

# THE CROWN OF EXCELLENCE





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Ambewela  
Daily



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<https://www.lmfgroup.lk/reports/>



## **Crown of Excellence**

At Lanka Milk Foods, we have assured wholesome products that have provided better nutrition to our consumers. Our continuous commitments to sustainable farming and manufacturing practises have enabled us to build multiple brands that resonate with the people of our nation.

In the year under review, we have set the benchmark for dairy farms in the country by optimizing our processes for high efficiency that enhance the quality of our products and realign our strategies to increase the sales and distribution whilst making sure our valuable consumer identifies the freshness and the real nourishing goodness of our products through effective communication.

Today as we continue providing nutritious products to our consumers, we wear a crown of excellence built upon decades of consumer trust and uncompromised quality.

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# ABOUT THIS 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 overall performance during the period from 01st April 2019 to 31st March 2020.

## REPORTING 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 2020. 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.

## REPORTING STANDARDS AND PRINCIPLES

The Financial Statements have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRS/ LKAS) issued by CA Sri Lanka (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 and subsequent revisions to date.

## 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,

Chief Financial Officer  
Lanka Milk Foods (CWE) PLC  
579/1, Welisara,  
Ragama

Email - [finance@lmfgroup.lk](mailto:finance@lmfgroup.lk)

## OUR VISION

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

## OUR MISSION

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

# OUR PRODUCTS

## Lakspray

Our renowned Lakspray milk powder is a natural full cream milk powder made of pure cows' milk and is free of chemical additives and preservatives. Lakspray has nourished Sri Lankans for over a period of 50 years. Being rich in milk proteins, vitamins and minerals Lakspray promotes healthy growth of kids and wellbeing of adults and is also creamier than other instant milk powder. It is available in multiple pack sizes to suit the consumer demand.

Lakspray Non-Fat is a natural milk powder with its fat extracted. It is a healthy option for milk powder that caters to the needs of health enthusiasts. This is available in 400 g box packs.



## 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 some of luscious pasture-lands 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 180ml and 01 litre sizes.

Ambewela UHT flavoured milk is available in 150ml pouch packs, in chocolate and vanilla flavours. It is also a product of Ambewela Products (Pvt) Ltd, Ambewela.

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



## Ambewela Set Yoghurt

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



## Ambewela Flavoured Milk

In year 2017, Lanka Dairies (Pvt) Ltd. launched Ambewela Flavoured Milk. It is available in one litre and 180ml pack sizes with chocolate and vanilla flavours.



## Ambewela KIDDOS

Ambewela KIDDOS Flavoured Milk pack is a 160ml flavoured milk pack. 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, and 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

#### Daily - UHT Treated Flavoured Milk

Our 180ml DAILY flavoured milk pack is manufactured at Lanka Dairies (Pvt) Ltd, Welisara dairy 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 Faluda variant. This range is exported to Maldives and is very popular amongst the Maldivian youth.





## Daily ACTIV

### UHT Treated Malt Chocolate Food Drink

DAILY ACTIV 180ml 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. It 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 drink 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 180ml to consume while on the move and 1 litre as a take-home family pack.



## BLU Drink

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

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

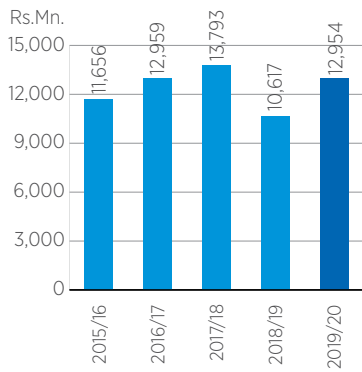


# FINANCIAL HIGHLIGHTS

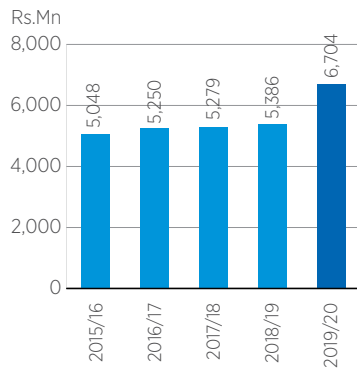
| For the year ended 31 March                  | Group    |            |            | Company |            |           |         |
|--|----------|------------|------------|---------|------------|-----------|---------|
|  | 2020     | 2019       | Change %   | 2020    | 2019       | Change %  |         |
| <b>OPERATIONS</b>                            |          |            |            |         |            |           |         |
| Revenue                                      | Rs. '000 | 6,703,854  | 5,385,534  | 24.48   | 3,030,915  | 1,922,137 | 57.68   |
| Gross Profit                                 | Rs. '000 | 663,230    | 487,442    | 36.06   | 156,610    | 26,721    | 486.09  |
| Profit from Operations                       | Rs. '000 | 510,809    | 87,761     | 482.05  | 191,521    | 200,602   | (4.53)  |
| Profit/(Loss) Before Tax                     | Rs. '000 | 400,368    | (44,712)   | 995.44  | 182,385    | 115,405   | 58.04   |
| Profit/(Loss) for the Year                   | Rs. '000 | 290,663    | (126,627)  | 329.54  | 129,936    | 101,483   | 28.04   |
| Profit/(Loss) Attributable to Equity Holders | Rs. '000 | 301,252    | (126,312)  | 338.50  | 129,936    | 101,483   | 28.04   |
| Revenue per Employee                         | Rs. '000 | 9,121      | 7,771      | 17.37   | 9,970      | 7,067     | 41.08   |
| <b>FINANCIAL POSITION</b>                    |          |            |            |         |            |           |         |
| Non-Current Assets                           | Rs. '000 | 10,696,789 | 8,168,743  | 30.95   | 8,663,511  | 7,406,345 | 16.97   |
| Current Assets                               | Rs. '000 | 2,257,454  | 2,448,635  | (7.81)  | 1,549,565  | 1,608,901 | (3.69)  |
| Total Assets                                 | Rs. '000 | 12,954,243 | 10,617,378 | 22.01   | 10,213,076 | 9,015,246 | 13.29   |
| Total Equity                                 | Rs. '000 | 10,412,933 | 8,856,988  | 17.57   | 9,716,254  | 8,319,369 | 16.79   |
| Non-Current Liabilities                      | Rs. '000 | 971,784    | 476,154    | 104.09  | 63,695     | 58,007    | 9.81    |
| Current Liabilities                          | Rs. '000 | 1,569,526  | 1,284,236  | 22.21   | 433,127    | 637,870   | (32.10) |
| Net Assets Attributable to Equity Holders    | Rs. '000 | 10,412,493 | 8,845,959  | 17.71   | 9,716,254  | 8,319,369 | 16.79   |
| <b>RATIOS</b>                                |          |            |            |         |            |           |         |
| Earning per Share                            | Rs.      | 7.53       | (3.16)     | 338.29  | 3.25       | 2.54      | 27.95   |
| Dividend per Share                           | Rs.      | 2.50       | 1.25       | 100.00  | 2.50       | 1.25      | 100.00  |
| Dividend Cover                               | (Times)  | 3.01       | (2.53)     | 218.58  | 1.30       | 2.03      | 35.96   |
| Dividend payout Ratio                        | %        | 33.20      | (39.58)    | 183.88  | 76.96      | 49.27     | 56.20   |
| Interest Cover                               | (Times)  | 3.63       | 1.50       | 142     | 7.14       | 40.90     | (82.54) |
| Net Assets per Share                         | Rs.      | 260.33     | 221.16     | 17.71   | 242.92     | 207.99    | 16.79   |
| Market Value per Share                       | Rs.      | 74         | 110        | (32.73) | 74         | 110       | (32.73) |
| Price Earning Ratio                          | (Times)  | 9.83       | (34.81)    | 128.24  | 22.78      | 43.30     | (47.39) |
| Debt/Equity                                  | %        | 24.41      | 19.88      | 22.79   | 5.11       | 8.36      | (38.88) |
| Return on Equity                             | %        | 2.89       | (1.43)     | 302.10  | 1.34       | 1.22      | 9.83    |
| Return on Total Assets                       | %        | 2.33       | 1.19       | 95.80   | 1.27       | 1.12      | 13.39   |
| Gross Profit Ratio                           | %        | 9.89       | 9.05       | 9.28    | 5.17       | 1.39      | 271.94  |
| Net Profit/(Loss) Ratio                      | %        | 4.49       | (2.35)     | 291.06  | 4.28       | 5.28      | (18.94) |
| Current Ratio                                | (Times)  | 1.44       | 1.91       | (24.60) | 3.58       | 2.52      | 42.06   |
| Liquid Ratio                                 | (Times)  | 0.79       | 0.80       | (1.25)  | 2.75       | 1.49      | 84.56   |

## FY 2019/2020 AT A GLANCE

### Total Assets - Group



### Group Revenue



### Shareholder Funds - Group



Total Assets  
**Rs 12,954Mn**

(Rs 10,617 Mn 2019)

Group Profit After Tax

**Rs 291Mn**

(Rs (127) Mn 2019)

Group Revenue

**Rs 6,704Mn**

(Rs 5,386 Mn 2019)

Group Profit from Operations

**Rs 511Mn**

(Rs 88 Mn 2019)





# MANAGEMENT REVIEW

## CHAIRMAN'S MESSAGE

Your Group's primary focus remains leading the way in industry excellence with a range of well-loved products and brands designed to nourish a nation with wholesome goodness and quality.



Dear Shareholders,

It is my great pleasure to present before you an integrated overview of the financial year ended 31 March 2020, as well as the audited financial statements for the same period.

This report captures a comprehensive account of the activities of Lanka Milk Foods (CWE) PLC during the year 2019/20, its strategic response in the wake of the COVID-19 pandemic, and the future outlook for the Group going forward.

### Operating Environment

The Sri Lankan economy faced considerable negative impacts during the year under review, recording a moderated growth of 2.3% in 2019, in comparison to the 3.3% growth recorded in the previous fiscal year. The Easter Sunday attacks had a severe impact on the business sector, largely on the tourism sector, and the adverse spillover effects were felt across the economy, worsening the sluggish growth of the economy and further dampening business confidence. This impact was reflected by the domestic demand in the food and beverage sector.

While the total national milk production recorded a decline in 2019, primarily due to the domestic outbreak of foot and mouth disease that occurred during the second half of the year, I take great pride in reporting that our farms recorded an increase of 13.2% in milk production. By adhering to strict protocols and restricting visitors to our farms, we successfully avoided contamination in our farms.

### Financial Highlights

Against the backdrop of the aforementioned challenges, I am pleased to note that the LMF Group recorded a 24% growth in total revenue to reach a value of Rs. 6.7 billion in the 2020 financial year, compared to Rs. 5.4 billion in the preceding year. The primary contributors to this two-digit growth were Lanka Milk Foods and Lanka Dairies (Pvt) Ltd, which recorded a revenue growth of 58% and 21% respectively. Furthermore, the Group's consolidated profit after tax

amounted to Rs. 291 million, in comparison to the loss of Rs. 127 million recorded during the previous year.

These results are a testament to the responsive strategies implemented by the Group, described in greater detail later in this review, and in the pages that follow.

### COVID-19 Response

The COVID-19 pandemic served to disrupt manufacturing and supply chains, resulting in severe economic consequences for societies, businesses and consumers across the globe, further reiterating the importance of food security in an emerging nation such as Sri Lanka.

The COVID-19 came only during the last two weeks of the financial year where the production and sales of all products faced disruptions. Therefore, the impact was minimal for the reporting period. The health and safety of our workforce was working right throughout. Later part of the financial year despite lockdown and health concern, part of our work force was working to ensure that there were no shortages of products to our consumers. However, God saved us during this difficult period and our priority was to serve our loyal consumers. We are proud to say that we are 100% successful in all our attempts to avoid contamination with all our precautions.

### Excellence in Value Creation

As a corporate dedicated towards sound governance practices, stakeholder-centric strategies and the highest quality products, Lanka Milk Foods continues to strive towards achieving excellence in sustainable value creation, year on year.

Lanka Milk Foods is invested in driving national progress and wellbeing, relying on a unique combination of people, processes, innovation and industry insight to positively impact and sustain local communities across the island. Your Group's primary focus remains leading the way in industry excellence with a range of well-loved

## Total Assets

Rs. **12,954**Mn

## Shareholder Funds

Rs. **10,412**Mn

products and brands designed to nourish a nation with wholesome goodness and quality.

### Meeting Consumer Needs

Supported by the abundance of resources Sri Lanka possesses, the Group envisions to contribute to national self-sufficiency in milk production going forward, and continues to contribute towards this goal. In the aftermath of the COVID-19 pandemic, we believe this need to be further heightened. At present, only 40% of the country's demand is met by fresh milk, with the remaining demand addressed by powdered milk imports, thus leaving significant room for domestic growth. The continued transition from powdered milk to liquid milk is a favourable development in this regard, and Lanka Milk Foods is uniquely positioned to capture this emerging market.

Our farms produce international standard milk, unfortunately we cannot meet the fresh milk demand due to the shortage of milk. United Dairies Lanka, our new project established with the aim of increasing the herd and quality milk within our farms will ensure that we can reduce the quantity of imported milk powder and replace it with the best fresh milk available in the country,

## CHAIRMAN'S MESSAGE

thereby saving valuable foreign exchange and nourishing our people, while at the same time providing good returns to our shareholders. This new company is located at both Ambewela Farm and Pattipola Farm and will comprise 2 ultra-modern cattle sheds and one sophisticated milking parlour at each location. We have arranged to equip this new farm with the best breeds of animals to produce high quality milk.

The company continues to monitor the changing environment to determine consumer dynamics and trends, and has therefore engaged in boosting current production capacity, with an investment of Rs. 300 million on a new yoghurt plant at Ambewela, which is nearing completion. The capacity increase in the yoghurt plant enables us to produce 8 million cups of yoghurt which is double our current production capacity. During the year, we re-organized our sales force and re-developed our sales regions to ensure that our products reach our consumers islandwide. The strengthening of our distribution network enabled us to sustain and increase our market share; this was evidenced in this year's sales growth. We also continue to invest in brand development and enhance our distribution network, while engaging in effective communication with our consumers in order to ascertain their needs and meet them accordingly.

### Brand Performance

Focused on delivering holistic value across the board, Lanka Milk Foods is built on pillars of quality, nutrition, taste and hygiene. Our brands are synonymous with healthy lifestyles and natural goodness, even as we continuously uphold our pledge to sustain lives and nourish generations of Sri Lankans from all walks of life.

Equipped with cutting-edge facilities, our state-of-the-art dairy factory plays a significant role in contributing towards Group performance, generating an unrivalled range of products that lead the way in the fresh milk category, and continue to be

loved by consumers across the island. Our factories manufacture a range of products including Ambewela Yoghurt, Ambewela Cheese, Ambewela Drinking Yoghurt, Ambewela Fresh Milk and Flavoured Milk, in addition to the Daily flavoured milk range consisting of five variations and the Active Malt chocolate milk. As demand for dairy products continues to rise, we anticipate continued growth in this segment in the ensuing years.

Ambewela fresh milk, flavoured milk and Kiddos recorded momentous growth in volume and revenue. Our Ambewela fresh milk, Daily flavoured milk and fruit juices manufactured at Lanka Dairies (Pvt) Limited are exported to The Maldives. They are well recognized in The Maldives and the revenue from exports increased by 17% this year.

Manufactured and processed using the best quality milk produced in our farms, Ambewela natural cheeses are a consumer favourite, and continue to enjoy success in the local market. Our pristine dairy farms are the foundation of our success, and maintain their status of generating the nation's highest average milk production on par with international standards.

### Future Outlook

The Lanka Milk Foods Group is committed towards meeting stakeholder needs through strategic expansion, quality improvement mechanisms and national self-sufficiency in milk production and we embark in a 3 billion dairy farm. In a bid to improve stakeholder satisfaction, we are focused on fulfilling the future demand for fresh milk with the commencement of a new project at Ambewela, aimed at increasing our cattle herd and thereby increasing the production of milk.

Our continued focus remains on expanding market share across our business categories through enhanced distribution channels and investment into our portfolio of brands. Our dedication to quality and customer-centricity continues to hold us in good

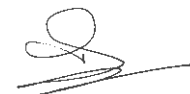
stead, ensuring our pursuit of the innovative development of products, while ensuring added value through safe consumer-friendly packaging and labelling - and upholding our reputation as the nation's best-loved dairy provider in the years to come.

### Appreciations

I wish to place on record my gratitude to my fellow Directors on the Lanka Milk Foods Board for their support and visionary leadership during a period of unprecedented challenges. I also wish to thank the Group CEO Mr. Manjula Dahanayake and the rest of his team for their tireless efforts in executing timely strategies and taking prompt action to ensure continued operations during a time of global upheaval, while thanking our shareholders for their continued faith and support during this time.

Finally, I would like to record my appreciation for all our shareholders, customers, suppliers and partners for their loyalty and support over the years, and pledge to uphold the confidence they continue to place in our brands in the years to come.

Thank you,



**D. H. S. Jayawardena**  
03rd September 2020



## DIRECTOR'S REVIEW

We remain confident in our inherent strengths and resilience. Our commitment to excellence, quality and providing only the very best to our customers remains the bedrock of all we do.



## DIRECTOR'S REVIEW

Dear shareholders,

On behalf of the Board of Directors I warmly welcome you to the 38th Annual General Meeting of Lanka Milk Foods (CWE) PLC. Despite global setbacks and challenges, the Group was able to record a 24% growth in total revenue, with a PAT of Rs. 291 million achieved during the year under review.

These results are undoubtedly due to the hard work and commitment of our people at all levels, which enabled us to provide results against the odds.

### Group Performance

Even amid the debilitating impacts of the COVID-19 pandemic that affected multiple industries across the world, it is heartening to note that Lanka Milk Foods (CWE) PLC recorded a revenue of Rs. 3,031 million against Rs.1,922 million in previous year. Similarly, Lanka Dairies (Private) Limited and Ambewela Products (Private) Limited produced higher revenues amounting to Rs. 2,910 million and Rs. 1,588 million respectively. All business segments generated increased revenues compared to the previous year.

In terms of performance, the Ambewela fresh milk and flavoured milk segments recorded the highest volume and revenue growth. Value-added products in the liquid milk sector including Ambewela Yoghurt and Ambewela Kiddos also served as key contributors towards the revenue growth. Furthermore, revenue from exports grew by 17% at Lanka Dairies (Private) Limited.

The LMF group continued its journey towards the goal of national self-sufficiency in milk production, by increasing total milk production at our farms to 8.3 million litres compared with 7.3 litres the previous year. Revenue from fresh milk increased in all farms due to increased milk production and timely pricing strategies implemented in line with the market. The agriculture segment reported a loss from operations due to the

increase in calves for the new project and the significant increase in the cost of feed. Therefore, the total loss from operations in the agriculture segment increased to Rs. 109 million compared to Rs. 49 million in last year. We expect to recoup these losses once these calves start lactating and the new project gets underway.

### Driving Industry Excellence

Manufactured to the highest quality standards using cutting-edge machinery and equipment, our products continue to serve the needs of our nation. As household names, the highly nutritious, wholesome Ambewela 1 litre milk packs and the popular flavoured milk 'Daily', are loved by consumers across the island, and enjoy a loyal market share.

The escalating consumer demand for liquid milk continues to positively impact the sales volumes of the Ambewela 1 litre UHT pack, while Ambewela yogurt and Ambewela artisan and other cheeses are fast-gaining popularity.

The Ambewela brand is now firmly established in the minds of consumers as it represents the best, most hygienically produced milk in the country. Our three dairy farms are made up of Ambewela Dairy Farm, Pattipola Dairy Farm and Ambewela Product Dairy Farm, and are collectively home to more than 3000 cattle. The European breeds of black and white Friesians and brown and white Ayrshires at these farms generate an average of 26 litres of milk per cow per day, which is, by far, the highest average milk production per cow in Sri Lanka. In order to sustain these levels and further increase production, your company continues to invest in the upkeep and well-being of our herd, ensuring their good health and productivity. Our South African Dairy expert Mr. Jacques Du Plessis continues to provide his expertise in increasing milk output and resourcing the best food supplements for the herd.

### Gross Profit

Rs. **663**Mn

### Profit from Operation

Rs. **511**Mn

Pattipola Farm (New Zealand Farm) is a major attraction for local and foreign tourists alike, with over 10,000 persons visiting the farm during a typical peak day. The farm affords an opportunity to visitors to see first-hand the operations of a world class dairy farm. 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 obtain an idea of how a modern farm works. Unfortunately during the reporting year, the farm had to be closed for visitors as a precaution against the foot and mouth disease (FMD) spreading around the country, and this was followed by the Covid-19 Pandemic.

### COVID-19 Impact

I wish to record my appreciation for the efforts of the management and employees of the Lanka Milk Foods Group for their admirable response to this global crisis. Amid uncertainty and health concerns, we were able to continue delivering our products to our loyal customers, through the implementation of door-to-door operations,

under stringent health and safety guidelines issued by the World Health Organisation and the local government authorities.

Our employees remain at the heart of what we do, and as such, their safety and health is a prime consideration. All precautions are implemented at the Head Office, Factory and Farms and we ensure all health protocols are strictly observed. We are continuing to monitor the environment and analyse changing dynamics to suit the needs of the future.

### Plans for the Future

The new project to double the milk production is envisaged to be completed by end of 1Q 2021. The new project will be consisting of 4 large Cow Sheds (which can accommodate 500 cows each), 2 most modern Milking Parlours and an environment friendly world class slurry management system.

We remain confident in our inherent strengths and resilience. Our commitment to excellence, quality and providing only the very best to our customers remains the bedrock of all we do.

### A Model of Excellence

We believe in a system of holistic value generation - touching the lives of countless Sri Lankans through our products, as an employer of choice, and through our community service and outreach programmes. Our commitment to the environment is intrinsically linked to our business model, while contributing to the sustainability of our operations, as well as minimising our impact on the nation's resources.

Partnerships are integral to our success, and we remain committed to maintaining and improving levels of stakeholder satisfaction across the board.

### Appreciations

The Chairman provides strong leadership and vision. The board has worked harmoniously to provide direction and policy and I must thank the directors for their continued guidance and support. I must also thank the Group CEO, the Group CFO, the Director Operations, the senior management and employees at all levels who have contributed to achieving these results, and look forward to an even greater focus and contribution in the year ahead.

All this would not be possible without the continuing support of our customers, who are the backbone of our business. We commit ourselves to provide you the very best of dairy products, and to maintain the highest standards of quality. Our shareholders have supported us in difficult times, and we immensely value their contribution to our journey. Thank you for this support, we will do all we can to add value to your investment.

Thank you,



C. R. Jansz

03rd September 2020

## **GROUP CHIEF EXECUTIVE OFFICER'S MESSAGE**

The heart of the Group remains with our Brands and we wish to invest more in our brands and improve the emotional link with our consumers through renovation and innovation of our products.



Dear employees, shareholders and stakeholders,

It's my pleasure to report that amidst the trials of the year Lanka Milk Foods Group has achieved the highest ever revenue of Rs. 6.7 billion this year which is a 24% growth against previous year.

### Business Performance

The powdered milk segment of the Group has recorded an increase of Rs. 1,109 million in revenue which is a 58% growth compared to previous year. However, the profit in the segment has only increased by Rs.28 million due to the high cost of milk powder, increased other operating costs during the year and controlled retail pricing of milk powder.

The revenue in Liquid milk segment has increased by 16% which is Rs. 633 million. Lanka Dairies (Pvt) Limited has reported a profit of Rs. 184 million for the year with a 21% increase in revenue compared to previous year. Ambewela dairy range has recorded the highest ever sales volume during the year. This was supported by the increase of numeric and weighted distribution in sales through appointment of new business partner network island-wide.

The ever-evolving consumer trend moves towards liquid milk which we have foreseen in past few years and as a result our new project to increase milk production at our farms will ensure that we can reduce the quantity of imported milk powder and replace it with the best fresh milk available in the country, thereby saving valuable foreign exchange and nourishing our people, while at the same time providing a good return to our shareholders.

Our three dairy farms at Ambewela and Pattipola collectively produced 8.3 million litres of cow's milk during the year under consideration. This is a 13% growth compared to preceding year. Our herd is maintained in an extremely good condition and fed with premium quality cattle feed. We have allocated the best dairy experts and a dedicated team to provide best cow

comfort and world class levels of farm management. Our farms are home to a herd of over 3000 animals.

### Covid-19 Response

The outbreak of the Covid-19 pandemic imposed significant threats to the global economy and impacted different business sectors. In the backdrop of these challenges, at Lanka Milk Foods we adopted a comprehensive approach towards continuing business operations, whilst adhering to precautionary measures to ensure the safety of our employees, customers and products.

In the year under review, our commitment to grow national self-sufficiency in Fresh Milk, enabled us to cater to the increasing demands of our Consumer need for Fresh Milk and Milk based products. We also carried out door to door operations— a key strategy that secured continuous revenue flow into the company and saw to the needs of our customers amidst limited access for trading.

At Lanka Milk Foods, we are equipped to face the uncertainties the future holds as we continue to serve our customers with products of uncompromised quality all the time.

### Future Outlook

I believe that the challenges we face provides us with more opportunities and open more avenues for growth. The Group has taken proper action to increase the Group milk production while expanding our production lines to cater to the future consumer demand. The additional yoghurt production line we have installed at Ambewela Products (Pvt) Limited is a classic example where we can produce double of returns in the near future.

Further the heart of the Group remains with our Brands and we wish to invest more in our brands and improve the emotional link with our consumers through renovation and innovation of our products. We have already commenced the new campaign "The Crown

## Group Turnover

Rs. **6,704**Mn

## Profit After Tax

Rs. **291**Mn

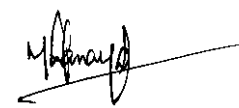
of Excellence" for the brand "Ambewela" with our new brand ambassador, Mrs. World 2020, Mrs. Caroline Jurie. Also, we are in the process of increasing the brand equity of other brands like "My Juicee" and "Daily" in a way of memorable campaigns to face the future competition.

### Appreciation

I extend my sincere appreciation to the Chairman and the Board of Directors for their guidance and support, to the senior management team and all employees for their hard work and helpful co-operation during the year.

Finally, I place my heartiest gratitude to our loyal consumers for their unwavering trust in our products and look ahead confidently to deliver better outcomes to all our stakeholders in the years to come.

Thank you,



M. Dahanayake

03rd September 2020

# BOARD OF DIRECTORS



## 01

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

#### Executive Chairman

Mr. Harry Jayawardena was elected Chairman of Lanka Milk Foods (CWE) PLC in October 2008 after serving as the Managing Director for nearly 17 years. He is one of the most successful and renowned entrepreneurs in Sri Lanka who steers many successful enterprises in diversified business fields.

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., Negombo Beach Resorts (Pvt) Ltd.,

Lanka Power Projects (Pvt) Ltd., Milford Holdings (Pvt) Ltd., Milford Developers (Pvt) Ltd., Milford Exports (Ceylon) (Pvt) Ltd., Ceylon Garden Coir (Pvt) Ltd., C B D Exports (Pvt) Ltd., Timpex (Pvt) Ltd., Texpro Industries Ltd., 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., and Bogo Power (Pvt) Ltd. and United Dairies Lanka (Pvt) Ltd.

He is the Managing Director of Stassen Real Estate Developers (Pvt) Ltd., and serves as a Director in the Boards of Stassen Plantation Management Services (Pvt) Ltd., Melsta Gama (Pvt) Ltd, Melsta Health (Pvt) Ltd., Hospital Management Melsta (Pvt) Ltd and DCSL Brewery (Pvt) Ltd.

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.



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## 02

### **Mr. C. R. Jansz** Executive Director

Mr. Jansz was appointed to the Board of Lanka Milk Foods (CWE) PLC on 01st October 1992. He serves as a Director of Lanka Dairies (Pvt) Ltd. and other subsidiaries of LMF Group.

Mr. Jansz is the Chairman of Melsta Hospitals Ragama (Pvt) Ltd. and Melsta Hospitals Colombo North (Pvt) Ltd. He is a Director of the Stassen Group, Melstacorp Group and Distilleries Company of Sri Lanka PLC.

He has been the Chairman of DFCC Bank PLC. and the Shippers Council of Sri Lanka.

Mr. Jansz holds a Diploma in Banking and Finance from the London Metropolitan University - UK. He is a Chevening Scholar and a UN-ESCAP Certified Training Manager on Maritime Transport for Shippers.

Mr. Jansz specializes in logistics and the finance of international trade and has many years practical experience in these fields.

## BOARD OF DIRECTORS

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03

### **MS. D.S.T. Jayawardena**

**Executive Director**

Ms. Stasshani Jayawardena was appointed to the Board of Lanka Milk Foods (CWE) PLC and other subsidiaries of LMF Group with effect from 19th August 2019.

She serves as a Director of Aitken Spence PLC., Aitken Spence Hotel Holdings PLC., Aitken Spence Aviation (Pvt) Ltd., Stassen Group and she was appointed as Chairperson of Aitken Spence Hotel Managements (Private) Limited in January 2016. She's also the Chairperson of Splendor Media (Private) Limited (Subsidiary of Melsta Corp)

Ms. Jayawardena is overall responsible for the Tourism Sector of Aitken Spence PLC Group which includes Hotels, Destination Management and Overseas Travel.

