitability of the business at an acceptable level.

Income tax expense for the year amounted to Rs. 81 million, in comparison to Rs. 51 million in the previous year. Further information relating to taxation is disclosed in Note 9 to the financial statements.

Dividends and Share Performance

At Lanka Milk Foods, we ensure our investors share in our returns, and despite a subdued year, the Board proposed a dividend of Rs. 1.25 per share with a resulting dividend payout of Rs. 50 million for the year. The

Total Assets

The Group's total assets as at 31st March 2019 were valued at Rs. 10,617 million. The overall value of total assets registered a drop primarily due to the decrease in value of the available for sale investments as at the year-end. Furthermore, ASPI and many other share market indices reflected the adverse impact of the domestic and global front on investor sentiments.

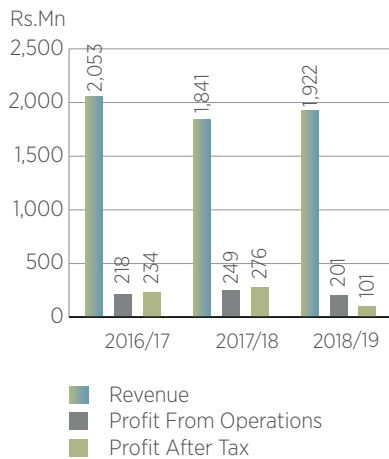
MANAGEMENT DISCUSSION & ANALYSIS

Company Performance

Lanka Milk Foods (CWE) PLC

The principal business activity of Lanka Milk Foods (CWE) PLC is importing, packaging, marketing and distributing full cream and skimmed milk powder. Moreover, the Company distributes the imported BLU drink to the local market. The Company operates in a extremely volatile industry with changing milk powder prices and Rupee deflating against US Dollar.

Lanka Milk Foods (CWE) PLC Revenue and Profit



The Company has recorded a profit of Rs.101 million after tax for the 2018/19 financial year compared to Rs.276 million in the previous year. This was mainly due to the increased cost of sales with the exchange rate upward trend and increased global milk powder prices. The approval from Consumer Affairs Authority to increase the product prices was applicable only at the end of the financial year. (15th March 2019)

Lanka Dairies (Private) Limited

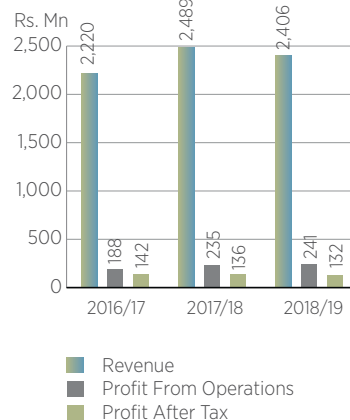
Lanka Dairies (Pvt) Ltd (LDL) is a fully owned subsidiary of Lanka Milk Foods which produces Tetra packs of Fresh Milk, Flavoured milk and Fruit Juices. The Company reported a profit after tax of Rs. 132 million against Rs. 136 in previous year.

Ambewela Fresh Milk category recorded a successful increase of 101 million in revenue. Ambewela has become a trusted household name in Sri Lanka. Despite this



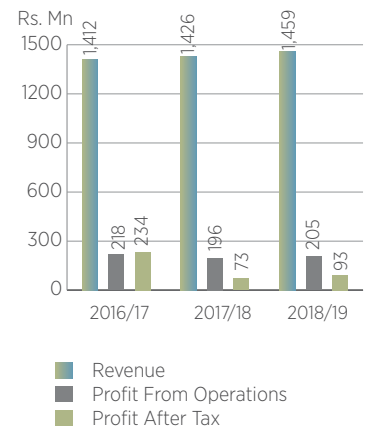
increase, the total revenue of LDL has come down due to unavailability of sufficient raw milk and performance in certain other products. However, the Group is confident on improving the revenue contribution of LDL to a greater scale through adopting improved strategic moves. LDL is equipped with modern machinery for UHT processing and sophisticated Tetra Pak machinery for efficient packaging of milk, thus maintaining the natural goodness of fresh milk.

Lanka Dairies (Pvt) Ltd Revenue and Profit



using most modern machinery, is highly sought-after by consumers. The Company also sells fresh milk to Lanka Dairies (Pvt) Ltd and cattle feed to our dairy farms.

Ambewela Products (Pvt) Ltd Revenue and Profit



The Company continued to experience resounding success as Ambewela Yoghurt recorded the highest sales since inception. Ambewela Yoghurt, unlike its competitors, is manufactured using only the quality milk produced in our own dairy farms at Ambewela. The Company recorded a turnover of Rs. 1,459 million during the period, as against Rs. 1,426 million during the previous year.

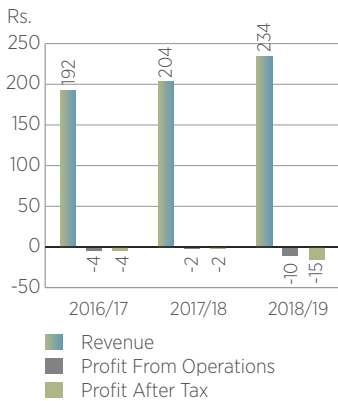
Ambewela Products (Private) Limited

The main product line of APPL is Ambewela Set Yoghurt 80 ml. Other products include, Ambewela 170 ml flavoured milk pouch pack, Ambewela cheese, ghee, butter and frozen fat. Different varieties of Ambewela Cheese produced with best quality milk,

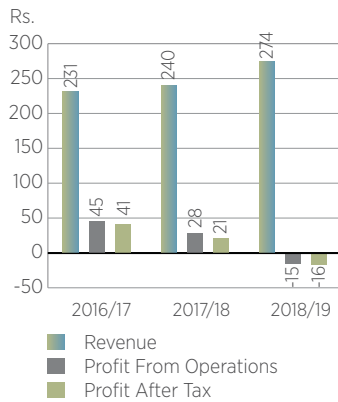
Ambewela Livestock Company Limited

Ambewela Livestock Company recorded a higher revenue of Rs. 234 million compared to Rs. 204 million in the previous year. This was mainly due to the increase in cow milk production and revenue from agricultural activities. However, the farm was unable to breakeven and reported a loss of Rs. 15 million after tax for the financial year because of the increased feed costs and farm overheads.

Ambewela Livestock Company Limited Revenue and Profit



Pattipola Livestock Company Limited Revenue and Profit



Pattipola Livestock Company Ltd, widely known as New Zealand Farm, is a tourist attraction with over 10,000 people per day visiting the farm during the holiday season. Our systematically maintained dairy farms are of great educational value, mostly for the agricultural and veterinary students of our universities. Automated milking parlours, a stud bull weighing over 1300Kg, rabbits imported from Paris and different breeds of goats are the main attractions at the New

produced from milk from our own dairy farms. Ambewela cottage cheese produced from our own milk has become a favourite not only among locals but also among foreigners.

Indo Lanka Exports (Private) Limited

Indo Lanka Exports (Private) Limited was established in year 2009. The Company is currently not in operation.

United Dairies Lanka (Private) Limited

United Dairies Lanka (Pvt) Ltd was established in year 2018. The Company is not in operation yet.



Pattipola Livestock Company Limited

Pattipola Livestock Company reported an increased revenue of Rs. 274 million compared to Rs. 240 million last year. Due to the same increased cost of sales which is cost of milk production the farm reported a loss of Rs. 16 million after tax.

Zealand Farm. Ambewela Gouda Cheese produced in the farm has become a hot favourite among locals and foreign visitors.

The Ambewela brand includes Ambewela Fresh Milk, Ambewela Flavoured Milk 1Litre, Ambewela Yoghurt, Ambewela Cheese, Ambewela Butter, Ambewela Drinking Yoghurt, Ambewela Kiddos and "Daily" milk,

MANAGEMENT DISCUSSION & ANALYSIS

Social & Relationship Capital

Relevant SDGs:



Customers

At Lanka Milk Foods, we closely engage with our customers, suppliers and the surrounding community - the partnerships that comprise our social and relationship capital. As an entity that is people-centric, these partnerships are integral to our success, driving our performance and maintaining our reputation as a socially responsible brand.

At Lanka Milk Foods, in terms of our customers, our primary concern lies in the areas of quality and product responsibility. Our consumers expect the finest quality products, and the Group dedicates its efforts towards meeting industry best practices and standards, and ensuring maximum environmental and climate compatibility. Our state-of-the-art modern manufacturing facilities enable us to deliver goods produced according to the highest quality standards, following world-class dairy standards and practices. Our stringent quality control processes and comprehensive quality management system adheres to industry guidelines, and complies with the requirements of the ISO 9001 quality standard. Furthermore, the Group also obtained the ISO 22000 - 2005 qualification for Food Safety Management in February 2018.

We ensure we follow responsible packaging and labelling requirements for all our products, adhering to the guidelines specified in the Food Act No. 26 of 1980, and abiding by the policies pertaining to the Food Labelling and Advertising Regulations of 2005 and the Consumer Affairs Authority Act No. 9 of 2003.



Product Responsibility Systems & Regulations:



Our Quality Assurance Division is dedicated controlling every aspect of product quality, while maintaining optimum standards with respect to environmental, hygiene and sanitation aspects. The entity also conducts its own laundry, water purification and janitorial services, in order to maintain control and be responsible for the hygiene and cleanliness of its own operations and processes. The farms adopt international cattle rearing practices for its European breeds, in order to maintain the overall quality of output. These herds consist of both Ayrshire and Friesian cows, selected for their ability and capacity to produce large quantities of milk.

Every aspect of our herds from cattle feed to their health is monitored by professional agriculturalists and veterinarians who ensure their continued welfare. Our packaging capabilities are counted among the most modern facilities available in the market, with automated packaging systems in place to provide optimum levels of hygiene.

We also pride ourselves on manufacturing products that promote health and wellness among our consumers, pioneering low-fat options for the health-conscious buyer, which plays a role in reducing the prevalence of high cholesterol and other non-communicable diseases including heart disease and diabetes, all of which are a rising trend in Sri Lanka. We believe in encouraging our consumers to make the right choices, and as an ethical and socially responsible entity we strive to guide the future generations along the right path in terms of nutrition and health.

Suppliers



Our suppliers serve as vital partners in our journey towards the responsible supply of goods, and we therefore have a stringent supplier screening process in place in order to ensure that our Group sources and procures the highest quality raw material at a competitive price. Our suppliers are further screened with respect to their social and environmental practices and impacts, and we ensure they all adhere to industry best practices and methodology.

We conduct periodic site visits and maintain continuous communication with our suppliers as part of our engagement process, in order to ensure the stability and continuity of the business, maintaining sustainable supply chain management methods in order to achieve our goals in an ethical, equitable manner.

Community



A sustainable community can persist over generations through the fulfilment of a healthy environment, a prosperous economy and a vibrant civic life. It does not undermine its social or physical systems of support. Rather, it develops in harmony with the ecological patterns it thrives in. Since the Group operates within local communities and employs people from those communities, it engages closely with members of the surrounding communities to empower and uplift the people's lives. The Group supports religious, cultural and social activities of local communities, fostering long term relationships with the people around us. We practice a long-term approach in terms of listening and responding to the needs of our stakeholders, and further contribute towards the development of communities through targeted investments.

Since its establishment in 81, Lanka Milk Foods opened its doors to the youth, educating them on the importance of nutrition and well-being year after year. The Company is committed towards the highest levels of transparency in terms of operations and our practice of providing educational tours that enable the youth to observe our production processes reflects this commitment. This initiative further supports the government's drive for national self-sufficiency in terms of dairy needs, and takes children from schools and other higher education institutions through a structured programme which comprises presentations and demonstrations conducted by trained personnel and includes a guided tour through the LMF plant located in Welisara. The plants are constructed with the objective of enabling easy observation of the production process with no ensuing obstruction to workflow. The students enjoy a chilled cup of milk and other assorted product samples during their visit.

Our community engagement processes have continued to evolve across the years, and we are proud of our reputation as an organization that delivers value and service to every level in the economic and social pyramid. We work closely with the surrounding communities that live and work in the vicinity of our factories, striving to provide them with improved standards in living through our continuous contributions to social, health and education causes.



The Company's farms serve as an agricultural and dairy university for students, who are provided with the opportunity of gaining practical insights into farming during their pursuit of studies in agriculture.

As in the past, the Group continued to perform across a range of CSR practices, listed below:

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 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 decades, generations of schoolchildren have benefited through our practice of distributing milk and milk-based products.

Promoting School Trips

The Company welcomes school trips to the factory to familiarize children with the milk production process while emphasizing 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. Free entrance facilities are provided to underprivileged children for farm visits.

MANAGEMENT DISCUSSION & ANALYSIS

Human Capital

Relevant SDGs:



Our employees are the driving force of the Group’s goals and objectives, and as such, their continued growth and progress are intertwined with our success. We are proud of our reputation as an employer that values diversity and offers equal opportunity across the board. As an organization that is people-centric, we have adopted a culture that focuses on building an optimal work



environment, enabling employees to strike the right balance between their personal and professional lives, and ensuring the highest levels of job satisfaction.

The Group continued to focus on employee development and growth, ensuring the acquisition of new skills and enhancing knowledge through various training programmes conducted during the year. Employees were also duly rewarded and recognized for their achievements and outstanding performance during the year. The Group continued to maintain a low attrition rate, and employs a loyal and committed workforce that dedicates their efforts towards achieving the Group’s vision.

“WE HAVE ADOPTED A CULTURE THAT FOCUSES ON BUILDING AN OPTIMAL WORK ENVIRONMENT, ENABLING EMPLOYEES TO STRIKE THE RIGHT BALANCE BETWEEN THEIR PERSONAL AND PROFESSIONAL LIVES”

Recruitment

The Group adheres to a specific recruitment process when hiring all employees, and provides employment opportunities for various professionals and skilled labour across diversified fields. We prioritise recruitment from the local vicinity, providing prospects for youth in neighbouring farm and factory areas, including a focus on young labourers wishing to enter into employment. These youth are provided specialized training and are eventually absorbed into the permanent cadre as skilled labourers.

	2019		2018	
	Male	Female	Male	Female
Executives	67	7	63	6
Non-Executives	376	39	404	30
Casual/Check Roll	127	77	139	92
	570	123	606	128
	693		734	

As at 31st March 2019, the LMF Group provided employment to 693 personnel, in comparison to 734 employees in the preceding year. The majority of our total cadre is represented by factory and farm workers, with our Group’s gender ratio standing at approximately 4:1 (male:female) owing to the high labour intensive work required at the farm and on the factory floor.

As a Group that strives towards building the nation’s future, we continue to uplift the next generation by providing our young employees with focused targets and training in order to develop them to take on the professional world. Furthermore, in line with this practice, we provide our recruits with in-depth knowledge, the latest market statistics, coupled with practical experience in the market, and in our state-of-the-art factories and laboratories.

Employee Benefits

Lanka Milk Foods adheres to all labour regulations, ensuring a good, committed workforce within the entity. Cleanliness is a priority, and the Group ensures that standards are maintained by employees within the work environment in order to maintain productivity and an orderly working environment. An employee guideline is also in place to ensure that equal and approachable health and hygiene standards are maintained by all employees within the organisation.



With respect to our female cadre, we adhere to all labour related laws, overseeing the welfare of our female employees who work in the factories and in our farms, and ensuring they are well taken care of. Furthermore, all our employees are provided with a fully-fledged insurance and accident cover in line with labour regulations.

Our organization has initiated occupational health and safety measures across all our locations, ensuring an accident-free work environment throughout the year. Precautionary steps have been taken in order to minimize occupational hazards, while with respect to employee food and hygiene, we have adhered to safety measures in line with ISO 22000 standards.

We believe in promoting healthy lifestyles among our employees and thus ensure that our workforce is provided with recreation, encouraging stability in terms of both mental and physical health and overall satisfaction. Therefore we have provided indoor recreation and sports facilities for our employees, and provide further monetary support towards their outdoor recreational activities.

Training & Development

The Lanka Milk Foods Group believes in fostering a culture of learning and development, and over the years we have followed this principle to encourage our employees to capitalize on the range of training opportunities provided to improve their competencies and skills and achieve continued career progression. The Group continues to invest heavily in technical, sales and marketing based training programmes for its employees, while a strong culture of mentoring young talent is followed, headed by our experienced senior managers. Furthermore, our practice of rewarding outstanding performers has engendered a culture of constant learning amongst our employees.

Occupational Health & Safety

As an organization that works closely with machinery and lab research, worker health and safety is considered the utmost priority



in our everyday operations. The Group strives towards incident-free operations and in order to attain this, there is a strong emphasis placed on taking necessary precautions to prevent any unfortunate mishaps or casualties. Our staff remains actively involved in being proactive and mindful of their surroundings, ensuring the absence of injuries and environmental hazards that could potentially affect the workforce.

Protective gear is mandatory for workers engaged in specific operations while the entire workforce in general is educated on the expected safety and hygiene aspects of the operation. Our products have become recognised among our consumers for their hygiene and safety standards and we faithfully maintain this positioning by ensuring high standards of cleanliness in all we do.

Employee Well-being

Lanka Milk Foods is committed to nurturing our employees, ensuring their protection and welfare throughout their tenure within the Group. The local communities surrounding our factories have benefited immensely from the Company as an important employment generator, and through local recruitment, 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 range of staff benefits, which ensure an ideal work-life balance for its workforce.

Our employees receive a comprehensive medical cover encompassing all staff, in addition to a subsidised nutritious lunch for staff and a quota of company manufactured products. They are also entitled to receive cash incentives above industry standards, including monthly sales incentives, attendance incentives for non-executive staff, leave encashment for unutilised leave, ex-gratia payments and substantial bonus payments during festive seasons. Leisure and recreational opportunities are provided regularly to promote harmony and encourage camaraderie amongst staff members.

MANAGEMENT DISCUSSION & ANALYSIS

Manufactured Capital

Relevant SDGs:



The Group's efficient usage of its manufactured capital, namely the available manufactured physical resources, enable Lanka Milk Foods to be a leader in terms of innovation and flexibility, while increasing the speed to market of our new products. The capabilities and capacity resulting from our manufactured capital and its associated technology ensures effective use of resources, heightening both efficiency and sustainability.

As the Group continues to expand its manufactured capital, our contribution towards national infrastructure and development grows. Each year we grow closer to our goal of national self-sufficiency in milk production, delivering value to communities, empowering national growth and strengthening our position in the domestic market.

Technology & Innovation

Lanka Dairies proudly stands as the pioneer UHT Manufacturing Company to first introduce the world-renowned innovative Tetra Pak Technology to Sri Lanka. The Company works closely with the world's leading food processing and packaging solutions company 'Tetra Pak' to provide safe, hygienic and healthy food products to the discerning consumer.

Tetra Pak cartons are lightweight, easy to transport and fully recyclable, due to the pack being primarily paper based. The aseptic technology allows the product inside to stay fresh, without the involvement of any preservatives. An added advantage is that the pack need not be refrigerated until opened.

On average, over more than 75% of a Tetra Pak carton's weight consists of paperboard – which originates from wood. All the wood

fibre used in the manufacture of paperboard is sourced from forests independently certified as being managed in accordance with the principles of sustainable forest management.

Listed below is a valuation of our manufactured capital as at year-end.

	Gross Carrying Value (Rs. 000)	Net Carrying Value (Rs. 000)
Leasehold Buildings	845,061	424,720
Plant and Machinery	2,110,268	753,382
Equipment, Furniture and Fittings	291,601	51,541
Other Assets	332,317	32,940
	3,579,247	1,262,583
Capital Work in Progress	25,050	25,050

Refer Note 12.1 to the Financial Statements on Property Plant and Equipment for further details.

The details of buildings on leasehold as at 31st March 2019 are as follows.

Location	Extent (Hectares)	Building (Square feet)	No of Buildings	Cost of the Building Rs '000
Welisara	3.275	140,800	3	434,416
Ambewela	458.47		133	410,645
				845,061



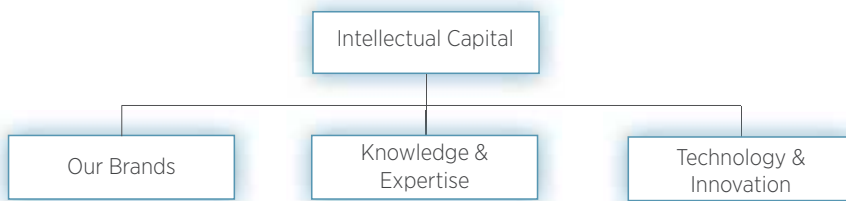
Intellectual Capital



Relevant SDGs:



An organisation's intellectual capital although intangible, is a key contributor towards its present and future earnings potential. Referring to the collective knowledge of the Group, this sets us apart from competitors, and provides a unique positioning and capability arising from Group systems, processes and expertise.



“AN ORGANISATION’S INTELLECTUAL CAPITAL ALTHOUGH INTANGIBLE, IS A KEY CONTRIBUTOR TOWARDS ITS PRESENT AND FUTURE EARNINGS POTENTIAL. REFERRING TO THE COLLECTIVE KNOWLEDGE OF THE GROUP, THIS SETS US APART FROM COMPETITORS;”

With a tight link and contingency existing between intellectual capital and a company's investment in Research & Development, innovation, human resources, and external relationships, this capital has the potential to determine an organisation's competitive advantage. This in turn creates shareholder value through the strategic combination of material, funding and human resources.

The Lanka Milk Foods Group therefore strives towards further building and strengthening our intellectual capital, in order to achieve our goal of driving growth and sustainable value across every business unit. Our intellectual capital encompasses three key areas, shown below:

Brands

Our brands serve as one of the Group's most valuable resources, offering our entity a sustainable competitive advantage. With a portfolio of products that serve the people with taste and wholesome goodness, over the years our much loved brands have cultivated a reputation of trust and quality across the island.

The Group thus continues to leverage on this strategic advantage, capitalizing on our reputation of trust in order to expand into potential growth avenues, and thereby unlock greater levels of value creation in the years ahead. Our pool of reputed brands further contributes immensely towards the Group's performance year on year, reinforced by the Group's continued efforts in terms of advertising, sales promotions, direct marketing, personal selling and public relations.

Our range of brands represents our customers' needs and serves a diversity of age groups and income levels, but ultimately represents a single pledge: the promise of trust between us and our valued consumer. Our versatile products are provided under the brand names featured above, which cater to varying customer lifestyles and their associated needs, differentiated in terms of functionality and purpose, and united in aspects of quality, safety and convenience in the dairy sector.