Ms. Jayawardena is also a member of the Executive Board of The Hotel Association of Sri Lanka (THASL) and was appointed to represent THASL at the Ceylon Chamber of Commerce committee meetings since 2019 (Hotel Sector).

A graduate of St. James' & Lucie Clayton College and Keele University in the United Kingdom, Ms. Jayawardena was the youngest intern to work under US Senator Hilary Rodham Clinton and the Former US President Bill Clinton in 2003. She was the Sri Lankan Ambassador for EY NextGen Club for 2017 to 2019.

In 2017, Ms. Jayawardena was recognized with the Hotel & Hospitality Sector Gold Award at the Top 50 Professional & Career Women Awards in Sri Lanka.

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04

### **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, 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. and United Dairies Lanka (Pvt) Ltd.



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## 05

### **Mr. D. S. K. Amarasekera** Independent Non-Executive Director

Mr. Kamantha Amarasekera was appointed to the Board of Lanka Milk Foods as an Independent Director on 01st May 2008. Mr. 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.

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

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## 06

### **Dr. A. Shakthevale** Independent Non-Executive Director

Dr. Shakthevale was appointed to the Board Lanka Milk Foods (CWE) Plc as an Independent Director on 01st May 2008. He is a Director to the Board of United Dairies Lanka (Pvt) Limited as well.

He 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.

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 technical committee of All Island Dairy Association and a freelance Consultant in the field of Livestock Development.

He also serves as a Director of United Dairies Lanka (Pvt) Limited, Madulsima Plantations PLC and Balangoda Plantations PLC.

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## 07

### **Mr. D. Hasitha. S. Jayawardena** Non- Independent Non-Executive Director

Mr. Hasitha Jayawardena was appointed to the Board of Lanka Milk Foods (CWE) Plc 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., United Dairies Lanka (Pvt) Ltd., Zahra Exports (Pvt) Ltd., Balangoda Plantations PLC., Madulsima Plantations PLC., Mcsen Range (Pvt) Ltd., Melsta Gama (Pvt) Ltd. and Melsta Health (Pvt) Ltd.

Mr. Jayawardena holds a Bachelor's Degree in Business Administration BBA (Hons) from the University of Kent in the United Kingdom. He has also worked as an Intern at the Clinton Global Initiative programme (CGI) in New York in 2007.

# MANAGEMENT DISCUSSION & ANALYSIS





# MANAGEMENT DISCUSSION & ANALYSIS

**The Sri Lankan economy recorded a subdued growth of 2.3 per cent in 2019, compared to the growth of 3.3 per cent in 2018.**

Inflation ▲  
**4.8%**

Gross Domestic Production ▼  
**2.3%**



## OPERATING ENVIRONMENT

### Gross Domestic Production

The Sri Lankan economy recorded a subdued growth of 2.3 per cent in 2019, compared to the growth of 3.3 per cent in 2018, as per the provisional estimates of GDP of the Department of Census and Statistics (DCS). All major sectors of the economy recorded positive, but modest growth rates. The agriculture sector recorded a growth of 0.6 per cent in 2019 compared to the growth of 6.5 per cent in 2018.

According to GDP estimates based on the expenditure approach, growth in 2019 was driven by consumption growth and the improvement in the external balance of goods and services. The share of consumption expenditure in GDP at current prices increased to 78.7 per cent in 2019 from 77.0 per cent in the previous year.

### Inflation

Subdued demand conditions allowed the continuation of low inflation during the year, although extreme weather conditions and resultant disruptions to domestic food supplies caused some volatility in consumer prices. Despite transient supply side disturbances, both headline and core inflation moved broadly in the desired range

of 4-6 per cent during 2019, mainly as a result of subdued demand conditions and well anchored inflation expectations.

Accordingly, CCPI based year-on-year headline inflation was recorded at 4.8 per cent in December 2019, in comparison to 2.8 per cent in December 2018.

### COVID-19 Impact

The recent COVID-19 pandemic has also reiterated the importance of food security for a developing nation such as ours. While Sri Lanka has been relatively successful in combating the outbreak thus far, as a result of early measures adopted to contain the spread, the interplay of setbacks to

domestic economic activity stemming from such containment measures and spillover effects from the global economy are likely to have a notable impact on the Sri Lankan economy during the year.

Across the globe, the World Trade Organization (WTO) forecasts that global merchandise trade can decline by as much as 32 per cent in 2020. While the poor economic performance of key trading partners will directly impact Sri Lanka's export earnings due to weakened demand, the imposition of various measures domestically and abroad to dampen the spread and the short term economic impact of the outbreak can cause supply chain disruptions, thereby impacting the country's current and future export capacity.

### Dairy Production

The total national milk production declined in 2019, mainly due to the domestic outbreak of foot and mouth disease during the second half of the year. Milk production decreased by 6.3 per cent to 448 million litres in 2019 in comparison to the growth of 20.5 per cent recorded in the previous year. Cow milk production declined by 4.5 per cent to 374 million litres, while buffalo milk production declined by 14.4 per cent to 73.6 million litres. Moreover, the number of neat milking cows declined by 1.8 per cent to 323,490 while the number of buffalo milking cows declined by 2.6 per cent to 91,790.

### Powder Milk Industry

The import of milk powder, at US dollars 293.5 million, reported a decline of 5.3 per cent to 93,749 metric tons. Since the domestic production of milk is sufficient only to meet less than 40 per cent of the national requirement, it is vital to encourage domestic production further, while addressing the remaining bottlenecks in domestic production processes. In addition, small scale milk processing should be encouraged as the output of such producers is important, probably when the price of powdered milk increases in the international market

01 December 2019 -Reducing VAT rate to 8 per cent from 15 per cent

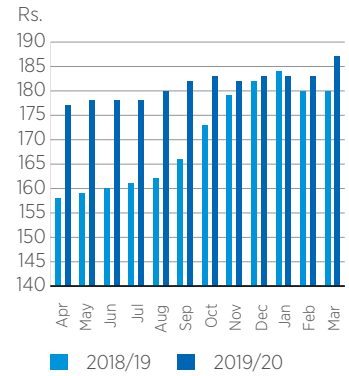
01 December 2019- NBT was removed with effect from 01 December 2019.

01 January 2020 - Economic Service Charge (ESC) was removed with effect from 01 January 2020.

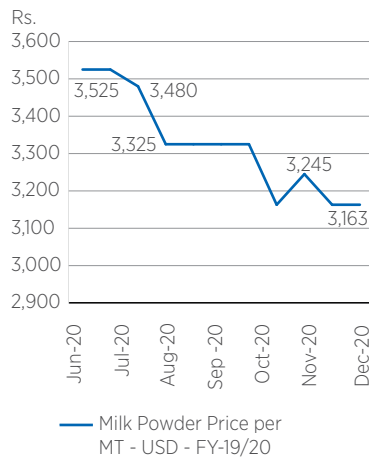
Source - CBSL Annual Report 2019

### Exchange Rate - USD to LKR

Telegraphic Transfer/Direct Debit Selling



### Milk Powder Price per MT - USD - FY-19/20



# 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.

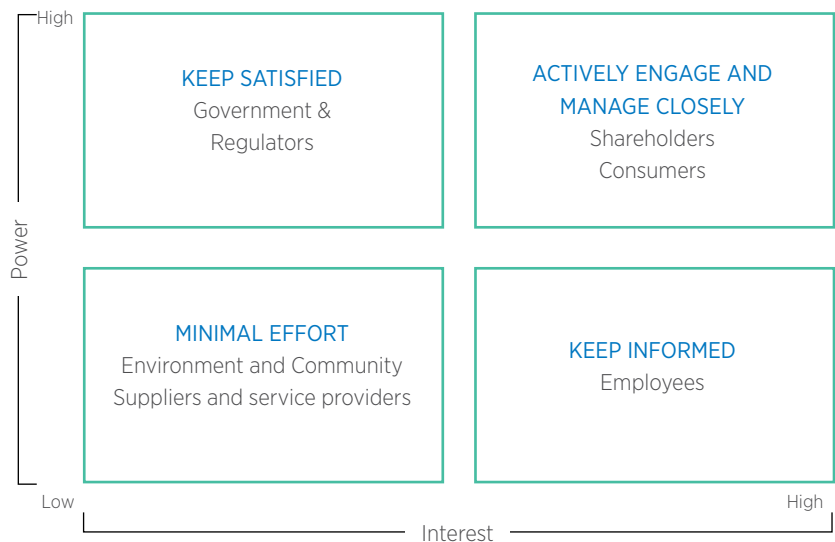
The UN's Sustainable Development Goals (UN SDGs) serve as a blueprint that would address specific global issues, and provide a path towards shared peace and prosperity for both people and planet. The SDGs cover 17 aspects, and are a key focus area in our everyday operations, with the Lanka Milk Foods 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

We consider our stakeholders as crucial business partners in our journey towards prosperity. Our stakeholders consist of customers, employees, suppliers and the environment & community at large. We ensure that our sustainability initiatives touch the lives of our stakeholders in meaningful ways. We realise that 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. As a company policy, we engage closely with stakeholders groups to understand their concerns and analyse and implement ways in which we can satisfy their demands.






The Group's stakeholder engagement process is detailed below:

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

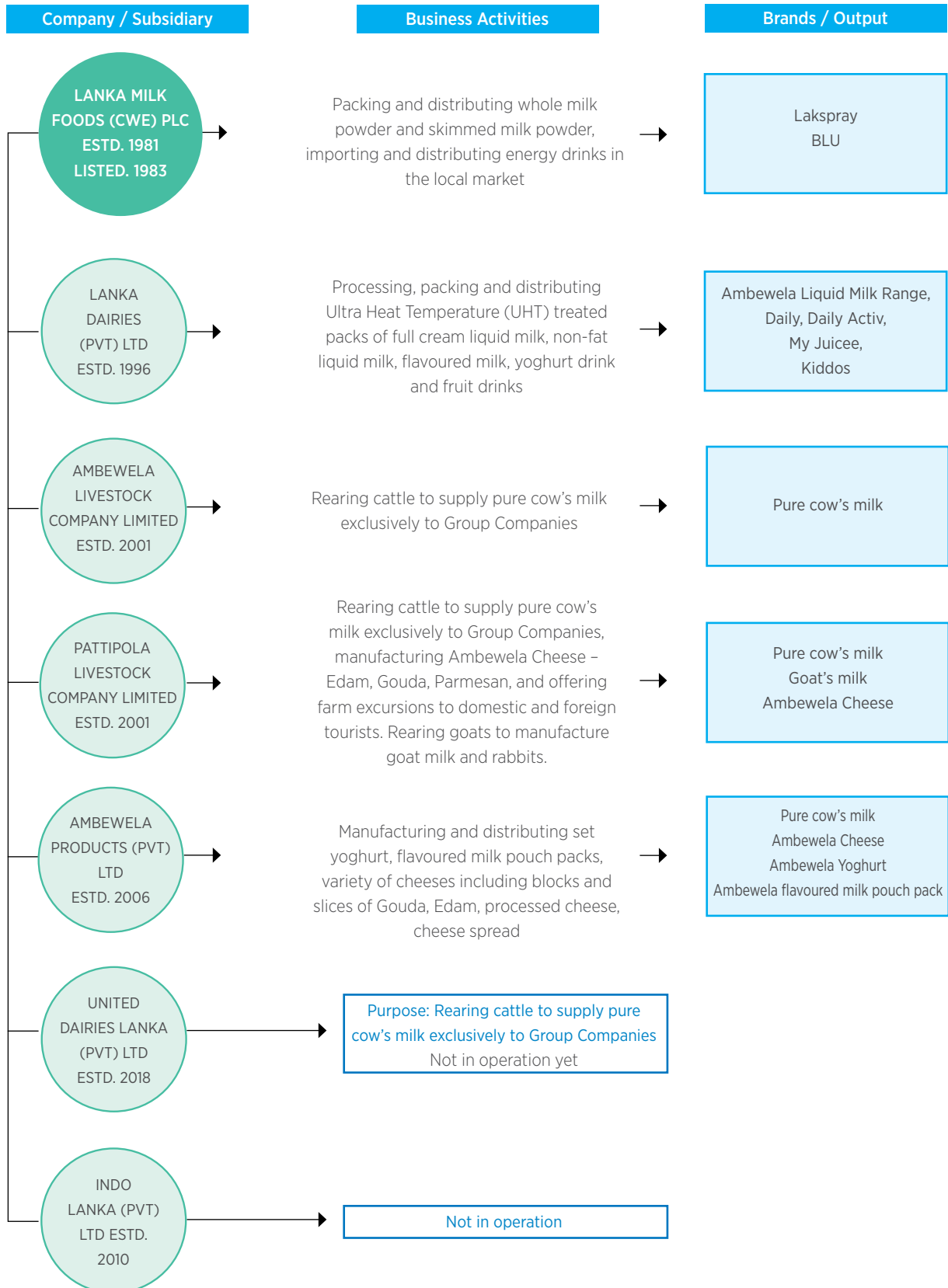
## MANAGEMENT DISCUSSION & ANALYSIS

The Group's stakeholder engagement process is detailed below:

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








## Group Operational Structure



# MANAGEMENT DISCUSSION & ANALYSIS

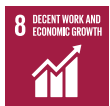
## CAPITAL REPORTS

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><b>Financial Capital</b></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><b>Social &amp; Relationship Capital</b></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><b>Human Capital</b></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><b>Manufactured Capital</b></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><b>Intellectual Capital</b></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><b>Natural Capital</b></p>   |

### Financial Capital

#### Relevant SDGs:



The LMF Group achieved a total revenue of Rs. 6,704 million for the reporting year as against Rs. 5,386 million in the previous year and a net profit of Rs.291 million after tax. A Dividend pay-out of Rs. 100 million is proposed for the year..

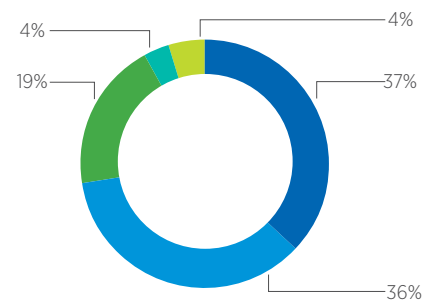


### Revenue

Milk Powder and liquid milk segments in combination generated a higher revenue for the Group. Our Ambewela fresh milk remained the highest contributor with a revenue growth of 33% compared to previous year. The Group aspires to grow in terms of revenue and profit with enhanced product mix strategies while providing premium quality products to our consumers.

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 - 2020



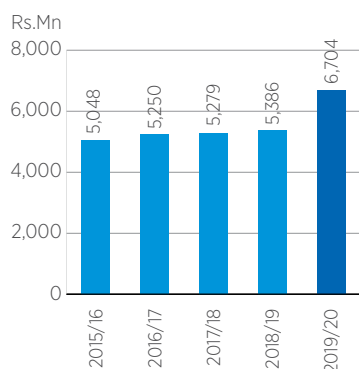
- Lanka Milk Foods (CWE) PLC
- Lanka Dairies (Pvt) Ltd
- Ambewela Products (Pvt) Ltd
- Ambewela Livestock Company Limited
- Pattipola Livastock Company Limited

**The LMF Group achieved a total revenue of Rs. 6,704 million for the reporting year as against Rs. 5,386 million in the previous year**

Group Revenue ▲  
**Rs. 6,704 Mn**

Profit After Tax ▲  
**Rs. 291 Mn**

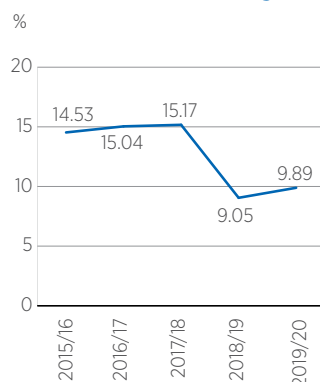
#### Group Revenue



#### Gross Profit

There was an inevitable increase in costs of milk production, some of our raw and packing material and imported and local cattle feed ingredients with of the hostile global economic environment and increased exchange rates. The gross profit of the milk powder segment had a considerable increase due to the retail price increase of Rs. 60 per kg for full cream milk powder on 18th March 2019 authorised by the CAA. Other segments operated moderately well compared to previous year.

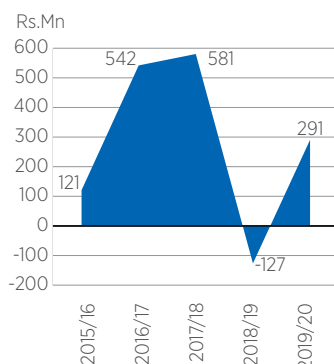
#### Gross Profit Margin



#### Profit After Tax

The profit generated after tax amounted to Rs. 291 million for the year. (A net loss of Rs. 127 million after tax in 2018/2019 year).

#### Profit After Tax

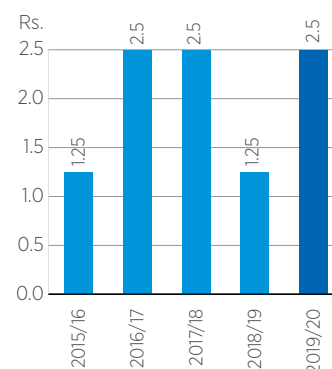


Income tax expense for the year amounted to Rs. 110 million (Rs. 82 million in previous year). 28% and 14% tax rates were effective for the income generated. Information relating to taxation is disclosed in Notes 9 and 23 to the financial statements.

#### Dividends and Share Performance

A dividend of Rs. 2.50 per share is proposed and the dividend pay-out would be Rs. 100 million for the year. LMF share traded between a lowest price of Rs. 72.60 and a highest price of Rs. Rs.119. Last traded price 31st March 2020 was Rs. 74.00.

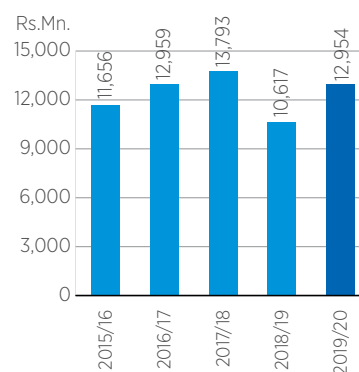
#### Dividends Per Share



#### Total Assets

The Group total assets as at 31st March 2020 were Rs. 12,954 million. Total fixed assets increased during the year as a result of the capital working progress of Ambewela Products (Pvt) Limited's new yoghurt plant commissioned and new investment on United Dairies Lanka (Private) Limited. Further, the increase in the value of available for sale investment has given Rs. 1,319 million positive impact at the year end.

#### Total Assets - Group



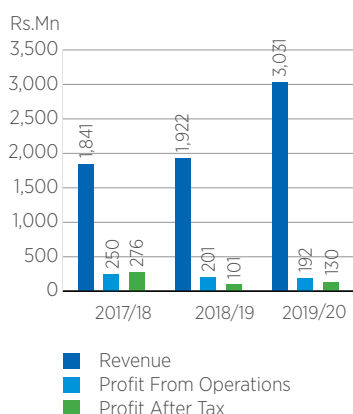
## MANAGEMENT DISCUSSION & ANALYSIS

### Company Performance

#### Lanka Milk Foods (CWE) PLC

Lanka Milk Foods (CWE) PLC (LMF), the Company, operates in the food and beverages sector. The principal business activity of LMF is importing, packaging, marketing and distributing full cream and skimmed milk powder.

**Lanka Milk Foods (CWE) PLC Revenue and Profit**



For the reporting year under consideration LMF recorded a profit of Rs. 130 million after tax as against Rs.101 million in preceding year. The approval from Consumer Affairs Authority to increase the FCMP product prices was applicable from the beginning of the year, which later was again revised but gave a positive impact to the gross profit and final results of the Company.

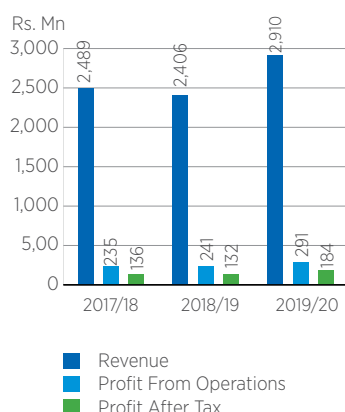
#### Lanka Dairies (Private) Limited

Lanka Dairies (Pvt) Ltd (LDL) was established in year 1996 as a fully owned subsidiary of LMF. At LDL, fresh milk, flavoured milk and fruit juices are produced and packed in Tetra Pak packaging.

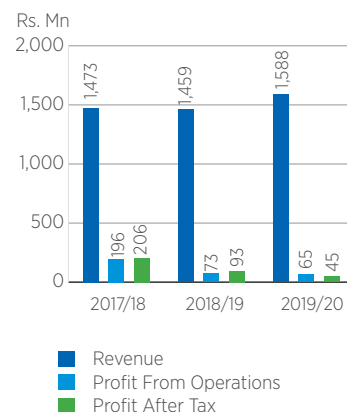
The Company reported a profit after tax of Rs.184 million against Rs. 132 in previous year. Ambewela Fresh Milk recorded a

successful increase of 33% in revenue while Ambewela Flavoured milk and Ambewela Kiddos increased in revenue by Rs. 20 million. Ambewela has become a trusted household name in Sri Lanka. Exports in the Company grew by 17% during the year.

**Lanka Dairies (Pvt) Ltd Revenue and Profit**



**Ambewela Products (Pvt) Ltd Revenue and Profit**



APL continued to experience resounding success as Ambewela Yoghurt recorded the highest sales since inception. Revenue at APL increased to Rs. 1588 million against Rs. 1459 in year before, but the profitability was reduced due to the high cost of material used and cost of feed production.

#### Ambewela Products (Private) Limited

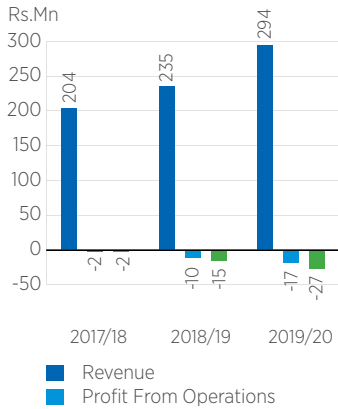
Ambewela Set Yoghurt 80 ml., Ambewela flavoured milk pouch pack, Ambewela cheese, ghee, butter and frozen fat are the main dairy products of Ambewela Products (Private) Limited (APL). Furthermore, APL operates a feed mill where feed for our dairy farms are produced. The Company also sells fresh milk to Lanka Dairies (Pvt) Ltd.

#### Ambewela Livestock Company Limited

Ambewela Livestock Company recorded a higher revenue of Rs. 294 million compared to Rs. 234 million in the previous year. This was mainly due to the increase in cow milk sales. Yet, the farm reported a loss of Rs. 27 million after tax as against the loss of Rs. 15 million in last year due to increased feed costs and farm overheads.



**Ambewela Livestock Company Limited  
Revenue and Profit**



**Pattipola Livestock Company Limited**

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. This year the farm was closed to visitors for a long period as a precautionary measure for foot and mouth disease (FMD) that was spreading around the country.

Automated milking parlours, a stud bull weighing over 1300Kg, rabbits imported from Paris and Saanen, Jamunapari and Boer goats are the main attractions at the New Zealand Farm. Ambewela Gouda Cheese and Ambewela cottage cheese produced from our own milk has become a favourite among locals and foreigners. Our systematically maintained dairy farms are of great educational value, mostly for the agricultural and veterinary students of our universities.

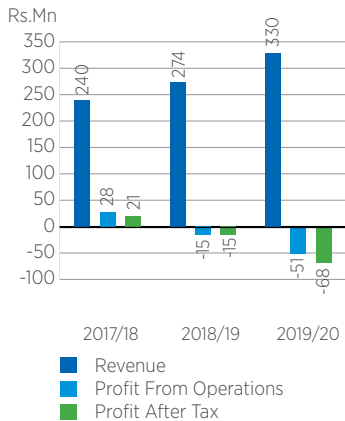
**Indo Lanka Exports (Private) Limited**

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 (UDL) was established in year 2018 with focus of increasing the dairy production in our dairy farms with ultra-modern facilities for cattle and dairy production. UDL is still under construction and not in operation yet.

**Pattipola Livestock Company Limited  
Revenue and Profit**



Pattipola Livestock Company reported an increased revenue of Rs. 330 million compared to Rs. 240 million in previous year. However the farm reported a loss of Rs. 68 million after tax due to the increased cost of sales which is cost of milk production.

# MANAGEMENT DISCUSSION & ANALYSIS

## Social & Relationship Capital



### Relevant SDGs:



### Our Customers

Being a pioneer in the dairy industry, our brands are found in millions of households over the country. Therefore, our customers are at the heart of our business. Being in the business of manufacturing dairy products, we believe that product responsibility is a crucial element for our brands and their endurance. Thus, we focus on delivering the finest quality products to our consumers while meeting the highest quality standards and maximum environmental and climate compatibility. Our ability to recognise and respond to changing customer needs and obtain the knowledge of customers and engaging with them has a sustainable competitive advantage. Such a mechanism helps us develop our products to meet the changing lifestyle demands of our consumers, improve our customer relationship management system and deliver a better customer service.

We focus on delivering the finest quality products to our consumers while meeting the highest quality standards and maximum environmental and climate compatibility. Through the utilization of the highest international dairy standards and practices, our state-of-the-art modern manufacturing enables us to deliver high quality products to the market. We have established, implemented and maintain a quality

management system complying with the requirements of ISO 9001 since 2001 and obtained ISO 22000-2005, Food Safety Management System in February 2018. We continue to adhere to product labeling requirements specified in the Food Act No. 26 of 1980, the regulations contained in the Food Labeling and Advertising Regulations of 2005 and the Consumer Affairs Authority Act No. 9 of 2003 for all our products.

### 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.

### Our 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.

### Our Community



A sustainable community can persist over generations through the fulfillment 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. 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 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.

Since its establishment in 1981, Lanka Milk Foods opened its doors to the schoolchildren, 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.

### CSR Initiatives



Providing Sustenance to Pilgrims



Nourishing Children from Underprivileged Schools



Engaging With Schools



Supporting Social Causes



Uplifting Farmer Communities

Community engagement during the year:

- We continued our practice of distributing free milk for devotees of all faiths during religious events. The Company embraces cultural and religious diversity and engages with the local community in various events that bring people together on a common platform.
- 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 different dairy products.
- School trips are welcome to the factory to familiarize children with the milk production process while emphasizing the importance of consuming dairy 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.
- Free refreshments provided 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.
- Internship opportunities provided to university students of agriculture and animal husbandry majors to improve their experience in these fields.



# 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.

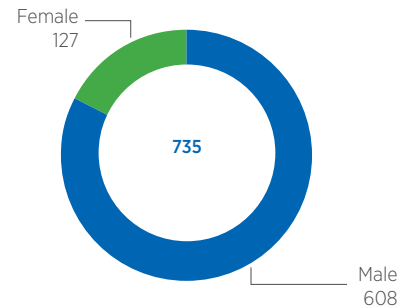
The Group continued to focus on employee development and growth, ensuring the acquisition of new skills and enhancing knowledge through various training programmes conducted during the year. Employees were also duly rewarded and recognized for their achievements and outstanding performance during the 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.



|                   | 2020       |            | 2019 |        |
|-------------------|------------|------------|------|--------|
|                   | Male       | Female     | Male | Female |
| Executives        | 75         | 7          | 67   | 7      |
| Non-Executives    | 392        | 40         | 376  | 39     |
| Casual/Check Roll | 141        | 80         | 127  | 77     |
|                   | <b>608</b> | <b>127</b> | 570  | 123    |
|                   | <b>735</b> |            | 693  |        |

As at 31st March 2020, the LMF Group provided employment to 735 personnel, in comparison to 693 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.

## Gender Distribution in Workforce



## 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.

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



Excerpt from Note 8.1 to the Financial Statements - Personnel Costs

| Personnel Costs   | Group            |                  | Company          |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2020<br>Rs.000's | 2019<br>Rs.000's | 2020<br>Rs.000's | 2019<br>Rs.000's |
| Defined Contribution Plan Costs - EPF and ETF             | 49,660           | 48,321           | 25,451           | 23,383           |
| Defined Benefit Plan Cost - Retirement Benefit Obligation | 21,061           | 18,877           | 11,359           | 11,223           |
| Other Staff Costs   | 519,326          | 493,512          | 245,209          | 247,793          |
|   | 590,047          | 555,710          | 282,019          | 282,399          |
| <b>Total Numbers of Employees</b>                         | <b>735</b>       | <b>693</b>       | <b>304</b>       | <b>272</b>       |

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.

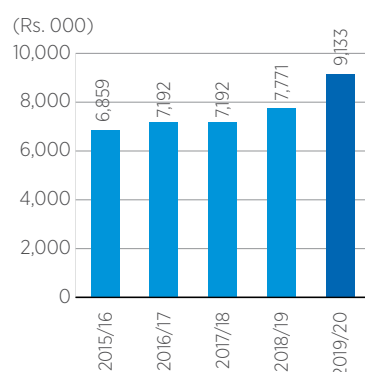
We believe in promoting healthy lifestyles among our employees and thus ensure that our workforce is provided with recreation, encouraging stability in terms of both mental and physical health and overall satisfaction. Therefore we have provided indoor recreation and sports facilities for our employees,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

### Revenue per Headcount



### 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<br>(Rs. 000) | Net Carrying Value<br>(Rs. 000) |
|-----------------------------------|-----------------------------------|---------------------------------|
| Leasehold Buildings               | 846,868                           | 404,121                         |
| Plant and Machinery               | 2,119,803                         | 591,441                         |
| Equipment, Furniture and Fittings | 302,336                           | 45,021                          |
| Other Assets                      | 363,504                           | 45,557                          |
|                                   | 3,632,511                         | 1,086,140                       |
| Capital Work in Progress          |                                   | 940,857                         |

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 2020 are as follows.

| Location | Extent<br>(Hectares) | Building<br>(Square feet) | No of Buildings | Cost of the<br>Building<br>Rs '000 |
|----------|----------------------|---------------------------|-----------------|------------------------------------|
| Welisara | 3.275                | 140,800                   | 3               | 434,416                            |
| Ambewela | 458.47               |                           | 133             | 412,452                            |
|          |                      |                           |                 | 846,868                            |

#### Capacity Expansion

The new investment made with the goal of increasing plant production capacity by two-fold at Ambewela Products (Pvt) Ltd amounts to Rs. 300 million. Furthermore, the Group formed a new company under the name United Dairies Lanka (Pvt) Ltd, with the aim of increasing the milk production capacity of the Group with an investment cost of approximately Rs. 3 billion.

## 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.



Our New Brand Ambassador for “Ambewela” Mrs World 2020

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 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.

## MANAGEMENT DISCUSSION & ANALYSIS



### 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 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.

### 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.



## Natural Capital

### Relevant SDGs:



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

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



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 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

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.



# STEWARDSHIP



# CORPORATE GOVERNANCE

The corporate governance structure of Lanka Milk Foods (CWE) PLC focuses on the vital principles of accountability, participation and transparency, which are essential in creating, enhancing and maintaining a sustainable business over time and in generating value to our stakeholders.

This report demonstrates 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
- Factories Ordinance
- Wages Board Ordinance
- 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 accountable 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 Accountabilities of the Board of Directors

- Formulation, reviewing and re-evaluation of corporate mission, objectives, policies and strategies with the long run perspective,
- Designing the organizational structure to suit the corporate mission, objectives and policies
- Providing direction and guidance to formulate corporate strategies,
- Selection of the Top Executives who can formulate and implement the strategies,
- Building and improving stakeholder relationships ,

- Scrutiny of systems and procedures with regard to internal controls, financial sanctions and risk administration.
- Reviewing the financial performance of the Company periodically and reformulating the financial policies.

The Directors' interests in the affairs of the Company are explained in pages 58 - 60.

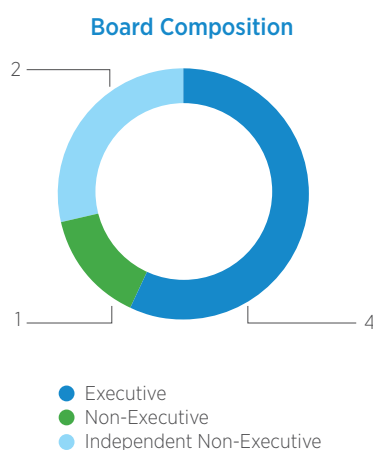
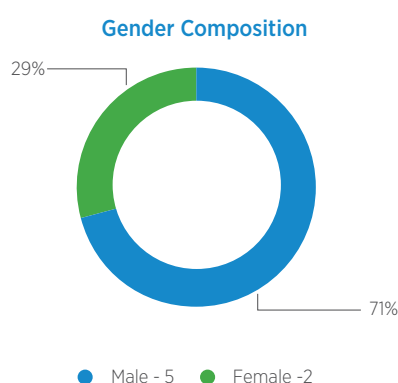
## Board Meetings

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. T. Jayawardena           | Executive Director                      | 0/1        |
| 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 7, 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 has 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. Detailed 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

## CORPORATE GOVERNANCE

### 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, Articles of Association, 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.

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   |
|---------------|--|-------------------|---|
| <b>7.10</b>   | <b>Compliance</b>  |                   |   |
| 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.   |
| <b>7.10.1</b> | <b>Non-Executive Directors (NED)</b>   |                   |   |
| 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 seven Directors are Non-Executive Directors at the conclusion of last AGM.   |
| <b>7.10.2</b> | <b>Independent Directors</b>   |                   |   |
| 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> |

| Rule No.      | CSE Listing Rule  | Compliance Status | Details of Compliance  |
|---------------|---|-------------------|--|
| <b>7.10.3</b> | <b>Disclosure Relating to Directors</b>   |                   |  |
| 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. |
| 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 20-23 of the Annual Report.  |
| d.            | Provide a resume of each new Director appointed to the Board along with the details   | N/a               | A resume of the new Director has been provided and included in the Board of Directors section.   |
| <b>7.10.4</b> | <b>Criteria for Defining Independence</b>   |                   |  |
| 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.   |
| <b>7.10.5</b> | <b>Remuneration Committee</b>   |                   |  |
| 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 08 to the Financial Statements.  |
| <b>7.10.6</b> | <b>Audit Committee</b>  |                   |  |
| 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               | Former Finance Manager and Chief Financial Officer attended the Audit Committee meetings by invitation.  |
| 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.  |

## CORPORATE GOVERNANCE

| Rule No. | CSE Listing Rule  | Compliance Status | Details of Compliance  |
|----------|---|-------------------|--|
| 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's 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   |
|--------------|---|-------------------|---|
| <b>9.2</b>   | <b>Related Party Transactions Review Committee</b>        |                   |   |
| <b>9.2.2</b> | <b>Composition</b>  | 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.  |
| <b>9.3</b>   | <b>Related Party Transactions Review Committee</b>        |                   |   |
| <b>9.3.2</b> | <b>Disclosures in the Annual Report</b>                   |                   |   |
| 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 continues 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 2019/2020 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

Risk is an essential element when operating a business and it's common to all corporations regardless of their type and size. What signifies the resilience of a business is their ability to manage these risks. Hence, risk management should be considered as a vital element on which a company builds their corporate strategy. In the modern market context, risk can be defined as the probability or threat of a liability, loss or other negative occurrence caused by external or internal vulnerabilities, which would affect the desired objectives.

The LMF Group employs numerous policies, procedures and practices, which work in conjunction to arrive at coordinated and economical solutions in order to mitigate the probability and impact of identified vulnerabilities by embedding risk management to our daily management of the business. 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 Governance

The Board considers risk management as crucial in achieving the Group objectives, and considers it as a responsibility of the Board to monitor and manage risks in an acceptable manner.

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

## Legal Function

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

matters are considered and necessary steps are taken to ensure full compliance with statutory requirements.

## Financial Reporting Function

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

## Internal Controls and Internal Audit Function

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



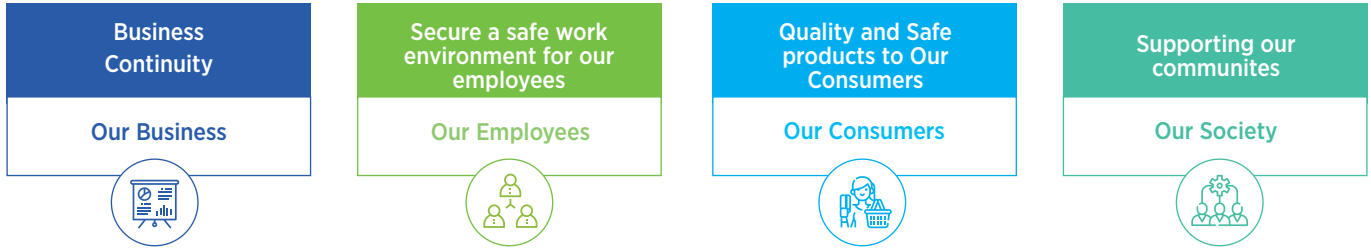
## ENTERPRISE RISK MANAGEMENT

| Risk Definition  | Risk Status |            |           | Risk Mitigation Strategies  |
|--|-------------|------------|-----------|---|
|  | Impact      | Likelihood | Direction |   |
| <p><b>Milk Price and Volume Volatility</b><br/>Increasing milk prices and volume changes has a direct impact on group profit and sales.</p>  | High        | Moderate   | ➔         | <p>Measures taken to increase our farm milk production through increasing our milking cow herd and increasing daily milk production per cow</p> <p>Expanding overall dairy production ensures a static flow of raw milk for production lines</p>  |
| <p><b>Quality Risk</b><br/>This is a key risk element to a corporate entity that operates in the food and beverages. Employees of all levels are responsible for the quality of the products.</p>  | High        | Low        | ➔         | <p>Maintaining the world renowned ISO 22000:2005 quality certification , Food Safety Management System.</p> <p>Measures are also taken to ensure quality throughout the whole supply chain</p> <p>Proper training and awareness are given to the employees in production of all levels relating to the quality processes and production.</p> <p>Revision of quality controls methods and testing methods for raw and powdered milk as per local and international standards</p> <p>The product and process improvements are implemented and revised periodically to meet the quality goals.</p> |
| <p><b>Competitive Risk</b><br/>The risk that arises when competitors reduce the Group's market share and/or drive down margins in specific markets and prevent us from reaching our goals.</p>   | High        | Moderate   | ➔         | <p>Innovation and renovation of product portfolio</p> <p>Investing on brand development</p> <p>Ensuring the product quality and focusing on the global trends – healthy lifestyle, liquid milk consumption etc.</p> <p>Ensuring that our prices offer good value</p> <p>Building stronger relationships with suppliers</p>  |
| <p><b>Exchange Rate Risk</b><br/>This creates an impact on the value of business transactions and assets with the volatility in foreign exchange rates and in-turn affect the operating margins of the business.</p> <p>Exchange rates were highly volatile since the end of year 2019."</p> | High        | Moderate   | ➔         | <p>Monitoring local and international events and news related to economics, which can influence to exchange rates.</p> <p>Monitoring exchange exposures and leading or lagging payments/ receipts.</p> <p>Being thoroughly familiar to the frequent changes seen in foreign currency rates with our bankers</p>   |
| <p><b>Interest Rate Risk</b><br/>This is the risk of exposure of an entity's financial condition in to adverse movements in interest rates.</p>  | High        | Low        | ➔         | <p>Observing interest rates and socioeconomic conditions to generate precise prognoses</p> <p>Evaluating the effects of movements of interest rates on Group financial situation</p> <p>Negotiating with banks and financiers</p> <p>Striking a balance between short-term vs long-term borrowings and fixed vs floating rate borrowings</p>  |

| Risk Definition   | Risk Status |            |           | Risk Mitigation Strategies  |
|---|-------------|------------|-----------|---|
|   | Impact      | Likelihood | Direction |   |
| <p><b>Liquidity Risk</b><br/>This relates to not having sufficient funds to meet the financial commitments in a timely manner.</p>  | High        | Low        | ➔         | <p>Systematic reviews of the liquidity position and ensuring the Group's ability to generate adequate funds for operations, financing activities and investments</p> <p>Expected borrowings are covered by committed facilities and a healthy industry related gearing ratio is maintained.</p> <p>Enhanced banking facilities and financial assistance obtained through our excellent relationship management with related institutions provide us with more strength in this area.</p>                            |
| <p><b>Technology Risk and Cyber Vulnerabilities</b><br/>This is the possibility for technology failures to disrupt your business. The potential for losses due to technology failures.</p>  | Moderate    | Moderate   | ➔         | <p>Information security is guaranteed by graduated levels of access rights granted to selected employees depending on their operational needs &amp; level of responsibility.</p> <p>Latest anti-spyware and anti-virus protection are installed to protect from virus while firewall &amp; other security controls and passwords are used to prevent hacking and unauthorised intrusions to the computers.</p> <p>Taking cloud based system backups and regularly updating the software to the latest versions.</p> |
| <p><b>Human Capital Risk</b><br/>This is the gap between the goals of the organization and the skills of its workforce.</p> <p>These risks have the potential to impose significant losses on brand, reputation, morale, and revenue.</p> | High        | Low        | ➔         | <p>Our remuneration packages are benchmarked to ensure that we remain competitive.</p> <p>Incentive arrangements where appropriate.</p> <p>Professional growth avenues.</p> <p>Responding to grievances and staff complaints.</p> <p>Providing a wide range of benefits to employees including surgical &amp; hospitalisation cover for all employees, while providing a healthy and pleasant working environment.</p> <p>Measures taken to retain and minimise temporary labor turnover.</p>                       |
| <p><b>Compliance, Regulatory and Legal Risks</b><br/>This refers to the possible legal actions against the Group companies, compliance and regulatory requirements related risks.</p>   | High        | Low        | ➔         | <p>Preventive measures are taken to mitigate such risks by complying with all the relevant regulations and regulatory matters.</p> <p>The management frequently reviews regulatory changes &amp; assess impacts of new requirements over the business.</p> <p>In case of breaching agreements, the Company involves internal and external legal experts to mitigate such risks.</p> <p>A comprehensive compliance checklist is reviewed periodically.</p>   |

# ENTERPRISE RISK MANAGEMENT

## COVID-19 Impacts and Group Response



The Group response to the pandemic focused on securing a safe work environment for our employees, continuing our business operations, providing our customers with quality and safe products and supporting our communities as a socially responsible corporate citizen.

As encouraged by the Sri Lankan Government, LMF being a business operating in the food and beverages industry/sector, we were able to continue our operations amidst COVID-19. Due to our strategic response to the pandemic, all our business segments which include powdered milk, liquid milk and agriculture and livestock operated smoothly. There were disruptions to distribution of products especially to areas with high risk, but we made home deliveries and carried out door to door operations and made sure the necessities of our consumers were met where possible. Product donations were made to quarantine centers and hospitals.

Adequate cash flows were maintained amidst delays in cash collection due to lockdown situation yet timely payments were made to our key suppliers, especially to our agricultural suppliers to support their financial situation. Post-lockdown the debtor collection improved. There were no significant changes in terms of borrowings other than anticipated and the relief measures adopted by the Central Bank of Sri Lanka supported us and our business partners.

As per Government directions, we took special precautions to limit the spread of COVID-19 in all arenas from farms to the point of sales. Farm operations continued as usual while the New Zealand farm was closed for the visitors. Critical workers were identified and transportation was provided to those who were using public transportation to ensure the health and safety of employees. Shift method was used to minimize the number of employees

at one space as directed by the health authorities. Additional improved hygiene and safety standards were implemented as extra measures with the aim of providing a safe work environment. We ensured that no layoffs or pay cuts were done due to COVID-19 and employees were provided with risk allowances and proper healthcare facilities where necessary.

We at LMF continue to work towards securing our business continuity and providing safe and quality products to our consumers while ensuring the health and well-being of all employees at all our locations.



# REPORT OF THE AUDIT COMMITTEE

## Role of the Committee

The role of the Audit Committee is to oversee the financial reporting system of the Company and their compliance with financial reporting requirements, information requirements as per the laws and regulations in order to safeguard the interest of the shareholders and other stakeholders.

## Scope of Work

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 supervision over financial reporting, internal audit, internal controls and external audit.

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.

## Composition of the Committee

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 Amarasekera - INED (Chairman)
- Dr. A Shakthevale - INED  
*INED - Independent Non-Executive Director*

Mr. Amarasekera 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 - 23 of this report under the section of Board of Directors.

## Committee Meetings

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

| Name of Director      | Status          | Meeting Attendance |
|-----------------------|-----------------|--------------------|
| Mr. D S K Amarasekera | INED (Chairman) | 4/4                |
| Dr. A Shakthevale     | INED            | 4/4                |

## Attendance by Invitation

External Audit Representatives, Chief Financial Officer, Mr. W A Dharmathilaka, Former 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 related matters.

## Key Activities during the Year Ended 31 March 2020

- Assisting 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.
- Ensuring 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.
- Assessing the independence and monitor the performance and functions of internal and external auditors.
- Making a determination of the independence of the external auditors.
- Making recommendations to the Board relating to external auditors.
- Ensuring the Company's compliance with legal and regulatory requirements including the performance of the Company's compliance function.

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 were effective and independent throughout the year under review.

The Audit Committee is satisfied that the independence of the External Auditors have not been impaired by any event or service that given rise to a conflict of interest. Due consideration has been given to the level of audit and non-audit fees received by the External and confirmation has been received from the External Auditors of their compliance with the independence criteria given in the Code of Ethics of the Institute of Chartered Accountants of Sri Lanka.

The performance of the External Auditors has been evaluated and discussed with the senior management of the Company, and the Committee has recommended to the Board that KPMG be re-appointed as the External Auditors of Lanka Milk Foods (CWE) PLC for the financial year ending 31 March 2021, subject to approval by the shareholders at the Annual General Meeting.



**D S K Amarasekera**  
Chairman - Audit Committee

03rd September 2020

# REPORT OF THE REMUNERATION COMMITTEE

## Composition of the Committee

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 Amarasekera - INED (Chairman)
- Dr. A Shakthevale - INED  
*INED - Independent Non-Executive Director*

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

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

## Committee Meetings

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

| Name of Director      | Status          | Meeting Attendance |
|-----------------------|-----------------|--------------------|
| Mr. D S K Amarasekera | INED (Chairman) | 4/4                |
| Dr. A Shakthevale     | INED            | 4/4                |

## The Remuneration Policy

The Group remuneration policy of is to attract, motivate and retain the best professional and management talent to the Company and also to motivate and encourage them to perform at the highest possible level. A formal and transparent procedure is followed to determine the remuneration packages.

The Committee reviewed the Group remuneration policy which remained unchanged during the reporting year ended 31st March 2020.

The Committee also studied the present remuneration package for employees, reviewed the human resource policies, the process of annual increments 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 Amarasekera**  
Chairman – Remuneration Committee

03rd September 2020

# REPORT OF THE RELATED PARTY TRANSACTIONS REVIEW COMMITTEE

## 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.

## Composition of the 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 20-23 of this report.

## Committee Meetings

The Committee reviewed the transactions in respect of the financial year 2019/20 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 three times during the reporting year and the attendance of the committee members are given in the table below.

| Name of Director            | Status          | Meeting Attendance |
|-----------------------------|-----------------|--------------------|
| Mr. D S K Amerasekera       | INED (Chairman) | 3/3                |
| Dr. A Shakthevale           | INED            | 3/3                |
| Mr. D Hasitha S Jayawardena | NINED           | 3/3                |

*INED - Independent Non-Executive Director*  
*NINED - Non-Independent Non-Executive Director*

## Attendance by Invitation

Chief Financial Officer, Mr. W A Dharmathilaka, Former Finance Manager, Mr. R N Attygalle and Deputy Finance Manager, Mr. I A De Alwis were present at the meetings by invitation and briefed the committee on related matters.

## Charter of the Related Party Transaction Review Committee

The Charter of the Related Party Transaction Review Committee clearly sets out the purpose, membership, authority and the duties and responsibilities of the Committee. In order to discharge the duties and responsibilities effectively and efficiently, the Committee has been authorised to:

- Establish policies and procedures that provide general pre-approvals to certain types of related party transactions
- Review and evaluate the terms, conditions, and the advisability of, any related party transaction
- Determine whether the relevant related party transaction is fair, and in the best interest of the Company and its shareholders as a whole
- Recommend to the Board what action, if any, should be taken by the Board with respect to any related party transaction

## Responsibilities of the Related Party Transactions Review Committee

The following are the key responsibilities set out in the Charter for RPT Review Committee;

- Ensuring that the Company complies with the rules set out in the Listing Rules.
- Reviewing all proposed related party transactions in advance with subject to the exceptions given in the Listing Rules,
- Having committee meetings every financial quarter and reporting to the Board on the Committee's activities

- Perform other activities related to the Charter as requested by the Board

## Procedures for Reporting Related Party Transactions

The Director is responsible for reporting to the Committee, for its review and approval the information in respect of each related party transaction proposed to be entered into other than the exceptions given in Listing Rules. Furthermore, on a quarterly basis, the Director is required to report to the Committee on the approved related party transactions actually entered into by the Company.

The Committee has approved the Related Party Transactions Declaration Form required to be filled by the Directors and key management personnel of the Company. The Company uses this form to capture the related party transactions at the end of every quarter.

## 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 58-60 of this report.



**D S K Amerasekera**  
 Chairman  
 Related Party Transactions Review Committee  
 03rd September 2020

# ANNUAL REPORT OF THE BOARD OF DIRECTORS

The Board of Directors of Lanka Milk Foods (CWE) PLC has pleasure in presenting the 38th Annual Report and the Audited Financial Statements of the Company and the Group, for the financial year ended 31st March 2020. The details set in here provide the pertinent information required by the Companies Act No. 07 of 2007, Listing Rules of the Colombo Stock Exchange and the best reporting practices.

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 Management Review section and Management Discussion section of this report.

Refer Note 13, Investment in Subsidiaries and Note 30, Principal Subsidiaries Details of Subsidiaries for more information. A segmental analysis of the activities of the Group is given in Note 33 to the Financial Statements.

## INFORMATION RELATED TO FINANCIAL STATEMENTS

### Financial Statements and Auditors' Report

The Financial Statements of the Company and the Group for the year ended 31st March 2020 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 03 September 2020 are provided on pages 68 to 123. 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 89. 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.

### Summary of Statement of Profit and Loss and Other Comprehensive Income

| For the Year Ended 31 March<br>Group                        | 2020<br>Rs.000's | 2019<br>Rs.000's |
|---|------------------|------------------|
| Net profit/loss before tax                                  | 400,368          | (44,712)         |
| Provision for taxation including deferred tax               | (109,705)        | (81,915)         |
| Net profit/loss after tax                                   | 290,663          | (126,627)        |
| Other comprehensive income                                  | 1,315,280        | (3,381,917)      |
| Amount attributable to minority interest                    | (10,589)         | (315)            |
| Total comprehensive income attributable to the shareholders | 1,616,532        | (3,508,229)      |
| Balance brought forward from previous year                  | 7,846,009        | 11,459,132       |
| Amount Available for Appropriations                         | 9,412,543        | 7,846,009        |
| Stated Capital  | 999,950          | 999,950          |
| Balance attributable to shareholders at the end of the year | 10,412,493       | 8,845,959        |

### Revenue

The group revenue for the reporting year ended 31st March 2020 was Rs. 6,704 Million. (Rs. 5,386 Million in preceding year). Lanka Milk Foods (CWE) PLC, the Company recorded Rs. 3,031 Million for the financial year. (Rs. 1,922 Million in preceding year)

### Taxation

The income tax expense of the Group, including the deferred tax charge for the reporting year amounted to Rs. 109.7 Million (Rs. 81.9 Million in the preceding year). The deferred tax charge of the Company, for reporting year amounted to Rs. 52.4 Million (Rs. 13.9 Million in preceding year). Tax expenses of the Group and Company are elaborated in Note 9 to the financial statements.

### 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.

### Dividends

In respect of the year ended 31st March 2020, the Directors have declared a dividend of Rs.2.50 per share. (Rs.1.25 in previous year). 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 93 to 97.

## Land Holdings

Details of leasehold land owned by the Company are given in Note 29 to the Financial Statements on page 109 to 110.

## Investments

Details of quoted and unquoted investments made by the Company as at 31st March 2020 are given in Note 14 to the Financial Statements on page 98.

## Reserves

The total Group Reserves as at 31st March 2020 amounted to Rs.9.4 billion (2018 /2019 – Rs. 7.8 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 32 to the Financial Statements

## Employees

The number of persons employed by the Company as at 31st March 2020 was 304 (272 as at 31st March 2019) and by the Group 735 (693 as at 31st March 2019).

## Employment Policies

The Company promotes a culture of teamwork, integrity and dedication and remuneration linked to performance by annual appraisals of both quantitative and qualitative performance of all employees. There were no significant material issues pertaining to employees and industrial relations of the entity during the year under review.

## Share Information

An Ordinary share of the Company (LMF.N0000) was quoted on the Colombo Stock Exchange at Rs. 74 as at 31st March 2020 (Rs. 110.00 as at 31st March 2019). During the year the share price fluctuated between Rs.72.60 and Rs.119.

Information in relation to earnings, dividends, net assets and market value per share is given in the Ten Year Summary on page 126 of this report.

## Contingent Liabilities

Except as disclosed in Note 31 to the Financial Statements on page 111, there were no material contingent liabilities as at the reporting date.

## Donations

During the year, the Company made donations amounting to Rs. 10,000.

## INFORMATION RELATED TO THE BOARD OF DIRECTORS

### Directorate

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

| Name of Director               | Status                                 |
|--------------------------------|--|
| Mr. D. H. S. Jayawardena       | Executive Chairman                     |
| Mr. C. R. Jansz                | Executive Director                     |
| Ms. D. S. T. Jayawardena       | Executive Director                     |
| Ms. D. S. C. Jayawardena       | Executive Director                     |
| Mr. D. S. K. Amarasekara       | 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 2020, appear on pages 20 – 23 of this report.

### Directors' Remuneration

The remuneration of the Directors is given in Note 08 on page 91 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 34 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 34 to the Financial Statements, as well as that the, requirements as per the listing rules of the Colombo Stock Exchange has been complied with.

# ANNUAL REPORT OF THE BOARD OF DIRECTORS

## 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<br>31 March<br>2020 | As at<br>31 March<br>2019 |
|------------------------------------|---------------------------|---------------------------|
| Mr. D H S Jayawardena              | Nil                       | Nil                       |
| Mr. C. R. Jansz                    | Nil                       | Nil                       |
| Ms. D. S. T. Jayawardena           | 2934                      | 2934                      |
| 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                       |

## OTHER INFORMATION

### Shareholder Information

Information on the twenty largest shareholders of the Company, the distribution of shareholding, percentage of shares held by the public, market values per share as per the requirements of the Listing Rules of the Colombo Stock Exchange are given on pages 124 to 125 under Investor Information.

There were 3079, registered shareholders, holding ordinary voting share at the year-end. (3036 registered shareholders as at 31st March 2019)

### 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

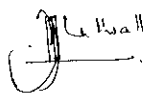
The Directors confirm that, to the best of their knowledge, all taxes, duties and levies payable by the Company and contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and all other known statutory dues as were due and payable by the Company as at the reporting 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 116 to 121.



Mr. D. H. S. Jayawardena  
Chairman



Ms. H. K. Bulathwatte  
Company Secretary  
Lanka Milk Foods (CWE) PLC  
03d September 2020

## 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.

## 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 38th Virtual Annual General meeting of the Company will be held at the Board Room, Lanka Milk Foods (CWE) PLC on Wednesday, 30th of September 2020 at 10.00 a.m. The Notice of Meeting appears on page 130 of the report.

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



Mr. C. R. Jansz  
Director

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Companies Act No.7 of 2007 requires the Directors of the Company to be responsible for ensuring compliance of the requirements set out therein to prepare Financial Statements and other statutory reports 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 responsibilities of the Directors in relation to financial statements of Lanka Milk Foods (CWE) PLC the Company and the Group are set out in this report.

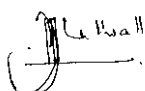
The Board of Directors accepts the responsibility for the integrity and objectivity of the Financial Statements presented. The Directors confirm that proper accounting records and policies have been maintained in the preparation of the Financial Statements which have been prepared and presented in accordance with the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and comply with the requirements in the Companies Act No.7 of 2007 and the Listing Rules of the Colombo Stock Exchange. Additionally, 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.

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 either paid or adequately provided for in the financial statements as at the reporting date.

On behalf of the Board of Directors



**Ms. H. K. Bulathwatte**

**Company Secretary**

03rd September 2020

# FINANCIAL STATEMENTS







# INDEPENDENT AUDITORS' REPORT



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

Tel : +94 - 11 542 6426  
Fax : +94 - 11 244 5872  
+94 - 11 244 6058  
Internet : www.kpmg.com/lk

## 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 2020, 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 123.

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 2020, 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.

### Recognition of Deferred Tax Assets Refer Notes 3.5.5 (b) and 23.2 to the Financial Statements Risk Description

The Group and Company have recognized deferred tax assets for temporary differences and unused tax losses amounting to Rs. 149.8 Mn and Rs. 47.5 Mn respectively as at 31 March 2020 and that it believes are recoverable.

The recoverability of recognized deferred tax assets is in part depending on the Group and the Company's ability to generate future taxable profits sufficient to utilize deductible temporary differences and tax losses (before the latter expire).

We have determined this to be a key audit matter, due to the inherent uncertainty in forecasting future taxable profits and the reversal of temporary differences.

### 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.
- Reconciling tax losses and expiry dates to tax statements.
- Assessing adequacy of the disclosures in the Financial Statements, including disclosures of key assumptions and judgments.