While Lakspray is the Group's sole powdered milk brand, the range of brands that comprise the Daily, Daily Activ and Ambewela ranges are classified under our flavoured milk segment. In addition, the Ambewela brand also represents our fresh milk range, and includes both full cream and

MANAGEMENT DISCUSSION & ANALYSIS



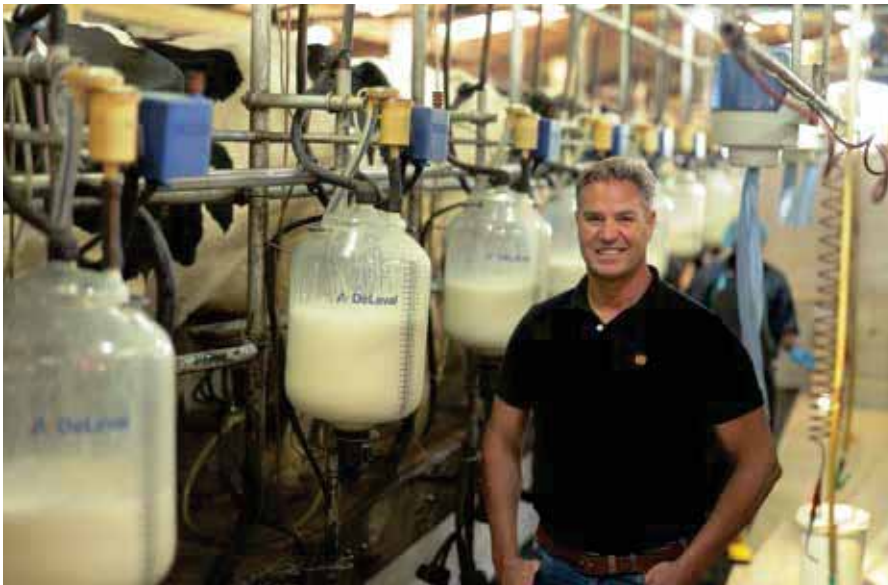
“OUR RANGE OF BRANDS REPRESENT OUR CUSTOMERS’ NEEDS AND SERVE A DIVERSITY OF AGE GROUPS AND INCOME LEVELS, BUT ULTIMATELY REPRESENT A SINGLE PLEDGE: THE PROMISE OF TRUST BETWEEN US AND OUR VALUED CONSUMER.”

Knowledge & Expertise

As a pioneer in the local dairy industry, our industry-specific experience and knowledge spans over 50 years. The Group’s enduring success is attributable to our longstanding expertise, fuelled by the up-to-date skills and capabilities of our informed staff, who remain apprised of the latest developments in the industry to ensure that the Group remains a powerful forerunner amongst our competitors. Furthermore, maintaining our

Technology and Innovation

Lanka Milk Foods is an entity that remains relevant, progressive and ready to evolve and adapt to anticipate and meet changing consumer preferences. Therefore, each plant of the Group possesses a dedicated R & D unit composed of state-of-the-art, modern laboratory facilities which are maintained according to the highest quality, hygiene and safety standards, and powered by the talent and drive of our experienced personnel.



Our manufacturing locations at both Welisara and Ambewela are further equipped with sophisticated manufacturing technology and the latest modern machinery in order to fulfil our UHT packaging requirements.

non-fat versions of UHT-treated ready-to-drink Tetra packs which come in both 01 litre and 200 ml sizes. Ambewela set yoghurt is also a key performer in the product portfolio, with the entire range retaining high levels of popularity in the market since its introduction. My Juicee is the Group’s ready-to-drink fruit drink, available in four variations, namely Mixed Fruit, Mango, Orange and Apple.

livestock and ensuring their well being is an integral part of preserving and upholding the quality of our products. Thus, our dairy farms have hired an expert nutritionist whose sole purpose is to formulate the most nutritious feed supplements for our cows, supported by a dedicated veterinary team with resident veterinary surgeons to care for them around the clock and ensure their continued health.

Natural Capital



Relevant SDGs:



“A SUSTAINABLE FUTURE IS ONE IN WHICH A HEALTHY ENVIRONMENT, ECONOMIC PROSPERITY AND SOCIAL JUSTICE ARE PURSUED SIMULTANEOUSLY TO ENSURE THE WELL-BEING AND QUALITY OF LIFE OF PRESENT AND FUTURE GENERATIONS.”

As an organization identified with and built on a reputation of natural goodness, our surrounding environment is a key component of our operations. We rely on our farms for our output, and as such, sustainable dairy farming practices are adopted on all our farms. Moreover, consumers are now becoming more aware about their purchases, and are making informed choices regarding their preferred dairy products, opting for companies that are known for sustainable practices. We applaud this transition, and have adopted sustainable farming techniques that serve to protect the environment and minimize adverse or harmful impacts. The Group adheres to a variety of international dairy farming practices that prioritise the preservation and long-term sustenance of nature.

We believe in the responsible use of our natural resources, and have therefore put in place an effective water treatment plant that ensures all water utilized in our production process is treated prior to release into the environment. This practice of treating waste water effluents prior to release ensures that we safeguard the environment from any inadvertent instances of pollution that may arise through our operations.



The Group focuses on using the most efficient technologies and techniques to treat generated waste material prior to their release into the environment. The waste resulting from our manufacturing operations is disposed of in a responsible manner, and the Group adheres to strict quality standards and requirements on returning said waste to the environment. A self-burning incinerator is utilized for solid waste, while a modern liquid wastewater treatment plant is dedicated towards the treatment of liquid waste. The Group complies fully with all applicable regulations and statutory requirements listed by the Central Environment Authority, while our packaging operations utilize aseptic recycled packaging material, in order to minimize our impact. Furthermore, disposal of solid waste is conducted in a controlled manner, adhering to best practices in waste disposal. The water effluent treatment plant installed at Lanka Dairies (Pvt) Ltd engages in recycling water for safe reuse on the plant premises, thus protecting the environment and optimizing the use of natural resources.

As the market leader in the dairy sector, we believe that the Group should take ownership of the practice of demonstrating environmental stewardship throughout the organisation. As such, every aspect of our operations is rendered sustainable by ensuring recycling and renewal is exercised to the greatest extent possible. We are also focused on lowering our carbon footprint in the near future, in order to further minimize our impact.

Dairy farming is a source of pure goodness that future generations will undoubtedly benefit from, and towards that end, we intend to ensure that our farms remain sustainable and productive far into the future.



We continue to maintain stakeholder satisfaction at the centre of our operations, practicing principles of good governance and business excellence, and distributing consistent value and returns to our customers, shareholders, employees and the surrounding community.



STEWARDSHIP

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CORPORATE GOVERNANCE

“LANKA MILK FOODS (CWE) PLC CONCENTRATES ON THE ESSENTIAL PRINCIPLES OF ACCOUNTABILITY, PARTICIPATION AND TRANSPARENCY, WHICH ARE CRUCIAL IN CREATING, ENHANCING AND MAINTAINING A SUSTAINABLE BUSINESS OVER TIME.”

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 corporate governance framework of Lanka Milk Foods (CWE) PLC concentrates on the essential principles of accountability, participation and transparency, which are crucial in creating, enhancing and maintaining a sustainable business over time and in creating value to the stakeholders.

This report exhibits how the Company has adopted and complied with, all the mandatory provisions of the Companies Act, Listing Rules of the Colombo Stock Exchange (CSE) and the Securities and Exchange Commission of Sri Lanka Act (SEC) and all other legislation and rules relevant to the businesses of the Group.

Key legal enactments, codes and agreements complied with:

- Companies Act No. 07 of 2007
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995
- Continued Listing Requirements of Colombo Stock Exchange
- Employees Provident Fund Act
- Employees Trust Fund Act
- Payment of Gratuity Act
- Shop and Office Employees Act
- Maternity Benefits Ordinance
- Inland Revenue Act No. 38 of 2000
- Code of Best Practices on Corporate Governance jointly issued by The Institute of Chartered Accountants and Securities and Exchange Commission of Sri Lanka
- Workmen’s Compensation Ordinance
- Industrial Disputes Act

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

- To enhance shareholder value
- Provide direction and guidance in formulating corporate strategies
- Building and improving stakeholder relationships

- Approving major investments, making business decisions and allocating resources in proficient and ethical way
- Monitoring systems and procedures especially with regard to internal controls and risk management.

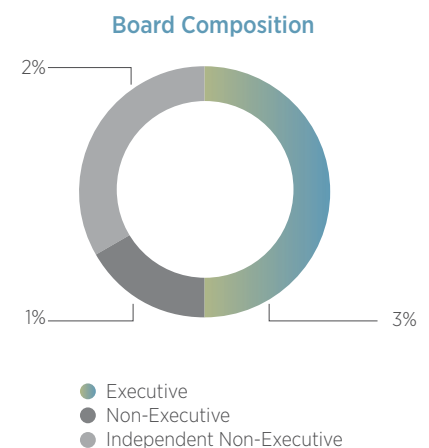
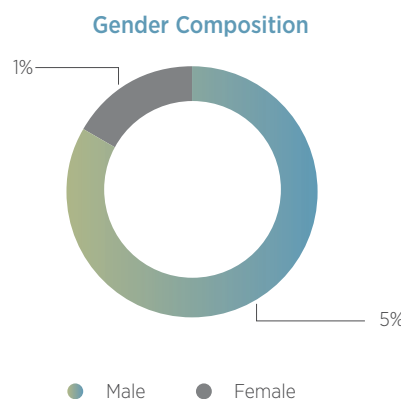
The Directors’ interests in the affairs of the Company are explained on pages 58 to 60.

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.

The Board comprises of the following Directors.

Name of the Director	Status	Attendance
Mr. D. H. S. Jayawardena	Executive Chairman	1/1
Mr. C. R. Jansz	Executive Director	1/1
Ms. D. S. C. Jayawardena	Executive Director	0/1
Mr. D. S. K. Amarasekera	Independent Non-Executive Director	0/1
Dr. A. Shakthevale	Independent Non-Executive Director	1/1
Mr. D. Hasitha Stassen Jayawardena	Non- Independent Non-Executive Director	1/1



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.

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. Mr. D. Hasitha Stassen Jayawardena was appointed as a non-executive director on 11th July 2016.

Independence of Directors

The Board as determined that two Non-Executive Directors – (Mr. D. S. K. Amarasekera and Dr. A. Shakthevale) are ‘independent’ as per the criteria set out in the Listing Rules of the Colombo Stock Exchange and the said Directors have submitted signed declarations in this regard. Detail resume of each Director is given in the Board of Directors section of this Annual Report from pages 20 to 23.

Mr. D. S. K. Amarasekera is a Director of a company in which a majority of the other Directors of the Company are Directors, and which holds a significant shareholding by the Company. However, in view of the fact that he is an Independent Non-Executive Director of the company, his position as a Director of the other company does not compromise his independence and objectivity in discharging his functions as a Director of the Company. Hence, Mr. D. S. K. Amarasekera is determined by the Board to be an independent Director.

Dr. A. Shakthevale is a Director of a company in which a majority of the other Directors of the Company are Directors, and which holds a significant shareholding by the Company. However, in view of the fact that he is an independent Non-Executive Director of the company, his position as a Director of the other company does not compromise his

Independence and objectivity in discharging his functions as a Director of the Company. Hence, Dr. A. Shakthevale is determined by the Board to be an independent Director.

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
- Independent Non-Executive Director
(Chairman)

Dr. A. Shakthevale
- Independent Non-Executive Director

The report of the Remuneration Committee is given on page 56

Audit Committee

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

Mr. D. S. K. Amarasekera
- Independent Non-Executive Director
(Chairman)

Dr. A. Shakthevale
- Independent Non-Executive Director

The detailed report of the Audit Committee is on page 55

Related Party Transaction Review Committee

The Committee comprises of two Independent Non-Executive Directors and one Non-Independent Non-Executive Director as follows.

Mr. D. S. K. Amarasekera
- Independent Non-Executive Director
(Chairman)

Dr. A. Shakthevale
- Independent Non-Executive Director

Mr. D. Hasitha Stassen Jayawardena
- Non-Independent Non-Executive
Director

The detailed report of the Related Party Transaction Review Committee is on page 57

Disclosures

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, Inland Revenue Act, Article of Association and Companies Act and in conformity with the CSE Listing Rules.

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 reports to the Audit Committee that submits its reports on a regular basis to the Chairman.

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 customary operations.

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.

CORPORATE GOVERNANCE

The Company's compliance with the CSE Listing rules is set out in the table below.

Compliance details of Continuing Listing Requirements Section 7.10 on Corporate Governance issued by the Colombo Stock Exchange (CSE)

Rule No.	CSE Listing Rule	Compliance Status	Details of Compliance
7.10	Compliance		
a/b/c.	Compliance with Corporate Governance Rules	Yes	The Group is in compliance with the Corporate Governance Rules and any deviations are explained where applicable.
7.10.1	Non-Executive Directors (NED)		
a/b/c.	At least two members or one third of the Board, whichever is higher should be Non-Executive Directors	Yes	Three out of six Directors are Non-Executive Directors at the conclusion of last AGM.
7.10.2	Independent Directors		
a.	Two or one third of Non-Executive Directors, whichever is higher shall be independent	Yes	Two out of three Non-Executive Directors are independent.
b.	Each Non-Executive Director to submit a signed and dated declaration of his/her Independence or Non independence	Yes	<p>Independence of the Directors has been determined in accordance with CSE Listing Rules and the two Independent Non-Executive Directors have submitted signed declarations of their independence.</p> <p>Mr. D. S. K. Amarasekera is a Director of a company in which a majority of the other Directors of the Company are Directors, and which holds a significant shareholding by the Company. However, in view of the fact that he is an independent Non-Executive Director of the company, his position as a Director of the other company does not compromise his Independence and objectivity in discharging his functions as a Director of the Company. Hence, Mr. D. S. K. Amarasekera is determined by the Board to be an independent Director.</p> <p>Dr. A. Shakthevale is a Director of a company in which a majority of the other Directors of the Company are Directors, and which holds a significant shareholding by the Company. However, in view of the fact that he is an independent Non-Executive Director of the company, his position as a Director of the other company does not compromise his Independence and objectivity in discharging his functions as a Director of the Company. Hence, Dr. A. Shakthevale is determined by the Board to be an independent Director.</p>
7.10.3	Disclosure Relating to Directors		
a/b.	Board shall annually determine the independence or otherwise of Non-Executive Directors	Yes	The Board has made an annual determination as to the independence or non-independence of each Non-Executive Director based on a declaration made by the Non-Executive Directors and as per criteria set out by CASE Listing Rules.

Rule No.	CSE Listing Rule	Compliance Status	Details of Compliance
c.	A brief resume of each Director should be included in the Annual Report including the area of expertise.	Yes	Refer Board of Directors on pages 20 to 23 of the Annual Report.
d.	Provide a resume of each new Director appointed to the Board along with the details	N/a	No new appointments were made to the Board during the financial year.
7.10.4	Criteria for Defining Independence		
a. to h.	Requirements for meeting the criteria to be an Independent Director	Yes	All two Independent Non-Executive Directors have met the criteria on defining independence as per the Listing rules.
7.10.5	Remuneration Committee		
a. 1	The Remuneration Committee shall comprise a minimum of two Independent NEDs or a majority of Independent NEDs, whichever is higher. One NED shall be appointed as Chairman of the Committee by the Board of Directors	Yes	The Remuneration Committee comprises of two Independent, Non-Executive Directors.
a. 2	One Non-Executive Director shall be appointed as Chairman of the Committee by the Board of Directors	Yes	An Independent Non-Executive Director is the Chairman of the Committee.
b.	Remuneration Committee shall recommend the remuneration of the CEO and the Executive Directors.	Yes	The Remuneration Committee recommends the remuneration of the CEO and the Executive Directors. The Board makes the final determination after considering such recommendations.
c. 1	Names of Remuneration Committee members	Yes	Composition of the Remuneration Committee is given on page 56.
c. 2	Statement of Remuneration Policy	Yes	Group's Remuneration Policy is given on the page 56.
c. 3	Aggregate Remuneration paid to Executive and Non-Executive Directors	Yes	Aggregate remuneration paid to Executive and Non-Executive Directors during the year under review appears on Note 8 to the Financial Statements.
7.10.6	Audit Committee		
a. 1	The Audit Committee shall comprise a minimum of two Independent NEDs, or a majority of Independent NEDs, whichever is higher.	Yes	The Audit Committee comprises of two Independent, Non-Executive Directors .
a. 2	A Non-Executive Director shall be the Chairman of the committee	Yes	Chairman of the Audit Committee is a Non-Executive Director.
a. 3	Chief Executive Officer and Chief Financial Officer should attend Audit Committee meetings.	Yes	Finance Manager attended the Audit Committee meetings by invitation.

CORPORATE GOVERNANCE

Rule No.	CSE Listing Rule	Compliance Status	Details of Compliance
a. 4	The Chairman of the Audit Committee or one member should be a member of a professional accounting body.	Yes	The Chairman of the Audit Committee is a member of a professional accounting body.
b.	Functions of the Audit Committee	Yes	The Audit Committee carries out the functions prescribed in this section of the Audit Committee. Role of the Audit Committee is given on page 55.
b. 1	Overseeing of the preparation, presentation and adequacy of disclosures in the financial statements in accordance with SLFRS/LKAS	Yes	The Audit Committee assists the Board in fulfilling its responsibility through overseeing the integrity of the financial statements of the Group.
b. 2	Overseeing the compliance with financial reporting requirements, information requirements as per laws and regulations	Yes	The Audit Committee has the overall responsibility to oversee the preparation of financial statements in accordance with the laws and regulations of Sri Lanka and also to recommend to the Board on the adoption of best accounting policies.
b. 3	Ensuring the internal controls and risk management controls are adequate to meet the requirements of the SLFRS/LKAS	Yes	The Audit Committee assesses the effectiveness of the internal controls and risk management.
b. 4	Assessment of the independence and performance of the entity's external auditors	Yes	The Committee assesses the external auditors' performance and independence.
b. 5	Make recommendations to the Board pertaining to external auditors	Yes	The Committee is responsible for appointment, reappointment, removal of external auditors and also the approval of remuneration and terms of engagement.
c. 1	Names of the Audit Committee members shall be disclosed	Yes	Refer Audit Committee Report on page 55 of the Annual Report.
c. 2	Audit Committee shall make a determination of the independence of the external auditors	Yes	Refer Audit Committee Report on page 55 of the Annual Report.
c. 3	The annual report shall contain a report by the audit committee, setting out the manner of compliance by the entity in relation to the above, during the period to which the annual report relates.	Yes	Refer Audit Committee Report on page 55 of the Annual Report.

Compliance details of Continuing Listing Requirements Section 9 on Related Party Transactions issued by the Colombo Stock Exchange (CSE)

Rule No.	CSE Listing Rule	Compliance Status	Details of Compliance
9.2	Related Party Transactions Review Committee		
9.2.2	Composition	Yes	Related Party Transaction Review Committee consists of three Directors, out of which two are Independent, Non-Executive Directors. Chairman of the Committee is an Independent, Non-Executive Director. Refer page 57.
9.3	Related Party Transactions Review Committee		
9.3.2	Disclosures in the Annual Report		
a.	Non- Recurrent Related Party Transactions	Yes	Company did not have any non-recurrent related party transactions, which require immediate disclosure to the Colombo Stock Exchange.
b.	Recurrent Related Party Transactions	Yes	Lanka Milk Foods (CWE) PLC carries out transactions with its subsidiaries and expected to extend over a period which are carried out on a continuous basis and are in the ordinary course of the business of the Company. However, the aggregate values of these transactions were below 10% of gross revenue of the 2018/2019 Financial Statements.
c.	Report of the Related Party Transactions Review Committee	Yes	Refer Report by the Related Party Transactions Review Committee on page 57.
d.	A declaration by the Board of Directors	Yes	Refer the Annual Report of Board of Directors for an affirmative statement of compliance of the Board on page 57.

ENTERPRISE RISK MANAGEMENT






The Lanka Milk Foods (CWE) PLC (LMF) Group has employed various strategies, processes and practices in combination to reach synchronized and prudent outcomes that mitigate the probability and impact of possible susceptibilities by embedding risk management to our daily business operations.

The Board considers risk management as a vital element in achieving the Group objectives and maximizing shareholder value. The Board holds responsibility to monitor and manage risks in an acceptable manner.





The key risks faced and identified as potential accompanied by the methods of mitigation and management of such risks are presented in this section.



Risk Scenario	Risk Trend	Mitigating Strategies
BUSINESS RISKS		
Milk Price and Volume Volatility		
Increasing milk prices and volume changes has a direct impact on group profit and sales.	➔	<ul style="list-style-type: none"> • Actions taken to increase our milk production includes increasing number of cows in our own farms • Our new investment on expanding overall dairy production ensures a static flow of raw milk for production lines in Ambewela Products (Private) Limited and Lanka Dairies (Private) Limited.
Quality Risk		
This is a key risk element to a corporate entity that operates in the food and beverages sector. Employees of all levels are responsible for the quality of the products.	➔	<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 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 22000:2005 quality certification , Food Safety Management System.
Competition & Consumer Preferences		
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.	➔	<ul style="list-style-type: none"> • Refining our product lines • Emphasis on brand development • Ensuring the product quality and focusing on the global trends - healthy lifestyle, liquid milk consumption etc. • Ensuring that our prices offer good value • Building stronger relationships with suppliers

Risk Scenario	Risk Trend	Mitigating Strategies
FINANCIAL RISKS		
Currency Risk		
<p>This is the risk of an investment/ receivable/ payable's value fluctuating 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 influence exchange rates.
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"> • Observing interest rates and socioeconomic conditions to generate precise prognosis • Evaluating the effects of movements of interest rates on Group financial situation • Negotiating with banks and financiers • Striking a balance between short-term vs long-term borrowings and fixed vs floating rate borrowings
Liquidity Risk		
<p>This relates to not having sufficient funds to meet the financial commitments in a timely manner.</p>		<ul style="list-style-type: none"> • Systematic reviews of the liquidity position and ensuring the Group's ability to generate adequate funds for operations, financing activities and investments • Expected 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 Risk		
<p>Credit risk is the possibility of a loss resulting from a borrower's failure to repay a loan or meet contractual obligations.</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 carried out on overdue amounts and legal procedures for long outstanding amounts
Investment Risk		
<p>This risk arises from the probability or likelihood of occurrence of losses relative to the expected return on any particular investment.</p>		<ul style="list-style-type: none"> • The Group looks forward to make new investments in dairy farming. With the rapid increase in demand and the government policy to expand the dairy sector, the management is confident that the investments will yield positive results.

ENTERPRISE RISK MANAGEMENT

Risk Scenario	Risk Trend	Mitigating Strategies
SOCIO ECONOMIC, MACRO ECONOMIC AND ENVIRONMENTAL RISKS		
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"> • Actions taken to increase our milk production includes increasing number of cows in our own farms • Our new investment on expanding overall dairy production ensures a static flow of raw milk for production lines in Ambewela Products (Pvt) Ltd and Lanka Dairies (Pvt) Limited.
Compliance, Regulatory and Legal Risks		
<p>This refers to the possible legal actions against the Group companies, compliance and regulatory requirements related risks.</p>		<ul style="list-style-type: none"> • Preventive measures are taken to mitigate such risks by complying with all the relevant regulations and regulatory matters. • The management frequently reviews regulatory changes & assess 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.
Technology, Data Protection and Cyber Security Risks		
<p>This includes hardware and software failure, human error, spam, viruses, ransomware 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"> • Taking cloud based system backups to mitigate software failures and regularly updating the software 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>		<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 labor turnover.
<p>This may affect the group's ability to deliver its operational and strategic objectives. This may even effect on the product quality, output, market share and the company's reputation.</p>		

REPORT OF THE AUDIT COMMITTEE

Composition

The Audit Committee consists of two Independent Non-Executive Directors in conformity with the listing rules of the Colombo Stock Exchange.