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

M.R. Mihular FCA  
T.J.S. Rajakarier FCA  
Ms. S.M.B. Jayasekara ACA  
G.A.U. Karunaratne FCA  
R.H. Rajan FCA  
A.M.R.P. Alahakoon ACA  
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. Shamuel 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), LL.B., Attorney-at-Law, H.S. Goonewardene ACA.  
Ms. P.M.K. Sumanasekara FCA

## Measurement of Biological Assets

Refer Notes 3.4.4 and 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. 845.9 Mn, as at 31 March 2020, with a gain arising from changes in fair value less costs to sell of biological assets for the year ended 31 March 2020 recorded in the Statement of Profit or Loss and Other Comprehensive Income of Rs. 285.8 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. Consequently, we have determined the measurement of biological assets to be a key audit matter.</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"><li>• 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.</li><li>• 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.</li><li>• 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.</li><li>• Evaluating the adequacy of the disclosure in Financial Statements, including disclosures of key assumptions, judgments and sensitivities.</li></ul> |

## 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 2020.</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 judgemental.</p> | <p>Our audit procedures included,</p> <ul style="list-style-type: none"><li>• Assessing the impairment indications of investments made in Subsidiaries.</li><li>• Reviewing of recoverable computations based on net assets attributable to Parent Company for investments with impairment indications and discussion with management of group/ component.</li><li>• 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.</li><li>• Assessing the adequacy of disclosures made in the Financial Statements.</li></ul> |

# 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  
03rd September 2020

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| For the Year Ended 31 March                      | Note | Group            |                  | Company          |                  |
|--|------|------------------|------------------|------------------|------------------|
|  |      | 2020<br>Rs.000's | 2019<br>Rs.000's | 2020<br>Rs.000's | 2019<br>Rs.000's |
| Revenue  | 5    | 6,703,854        | 5,385,534        | 3,030,915        | 1,922,137        |
| Cost of Sales                                    |      | (6,040,624)      | (4,898,092)      | (2,874,305)      | (1,895,416)      |
| Gross Profit                                     |      | 663,230          | 487,442          | 156,610          | 26,721           |
| Other Operating Income                           | 6    | 749,178          | 411,695          | 446,031          | 516,741          |
| Administrative Expenses                          |      | (493,549)        | (465,804)        | (220,541)        | (196,976)        |
| Distribution Expenses                            |      | (276,700)        | (254,687)        | (117,810)        | (134,592)        |
| Other Operating Expenses                         |      | (131,350)        | (90,885)         | (72,769)         | (11,292)         |
| <b>Profit from Operations</b>                    |      | <b>510,809</b>   | <b>87,761</b>    | <b>191,521</b>   | <b>200,602</b>   |
| Finance Income                                   | 7.1  | 33,501           | 15,336           | 20,784           | 8,966            |
| Finance Expense                                  | 7.2  | (143,942)        | (147,809)        | (29,920)         | (94,163)         |
| Net Finance Income / (Expense)                   | 7    | (110,441)        | (132,473)        | (9,136)          | (85,197)         |
| <b>Profit / (Loss) Before Income Tax Expense</b> | 8    | <b>400,368</b>   | <b>(44,712)</b>  | <b>182,385</b>   | <b>115,405</b>   |
| Income Tax Expense                               | 9    | (109,705)        | (81,915)         | (52,449)         | (13,922)         |
| <b>Profit / (Loss) for the Year</b>              |      | <b>290,663</b>   | <b>(126,627)</b> | <b>129,936</b>   | <b>101,483</b>   |

## Other Comprehensive Income

### Items that are or may be reclassified to Profit or Loss

|  |        |           |             |           |             |
|--|--------|-----------|-------------|-----------|-------------|
| Net Change in Fair Value of Equity Securities - at FVOCI | 14.1.1 | 1,318,811 | (3,386,323) | 1,318,811 | (3,386,323) |
|--|--------|-----------|-------------|-----------|-------------|

### Items that will never be reclassified to Profit or Loss

|  |      |                  |                    |                  |                    |
|--|------|------------------|--------------------|------------------|--------------------|
| Actuarial (Loss) /Gain on Retirement Benefit Obligations | 24.1 | (4,471)          | 6,875              | (2,589)          | 8,033              |
| Tax on Other Comprehensive Income                        | 23.3 | 940              | (2,469)            | 725              | (2,249)            |
| Other Comprehensive Income / (Expense) for the Year      |      | 1,315,280        | (3,381,917)        | 1,316,947        | (3,380,539)        |
| <b>Total Comprehensive Income/(Expense)</b>              |      | <b>1,605,943</b> | <b>(3,508,544)</b> | <b>1,446,883</b> | <b>(3,279,056)</b> |

### Profit / (Loss) Attributable to :

|                                     |  |                |                  |                |                |
|-------------------------------------|--|----------------|------------------|----------------|----------------|
| Owners of the Company               |  | 301,252        | (126,312)        | 129,936        | 101,483        |
| Non Controlling Interest            |  | (10,589)       | (315)            | -              | -              |
| <b>Profit / (Loss) for the Year</b> |  | <b>290,663</b> | <b>(126,627)</b> | <b>129,936</b> | <b>101,483</b> |

### Total Comprehensive Income / (Expense) Attributable to :

|  |  |                  |                    |                  |                    |
|--|--|------------------|--------------------|------------------|--------------------|
| Owners of the Company                                      |  | 1,616,532        | (3,508,229)        | 1,446,883        | (3,279,056)        |
| Non Controlling Interest                                   |  | (10,589)         | (315)              | -                | -                  |
| <b>Total Comprehensive Income / (Expense) for the Year</b> |  | <b>1,605,943</b> | <b>(3,508,544)</b> | <b>1,446,883</b> | <b>(3,279,056)</b> |

Figures in brackets indicate deductions.

### Earnings / (Loss) Per Share

|                                     | 10   |      |        |      |      |
|-------------------------------------|------|------|--------|------|------|
| Basic Earnings / (Loss) Per Share   | 10.1 | 7.53 | (3.16) | 3.25 | 2.54 |
| Diluted Earnings / (Loss) Per Share | 10.2 | 7.53 | (3.16) | 3.25 | 2.54 |

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 123.

# STATEMENT OF FINANCIAL POSITION

| As at 31 March  | Note | Group             |                   | Company           |                  |
|---|------|-------------------|-------------------|-------------------|------------------|
|   |      | 2020<br>Rs.000's  | 2019<br>Rs.000's  | 2020<br>Rs.000's  | 2019<br>Rs.000's |
| <b>Assets</b>   |      |                   |                   |                   |                  |
| <b>Non Current Assets</b>   |      |                   |                   |                   |                  |
| Property, Plant and Equipment                                     | 12   | 2,026,997         | 1,287,633         | 136,964           | 136,226          |
| Investment in Subsidiaries  | 13   | -                 | -                 | 1,065,000         | 1,076,022        |
| Investment in Equity Securities                                   | 14.1 | 7,437,642         | 6,118,831         | 7,437,642         | 6,118,831        |
| Biological Assets   | 15.1 | 845,912           | 687,013           | -                 | -                |
| Deferred Tax Assets   | 23.1 | 23,542            | 75,266            | 23,542            | 75,266           |
| Right of Use Assets   | 29.1 | 316,833           | -                 | 363               | -                |
| Net Investment  | 29.2 | 45,863            | -                 | -                 | -                |
| <b>Total Non Current Assets</b>                                   |      | <b>10,696,789</b> | <b>8,168,743</b>  | <b>8,663,511</b>  | <b>7,406,345</b> |
| <b>Current Assets</b>   |      |                   |                   |                   |                  |
| Inventories   | 16   | 1,004,392         | 1,414,818         | 358,547           | 659,652          |
| Biological Assets   | 15.2 | 21,322            | 17,159            | -                 | -                |
| Investment in Equity Securities                                   | 14.2 | 209,061           | 209,839           | 209,061           | 209,839          |
| Trade Receivables   | 17   | 713,629           | 499,674           | 341,801           | 173,475          |
| Other Receivables   | 18   | 128,824           | 136,082           | 50,198            | 96,324           |
| Amounts Due from Related Companies                                | 19   | 73,495            | 44,430            | 544,979           | 415,355          |
| Current Tax Assets  |      | 80,297            | 84,406            | 30,381            | 31,395           |
| Cash and Cash Equivalents   | 20   | 26,434            | 42,227            | 14,598            | 22,861           |
| <b>Total Current Assets</b>                                       |      | <b>2,257,454</b>  | <b>2,448,635</b>  | <b>1,549,565</b>  | <b>1,608,901</b> |
| <b>Total Assets</b>   |      | <b>12,954,243</b> | <b>10,617,378</b> | <b>10,213,076</b> | <b>9,015,246</b> |
| <b>Equity and Liabilities</b>                                     |      |                   |                   |                   |                  |
| <b>Equity</b>   |      |                   |                   |                   |                  |
| Stated Capital  | 21   | 999,950           | 999,950           | 999,950           | 999,950          |
| Capital Reserves  | 22.1 | 105,116           | 105,116           | 105,116           | 105,116          |
| Available for Sale Reserve  |      | 6,866,556         | 5,547,745         | 6,866,556         | 5,547,745        |
| Revenue Reserves  | 22.2 | 2,440,871         | 2,193,148         | 1,744,632         | 1,666,558        |
| <b>Total Equity attributable to Equity Holders of the Company</b> |      | <b>10,412,493</b> | <b>8,845,959</b>  | <b>9,716,254</b>  | <b>8,319,369</b> |
| Non Controlling Interests   |      | 440               | 11,029            | -                 | -                |
| <b>Total Equity</b>   |      | <b>10,412,933</b> | <b>8,856,988</b>  | <b>9,716,254</b>  | <b>8,319,369</b> |
| <b>Liabilities</b>  |      |                   |                   |                   |                  |
| <b>Non Current Liabilities</b>                                    |      |                   |                   |                   |                  |
| Loans and Borrowings  | 25   | 288,019           | 183,735           | -                 | -                |
| Lease Liabilities   | 29.3 | 333,105           | -                 | 320               | -                |
| Deferred Tax Liabilities  | 23.1 | 235,183           | 190,830           | -                 | -                |
| Retirement Benefit Obligations                                    | 24   | 115,477           | 101,589           | 63,375            | 58,007           |
| <b>Total Non Current Liabilities</b>                              |      | <b>971,784</b>    | <b>476,154</b>    | <b>63,695</b>     | <b>58,007</b>    |
| <b>Current Liabilities</b>  |      |                   |                   |                   |                  |
| Trade and Other Payables  | 26   | 356,543           | 575,032           | 73,504            | 346,795          |
| Amounts Due to Related Companies                                  | 27   | 10,055            | 7,977             | 3,641             | 37,094           |
| Loans and Borrowings  | 25   | 66,812            | 66,812            | -                 | -                |
| Lease Liabilities   | 29.3 | 34,025            | -                 | 59                | -                |
| Bank Overdraft  | 20   | 1,102,091         | 634,415           | 355,923           | 253,981          |
| <b>Total Current Liabilities</b>                                  |      | <b>1,569,526</b>  | <b>1,284,236</b>  | <b>433,127</b>    | <b>637,870</b>   |
| <b>Total Liabilities</b>  |      | <b>2,541,310</b>  | <b>1,760,390</b>  | <b>496,822</b>    | <b>695,877</b>   |
| <b>Total Equity and Liabilities</b>                               |      | <b>12,954,243</b> | <b>10,617,378</b> | <b>10,213,076</b> | <b>9,015,246</b> |

The Financial Statements are to be read in conjunction with the related notes, which form a part of the Financial Statements of the Group set out on pages 74 to 123.

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



**W.A. Dharmathilaka**

Group Chief Financial Officer

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

03rd September 2020

Colombo



**C.R. Jansz**

Director

# STATEMENT OF CHANGES IN EQUITY

| For the Year Ended 31 March<br>Group                           | Attributable to Equity Holders of the Company |                     |                                   |                            |                   |             |          | Non-Controlling Interest | Total Equity |
|--|---|---------------------|-----------------------------------|----------------------------|-------------------|-------------|----------|--------------------------|--------------|
|  | Stated Capital                                | Revaluation Reserve | Dairy Development Project Reserve | Available for Sale Reserve | Retained Earnings | Total       |          |                          |              |
|  | Rs.000's                                      | Rs.000's            | Rs.000's                          | Rs.000's                   | Rs.000's          | Rs.000's    |          |                          |              |
| 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 9, 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               |              |
| <b>Total Comprehensive Income</b>                              |   |                     |                                   |                            |                   |             |          |                          |              |
| Loss for the Year  | -   | -                   | -                                 | -                          | (126,312)         | (126,312)   | (315)    | (126,627)                |              |
| <b>Other Comprehensive Income</b>                              |   |                     |                                   |                            |                   |             |          |                          |              |
| 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 / (Expenses) for 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)              |              |
| <b>Transactions with Owner directly recorded in the Equity</b> |   |                     |                                   |                            |                   |             |          |                          |              |
| 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)                 |              |
| <b>Balance as at 31 March 2019</b>                             | 999,950                                       | 105,116             | 110,000                           | 5,547,745                  | 2,083,148         | 8,845,959   | 11,029   | 8,856,988                |              |
| <b>Balance as at 01 April 2019</b>                             | 999,950                                       | 105,116             | 110,000                           | 5,547,745                  | 2,083,148         | 8,845,959   | 11,029   | 8,856,988                |              |
| <b>Total Comprehensive Income</b>                              |   |                     |                                   |                            |                   |             |          |                          |              |
| Profit for the year  | -   | -                   | -                                 | -                          | 301,252           | 301,252     | (10,589) | 290,663                  |              |
| <b>Other Comprehensive Income</b>                              |   |                     |                                   |                            |                   |             |          |                          |              |
| Net change in Fair Value of Available for Sale Investments     | -   | -                   | -                                 | 1,318,811                  | -                 | 1,318,811   | -        | 1,318,811                |              |
| Actuarial Loss on Retirement Benefit Obligations               | -   | -                   | -                                 | -                          | (4,471)           | (4,471)     | -        | (4,471)                  |              |
| Tax on Other Comprehensive Income                              | -   | -                   | -                                 | -                          | 940               | 940         | -        | 940                      |              |
| Total other Comprehensive income / (Expenses) for Year         | -   | -                   | -                                 | 1,318,811                  | (3,531)           | 1,315,280   | -        | 1,315,280                |              |
| Total Comprehensive Income for the Year                        | -   | -                   | -                                 | 1,318,811                  | 297,721           | 1,616,532   | (10,589) | 1,605,943                |              |
| <b>Transactions with Owner directly recorded in the Equity</b> |   |                     |                                   |                            |                   |             |          |                          |              |
| Contributions by and Distributions to Owners                   |   |                     |                                   |                            |                   |             |          |                          |              |
| Dividend Paid  | -   | -                   | -                                 | -                          | (49,998)          | (49,998)    | -        | (49,998)                 |              |
| Total Contributions by and Distributions to Owners             | -   | -                   | -                                 | -                          | (49,998)          | (49,998)    | -        | (49,998)                 |              |
| <b>Balance as at 31 March 2020</b>                             | 999,950                                       | 105,116             | 110,000                           | 6,866,556                  | 2,330,871         | 10,412,493  | 440      | 10,412,933               |              |

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 123.



| For the Year Ended 31 March<br>Company                         | Stated<br>Capital | Revaluation<br>Reserve | Dairy<br>Development<br>Project<br>Reserve | Available for<br>Sale Reserve | Retained<br>Earnings | Total<br>Equity |
|--|-------------------|------------------------|--|-------------------------------|----------------------|-----------------|
|  | Rs.000's          | Rs.000's               | Rs.000's                                   | Rs.000's                      | Rs.000's             | Rs.000's        |
| Balance as at 01 April 2018                                    | 999,950           | 105,116                | 110,000                                    | 8,934,068                     | 1,552,306            | 11,701,440      |
| <b>Adjustment on initial application of IFRS 9, net of tax</b> | -                 | -                      | -  | -                             | (3,020)              | (3,020)         |
| Adjusted balance at 01 April 2018                              | 999,950           | 105,116                | 110,000                                    | 8,934,068                     | 1,549,286            | 11,698,420      |
| <b>Total Comprehensive Income</b>                              |                   |                        |  |                               |                      |                 |
| Profit for the Year  | -                 | -                      | -  | -                             | 101,483              | 101,483         |
| <b>Other Comprehensive Income</b>                              |                   |                        |  |                               |                      |                 |
| 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 /(Expenses) for Year          | -                 | -                      | -  | (3,386,323)                   | 5,784                | (3,380,539)     |
| <b>Total Comprehensive Income /(Expenses) for the Year</b>     | -                 | -                      | -  | (3,386,323)                   | 107,267              | (3,279,056)     |
| <b>Transactions with Owner directly recorded in the Equity</b> |                   |                        |  |                               |                      |                 |
| Contributions by and Distributions to Owners                   |                   |                        |  |                               |                      |                 |
| Dividend Paid  | -                 | -                      | -  | -                             | (99,995)             | (99,995)        |
| Total Contributions by and Distributions to Owners             | -                 | -                      | -  | -                             | (99,995)             | (99,995)        |
| <b>Balance as at 31 March 2019</b>                             | 999,950           | 105,116                | 110,000                                    | 5,547,745                     | 1,556,558            | 8,319,369       |
| <b>Balance as at 01 April 2019</b>                             | 999,950           | 105,116                | 110,000                                    | 5,547,745                     | 1,556,558            | 8,319,369       |
| <b>Total Comprehensive Income</b>                              |                   |                        |  |                               |                      |                 |
| Profit for the Year  | -                 | -                      | -  | -                             | 129,936              | 129,936         |
| <b>Other Comprehensive Income</b>                              |                   |                        |  |                               |                      |                 |
| Net change in Fair Value of Available for Sale Investments     | -                 | -                      | -  | 1,318,811                     | -                    | 1,318,811       |
| Actuarial Loss on Retirement Benefit Obligations               | -                 | -                      | -  | -                             | (2,589)              | (2,589)         |
| Tax on Other Comprehensive Income                              | -                 | -                      | -  | -                             | 725                  | 725             |
| Total Other Comprehensive Income /(Expenses) for Year          | -                 | -                      | -  | 1,318,811                     | (1,864)              | 1,316,947       |
| <b>Total Comprehensive Income for the Year</b>                 | -                 | -                      | -  | 1,318,811                     | 128,072              | 1,446,883       |
| <b>Transactions with Owner directly recorded in the Equity</b> |                   |                        |  |                               |                      |                 |
| Contributions by and Distributions to Owners                   |                   |                        |  |                               |                      |                 |
| Dividend Paid  | -                 | -                      | -  | -                             | (49,998)             | (49,998)        |
| Total Contributions by and Distributions to Owners             | -                 | -                      | -  | -                             | (49,998)             | (49,998)        |
| <b>Balance as at 31 March 2020</b>                             | 999,950           | 105,116                | 110,000                                    | 6,866,556                     | 1,634,632            | 9,716,254       |

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 123.

# STATEMENT OF CASH FLOWS

| For the Year Ended 31 March  | Note      | Group            |                  | Company          |                  |
|--|-----------|------------------|------------------|------------------|------------------|
|  |           | 2020<br>Rs.000's | 2019<br>Rs.000's | 2020<br>Rs.000's | 2019<br>Rs.000's |
| <b>Cash Flows from Operating Activities</b>                          |           |                  |                  |                  |                  |
| Profit / (Loss) Before Income Tax Expense                            |           | 400,368          | (44,712)         | 182,385          | 115,405          |
| <b>Adjustments for;</b>  |           |                  |                  |                  |                  |
| Depreciation on Property, Plant and Equipment                        | 12.1/12.2 | 233,464          | 249,454          | 16,753           | 15,986           |
| Amortisation of Right of Use Assets                                  | 29.1      | 11,419           | -                | 28               | -                |
| Changes in Fair Value of Equity Securities at FVTPL                  |           | 3,089            | 76,610           | 3,089            | 76,610           |
| Provision / (Reversal) of Impairment of Investments in Subsidiaries  |           | -                | -                | 11,022           | (271,021)        |
| Provision of Impairment for Amounts due from Related Companies       |           | -                | -                | 61,748           | 10,876           |
| Provision of Impairment for Fixed Deposits                           |           | -                | 2                | -                | 2                |
| ESC Written-off  |           | 29,634           | 26,011           | 15,251           | 10,570           |
| Provision/ (Reversal) of Impairment of Trade Receivables             | 17.1      | 8,694            | 2,095            | 4,355            | (616)            |
| Gain on Disposal of Property, Plant and Equipment                    | 6         | (3,141)          | (550)            | -                | (500)            |
| Loss on Translation of Foreign Currency                              | 7.2       | -                | 12,648           | -                | 12,648           |
| Provision for Retirement Benefit Obligations                         | 24.1      | 21,061           | 19,486           | 11,359           | 11,223           |
| (Reversal)/ Provision for Obsolete of Inventories                    | 16.1      | (3,448)          | (413)            | 15,623           | (413)            |
| Change in Fair Value of Biological Assets                            | 15.1      | (285,796)        | (243,112)        | -                | -                |
| Loss/ (Gain) on Disposal of Biological Assets                        | 6         | (132)            | 28,944           | -                | -                |
| Dividend Income  | 6         | (367,996)        | (36,543)         | (367,996)        | (165,543)        |
| Interest Income on Net Investment                                    | 7.1       | (5,876)          | -                | -                | -                |
| Interest Income  | 7.1       | (3,072)          | (9,588)          | (4,320)          | (8,966)          |
| Interest Expense on Lease Liability                                  | 7.2       | 48,055           | -                | 55               | -                |
| Interest Expense   | 7.2       | 92,798           | 58,551           | 26,776           | 4,905            |
| <b>Operating Profit/ (Loss) before working capital changes</b>       |           | <b>179,121</b>   | <b>138,883</b>   | <b>(23,872)</b>  | <b>(188,834)</b> |
| <b>Changes in ;</b>  |           |                  |                  |                  |                  |
| Inventories  |           | 413,874          | (306,013)        | 285,482          | (161,151)        |
| Trade and Other Receivables  |           | (232,077)        | (39,675)         | (126,555)        | (47,014)         |
| Amounts due from Related Companies                                   |           | (29,065)         | 5,240            | (191,372)        | 90,583           |
| Amounts due to Related Companies                                     |           | 2,078            | (2,777)          | (33,453)         | (18,255)         |
| Trade and Other Payables   |           | (218,489)        | 250,540          | (273,291)        | 262,247          |
| <b>Cash Flows generated from/ (used in) Operating Activities</b>     |           | <b>115,442</b>   | <b>46,198</b>    | <b>(363,061)</b> | <b>(62,424)</b>  |
| Interest Paid  |           | (92,798)         | (58,551)         | (26,776)         | (4,905)          |
| Taxes Paid   |           | (38,213)         | (51,030)         | (14,237)         | (7,445)          |
| Retiring Gratuity Paid   | 24        | (11,644)         | (11,359)         | (8,580)          | (7,410)          |
| <b>Net Cash Flows generated from/ (used in) Operating Activities</b> |           | <b>(27,213)</b>  | <b>(74,742)</b>  | <b>(412,654)</b> | <b>(82,184)</b>  |

| For the Year Ended 31 March  | Note | Group              |                  | Company          |                  |
|--|------|--------------------|------------------|------------------|------------------|
|  |      | 2020<br>Rs.000's   | 2019<br>Rs.000's | 2020<br>Rs.000's | 2019<br>Rs.000's |
| <b>Cash Flows from Investing Activities</b>                          |      |                    |                  |                  |                  |
| Interest Received  | 7.2  | 3,072              | 9,588            | 4,320            | 8,966            |
| Dividend Received  | 6    | 367,996            | 33,393           | 367,996          | 162,391          |
| Investment in Equity Securities at FVTPL                             |      | (2,311)            | (13,016)         | (2,311)          | (13,016)         |
| Acquisition of Biological Assets                                     |      | (21,322)           | (78,934)         | -                | -                |
| Income from Lease Hold Premises                                      |      | 2,399              | -                | -                | -                |
| Proceeds from Disposal of Property, Plant and Equipment              |      | 3,141              | 583              | -                | 500              |
| Proceeds from Sale of Biological Assets                              |      | 144,188            | 132,948          | -                | -                |
| Investment in new Subsidiaries                                       |      | -                  | -                | -                | (50,000)         |
| Purchase and Construction of Property, Plant and Equipment           |      | (972,828)          | (63,841)         | (17,491)         | (8,870)          |
| <b>Net Cash Flows (used in)/ generated from Investing Activities</b> |      | <b>(475,665)</b>   | <b>20,721</b>    | <b>352,514</b>   | <b>99,971</b>    |
| <b>Cash Flow from Financing Activities</b>                           |      |                    |                  |                  |                  |
| Repayment of Borrowings during the Year                              | 25   | (66,812)           | (66,812)         | -                | -                |
| Lease Payment made during the Year                                   | 29.3 | (34,877)           | -                | (67)             | -                |
| Loan Obtained during the Year  | 25   | 171,096            | -                | -                | -                |
| Dividend Paid  |      | (49,998)           | (98,890)         | (49,998)         | (98,890)         |
| <b>Net Cash Flows generated from/ (used in) Financing Activities</b> |      | <b>19,409</b>      | <b>(165,702)</b> | <b>(50,065)</b>  | <b>(98,890)</b>  |
| Net Increase/(Decrease) in Cash and Cash Equivalents                 |      | (483,469)          | (219,723)        | (110,205)        | (81,103)         |
| Cash and Cash Equivalents at the beginning of the Year               |      | (592,183)          | (372,460)        | (231,115)        | (150,012)        |
| <b>Cash and Cash Equivalents at the end of the Year</b>              |      | <b>(1,075,652)</b> | <b>(592,183)</b> | <b>(341,320)</b> | <b>(231,115)</b> |

#### Note B

##### Analysis of Cash and Cash Equivalents at the end of the Year

|                           |                    |                  |                  |                  |
|---------------------------|--------------------|------------------|------------------|------------------|
| Cash and Cash Equivalents | 26,439             | 42,232           | 14,603           | 22,866           |
| Bank Overdraft            | (1,102,091)        | (634,415)        | (355,923)        | (253,981)        |
|                           | <b>(1,075,652)</b> | <b>(592,183)</b> | <b>(341,320)</b> | <b>(231,115)</b> |

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 123.

# 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 2020 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 30 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.

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 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 2020 were approved and authorized for issue by the Board of Directors in accordance with Resolution of the Directors on 03 September 2020.

### 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) (Note 14.1) | Fair value  |
| ii. Defined Benefit Obligation (Note 24)                       | Actuarially valued and recognized at Present value of the defined benefit obligation. |
| iii. Biological assets (Note 15)                               | Fair value less costs to sell   |
| iv. Fair Value Through Profit or Loss (FVTPL) (Note 14.2)      | 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 Judgements and Estimations

In preparing these Financial Statements, management has made judgements, 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 judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

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

### 2.7.1 Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the Financial Statements 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 17 | - | Trade debtors - Impairment loss; key assumptions underlying recoverable amounts; and                             |
| Note 29 | - | Lease Term: whether the Group is reasonably certain to exercise extension options.                               |

### 2.7.2 Assumption

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 March 2020 is included in the following notes:

|           |   |  |
|-----------|---|--|
| Note 14   | - | Equity-accounted investees: whether the Company has significant influence over an investee;              |
| Note 16.1 | - | Provision for Obsolete Inventories;  |
| Note 24   | - | Retirement Benefit Obligations; key actuarial assumptions; and   |
| Note 31   | - | Provisions and contingencies; key assumptions about likelihood and magnitude of an outflow of resources. |

### 2.7.3 Impact of COVID-19 pandemic

The ongoing COVID-19 pandemic has increased the estimation uncertainty in the preparation of these Financial Statements.

The estimation uncertainty is associated with:

- the extent and duration of the disruption to business arising from the actions by governments, businesses and consumers to contain the spread of the virus;
- the extent and duration of the expected economic downturn (and forecasts for key economic factors including GDP, employment and house prices). This includes the disruption to capital markets, deteriorating credit, liquidity concerns, increasing unemployment, declines in consumer discretionary spending, reductions in production because of decreased demand, and other restructuring activities; and
- the effectiveness of government and central bank measures that have and will be put in place to support businesses and consumers through this disruption and economic downturn.

The Group has developed various accounting estimates in these Financial Statements based on forecasts of economic conditions which reflect expectations and assumptions as at 31 March 2020 about future events that the Directors believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of the Group.

## NOTES TO THE FINANCIAL STATEMENTS

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to expected credit losses, fair value measurement, and recoverable amount assessments of non-financial assets.

### 2.8 Going Concern

In preparing these financial statements, the management has assessed the existing and anticipated effect of the COVID-19 on the Group and the appropriateness of the use of the going concern basis of preparation giving special attention on short to medium term economic outlook.

The Group's 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 a foreseeable future. Furthermore, 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 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 Company.

### 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.

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 non financial 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 Group and Company.

### 3.1 Changes in Significant Accounting Policies

The group initially applied SLFRS 16 Leases from 01 April 2019. A number of other standards are also effective from 01 April 2019 but they do not have a material effect on the Financial Statements.

## SLFRS 16 – Leases

The Group applied SLFRS 16 using the modified retrospective approach, under which an amount equal to the lease liability is accounted for as the right of use asset as at 01 April 2019. Accordingly, the comparative information presented for 2018/2019 is not restated. The details of the changes in the accounting policies are disclosed below. Additionally, the disclosure requirements in SLFRS 16 have not generally been applied to comparative information.

### Definition of a Lease

Previously, The Group determined at contract inception whether an arrangement is or contains a lease under LKAS 17 Leases. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note29.

On transition to SLFRS 16, The Group elected to apply the practical expedient to the assessment of which transaction are leases. It applied SLFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under LKAS 17 were not reassessed for whether there is a lease under SLFRS 16.

### As a Lessee

As a lessee, The Group mainly leases lands. The Group previously classified these leases as operating leases under LKAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to The Group and the Company. Under SLFRS 16, the Group recognises right-of-use assets and lease liabilities for leases of office premises - i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 01 April 2019.

Right-of-use assets at the date of initial application for leases previously classified as an operating lease applying LKAS 17 are measured at an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application.

The Group used a number of practical expedients when applying SLFRS 16 to leases previously classified as operating leases under LKAS 17. In particular, the Group:

- relied on its assessment of whether leases are onerous under LKAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application as an alternative to performing an impairment review;
- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low-value assets.
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

### As a Lessor

The Group is not required to make any adjustments on transition to SLFRS 16 for leases in which it acts as a lessor.

The Group has applied SLFRS 15 Revenue from Contracts with Customers to allocate consideration in the contract to each lease and non-lease component.

### Impact on Financial Statements

On transition to SLFRS 16, the Group recognised equal additional right-of-use assets and lease liabilities. The impact on transition is summarised below.

|  | <b>Group<br/>2019<br/>(Rs. 000)</b> | <b>Company<br/>2019<br/>(Rs. 000)</b> |
|--|-------------------------------------|---------------------------------------|
| <b>As at 01 April</b>                      |                                     |                                       |
| Right-of-use assets presented in Note 29.1 | 370,638                             | 391                                   |
| Lease liabilities                          | 353,952                             | 391                                   |

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate as at 01 April 2019. The weighted average rate applied is 13.4%.

## NOTES TO THE FINANCIAL STATEMENTS

| As at 01 April   | Group<br>2019 | Company<br>2019 |
|--|---------------|-----------------|
| Operating lease commitments as at 31 March 2019 as disclosed under LKAS 17 in the Group's Consolidated financial statements (Rs.000) | 1,049,060     | 938             |
| Discounted using the incremental borrowing rate as at 01 April 2019  | 13.4%         | 13.4%           |
| Lease liabilities recognised as at 01 April 2019 (Rs.000)  | 353,952       | 391             |

### 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 31 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 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.

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.

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 remaining 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 3.4.1.2 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 Leases

The Group has applied SLFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under LKAS 17. The details of accounting policies under LKAS 17 are disclosed separately.

#### 3.4.2.1 Policy Applicable from 01 April 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in SLFRS 16.

##### 3.4.2.1.1 As a Lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative standalone price.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by analyzing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

#### 3.4.2.1.2 Short term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

#### 3.4.2.1.3 As a Lessor

When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group applies the derecognition and impairment requirements in SLFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

#### 3.4.2.2 Policy Applicable Before 01 April 2019

For contracts entered into before 01 April 2019 the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset.

#### 3.4.2.2.1 As a Lessee

##### **Finance Leases**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased assets under property, plant and equipment, is measured at an amount equal to the lower of its fair value and the present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate interest on the remaining balance of the liability.

##### **Operating Leases**

Where the lessor effectively retains substantially all the risks and rewards of ownership over the assets are classified as operating leases. Payments under operating leases are recognised as an expense in the income statement on a straight-line basis over the term of the lease or any other basis more representative of the time pattern of the benefits derived from the lease.

The initial cost of acquiring a leasehold property treated as an operating lease is recognised as a non-current asset and is amortised over the period of the lease in accordance with the pattern of benefits expected to be derived from the lease. The carrying amount of leasehold property is tested for impairment annually.

#### 3.4.2.2.2 As a Lessor

When the Group acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Group made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not then it was an operating lease. As part of this assessment, the Group considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

### 3.4.3 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.

### 3.4.4 Biological Assets

Biological assets comprise male cows and dairy cows which are divided into calves, heifers and milking 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

## NOTES TO THE FINANCIAL STATEMENTS

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.

### 3.4.5 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.

#### 3.4.5.1 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.

#### 3.4.5.2 Classification and subsequent measurement

##### Financial assets

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

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;
- 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.

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

|                                    |  |
|------------------------------------|--|
| 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 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 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 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.

#### 3.4.5.3 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.

#### 3.4.5.4 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.

#### 3.4.5.5 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.

#### 3.4.5.6 Impairment of Financial Assets

##### 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.

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.

### 3.4.6 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.

### 3.4.7 Employee Benefits

#### a. Defined Contribution Plans

Defined contribution plan is a postemployment 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.

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 2020. 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.

#### c. Short Term Benefits

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

## NOTES TO THE FINANCIAL STATEMENTS

### 3.4.8 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.

### 3.4.9 Commitments

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

### 3.4.10 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

##### 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 fulfillment 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   |
|-------------------------------|--|--|
| 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.                                  |
| Export Revenue                | 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).<br><br>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. | Revenue is recognized once the performance obligations are fulfilled based on the trade terms. |
| Sale of farm products         | The Company 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.                          |

#### 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.

#### 3.5.2 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.

## NOTES TO THE FINANCIAL STATEMENTS

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 33 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 AND AMENDED STANDARDS ISSUED BUT NOT EFFECTIVE AS AT THE REPORTING DATE

The Institute of Chartered Accountants of Sri Lanka has issued number of new Sri Lanka Accounting Standards (SLFRSs/ LKASs) and amendments that are 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 if applicable as and when they become effective.

Group does not expect the following new Accounting standards, amendments and interpretations that will become effective for future accounting periods will have a significant impact on the financial statements.

- Amendments to references to conceptual framework in Sri Lanka Financial Reporting Standards.
- Amendments to Sri Lanka Accounting Standard - LKAS 1 "Presentation to Financial Statements" and Sri Lanka Accounting Standard - LKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"
- Amendments to SLFRS 9, LKAS 39, and SLFRS 7 - Interest rate benchmark reforms. Amendments to Sri Lanka Accounting Standard - SLFRS 10 "Presentation to Financial Statements" and Sri Lanka Accounting Standard - LKAS 28 "Investments in Associates and Joint Ventures"

## NOTES TO THE FINANCIAL STATEMENTS

| For the Year Ended 31 March                          | Group            |                  | Company          |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2020<br>Rs.000's | 2019<br>Rs.000's | 2020<br>Rs.000's | 2019<br>Rs.000's |
| <b>5 REVENUE</b>                                     |                  |                  |                  |                  |
| Gross Revenue  | 6,799,706        | 5,502,082        | 3,070,431        | 1,962,206        |
| Less : Nation Building Tax                           | (95,852)         | (116,548)        | (39,516)         | (40,069)         |
|  | <b>6,703,854</b> | <b>5,385,534</b> | <b>3,030,915</b> | <b>1,922,137</b> |
| <b>6 OTHER OPERATING INCOME</b>                      |                  |                  |                  |                  |
| Gain on disposal of Property, Plant and Equipment    | 3,141            | 550              | -                | 500              |
| Gain on disposal of Biological Assets                | 132              | -                | -                | -                |
| Change in Fair Value of Biological Assets            | 285,796          | 243,112          | -                | -                |
| Commission Income                                    | 42,598           | 67,421           | 42,598           | 67,421           |
| Dividend Income                                      | 367,996          | 36,543           | 367,996          | 165,543          |
| Reversal of Related Companies Payable Balance        | -                | -                | 21,309           | -                |
| Sundry Income  | 37,600           | 53,957           | 4,128            | 1,842            |
| Reversal of Impairment of Investment in Subsidiaries | -                | -                | -                | 271,435          |
| Storage Income                                       | 10,000           | 10,000           | 10,000           | 10,000           |
| Other Income   | 1,915            | 112              | -                | -                |
|  | <b>749,178</b>   | <b>411,695</b>   | <b>446,031</b>   | <b>516,741</b>   |
| <b>7 NET FINANCE INCOME/( EXPENSE)</b>               |                  |                  |                  |                  |
| <b>7.1 Finance Income</b>                            |                  |                  |                  |                  |
| Interest on Fixed Deposits                           | 1,257            | 8,081            | 1,152            | 6,722            |
| Interest on Loans and Receivables                    | 748              | 609              | 593              | 518              |
| Interest Income from net Investment (Sublease)       | 5,876            | -                | -                | -                |
| Interest from Trade Receivables                      | 1,067            | 898              | 971              | 467              |
| Gain on translation of Foreign Currency              | 24,553           | 5,748            | 16,464           | -                |
| Interest on Amounts due from Related Companies       | -                | -                | 1,604            | 1,259            |
|  | <b>33,501</b>    | <b>15,336</b>    | <b>20,784</b>    | <b>8,966</b>     |
| <b>7.2 Finance Expense</b>                           |                  |                  |                  |                  |
| Interest on Bank Overdraft                           | (66,175)         | (21,425)         | (26,776)         | (4,905)          |
| Interest on Lease Liability                          | (48,055)         | -                | (55)             | -                |
| Interest on Long Term Borrowings                     | (26,623)         | (37,126)         | -                | -                |
| Loss on Changes in Equity Securities at FVTPL        | (3,089)          | (76,610)         | (3,089)          | (76,610)         |
| Loss on Translation of Foreign Currency              | -                | (12,648)         | -                | (12,648)         |
|  | <b>(143,942)</b> | <b>(147,809)</b> | <b>(29,920)</b>  | <b>(94,163)</b>  |
| <b>Net Finance Expense</b>                           | <b>(110,441)</b> | <b>(132,473)</b> | <b>(9,136)</b>   | <b>(85,197)</b>  |

| For the Year Ended 31 March | Group            |                  | Company          |                  |
|-----------------------------|------------------|------------------|------------------|------------------|
|                             | 2020<br>Rs.000's | 2019<br>Rs.000's | 2020<br>Rs.000's | 2019<br>Rs.000's |

## 8 PROFIT BEFORE INCOME TAX EXPENSES

Profit before income tax expense is stated after charging all the expenses including the followings.

|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Directors' Emoluments  | 1,500   | 5,367   | 1,500   | 5,367   |
| Auditors' Remuneration :                                       |         |         |         |         |
| - Audit Services   | 5,173   | 4,820   | 2,920   | 2,783   |
| - Audit Related Services                                       | 1,689   | 1,223   | 1,489   | 1,223   |
| Non Audit Services Fees  | 1,206   | 427     | 407     | 427     |
| Impairment of Investment in Subsidiaries                       | -       | -       | 11,022  | 414     |
| Depreciation on Property, Plant and Equipment                  | 233,464 | 249,454 | 16,753  | 15,986  |
| Amortisation of Right of use Assets                            | 11,419  | -       | 28      | -       |
| Provision/ (Reversal) for Impairment Loss on Trade Receivables | 8,694   | 2,095   | 4,355   | (616)   |
| Management Fees  | 1,000   | 1,020   | 1,000   | 1,020   |
| Personnel Costs (Note 8.1)                                     | 590,047 | 555,710 | 282,019 | 282,399 |

### 8.1 Personnel Costs

|   |         |         |         |         |
|---|---------|---------|---------|---------|
| Defined Contribution Plan Costs - EPF and ETF             | 49,660  | 43,321  | 25,451  | 23,383  |
| Defined Benefit Plan Cost - Retirement Benefit Obligation | 21,061  | 18,877  | 11,359  | 11,223  |
| Other Staff Costs   | 519,326 | 493,512 | 245,209 | 247,793 |
|   | 590,047 | 555,710 | 282,019 | 282,399 |
| Total Numbers of Employees as at Year End                 | 735     | 693     | 304     | 272     |

## 9 INCOME TAX EXPENSE

|  |         |        |        |        |
|--|---------|--------|--------|--------|
| Income Tax for the year (Note 9.1)                   | 12,688  | -      | -      | -      |
| Deferred Tax Charge /(Credit) for the Year (Note 23) | 97,017  | 60,915 | 52,449 | 13,922 |
| WHT on Intercompany Dividends                        | -       | 21,000 | -      | -      |
|  | 109,705 | 81,915 | 52,449 | 13,922 |

- The profits and income of Lanka Milk Foods (CWE) PLC is liable for income tax at the rate 28% in terms of the Provisions of the Inland Revenue Act No.24 of 2017.
- In terms of provision of Inland Revenue Act no. 24 of 2017, the profits and income of Lanka Dairies (Private) Limited is taxed at the rate of 28% and Indo Lanka Exports (Private) Limited is taxed at the rate of 14%.
- The profits and income of Ambewela Livestock Company Limited, Pattipola Livestock Company Limited and United Dairies Lanka (Private) 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.
- 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 10 years.

## NOTES TO THE FINANCIAL STATEMENTS

| For the Year Ended 31 March  | Group            |                  | Company          |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2020<br>Rs.000's | 2019<br>Rs.000's | 2020<br>Rs.000's | 2019<br>Rs.000's |
| <b>9.1 Numerical Reconciliation of Accounting Profit to Income Tax Expense</b> |                  |                  |                  |                  |
| Profit / (Loss) before Income Tax Expense                                      | 400,368          | (44,712)         | 182,385          | 115,405          |
| Consolidation Adjustments  | (94,378)         | 377,518          | -                | -                |
|  | 305,990          | 332,806          | 182,385          | 115,405          |
| Non Business Income  | -                | (28,818)         | -                | (8,966)          |
| Disallowable Expenses  | 507,292          | 426,204          | 120,636          | 144,210          |
| Tax Deductible Expenses  | (222,090)        | (219,681)        | (14,415)         | (9,686)          |
| Tax Exempt Income  | (704,745)        | (674,398)        | (389,305)        | (438,093)        |
| Gain on Disposal of Assets / Livestock   | 154,789          | 41,503           | -                | 500              |
| Assessable Income / (Loss) from Business                                       | 41,236           | (122,384)        | (100,699)        | (196,630)        |
| <b>9.1.1 Business Profit</b>   | 283,135          | 201,061          | -                | -                |
| Business Profit Exempted   | 129,199          | 105,707          | -                | -                |
| Business Loss (Note 9.2)   | (371,098)        | (429,152)        | (100,699)        | (196,630)        |
| Assessable Income / (Loss) from Business                                       | 41,236           | (122,384)        | (100,699)        | (196,630)        |
| Business Profit  | 283,135          | 201,061          | -                | -                |
| Non Business Income  | 1,147            | 28,818           | -                | 8966             |
| Tax Loss Claimed during the Year (Note 9.2)                                    | (238,968)        | (229,879)        | -                | (8,966)          |
| Taxable Income   | 45,314           | -                | -                | -                |
| Income Tax @ 28%   | 12,688           | -                | -                | -                |
|  | 12,688           | -                | -                | -                |
| <b>9.2 Accumulated Tax Losses</b>  |                  |                  |                  |                  |
| Tax Loss brought forward   | 1,836,633        | 1,351,414        | 670,698          | 483,034          |
| Adjustments related to Prior Years   | 32,013           | 285,946          | 19,198           | -                |
| Loss for the Year  | 371,098          | 429,152          | 100,699          | 196,630          |
| Tax Loss claimed during the Year   | (238,968)        | (229,879)        | -                | (8,966)          |
| Tax Loss carried Forward   | 2,000,776        | 1,836,633        | 790,595          | 670,698          |

## 10 EARNINGS/ (LOSS) PER SHARE

10.1 The calculation of basic earnings/ (loss) 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 |         |
|---|---------|-----------|---------|---------|
|   | 2020    | 2019      | 2020    | 2019    |
| Profit / (Loss) Attributable to Ordinary Shareholders (Rs.'000) | 301,252 | (126,312) | 129,936 | 101,483 |
| Weighted Average Number of Ordinary Shares ('000) (Note 21)     | 39,998  | 39,998    | 39,998  | 39,998  |
| Basic Earnings / (Loss) Per Share (Rs.)                         | 7.53    | (3.16)    | 3.25    | 2.54    |

10.2 There were no Potential Dilutive Ordinary Shares outstanding during the Year. Therefore Dilutive Earnings per share is same Basic Earnings per share as shown above

## 11 DIVIDEND PER SHARE

|                          |      |      |      |      |
|--------------------------|------|------|------|------|
| Dividend Per Share (Rs.) | 2.50 | 1.25 | 2.50 | 1.25 |
|--------------------------|------|------|------|------|

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<br>01/04/2019<br>Rs.000's | Additions/<br>Transfers<br>Rs.000's | Disposals/<br>Transfers<br>Rs.000's | As at<br>31/03/2020<br>Rs.000's |
|---------------------------|---------------------------------|-------------------------------------|-------------------------------------|---------------------------------|
| <b>Cost /Deemed Cost</b>  |                                 |                                     |                                     |                                 |
| Leasehold Buildings       | 845,061                         | 1,807                               | -                                   | 846,868                         |
| Plant and Machinery       | 2,110,268                       | 9,535                               | -                                   | 2,119,803                       |
| Laboratory Equipment      | 10,611                          | -                                   | -                                   | 10,611                          |
| Factory Equipment         | 244,444                         | 12,088                              | (12)                                | 256,520                         |
| Canteen Equipment         | 7,101                           | 1,387                               | -                                   | 8,488                           |
| Office Equipment          | 10,560                          | 172                                 | -                                   | 10,732                          |
| Fire Fighting Equipment   | 4,255                           | -                                   | -                                   | 4,255                           |
| Furniture and Fittings    | 11,312                          | 398                                 | -                                   | 11,710                          |
| Fixtures                  | 20                              | -                                   | -                                   | 20                              |
| Computers                 | 21,238                          | 9,887                               | -                                   | 31,125                          |
| Motor Vehicles            | 248,020                         | 21,747                              | (3,745)                             | 266,022                         |
| Milk Collection Equipment | 3,318                           | -                                   | -                                   | 3,318                           |
| Motor Roads and Others    | 63,039                          | -                                   | -                                   | 63,039                          |
|                           | 3,579,247                       | 57,021                              | (3,757)                             | 3,632,511                       |
| Capital Work in Progress  | 25,050                          | 915,807                             | -                                   | 940,857                         |
|                           | 3,604,297                       |                                     |                                     | 4,573,368                       |

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 12.1 Group (Continued)

|                                 | As at<br>01/04/2020<br>Rs.000's | Charge for<br>the Year<br>Rs.000's | Disposals/<br>Transfers<br>Rs.000's | As at<br>31/03/2020<br>Rs.000's |
|---------------------------------|---------------------------------|------------------------------------|-------------------------------------|---------------------------------|
| <b>Accumulated Depreciation</b> |                                 |                                    |                                     |                                 |
| Leasehold Buildings             | 420,341                         | 22,406                             | -                                   | 442,747                         |
| Plant and Machinery             | 1,356,886                       | 171,476                            | -                                   | 1,528,362                       |
| Laboratory Equipment            | 7,226                           | 209                                | -                                   | 7,435                           |
| Factory Equipment               | 202,139                         | 19,247                             | (12)                                | 221,374                         |
| Canteen Equipment               | 2,754                           | 512                                | -                                   | 3,266                           |
| Office Equipment                | 9,790                           | 239                                | -                                   | 10,029                          |
| Fire Fighting Equipment         | 4,255                           | -                                  | -                                   | 4,255                           |
| Furniture and Fittings          | 10,578                          | 368                                | -                                   | 10,946                          |
| Fixtures                        | 10                              | -                                  | -                                   | 10                              |
| Computers                       | 14,414                          | 2,257                              | -                                   | 16,671                          |
| Motor Vehicles                  | 225,528                         | 14,173                             | (3,745)                             | 235,956                         |
| Milk Collection Equipment       | 3,318                           | -                                  | -                                   | 3,318                           |
| Motor Roads and Others          | 59,425                          | 2,577                              | -                                   | 62,002                          |
|                                 | 2,316,664                       | 233,464                            | (3,757)                             | 2,546,371                       |
| Written Down Value              | 1,287,633                       |                                    |                                     | 2,026,997                       |



## 12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### 12.1 Group (Continued)

| As at 31 March                  | 2020<br>Rs.000's | 2019<br>Rs.000's |
|---------------------------------|------------------|------------------|
| <b>Written Down Value</b>       |                  |                  |
| Leasehold Buildings (Note 12.1) | 404,121          | 424,720          |
| Plant and Machinery             | 591,441          | 753,382          |
| Laboratory Equipment            | 3,176            | 3,385            |
| Factory Equipment               | 35,146           | 42,305           |
| Canteen Equipment               | 5,222            | 4,347            |
| Office Equipment                | 703              | 770              |
| Fire Fighting Equipment         | -                | -                |
| Furniture and Fittings          | 764              | 734              |
| Fixtures                        | 10               | 10               |
| Computers                       | 14,454           | 6,824            |
| Motor Vehicles                  | 30,066           | 22,492           |
| Milk Collection Equipment       | -                | -                |
| Motor Roads and Others          | 1,037            | 3,614            |
|                                 | 1,086,140        | 1,262,583        |
| Capital Work in Progress        | 940,857          | 25,050           |
|                                 | 2,026,997        | 1,287,633        |

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

| As at 31 March                      | 2020<br>Rs.000's | 2019<br>Rs.000's |
|-------------------------------------|------------------|------------------|
| Lanka Milk Foods (CWE) PLC          | 280,482          | 251,749          |
| Lanka Dairies (Private) Limited     | 167,379          | 156,106          |
| Ambewela Livestock Company Limited  | 103,905          | 101,916          |
| Pattipola Livestock Company Limited | 67,440           | 65,849           |
| Ambewela Products (Private) Limited | 732,207          | 41,879           |
|                                     | 1,351,413        | 617,499          |

- (b) The Company carried out a valuation of buildings during the financial year ended 31 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.
- (d) During the year, United Dairies Lanka (Private) Limited has capitalised borrowing cost amounting to Rs. 4.9 Mn. relating to constructing Property, Plant and Equipment.

## NOTES TO THE FINANCIAL STATEMENTS

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

#### 12.1 Group (Continued)

The details of buildings on leasehold lands as at 31 March 2020 are as follows:

| Name of Premises and address | Extent<br>(Hectares) | Building<br>(Square feet) | No of<br>Buildings | Cost of the<br>Building<br>Rs.000's | Accumulated<br>Depreciation<br>Rs.000's | Written<br>down value<br>Rs.000's |
|------------------------------|----------------------|---------------------------|--------------------|-------------------------------------|---|-----------------------------------|
| Welisara                     | 3.275                | 140,800                   | 3                  | 434,416                             | 292,745                                 | 141,671                           |
| Ambewela                     | 458.47               |                           | 133                | 412,452                             | 150,002                                 | 262,450                           |
|                              |                      |                           |                    | 846,868                             | 442,747                                 | 404,121                           |

#### 12.2 Company

|                          | As at<br>01/04/2019<br>Rs.000's | Additions/<br>Transfers<br>Rs.000's | Disposals/<br>Transfers<br>Rs.000's | As at<br>31/03/2020<br>Rs.000's |
|--------------------------|---------------------------------|-------------------------------------|-------------------------------------|---------------------------------|
| <b>Cost /Deemed Cost</b> |                                 |                                     |                                     |                                 |
| Leasehold Buildings      | 358,951                         | -                                   | -                                   | 358,951                         |
| Plant and Machinery      | 177,075                         | 230                                 | -                                   | 177,305                         |
| Laboratory Equipment     | 2,843                           | -                                   | -                                   | 2,843                           |
| Factory Equipment        | 9,354                           | 152                                 | (12)                                | 9,494                           |
| Canteen Equipment        | 7,101                           | 1,387                               | -                                   | 8,488                           |
| Office Equipment         | 8,525                           | 37                                  | -                                   | 8,562                           |
| Fire Fighting Equipment  | 4,223                           | -                                   | -                                   | 4,223                           |
| Furniture and Fittings   | 4,017                           | 68                                  | -                                   | 4,085                           |
| Fixtures                 | -                               | -                                   | -                                   | -                               |
| Computers                | 15,595                          | 7,520                               | -                                   | 23,115                          |
| Motor Vehicles           | 108,758                         | 8,097                               | -                                   | 116,855                         |
|                          | 696,442                         | 17,491                              | (12)                                | 713,921                         |

|                                 | As at<br>01/04/2019<br>Rs.000's | Additions/<br>Transfers<br>Rs.000's | Disposals/<br>Transfers<br>Rs.000's | As at<br>31/03/2020<br>Rs.000's |
|---------------------------------|---------------------------------|-------------------------------------|-------------------------------------|---------------------------------|
| <b>Accumulated Depreciation</b> |                                 |                                     |                                     |                                 |
| Leasehold Buildings             | 247,818                         | 8,548                               | -                                   | 256,366                         |
| Plant and Machinery             | 165,433                         | 3,229                               | -                                   | 168,662                         |
| Laboratory Equipment            | 2,836                           | 4                                   | -                                   | 2,840                           |
| Factory Equipment               | 7,451                           | 665                                 | (12)                                | 8,104                           |
| Canteen Equipment               | 2,756                           | 512                                 | -                                   | 3,268                           |
| Office Equipment                | 7,991                           | 139                                 | -                                   | 8,130                           |
| Fire Fighting Equipment         | 4,223                           | -                                   | -                                   | 4,223                           |
| Furniture and Fittings          | 3,860                           | 57                                  | -                                   | 3,917                           |
| Fixtures                        | -                               | -                                   | -                                   | -                               |
| Computers                       | 10,141                          | 1,688                               | -                                   | 11,829                          |
| Motor Vehicles                  | 107,707                         | 1,911                               | -                                   | 109,618                         |
|                                 | 560,216                         | 16,753                              | (12)                                | 576,957                         |
| Written Down Value              | 136,226                         |                                     |                                     | 136,964                         |

## 12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### 12.2 Company (Continued)

| As at 31 March            | 2020<br>Rs.000's | 2019<br>Rs.000's |
|---------------------------|------------------|------------------|
| <b>Written Down Value</b> |                  |                  |
| Leasehold Buildings       | 102,585          | 111,133          |
| Plant and Machinery       | 8,643            | 11,642           |
| Laboratory Equipment      | 3                | 7                |
| Factory Equipment         | 1,390            | 1,903            |
| Canteen Equipment         | 5,220            | 4,345            |
| Office Equipment          | 432              | 534              |
| Fire Fighting Equipment   | -                | -                |
| Furniture and Fittings    | 168              | 157              |
| Fixtures                  | -                | -                |
| Computers                 | 11,286           | 5,454            |
| Motor Vehicles            | 7,237            | 1,051            |
|                           | <b>136,964</b>   | <b>136,226</b>   |

## 13 INVESTMENT IN SUBSIDIARIES

### Company

| As at 31 March   | Holding<br>Percentage | 2020             |                  | 2019             |                  |
|--|-----------------------|------------------|------------------|------------------|------------------|
|  |                       | No. of<br>Shares | Cost<br>Rs.000's | No. of<br>Shares | Cost<br>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 (Pvt) Limited                         | 100%                  | 5,000,000        | 50,000           | 5,000,000        | 50,000           |
| Indo Lanka Exports (Private) Limited                       | 51%                   | 306,000          | 30,600           | 306,000          | 30,600           |
|  |                       |                  | <b>1,193,552</b> |                  | <b>1,193,552</b> |
| Less : Provision for Impairment of Investments (Note 13.1) |                       |                  | <b>(128,552)</b> |                  | <b>(117,530)</b> |
|  |                       |                  | <b>1,065,000</b> |                  | <b>1,076,022</b> |

### 13.1 Provision for Impairment of Investments

| As at 31 March         | 2020<br>Rs.000's | 2019<br>Rs.000's |
|------------------------|------------------|------------------|
| Balance as at 01 April | 117,530          | 388,551          |
| Charge for the Year    | 11,022           | (271,021)        |
| Balance as at 31 March | <b>128,552</b>   | <b>117,530</b>   |

## NOTES TO THE FINANCIAL STATEMENTS

### 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.128,552,000/- and Rs.117,530,252/- on the investment in subsidiaries as at 31 March 2020 and 2019 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                       | 2020      | 2019      |
|--------------------------------------|-----------|-----------|
| 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)  |
| Indo Lanka Exports (Private) Limited | (30,600)  | (19,578)  |
|                                      | (128,552) | (117,530) |

### 14 INVESTMENT IN SHARES

#### Group / Company

| As at 31 March                                       | 2020      | 2019      |
|--|-----------|-----------|
| Written Down Value                                   | Rs.000's  | Rs.000's  |
| Equity Securities – at FVOCI (Note 14.1)             | 7,437,642 | 6,118,831 |
| Equity Securities – Mandatorily at FVTPL (Note 14.2) | 209,061   | 209,839   |

| As at 31 March                           | 2020          |                     | 2019          |                     |
|--|---------------|---------------------|---------------|---------------------|
|  | No. of Shares | Fair Value Rs.000's | No. of Shares | Fair Value Rs.000's |
| <b>14.1 Equity Securities – at FVOCI</b> |               |                     |               |                     |
| Group/Company                            |               |                     |               |                     |
| Distilleries Company of Sri Lanka PLC    | 44,991,407    | 832,341             | 44,991,407    | 652,375             |
| Melstacorp PLC                           | 151,846,000   | 6,605,301           | 151,846,000   | 5,466,456           |
|  |               | 7,437,642           |               | 6,118,831           |

14.1.1 Net Change in Fair Value Gain in Equity Securities - at FVOCI during the Year was Rs. 1,318,811,351 and in Year 2019 was a fair value loss of Rs. 3,386,322,277.

| As at 31 March | 2020          |                     | 2019          |                     |
|----------------|---------------|---------------------|---------------|---------------------|
|                | No. of Shares | Fair Value Rs.000's | No. of Shares | Fair Value Rs.000's |

#### 14.2 Equity securities – at FVTPL

| Group / Company                           | 2020          | 2019                |
|---|---------------|---------------------|
|   | No. of Shares | Fair Value Rs.000's |
| Browns Beach Hotels PLC                   | 1,251,558     | 16,270              |
| Colombo Dockyard PLC                      | 219,948       | 13,637              |
| Commercial Bank of Sri Lanka PLC - Voting | 1,885,830     | 179,154             |
|   |               | 209,061             |
|   |               | 209,839             |

14.2.1 Due to the COVID-19 outbreak and the closure of The Colombo Stock Exchange, the fair value disclosed as at 31 March 2020 is based on the closing traded prices that existed as at 31 December 2019 as recommended in the Guidance Notes on Accounting Considerations on the COVID-19 outbreak, issued by the Institute of Chartered Accountants of Sri Lanka.