- Mr. D S K Amerasekera – Independent Non-Executive Director (Chairman)
- Dr. A Shakthevale - Independent Non-Executive Director

Mr. Amerasekera is a member of the Institute of Chartered Accountants of Sri Lanka and he is an Attorney-at-Law of the Supreme Courts of Sri Lanka. A brief profile of each member is presented on page 20 to 23 of this report under the section of Board of Directors.

The powers and responsibilities of the Audit Committee are administered by the Audit Committee Charter which is approved and accepted by the Board. The terms of reference comply with the requirements of the Corporate Governance Rules as per section 7.10.6 of the Listing Rules of the Colombo stock Exchange. The Audit Committee's functions, scope, and affairs comply with the requirements of the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka. The Committee assists the Board in discharging its responsibilities and exercises oversight over financial reporting, internal audit, internal controls and external audit.

Functions

The Committee is empowered by the Board to:

- Assist the Board in overseeing the preparation, presentation and adequacy of disclosures in the financial statements in accordance with SLFRS/LKAS.
- Overseeing the compliance with financial reporting requirements, information requirements as per the laws and regulations.

- To ensure that adequate internal controls are in application to meet the requirements of the SLFRS/LKAS and evaluate the effectiveness of the risk management processes to mitigate risks.
- Assess the independence and monitor the performance and functions of internal and external auditors.
- Make a determination of the independence of the external auditors.
- Make recommendations to the Board pertaining to external auditors.
- Ensure the Company's compliance with legal and regulatory requirements including the performance of the Company's compliance function.

Meetings

The Audit Committee met four times during the year under review and the attendance of the committee members are given in the table below.

Name	22/06/2018	12/09/2018	16/11/2018	13/02/2019
Mr. D S K Amerasekera	Yes	Yes	Yes	Yes
Dr. A Shakthevale	Yes	Yes	Yes	Yes

Finance Manager, Mr. R N Attygalle and Deputy Finance Manager, Mr. I A De Alwis also attended the meetings by invitation and briefed the committee on specific issues.

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. The Committee is also satisfied that the Group's Internal and External Auditors have been effective and independent throughout the year under review.



D S K Amerasekera
Chairman, Audit Committee

06th August 2019

REPORT OF THE REMUNERATION COMMITTEE

Composition

The Remuneration Committee comprises of two Independent Non Executive Directors in compliance with the section 7.10.5 of listing rules of the Colombo Stock Exchange.

- Mr. D S K Amerasekera – Independent Non-Executive Director (Chairman)
- Dr. A Shakthevale – Independent Non-Executive Director

A brief profile of each Director is presented on page 20 to 23 of this report.

Remuneration Committee is governed by the Remuneration Committee Charter and it is responsible for determining the remuneration policy of the key management personnel of the Company and all employees.

The Remuneration Policy

The remuneration policy of the Company is to attract, motivate and retain the best professional and management talent of the Company and also to motivate and encourage them to perform at the highest possible level.

Meetings

The Committee met four times during the year. Members of the Company and the Finance Manager attended these meetings.

Name	22/06/2018	12/09/2018	16/11/2018	13/02/2019
Mr. D S K Amerasekera	Yes	Yes	Yes	Yes
Dr. A Shakthevale	Yes	Yes	Yes	Yes

During the year, the Committee reviewed the current performance and evaluation process of incentives awarded and made recommendations to the Board of Directors. The Committee recommended and ensured that appropriate service contracts are available for Senior Managers.



D S K Amerasekera
Chairman – Remuneration Committee
06th August 2019

REPORT OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

The Related Party Transaction Review Committee is responsible for the Board of Directors and comprises of two Independent Non-Executive Directors and one Non Independent Non-Executive Director. The Chairman of the Related Party Transaction Review Committee is Mr. D S K Amerasekera, a member of the Institute of Chartered Accountants of Sri Lanka and an Attorney-at-Law of the Supreme Courts of Sri Lanka. The other members of the Committee comprises of Dr. A Shakthevale, Independent Non-executive Director and Mr. D Hasitha S Jayawardena, Non Independent Non-Executive Director.

A brief profile of each member is given on page 20 to 23 of this report.

Purpose of the Committee

The purpose of the Committee as set out in Appendix 9A of the CSE Listing Rules is to review all related Party Transactions except for transactions set out in Rule 9.5, either prior to the transaction being entered into or if the transaction is expressed to be conditional on such review, prior to completion of the transaction.

Meetings

The Committee reviewed the transactions in respect of the financial year 2018/19 as required by the applicable rules/regulations and process has been set in place to facilitate compliance in future.

The Related Party Transactions Review Committee met four times during the year under review and the attendance of the committee members are given in the table below.

Name	22/06/2018	12/09/2018	16/11/2018	13/02/2019
Mr. D S K Amerasekera	Yes	Yes	Yes	Yes
Dr. A Shakthevale	Yes	Yes	Yes	Yes
Mr. D Hasitha S Jayawardena	Yes	Yes	Yes	No

Disclosure

As per the existing practice, related party transactions are disclosed to the stakeholders through the Company's financial statements and in order to comply with the rules set out in appendix 9A of the CSE Listing Rules. The Committee established its functions with a view of further strengthening the internal procedures and policies with the requirements thereof and relevant disclosures are made in a timely and detailed manner.

Declaration

A declaration by the Board of Directors on compliance with the rule pertaining to the related party transactions appears on the report of Board of Directors on page 58 to 60 of this report.



D S K Amerasekera

Chairman - Related Party Transactions Review Committee

06th August 2019

ANNUAL REPORT OF THE BOARD OF DIRECTORS

The Board of Directors of Lanka Milk Foods (CWE) PLC has pleasure in presenting the 37th Annual Report to you. This report includes the Audited Financial Statements of the Company and the Group, The Chairman's Review, The Director's Review, Management Discussion and Analysis, The Corporate Governance Report, Sustainability Incorporation, Risk Management and all other pertinent information to provide a true and fair view of the financial year ended 31st March 2019.

The requirement of the Companies Act No.07 of 2017, relevant Listing Rules of the Colombo Stock Exchange and suggested best reporting practices were also considered in the content of this report.

The Company was incorporated on 12th November 1981 as a Public Limited Liability Company and quoted on the Colombo Stock Exchange in year 1983 and was registered under the provisions of the Companies Act no 07 of 2007. The Cooperative Wholesale Establishment managed the company until its privatization in year 1991.

Principal Activities

The Group is in the business of manufacturing, importing, exporting, packing, marketing and distributing powdered milk, dairy and dairy allied products, fruit juice, rearing cattle and goats to produce milk and trading carbonated canned beverages.

Performance Review

A review of the financial and operational performance, comments on the financial results, future strategies and future prospects are shown in the Chairman's Statement, Director's Review and Management Discussion of this report.

Refer Note 13 and 29 Details of Subsidiaries for more information. A segmental analysis of the activities of the Group is given in Note 32 to the Financial Statements.

Financial Statements and Auditors' Report

The Financial Statements of the Company and the Group for the year ended 31st March 2018 were prepared in accordance with SLFRSs/LKASs, the Accounting Standards issued by The Institute of Chartered Accountants of Sri Lanka. The Audited Financial Statements approved by the Board of Directors on 06th August 2019 are provided on pages 68 to 122. The Auditor's Report on the Financial Statements of the Company and the Group is set out on page 64 to 67.

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 74 to 90. There have been no changes in the accounting policies adopted by the Group during the year.

Going Concern

The Board is satisfied that the Company and the subsidiaries have adequate resources to continue their operations in the foreseeable future.

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.

Group Financial Results

For the Year Ended 31 March	2018/2019 Rs. '000	2017/2018 Rs.' 000
Revenue	5,385,534	5,278,777
Profit from operations	87,761	666,338
Profit / (Loss) before Tax	(44,712)	631,766
Income Tax Expense	(81,915)	(51,235)
Profit / (Loss) for the Year	(126,627)	580,531

Dividends

In respect of the year ended 31st March 2019, the Directors have declared a dividend of Rs.1.25 per share. (2017/2018 – Rs.2.50 per share). As per LKAS 10 Events after the reporting period, the final dividend recommended has not been recognised at the date of Financial Position

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 94 to 98.

Land Holdings

Details of leasehold land owned by the company are given in Note 28 to the Financial Statements on page 109.

Investments

Details of quoted and unquoted investments made by the Company as at 31st March 2019 are given in Note 14 to the Financial Statements on page 99.

Reserves

The total Group Reserves as at 31st March 2019 amounted to Rs. 7.8 billion (2017 /2018 – Rs. 11.4 billion) The movements of reserves during the period are given under the Statement of Changes in Equity on pages 70 to 71.

Events after the Reporting Period

There have been no events subsequent to the reporting period, which would have any material effect on the Group or the Company other than those disclosed in Note 31 to the Financial Statements

Employees

The number of persons employed by the Company as at 31st March 2019 was 272 (308 as at 31st March 2018) and by the Group 693 (734 as at 31st March 2018).

Share Information

An Ordinary share of the Company (LMF. N0000) was quoted on the Colombo Stock Exchange at Rs. 110.00 as at 31st March 2019 (Rs. 158.10 as at 31st March 2018). During the year the share price fluctuated between Rs.108.50 and Rs.177.90.

Information in relation to earnings, dividends, net assets and market value per share is given in the Ten Year Summary on page 125 of this report.

Shareholdings

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 123 to 124 under Investor Information.

As at 31st March 2019, LMF had a float adjusted market capitalization of Rs. 1.5 billion (Rs. 2.2 billion as at 31st March 2018). There were 3,036, registered shareholders, holding ordinary voting share at the year-end. (3,080 registered shareholders as at 31st March 2018)

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.

Directorate

The Directors of Lanka Milk Foods (CWE) PLC who served during the year are given below;

Mr. D. H. S. Jayawardena	- Executive Chairman
Mr. C. R. Jansz	- Executive Director
Ms. D. S.C. Jayawardena	- Executive Director
Mr. D. S. K Amarasekera	- Independent Non-Executive Director
Dr. A. Shakthevale	- Independent Non-Executive Director
Mr. D. Hasitha. S. Jayawardena	- Non-Independent Non-Executive Director

Brief profiles of the Director's as at 31st March 2019, appear on pages 20 to 23 of this report.

Directors' Remuneration

The remuneration of the Directors is given in note 08 on page 92 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.

The Directors confirm that transactions with Related Parties in terms of the Sri Lanka Accounting Standard LKAS 24- Related Party Disclosures have been detailed in Note 33 to the Financial Statements, as well as that the, requirements as per the listing rules of the Colombo Stock Exchange has been complied with.

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 31 March 2019	As at 31 March 2018
Mr. D H S Jayawardena	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

ANNUAL REPORT OF THE BOARD OF DIRECTORS

Donations

During the year, the Company made donations amounting to Rs. 105,000.

Auditors

The Financial Statements have been audited by Messrs KPMG Chartered Accountants who served as the Auditors during the year under review. 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.

The details of fees paid to the Auditors for the Company and its subsidiaries are set out in Note 08 to the Financial Statements. The Auditors do not have any interest in the Company other than as Auditors.

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.

Risk Management

The Risk Management processes currently practiced by the Company to identify and manage potential risks are given on page 114 to 122.

Contingent Liabilities

Except as disclosed in Note 30 to the Financial Statements on page 110, there were no material 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 applicable Governance Rules of the Colombo Stock Exchange. The Corporate Governance practices are presented on pages 46 to 50.

Annual General Meeting

The 37th Annual General meeting of the Company will be held at Sri Lanka Foundation Institute on Friday, 30th of August 2019 at 10.00 a.m. The Notice of Meeting appears on page 128 of the report.

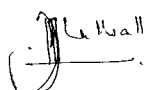
This Annual Report is signed for and on behalf of the Board of Directors by:



Mr. D. H. S. Jayawardena
Chairman



Mr. C. R. Janz
Director



Ms. H. K. Bulathwatte
Company Secretary

Lanka Milk Foods (CWE) PLC
06th August 2019

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.

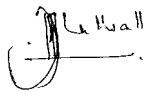
The Directors have taken adequate measures to safeguard the assets of the Group and have established implementation of appropriate internal control systems in order to prevent and detect fraud and other irregularities.

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



Ms. H. K. Bulathwatte
Company Secretary
06th August 2019



We are confident that given our long-term vision, timely strategies and prudent investments, the Group is poised to deliver even greater value in the years to come.



FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT



KPMG
(Chartered Accountants)
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TO THE SHAREHOLDERS OF LANKA MILK FOODS (CWE) PLC

Report on the Audit of the Financial Statements

Opinion

We have audited the 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 31 March 2019, and the Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and Notes to the Financial Statements, including a Summary of Significant Accounting Policies set out on page 68 to 122.

In our opinion, the accompanying Financial Statements of the Company and the Group give a true and fair view of the Financial Position of the Company and the Group as at 31 March 2019, and of their Financial Performance and Cash Flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics), and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Company Financial Statements and Consolidated Financial Statements of the current period. These matters were addressed in the context of our audit of the Company Financial Statements and Consolidated Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Recoverability of Deferred Tax Assets

Refer Note 23 to the Financial Statements

Risk Description

The Group and Company have recognized deferred tax assets amounting to Rs. 239.2 Mn and Rs. 101.6 Mn respectively as at 31 March 2019.

Group and Company had recognized significant deferred tax assets in respect of the future benefit of deductible temporary differences and accumulated tax losses which management considered would probably be utilized or recovered in the future through the generation of future taxable profits by the group entities or by set-off against deferred tax liabilities.

The recognition of deferred tax assets relies on the exercise of significant judgment by management in respect of assessing the sufficiency of future taxable profits and the probability of such future taxable profit being generated and future reversals of existing taxable temporary differences.

We identified the recognition of deferred tax assets as a key audit matter because of its significance to the Financial Statements and significant management judgment and estimation required in the forecasting future taxable profits which could be subject to error or potential management bias.

Our response

Our audit procedures included,

- Assessing the Group's and Company's approach for evaluating the likelihood of the recoverability of deferred tax assets. This includes challenging the key assumptions in future taxable profits forecasts for each Group entities with accumulated unutilized tax losses by comparing the most significant inputs used in the forecasts, including future revenue, margins and operating cost growth rates, with the historical performance of the entities, management's forecasts used for other purposes and our knowledge of the business gained from other audit procedures.
- Assessing adequacy of the disclosures in the Financial Statements.

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

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

Valuation of Biological Assets

Refer Note 15 to the Financial Statements

Risk Description	Our response
<p>The Group's biological assets comprise of Goats, Rabbits and Dairy Cattle, which are further categorized into calves, heifers, milking cows, dry cows and culled animals.</p> <p>The balance of the Group's biological assets, which are measured at fair value less cost to sell, was Rs. 687 Mn, as at 31 March 2019, with a Gain arising from changes in fair value less costs to sell of biological assets for the year ended 31 March 2019 recorded in the Consolidated Statement of Profit or Loss and Other Comprehensive Income of Rs. 243.1 Mn. Management has used valuation method developed based on past information, assumptions, market prices of livestock of similar age, weight, pregnancy, lactations and milk production.</p> <p>The calculation of the fair value of biological assets involves a significant degree of judgement, particularly in respect of market prices for calves, heifers, goats and rabbits estimated culling rates, and raw milk market prices.</p> <p>We identified the valuation of biological assets as a key audit matter because the valuation is dependent on certain key assumptions, which require the exercise of significant judgement and are subject to an inherent risk of error or potential management bias.</p>	<p>Our audit procedures included,</p> <ul style="list-style-type: none"> • understanding management's process for collecting the information to support the key assumptions and inputs adopted in the valuation of biological assets and assessing the information based on our knowledge of the Group and other audit procedures performed. • assessing the methodologies adopted in the valuation of biological assets with reference to the requirements of the prevailing accounting standards with the consultation from our internal technical team. • assessing on a sample basis, the input data used in the valuations of biological assets, including breeding costs, milk production volumes and culling rates, based on available historical data. • Development of Auditor's point estimate based on discounted cash flows models and evaluate the management's point estimate • Assessing the adequacy of the disclosure in Financial Statements.

Impairment of Investments in Subsidiaries

Refer Note 13 to the Financial Statements

Risk Description	Our response
<p>The Company hold investments in Subsidiaries amounting to Rs. 1,193.6 Mn as at 31 March 2019.</p> <p>The carrying amount of each investments in Subsidiaries have been tested for impairment as individual Cash Generating Units. The carrying amount of these investments could be materially misstated if inappropriate judgments and estimates were used by the Directors in calculating the recoverable amount for each cash generating unit ("CGU") as part of their impairment assessment.</p> <p>Investments which does not generate adequate returns may be an indication of impairment. Due to the investments being material it will have a significant impact on financial performance of the Company / Group.</p> <p>We have identified the impairment of investments in Subsidiaries as a key audit matter since that is based on assessment of recoverability amount, which are inherently judgmental.</p>	<p>Our audit procedures included,</p> <ul style="list-style-type: none"> • Assessing the impairment indications of investments made in Subsidiaries. • Reviewing of recoverable computations based on net assets attributable to Parent Company for investments with impairment indications and discussion with management of group/ component. • Obtaining the forecasted cash flows of the subsidiaries and assessing the reasonableness of the discounted cash flow models, principles and accuracy of the forecasts and challenging the assumptions used and the valuation technique applied. • Assessing the adequacy of disclosures made in the Financial Statements.

INDEPENDENT AUDITORS' REPORT

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the Financial Statements and our auditor's report thereon.

Our opinion on the Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the Financial Information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is 2599.



CHARTERED ACCOUNTANTS

Colombo, Sri Lanka

06th August 2019

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 31 March	Note	Group		Company	
		2019 Rs.000's	2018 Rs.000's	2019 Rs.000's	2018 Rs.000's
Revenue	5	5,385,534	5,278,777	1,922,137	1,840,687
Cost of Sales		(4,898,092)	(4,477,968)	(1,895,416)	(1,739,751)
Gross Profit		487,442	800,809	26,721	100,936
Other Operating Income	6	411,695	630,333	516,741	466,777
Administrative Expenses		(465,804)	(418,238)	(196,976)	(180,567)
Distribution Expenses		(254,687)	(285,641)	(134,592)	(137,362)
Other Operating Expenses		(90,885)	(60,925)	(11,292)	(261)
Profit from Operations		87,761	666,338	200,602	249,523
Finance Income	7.1	15,336	28,186	8,966	33,557
Finance Expense	7.2	(147,809)	(62,758)	(94,163)	(4,734)
Net Finance Income / (Expense)	7	(132,473)	(34,572)	(85,197)	28,823
Profit / (Loss) Before Income Tax Expense	8	(44,712)	631,766	115,405	278,346
Income Tax Expense	9	(81,915)	(51,235)	(13,922)	(1,945)
Profit / (Loss) for the Year		(126,627)	580,531	101,483	276,401
Other Comprehensive Income					
Items that are or may be reclassified to Profit or Loss					
Net Change in Fair Value of Equity Securities - at FVOCI / Available for Sale Investments	14.1	(3,386,323)	182,485	(3,386,323)	182,485
Items that will never be reclassified to Profit or Loss					
Actuarial Gain / (Loss) on Retirement Benefit Obligations		6,875	(5,507)	8,033	(3,007)
Tax on Other Comprehensive Income	23.3	(2,469)	1,311	(2,249)	842
Other Comprehensive Income / (Expense) for the Year		(3,381,917)	178,289	(3,380,539)	180,320
Total Comprehensive Income / (Expense)		(3,508,544)	758,820	(3,279,056)	456,721
Profit / (Loss) Attributable to :					
Owners of the Company		(126,312)	580,784	101,483	276,401
Non Controlling Interest		(315)	(253)	-	-
Profit / (Loss) for the Year		(126,627)	580,531	101,483	276,401
Total Comprehensive Income / (Expense) Attributable to :					
Owners of the Company		(3,508,229)	759,073	(3,279,056)	456,721
Non Controlling Interest		(315)	(253)	-	-
Total Comprehensive Income / (Expense) for the Year		(3,508,544)	758,820	(3,279,056)	456,721
Earnings / (Loss) per Share	10				
Basic Earnings / (Loss) per Share	10.1	(3.16)	14.52	2.54	6.91
Diluted Earnings / (Loss) per Share	10.2	(3.16)	14.52	2.54	6.91

Figures in brackets indicate deductions.

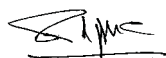
The Financial Statements are to be read in conjunction with related notes, which form a part of the Financial Statements of the Group set out in pages 74 to 122.

STATEMENT OF FINANCIAL POSITION

As at 31 March	Note	Group		Company	
		2019 Rs.000's	2018 Rs.000's	2019 Rs.000's	2018 Rs.000's
Assets					
Non Current Assets					
Property, Plant and Equipment	12	1,287,633	1,473,279	136,226	143,342
Investment in Subsidiaries	13	-	-	1,076,022	755,001
Investment in Equity Securities	14.1	6,118,831	9,505,154	6,118,831	9,505,154
Biological Assets	15.1	687,013	528,210	-	-
Deferred Tax Asset	23	75,266	91,437	75,266	91,437
Total Non Current Assets		8,168,743	11,598,080	7,406,345	10,494,934
Current Assets					
Inventories	16	1,414,818	1,108,392	659,652	498,088
Biological Assets	15.2	17,159	15,808	-	-
Investment in Equity Securities	14.2	209,839	270,283	209,839	270,283
Trade Receivables	17	499,674	510,989	173,475	172,375
Other Receivables	18	136,082	92,082	96,324	52,811
Amounts Due from Related Companies	19	44,430	49,670	415,355	516,814
Current Tax Assets		84,406	81,506	31,395	34,523
Cash and Cash Equivalents	20	42,227	66,669	22,861	38,010
Total Current Assets		2,448,635	2,195,399	1,608,901	1,582,904
Total Assets		10,617,378	13,793,479	9,015,246	12,077,838
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		5,547,745	8,934,068	5,547,745	8,934,068
Revenue Reserves	22.2	2,193,148	2,419,948	1,666,558	1,662,306
Total Equity attributable to Equity Holders of the Company		8,845,959	12,459,082	8,319,369	11,701,440
Non Controlling Interests		11,029	11,344	-	-
Total Equity		8,856,988	12,470,426	8,319,369	11,701,440
Liabilities					
Non Current Liabilities					
Loans and Borrowings	25	183,735	250,547	-	-
Deferred Tax Liability	23.1	190,830	143,617	-	-
Retirement Benefit Obligations	24	101,589	100,337	58,007	62,227
Total Non Current Liabilities		476,154	494,501	58,007	62,227
Current Liabilities					
Trade and Other Payables	26	575,032	310,740	346,795	70,800
Amounts Due to Related Companies	27	7,977	10,754	37,094	55,349
Current Tax Liabilities		-	1,117	-	-
Loans and Borrowings	25	66,812	66,812	-	-
Bank Overdraft	20.2	634,415	439,129	253,981	188,022
Total Current Liabilities		1,284,236	828,552	637,870	314,171
Total Liabilities		1,760,390	1,323,053	695,877	376,398
Total Equity and Liabilities		10,617,378	13,793,479	9,015,246	12,077,838

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 74 to 122.

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

06th August 2019

Colombo



C.R. Jansz

Director

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 March Group	Attributable to Equity Holders of the Company							
	Stated Capital	Revaluation Reserve	Dairy Development Project Reserve	Available for Sale Reserve	Retained Earnings	Total	Non- Controlling Interest	Total Equity
	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's
Balance as at 01 April 2017	999,950	105,116	110,000	8,751,583	1,833,355	11,800,004	11,597	11,811,601
Total Comprehensive Income								
Profit for the Year	-	-	-	-	580,784	580,784	(253)	580,531
Other Comprehensive Income								
Net change in Fair Value of Available for Sale Investments	-	-	-	182,485	-	182,485	-	182,485
Actuarial Loss on Retirement Benefit Obligations	-	-	-	-	(5,507)	(5,507)	-	(5,507)
Tax on Other Comprehensive Income	-	-	-	-	1,311	1,311	-	1,311
Total Other Comprehensive Income for the Year	-	-	-	182,485	(4,196)	178,289	-	178,289
Total Comprehensive Income for the Year	-	-	-	182,485	576,588	759,073	(253)	758,820
Transactions with Owners directly recorded in the Equity								
Contributions by and Distributions to Owners								
Dividend Paid	-	-	-	-	(99,995)	(99,995)	-	(99,995)
Total Contributions by and Distributions to Owners	-	-	-	-	(99,995)	(99,995)	-	(99,995)
Balance as at 31 March 2018	999,950	105,116	110,000	8,934,068	2,309,948	12,459,082	11,344	12,470,426
Balance as at 01 April 2018	999,950	105,116	110,000	8,934,068	2,309,948	12,459,082	11,344	12,470,426
Adjustment on Initial Application of IFRS 09, Net of tax	-	-	-	-	(4,899)	(4,899)	-	(4,899)
Adjusted Balance as at 01 April 2018	999,950	105,116	110,000	8,934,068	2,305,049	12,454,183	11,344	12,465,527
Total Comprehensive Income								
Profit for the Year	-	-	-	-	(126,312)	(126,312)	(315)	(126,627)
Other Comprehensive Income								
Net change in Fair Value of Available for Sale Investments	-	-	-	(3,386,323)	-	(3,386,323)	-	(3,386,323)
Actuarial Gain on Retirement Benefit Obligations	-	-	-	-	6,875	6,875	-	6,875
Tax on Other Comprehensive Income	-	-	-	-	(2,469)	(2,469)	-	(2,469)
Total Other Comprehensive Income for the Year	-	-	-	(3,386,323)	4,406	(3,381,917)	-	(3,381,917)
Total Comprehensive Income for the Year	-	-	-	(3,386,323)	(121,906)	(3,508,229)	(315)	(3,508,544)
Transactions with Owners directly recorded in the Equity								
Contributions by and Distributions to Owners								
Dividend Paid	-	-	-	-	(99,995)	(99,995)	-	(99,995)
Total Contributions by and Distributions to Owners	-	-	-	-	(99,995)	(99,995)	-	(99,995)
Balance as at 31 March 2019	999,950	105,116	110,000	5,547,745	2,083,148	8,845,959	11,029	8,856,988

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 74 to 122.

For the Year Ended 31 March 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 01 April 2017	999,950	105,116	110,000	8,751,583	1,378,065	11,344,714
Total Comprehensive Income						
Profit for the Year	-	-	-	-	276,401	276,401
Other Comprehensive Income						
Net Change in Fair Value of Available for Sale Investments	-	-	-	182,485	-	182,485
Actuarial Loss on Retirement Benefit Obligations	-	-	-	-	(3,007)	(3,007)
Tax on Other Comprehensive Income	-	-	-	-	842	842
Total Other Comprehensive Income for the Year	-	-	-	182,485	(2,165)	180,320
Total Comprehensive Income for the Year	-	-	-	182,485	274,236	456,721
Transactions with Owners directly recorded in the Equity						
Contributions by and Distributions to Owners						
Dividend Paid	-	-	-	-	(99,995)	(99,995)
Total Contributions by and Distributions to Owners	-	-	-	-	(99,995)	(99,995)
Balance as at 31 March 2018	999,950	105,116	110,000	8,934,068	1,552,306	11,701,440
Balance as at 01 April 2018	999,950	105,116	110,000	8,934,068	1,552,306	11,701,440
Adjustment on Initial Application of IFRS 09, Net of tax	-	-	-	-	(3,020)	(3,020)
Adjusted Balance as at 01 April 2018	999,950	105,116	110,000	8,934,068	1,549,286	11,698,420
Total Comprehensive Income						
Profit for the Year	-	-	-	-	101,483	101,483
Other Comprehensive Income						
Net change in Fair Value of Available for Sale Investments	-	-	-	(3,386,323)	-	(3,386,323)
Actuarial Gain on Retirement Benefit Obligations	-	-	-	-	8,033	8,033
Tax on Other Comprehensive Income	-	-	-	-	(2,249)	(2,249)
Total Other Comprehensive Income for the Year	-	-	-	(3,386,323)	5,784	(3,380,539)
Total Comprehensive Income for the Year	-	-	-	(3,386,323)	107,267	(3,279,056)
Transactions with Owners directly recorded in the Equity						
Contributions by and Distributions to Owners						
Dividend Paid	-	-	-	-	(99,995)	(99,995)
Total Contributions by and Distributions to Owners	-	-	-	-	(99,995)	(99,995)
Balance as at 31 March 2019	999,950	105,116	110,000	5,547,745	1,556,558	8,319,369

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 74 to 122.

STATEMENTS OF CASH FLOWS

For the Year Ended 31 March	Note	Group		Company	
		2019 Rs.000's	2018 Rs.000's	2019 Rs.000's	2018 Rs.000's
Cash Flows from Operating Activities					
Profit / (Loss) before Income Tax Expense		(44,712)	631,766	115,405	278,346
Adjustments for;					
Depreciation on Property, Plant and Equipment	12.1/12.2	249,454	249,228	15,986	21,087
Changes in Fair Value of Equity Securities at FVTPL / Financial Assets Held for Trading		76,610	(4,835)	76,610	(4,835)
Provision / (Reversal) of Impairment of Investment in Subsidiaries		-	-	(271,021)	261
Provision of Impairment for Amounts due from Related Companies		-	-	10,876	-
Provision of Impairment for Fixed Deposits		2	-	2	-
Provision / (Reversal) of Impairment for Trade Receivables		2,095	(5,149)	(616)	3,349
ESC Written-off		26,011	-	10,570	-
Gain on disposal of Property, Plant and Equipment		(550)	(77)	(500)	(7)
Loss on Translation of Foreign Currency	7.2	12,648	-	12,648	-
Provision for Retirement Benefit Obligations	24.1	19,486	19,085	11,223	11,601
Reversal for Obsolete of Inventories	16.1	(413)	-	(413)	-
Change in Fair Value of Biological Assets	15.1	(243,112)	(136,198)	-	-
(Gain) / Loss on Disposal of Biological Assets		28,944	(327)	-	-
Dividend Income	6	(36,543)	(343,720)	(165,543)	(388,720)
Interest Income	7.1	(9,588)	(7,227)	(8,966)	(18,614)
Interest Expense	7.2	58,551	62,758	4,905	4,734
Operating Profit/(Loss) before working capital changes		138,883	465,304	(188,834)	(92,798)
Changes in ;					
Inventories		(306,013)	(285,290)	(161,151)	(235,353)
Trade and Other Receivables		(39,675)	(129,631)	(47,014)	(99,213)
Amounts due from Related Companies		5,240	(5,722)	90,583	441,678
Amounts due to Related Companies		(2,777)	941	(18,255)	(69,301)
Trade and Other Payables		250,540	(30,475)	262,247	(111,627)
Cash Flows generated from/(used in) Operating Activities		46,198	15,127	(62,424)	(166,614)
Interest Paid		(58,551)	(62,758)	(4,905)	(4,734)
Income Tax Paid		(51,030)	(52,437)	(7,445)	(10,175)
Retirement Benefit Obligation Paid		(11,359)	(7,168)	(7,410)	(3,810)
Net Cash Flows generated from/(used in) Operating Activities		(74,742)	(107,236)	(82,184)	(185,333)

For the Year Ended 31 March	Note	Group		Company	
		2019 Rs.000's	2018 Rs.000's	2019 Rs.000's	2018 Rs.000's
Cash Flows from Investing Activities					
Interest Received		9,588	7,227	8,966	18,614
Dividend Received		33,393	10,334	162,391	55,334
Investment in Equity Securities at FVTPL / Financial Assets Held for Trading		(13,016)	(20,610)	(13,016)	(20,610)
Acquisition of Biological Assets		(78,934)	(86,835)	-	-
Proceeds from Disposal of Property, Plant and Equipment		583	229	500	7
Proceeds from Sale of Biological Assets		132,948	175,223	-	-
Investment in new Subsidiary - United Dairies Lanka (Pvt) Limited		-	-	(50,000)	-
Purchase and Construction of Property, Plant and Equipment		(63,841)	(157,773)	(8,870)	(1,719)
Net Cash Flows generated from/(used in) Investing Activities		20,721	(72,205)	99,971	51,626
Cash Flows from Financing Activities					
Repayment of Borrowings during the Year		(66,812)	(66,812)	-	-
Dividend Paid		(98,890)	(99,995)	(98,890)	(99,995)
Net Cash Flows used in Financing Activities		(165,702)	(166,807)	(98,890)	(99,995)
Net Decrease in Cash and Cash Equivalents		(219,723)	(346,248)	(81,103)	(233,702)
Cash and Cash Equivalents at the beginning of the Year		(372,460)	(26,212)	(150,012)	83,690
Cash and Cash Equivalents at the end of the Year (Note 20)		(592,183)	(372,460)	(231,115)	(150,012)
Note B					
Analysis of Cash and Cash Equivalents at the end of the Year					
Cash and Cash Equivalents		42,232	66,669	22,866	38,010
Bank Overdraft		(634,415)	(439,129)	(253,981)	(188,022)
		(592,183)	(372,460)	(231,115)	(150,012)

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 74 to 122.

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

1.1 Reporting Entity

Lanka Milk Foods (CWE) PLC (“the Company”) is a quoted public limited liability Company incorporated and domiciled in Sri Lanka. The Company has been registered under the Companies Act No. 17 of 1982 and re-registered under the Companies Act No. 07 of 2007. The registered office of the Company is located at No 579/1, Welisara, Ragama.

The Consolidated Financial Statements of Lanka Milk Foods (CWE) PLC as at and for the year ended 31 March 2019 comprise of the financial information of the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”).

1.2 Principal Activities And Nature Of Operations

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.

There were no significant changes in the nature of the principal business activities of the companies in the Group during the financial year under review other than formation of new Company; United Diaries Lanka (Private) Limited.

The Company does not have an identifiable Parent of its own. The Company is the Ultimate Parent of the Group.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The Consolidated Financial Statements of the Group and Separate Financial Statements of the Company, have been prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRSs and LKASs), laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the requirements of the Companies Act No. 7 of 2007 and provide appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange (CSE).

These Financial Statements include the following components:

- Statement of Profit or Loss and Other Comprehensive Income providing information on the Financial Performance of the Company and the Group for the year under review.
- Statement of Financial Position providing the information on the Financial Position of the Company and the Group as at the year end.

- Statement of Changes in Equity depicting all changes in shareholders’ funds during the year under review of the Company and the Group.

- Statement of Cash Flows providing the information to the users, on the ability of the Company and the Group to generate cash and cash equivalents and utilization of those cash flows.

- Notes to the Financial Statements comprising Accounting Policies and other explanatory information.

2.2 Directors Responsibility for Financial Statements

The Board of Directors of the Company is responsible for the preparation and presentation of Consolidated Financial Statements as per the provisions of the Companies Act No. 07 of 2007 and Sri Lanka Accounting Standards (SLFRSs/ LKASs).

2.3 Approval of Financial Statements

The Consolidated Financial Statements of the Company for the year ended 31 March 2019 were approved and authorized for issue by the Board of Directors in accordance with Resolution of the Directors on 06th August 2019.

2.4 Basis of Measurement

The Consolidated Financial Statements 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. Fair Value Through Comprehensive Income (FVOCI) | Fair value |
| ii. Defined Benefit Obligation | Actuarially valued and recognized at Present value of the defined benefit obligation |
| iii. Biological assets | Fair value less costs to sell |
| iv. Fair Value Through Profit or Loss (FVTPL) | Fair value |

No adjustments have been made for inflationary factors affecting the Financial Statements.

2.5 Functional and Presentation Currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entities operate ('the functional currency'). The Financial Statements are presented in Sri Lankan Rupees, which is the Company's functional and presentation currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

2.6 Materiality and Aggregation

Each material class of similar item is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial.

2.7 Use of Judgments and Estimations

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 recognized prospectively.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 March 2019 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

2.8 Going Concern

The Management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Financial Statements of the Group continue to be prepared on a going concern basis.

2.9 Current versus Non-Current Classification

The Group presents assets and liabilities in the Statement of Financial Position based on Current / Non-Current classification. An asset is Current when it is expected to be realized or intended to be sold or consumed in the normal operating cycle and held primarily for the purpose of trading or expected to be realized within twelve months after the reporting period or is Cash or Cash Equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as Non-Current Assets.

A liability is Current when it is expected to be settled in the normal operating cycle and is held primarily for the purpose of trading and is due to be settled within twelve months after the reporting period or there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting date.

All other liabilities are classified as Non-Current Liabilities.

2.10 Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position, only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the assets and settle the liabilities simultaneously. Income and expenses are not offset in the Income Statement, unless required or permitted by Sri Lanka Accounting Standards and as specifically disclosed in the Significant Accounting Policies of the Group.

2.11 Determination of fair values

'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 in the principal or, in its absence, the most advantageous market to which the Group has access at that date.

NOTES TO THE FINANCIAL STATEMENTS

The fair value of a liability reflects its non-performance risk. Several of the Group's accounting policies and disclosures require the determination of fair value, for both financial and nonfinancial assets and liabilities.

When measuring fair value of an asset or liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques.

Level 1:

inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2:

inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3:

inputs are inputs that are not based on observable market data (unobservable inputs).

If inputs used to measure the fair value of an asset or liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Fair values have been determined for measurement and disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair value is disclosed in the notes specific to that asset or liability.

3. SIGNIFICANT ACCOUNTING POLICIES

Except for the Changes in Significant Accounting Policies (Note 3.1) given below the accounting policies set out from Note 3.2 onwards have been applied consistently for all periods presented in the financial statements by the Company and Group.

3.1 Changes in Significant Accounting Policies

The following changes in accounting policies are reflected in Consolidated Financial Statements as at and for the year ended 31 March 2019.

The Group has adopted SLFRS 15 Revenue from Contracts with Customers and SLFRS 9 Financial Instruments from 1 April 2018.

Due to the transition methods chosen by the Group in applying these standards comparative information throughout these Financial Statements has not been restated to reflect the requirements of the new standards.

The effect of initially applying these standards is mainly attribute to the followings;

- An increase of impairment losses recognized on financial assets.
- Revenue recognition.
- Valuation of equity investments

3.1.1 SLFRS 15 Revenue from Contracts with Customers

The Group has applied SLFRS 15 "Revenue from contracts with customers" with a date of initial application of 1 April 2018.

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced LKAS 18 Revenue, LKAS 11 Construction Contracts and related interpretations. Under SLFRS 15 revenue from contracts with customers, an entity should recognize as revenue the amount that reflects the consideration to which the entity expects to be entitled in exchange for goods or services excluding amounts collected on behalf of third parties. The Group recognizes revenue when it transfers control over a product or service to a customer. Determining the timing of the transfer of control - at a point in time or over time - requires judgement.

The Group has applied SLFRS 15 using the cumulative transition effect method - i.e. by recognizing the cumulative effect of initially applying SLFRS 15 as an adjustment to the opening balance of equity at 1 April 2018 and therefore the comparative information has not been restated and continues to be reported under LKAS 18. The details of accounting policies under LKAS 18 and SLFRS 15 is disclosed in Note 3.5.1.1.1 separately.

The Group do not have a material impact on SLFRS 15 as the current accounting practice does not differ significantly from SLFRS 15. Therefore there was no adjustment to Retained earnings on the transition as at 1 April 2018. The details of the significant changes and qualitative impact of the changes are set out below.

The effect of initially applying of SLFRS 15 is mainly attributed to the following:

- Free goods - identification of the performance obligation
- Redistribution allowance - amount payable to a customer

- Distributor reimbursement – amount payable to a customer
 - Transport rebate – variable consideration
 - Target incentives – variable consideration
- a. **Free goods – identification of the performance obligation**
The free goods are given at the same time as the related goods. Accordingly no adjustment is required for revenue. But the cost of the free goods shall be re-classified as cost of sales.
- b. **Redistribution allowance – amount payable to a customer**
The Group's previous practice was to recognize redistribution allowance under selling and distribution expenses. As per SLFRS 15 the cost of redistribution allowance should be recorded as a reduction of the transaction price, when recognizes revenue for the transfer of the goods.
- c. **Distributor reimbursement – amount payable to a customer**
The Group's previous practice was to recognize distributor reimbursement under selling and distribution expenses. As per SLFRS 15 the cost of distributor reimbursement should be recorded as a reduction of the transaction price, when recognizes revenue for the transfer of the goods.
- d. **Transport rebate – variable consideration**
The Group's previous practice was to recognize transport rebate under selling and distribution expenses. As per SLFRS 15 the cost of transport rebate should be recorded as a reduction of the transaction price, when recognizes revenue for the transfer of the goods.
- e. **Target incentives – variable consideration**
The Group's current practice is to recognize target incentives under selling and distribution expenses. As per SLFRS 15 the cost of target incentives should be recorded as a reduction of the transaction price and a correspondent refund liability, when recognizes revenue for the transfer of the goods.

3.1.2 SLFRS 9 Financial Instruments

SLFRS 9 replaces LKAS 39 - Financial Instruments: Recognition and Measurement and all previous versions of SLFRS 9. This standard brings together all three aspects of the accounting for the financial instruments i.e. classification and measurement, impairment and hedge accounting.

The Group adopted modified retrospective application of SLFRS 9 and hence information presented for 2017/2018 has not been restated. Therefore the disclosure requirements as per SLFRS 9 have not been provided for comparative period.

Classification and measurement of financial assets and financial liabilities

SLFRS 9 contains three principal classification categories for financial assets; measured at amortized cost, FVOCI and FVTPL. The classification of financial assets under SLFRS

9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. SLFRS 9 eliminates the previous LKAS 39 categories of held to maturity, loans and receivables and available for sale.

SLFRS 9 largely retains the existing requirements in LKAS 39 for the classification and measurement of financial liabilities.

The adoption of SLFRS 9 has no significant effect on the Group's accounting policies related to financial liabilities.

The following table explains the original measurement categories under LKAS 39 and the new measurement categories under SLFRS 9 for each class of the Groups financial assets and financial liabilities as at 1 April 2018.

The effect of adopting SLFRS 9 on the carrying amounts of financial assets as at 1 April 2018 relates solely to the new impairment requirements.

Financial Assets	Original classification under LKAS 39	New classification under SLFRS 9
Long Term Equity Investments (Note 14.1)	Available for Sale Investments	Fair Value Through Comprehensive Income
Short Term Equity Investments (Note 14.2)	Fair Value Through Profit or Loss	Fair Value Through Profit or Loss
Trade Receivables (Note 17)	Loans & Receivables	Amortized Cost
Other Receivables (Note 18)	Loans & Receivables	Amortized Cost
Amounts due from Related Companies (Note 19)	Loans & Receivables	Amortized Cost
Cash at Bank and Call deposits (Note 20)	Loans & Receivables	Amortized Cost

NOTES TO THE FINANCIAL STATEMENTS

- (i) Trade and Other Receivables that were classified as loans and receivables under LKAS 39 are now classified at amortized cost.
- (ii) Amounts Due from Related Company that were classified as loans and receivables under LKAS39 are now classified at amortized cost.
- (iii) Cash and cash equivalents includes balances with banks and short call deposits with maturities less than 3 months. These were classified as loans and receivables under LKAS 39 and now as amortized cost.

The effect of adopting SLFRS 9 on the carrying amounts of financial liabilities as at 1 April 2018.

Financial Liabilities	Original classification under LKAS 39	New classification under SLFRS 9
Loans & Borrowings (Note 25)	Other Financial Liabilities	Amortized Cost
Trade & Other Payables (Note 26)	Other Financial Liabilities	Amortized Cost
Amounts due to Related Companies (Note 27)	Other Financial Liabilities	Amortized Cost

* There were no changes to the classification of financial liabilities.

The Group applied SLFRS 9 - Financial Instruments for the first time, with effect from 1 April 2018. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 April 2018.

Impairment of financial assets

SLFRS 9 replaces the “incurred loss’ model in LKAS 39 with an “expected credit risk model”. The new impairment model applies to financial assets carried at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under SLFRS 9 credit losses are recognized earlier than under LKAS 39.

For assets in the scope of the SLFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile.

3.2 Basis of Consolidation

3.2.1 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 are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The Group measures goodwill at the acquisition date as:

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

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

3.2.2 Subsidiaries

Subsidiaries are entities controlled by the Group. The Group ‘controls’ an entity if 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 when control ceases.

In the Company’s Financial Statements, investments in subsidiaries are carried cost less impairment if any, in net recoverable value.

The Consolidated Financial Statements are prepared to a common financial year end of 31st March.

3.2.3 Non-Controlling Interests (“NCI”)

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

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

3.2.4 Loss of Control

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

Subsequently at retained interest is accounted for as an equity accounted investee or as an available for sale financial asset depending on the level of influence retained.

3.2.5 Transactions eliminated on Consolidation

Intra-group balances and transactions, and any unrealized income and expenses (except for foreign currency transaction gains or losses) arising from intragroup transactions, are eliminated. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee.

Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

3.3 Foreign Currency Transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognized in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

3.4 Statement of Financial Position

3.4.1 Property, Plant and Equipment

3.4.1.1 Freehold Assets Recognition

3.4.1.1.1 Recognition

Property, plant & equipment are tangible items that are held for servicing, or for administrative purposes and are expected to be used during more than one period. Property, Plant & Equipment are recognized if it is probable that future economic benefits associated with the assets will flow to the Group and cost of the asset can be reliably measured.

3.4.1.1.2 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 capitalized as part of that equipment.

3.4.1.1.3 Subsequent Cost

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefit associated with the item will flow to the Group and the cost of the item can be measured reliably. The cost of the day-to-day servicing of property, plant and equipment are recognized in the profit or loss.

3.4.1.1.4 De-recognition

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss in the year the asset is derecognized.

3.4.1.1.5 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 recognized 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 derecognized.

NOTES TO THE FINANCIAL STATEMENTS

Leased assets are depreciated over the shorter of the lease term or the useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

e. Depreciation (Continued)

Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately. The estimated useful lives of property, plant and equipment for current and comparative periods are as follows.

Class of Assets	Useful Lifetime
Plant and Machinery	10 years
Laboratory Equipment	10 years
Factory Equipment	10 years
Canteen Equipment	10 years
Office Equipment	5 years
Fire Fighting Equipment	5 years
Furniture and Fittings	5 years
Fixtures	5 years
Computers	5 years
Motor Vehicles	5 years
Milk Collection Equipment	5 years
Motor Roads and Others	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.

e. Capital Work-In-Progress

Capital work-in-progress is stated at cost. These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery, awaiting capitalization.

3.4.1.2 Operating Leases

When the lessor effectively retains substantially all the risks and rewards of an asset under the lease agreement, such leases are classified as 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 recognized in profit or loss on a straight line basis over the term of the lease.

3.4.1.3 Impairment of Non-Financial Assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups.

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

An impairment loss is recognized in profit or loss.

3.4.2 Inventories

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

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

3.4.3 Biological Assets

Biological assets comprise male cows and dairy cows which are divided into calves, heifers and milkable cows, which are raised or grown by the Group for the purposes of producing raw milk.

Biological assets are measured at the end of the year at their fair values less costs to sell. Any resultant gain or loss arising on initial recognition and from changes in fair value less costs to sell is charged to the profit or loss for the period in which the gain or loss arises.

Fair value of biological assets has been calculated using discounted cash flows. The livestock of similar age, weight, pregnancy, lactations, milk production and relevant costs have been considered in the fair value calculation.

Farming costs such as feeding, labour costs, pasture maintenance, veterinary services are expensed as incurred. The cost of purchase of cattle are capitalized as part of livestock.

Non Perennial Crops have been valued at cost since the cost is approximate to fair value, due to little biological transformation has taken place since initial cost incurred.

3.4.4 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The Group applied SLFRS 9 - Financial Instruments for the first time, with effect from 1 April 2018. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of SLFRS 9 are recognised in retained earnings and reserves as at 1 April 2018.

3.4.4.1 Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

3.4.4.2 Classification and subsequent measurement

Financial assets – Policy applicable from 1 April 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment: Policy applicable from 1 April 2018

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;

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- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from 1 April 2018

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets – Subsequent measurement and gains and losses: Policy applicable from 1 April 2018

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial assets – Policy applicable before 1 April 2018

The Group classified its financial assets into one of the following categories:

- loans and receivables;
- held to maturity;
- available for sale; and
- at FVTPL, and within this category as:
 - held for trading;
 - derivative hedging instruments; or
 - designated as at FVTPL.

Financial assets – Subsequent measurement and gains and losses: Policy applicable before 1 April 2018

Financial assets at FVTPL	Measured at fair value and changes therein, including any interest or dividend income, were recognised in profit or loss.
Held-to-maturity financial assets	Measured at amortised cost using the effective interest method.
Loans and receivables	Measured at amortised cost using the effective interest method.
Available-for-sale financial assets	Measured at fair value and changes therein, other than impairment losses, interest income and foreign currency differences on debt instruments, were recognised in OCI and accumulated in the fair value reserve. When these assets were derecognized, the gain or loss accumulated in equity was reclassified to profit or loss.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

3.4.4.3 Derecognition**Financial assets**

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

3.4.4.4 Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

3.4.4.5 Offsetting

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

3.4.4.6 Impairment**Non-derivative financial assets**

Policy applicable from 1 April 2018

Financial instruments and contract assets

The Group recognises loss allowances for ECLs on:

- financial assets measured at amortised cost;
- debt investments measured at FVOCI; and
- contract assets.

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The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group considers this to be Baa3 or higher per Moody's or BBB- or higher per Fitch/S&P.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

Write-off

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Group has a policy of writing off the gross carrying amount when the financial asset is 365 days past due based on historical experience of recoveries of similar assets. For corporate customers, the Group individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Policy applicable before 1 April 2018

Non-derivative financial assets

Financial assets not classified as at FVTPL were assessed at each reporting date to determine whether there was objective evidence of impairment.

Objective evidence that financial assets were impaired included:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer would 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 was a measurable decrease in the expected cash flows from a Group of financial assets.

For an investment in an equity instrument, objective evidence of impairment included a significant or prolonged decline in its fair value below its cost. The Group considered a decline of 20% to be significant and a period of nine months to be prolonged.

Financial assets measured at amortized cost

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

Available-for-sale financial assets

In assessing collective impairment, the Group used historical information on the timing of recoveries and the amount of loss incurred, and made an adjustment if current economic and credit conditions were such that the actual losses were likely to be greater or lesser than suggested by historical trends.

An impairment loss was 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 were recognised in profit or loss and reflected in an allowance account. When the Group considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease was related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through profit or loss.

Impairment losses on available-for-sale financial assets were recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified was the difference between the 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 increased and the increase was related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available-for-sale were not reversed through profit or loss.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

The Group has used an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings as at 1 April 2018. Accordingly, the information presented for 2018 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.

3.4.5 Stated Capital

Ordinary Shares

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

3.4.6 Employee Benefits

a. Defined Contribution Plans

Defined contribution plan is a post-employment benefit plan under which contributions are made into a separate fund and the entity will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plan are recognized as an employee benefit expense in profit or loss in the periods during services is rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payment is available.

Employees' Provident Fund (EPF):

The Group entities and employees contribute 12% and 10% respectively on the basic salary of each employee to the above mentioned fund.

Employees' Trust Fund (ETF):

The Group entities contributes 3% of the basic salary of each employee to the Employees' Trust Fund.

b. Defined Benefit Plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

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Provision for gratuity on the employees of the Group are based on actuarial valuation as recommended by Sri Lanka Accounting Standard No.19 'Employee Benefits' (LKAS - 19). The actuarial valuation was carried out by professionally qualified firm of actuaries, as at 31 March 2019. The valuation method used by the actuary is "Projected Unit Credit Method". The Group recognizes any actuarial gains & losses arising from defined benefit plan immediately in Other Comprehensive income and all expenses related to defined benefit plan in personnel expenses in the Statement of Profit or Loss and Other Comprehensive Income.

The Group provide for Gratuity under the payment of Gratuity Act No. 12 of 1983. Provision for Gratuity has been made for employees who have completed 5 year of services with the Group.

The liability is not externally funded.

b.Short Term Benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

3.4.7 Provisions, Contingent Assets and Contingent Liabilities

Provisions are recognized, if as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

A Contingent Liability is:

- a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the entity; or
- b) a present obligation that arises from past events but is not recognized because:
 - I. it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - II. the amount of the obligation cannot be measured with sufficient reliability.

A Contingent Asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity
All the contingent liabilities are disclosed, as Notes to the Financial Statements unless the outflow of resources is made contingent assets if exits are disclosed when inflow of economic benefit is probable.

All the contingent liabilities are disclosed, as Notes to the Financial Statements unless the outflow of resources is made contingent assets if exits are disclosed when inflow of economic benefit is probable.

3.4.8 Commitments

All material commitments as at the reporting date have been identified and disclosed in the Notes to the Financial Statements.

3.4.9 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.

3.5 Statement of Profit or Loss and Other Comprehensive Income

3.5.1 Revenue Recognition

Revenue is measured based on consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a good or service to a customer. Revenue is presented net of value added tax (VAT), rebates and discounts and after eliminating intra-group sales.

3.5.1.1 SLFRS 15- Revenue from contracts with Customers - Accounting Policy applicable after 1 April 2018

The effect of initially applying SLFRS 15 on the Group's revenue from contracts with customers is described in Note 3.1. Due to the transition method chosen in applying SLFRS 15, comparative information has not been restated to reflect the new requirements.

A. Revenue streams

The Group's revenue comprises only the revenue from contracts with customers. Revenue from contract with customers generates primarily from importing, packaging and distribution of milk allied products.

B. Contract balances

B. i Contract Assets

a. Cost to obtain contract

The Group capitalizes incremental costs to obtain a contract with a customer for the assets with more than one year amortization period and if it expects to recover those costs.

The Costs that will be incurred regardless of whether the contract is obtained – including costs that are incremental to trying to obtain a contract, are expensed as they are incurred. The cost to obtain contract will be amortized over the contract period on a systematic basis.

b. Cost of fulfilling a contract

The Group capitalizes the costs incurred in fulfilling a contract with a customer for which are not in the scope of other guidance and only if the fulfilment costs meet the following criteria:

- relate directly to an existing contract or specific anticipated contract;
- generate or enhance resources that will be used to satisfy performance obligations in the future; and
- are expected to be recovered.

The cost of fulfilling a contract will be amortized over the contract period on a systematic basis.

B.ii Contract Liabilities

The Group recognize a contract liability for the deferred revenue on the material right provided for the customers in the future events.

The Contract liability shall be realized on the basis of realizing the material right or on a systematic basis accordingly.

C. Performance obligations and revenue recognition policies

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognizes revenue when it transfers control over a good or services to a contract.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of product / service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under SLFRS 15 (applicable from 1 April 2018)	Revenue recognition under LKAS 18 (applicable before 1 April 2018)
Sales of milk allied products	The Group sells products through their distributors in several locations. The goods are realized when the goods are transported out, and the invoice is raised afterwards.	Revenue from milk sales are recognized at the dispatch point.	Revenue from milk sales are recognized at the dispatch point.
Export Revenue	<p>If the export is on FOB (Free On Board) terms, the performance obligation is satisfied when the goods are cleared at the port of shipment and the documents of title are delivered to buyer (or handed over to the local bank).</p> <p>If the export is on CIF (Cost, Insurance and Freight) terms, the Group delivers the goods to the port of shipment, providing export clearance while arranging and paying for the carriage and insurance. Hence performance obligation is satisfied on delivery to the buyer or transfer of the documents of title to the goods, whichever is later.</p>	Revenue is recognized once the performance obligations are fulfilled based on the trade terms.	Revenue is recognized once the risks and rewards are transferred to the buyer based on the trade terms.
Sale of farm products	The Group sells products through their distributors in several locations. The performance obligation is satisfied when the goods are transported out, and the invoice is raised afterwards.	Revenue from farm product sales are recognized at the dispatch point.	Revenue from farm product sales are recognized at the dispatch point.

NOTES TO THE FINANCIAL STATEMENTS

3.5.1.1.2 Accounting Policy applicable prior to 1 April 2018

Revenue was recognized to the extent that it was probable that the economic benefits reached the Group and the revenue could reliably be measured, regardless of when the payment was received. Revenue was measured at the fair value of the consideration received or receivable, net of trade discounts, value added taxes and intra-group revenue. No revenue was recognized when there were significant uncertainties regarding recovery of the consideration due.

The specific criteria used for the purpose of recognition of revenue remains the same as SLFRS 15 application.

3.5.1.2 Other Revenue

3.5.1.2.1 Dividend Income

Dividend income from investments is recognized when the shareholder's right to receive payment has been established.

3.5.1.2.2 Rent Income

Rental Income is recognized in profit and loss as it accrues.

3.5.1.2.3 Interest Income

Interest income is recognized as it accrues in the profit or loss, using the effective interest method.

3.5.2 Other Operating Income

Gains and losses on the disposal of investments held by the Group have been accounted for in the Statement of profit or loss.

Gains and losses on the disposal of property, plant & equipment are determined by comparing the net sales proceeds with carrying amount. These are included in profit and loss.

Gain or loss arising from changes in fair value of biological assets is dealt in the Statement of Profit or Loss.

3.5.3 Borrowing Cost

Borrowing costs are recognized as an expense in the period in which they are incurred, except to the extent where borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that takes a substantial period of time to get ready for its intended use or sale is capitalized as part of that asset.

Borrowing costs that are not capitalized are recognized as expenses in the period which they are incurred and charged to the Statement of Profit or Loss.

The amounts of the borrowing costs which are eligible for capitalization are determined in accordance with the in LKAS 23 - 'Borrowing Costs'.

3.5.4 Finance Income and Expense

Finance income comprises interest income on fixed deposits, interest on amounts due from related companies and gain on translation of foreign currency. Interest income is recognized as it accrues in the profit or loss, using the effective interest method.

Finance cost comprise interest expenses on borrowings, interest on overdraft and gain or loss on changes in fair value of financial assets held for trading.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest rate method.

Foreign currency gains or losses and gain or loss on changes in fair value of financial assets held for trading are reported on a net basis as either finance income or finance expense depending on whether foreign currency movements and market prices are in a net gain or net loss position.

3.5.5 Income Tax Expense

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity, or in OCI.

a. Current Tax Expense

Current tax expenses for the current and comparative periods are measured at the amount paid or expected to be payable to the Commissioner General of Inland Revenue on taxable income for the respective year of assessment computed in accordance with the provisions of the Inland Revenue Act, No. 24 of 2017 as amended by subsequent legislation enacted or substantively enacted by the reporting date.

b. Deferred Tax

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

A deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the assets can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits 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 assets and liabilities are offset only if certain criteria are met.

3.5.6 Earnings per Share (EPS)

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

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3.5.7 Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (Business Segment) or in providing products or services within a particular economic environment (Geographical Segment), which is subject to risks and rewards that are different from those of other segments.

The activities of the segments are described in Note 32 to the Financial Statements.

3.5.8 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.

3.5.9 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.

3.5.10 Statement of Cash Flows

The Statement of Cash Flows has been prepared using the 'Indirect Method' of preparing Cash Flows in accordance with the Sri Lanka Accounting Standard - LKAS 7 'Statement of Cash Flows.' Cash and cash equivalents comprise short term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

4. NEW STANDARDS ISSUED BUT NOT EFFECTIVE AS AT REPORTING DATE

The Institute of Chartered Accountants of Sri Lanka has issued the following standards which become effective for annual periods beginning after the current financial year. Accordingly these standards have not been applied in preparing these financial statements and the Group plans to apply these standards as and when they become effective. The Group is currently in the process of evaluating the potential effects of adoption of this standard and amendments on its financial statements. Such impact has not been quantified as at the reporting date.

- (i) SLFRS 16 – Leases – effective for annual periods beginning on or after 1 January 2019.

SLFRS 16 replaces LKAS 17 Leases and related interpretations (IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease). SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under LKAS 17.

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The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under SLFRS 16 is substantially unchanged from the current requirements under LKAS 17. Lessors will continue to classify all leases using the same classification principle as in LKAS 17 and distinguish between two types of leases: operating and finance leases.

SLFRS 16 also requires lessees and lessors to make more extensive disclosures than under LKAS 17.

SLFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies SLFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

For the Year Ended 31 March	Group		Company	
	2019 Rs.000's	2018 Rs.000's	2019 Rs.000's	2018 Rs.000's
5	REVENUE			
Gross Revenue	5,502,082	5,392,978	1,962,206	1,878,760
Less : Nation Building Tax	(116,548)	(114,201)	(40,069)	(38,073)
	5,385,534	5,278,777	1,922,137	1,840,687
6	OTHER OPERATING INCOME			
Gain on disposal of Property, Plant and Equipment	550	77	500	7
Gain on disposal of Biological Assets	-	327	-	-
Change in Fair Value of Biological Assets (Note 15.1)	243,112	136,198	-	-
Commission Income	67,421	67,689	67,421	67,689
Dividend Income	36,543	343,720	165,543	388,720
Sundry Income	53,957	65,976	1,842	361
Reversal of Impairment of Investment in Subsidiaries	-	5,774	271,435	-
Storage Income	10,000	10,000	10,000	10,000
Other Income	112	572	-	-
	411,695	630,333	516,741	466,777
7	NET FINANCE INCOME / (EXPENSE)			
7.1	Finance Income			
Interest on Fixed Deposits	8,081	5,764	6,722	5,743
Interest on Loans and Receivables	609	555	518	471
Interest from Trade Receivables	898	908	467	810
Gain on Changes in Fair Value of Financial Assets Held for Trading	-	4,835	-	4,835
Gain on Translation of Foreign Currency	5,748	16,124	-	10,108
Interest on Amounts due from Related Companies	-	-	1,259	11,590
	15,336	28,186	8,966	33,557
7.2	Finance Expense			
Interest on Bank Overdraft	(21,425)	(17,030)	(4,905)	(4,440)
Interest on Long Term Borrowings	(37,126)	(45,728)	-	(294)
Loss on Changes in Equity Securities at FVTPL	(76,610)	-	(76,610)	-
Loss on Translation of Foreign Currency	(12,648)	-	(12,648)	-
	(147,809)	(62,758)	(94,163)	(4,734)
Net Finance Income / (Expense)	(132,473)	(34,572)	(85,197)	28,823

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March	Group		Company	
	2019 Rs.000's	2018 Rs.000's	2019 Rs.000's	2018 Rs.000's
8	PROFIT BEFORE INCOME TAX EXPENSE			
	Profit before income tax expense is stated after charging all the expenses including the followings;			
	5,367	6,906	5,367	6,906
	Directors' Emoluments			
	Auditors' Remuneration :			
	4,820	4,314	2,915	2,650
	588	544	588	544
	427	335	427	335
	-	-	414	261
	249,454	249,228	15,986	21,087
	32,176	30,417	67	67
	2,095	(5,158)	(616)	3,349
	1,020	1,020	1,020	1,020
	-	9	-	-
	490,286	515,743	282,399	269,929
	Personnel Costs (Note 8.1)			
8.1	Personnel Costs			
	38,371	39,907	23,383	21,849
	19,486	19,085	11,223	11,601
	432,429	456,751	247,793	236,479
	490,286	515,743	282,399	269,929
	Total Number of Employees as at Year End			
	693	734	272	308
9	INCOME TAX EXPENSE			
	-	17,771	-	3,388
	60,915	28,464	13,922	(1,443)
	21,000	5,000	-	-
	81,915	51,235	13,922	1,945

- a) The profits and income of Lanka Milk Foods (CWE) PLC is liable for income tax at the rate of 28% in terms of the Provisions of the Inland Revenue Act No.24 of 2017. For the year ended 31 March 2018 also the applicable tax rate for the Company was 28 % as per the Inland Revenue Act No. 10 of 2006 and amendments thereto.
- b) The profits and income of Lanka Dairies (Private) Limited is liable for income tax at the rate 28% in terms of the Provisions of the Inland Revenue Act No.24 of 2017. For the year ended 31 March 2018 the applicable tax rate was 10 % as per the Inland Revenue Act No. 10 of 2006 and amendments thereto.
- c) The profits and income of Ambewela Livestock Company Limited and Pattipola Livestock Company Limited is liable for income tax at the rate of 14% in terms of the Provisions of the Inland Revenue Act No.24 of 2017. For the year ended 31 March 2018 the applicable tax rate was 10% as per the Inland Revenue Act No. 10 of 2006 and amendments thereto.
- d) 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 enterprise commence to make profits or any year of assessment not later than two years reckoned from the date of commencement of commercial operation of the enterprise, whichever comes first. The said exemption is commenced with effect from the Y/A 2011/12.

For the Year Ended 31 March	Group		Company	
	2019 Rs.000's	2018 Rs.000's	2019 Rs.000's	2018 Rs.000's
9.1 Numerical Reconciliation of Accounting Profit to Income Tax Expense				
Profit / (Loss) before Income Tax Expense	(44,712)	631,766	115,405	278,346
Consolidation Adjustments	377,518	50,606	-	-
	332,806	682,372	115,405	278,346
Non Business Income	(28,818)	(24,305)	(8,966)	(18,614)
Disallowable Expenses	426,204	325,720	144,210	40,886
Tax Deductible Expenses	(219,681)	(230,243)	(9,686)	(11,719)
Tax Exempt Income	(674,398)	(547,531)	(438,093)	(403,670)
Gain on Disposal of Livestock	41,503	78,597	500	-
Business Profit / (Loss)	(122,384)	284,610	(196,630)	(114,771)
Business Profit / (Loss)	201,061	205,591	-	-
Business Profit Exempted	105,707	205,247	-	-
Business Loss	(429,152)	(126,228)	(196,630)	(114,771)
	(122,384)	284,610	(196,630)	(114,771)
Business Profit	201,061	205,591	-	-
Non Business Income	28,818	24,305	8,966	18,614
Tax Loss claimed during the Year (Note 9.2)	(229,879)	(80,464)	(8,966)	(6,515)
Taxable Income	-	149,432	-	12,099
Income Tax @ 28%	-	4,405	-	3,388
Income Tax @ 10%	-	13,366	-	-
	-	17,771	-	3,388
9.2 Accumulated Tax Losses				
Tax loss brought Forward	1,351,414	1,593,982	483,034	381,639
Adjustments related to Prior Years	285,946	(288,332)	-	(6,861)
Loss for the Year	429,152	126,228	196,630	114,771
Tax Loss claimed during the Year	(229,879)	(80,464)	(8,966)	(6,515)
Tax Loss carried Forward	1,836,633	1,351,414	670,698	483,034

NOTES TO THE FINANCIAL STATEMENTS

10 EARNINGS / (LOSS) PER SHARE

10.1 The calculation of Basic Earnings per Share is based on the profit after tax attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding during the year.

For the Year Ended 31 March	Group		Company	
	2019	2018	2019	2018
Profit / (Loss) Attributable to Ordinary Shareholders (Rs.'000)	(126,312)	580,784	101,483	276,401
Weighted Average Number of Ordinary Shares ('000) (Note 21)	39,998	39,998	39,998	39,998
Basic Earnings / (Loss) per Share (Rs.)	(3.16)	14.52	2.54	6.91

10.2 There were no Potential dilutive ordinary shares outstanding during the year. Therefore, Dilutive Earnings per share is same as Basic Earnings per Share as shown above.

11 DIVIDEND PER SHARE

Dividend per Share (Rs.)	1.25	2.50	1.25	2.50
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Dividend proposed are taken in to consideration for computation of Dividend per Share. Proposed final dividend has not been recognized as a liability as at reporting date until it is approved at the Annual General meeting.