## 15 BIOLOGICAL ASSETS

| As at 31 March                            | Group            |                  | Company          |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2020<br>Rs.000's | 2019<br>Rs.000's | 2020<br>Rs.000's | 2019<br>Rs.000's |
| <b>15.1 Livestock</b>                     |                  |                  |                  |                  |
| Balance as at the beginning of the Year   | 687,013          | 528,210          | -                | -                |
| Additions during the Year                 | -                | 61,775           | -                | -                |
| Increase in Fair Value during the Year    | 285,796          | 243,112          | -                | -                |
| Disposals during the Year                 | (126,897)        | (146,084)        | -                | -                |
| Balance as at the end of the Year         | 845,912          | 687,013          | -                | -                |
| <b>15.2 Non Perennial Crops - At Cost</b> |                  |                  |                  |                  |
| Balance as at the beginning of the Year   | 17,159           | 15,808           | -                | -                |
| Additions during the Year                 | 21,322           | 17,159           | -                | -                |
| Disposals during the Year                 | (17,159)         | (15,808)         | -                | -                |
| Balance as at the end of the Year         | 21,322           | 17,159           | -                | -                |

The Group has used the following significant criteria in determining the fair value of the biological assets as at 31 March 2020.

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.

| As at 31 March                                  | Group            |                  | Company          |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2020<br>Rs.000's | 2019<br>Rs.000's | 2020<br>Rs.000's | 2019<br>Rs.000's |
| <b>Gain included in other income</b>            |                  |                  |                  |                  |
| Change in fair value (realized)                 | 132              | -                | -                | -                |
| Change in fair value (unrealized)               | 285,796          | 243,112          | -                | -                |
|   | 285,928          | 243,112          | -                | -                |
| <b>Loss included in other operating expense</b> |                  |                  |                  |                  |
| 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.

## NOTES TO THE FINANCIAL STATEMENTS

### 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<br>Group | -10%<br>Rs.000's | 2020<br>Rs.000's | +10%<br>Rs.000's |
|-------------------------|------------------|------------------|------------------|
| Livestock               | 761,321          | 845,912          | 930,503          |
| <b>Total</b>            | <b>761,321</b>   | <b>845,912</b>   | <b>930,503</b>   |

##### 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<br>Group | -10%<br>Rs.000's | 2020<br>Rs.000's | +10%<br>Rs.000's |
|-------------------------|------------------|------------------|------------------|
| Livestock               | 838,006          | 845,912          | 853,820          |
| <b>Total</b>            | <b>838,006</b>   | <b>845,912</b>   | <b>853,820</b>   |

##### 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<br>Group | -1%<br>Rs.000's | 2020<br>Rs.000's | +1%<br>Rs.000's |
|-------------------------|-----------------|------------------|-----------------|
| Livestock               | 863,262         | 845,912          | 829,128         |
| <b>Total</b>            | <b>863,262</b>  | <b>845,912</b>   | <b>829,128</b>  |

### 16 INVENTORIES

| As at 31 March  | Group            |                  | Company          |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2020<br>Rs.000's | 2019<br>Rs.000's | 2020<br>Rs.000's | 2019<br>Rs.000's |
| Raw Materials and Consumables                         | 809,569          | 1,219,830        | 292,353          | 623,240          |
| Finished Goods  | 125,669          | 103,087          | 46,343           | 23,161           |
| Working in progress                                   | 3,732            | 11,688           | -                | 8,590            |
| Goods in Transit                                      | 87,381           | 105,620          | 36,219           | 5,406            |
|   | <b>1,026,351</b> | <b>1,440,225</b> | <b>374,915</b>   | <b>660,397</b>   |
| Less : Provision for Obsolete Inventories (Note 16.1) | (21,959)         | (25,407)         | (16,368)         | (745)            |
|   | <b>1,004,392</b> | <b>1,414,818</b> | <b>358,547</b>   | <b>659,652</b>   |

#### 16.1 Provision for Obsolete Inventories

|                                |               |               |               |            |
|--------------------------------|---------------|---------------|---------------|------------|
| Balance as at 01 April         | 25,407        | 25,820        | 745           | 1,158      |
| Charge/(Reversal) for the year | (3,448)       | (413)         | 15,623        | (413)      |
| Balance as at 31 March         | <b>21,959</b> | <b>25,407</b> | <b>16,368</b> | <b>745</b> |

## 17 TRADE RECEIVABLES

| As at 31 March                                    | Group            |                  | Company          |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2020<br>Rs.000's | 2019<br>Rs.000's | 2020<br>Rs.000's | 2019<br>Rs.000's |
| Trade Receivables                                 | 796,011          | 573,362          | 388,835          | 216,154          |
| Less: Provision for Impairment Losses (Note 17.1) | (82,382)         | (73,688)         | (47,034)         | (42,679)         |
|   | 713,629          | 499,674          | 341,801          | 173,475          |

### 17.1 Provision for Impairment Losses

|                                  |        |        |        |        |
|----------------------------------|--------|--------|--------|--------|
| Balance as at 01 April           | 73,688 | 71,593 | 42,679 | 43,295 |
| Charge / (Reversal) for the Year | 8,694  | 2,095  | 4,355  | (616)  |
| Balance as at 31 March           | 82,382 | 73,688 | 47,034 | 42,679 |

## 18 OTHER RECEIVABLES

|                                     |         |         |        |        |
|-------------------------------------|---------|---------|--------|--------|
| Deposits and Prepayments            | 70,565  | 28,985  | 2,604  | 1,621  |
| Less: Provision for Impairment      | (9)     | (9)     | -      | -      |
|                                     | 70,556  | 28,976  | 2,604  | 1,621  |
| Insurance Receivables               | 180     | 423     | -      | 8      |
| Other Taxes Recoverable (Note 18.1) | 40,015  | 88,936  | 38,045 | 85,990 |
| Sundry Receivables                  | 6,671   | 7,726   | 543    | 1,438  |
| Staff Loans and Advances            | 11,402  | 10,021  | 9,006  | 7,267  |
|                                     | 128,824 | 136,082 | 50,198 | 96,324 |

### 18.1 Other Taxes Recoverable

|                     |        |        |        |        |
|---------------------|--------|--------|--------|--------|
| With Holding Tax    | 1,019  | -      | -      | -      |
| Nation Building Tax | 6,357  | 10,661 | 6,357  | 9,722  |
| Value Added Tax     | 32,639 | 78,275 | 31,688 | 76,268 |
|                     | 40,015 | 88,936 | 38,045 | 85,990 |

## 19 AMOUNTS DUE FROM RELATED COMPANIES

|  |        |        |           |           |
|--|--------|--------|-----------|-----------|
| Lanka Dairies (Private) Limited                    | -      | -      | 67,544    | 128,023   |
| Stassen Exports (Private) Limited                  | 69,565 | 36,335 | 14,451    | 7,110     |
| Aitken Cargo (Private) Limited                     | -      | 378    | -         | -         |
| Ambewela Products (Private) Limited                | -      | -      | 97,408    | 10,809    |
| Ambewela Livestock Company Limited                 | -      | -      | 316,552   | 316,524   |
| Aitken Spence PLC                                  | 2,617  | 1,521  | 1,361     | 1,521     |
| Distilleries Company of Sri Lanka PLC              | 910    | 5,183  | 853       | 5,077     |
| Madulsima Plantation PLC                           | 53     | 496    | 53        | 496       |
| Balangoda Plantation PLC                           | 206    | 326    | 206       | 326       |
| Browns Beach Hotel PLC                             | 144    | 191    | 105       | 146       |
| United Dairies Lanka (Private) Limited             | -      | -      | 162,913   | -         |
| Pattipola Livestock Company Limited                | -      | -      | 148,482   | 148,524   |
|  | 73,495 | 44,430 | 809,928   | 618,556   |
| Less : Provision for Impairment Losses (Note 19.1) | -      | -      | (264,949) | (203,201) |
|  | 73,495 | 44,430 | 544,979   | 415,355   |

### 19.1 Provision for Impairment Losses

| As at 31 March                      | Company          |                  |
|-------------------------------------|------------------|------------------|
|                                     | 2020<br>Rs.000's | 2019<br>Rs.000's |
| Ambewela Livestock Company Limited  | 231,074          | 203,201          |
| Pattipola Livestock Company Limited | 32,958           | -                |
| Lanka Dairies (Private) Limited     | 154              | -                |
| Ambewela Products (Private) Limited | 763              | -                |
|                                     | 264,949          | 203,201          |

## NOTES TO THE FINANCIAL STATEMENTS

### 20 CASH AND CASH EQUIVALENTS

| As at 31 March            | Group            |                  | Company          |                  |
|---------------------------|------------------|------------------|------------------|------------------|
|                           | 2020<br>Rs.000's | 2019<br>Rs.000's | 2020<br>Rs.000's | 2019<br>Rs.000's |
| Cash at Bank and in Hand  | 16,410           | 32,541           | 4,574            | 13,175           |
| Call Deposit              | 10,029           | 9,691            | 10,029           | 9,691            |
| Expected Credit Loss      | (5)              | (5)              | (5)              | (5)              |
|                           | 26,434           | 42,227           | 14,598           | 22,861           |
| Less : Bank Overdraft     | (1,102,091)      | (634,415)        | (355,923)        | (253,981)        |
| Cash and Cash Equivalents | (1,075,657)      | (592,188)        | (341,325)        | (231,120)        |

### 20.1 Security details over Bank Overdraft facilities

| Name of the Company                   | Bank            | Facility Value<br>(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 (Private) Limited  | HNB -Wattala    | 40                        | Corporate Guarantee from Lanka Milk Foods (CWE) PLC |
|                                       | HNB -Nuwraeliya | 10                        |   |
| Pattipola Livestock (Private) Limited | HNB -Wattala    | 90                        | Corporate Guarantee from Lanka Milk Foods(CWE) PLC  |
|                                       | HNB -Nuwraeliya | 10                        |   |

### 21 STATED CAPITAL

| As at 31 March             | Group            |                  | Company          |                  |
|----------------------------|------------------|------------------|------------------|------------------|
|                            | 2020<br>Rs.000's | 2019<br>Rs.000's | 2020<br>Rs.000's | 2019<br>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.

#### 22.2 Revenue Reserves

| As at 31 March                    | Group            |                  | Company          |                  |
|-----------------------------------|------------------|------------------|------------------|------------------|
|                                   | 2020<br>Rs.000's | 2019<br>Rs.000's | 2020<br>Rs.000's | 2019<br>Rs.000's |
| Dairy Development Project Reserve | 110,000          | 110,000          | 110,000          | 110,000          |
| Retained Earnings                 | 2,330,871        | 2,083,148        | 1,634,632        | 1,556,558        |
|                                   | 2,440,871        | 2,193,148        | 1,744,632        | 1,666,558        |

#### 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          |                  |          |
|---|------------------|------------------|------------------|------------------|----------|
|   | 2020<br>Rs.000's | 2019<br>Rs.000's | 2020<br>Rs.000's | 2019<br>Rs.000's |          |
| Summary of Net Deferred Tax Assets / (Liabilities)  |                  |                  |                  |                  |          |
| Balance as at 01 April                              | (115,564)        | (52,180)         | 75,266           | 91,437           |          |
| <b>Recognised in the Profit or Loss</b>             |                  |                  |                  |                  |          |
| Amounts Credit / (Charged) during the Year          | (97,017)         | (60,915)         | (52,449)         | (13,922)         |          |
| <b>Recognised in the Other Comprehensive Income</b> |                  |                  |                  |                  |          |
| Amounts Credit / (Charged) during the Year          | 940              | (2,469)          | 725              | (2,249)          |          |
| <b>Balance as at 31 March</b>                       | <b>(211,641)</b> | <b>(115,564)</b> | <b>23,542</b>    | <b>75,266</b>    |          |
| Deferred Tax Assets                                 | Note 23.1/ 23.2  | 149,814          | 239,201          | 47,500           | 101,611  |
| Deferred Tax Liabilities                            | Note 23.1/ 23.2  | (361,455)        | (354,765)        | (23,958)         | (26,345) |
|   |                  | (211,641)        | (115,564)        | 23,542           | 75,266   |

23.1 The amounts shown in the Statement of Financial Position represents the followings;

**Group / Company**

| As at 31 March                      | 2020                            |                                      |   | 2019                            |                                      |  |
|-------------------------------------|---------------------------------|--------------------------------------|---|---------------------------------|--------------------------------------|--|
|                                     | Deferred tax assets<br>Rs.000's | Deferred tax liabilities<br>Rs.000's | Net deferred tax assets/<br>(liabilities)<br>Rs.000's | Deferred tax assets<br>Rs.000's | Deferred tax liabilities<br>Rs.000's | Net deferred tax assets /<br>(liabilities)<br>Rs.000's |
| Lanka Milk Foods (CWE) PLC          | 47,500                          | (23,958)                             | 23,542  | 101,611                         | (26,345)                             | 75,266   |
| Net Deferred Tax Assets             | -                               | -                                    | 23,542  | -                               | -                                    | 75,266   |
| Lanka Dairies (Private) Limited     | 4,176                           | (153,189)                            | (149,013)   | 69,955                          | (158,927)                            | (88,972)   |
| Ambewela Products (Private) Limited | 5,416                           | (85,876)                             | (80,460)  | 1,495                           | (90,818)                             | (89,323)   |
| Ambewela Livestock Company Limited  | 52,306                          | (52,306)                             | -   | 41,322                          | (41,322)                             | -  |
| Pattipola Livestock Company Limited | 40,416                          | (46,126)                             | (5,710)   | 24,818                          | (37,353)                             | (12,535)   |
| Net Deferred Tax Liabilities        | -                               | -                                    | (235,183)   | -                               | -                                    | (190,830)  |
|                                     | 149,814                         | (361,455)                            | (211,641)   | 239,201                         | (354,765)                            | (115,564)  |

## NOTES TO THE FINANCIAL STATEMENTS

### 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   | 2020                              |                        | 2019                              |                        |
|--|-----------------------------------|------------------------|-----------------------------------|------------------------|
|  | Temporary Differences<br>Rs.000's | Tax Effect<br>Rs.000's | Temporary Differences<br>Rs.000's | Tax Effect<br>Rs.000's |
| <b>Deferred Tax Liabilities On :</b>                       |                                   |                        |                                   |                        |
| Property, plant and Equipment                              | (919,219)                         | (231,242)              | (990,728)                         | (248,135)              |
| Biological Assets  | (845,913)                         | (130,213)              | (687,014)                         | (106,630)              |
|  | (1,765,132)                       | (361,455)              | (1,677,742)                       | (354,765)              |
| <b>Deferred Tax Assets On :</b>                            |                                   |                        |                                   |                        |
| Employee Benefits  | 115,478                           | 27,710                 | 101,589                           | 24,474                 |
| Net Lease Liability  | 18,272                            | 3,602                  | -                                 | -                      |
| Unused Tax Losses  | 740,190                           | 118,502                | 991,051                           | 214,727                |
|  | 873,940                           | 149,814                | 1,092,640                         | 239,201                |
|  | (891,192)                         | (211,641)              | (585,102)                         | (115,564)              |
| <b>Reconciliation of Net Deferred Tax Assets - Company</b> |                                   |                        |                                   |                        |
| <b>Deferred Tax Liabilities On :</b>                       |                                   |                        |                                   |                        |
| Property, Plant and Equipment                              | (85,563)                          | (23,958)               | (94,090)                          | (26,345)               |
|  | (85,563)                          | (23,958)               | (94,090)                          | (26,345)               |
| <b>Deferred Tax Assets On :</b>                            |                                   |                        |                                   |                        |
| Employee Benefits  | 63,375                            | 17,745                 | 58,007                            | 16,241                 |
| Lease Liability  | 16                                | 4                      | -                                 | -                      |
| Tax Losses   | 106,255                           | 29,751                 | 304,892                           | 85,370                 |
|  | 169,646                           | 47,500                 | 362,899                           | 101,611                |
|  | 84,083                            | 23,542                 | 268,809                           | 75,266                 |

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

### 23.3 Movement of Net Deferred Tax Liabilities - Group

|                               | As at<br>01 April 2019 |           | (Charged) /<br>Credit in |           | As at 31<br>March 2020 | As at<br>01 April 2018 |           | (Charged) /<br>Credit in |           | As at<br>31 March 2019 |
|-------------------------------|------------------------|-----------|--------------------------|-----------|------------------------|------------------------|-----------|--------------------------|-----------|------------------------|
|                               | Rs. 000's              | 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 |                        |
| Property, Plant and Equipment | (248,135)              | 16,893    | -                        | -         | (231,242)              | (266,723)              | 18,588    | -                        | -         | (248,135)              |
| Biological Assets             | (106,630)              | (23,583)  | -                        | -         | (130,213)              | (81,507)               | (25,123)  | -                        | -         | (106,630)              |
| Employee Benefits             | 24,474                 | 2,296     | 940                      | -         | 27,710                 | 24,742                 | 2,201     | (2,469)                  | -         | 24,474                 |
| Unused Tax Losses             | 214,727                | (96,225)  | -                        | -         | 118,502                | 271,308                | (56,581)  | -                        | -         | 214,727                |
| Net Lease Liability           | -                      | 3,602     | -                        | -         | 3,602                  | -                      | -         | -                        | -         | -                      |
|                               | (115,564)              | (97,017)  | 940                      | -         | (211,641)              | (52,180)               | (60,915)  | (2,469)                  | -         | (115,564)              |

### Movement of Net Deferred Tax Assets - Company

|                               | As at<br>01 April 2019 |           | (Charged) /<br>Credit in |           | As at 31<br>March 2020 | As at<br>01 April 2018 |           | (Charged) /<br>Credit in |           | As at<br>31 March 2019 |
|-------------------------------|------------------------|-----------|--------------------------|-----------|------------------------|------------------------|-----------|--------------------------|-----------|------------------------|
|                               | Rs. 000's              | 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 |                        |
| Property, Plant and Equipment | (26,345)               | 2,387     | -                        | -         | (23,958)               | (29,102)               | 2,757     | -                        | -         | (26,345)               |
| Employee Benefits             | 16,241                 | 779       | 725                      | -         | 17,745                 | 17,423                 | 1,067     | (2,249)                  | -         | 16,241                 |
| Unused Tax Losses             | 85,370                 | (55,619)  | -                        | -         | 29,751                 | 103,116                | (17,746)  | -                        | -         | 85,370                 |
| Net Lease Liability           | -                      | 4         | -                        | -         | 4                      | -                      | -         | -                        | -         | -                      |
|                               | 75,266                 | (52,449)  | 725                      | -         | 23,542                 | 91,437                 | (13,922)  | (2,249)                  | -         | 75,266                 |

23.4 The Group and Company has not been recognized deferred tax assets of Rs. 219,623,880/- and Rs. 191,615,200/- as at 31 March 2020 (31 March 2019 -Rs. 109,309,391/- and Rs. 84,682,391/-), arising on unused tax losses of Rs. 884,402,100/- and Rs.684,340,100/- respectively (31 March 2019 - Rs. 478,344,256/- and Rs.302,437,110/-) , 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 2020 is Rs. 28,008,680/- (31 March 2019 Rs. 24,627,000/- ) on unused tax losses of Rs.200,062,000/- (31 March 2019 Rs.175,907,146/-).

| Group/ Company                     | Deductible<br>Temporary<br>Difference<br>Rs. | Unrecognized<br>Deferred Tax<br>Assets<br>Rs. |
|------------------------------------|--|---|
| Lanka Milk Foods (CWE) PLC         | 684,340,100                                  | 191,615,200                                   |
| Ambewela Livestock Company Limited | 200,062,000                                  | 28,008,680                                    |
|                                    | 884,402,100                                  | 219,623,880                                   |

## NOTES TO THE FINANCIAL STATEMENTS

### 23 DEFERRED TAXATION (CONTINUED)

- 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, 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%          |

- 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          |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2020<br>Rs.000's | 2019<br>Rs.000's | 2020<br>Rs.000's | 2019<br>Rs.000's |
| Balance as at the Beginning of the Year | 101,589          | 100,337          | 58,007           | 62,227           |
| Interest Cost                           | 7,203            | 9,731            | 6,381            | 6,845            |
| Current Service Cost                    | 13,858           | 9,755            | 4,978            | 4,378            |
| Actuarial Loss/ (Gain)                  | 4,471            | (6,875)          | 2,589            | (8,033)          |
| Payments made during the Year           | (11,644)         | (11,359)         | (8,580)          | (7,410)          |
| Balance as at the end of the Year       | 115,477          | 101,589          | 63,375           | 58,007           |

- 24.1 The total amount charged to Statement of Comprehensive Income and Other Comprehensive Income in respect of Retirement Benefit Obligations made up as follows;

|  |        |         |        |         |
|--|--------|---------|--------|---------|
| Interest Cost  | 7,203  | 9,731   | 6,381  | 6,845   |
| Current Service Cost                                       | 13,858 | 9,755   | 4,978  | 4,378   |
| Expense recognized in Comprehensive Income                 | 21,061 | 19,486  | 11,359 | 11,223  |
| Actuarial Loss/ (Gain)                                     | 4,471  | (6,875) | 2,589  | (8,033) |
| (Income) /Expense recognized in Other Comprehensive Income | 4,471  | (6,875) | 2,589  | (8,033) |

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 2020.

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.

## 24.1 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

| As at 31 March<br>Group           | 2020<br>Rs.000's | 2019<br>Rs.000's |
|-----------------------------------|------------------|------------------|
| i.) Discount Rate                 | 10%              | 11%              |
| ii.) Annual Salary Increment Rate | 10%              | 10%              |
| 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%<br>Rs.000's | -1%<br>Rs.000's | +1%<br>Rs.000's | -1%<br>Rs.000's |
| Effect on the discounting rate       | (4,553)         | 5,156           | (1,977)         | 2,138           |
| Effect on the salary escalation rate | 5,184           | (4,659)         | 2,195           | (2,066)         |

## 25 LOANS AND BORROWINGS

| As at 31 March                          | Group            |                  | Company          |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2020<br>Rs.000's | 2019<br>Rs.000's | 2020<br>Rs.000's | 2019<br>Rs.000's |
| Term Loans - Secured                    |                  |                  |                  |                  |
| Balance as at the Beginning of the Year | 250,547          | 317,359          | -                | -                |
| Add : Loans obtained during the Year    | 171,096          | -                | -                | -                |
|   | 421,643          | 317,359          | -                | -                |
| Less : Repayments during the year       | (66,812)         | (66,812)         | -                | -                |
| Balance as at the end of the Year       | 354,831          | 250,547          | -                | -                |
| Amount payable within one Year          | 66,812           | 66,812           | -                | -                |
| Amount Payable after one Year           | 288,019          | 183,735          | -                | -                |
|   | 354,831          | 250,547          | -                | -                |

### 25.1 Terms and Conditions of the loan obtained by the Subsidiaries, Lanka Dairies (Private) Limited and United Dairies Lanka (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 Corporate Guarantee provided by Lanka Milk Foods (CWE) PLC | AWPLR + 1.25  |
| Commercial Bank PLC   | To part finance the new farm project at Ambewela.       | Corporate Guarantee provided by Lanka Milk Foods (CWE) PLC  | AWPLR + 1.0   |

## 26 TRADE AND OTHER PAYABLES

| As at 31 March                | Group            |                  | Company          |                  |
|-------------------------------|------------------|------------------|------------------|------------------|
|                               | 2020<br>Rs.000's | 2019<br>Rs.000's | 2020<br>Rs.000's | 2019<br>Rs.000's |
| Trade and Other Payables      | 301,240          | 266,305          | 37,815           | 57,836           |
| Accrued Expenses              | 22,528           | 24,661           | 2,914            | 4,893            |
| Outstanding Letters of Credit | 30,405           | 279,199          | 30,405           | 279,199          |
| Unclaimed Dividend            | 2,370            | 4,867            | 2,370            | 4,867            |
|                               | 356,543          | 575,032          | 73,504           | 346,795          |

## NOTES TO THE FINANCIAL STATEMENTS

### 27 AMOUNTS DUE TO RELATED COMPANIES

| As at 31 March                         | Group            |                  | Company          |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2020<br>Rs.000's | 2019<br>Rs.000's | 2020<br>Rs.000's | 2019<br>Rs.000's |
| Stassen Exports (Private) Limited      | 1,523            | 3,610            | 127              | 21               |
| Indo Lanka Exports (Private) Limited   | -                | -                | -                | 22,028           |
| Aitken Spence PLC                      | 479              | 270              | -                | -                |
| Aitken Cargo (Private) Limited         | -                | 62               | -                | -                |
| Ambewela Products (Private) Limited    | -                | -                | 2,447            | -                |
| Distilleries Company of Sri Lanka PLC  | 6,958            | 3,885            | -                | 210              |
| Maudulsima Plantation PLC              | 1,007            | 134              | 1,007            | 134              |
| Lanka Bell (Private) Limited           | 88               | 16               | 60               | 5                |
| Pattipola Livestock Company Limited    | -                | -                | -                | 4                |
| United Dairies Lanka (Private) Limited | -                | -                | -                | 14,692           |
|  | 10,055           | 7,977            | 3,641            | 37,094           |

### 28 COMMITMENTS

#### 28.1 Capital Commitments

There are no other material capital commitments at Group and Company as at the reporting date except for the following commitments disclosed below of a subsidiary, United Dairies Lanka (Private) Limited:

| As at 31 March                              | Group          |                |
|---|----------------|----------------|
|   | 2020<br>Rs. MN | 2019<br>Rs. MN |
| Capital commitments approved and contracted | 2930           | -              |

#### 28.2 Financial Commitments

| As at 31 March  | Group            |                  | Company          |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2020<br>Rs.000's | 2019<br>Rs.000's | 2020<br>Rs.000's | 2019<br>Rs.000's |
| Maturity Analysis - Contractual Undiscounted Cash Flows |                  |                  |                  |                  |
| Less than one Year                                      | -                | 32,176           | -                | 67               |
| One to five Years                                       | -                | 150,089          | -                | 335              |
| More than five Years                                    | -                | 866,795          | -                | 536              |
| Total Undiscounted Liabilities as at 31 March           | -                | 1,049,060        | -                | 938              |

Future Payments of operating lease rentals for current year are disclosed in note 29.4 under Maturity analysis - contractual undiscounted cash flows.

## 29 LEASES

The Group/ Company leases building premises for operating activities. Lease payments are made based on pre- agreed rate which are specified in the respective lease contracts.

The value of the Right-of-use assets is presented as a separate line item in the Statement of Financial Position and the correspondent lease liability has presented under 'Current liabilities and Non current liabilities' in the Statement of Financial Position as at 31 March 2020.

Further, the amortisation charge on Right-of-use asset is presented as a separate line item under 'Depreciation & Amortization' and the interest cost on lease liability is presented as a component of the finance cost of the Group/ Company in the Statement of Profit or Loss for the year ended 31 March 2020.

The relevant disclosures to be made under "Notes to the Financial Statements" in the Annual Financial Statements for the Year ended 31 March 2020 are illustrated below.