12 PROPERTY, PLANT AND EQUIPMENT

12.1 Group

	As at 01/04/2018 Rs.000's	Additions/ Transfers Rs.000's	Disposals/ Transfers Rs.000's	As at 31/03/2019 Rs.000's
Cost /Deemed Cost				
Leasehold Buildings	833,448	11,613	-	845,061
Plant and Machinery	2,110,023	245	-	2,110,268
Laboratory Equipment	10,449	162	-	10,611
Factory Equipment	235,353	9,181	(90)	244,444
Canteen Equipment	3,429	3,706	(34)	7,101
Office Equipment	10,361	199	-	10,560
Fire Fighting Equipment	4,255	-	-	4,255
Furniture and Fittings	11,240	199	(127)	11,312
Fixtures	184	-	(164)	20
Computers	16,030	5,334	(126)	21,238
Motor Vehicles	237,915	10,565	(460)	248,020
Milk Collection Equipment	3,489	-	(171)	3,318
Motor Roads and Others	63,039	-	-	63,039
	3,539,215	41,204	(1,172)	3,579,247
Capital Work in Progress	2,413	25,050	(2,413)	25,050
	3,541,628			3,604,297

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

12.1 Group (Continued)

	As at 01/04/2018 Rs.000's	Charge for the Year Rs.000's	Disposals/ Transfers Rs.000's	As at 31/03/2019 Rs.000's
Accumulated Depreciation				
Leasehold Buildings	398,299	22,042	-	420,341
Plant and Machinery	1,171,879	185,007	-	1,356,886
Laboratory Equipment	7,018	208	-	7,226
Factory Equipment	180,288	21,916	(65)	202,139
Canteen Equipment	2,508	280	(34)	2,754
Office Equipment	9,564	226	-	9,790
Fire Fighting Equipment	4,255	-	-	4,255
Furniture and Fittings	10,313	392	(127)	10,578
Fixtures	174	-	(164)	10
Computers	13,333	1,199	(118)	14,414
Motor Vehicles	211,240	14,748	(460)	225,528
Milk Collection Equipment	3,489	-	(171)	3,318
Motor Roads and Others	55,989	3,436	-	59,425
	2,068,349	249,454	(1,139)	2,316,664
Written Down Value	1,473,279			1,287,633

NOTES TO THE FINANCIAL STATEMENTS

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

12.1 Group (Continued)

As at 31 March	2019 Rs.000's	2018 Rs.000's
Written Down Value		
Leasehold Buildings	424,720	435,149
Plant and Machinery	753,382	938,144
Laboratory Equipment	3,385	3,431
Factory Equipment	42,305	55,065
Canteen Equipment	4,347	921
Office Equipment	770	797
Fire Fighting Equipment	-	-
Furniture and Fittings	734	927
Fixtures	10	10
Computers	6,824	2,697
Motor Vehicles	22,492	26,675
Milk Collection Equipment	-	-
Motor Roads and Others	3,614	7,050
	1,262,583	1,470,866
Capital Work in Progress	25,050	2,413
	1,287,633	1,473,279

(a) The cost of fully depreciated Property, Plant and Equipment as at the reporting date are as follows;

As at 31 March	2019 Rs.000's	2018 Rs.000's
Lanka Milk Foods (CWE) PLC	251,749	219,382
Lanka Dairies (Private) Limited	156,106	144,645
Ambewela Livestock Company Limited	101,916	99,775
Pattipola Livestock Company Limited	65,849	64,105
Ambewela Products (Private) Limited	41,879	40,997
	617,499	568,904

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

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

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

12.1 Group (Continued)

The details of buildings on leasehold lands as at 31 March 2019 are as follows:

Name of Premises and address	Extent (Hectares)	Building (Square feet)	No of Buildings	Cost of the Building Rs.000's	Accumulated Depreciation Rs.000's	Written down value Rs.000's
Welisara	3.275	140,800	3	434,416	280,891	153,525
Ambewela	458.47		133	410,645	139,450	271,195
				845,061	420,341	424,720

12.2 Company

	As at 01/04/2018 Rs.000's	Additions/ Transfers Rs.000's	Disposals/ Transfers Rs.000's	As at 31/03/2019 Rs.000's
Cost /Deemed Cost				
Leasehold Buildings	358,951	-	-	358,951
Plant and Machinery	176,862	213	-	177,075
Laboratory Equipment	2,843	-	-	2,843
Factory Equipment	9,319	35	-	9,354
Canteen Equipment	3,429	3,706	(34)	7,101
Office Equipment	8,427	98	-	8,525
Fire Fighting Equipment	4,223	-	-	4,223
Furniture and Fittings	4,062	82	(127)	4,017
Fixtures	164	-	(164)	-
Computers	10,970	4,731	(106)	15,595
Motor Vehicles	109,213	5	(460)	108,758
	688,463	8,870	(891)	696,442

	As at 01/04/2018 Rs.000's	Additions/ Transfers Rs.000's	Disposals/ Transfers Rs.000's	As at 31/03/2019 Rs.000's
Accumulated Depreciation				
Leasehold Buildings	239,270	8,548	-	247,818
Plant and Machinery	162,200	3,233	-	165,433
Laboratory Equipment	2,829	7	-	2,836
Factory Equipment	6,797	654	-	7,451
Canteen Equipment	2,510	280	(34)	2,756
Office Equipment	7,853	138	-	7,991
Fire Fighting Equipment	4,223	-	-	4,223
Furniture and Fittings	3,940	47	(127)	3,860
Fixtures	164	-	(164)	-
Computers	9,555	692	(106)	10,141
Motor Vehicles	105,780	2,387	(460)	107,707
	545,121	15,986	(891)	560,216
Written Down Value	143,342			136,226

NOTES TO THE FINANCIAL STATEMENTS

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

12.2 Company (Continued)

As at 31 March	2019 Rs.000's	2018 Rs.000's
Written Down Value		
Leasehold Buildings	111,133	119,681
Plant and Machinery	11,642	14,662
Laboratory Equipment	7	14
Factory Equipment	1,903	2,522
Canteen Equipment	4,345	919
Office Equipment	534	574
Fire Fighting Equipment	-	-
Furniture Fittings	157	122
Fixtures	-	-
Computers	5,454	1,415
Motor Vehicles	1,051	3,433
	136,226	143,342

13 INVESTMENT IN SUBSIDIARIES

COMPANY

As at 31 March	Holding Percentage	2019		2018	
		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
United Dairies Lanka (Private) Limited	100%	5,000,000	50,000	-	-
Indo Lanka Exports (Private) Limited	51%	306,000	30,600	306,000	30,600
			1,193,552		1,143,552
Less : Provision for Impairment of Investments (Note 13.1)			(117,530)		(388,551)
			1,076,022		755,001

13.1 Provision for Impairment of Investments

As at 31 March	2019 Rs.000's	2018 Rs.000's
Balance as at 01 April	388,551	388,290
Charge for the Year	414	261
Reversal for the Year	(271,435)	-
Balance as at 31 March	117,530	388,551

13 INVESTMENT IN SUBSIDIARIES (CONTINUED)

13.1 Provision for Impairment of Investments (Continued)

- 13.1.1 The Company has made provision for impairment of Rs.117,530,252/- and Rs.388,550,501/- on the investment in subsidiaries as at 31 March 2019 and 2018 respectively due to the adverse business environment in which the subsidiary companies are operated. This has resulted in continues operating losses and negative operating cash flows in subsidiary companies and adjusted net asset basis has been considered as the recoverable amount for the calculation of provision for impairment as at the each reporting date. The breakup of the impairment provision is as follows;

As at 31 March	2019	2018
Written Down Value	Rs.000's	Rs.000's
Ambewela Livestock Company Limited	(51,137)	(51,137)
Pattipola Livestock Company Limited	(46,815)	(46,815)
Ambewela Products (Private) Limited	-	(271,435)
Indo Lanka Exports (Private) Limited	(19,578)	(19,164)
	(117,530)	(388,551)

14 INVESTMENT IN EQUITY SECURITIES

As at 31 March	2019		2018	
	No. of Shares	Fair Value Rs.000's	No. of Shares	Fair Value Rs.000's
14.1 Equity Securities - at FVOCI / Available for Sale (AFS)				
Group / Company				
Distilleries Company of Sri Lanka PLC	44,991,407	652,375	44,991,407	667,717
Melstacorp PLC	151,846,000	5,466,456	151,846,000	8,837,437
		6,118,831		9,505,154

Net Change in Fair Value of Equity Securities - at FVOCI during the Year was Rs.000's (3,386,323) and Net Change in Fair Value of Available for Sale Investments in Year 2018 was Rs.000's 182,485.

As at 31 March	2019		2018	
	No. of Shares	Fair Value Rs.000's	No. of Shares	Fair Value Rs.000's
14.2 Equity Securities - at FVTPL / Financial Assets Held for Trading				
Group / Company				
Browns Beach Hotels PLC	1,251,558	14,518	1,251,558	18,273
Colombo Dockyard PLC	219,948	11,657	219,948	18,256
Commercial Bank of Sri Lanka PLC - Voting	1,860,830	183,664	1,721,310	233,754
		209,839		270,283

NOTES TO THE FINANCIAL STATEMENTS

15 BIOLOGICAL ASSETS

As at 31 March	Group		Company	
	2019 Rs.000's	2018 Rs.000's	2019 Rs.000's	2018 Rs.000's
15.1 Livestock				
Balance as at the beginning of the Year	528,210	476,725	-	-
Additions during the year	61,775	53,140	-	-
Increase in Fair Value during the year	243,112	136,198	-	-
Disposals during the year	(146,084)	(137,853)	-	-
Balance as at the end of the Year	687,013	528,210	-	-
15.2 Non Perennial Crops - At Cost				
Balance as at the beginning of the Year	15,808	19,208	-	-
Additions during the Year	17,159	33,695	-	-
Disposals during the Year	(15,808)	(37,095)	-	-
Balance as at the end of the Year	17,159	15,808	-	-

The Group has used the following significant assumption in determining the fair value of the biological assets as at 31 March 2019;

Weight

Pregnancy

Milk Production

Lactations

Age

Discount Rate

Market Price of Milk

15.3 Measurement of Fair Values

a) Fair Value Hierarchy

The fair value measurements of the standing livestock have been categorized as Level 3 in the valuation hierarchy.

b) Level 3 Fair Values

The break down of the total gains / (losses) in respect of Level 3 fair values is shown below.

For the Year ended 31 March Group	2019 Rs.000's	2018 Rs.000's
Gain included in other income		
Change in fair value (realized)	-	327
Change in fair value (unrealized)	243,112	136,198
	243,112	136,525
Loss included in other operating expense		
Change in fair value (realized)	28,944	-
	28,944	-

15.4 Valuation Techniques Used

Type

Livestock comprises cattle characterised as commercial or breeders

Valuation Technique

Discounted Cash Flow:

Fair value of biological assets has been calculated using discounted cash flows. The livestock of similar age, weight, pregnancy, lactations, milk production and relevant costs have been considered in the fair value calculation.

15 BIOLOGICAL ASSETS (CONTINUED)

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 31 March Group	-10% Rs. Rs.000's	2019 Rs. Rs.000's	+ 10% Rs. Rs.000's
Livestock	618,312	687,013	755,714
Total	618,312	687,013	755,714

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 31 March Group	-10% Rs. Rs.000's	2019 Rs. Rs.000's	+ 10% Rs. Rs.000's
Livestock	442,378	687,013	512,366
Total	442,378	687,013	512,366

Sensitivity Variation on Discount Rate

Values as appearing in the Statement of Financial Position are sensitive to Change in Discount Rate. Simulations made for Livestock show that an increase or a decrease by 1% of Discount Rate has the following effect on the net present value of Biological Assets.

As at 31 March Group	-1% Rs. Rs.000's	2019 Rs. Rs.000's	+1% Rs. Rs.000's
Livestock	701,245	687,013	673,250
Total	701,245	687,013	673,250

16 INVENTORIES

As at 31 March	Group		Company	
	2019 Rs.000's	2018 Rs.000's	2019 Rs.000's	2018 Rs.000's
Raw Materials and Consumables	1,219,830	1,001,806	623,240	459,494
Finished Goods	103,087	92,939	23,161	23,640
Working in progress	11,688	13,197	8,590	11,104
Goods in Transit	105,620	26,270	5,406	5,008
	1,440,225	1,134,212	660,397	499,246
Less : Provision for Obsolete Inventories (Note 16.1)	(25,407)	(25,820)	(745)	(1,158)
	1,414,818	1,108,392	659,652	498,088

16.1 Provision for Obsolete Inventories

Balance as at 01 April	25,820	25,820	1,158	1,158
Reversal for the Year	(413)	-	(413)	-
Balance as at 31 March	25,407	25,820	745	1,158

NOTES TO THE FINANCIAL STATEMENTS

17 TRADE RECEIVABLES

As at 31 March	Group		Company	
	2019 Rs.000's	2018 Rs.000's	2019 Rs.000's	2018 Rs.000's
Trade Receivables	573,362	577,687	216,154	212,653
Less: Provision for Impairment Loss (Note 17.1)	(73,688)	(66,698)	(42,679)	(40,278)
	499,674	510,989	173,475	172,375

17.1 Provision for Impairment Losses

Balance at 01 April under LKAS 39	66,698	71,856	40,278	36,929
Adjustment on initial application of SLFRS 9	4,895	-	3,017	-
Balance at 01 April under SLFRS 9	71,593	71,856	43,295	36,929
Charge / (Reversal) for the Year	2,095	(5,158)	(616)	3,349
Balance as at 31 March	73,688	66,698	42,679	40,278

18 OTHER RECEIVABLES

Deposits and Prepayments	28,985	19,580	1,621	2,032
Less: Provision for Impairment	(9)	(9)	-	-
	28,976	19,571	1,621	2,032
Insurance Receivables	423	74	8	74
Other Taxes Recoverable (Note 18.1)	88,936	45,412	85,990	42,820
Sundry Receivables	7,726	18,421	1,438	1,608
Staff Loans and Advances	10,021	8,604	7,267	6,277
	136,082	92,082	96,324	52,811

18.1 Other Taxes Recoverable

With Holding Tax	-	29	-	-
Nation Building Tax	10,661	4,612	9,722	4,612
Value Added Tax	78,275	40,771	76,268	38,208
	88,936	45,412	85,990	42,820

19 AMOUNTS DUE FROM RELATED COMPANIES

Lanka Dairies (Private) Limited	-	-	128,023	224,159
Stassen Exports (Private) Limited	36,335	39,901	7,110	11,044
Aitken Cargo (Private) Limited	378	509	-	-
Ambewela Products (Private) Limited	-	-	10,809	-
Ambewela Livestock Company Limited	-	-	316,524	316,378
Aitken Spence PLC	1,521	2,255	1,521	2,255
Distilleries Company of Sri Lanka PLC	5,183	6,538	5,077	6,536
Madulsima Plantation PLC	496	150	496	150
Balangoda Plantation	326	-	326	-
Browns Beach Hotel PLC	191	317	146	195
Pattipola Livestock Company Limited	-	-	148,524	148,422
	44,430	49,670	618,556	709,139
Less : Provision for Impairment Losses (Note 19.1)	-	-	(203,201)	(192,325)
	44,430	49,670	415,355	516,814

19.1 Provision for Impairment Losses

As at 31 March	Company	
	2019 Rs.000's	2018 Rs.000's
Ambewela Livestock Company Limited	203,201	187,153
Pattipola Livestock Company Limited	-	5,172
	203,201	192,325

20 CASH AND CASH EQUIVALENTS

As at 31 March	Group		Company	
	2019 Rs.000's	2018 Rs.000's	2019 Rs.000's	2018 Rs.000's
Cash at Bank and in Hand	32,541	57,301	13,175	28,642
Call Deposit	9,691	9,368	9,691	9,368
Expected Credit Loss (Note 20.1)	(5)	-	(5)	-
	42,227	66,669	22,861	38,010
20.1 Expected Credit Loss				
Balance as at 01 April under LKAS 39	-	-	-	-
Adjustment on initial application of SLFRS 09	3	-	3	-
Balance as at 01 April under SLFRS 09	3	-	3	-
Charge for the Year	2	-	2	-
Balance as at 31 March	5	-	5	-
20.2 Cash and Cash Equivalents for the purpose of Statement of Cash Flows;				
Cash at Bank and in Hand	32,541	57,301	13,175	28,642
Call Deposit	9,691	9,368	9,691	9,368
	42,232	66,669	22,866	38,010
Less : Bank Overdraft	(634,415)	(439,129)	(253,981)	(188,022)
	(592,183)	(372,460)	(231,115)	(150,012)

20.3 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	500	Investment in quoted shares of Melstacorp 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	200	Corporate Guarantee from Lanka Milk Foods (CWE) PLC
Ambewela Livestock Company Limited	HNB -WATTALA	40	Corporate Guarantee from Lanka Milk Foods (CWE) PLC
	HNB -Nuwraeliya	10	
Pattipola Livestock Company Limited	HNB -WATTALA	90	Corporate Guarantee from Lanka Milk Foods (CWE) PLC
	HNB -Nuwraeliya	10	

21 STATED CAPITAL

As at 31 March	Group		Company	
	2019 Rs.000's	2018 Rs.000's	2019 Rs.000's	2018 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 31 March 1990 in order to incorporate the value of the buildings on leasehold land prior to the privatization of the company. The revalued amounts of Property Plant and Equipment were considered as deemed cost at the date of acquisition.

NOTES TO THE FINANCIAL STATEMENTS

22 RESERVES (CONTINUED)

22.2 Revenue Reserves

As at 31 March	Group		Company	
	2019 Rs.000's	2018 Rs.000's	2019 Rs.000's	2018 Rs.000's
Dairy Development Project Reserve	110,000	110,000	110,000	110,000
Retained Earnings	2,083,148	2,309,948	1,556,558	1,552,306
	2,193,148	2,419,948	1,666,558	1,662,306

Dairy Development Project Reserve

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

Retained Earnings

This represents the undistributed earnings held by the Group and Company to be used in the Group's and Company's operations. This could be used to absorb future possible losses or dividends payable.

23 NET DEFERRED TAX ASSETS / (LIABILITIES)

As at 31 March	Group		Company	
	2019 Rs.000's	2018 Rs.000's	2019 Rs.000's	2018 Rs.000's
Summary of Net Deferred Tax Assets / (Liability)				
Balance as at 01 April	(52,180)	(25,027)	91,437	89,152
Recognized in the Profit or Loss				
Amounts Credit / (Charged) during the Year	(60,915)	(28,464)	(13,922)	1,443
Recognized in the Other Comprehensive Income				
Amounts Credit / (Charged) during the Year	(2,469)	1,311	(2,249)	842
Balance as at 31 March	(115,564)	(52,180)	75,266	91,437
Deferred Tax Assets	239,201	296,050	101,611	120,539
Deferred Tax Liabilities	(354,765)	(348,230)	(26,345)	(29,102)
	(115,564)	(52,180)	75,266	91,437

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

As at 31 March Group / Company	2019			2018		
	Deferred tax assets Rs.000's	Deferred tax liabilities Rs.000's	Net deferred tax asset/ (liability) Rs.000's	Deferred tax assets Rs.000's	Deferred tax liabilities Rs.000's	Net deferred tax asset / (liability) Rs.000's
Lanka Milk Foods (CWE) PLC	101,611	(26,345)	75,266	120,539	(29,102)	91,437
Net Deferred Tax Assets	-	-	75,266	-	-	91,437
Lanka Dairies (Private) Limited	69,955	(158,927)	(88,972)	126,318	(162,661)	(36,343)
Ambewela Products (Private) limited	1,495	(90,818)	(89,323)	1,068	(93,635)	(92,567)
Pattipola Livestock Company Limited	24,818	(37,353)	(12,535)	14,805	(29,512)	(14,707)
Ambewela Livestock Company Limited	41,322	(41,322)	-	33,320	(33,320)	-
Net Deferred Tax Liabilities	-	-	(190,830)	-	-	(143,617)
	239,201	(354,765)	(115,564)	296,050	(348,230)	(52,180)

23 NET DEFERRED TAX ASSETS / (LIABILITIES) (CONTINUED)

23.2 Reconciliation of Net Deferred Tax Liabilities - Group

The reconciliation of tax effect arising from the temporary differences related to carrying amounts of assets and liabilities of the Statement of Financial Position is as follows:

As at 31 March	2019		2018	
	Temporary Differences Rs.000's	Tax Effect Rs.000's	Temporary Differences Rs.000's	Tax Effect Rs.000's
Deferred Tax Liabilities On :				
Property, Plant and Equipment	(990,728)	(248,135)	(1,073,632)	(266,723)
Biological Assets	(687,014)	(106,630)	(528,210)	(81,507)
	(1,677,742)	(354,765)	(1,601,842)	(348,230)
Deferred Tax Assets On :				
Employee Benefits	101,589	24,474	100,337	24,742
Unused Tax Losses	991,051	214,727	1,223,593	271,308
	1,092,640	239,201	1,323,930	296,050
	(585,102)	(115,564)	(277,912)	(52,180)
Reconciliation of Net Deferred Tax Assets - Company				
Deferred Tax Liabilities On :				
Property, Plant and Equipment	(94,090)	(26,345)	(103,935)	(29,102)
	(94,090)	(26,345)	(103,935)	(29,102)
Deferred Tax Assets On :				
Employee Benefits	58,007	16,241	62,227	17,423
Unused Tax Losses	304,892	85,370	368,263	103,116
	362,899	101,611	430,490	120,539
	268,809	75,266	326,555	91,437

23.3 Movement of Net Deferred Tax Liabilities - Group

	As at	(Charged) /		As at 31	As at	(Charged) /		As at
	01 April 2018	Credit in		March 2019	01 April 2017	Credit in		31 March 2018
	Rs. 000's	P&L	OCI	Rs. 000's	Rs. 000's	P&L	OCI	Rs. 000's
		Rs. 000's	Rs. 000's			Rs. 000's	Rs. 000's	
Property, Plant and Equipment	(266,723)	18,588	-	(248,135)	(173,840)	(92,883)	-	(266,723)
Biological Assets	(81,507)	(25,123)	-	(106,630)	(57,799)	(23,708)	-	(81,507)
Employee Benefits	24,742	2,201	(2,469)	24,474	18,060	5,371	1,311	24,742
Unused Tax Losses	271,308	(56,581)	-	214,727	188,552	82,756	-	271,308
	(52,180)	(60,915)	(2,469)	(115,564)	(25,027)	(28,464)	1,311	(52,180)

NOTES TO THE FINANCIAL STATEMENTS

23 NET DEFERRED TAX ASSETS / (LIABILITIES) (CONTINUED)

23.3 Movement of Net Deferred Tax Assets - Company

	As at 01 April 2018		(Charged) / Credit in		As at 31 March 2019	As at 01 April 2017		(Charged) / Credit in		As at 31 March 2018
			P&L	OCI				P&L	OCI	
	Rs. 000's		Rs. 000's	Rs. 000's	Rs. 000's	Rs. 000's		Rs. 000's	Rs. 000's	Rs. 000's
Property, Plant and Equipment	(29,102)	2,757	-	-	(26,345)	(32,108)	3,006	-	-	(29,102)
Employee Benefits	17,423	1,067	(2,249)	-	16,241	14,401	2,180	842	-	17,423
Unused Tax Losses	103,116	(17,746)	-	-	85,370	106,859	(3,743)	-	-	103,116
	91,437	(13,922)	(2,249)	-	75,266	89,152	1,443	842	-	91,437

23.4 The Group and Company has not been recognized deferred tax assets of Rs. 109,309,391/- and Rs. 84,682,391/- as at 31 March 2019 (31 March 2018 -Rs.33,962,935/- and Rs.32,135,880), arising on unused tax losses of Rs. 478,344,256/- and Rs.302,437,110,- respectively (31 March 2018 - Rs. 127,820,954/- and Rs.114,770,558/-) , since there is an uncertainty that future taxable profit will be available against which the Group and Company can utilize the benefit there from.