### 29.1 The carrying amounts of right-of-use assets recognised and its movements during the year:

| As at 31 March   | Group            | Company          |
|--|------------------|------------------|
|  | 2020<br>Rs.000's | 2020<br>Rs.000's |
| <b>Cost</b>  |                  |                  |
| Balance as at 01 April 2019                            | -                | -                |
| Recognition on transition date as at 01 April 2019     | 370,638          | 391              |
| De-recognition of Right of Use Asset to Net Investment | (42,386)         | -                |
| Additions during the Year                              | -                | -                |
| Disposals / write-offs during the Year                 | -                | -                |
| Balance as at 31 March 2020                            | 328,252          | 391              |
| <b>Accumulated Amortisation</b>                        |                  |                  |
| Balance as at 01 April 2019                            | -                | -                |
| Recognition on transition date as at 01 April 2019     | -                | -                |
| Charge for the Year                                    | 11,419           | 28               |
| Accumulated Amortisation as at 31 March 2020           | 11,419           | 28               |
| Net Book Value as at 31 March 2020                     | 316,833          | 363              |

### 29.2 Net Investment

| As at 31 March                                     | Group            | Company          |
|--|------------------|------------------|
|  | 2020<br>Rs.000's | 2020<br>Rs.000's |
| Balance as at 01 April 2019                        | -                | -                |
| Recognition on transition date as at 01 April 2019 | 42,386           | -                |
| Additions during the Year                          | -                | -                |
| Unwind Interest                                    | 5,876            | -                |
| Cash Received                                      | (2,399)          | -                |
| Balance as at 31 March 2020                        | 45,863           | -                |

## NOTES TO THE FINANCIAL STATEMENTS

### 29 LEASES (CONTINUED)

#### 29.3 The carrying amounts of lease liability (included under current and non current liabilities) and its movements during the year:

| As at 31 March                                     | Group            | Company          |
|--|------------------|------------------|
|  | 2020<br>Rs.000's | 2020<br>Rs.000's |
| Balance as at 01 April 2019                        | -                | -                |
| Recognition on transition date as at 01 April 2019 | 353,952          | 391              |
| Additions during the Year                          | -                | -                |
| Accretion of Interest                              | 48,055           | 55               |
| Payments   | (34,877)         | (67)             |
| Balance as at 31 March 2020                        | 367,130          | 379              |
| Current  | 34,025           | 59               |
| Non- current                                       | 333,105          | 320              |
| Balance as at 31 March 2020                        | 367,130          | 379              |

#### 29.4 Maturity Analysis - Contractual Undiscounted Cash Flows

| As at 31 March                                | Group            |                  | Company          |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2020<br>Rs.000's | 2019<br>Rs.000's | 2020<br>Rs.000's | 2019<br>Rs.000's |
| Less than one Year                            | 34,875           | -                | 67               | -                |
| One to five Years                             | 150,089          | -                | 335              | -                |
| More than five Years                          | 831,920          | -                | 469              | -                |
| Total Undiscounted Liabilities as at 31 March | 1,016,884        | -                | 871              | -                |

#### 29.5 Amounts Recognised in Statement of Profit or Loss

| As at 31 March  | Group            |                  | Company          |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2020<br>Rs.000's | 2019<br>Rs.000's | 2020<br>Rs.000's | 2019<br>Rs.000's |
| 2019/2020 - Leases under SLFRS 16   |                  |                  |                  |                  |
| Depreciation of Right-of-use Assets                                       | 11,419           | -                | 28               | -                |
| Interest Expense on Lease Liabilities                                     | 48,055           | -                | 55               | -                |
| Income from sub - leasing right of use assets presented in 'other income' | 5,876            | -                | -                | -                |
|   | 65,350           | -                | 83               | -                |
| 2018/2019 - Operating leases under LKAS 17                                |                  |                  |                  |                  |
| Lease expense   | -                | 29,995           | -                | 67               |
|   | -                | 29,995           | -                | 67               |

#### 29.6 Amounts Recognised in Statement of Cash Flows

| As at 31 March                | Group            |                  | Company          |                  |
|-------------------------------|------------------|------------------|------------------|------------------|
|                               | 2020<br>Rs.000's | 2019<br>Rs.000's | 2020<br>Rs.000's | 2019<br>Rs.000's |
| Total Cash Outflow for Leases | (34,877)         | -                | (67)             | -                |
|                               | (34,877)         | -                | (67)             | -                |



### 30. 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%           | -                        |

### 31. 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<br>Rs. MN |
|--|------------------|-----------------------------------|
| Lanka Dairies (Private) Limited        | HNB              | 425                               |
| Lanka Dairies (Private) Limited        | DFCC             | 560                               |
| Ambewela Products (Private) Limited    | HNB              | 250                               |
| Ambewela Livestock Company Limited     | HNB              | 60                                |
| Pattipola Livestock Company Limited    | HNB              | 110                               |
| Indo Lanka Exports (Private) Limited   | HNB              | 31.6                              |
| United Dairies Lanka (Private) Limited | HNB              | 900                               |
| United Dairies Lanka (Private) Limited | COMM             | 3,000                             |

The Directors do not expect any claim on these guarantees. Accordingly, no provision has been made in the Financial Statements.

### 32. EVENTS OCCURRING AFTER THE REPORTING PERIOD

There are no other material Events Occurring 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. 2.50 per share amounting to Rs. 99,995,000 for the year ended 31 March 2020. This is to be approved by the Annual General Meeting to be held on 30 September 2020.

## NOTES TO THE FINANCIAL STATEMENTS

| Reportable segment                            | Operations   |                          | Powdered Milk            |                          | Liquid Milk and Others   |                          | Agriculture              |                          | Elimination              |                          | Group                    |                          |
|---|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|   | 2020<br>Rs.000's   | 2019<br>Rs.000's         | 2020<br>Rs.000's         | 2019<br>Rs.000's         | 2020<br>Rs.000's         | 2019<br>Rs.000's         | 2020<br>Rs.000's         | 2019<br>Rs.000's         | 2020<br>Rs.000's         | 2019<br>Rs.000's         | 2020<br>Rs.000's         | 2019<br>Rs.000's         |
| Powdered Milk                                 |  |                          |                          |                          |                          |                          |                          |                          |                          |                          |                          |                          |
| Liquid Milk and Others                        |  |                          |                          |                          |                          |                          |                          |                          |                          |                          |                          |                          |
| Agriculture                                   |  |                          |                          |                          |                          |                          |                          |                          |                          |                          |                          |                          |
|   | Importing, packaging and distribution of milk allied products  |                          |                          |                          |                          |                          |                          |                          |                          |                          |                          |                          |
|   | Operating Chain of Packing and selling of UHT products, "Daily", "Ambewela Farm Fresh Milk" and fruit juice. |                          |                          |                          |                          |                          |                          |                          |                          |                          |                          |                          |
|   | Rearing of cattle to produce and sale of cow milk and agricultural development of the farm.                  |                          |                          |                          |                          |                          |                          |                          |                          |                          |                          |                          |
| <b>As at 31 March</b>                         | <b>2020<br/>Rs.000's</b>   | <b>2019<br/>Rs.000's</b> | <b>2020<br/>Rs.000's</b> | <b>2019<br/>Rs.000's</b> | <b>2020<br/>Rs.000's</b> | <b>2019<br/>Rs.000's</b> | <b>2020<br/>Rs.000's</b> | <b>2019<br/>Rs.000's</b> | <b>2020<br/>Rs.000's</b> | <b>2019<br/>Rs.000's</b> | <b>2020<br/>Rs.000's</b> | <b>2019<br/>Rs.000's</b> |
| Total Revenue                                 | 3,030,915  | 1,922,137                | 4,497,655                | 3,864,348                | 623,975                  | 508,287                  | (1,448,691)              | (909,238)                | 6,703,854                | 5,385,534                |                          |                          |
| Profit or loss from operation                 | 191,521  | 200,602                  | 334,080                  | 313,829                  | (109,520)                | (49,151)                 | 94,728                   | (377,519)                | 510,809                  | 87,761                   |                          |                          |
| Financing Income/(Cost)                       | (9,136)  | (85,197)                 | (62,856)                 | (40,359)                 | (38,099)                 | (6,917)                  | (350)                    | -                        | (110,441)                | (132,473)                |                          |                          |
| Income tax Expenses                           | (52,449)   | (13,922)                 | (64,015)                 | (49,023)                 | 6,759                    | 2,030                    | -                        | (21,000)                 | (109,705)                | (81,915)                 |                          |                          |
| Profit/(loss) for the Year                    | 129,936  | 101,483                  | 207,209                  | 224,447                  | (140,860)                | (54,038)                 | 94,378                   | (398,519)                | 290,663                  | (126,627)                |                          |                          |
| Segment Asset                                 | 10,213,076   | 9,015,246                | 3,144,520                | 2,803,763                | 2,085,146                | 916,315                  | (2,488,499)              | (2,117,946)              | 12,954,243               | 10,617,378               |                          |                          |
| Segment Liabilities                           | 496,822  | 695,877                  | 1,346,622                | 1,212,621                | 2,370,701                | 1,059,798                | (1,672,835)              | (1,207,906)              | 2,541,310                | 1,760,390                |                          |                          |
| Segment Net Assets                            | 9,716,254  | 8,319,369                | 1,797,894                | 1,591,142                | (285,552)                | (143,483)                | (815,663)                | (910,040)                | 10,412,933               | 8,856,988                |                          |                          |
| Segment Capital Expenditure                   | 17,491   | 8,870                    | 298,970                  | 18,534                   | 656,367                  | 14,926                   | -                        | -                        | 972,828                  | 42,330                   |                          |                          |
| Depreciation on Property, plant and equipment | 16,753   | 15,986                   | 205,059                  | 221,790                  | 11,672                   | 11,678                   | -                        | -                        | 233,464                  | 249,454                  |                          |                          |

The Group does not distinguish its turnover into significant geographic segments.

### 34. 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:

#### 34.1 Transactions with Subsidiary Companies

| For the Year Ended 31 March<br>Name of the Company                  | Name of Common Directors   | Nature of Transaction                  | Amount        |             |
|---|----------------------------|--|---------------|-------------|
|   |                            |  | 2020<br>Rs.   | 2019<br>Rs. |
| Lanka Dairies (Private) Limited                                     | Mr.D.H.S.Jayawardena       | Sale of Goods                          | 428,516,929   | 125,617,940 |
|   | Mr.C.R.Jansz               | Settlement of Goods Sales              | 385,428,635   | 141,342,358 |
|   | Ms.D.S.C.Jayawardena       | Expense Reimbursement                  | -             | 412,022     |
|   | Mr.D.Hasitha S.Jayawardena | Received of Opening Balance Settlement | 83,000,000    | 100,000,000 |
|   | Ms.D.S.T.Jayawardena       | Settlement of Short Term Loan          | 20,000,000    | 25,000,000  |
|   |                            | Received Loan Interest Settlement      | 468,483       | 1,196,004   |
|   |                            | Granted Short Term Loan                | -             | 45,000,000  |
|   |                            | Other Purchases                        | 566,960       | -           |
|   |                            | Dividend Income Received               | -             | 43,000,000  |
|   |                            | Charged Short Term Loan Interest       | 468,483       | 1,196,004   |
|   |                            | Bank Guarantees Provided               | 885,000,000   | 885,000,000 |
| Ambewela Livestock Company Limited                                  | Mr.D.H.S.Jayawardena       | Expense Reimbursement                  | 136,559       | 91,317      |
|   | Mr.C.R.Jansz               | Sale of Goods                          | 1,059,195     | 763,069     |
|   | Ms.D.S.C.Jayawardena       | Settlement of Goods Sales              | 1,168,208     | 659,056     |
|   | Mr.D.Hasitha S.Jayawardena | Purchase of Goods                      | -             | 10,980      |
|   | Ms.D.S.T.Jayawardena       | 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                  | 107,033       | 102,385     |
|   | Mr.C.R.Jansz               | Sale of Goods                          | 1,339,340     | 826,425     |
|   | Ms.D.S.C.Jayawardena       | Settlement of Goods Sales              | 1,260,203     | 826,424     |
|   | Mr.D.Hasitha S.Jayawardena | Purchase of Goods                      | 42,876        | 18,728      |
|   | Ms.D.S.T.Jayawardena       | Settlement of Goods Purchases          | 42,876        | 18,728      |
|   |                            | Received of Opening Balance Settlement | 228,605       | -           |
|   |                            | Bank Guarantees Provided               | 60,000,000    | 60,000,000  |
| Ambewela Products (Private) Limited                                 | Mr.D.H.S.Jayawardena       | Sale of Goods                          | 87,285,395    | 75,366,808  |
|   | Mr.C.R.Jansz               | Expense Reimbursement                  | 422,024       | 245,179     |
|   | Ms.D.S.C.Jayawardena       | Settlement of Goods Sales & Others     | 51,508,372    | 32,718,785  |
|   | Mr.D.Hasitha S.Jayawardena | Obtained Short Term Loan               | 50,000,000    | -           |
|   | Ms.D.S.T.Jayawardena       | Charged Short Term Loan Interest       | 1,110,438     | -           |
|   |                            | Settlement of Short Term Loan          | 711,342       | -           |
|   |                            | Dividend Income Received               | -             | 86,000,000  |
|   |                            | Bank Guarantees Provided               | 150,000,000   | 150,000,000 |
| Indo Lanka Exports (Private) Limited                                | Mr.D.H.S.Jayawardena       | Expense Reimbursement                  | 719,390       | 516,254     |
|   | 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       | 50,000,000    | 35,000,000  |
|   | Mr.C.R.Jansz               | Expenses Reimbursement                 | 605,646       | 307,850     |
|   | Ms.D.S.C.Jayawardena       | Investment of Equity Capital           | 127,000,000   | -           |
|   | Mr.D S K Amarasekara       | Bank Guarantees Provided               | 3,000,000,000 | -           |
|   | Dr.A Shakthevale           |  |               |             |
|   | Mr.D.Hasitha S.Jayawardena |  |               |             |
|   | Ms.D.S.T.Jayawardena       |  |               |             |
| Aggregate Value of Related Party Transactions During the Year       |                            | - Lanka Dairies (Private) Limited      | 428,516,929   | 125,617,940 |
| Aggregate Value of Related Party Transactions as a % of Net Revenue |                            | - Lanka Dairies (Private) Limited      | 14%           | 7%          |

## NOTES TO THE FINANCIAL STATEMENTS

### 34. RELATED PARTY DISCLOSURES (CONTINUED)

#### 34.2 Transactions with Other Related Companies

Details of related party transactions are reported below:

| For the Year Ended 31 March       |                                  |                             |                              | Amount                                |                             |                                    |                      |
|-----------------------------------|----------------------------------|-----------------------------|------------------------------|---------------------------------------|-----------------------------|------------------------------------|----------------------|
|                                   |                                  |                             |                              | 2020                                  | 2019                        |                                    |                      |
| Name of the Company               | Relationship                     | Name of Common Directors    | Nature of Transaction        | Rs.                                   | Rs.                         |                                    |                      |
| Milford Exports (Ceylon) Limited  | Affiliate                        | Mr.D.H.S.Jayawardena        | Management Fee               | 1,173,469                             | 1,173,469                   |                                    |                      |
|                                   |                                  | Ms.D.S.C.Jayawardena        | Director Fee                 | 1,760,204                             | 1,760,204                   |                                    |                      |
|                                   |                                  | Mr.D.Hasitha S.Jayawardena  | Dividend Paid                | 16,783,175                            | 33,566,350                  |                                    |                      |
| Stassen Exports (Private) Limited | Affiliate                        | Mr.D.H.S.Jayawardena        | Reimbursement of Expenses    | 6,540,656                             | 5,958,375                   |                                    |                      |
|                                   |                                  | Ms.D.S.C.Jayawardena        | Services Obtained            | 4,142,873                             | 2,877,919                   |                                    |                      |
|                                   |                                  | Mr.D.Hasitha S.Jayawardena  | Sale of Goods                | 19,860,036                            | 17,871,601                  |                                    |                      |
|                                   |                                  | Ms.D.S.T.Jayawardena        | Services Rendered and Others | 60,360,729                            | 90,851,242                  |                                    |                      |
|                                   |                                  |                             | Related Party Settlement     | 79,420,507                            | 121,535,674                 |                                    |                      |
| Hatton National Bank PLC *        | Affiliate                        | Ms. D.S.C. Jayawardena      | Bank Charges                 | -                                     | 198,910                     |                                    |                      |
|                                   |                                  |                             | Mr.C.R.Jansz                 | Interest Paid                         | -                           | 1,394,562                          |                      |
|                                   |                                  |                             |                              | Bank Overdraft                        | -                           | 4,585,408                          |                      |
|                                   |                                  |                             |                              | Interest Received                     | -                           | 503,406                            |                      |
|                                   |                                  |                             |                              | 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 Goods        |
| Mr.C.R.Jansz                      | Dividend Received                | 56,213,762                  |                              |                                       |                             |                                    | 26,060,702           |
|                                   | Mr.D.Hasitha S.Jayawardena       | Services Obtained           | 1,058,348                    |                                       |                             |                                    | 676,030              |
|                                   |                                  | Related Party Settlement    | 19,222,085                   |                                       |                             |                                    | 33,435,781           |
|                                   |                                  | Service Rendered and Others | -                            |                                       |                             |                                    | 8,003                |
|                                   |                                  | Aitken Spence PLC           | Affiliate                    | Mr.D.H.S.Jayawardena                  | Sale of Goods               | 12,390,909                         | 13,163,604           |
| Ms.D.S.T.Jayawardena              |                                  |                             |                              |                                       | Settlement of Goods Sales   | 12,577,224                         | 13,897,422           |
|                                   | Services Obtained & Others       |                             |                              |                                       | 9,575,184                   | 6,110,778                          |                      |
|                                   | Madulsima Plantation PLC         | Affiliate                   | Mr.D.H.S.Jayawardena         | Related Party Settlement              | 9,575,184                   | 6,168,303                          |                      |
| Mr.D S K Amarasekara              |                                  |                             |                              | Sale of Goods                         | 797,748                     | -                                  |                      |
|                                   |                                  |                             |                              | Dr.A Shakthevale                      | Services Obtained & Others  | 428,113                            | 1,607,848            |
|                                   | Lanka Bell (Private) Limited     | Affiliate                   | Mr.D.H.S.Jayawardena         |                                       | Related Party Settlement    | 1,685,356                          | 1,262,084            |
| Mr.C.R.Jansz                      |                                  |                             |                              |                                       | Telephone Charges           | 859,654                            | 1,004,591            |
|                                   |                                  |                             |                              | Mr.D.H.S.Jayawardena                  | Settlement of Related Party | 805,151                            | 1,058,565            |
|                                   | Melstacorp PLC                   | Affiliate                   | Mr.D.H.S.Jayawardena         |                                       | Dividend Paid               | 8,394,730                          | 16,789,460           |
| Mr.C.R.Jansz                      |                                  |                             |                              |                                       | Dividend Received           | 303,692,000                        | -                    |
|                                   |                                  |                             |                              | Mr.D.Hasitha S.Jayawardena            | Mr.D.H.S.Jayawardena        | Sale of Milk Foods & Energy Drinks | 1,418,400            |
|                                   | Ms.D.S.T.Jayawardena             | Settlement of Goods Sales   | 1,459,199                    |                                       |                             | 1,450,202                          |                      |
| Balangoda Plantation PLC          |                                  | Affiliate                   | Mr.D.H.S.Jayawardena         |                                       |                             | Services Provided and Others       | 1,554,511            |
|                                   |                                  |                             |                              | Mr.C.R.Jansz                          | Mr.D S K Amarasekara        | Settlement of Service Rended       | 1,674,869            |
|                                   | Splendor Media (Private) Limited |                             |                              |                                       |                             | Affiliate                          | Ms.D.S.T.Jayawardena |
| Related Party Settlement          |                                  | 12,873,190                  | -                            |                                       |                             |                                    |                      |
|                                   |                                  | Sale of Goods               | 79,665                       | -                                     |                             |                                    |                      |
|                                   |                                  |                             | Settlement of Goods Sales    | 91,791                                | -                           |                                    |                      |

\* Directress resigned from 30th June 2018.

## 34. RELATED PARTY DISCLOSURES (CONTINUED)

### 34.3 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. no expense has been recognised in the current year or prior year for bad or doubtful debts in respect of amounts owed by related parties.

### 34.4 Recurrent Related Party Transactions

There were instances where aggregated recurrent related party transactions exceeded the threshold which required the disclosure in Financial Statements as per Section 9 of the Listing Requirements of the Colombo Stock Exchange. Accordingly, the required disclosure is given in Note 34 to the Financial Statements. There were no other recurrent related party transactions which exceeded the threshold stipulated in section 9 of the listing requirements, other than individual transaction disclosed in the note 34.1 to the Financial Statements.

### 34.5 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          |                  |
|------------------------------|------------------|------------------|------------------|------------------|
|                              | 2020<br>Rs.000's | 2019<br>Rs.000's | 2020<br>Rs.000's | 2019<br>Rs.000's |
| Short-Term Employee Benefits | 1,500            | 4,907            | 1,500            | 4,907            |
| Post Employment Benefits     | -                | 460              | -                | 460              |
|                              | 1,500            | 5,367            | 1,500            | 5,367            |

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

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

## 35 COVID-19 IMPACTS AND GROUP RESPONSE

The Group response to the pandemic focused on securing a safe work environment for our employees, continuing our business operations, providing our customers with quality and safe products and supporting our communities as a socially responsible corporate citizen.

As encouraged by the Sri Lankan Government, LMF being a business operating in the food and beverages industry/ sector, we were able to continue our operations amidst COVID-19. Due to our strategic response to the pandemic, all our business segments which include powdered milk, liquid milk and agriculture and livestock operated smoothly. There were disruptions to distribution of products especially to areas with high risk, but we made home deliveries and carried out door to door operations and made sure the necessities of our consumers were met where possible. Product donations were made to quarantine centers.

Adequate cash flows were maintained amidst delays in cash collection due to lockdown situation yet timely payments were made to our key suppliers, especially to our agricultural suppliers to support their financial situation. Post-lockdown the debtor collection improved. There were no significant changes in terms of borrowings other than anticipated and the relief measures adopted by the Central Bank of Sri Lanka supported us and our business partners.

## NOTES TO THE FINANCIAL STATEMENTS

### 35 COVID-19 IMPACTS AND GROUP RESPONSE (CONTINUED)

As per Government directions, we took special precautions to limit the spread of COVID-19 in all arenas from farms to the point of sales. Farm operations continued as usual while the New Zealand farm was closed for the visitors. Critical workers were identified and transportation was provided to those who were using public transportation to ensure the health and safety of employees. Shift method was used to minimize the number of employees at one space as directed by the health authorities. Additional improved hygiene and safety standards were implemented as extra measures with the aim of providing a safe work environment. We ensured that no layoffs or pay cuts were done due to COVID-19 and employees were provided with risk allowances and proper healthcare facilities where necessary.

We at LMF continue to work towards securing our business continuity and providing safe and quality products to our consumers while ensuring the health and well-being of all employees at all our locations.

### 36 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.

#### 36.1 Credit Risk

Credit Risk is the Risk of financial loss to the Group if a customer or counter party 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          |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2020<br>Rs.000's | 2019<br>Rs.000's | 2020<br>Rs.000's | 2019<br>Rs.000's |
| Trade Receivables                         | 796,011          | 573,362          | 388,835          | 216,154          |
| Other Receivables (Note a.)               | 18,253           | 18,170           | 9,549            | 8,713            |
| Amounts Due from Related Parties          | 73,495           | 44,430           | 809,928          | 618,556          |
| Cash at Banks and Call Deposits (Note b.) | 22,484           | 38,264           | 13,344           | 22,861           |
| Financial Assets measured at FVOCI        | 7,437,642        | 6,118,831        | 7,437,642        | 6,118,831        |
| Financial Assets measured at FVTPL        | 209,061          | 209,839          | 209,061          | 209,839          |
|   | 8,556,946        | 7,002,896        | 8,868,359        | 7,194,954        |

#### Note a.

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

#### Note b.

Cash in Hand Balance has been excluded.

## 36 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 36.1 Credit Risk (Continued)

#### 36.1.1 Trade and Other Receivables and Contract Asset

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

Management also considers the demographics of the Group's customer base, including the country in which customers operate, as these factors may have an influence on credit risk. However, geographically there is no concentration of credit risk.

The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered.

#### 36.1.2 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 2020.

| As at 31 March 2020<br>Group | Weighted Average<br>Loss Rate | Gross Carrying<br>Amount<br>Rs.000's | Impairment Loss<br>Allowance<br>Rs.000's | Credit<br>Impaired |
|------------------------------|-------------------------------|--------------------------------------|--|--------------------|
| Past due 0-60 days           | 5.25%                         | 573,882                              | (30,131)                                 | No                 |
| Past due 60-180 days         | 5.07%                         | 178,944                              | (9,066)                                  | No                 |
| Past due 180-365 days        | 100.00%                       | 25                                   | (25)                                     | Yes                |
| More than one year           | 100.00%                       | 43,160                               | (43,160)                                 | Yes                |
|                              |                               | 796,011                              | (82,382)                                 |                    |

| As at 31 March 2020<br>Company | Weighted Average<br>Loss Rate | Gross Carrying<br>Amount<br>Rs.000's | Impairment Loss<br>Allowance<br>Rs.000's | Credit<br>Impaired |
|--------------------------------|-------------------------------|--------------------------------------|--|--------------------|
| Past due 0-60 days             | 1.22%                         | 267,629                              | (3,275)                                  | No                 |
| Past due 60-180 days           | 6.42%                         | 82,759                               | (5,312)                                  | No                 |
| Past due 180-365 days          | 0.00%                         | -                                    | -  | No                 |
| More than one year             | 100.00%                       | 38,447                               | (38,447)                                 | Yes                |
|                                |                               | 388,835                              | (47,034)                                 |                    |

Loss rates are based on 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.

#### 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.

#### Group

| As at 31 March         | 2020<br>Rs.000's | 2019<br>Rs.000's |
|------------------------|------------------|------------------|
| Balance as at 01 April | 73,688           | 71,593           |
| Provision for the Year | 8,694            | 2,095            |
| Balance as at 31 March | 82,382           | 73,688           |

## NOTES TO THE FINANCIAL STATEMENTS

### 36 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 36.1 Credit Risk (Continued)

##### 36.1.3 Investments

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

##### 36.1.4 Cash and Cash Equivalents

The Group held cash and cash equivalents of Rs. 26,434 ('000) as at 31 March 2020 (Rs.42,227 ('000) as at 31 March 2019) which represent its maximum credit exposure on these assets.

##### 36.1.5 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 31)

| Name of the Company                    | Name of the Bank     | Amount of the Guarantee<br>Rs.Mn |
|--|----------------------|----------------------------------|
| Lanka Dairies (Private) Limited        | Hatton National Bank | 425                              |
| Lanka Dairies (Private) Limited        | DFCC Bank            | 560                              |
| Ambewela Products (Private) limited    | Hatton National Bank | 250                              |
| Ambewela Livestock Company Limited     | Hatton National Bank | 60                               |
| Pattipola Livestock Company Limited    | Hatton National Bank | 110                              |
| Indo Lanka Exports (Private) Limited   | Hatton National Bank | 31.6                             |
| United Dairies Lanka (Private) Limited | Hatton National Bank | 900                              |
| United Dairies Lanka (Private) Limited | Commercial Bank      | 3,000                            |

#### 36.2 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                                 | 2020                        |                        |                        |                         |                              |
|--|-----------------------------|------------------------|------------------------|-------------------------|------------------------------|
|  | Carrying amount<br>Rs.000's | 0-2 months<br>Rs.000's | 2-6 months<br>Rs.000's | 6-12 months<br>Rs.000's | More than 1 year<br>Rs.000's |
| <b>Financial Liabilities (Non Derivatives)</b> |                             |                        |                        |                         |                              |
| Trade and Other Payables                       | 334,015                     | 302,064                | 29,836                 | 2,073                   | 42                           |
| Amounts Due to Related Companies               | 10,055                      | 10,055                 | -                      | -                       | -                            |
| Interest Bearing Loans and Borrowings          | 354,831                     | 66,812                 | -                      | -                       | 288,019                      |
| Lease Liabilities                              | 367,130                     | 59                     | 43,993                 | -                       | 323,078                      |
| Bank Overdraft                                 | 1,102,091                   | 903,567                | 198,524                | -                       | -                            |
|  | 2,168,122                   | 1,282,557              | 272,353                | 2,073                   | 611,139                      |

##### Company

| As at 31 March                                 | 2020                        |                        |                        |                         |                              |
|--|-----------------------------|------------------------|------------------------|-------------------------|------------------------------|
|  | Carrying amount<br>Rs.000's | 0-2 months<br>Rs.000's | 2-6 months<br>Rs.000's | 6-12 months<br>Rs.000's | More than 1 year<br>Rs.000's |
| <b>Financial Liabilities (Non Derivatives)</b> |                             |                        |                        |                         |                              |
| Trade and Other Payables                       | 70,590                      | 70,590                 | -                      | -                       | -                            |
| Amounts Due to Related Companies               | 3,641                       | 1,195                  | 19                     | 2,427                   | -                            |
| Lease Liabilities                              | 379                         | 59                     | -                      | -                       | 320                          |
| Bank Overdraft                                 | 355,923                     | 197,546                | 158,377                | -                       | -                            |
|  | 430,533                     | 269,390                | 158,396                | 2,427                   | 320                          |

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



## 36 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 36.3 Market Risk

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

#### 36.3.1 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.

##### 36.3.1.1 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 | 2020    | 2019      |
|--|----------|---------|-----------|
| Trade and Other Payables                       | USD      | 157,500 | 1,596,042 |
| Trade and Other Payables                       | EUR      | -       | 25,281    |
| Gross statement of financial position exposure |          | 157,500 | 1,596,042 |

#### Company

| As at 31 March                                 | Currency | 2020    | 2019      |
|--|----------|---------|-----------|
| Trade and Other Payables                       | USD      | 157,500 | 1,536,858 |
| Trade and Other Payables                       | EUR      | -       | 25,281    |
| Gross statement of financial position exposure |          | 157,500 | 25,281    |

The following significant exchange rates were applicable during the year;

| As at 31 March | Average rate     |                  | Reporting date spot rate |                  |
|----------------|------------------|------------------|--------------------------|------------------|
|                | 2020<br>Rs.000's | 2019<br>Rs.000's | 2020<br>Rs.000's         | 2019<br>Rs.000's |
| USD            | 179.47           | 168.72           | 188.62                   | 178.35           |

##### 36.3.1.2 Sensitivity Analysis

A strengthening of the LKR, as indicated below, against the USD at 31 March 2020 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 2020  | Strengthening         |               | Weakening             |               |
|----------------------|-----------------------|---------------|-----------------------|---------------|
|                      | Profit or Loss<br>Rs. | Equity<br>Rs. | Profit or Loss<br>Rs. | Equity<br>Rs. |
| <b>31 March 2020</b> |                       |               |                       |               |
| USD (10% movement)   | (2,970,822)           | (2,970,822)   | 2,970,822             | 2,970,822     |
| EUR (10% movement)   | -                     | -             | -                     | -             |
| <b>31 March 2019</b> |                       |               |                       |               |
| USD (10% movement)   | (28,465)              | (28,465)      | 28,465                | 28,465        |
| EUR (10% movement)   | (510)                 | (510)         | 510                   | 510           |

## NOTES TO THE FINANCIAL STATEMENTS

### 36 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 36.3 Market Risk (Continued)

##### 36.3.2 Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group is exposed to interest rate risk for loans obtained from DFCC and Commercial Bank. However, management monitors the sensitivities on regular basis and ensure risks are managed on a timely manner.