Deferred tax asset has not been recognized 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 utilize the benefit there from. The deferred tax asset has been recognized in the Financial Statements to the extent of deferred tax liability. The unrecorded deferred tax assets of the subsidiary as at 31 March 2019 is Rs. 24,627,000/- (31 March 2018 Rs. 1,827,055/-) on unused tax losses of Rs.175,907,146/- (31 March 2018 Rs.13,050,396/-).

Group/ Company	Deductible Temporary Difference Rs.	Unrecognized Deferred Tax Assets Rs.
Lanka Milk Foods (CWE) PLC	302,437,110	84,682,391
Ambewela Livestock Company Limited	175,907,146	24,627,000
	478,344,256	109,309,391

23.5 Deferred tax assets and liabilities shall be measured based on the tax rates that have been enacted or substantially enacted by the end of the reporting period. In accordance with the Inland Revenue Act No 24 of 2017 effective from 01 April 2018, the Group has used following tax rates in assessing the deferred tax asset/liability for the current financial year.

Company	Tax Rate (%)
Lanka Milk Foods (CWE) PLC	28%
Lanka Dairies (Private) Limited	28%
Ambewela Livestock Company Limited	14%
Pattipola Livestock Company Limited	14%
Ambewela Products (Private) Limited (Note a.)	20%

Note a.

Ambewela Products (Private) Limited will be liable at tax at the rate of 20% after the tax holiday period (Y/A 2021/22) as per the agreement entered with Board of Investment of Sri Lanka. Accordingly, 20% tax rate has used in assessing the deferred tax asset/liability for the current financial year.

24 RETIREMENT BENEFIT OBLIGATIONS

As at 31 March	Group		Company	
	2019 Rs.000's	2018 Rs.000's	2019 Rs.000's	2018 Rs.000's
Balance as at the beginning of the Year	100,337	82,913	62,227	51,429
Interest Cost	9,731	7,067	6,845	6,429
Current Service Cost	9,755	12,018	4,378	5,172
Actuarial (Gain)/Loss	(6,875)	5,507	(8,033)	3,007
Payments during the Year	(11,359)	(6,936)	(7,410)	(3,810)
Payments due as at Year end	-	(232)	-	-
Balance as at the end of the Year	101,589	100,337	58,007	62,227

24.1 The total amount recognized in the Statement of Profit or Loss and Other Comprehensive Income in respect of Employee Benefit Liability made up as follows;

Interest Cost	9,731	7,067	6,845	6,429
Current Service Cost	9,755	12,018	4,378	5,172
Expense recognized in Comprehensive Income	19,486	19,085	11,223	11,601
Actuarial (Gain) / Loss	(6,875)	5,507	(8,033)	3,007
(Income) / Expense recognized in Other Comprehensive Income	(6,875)	5,507	(8,033)	3,007

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 as at 31 March 2019.

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.

NOTES TO THE FINANCIAL STATEMENTS

24.1 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

For the Year Ended 31 March	2019	2018
Group	Rs.000's	Rs.000's
i) Discount rate	11%	11%
ii) Annual salary increment rate	10%	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 summarizes 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	
	+1%	-1%	+1%	-1%
Effect on the discounting rate	(3,693)	4,039	(1,809)	1,956
Effect on the salary escalation rate	4,102	(3,812)	2,018	(1,897)

25 LOANS AND BORROWINGS

As at 31 March	Group		Company	
	2019	2018	2019	2018
	Rs.000's	Rs.000's	Rs.000's	Rs.000's
Term Loans - Secured				
Balance as at beginning of the Year	317,359	384,171	-	-
Add : Loans obtained during the Year	-	-	-	-
	317,359	384,171	-	-
Less : Repayments during the Year	(66,812)	(66,812)	-	-
Balance as at end of the Year	250,547	317,359	-	-
Amount payable within one Year	66,812	66,812	-	-
Amount payable after one Year	183,735	250,547	-	-
	250,547	317,359	-	-

25.1 Terms and Conditions of the loan obtained by the Subsidiary, Lanka Dairies (Private) Limited;

Financial Institution	Purpose	Assets Pledged	Interest Rate
DFCC Bank PLC	Import and installation of new machinery to the factory	Mortgaged value of imported machines and Guarantee provided by Lanka Milk Foods (CWE) PLC	AWPLR + 1.25

26 TRADE AND OTHER PAYABLES

As at 31 March	Group		Company	
	2019	2018	2019	2018
	Rs.000's	Rs.000's	Rs.000's	Rs.000's
Trade and Other Payables	266,305	274,376	57,836	51,445
Accrued Expenses	24,661	27,656	4,893	10,647
Outstanding Letter of Credit	279,199	4,946	279,199	4,946
Unclaimed Dividend	4,867	3,762	4,867	3,762
	575,032	310,740	346,795	70,800

27 AMOUNTS DUE TO RELATED COMPANIES

As at 31 March	Group		Company	
	2019 Rs.000's	2018 Rs.000's	2019 Rs.000's	2018 Rs.000's
Stassen Exports (Private) Limited	3,610	5,380	21	63
Indo Lanka Exports (Private) Limited	-	-	22,028	22,545
Aitken Spence PLC	270	1,558	-	58
Aitken Cargo (Private) Limited	62	-	-	-
Ambewela Products (Private) Limited	-	-	-	32,084
Distilleries company of Sri Lanka PLC	3,885	3,738	210	540
Madulsima Plantation PLC	134	-	134	-
Lanka Bell (Private) Limited	16	78	5	59
Pattipola Livestock Company Limited	-	-	4	-
United Dairies Lanka (Private) Limited	-	-	14,692	-
	7,977	10,754	37,094	55,349

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 31 March, the Minimum Future Lease Payments under non-cancellable leases were Payable as follows;

As at 31 March	Group		Company	
	2019 Rs.000's	2018 Rs.000's	2019 Rs.000's	2018 Rs.000's
Less than One Year	32,176	30,417	67	67
Between One and Five Years	150,089	150,089	335	335
More than Five Years	866,795	898,393	536	603
	1,016,951	1,049,060	938	1,005

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.19,129,324/- and Rs. 12,980,216/- 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.

The rent payable in respect of each successive year shall be an amount to be determined by multiplying the previous years lease rent by the GDP deflator of the preceding year which is determined by the Central Bank of Sri Lanka and published in its Annual Report.

28.2 Capital Commitments

There are no material Capital Commitments as at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

29. PRINCIPAL SUBSIDIARIES

Company	Principal Activities	Class of shares held	Group Interest	Non-controlling Interest
Lanka Dairies (Private) Limited	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 and sale of cow 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%
United Dairies Lanka (Private) Limited	Dairy Farming	Ordinary	100%	-

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	560
Ambewela Products (Private) limited	HNB	200
Ambewela Livestock Company Limited	HNB	60
Pattipola Livestock Company Limited	HNB	60
Indo Lanka Exports (Private) Limited	HNB	31.6

31. EVENTS AFTER THE REPORTING PERIOD

There are no other material Events After the Reporting Period 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 31 March 2019. This is to be approved by the Annual General Meeting to be held on 30th August 2019.

32. SEGMENTAL REPORTING

As at 31 March	Powdered Milk		Liquid Milk and Others		Agriculture		Elimination		Group	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's
Total Revenue	1,922,137	1,870,990	3,864,348	3,962,088	508,287	445,054	(909,238)	(861,585)	5,385,534	5,416,547
Profit or loss from operation	200,602	249,523	313,829	431,470	(49,151)	30,687	(377,519)	(45,342)	87,761	666,338
Financing Income/(Cost)	(85,197)	28,823	(40,359)	(53,001)	(6,917)	(4,825)	-	(5,569)	(132,473)	(34,572)
Income tax Expenses	(13,922)	(1,945)	(49,023)	(36,831)	2,030	(7,459)	(21,000)	(5,000)	(81,915)	(51,235)
Profit/(loss) for the Year	101,483	276,401	224,447	341,638	(54,038)	18,402	(398,519)	(55,910)	(126,627)	580,531
Segment Asset	9,041,588	12,077,838	2,803,763	2,783,372	889,973	640,836	(2,117,946)	(1,708,567)	10,617,378	13,793,479
Segment Liabilities	722,220	376,398	1,212,621	1,170,703	1,033,455	778,180	(1,207,906)	(1,002,228)	1,760,390	1,323,053
Segment Net Assets	8,319,368	11,701,440	1,591,142	1,514,763	(143,482)	(137,344)	(910,040)	(608,433)	8,856,988	12,470,426
Segment Capital Expenditure	8,870	1,719	18,534	289,661	14,926	18,120	-	(3,243)	42,330	306,257
Depreciation on Property, Plant and Equipment	15,986	21,087	221,790	206,907	11,678	13,262	-	7,972	249,454	249,228

NOTES TO THE FINANCIAL STATEMENTS

33. RELATED PARTY DISCLOSURES

The Group / Company carries out transactions in the ordinary course of its business with parties who are defined as Related Parties in Sri Lanka Accounting Standard (LKAS) 24 - "Related Party Disclosures".

Details of related party transactions are reported below:

33.1 Transactions with Subsidiary Companies

For the Year Ended 31 March			Amount	
			2019	2018
Name of the Company	Name of Common Directors	Nature of Transaction	Rs.	Rs.
Lanka Dairies (Private) Limited	Mr.D.H.S.Jayawardena	Sale of Goods	125,617,940	172,897,744
	Mr.C.R.Jansz	Settlement of Goods Sales	141,342,358	185,785,415
	Ms.D.S.C.Jayawardena	Expense Reimbursement	412,022	42,500
	Mr.D.Hasitha S.Jayawardena	Received of Opening Balance Settlement	100,000,000	169,919,310
		Settlement of Short Term Loan	25,000,000	330,000,000
		Received Loan Interest Settlement	1,196,004	18,987,940
		Granted Short Term Loan	45,000,000	130,000,000
		Dividend Income Received	43,000,000	-
		Charged Short Term Loan Interest	1,196,004	11,589,861
	Bank Guarantees Provided	885,000,000	885,000,000	
Ambewela Livestock Company Limited	Mr.D.H.S.Jayawardena	Expense Reimbursement	91,317	68,387
	Mr.C.R.Jansz	Sale of Goods	763,069	807,244
	Ms.D.S.C.Jayawardena	Settlement of Goods Sales	659,056	802,909
	Mr.D.Hasitha S.Jayawardena	Purchased of Goods	10,980	-
		Settlement of Purchases	59,970	-
	Bank Guarantees Provided	60,000,000	60,000,000	
Pattipola Livestock Company Limited	Mr.D.H.S.Jayawardena	Expense Reimbursement	102,385	105,760
	Mr.C.R.Jansz	Sale of Goods	826,425	679,523
	Ms.D.S.C.Jayawardena	Settlement of Goods Sales	826,424	679,523
	Mr.D.Hasitha S.Jayawardena	Goods Purchases	18,728	7,549
		Settlement of Goods Purchases	18,728	7,549
		Received of Opening Balance Settlement	-	50,017,338
	Bank Guarantees Provided	60,000,000	60,000,000	
Ambewela Products (Private) Limited	Mr.D.H.S.Jayawardena	Sale of Goods	75,366,808	80,990,055
	Mr.C.R.Jansz	Expense Reimbursement	245,179	291,154
	Ms.D.S.C.Jayawardena	Settlement of Goods Sales & Others	32,718,785	13,062,352
	Mr.D.Hasitha S.Jayawardena	Obtained Short Term Loan	-	50,000,000
		Charged Short Term Loan Interest	-	294,192
		Settlement of Short Term Loan	-	50,000,000
		Dividend Income Received	86,000,000	45,000,000
	Bank Guarantees Provided	150,000,000	150,000,000	
Indo Lanka Exports (Private) Limited	Mr.D.H.S.Jayawardena	Expense Reimbursement	516,254	631,425
	Mr.C.R.Jansz	Bank Guarantees Provided	31,600,000	31,600,000
	Ms.D.S.C.Jayawardena			
United Dairies Lanka (Private) Limited	Mr.D.H.S.Jayawardena	Paid Investment on Share Capital	35,000,000	-
	Mr.C.R.Jansz	Expenses Reimbursement	307,850	-
	Ms.D.S.C.Jayawardena			
	Mr.D S K Amarasekara			
	Dr.A Shakthevale			
	Mr.D.Hasitha S.Jayawardena			

33.2 Transactions with Other Related Companies

Details of related party transactions are reported below:

For the Year Ended 31 March Name of the Company	Relationship	Name of Common Directors	Nature of Transaction	Amount	
				2019 Rs.	2018 Rs.
Milford Exports (Ceylon) Limited	Affiliate	Mr.D.H.S.Jayawardena	Management Fee	1,173,469	1,123,469
		Ms.D.S.C.Jayawardena	Director Fee	1,760,204	1,760,204
		Mr.D.Hasitha S.Jayawardena	Dividend Paid	33,566,350	33,566,350
Stassen Exports (Private) Limited	Affiliate	Mr.D.H.S.Jayawardena	Reimbursement of Expenses	5,958,375	8,173,225
		Ms.D.S.C.Jayawardena	Services Obtained	2,877,919	3,043,567
		Mr.D.Hasitha S.Jayawardena	Sale of Goods	17,871,601	23,647,171
		Mr.C.R.Jansz	Services Rendered and Others	90,851,242	91,131,917
			Related Party Settlement	121,535,674	126,904,247
Hatton National Bank PLC *	Affiliate	Mr. D.S.C. Jayawardena	Bank Charges	198,910	1,019,974
			Interest Paid	1,394,562	4,421,519
			Bank Overdraft	4,585,408	187,456,455
			Interest Received	503,406	5,779,399
			Bank Favourable Balance	4,912,898	-
			Money Market Saving Balance	94,113,158	-
Distilleries Company of Sri Lanka PLC	Affiliate	Mr.D.H.S.Jayawardena	Sale of Milk Foods & Energy Drinks	30,962,533	19,735,585
		Mr.C.R.Jansz	Dividend Received	26,060,702	-
		Mr.D.Hasitha S.Jayawardena	Dividend Paid	-	-
			Services Obtained	676,030	1,373,557
			Services Rendered and Others	8,003	-
			Related Party Settlement	33,435,781	13,101,786
Aitken Spence and Company PLC	Affiliate	Mr.D.H.S.Jayawardena	Sale of Goods	13,163,604	12,475,426
			Settlement of Goods Sales	13,897,422	11,919,430
			Services Obtained & Others	6,110,778	7,857,121
			Related Party Settlement	6,168,303	9,059,517
Madulsima Plantation PLC	Affiliate	Mr.D.H.S.Jayawardena	Services Obtained & Others	1,607,848	1,510,605
		Mr.D S K Amarasekara	Related Party Settlement	1,262,084	1,510,605
		Dr.A Shakthevale			
Lanka Bell (Private) Limited	Affiliate	Mr.D.H.S.Jayawardena	Telephone Charges	1,004,591	1,029,336
		Mr.C.R.Jansz	Settlement of Related Party	1,058,565	974,645
			Sale of Goods	-	39,126
			Settlement of Goods Sales	-	39,125
Melstacrop PLC	Affiliate	Mr.D.H.S.Jayawardena	Script Dividend Received	-	333,386,326
		Mr.C.R.Jansz	Dividend Paid	16,789,460	16,789,460
		Mr.D.Hasitha S.Jayawardena	Sale of Milk Foods & Energy Drinks	-	1,537,453
			Related Party Settlement	-	1,522,063
			Fall in Market Value of Shares	3,370,981,200	151,846,000
Browns Beach PLC	Affiliate	Mr.D.H.S.Jayawardena	Sale of Milk Foods & Energy Drinks	1,400,640	1,321,800
			Settlement of Goods Sales	1,450,202	1,301,640

* Directress resigned from 30th June 2018

NOTES TO THE FINANCIAL STATEMENTS

33. RELATED PARTY DISCLOSURES (CONTINUED)

33.3 Terms and conditions of transactions with related party

Transactions with related parties are carried out in the ordinary course of business. The pricing applicable to related party transactions is based on the assessment of risk and pricing model of the Company and is comparable with that is applicable to transactions between the company and its unrelated customers.

Transactions with related parties were made on the basis of the price lists in force with non-related parties (at Arm's Length). Outstanding balances with related parties other than balances relating to investment related transactions as at the reporting date are unsecured. Settlement will take place in cash. Such outstanding balances have been included under respective assets and liabilities.

33.4 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

As at 31 March	Group		Company	
	2019 Rs.000's	2018 Rs.000's	2019 Rs.000's	2018 Rs.000's
Short-term Employee Benefits	4,907	6,246	4,907	6,246
Post Employment Benefits	460	660	460	660
	5,367	6,906	5,367	6,906

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 FINANCIAL RISK MANAGEMENT (CONTINUED)

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;

As at 31 March	Group		Company	
	2019 Rs.000's	2018 Rs.000's	2019 Rs.000's	2018 Rs.000's
Trade Receivables (Gross)	573,362	577,687	216,154	212,653
Other Receivables (Gross) (Note a.)	18,170	27,099	8,713	7,959
Amounts Due from Related Companies	44,430	49,670	415,355	516,814
Cash at Banks and Call Deposits (Note b.)	38,264	63,902	22,861	36,992
Equity Securities - at FVOCI / Available for Sale Investments	6,118,831	9,505,154	6,118,831	9,505,154
Equity Securities - at FVTPL / Financial Assets Held for Trading	209,839	270,283	209,839	270,283
	7,002,896	10,493,795	6,991,753	10,549,855

Note a.

The other assets exclude advances, deposits and prepayments balance as at each year end.

Note b.

Cash in Hand Balance has been excluded.

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 analyzed 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.

NOTES TO THE FINANCIAL STATEMENTS

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.1 Credit risk (Continued)

34.1.2 Expected credit loss

The Group allocates each exposure to a credit risk grade based on data that is determined to be predictive of the risk of loss (including but not limited to external ratings, audited financial statements, management accounts and cash flow projections and available press information about customers) and applying experienced credit judgement. Exposures within each credit risk grade are segmented by geographic region and industry classification and an ECL rate is calculated for each segment based on delinquency status and actual credit loss experience over the past seven years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

The following table provides information about the exposure to credit risk and ECLs for trade receivables for customers as at 31 March 2019.

As at 31 March 2019 Group	Weighted Average Loss Rate	Gross Carrying Amount Rs.000's	Impairment Loss Allowance Rs.000's	Credit Impaired
Past due 0-60 days	0.32%	393,504	(1,258)	No
Past due 60-180 days	5.70%	112,524	(6,415)	No
Past due 180-365 days	51.45%	1,036	(533)	No
More than One Year	100.00%	43,199	(43,199)	Yes
		550,263	(51,405)	

Following are the Specific provision made by the Group;

Pattipola Livestock Company Limited	3,492	(2,676)
Indo Lanka Exports (Private) Limited	19,607	(19,607)
	23,099	(22,283)
Total	573,362	(73,688)

As at 31 March 2019 Company	Weighted Average Loss Rate	Gross Carrying Amount Rs.000's	Impairment Loss Allowance Rs.000's	Credit Impaired
Past due 0-60 days	0.22%	151,243	(334)	No
Past due 60-180 days	12.06%	25,183	(3,038)	No
Past due 180-365 days	49.70%	837	(416)	No
More than One Year	100.00%	38,891	(38,891)	Yes
		216,154	(42,679)	

Loss rates are based on actual credit loss experience over the past years. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Movement in the Loss Allowance for Impairment of Trade Receivables

The movement in the allowance for impairment in respect of trade receivables and contract assets during the year was as follows. Comparative amounts for 2018 represent the allowance account for impairment losses under LKAS 39.

For the Year Ended 31 March	2019 Rs.000's	2018 Rs.000's
Balance as at 01 April under LKAS 39	66,698	71,856
Adjustment on initial application of SLFRS 09	4,895	-
Balance at 01 April under SLFRS 09	71,593	71,856
Provision for the Year	2,095	(5,158)
Balance as at 31 March	73,688	66,698

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.1 Credit Risk (Continued)

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. 42,227 ('000) as at 31 March 2019 (Rs.66,669 ('000) as at 31 March 2018) 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 (Refer Note 30)

Name of the Company	Name of the Bank	Amount of the Guarantee Rs.000's
Lanka Dairies (Private) Limited	Hatton National Bank	325
Lanka Dairies (Private) Limited	DFCC Bank	(Outstanding Balance - Rs. Mn 250.5) 560
Ambewela Products (Private) Limited	Hatton National Bank	200
Ambewela Livestock Company Limited	Hatton National Bank	60
Pattipola Livestock Company Limited	Hatton National Bank	60
Indo Lanka Exports (Private) Limited	HSBC	31.6

34.2 Liquidity Risk

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

The following are the contractual maturities of financial liabilities.

Group

As at 31 March	2019				
	Carrying amount Rs.000's	0-2 months Rs.000's	2-6 months Rs.000's	6-12 months Rs.000's	More than 1 year Rs.000's
Financial Liabilities (Non Derivatives)					
Trade and Other Payables	575,032	570,165	-	4,867	-
Amounts Due to Related Companies	7,977	7,977	-	-	-
Interest Bearing Loans and Borrowings	250,547	11,135	22,270	33,407	183,735
Bank Overdraft	634,415	428,354	206,061	-	-
	1,467,971	1,017,631	228,331	38,274	183,735

Company

As at 31 March	2019				
	Carrying amount Rs.000's	0-2 months Rs.000's	2-6 months Rs.000's	6-12 months Rs.000's	More than 1 year Rs.000's
Financial Liabilities (Non Derivatives)					
Trade and Other Payables	346,795	341,928	-	4,867	-
Amounts Due to Related Companies	37,094	15,066	-	-	22,028
Interest Bearing Loans and Borrowings	-	-	-	-	-
Bank Overdraft	253,981	150,000	103,981	-	-
	637,870	506,994	103,981	4,867	22,028

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

NOTES TO THE FINANCIAL STATEMENTS

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.3 Market Risk (Continued)

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

34.3.1 Currency Risk

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

34.3.1.1 Exposure to Currency Risk

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

Group

As at 31 March	Currency	2019	2018
Trade and Other Payables	USD	1,596,042	(982)
Trade and Other Payables	EUR	25,281	-

Company

As at 31 March	Currency	2019	2018
Trade and Other Payables	USD	1,536,858	-
Trade and Other Payables	EUR	25,281	-

The following significant exchange rates were applicable during the year;

As at 31 March	2019 Rs.000's	2018 Rs.000's	2019 Rs.000's	2018 Rs.000's
USD	168.72	153.45	178.35	155.83
EUR	195.25	-	201.77	-

34.3.1.2 Sensitivity Analysis

A strengthening of the LKR, as indicated below, against the USD at 31 March 2019 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.

As at 31 March 2019	Strengthening		Weakening	
	Profit or Loss Rs.	Equity Rs.	Profit or Loss Rs.	Equity Rs.
31 March 2019				
USD (10% movement)	(28,465,409)	(28,465,409)	28,465,409	28,465,409
EUR (10% movement)	(510,084)	(510,084)	510,084	510,084
31 March 2018				
USD (10% movement)	15,237	15,237	(15,237)	(15,237)

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.3 Market risk (Continued)

34.3.2 Interest rate risk

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

As at 31 March	Group		Company	
	2019 Rs.000's	2018 Rs.000's	2019 Rs.000's	2018 Rs.000's
Variable Rate Instruments				
Financial Liabilities				
Loans & Borrowings	250,547	317,359	-	-
Bank Overdraft	634,415	439,129	253,981	188,022
	884,962	756,488	253,981	188,022

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 behavior. 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 applied. Simulations made for Equity Securities - at FVOCI and Equity Securities at FVTPL that an increase and decrease of Rs.10 has the following effect on the fair value of the investments.

As at 31 March Group/Company	-10 Rs. Rs.000's	2019 Rs. Rs.000's	+ 10 Rs. Rs.000's
Equity Securities - at FVOCI	5,506,948	6,118,831	6,730,714
Equity Securities at FVTPL	188,855	209,839	230,823
	5,695,803	6,328,670	6,961,537

NOTES TO THE FINANCIAL STATEMENTS

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.6 Capital management

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

As at 31 March	Group		Company	
	2019 Rs.000's	2018 Rs.000's	2019 Rs.000's	2018 Rs.000's
Total Liabilities	1,760,390	1,323,053	695,877	376,398
Less:				
Cash and Cash Equivalents	(42,227)	(66,669)	(22,861)	(38,010)
Net Debts	1,718,163	1,256,384	673,016	338,388
Total Equity	8,856,989	12,470,426	8,319,368	11,701,440
Net Debt to Equity Ratio	0.19	0.10	0.08	0.03

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 categorized.

As at 31 March 2019	Group/Company			
	Level 1 Rs.'000	Level 2 Rs.'000	Level 3 Rs.'000	Total Rs.'000
Financial Assets measured at FVOCI	6,118,831	-	-	6,118,831
Financial Assets measured at FVTPL	209,839	-	-	209,839
	6,328,670	-	-	6,328,670

As at 31 March 2018	Group/Company			
	Level 1 Rs.'000	Level 2 Rs.'000	Level 3 Rs.'000	Total Rs.'000
Available for Sale Investments	8,837,437	667,717	-	9,505,154
Financial Assets Held for Trading	270,283	-	-	270,283
	9,107,720	667,717	-	9,775,437

35 FAIR VALUE MEASUREMENT (CONTINUED)

35.2 Fair Value of Financial Instruments Carried at Amortized Cost

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

As at 31 March 2019	Group		Company	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Assets				
Cash and Cash Equivalents	42,227	42,227	22,861	22,861
Trade and Other Receivables (Net)	591,532	591,532	224,867	224,867
Amounts Due from Related Companies	44,430	44,430	415,355	415,355
Liabilities				
Bank Overdraft	634,415	634,415	253,981	253,981
Trade and Other Payables	575,032	575,032	346,795	346,795
Amounts Due to Related Companies	7,977	7,977	37,094	37,094
Loans and Borrowings	250,547	250,547	-	-

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 Companies

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 Companies

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.

NOTES TO THE FINANCIAL STATEMENTS

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

Group

As at 31 March 2019 Financial Instrument	Amortised Cost Rs.000's	Classification	
		Fair Value Through Profit or Loss Investments Rs.000's	Fair Value Through Other Comprehensive Income Investments Rs.000's
Trade and Other Receivables	635,756	-	-
Amounts due from Related Companies	44,430	-	-
Cash and Cash Equivalents	42,227	-	-
Financial Assets measured at FVOCI	-	-	6,118,831
Financial Assets measured at FVTPL	-	209,839	-

As at 31 March 2019 Financial liabilities	Classification	
	Fair Value Through Profit or Loss Investments Rs.000's	Amortized Cost Rs.000's
Trade and Other Payables	-	575,032
Interest Bearing Borrowings	-	250,547
Amounts due to Related Companies	-	7,977
Bank Overdraft	-	634,415

Company

As at 31 March 2019 Financial Instrument	Amortised Cost Rs.000's	Classification	
		Fair Value Through Profit or Loss Investments Rs.000's	Fair Value Through Other Comprehensive Income Investments Rs.000's
Trade and Other Receivables	269,799	-	-
Amounts due from Related Companies	415,355	-	-
Cash and Cash Equivalents	22,861	-	-
Financial Assets measured at FVOCI	-	-	6,118,831
Financial Assets measured at FVTPL	-	209,839	-

As at 31 March 2019 Financial liabilities	Classification	
	Fair Value Through Profit or Loss Investments Rs.000's	Amortized Cost Rs.000's
Trade and Other Payables	-	346,795
Amounts due to Related Companies	-	37,094
Bank Overdraft	-	253,981

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)-"LMF.N."

Ticker symbol - LMF - N0000

ISIN - LK0112N00009

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

2 COMPOSITION ORDINARY SHAREHOLDERS

Category	No of ShareHolders 31/03/2019	Total Shares 31/03/2019	Percentage (%) 31/03/2019	No of Share Holders 31/03/2018	Total Shares 31/03/2018	Percentage (%) 31/03/2018
1-1000	2,534	504,917	1.26	2,530	502,331	1.26
1001-10000	408	1,429,659	3.57	449	1,624,050	4.06
10001-100000	75	2,255,013	5.64	80	2,611,506	6.53
100001-1000000	14	4,310,515	10.78	16	4,649,263	11.62
1,000,001 & Over	5	31,497,896	78.75	5	30,610,850	76.53
Total	3,036	39,998,000	100.00	3,080	39,998,000	100.00

3 ANALYSIS OF ORDINARY SHARES

Category	No of ShareHolders 31/03/2019	Total Shares 31/03/2019	Percentage (%) 31/03/2019	No of Share Holders 31/03/2018	Total Shares 31/03/2018	Percentage (%) 31/03/2018
Individuals -Local	2,835	4,965,321	12.41	2,874	5,742,784	14.36
Individuals - Overseas	42	298,059	0.75	43	283,820	0.71
Companies - Local	154	22,443,881	56.11	158	23,071,649	57.68
Companies - Overseas	5	12,290,739	30.73	5	10,899,747	27.25
Total	3,036	39,998,000	100.00	3,080	39,998,000	100.00

4 DIRECTORS' SHARES

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

	Company	
	2019/18 Rs.	2018/17 Rs.

5 VALUE PER SHARE

Earnings/(Loss)	Rs.	2.54	6.91
Dividend	Rs	1.25	2.50
Net Assets	Rs	207.99	292.55

6 MARKET VALUE PER SHARE

Highest Price during the year	Rs.	177.90	195.00
Lowest Price during the year	Rs	108.50	115.00
Value as at last trading date	Rs	110.00	158.10

SHAREHOLDER AND INVESTOR INFORMATION

7 TWENTY MAJOR SHAREHOLDERS

	As at 31 March 2019			As at 31 March 2018		
	NAME	No of Shares	% On Total Issued Capital	NAME	No of Shares	% On Total 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 Plc	6,715,784	16.79	Melstacorp PLC	6,715,784	16.79
3	Mills Enterprises Limited	6,120,290	15.30	Mills Enterprises Limited	6,120,290	15.30
4	Caceis Bank, Luxembourg Branch-Barca Global Master Fund Lp Caceis Bank, Luxembourg Branch-Barca Global Master	3,738,354	9.35	Caceis Bank, Luxembourg Branch - Barca Global Master Fund	2,729,207	6.82
5	Pershing Llc S/A Averbach Grauson & Co.	1,496,928	3.74	Pershing LLC S/A Averbach Grauson & Co.	1,619,029	4.05
6	Bnysanv Re-Steyn Capital Frontier Fund	685,946	1.71	E.W Balasuriya & Co. (Pvt) Ltd	619,212	1.55
7	E.W. Balasuriya & Co. (Pvt) Ltd	619,212	1.55	Rukaiya Husseinally Abdulhussein	600,000	1.50
8	Rukaiya Husseinally Abdulhussein	507,000	1.27	Yusuf Husseinally Abdulhussein	577,333	1.44
9	Yusuf Husseinally Abdulhussein	483,333	1.21	People's Leasing & Finance PLC/Mr.H.M Abdullah	500,207	1.25
10	People'S Leasing & Finance Plc/Mr.H.M. Abdulhussein People'S Leasing & Finance PLC/Mr.H.M. Abdulhussei	414,051	1.04	J.B. Cocoshell (Pvt) Ltd	382,335	0.96
11	Husseinally Mohsinally Abdulhussein	280,266	0.70	Husseinally Mohsinally Abdulhussein	280,266	0.70
12	Commercial Bank Of Ceylon Plc A/C No. 04	250,000	0.63	Commercial Bank Of Ceylon PLC A/C No.04	250,000	0.63
13	Hallsville Trading Group Inc.	249,221	0.62	Hallsville Trading Group Inc.	249,221	0.62
14	Dinesh Nagendra Sellamuttu	183,502	0.46	Dinesh Nagendra Sellamuttu	183,502	0.46
15	Mark Anthony Theodor Raaymakers	148,593	0.37	Phillip Securities Pte Ltd	182,000	0.46
16	Manickam Vallipuram Theagarajah	140,933	0.35	Essajee Carimjee Insurance Brokers (Pvt) Ltd	172,203	0.43
17	Gulamhussein Moshinally Abdulhussein	132,622	0.33	Mark Anthony Theodor Raaymakers	148,593	0.37
18	Essajee Carimjee Insurance Brokers (Pvt) Ltd	110,000	0.28	Gulamhussein Moshinally Abdulhussein	142,622	0.36
19	Ratten Gulamhussein Abdulhussein	105,836	0.26	Manickam Vallipuram Theagarajah	140,933	0.35
20	Commercial Bank Of Ceylon PLC/ H.M.Dawoodbhoy	95,000	0.24	Ratten Gulamhussein Abdulhussein	115,836	0.29
	Sub Total	35,903,411	89.77	Sub Total	35,155,113	87.90
	Other Shareholders	4,094,589	10.23	Other Shareholders	4,842,887	12.10
	Grand Total	39,998,000	100.00	Grand Total	39,998,000	100.00

8 PUBLIC SHAREHOLDINGS

	2019.03.31	2018.03.31
	Rs.	Rs.
Number of Shares held by Public	13,735,313	13,735,313
Numers of Public Shareholders	3033	3,077
Percentage of Shares held by Public	34.34%	34.34%
Float Adjusted Market Capitalisation (Rs.000)	1,510,884	2,171,553

Company Complies with Minimum Public Holdings Requirement under option 5 as set out in the listing rules 7.13.1

TEN YEAR SUMMARY

Company-Rs.000	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
OPERATING RESULT										
Turnover	1,922,137	1,840,687	2,053,427	2,394,015	1,957,046	2,446,113	3,711,003	3,408,036	3,190,564	3,259,460
Gross Profit	26,721	100,936	154,936	222,274	63,033	171,232	514,890	388,821	292,266	547,064
Profit/ (Loss) before Tax	115,405	278,346	216,919	(37,470)	22,029	14,062	263,876	35,846	26,817	309,883
Taxation	(13,922)	(1,945)	16,925	20,014	46,264	29,957	(32,516)	(31,245)	(10,706)	(107,466)
Profit/ (Loss) after Tax	101,483	276,401	233,844	(17,456)	68,293	44,019	231,360	4,601	16,111	202,417
Dividends	49,998	99,995	99,995	49,998	49,998	-	59,998	39,998	-	59,997
STATEMENT OF FINANCIAL POSITION										
Property, Plant and Equipment	136,226	143,342	162,710	186,883	214,959	235,513	244,602	234,319	233,790	194,607
Short-term Investment	209,839	270,283	244,838	247,029	305,929	236,453	227,893	208,941	260,152	293,312
Current Assets	1,608,901	1,582,904	1,784,555	1,567,493	2,038,196	1,762,864	2,292,285	2,016,498	2,155,369	1,206,060
Total Assets	9,015,246	12,077,838	11,780,962	10,405,826	12,192,882	10,471,571	9,631,641	8,537,898	10,071,276	2,663,192
Total Equity	8,319,369	11,701,440	11,344,714	10,000,059	11,370,598	9,882,818	8,516,730	7,509,196	8,833,247	1,376,841
Non Current Liabilities	58,007	62,227	51,429	44,765	38,826	30,028	85,776	115,372	141,987	182,632
Current Liabilities	637,870	314,171	384,819	361,002	783,458	558,725	1,029,135	913,329	1,096,042	1,103,719
RATIOS										
Earnings per share (Rs.)	2.54	6.91	5.85	(0.44)	1.71	1.1	5.78	0.12	0.46	6.75
Dividend per share (Rs.)	1.25	2.50	2.5	1.25	1.25	-	1.5	1	-	1.5
Dividend cover (Times)	2.03	2.76	2.34	(0.35)	1.37	-	6.2	2.84	-	4.5
Dividend payout Ratio (%)	49.27	36.18	42.74	(35.2)	73.1	-	25.96	833.34	-	22.23
Price earning ratio (Times)	43.31	22.88	20.01	(260.22)	81.87	97.32	18.74	815	254.13	12.19
Total assets to equity (Times)	1.08	1.03	1.04	1.04	1.07	1.06	-	1.49	1.14	1.93
Net assets per Share (Rs.)	207.99	292.55	283.63	250.01	284.28	247.08	212.93	187.24	220.84	34.42
Market Value per share (as at 31st March) (Rs.)	110.00	158.10	117	114.5	140	107.1	108.3	97.8	116.9	82.25
Return on equity (%)	1.22	2.37	2.06	(0.18)	0.61	0.45	2.72	0.06	0.18	14.7
Return on Total Assets (%)	1.12	2.29	1.98	(0.18)	0.56	0.42	2.4	0.05	0.16	7.6
Gross Profit Ratio (%)	1.39	5.48	7.55	9.29	3.22	7	13.87	11.41	9.16	16.78
Net Profit/(Loss) Ratio (%)	5.28	15.02	11.39	(0.73)	3.49	1.8	6.23	0.14	0.5	37
Current Ratio (Times)	2.52	5.04	4.64	4.34	2.6	3.16	2.23	2.21	1.57	1.09
Liquidity Ratio (Times)	1.49	3.45	3.95	3.4	1.81	2.53	1.62	0.67	0.85	1.7

NOTICE OF MEETING

Notice is hereby given that the Thirty Seventh (37th) Annual General Meeting of Lanka Milk Foods (CWE) PLC will be held at the Auditorium of Sri Lanka Foundation Institute at No. 100, Sri Lanka Padanama Mawatha, Independence Square, Colombo 07 on Friday, the 30th August 2019 at 10.00 a.m., for the following purposes.

1. To receive and consider the Report of the Directors, the Financial Statements of the Company for the year ended 31st March 2019 with the Auditors' Report thereon.
2. To approve a final dividend of Rs. 1.25 per share, as recommended by the Board of Directors.
3. To re-elect Mr. D. Hasitha Stassen Jayawardena who retires by rotation at the Annual General Meeting in terms of Article No.94 of the Articles of Association, as a Director of the company.
4. To re-elect Mr. D.H.S. Jayawardena, who 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.

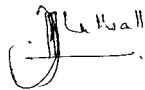
"That Mr. D.H.S. Jayawardena who attained the age of 70 on 17th August 2012 be and is hereby re-elected as a Director of the Company and it is hereby declared that the age limit of 70 years referred to in section 210 of the companies Act No.7 of 2007 shall not apply to the said Mr. D.H.S. Jayawardena."

5. 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."

6. To re-appoint Messrs. KPMG, (Chartered Accountants) as the Auditors for the ensuing year and to authorize the Directors to determine their remuneration.
7. To authorize the Directors to determine payments for the year 2020, for charitable and other purposes, as set out in the Company's Donations Act (Cap 147).

By order of the Board



Ms. H. K. Bulathwatte
Company Secretary

Lanka Milk Foods (CWE) PLC
06th August 2019

NOTES:

1. A Member entitled to attend, or to attend and vote at the Meeting, is entitled to appoint a Proxy to attend, or to attend and vote as the case may be, in his or her stead.
2. A Proxy need not be a Member of the Company. The Form of Proxy is enclosed herewith.
3. The completed Form of Proxy should be deposited at the registered office of the Company at Lanka Milk Foods (CWE) PLC, Welisara, Ragama, before 10 a.m. on 28th August 2019.

FORM OF PROXY

LANKA MILK FOODS (CWE) PLC

I/Weof

being a shareholder/s of the above Company, hereby appoint

.....of.....

..... (whom failing)

Don Harold Stassen Jayawardena, (whom failing)

Cedric Royle Jansz, (whom failing)

D. S. Kamantha Amarasekera, (whom failing)

Shakthevale Arinesarajah, (whom failing)

Don Sanjivani Clarinda Jayawardena, (whom failing)

Don Hasitha Stassen Jayawardena,

as my/our proxy to represent me/us and to vote for me/us and on my /our behalf at the Thirty Seventh (37th) Annual General Meeting to be held on Friday, the 30th August 2019 at any adjournment thereof and at every poll which may be taken in consequence thereof to vote;

	For	Against
To approve a final dividend of Rs. 1.25 per share	<input type="checkbox"/>	<input type="checkbox"/>
To re-elect Mr. D. Hasitha Stassen Jayawardena, who retires in terms of Article No.94 of the Articles of Association of the Company	<input type="checkbox"/>	<input type="checkbox"/>
To re-elect Mr. D. H .S. Jayawardena, who retires in terms of section 210 and 211 of the Companies Act No. 7 of 2007	<input type="checkbox"/>	<input type="checkbox"/>
To re-elect Dr. A. Shakthevale, who retires in terms of section 210 and 211 of the Companies Act No. 7 of 2007	<input type="checkbox"/>	<input type="checkbox"/>
To re-appoint Auditors and to authorise the Directors to determine their remuneration	<input type="checkbox"/>	<input type="checkbox"/>
To authorize the Directors to determine payments for charitable and other purposes in terms of Company's Donation Act. (Cap 147)	<input type="checkbox"/>	<input type="checkbox"/>

Signed this day of 2019

.....
Signature/s of Shareholder/s

FORM OF PROXY

Notes:

(a) In 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 or Officer. A proxy need not be a member of the Company.

In 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 copy certified by a Notary thereof shall if required be deposited for inspection, at the office in each case not less than forty eight (48) 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 exclusion of the votes of 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 the form of proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intend to be authenticated.

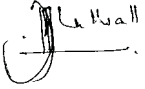
CIRCULAR TO SHAREHOLDERS

Notice is hereby given to the shareholders that the Thirty Seventh (37th) Annual General Meeting of Lanka Milk Foods (CWE) PLC will be held on Friday, the 30th August 2019 at the Auditorium of Sri Lanka Foundation Institute at No. 100, Sri Lanka Padanama Mawatha, 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



Ms. H. K. Bulathwatte
Company Secretary
06th August 2019

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 බව ලේකම්, සී.ස. ලංකා මිල්ක් ෆුඩ්ස් (සී.ඩබ්ලිව්.ඊ) පී.එල්.සී., 579/1, වැලිසර, රාගම
යන ලිපිනයට 2019 අගෝස්තු 20 වැනි දිනට ප්‍රථම දන්වන්න.

சிங்களம் அல்லது தமிழ் மொழி பெயர்ப்புகள் உங்களுக்குத் தேவையானால்
தயவு செய்து நிறுவனச் செயலாளர், லங்கா மில்க் புட்ஸ் (சி டபிள்யூ ஈ) பி.எல்.சி,
579/1, வெலிசர, ராகம எனும் முகவரிக்கு கடிதமூலம் 2019 ஓகஸ்ட் 20 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,
579/1, Welisara, Ragama on or before 20th August 2019.

ATTENDANCE SLIP

LANKA MILK FOODS (CWE) PLC

PQ 142

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, Sri Lanka Padanama Road, Independence Square, Colombo 07 at 10.00 a. m. on Friday, the 30th August 2019.

- Signature of Shareholder :
- Shareholder's Full Name :
- Shareholder's NIC/ Passport Number :
- No. of Shares held and Folio No. :
- Signature of Proxy Holder :
(If applicable)
- Proxy Holder's Full Name :
- Proxy Holder's NIC /Passport Number :

CORPORATE INFORMATION

Name of the Company	Lanka Milk Foods (CWE) PLC
Legal Form	A Public Company with Limited Liability under the provisions of Companies Act No. 7 of 2007, Quoted in the Colombo Stock Exchange in January 1983
Company Registration Number	PQ 142
Date of Incorporation	12th November 1981
Accounting Year End	31st March
Registered Office	Welisara, Ragama, Sri Lanka Tel: +9411 2956263-5, +9411 5222600 Fax: +9411 2956266 Email: lakspray@lmfgroup.lk
Subsidiary Companies	Lanka Dairies (Private) Limited Ambewela Livestock Company Limited Pattipola Livestock Company Limited Ambewela Products (Private) Limited Indo Lanka Exports (Private) Limited United Dairies Lanka (Private) Limited
Board of Directors	Mr. D. H. S. Jayawardena - Executive Chairman Mr. C. R. Jansz - Executive Director Ms. D. S. C. Jayawardena - Executive Director Mr. D. S. K. Amarasekera - Independent Non-Executive Director Dr. A. Shakthevale - Independent Non-Executive Director Mr. D. Hasitha. S. Jayawardena - Non-Independent Non-Executive Director
Company Secretary	Ms. H. K. Bulathwatte
Auditors	Messrs. KPMG (Chartered Accountants) 32A, Sir Mohamed Macan Markar Mawatha P O Box 186 Colombo 3, Sri Lanka.
Bankers	Bank of Ceylon Hatton National Bank PLC Hong Kong & Shanghai Banking Corporation Ltd DFCC Bank PLC
Website	www.lmfgroup.lk



Lanka Milk Foods (CWE) PLC

579/1, Welisara, Ragama, Sri Lanka

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