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

| As at 31 March                   | Group            |                  | Company          |                  |
|----------------------------------|------------------|------------------|------------------|------------------|
|                                  | 2020<br>Rs.000's | 2019<br>Rs.000's | 2020<br>Rs.000's | 2019<br>Rs.000's |
| <b>Variable Rate Instruments</b> |                  |                  |                  |                  |
| Financial Liabilities            |                  |                  |                  |                  |
| Loans and Borrowings             | 354,831          | 250,547          | -                | -                |
| Lease Liabilities                | 367,130          | -                | 379              | -                |
| Bank Overdraft                   | 1,102,091        | 634,415          | 355,923          | 253,981          |
|                                  | 1,824,052        | 884,962          | 356,302          | 253,981          |

#### 36.4 Operational Risk

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

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

#### 36.5 Equity Price Risk

Values as appearing in the Statement of Financial Position are sensitive to the quoted price of the investment. 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<br>Group/Company    | -10<br>Rs.<br>Rs.000's | 2020<br>Rs.<br>Rs.000's | + 10<br>Rs.<br>Rs.000's |
|------------------------------------|------------------------|-------------------------|-------------------------|
| Financial Assets measured at FVOCI | 6,693,878              | 7,437,642               | 8,181,406               |
| Financial Assets measured at FVTPL | 188,155                | 209,061                 | 229,967                 |
|                                    | 6,882,033              | 7,646,703               | 8,411,373               |

## 36 FINANCIAL RISK MANAGEMENT (CONTINUED)

### 36.6 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          |                  |
|---------------------------|------------------|------------------|------------------|------------------|
|                           | 2020<br>Rs.000's | 2019<br>Rs.000's | 2020<br>Rs.000's | 2019<br>Rs.000's |
| Total Liabilities         | 2,541,310        | 1,760,390        | 496,822          | 695,877          |
| Less:                     |                  |                  |                  |                  |
| Cash and Cash Equivalents | (26,434)         | (42,227)         | (14,598)         | (22,861)         |
| Net Debts                 | 2,514,876        | 1,718,163        | 482,224          | 673,016          |
| Total Equity              | 10,412,933       | 8,856,989        | 9,716,254        | 8,319,368        |
| Net Debt to Equity Ratio  | 0.24             | 0.19             | 0.05             | 0.08             |

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.

## 37 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 : Q 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.

### 37.1 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 2020                | Group/Company      |                    |                    |                  |
|------------------------------------|--------------------|--------------------|--------------------|------------------|
|                                    | Level 1<br>Rs.'000 | Level 2<br>Rs.'000 | Level 3<br>Rs.'000 | Total<br>Rs.'000 |
| Financial Assets measured at FVOCI | 7,437,642          | -                  | -                  | 7,437,642        |
| Financial Assets measured at FVTPL | 209,061            | -                  | -                  | 209,061          |
|                                    | 7,646,703          | -                  | -                  | 7,646,703        |

| As at 31 March 2019                | Group/Company      |                    |                    |                  |
|------------------------------------|--------------------|--------------------|--------------------|------------------|
|                                    | Level 1<br>Rs.'000 | Level 2<br>Rs.'000 | Level 3<br>Rs.'000 | Total<br>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        |

## NOTES TO THE FINANCIAL STATEMENTS

### 37 FAIR VALUE MEASUREMENT (CONTINUED)

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

The following table summarizes the carrying amounts and the Group'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 2020                | Group           |            | Company         |            |
|------------------------------------|-----------------|------------|-----------------|------------|
|                                    | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
|                                    | Rs.'000         | Rs.'000    | Rs.'000         | Rs.'000    |
| <b>Assets</b>                      |                 |            |                 |            |
| Cash and Cash Equivalents          | 26,434          | 26,434     | 14,598          | 14,598     |
| Trade and Other Receivables        | 814,264         | 814,264    | 398,384         | 398,384    |
| Amounts Due from Related Companies | 73,495          | 73,495     | 544,979         | 544,979    |
| <b>Liabilities</b>                 |                 |            |                 |            |
| Bank Overdraft                     | 1,102,091       | 1,102,091  | 355,923         | 355,923    |
| Trade and Other Payables           | 334,015         | 334,015    | 70,590          | 70,590     |
| Amounts Due to Related Companies   | 10,055          | 10,055     | 3,641           | 3,641      |
| Loans and Borrowings               | 354,831         | 354,831    | -               | -          |
| Lease Liabilities                  | 367,130         | 367,130    | 379             | 379        |

#### 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/Amounts 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/Amounts 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.

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

Group

| As at 31 March 2020<br>Financial Instrument | Classification |   |   |
|---|----------------|---|---|
|   | Amortised Cost | Fair Value Through Profit or Loss Investments | Fair Value Through Other Comprehensive Income Investments |
|   | Rs.000's       | Rs.000's                                      | Rs.000's  |
| Trade and Other Receivables                 | 842,453        | -   | -   |
| Amounts Due from Related Companies          | 73,495         | -   | -   |
| Cash and Cash Equivalents                   | 26,434         | -   | -   |
| Financial Assets measured at FVOCI          | -              | -   | 7,437,642   |
| Financial Assets measured at FVTPL          | -              | 209,061                                       | -   |

| As at 31 March 2020<br>Financial liabilities | Classification                                |                |
|--|---|----------------|
|  | Fair Value Through Profit or Loss Investments | Amortized Cost |
|  | Rs.000's                                      | Rs.000's       |
| Trade and Other Payables                     | -   | 356,540        |
| Interest Bearing Borrowings                  | -   | 354,831        |
| Amounts Due to Related Companies             | -   | 10,055         |
| Bank Overdraft                               | -   | 1,102,091      |
| Lease Liabilities                            | -   | 367,130        |

Company

| As at 31 March 2020<br>Financial Instrument | Classification |   |   |
|---|----------------|---|---|
|   | Amortised Cost | Fair Value Through Profit or Loss Investments | Fair Value Through Other Comprehensive Income Investments |
|   | Rs.000's       | Rs.000's                                      | Rs.000's  |
| Trade and Other Receivables                 | 391,999        | -   | -   |
| Amounts Due from Related Companies          | 544,979        | -   | -   |
| Cash and Cash Equivalents                   | 14,598         | -   | -   |
| Financial Assets measured at FVOCI          | -              | -   | 7,437,642   |
| Financial Assets measured at FVTPL          | -              | 209,061                                       | -   |

| As at 31 March 2020<br>Financial liabilities | Classification                                |                |
|--|---|----------------|
|  | Fair Value Through Profit or Loss Investments | Amortized Cost |
|  | Rs.000's                                      | Rs.000's       |
| Trade and Other Payables                     | -   | 73,504         |
| Amounts Due to Related Companies             | -   | 3,641          |
| Bank Overdraft                               | -   | 355,923        |
| Lease Liabilities                            | -   | 379            |

# 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 Share Holders<br>31/03/2020 | Total Shares<br>31/03/2020 | Percentage (%)<br>31/03/2020 | No of Share Holders<br>31/03/2019 | Total Shares<br>31/03/2019 | Percentage (%)<br>31/03/2019 |
|------------------|-----------------------------------|----------------------------|------------------------------|-----------------------------------|----------------------------|------------------------------|
| 1-1000           | 2,580                             | 518,490                    | 1.30                         | 2,534                             | 504,917                    | 1.26                         |
| 1001-10000       | 404                               | 1,395,425                  | 3.49                         | 408                               | 1,429,659                  | 3.57                         |
| 10001-100000     | 76                                | 2,273,224                  | 5.68                         | 75                                | 2,255,013                  | 5.64                         |
| 100001-1000000   | 14                                | 4,312,965                  | 10.78                        | 14                                | 4,310,515                  | 10.78                        |
| 1,000,001 & Over | 5                                 | 31,497,896                 | 78.75                        | 5                                 | 31,497,896                 | 78.75                        |
| Total            | 3,079                             | 39,998,000                 | 100.00                       | 3,036                             | 39,998,000                 | 100.00                       |

## 3 ANALYSIS OF ORDINARY SHARES

| Category               | No of Share Holders<br>31/03/2020 | Total Shares<br>31/03/2020 | Percentage (%)<br>31/03/2020 | No of Share Holders<br>31/03/2019 | Total Shares<br>31/03/2019 | Percentage (%)<br>31/03/2019 |
|------------------------|-----------------------------------|----------------------------|------------------------------|-----------------------------------|----------------------------|------------------------------|
| Individuals -Local     | 2,871                             | 4,942,956                  | 12.36                        | 2,835                             | 4,965,321                  | 12.41                        |
| Individuals - Overseas | 43                                | 302,797                    | 0.76                         | 42                                | 298,059                    | 0.75                         |
| Companies - Local      | 160                               | 22,461,508                 | 56.15                        | 154                               | 22,443,881                 | 56.11                        |
| Companies - Overseas   | 5                                 | 12,290,739                 | 30.73                        | 5                                 | 12,290,739                 | 30.73                        |
| Total                  | 3,079                             | 39,998,000                 | 100.00                       | 3,036                             | 39,998,000                 | 100.00                       |

## 4 DIRECTORS' AND CEO'S SHAREHOLDINGS

The Directors' and CEO'S shareholdings in the Company were as follows.

| As at 31 March<br>Name of the Directors and CEO | Company              |                      |
|---|----------------------|----------------------|
|   | 2020<br>No Of Shares | 2019<br>No Of Shares |
| 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                  |
| Ms. D.S.T Jayawardena**                         | 2934                 | -                    |
| Mr. M. Dahanayake (CEO)***                      | Nil                  | -                    |

\*\* Appointed with effect from on 19th August 2019

\*\*\* Appointed with effect from on 02nd May 2019

## 5 VALUE PER SHARE

|                 |     | Company        |                |
|-----------------|-----|----------------|----------------|
|                 |     | 2019/20<br>Rs. | 2018/19<br>Rs. |
| Earnings/(Loss) | Rs. | 3.25           | 2.54           |
| Dividend        | Rs. | 2.50           | 1.25           |
| Net Assets      | Rs. | 242.92         | 207.99         |

## 6 MARKET VALUE PER SHARE

|                               |     |        |        |
|-------------------------------|-----|--------|--------|
| Highest Price during the year | Rs. | 119.00 | 117.90 |
| Lowest Price during the year  | Rs. | 72.60  | 108.50 |
| Value as at last trading date | Rs. | 74.00  | 110.00 |

## 7 TWENTY MAJOR SHAREHOLDERS

|    | As at 31 March 2020                                    |              |                                 | As at 31 March 2019   |              |                                 |
|----|--|--------------|---------------------------------|---|--------------|---------------------------------|
|    | NAME   | No of Shares | % On Total<br>Issued<br>Capital | NAME  | No of Shares | % On Total<br>Issued<br>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  | BNYN Re-Branch-Barca Global Master Fund Lp             | 3,738,354    | 9.35                            | Caceis Bank, Luxembourg Branch-Barca Global<br>Master Fund Lp | 3,738,354    | 9.35                            |
| 5  | Pershing LLC S/A Averbach Grauson & Co.                | 1,496,928    | 3.74                            | Pershing LLC S/A Averbach Grauson & Co.                       | 1,496,928    | 3.74                            |
| 6  | Bnysanv Re-Steyn Capital Frontier Fund                 | 685,946      | 1.71                            | Bnysanv Re-Steyn Capital Frontier Fund                        | 685,946      | 1.71                            |
| 7  | E.W. Balasuriya & Co. (Pvt) Ltd                        | 619,212      | 1.55                            | E.W. Balasuriya & Co. (Pvt) Ltd                               | 619,212      | 1.55                            |
| 8  | Rukaiya Husseinally Abdulhussein                       | 507,000      | 1.27                            | Rukaiya Husseinally Abdulhussein                              | 507,000      | 1.27                            |
| 9  | Yusuf Husseinally Abdulhussein                         | 483,333      | 1.21                            | Yusuf Husseinally Abdulhussein                                | 483,333      | 1.21                            |
| 10 | People's Leasing & Finance PLC/Mr.H.M.<br>Abdulhussein | 414,051      | 1.04                            | People's Leasing & Finance PLC/Mr.H.M.<br>Abdulhussein        | 414,051      | 1.04                            |
| 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 Theodoor Raaymakers                       | 148,593      | 0.37                            | Mark Anthony Theodoor Raaymakers                              | 148,593      | 0.37                            |
| 16 | Manickam Vallipuram Theagarajah                        | 140,933      | 0.35                            | Manickam Vallipuram Theagarajah                               | 140,933      | 0.35                            |
| 17 | Gulamhussein Moshinally Abdulhussein                   | 132,622      | 0.33                            | Gulamhussein Moshinally Abdulhussein                          | 132,622      | 0.33                            |
| 18 | Essajee Carimjee Insurance Brokers (Pvt) Ltd           | 112,450      | 0.28                            | Essajee Carimjee Insurance Brokers (Pvt) Ltd                  | 110,000      | 0.28                            |
| 19 | Ratten Gulamhussein Abdulhussein                       | 105,836      | 0.26                            | Ratten Gulamhussein Abdulhussein                              | 105,836      | 0.26                            |
| 20 | Commercial Bank Of Ceylon PLC/<br>H.M.Dawoodbhoy       | 95,000       | 0.24                            | Commercial Bank Of Ceylon PLC/<br>H.M.Dawoodbhoy              | 95,000       | 0.24                            |
|    | Sub Total  | 35,905,861   | 89.77                           | Sub Total   | 35,903,411   | 89.77                           |
|    | Other Shareholders                                     | 4,092,139    | 10.23                           | Other Shareholders  | 4,094,589    | 10.23                           |
|    | Grand Total  | 39,998,000   | 100.00                          | Grand Total   | 39,998,000   | 100.00                          |

## 8 PUBLIC SHAREHOLDINGS

|   | 2020.03.31 | 2019.03.31 |
|---|------------|------------|
| Number of Shares held by Public               | 13,731,313 | 13,735,313 |
| Numbers of Public Shareholders                | 3,075      | 3,033      |
| Percentage of Shares held by Public           | 34.33%     | 34.34%     |
| Float Adjusted market Capitalisation (Rs.000) | 1,016,117  | 1,510,884  |

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                                  | 2020       | 2019      | 2018       | 2017       | 2016       | 2015       | 2014       | 2013      | 2012      | 2011       |
|---|------------|-----------|------------|------------|------------|------------|------------|-----------|-----------|------------|
| <b>OPERATING RESULT</b>                         |            |           |            |            |            |            |            |           |           |            |
| Turnover  | 3,030,915  | 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  |
| Gross Profit                                    | 156,610    | 26,721    | 100,936    | 154,936    | 222,274    | 63,033     | 171,232    | 514,890   | 388,821   | 292,266    |
| Profit/ (Loss) before Tax                       | 182,385    | 115,405   | 278,346    | 216,919    | (37,470)   | 22,029     | 14,062     | 263,876   | 35,846    | 26,817     |
| Taxation  | (52,449)   | (13,922)  | (1,945)    | 16,925     | 20,014     | 46,264     | 29,957     | (32,516)  | (31,245)  | (10,706)   |
| Profit/ (Loss) after Tax                        | 129,936    | 101,483   | 276,401    | 233,844    | (17,456)   | 68,293     | 44,019     | 231,360   | 4,601     | 16,111     |
| Dividends                                       | 99,995     | 49,998    | 99,995     | 99,995     | 49,998     | 49,998     | -          | 59,998    | 39,998    | -          |
| <b>STATEMENT OF FINANCIAL POSITION</b>          |            |           |            |            |            |            |            |           |           |            |
| Property, Plant and Equipment                   | 136,964    | 136,226   | 143,342    | 162,710    | 186,883    | 214,959    | 235,513    | 244,602   | 234,319   | 233,790    |
| Short-term Investment                           | 209,061    | 209,839   | 270,283    | 244,838    | 247,029    | 305,929    | 236,453    | 227,893   | 208,941   | 260,152    |
| Current Assets                                  | 1,549,565  | 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  |
| Total Assets                                    | 10,213,076 | 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 |
| Total Equity                                    | 9,716,254  | 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  |
| Non Current Liabilities                         | 63,695     | 58,007    | 62,227     | 51,429     | 44,765     | 38,826     | 30,028     | 85,776    | 115,372   | 141,987    |
| Current Liabilities                             | 433,127    | 637,870   | 314,171    | 384,819    | 361,002    | 783,458    | 558,725    | 1,029,135 | 913,329   | 1,096,042  |
| <b>RATIOS</b>                                   |            |           |            |            |            |            |            |           |           |            |
| Earnings per share (Rs.)                        | 3.25       | 2.54      | 6.91       | 5.85       | (0.44)     | 1.71       | 1.10       | 5.78      | 0.12      | 0.46       |
| Dividend per share (Rs.)                        | 2.50       | 1.25      | 2.50       | 2.50       | 1.25       | 1.25       | -          | 1.50      | 1.00      | -          |
| Dividend cover (Times)                          | 1.30       | 2.03      | 2.76       | 2.34       | (0.35)     | 1.37       | -          | 6.20      | 2.84      | -          |
| Dividend payout Ratio (%)                       | 76.96      | 49.27     | 36.18      | 42.74      | (35.20)    | 73.10      | -          | 25.96     | 833.34    | -          |
| Price earning ratio (Times)                     | 22.78      | 43.30     | 22.88      | 20.01      | (260.22)   | 81.87      | 97.32      | 18.74     | 815       | 254.13     |
| Total assets to equity (Times)                  | 1.05       | 1.08      | 1.03       | 1.04       | 1.04       | 1.07       | 1.06       | -         | 1.49      | 1.14       |
| Net assets per Share (Rs.)                      | 242.92     | 207.99    | 292.55     | 283.63     | 250.01     | 284.28     | 247.08     | 212.93    | 187.24    | 220.84     |
| Market Value per share (as at 31st March) (Rs.) | 74.00      | 110.00    | 158.10     | 117.00     | 114.50     | 140.00     | 107.10     | 108.30    | 97.80     | 116.90     |
| Return on equity (%)                            | 1.34       | 1.22      | 2.37       | 2.06       | (0.18)     | 0.61       | 0.45       | 2.72      | 0.06      | 0.18       |
| Return on Total Assets (%)                      | 1.27       | 1.12      | 2.29       | 1.98       | (0.18)     | 0.56       | 0.42       | 2.4       | 0.05      | 0.16       |
| Gross Profit Ratio (%)                          | 5.17       | 1.39      | 5.48       | 7.55       | 9.29       | 3.22       | 7          | 13.87     | 11.41     | 9.16       |
| Net Profit/(Loss) Ratio (%)                     | 4.28       | 5.28      | 15.02      | 11.39      | (0.73)     | 3.49       | 1.8        | 6.23      | 0.14      | 0.5        |
| Current Ratio (Times)                           | 3.58       | 2.52      | 5.04       | 4.64       | 4.34       | 2.6        | 3.16       | 2.23      | 2.21      | 1.57       |
| Liquidity Ratio (Times)                         | 2.75       | 1.49      | 3.45       | 3.95       | 3.4        | 1.81       | 2.53       | 1.62      | 0.67      | 0.85       |





**NOTES**

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# NOTICE OF MEETING

Notice is hereby given that the Thirty Eighth (38th) Annual General Meeting of Lanka Milk Foods (CWE) PLC\* will be held at Lanka Milk Foods (CWE) PLC, Welisara, Ragama on Wednesday, the 30th September 2020 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 2020 with the Auditors' Report thereon.
2. To approve a Final Dividend of Rs. 2.50 per share, as recommended by the Board of Directors.
3. To re-elect Mr. C. R. Jansz who retires by rotation at the Annual General Meeting in terms of Article No.94 of the Articles of Association, as a Director of the Company.
4. To re-elect Ms. D. S. T. Jayawardena at the Annual General Meeting in terms of Article No.100 of the Articles of Association, as a Director of the Company.
5. To re-elect Mr. D.H.S. Jayawardena, who is over the age of 70 years and who retires in terms of section 210 and 211 of the Companies Act No. 7 of 2007 as a Director of the Company by passing the following Resolution.

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

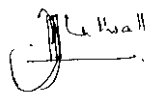
6. To re-elect Dr. A. Shakthevale who is over the age of 70 years and who retires in terms of section 210 and 211 of the Companies Act No. 7 of 2007 as a Director of the Company by passing the following Resolution.

"That Dr. A. Shakthevale who attained the age of 70 on 04th September 2012 be and is hereby re-elected as a Director of the Company and it is hereby declared that the age limit of 70 years referred to in section 210 of the Companies Act No.7

of 2007 shall not apply to the said Dr. A. Shakthevale."

7. To re-appoint Messrs. KPMG, (Chartered Accountants) as the Auditors for the ensuing year and to authorize the Directors to determine their remuneration.
8. To authorize the Directors to determine payments for the year 2021, for charitable and other purposes, as set out in the Companies Donations Act (Cap 147).

By Order of the Board



**Ms. H. K. Bulathwatte**

**Company Secretary**

Lanka Milk Foods (CWE) PLC  
03rd September 2020

\*NOTE:

1. In the interest of protecting public health and facilitating compliance with the Health and Safety guidelines issued by the Government of Sri Lanka, the Thirty Eighth (38th) Annual General Meeting of Lanka Milk Foods (CWE) PLC will be a virtual meeting held by participants joining in person or by proxy, through audio or audio visual means in the manner specified below:
  - i. Attendance of the Chairman and the Board of Directors  
The Chairman, members of the Board of Directors, the Company Secretary and the External Auditors will be present at Lanka Milk Foods (CWE) PLC at 10.00 a.m. on Wednesday, 30th September 2020.
  - ii. Shareholder participation
    - a) The shareholders are encouraged to appoint a Director of the Company as their proxy to represent them at the meeting.
    - b) The shareholders may also appoint any other persons other than a Director of the Company as their proxy and the proxy so appointed shall participate at the meeting through audio or audio visual means only.

- c) The shareholders who wish to participate at the meeting will be able to join the meeting through audio or audio visual means only. To facilitate this process, the shareholders are required to furnish their details by perfecting Annexure II to the circular to shareholders and forward same to reach the Company Secretary via e-mail to [agm\\_2020@lmfgroup.lk](mailto:agm_2020@lmfgroup.lk) or facsimile on +94 11 2956266 or by post to the registered address of the Company No. 579/1, Welisara, Ragama, not less than five (05) days before the date of the meeting so that the meeting login information could be forwarded to the e-mail addresses so provided. The circular to the shareholders will be posted to all the shareholders along with the Notice of Meeting and the Form of Proxy.

- d) To facilitate the appointment of proxies, the Form of Proxy is attached hereto and the duly filled Forms of Proxy should be sent to reach the Company Secretary via e-mail to [legal@lmfgroup.lk](mailto:legal@lmfgroup.lk) or facsimile on +94 11 2956266 or by post to the registered address of the Company No. 579/1, Welisara, Ragama, not less than forty eight (48) hours before the time fixed for the meeting.

iii. Shareholders' queries

The shareholders are hereby advised that if they wish to raise any queries, such queries should be sent to reach the Company Secretary, via e-mail to [legal@lmfgroup.lk](mailto:legal@lmfgroup.lk) or facsimile on +94 11 2956266 or by post to the registered address of the Company No. 579/1, Welisara, Ragama, not less than five (5) days before the date of the meeting. This is in order to enable the Company Secretary to compile the queries and forward same to the attention of the Board of Directors so that such queries could be addressed at the meeting.

2. The Annual Report of the Company for the year 2019/2020 will be available for perusal on the website on [www.lmfgroup.lk](http://www.lmfgroup.lk) and on the Colombo Stock Exchange website on [www.cse.lk](http://www.cse.lk).

# FORM OF PROXY

## LANKA MILK FOODS (CWE) PLC

I/We .....of

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

.....of.....

..... (whom failing)

Don Harold Stassen Jayawardena, (whom failing)

Cedric Royle Jansz, (whom failing)

Don Stasshani Therese Jayawardena, (whom failing)

Don Soshan Kamantha Amarasekera, (whom failing)

Shakthevale Arinesarajah, (whom failing)

Don Hasitha Stassen Jayawardena, (whom failing)

Don Sanjivani Clarinda Jayawardena,

as my/our proxy to represent me/us, to speak and to vote on my/our behalf at the Thirty Eighth (38th) Annual General Meeting of the Company to be held on the 30th September 2020, and at any adjournment thereof and at every poll which may be taken in consequence thereof.

### Resolution

|   | For                      | Against                  |
|---|--------------------------|--------------------------|
| To approve a final dividend of Rs. 2.50 per share   | <input type="checkbox"/> | <input type="checkbox"/> |
| To re-elect Mr. C. R. Jansz, who retires in terms of Article No.94 of the Articles of Association of the Company as a Director of the Company.              | <input type="checkbox"/> | <input type="checkbox"/> |
| To re-elect Ms. D. S. T. Jayawardena at the Annual General Meeting in terms of Article No.100 of the Articles of Association, as a Director 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 Companies Donation Act. (Cap 147)                            | <input type="checkbox"/> | <input type="checkbox"/> |

Signed this ..... day of September Two Thousand Twenty

.....  
Shareholder's Signature/(s)

.....  
Shareholder's NIC/ Folio No.

.....  
Proxyholder's NIC

## 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.

**Please provide the following details (mandatory)**

NIC/PP/Company Registration No. of the Shareholder/s : .....

Folio No. : .....

E-mail Address of the Shareholder/(s) or Proxyholder  
(Other than a Director appointed as proxy) : .....

Contact No. (Mobile) : .....

Contact No. (Fixed Line) : .....

# CIRCULAR TO SHAREHOLDERS

LANKA MILK FOODS (CWE) PLC – (PQ 142)  
579/1, WELISARA, RAGAMA, SRI LANKA

Dear Shareholder,

## VIRTUAL ANNUAL GENERAL MEETING OF LANKA MILK FOODS (CWE) PLC FOR THE YEAR 2019/2020

Following the issuance of the guidelines by the Colombo Stock Exchange (CSE) due to the COVID-19 pandemic situation of the country and in the interest of protecting public health and facilitating compliance with the Health and Safety guidelines issued by the Government of Sri Lanka, the Thirty Eighth (38th) Annual General Meeting (AGM) of Lanka Milk Foods (CWE) PLC will be held virtually in the manner prescribed below.

### A. GENERAL DETAILS

1. The Thirty Eighth (38th) AGM of Lanka Milk Foods (CWE) PLC will be conducted from Lanka Milk Foods (CWE) PLC, Welisara, Ragama, at 10.00 a.m. on Wednesday, 30th September 2020.
2. The AGM will be held in accordance with the guidelines issued by the CSE for the hosting of a virtual AGM.
3. Only the Chairman, members of the Board of Directors, key officials, the Company Secretary and the External Auditors will be present at the venue of the meeting in person and all shareholders will participate in the meeting through audio and audio visual means as a measure to maintain “social distancing” requirements to mitigate the dangers of spreading the virus.
4. The Annual Report of the Company for the year ended 2019/2020 will be available for perusal on the website on [www.lmfgroup.lk](http://www.lmfgroup.lk) and on the Colombo Stock Exchange website on [www.cse.lk](http://www.cse.lk). The Annual Report could also be accessed via the QR Code which is provided on the reverse hereof.
5. If you wish to receive a printed copy of the Annual Report for the year ended 2019/2020, please complete and forward us the Form of Request attached hereto (Annexure I) by post to the registered address of the Company No. 579/1, Welisara, Ragama or e-mail to [legal@lmfgroup.lk](mailto:legal@lmfgroup.lk) or facsimile on +94 11 2956266.

### B. SHAREHOLDER PARTICIPATION

1. The shareholders are encouraged to appoint a Director of the Company as their proxy to represent them at the meeting.
2. The shareholders may also appoint any other persons other than a Director of the Company as their proxy and the proxy so appointed shall participate at the meeting through audio or audio visual means only.
3. The shareholders who wish to participate at the meeting will be able to join the meeting through audio or audio visual means only. To facilitate this process, the shareholders are required to furnish their details by perfecting Annexure II to the circular to shareholders and forward same to reach the Company Secretary via e-mail to [agm\\_2020@lmfgroup.lk](mailto:agm_2020@lmfgroup.lk) or facsimile on +94 11 2956266 or by post to the registered address of the Company No. 579/1, Welisara, Ragama not less than five (05) days before the date of the meeting so that the meeting login information could be forwarded to the e-mail addresses so provided.
4. To facilitate the appointment of proxies as specified in B.1 and B.2 above, the Form of Proxy is attached with the Notice of Meeting. The duly filled Form of Proxy should be sent to reach the Company Secretary via e-mail to [legal@lmfgroup.lk](mailto:legal@lmfgroup.lk) or facsimile on +94 11 2956266 or by post to the registered address of the Company No. 579/1, Welisara, Ragama not less than forty eight (48) hours before the time fixed for the meeting.

## CIRCULAR TO SHAREHOLDERS

### C. SHAREHOLDERS' QUERIES

The shareholders are hereby advised that if they wish to raise any queries, such queries should be sent to reach the Company Secretary, via e-mail to [legal@lmfgroup.lk](mailto:legal@lmfgroup.lk) or facsimile on +94 11 2956266 or by post to the registered address of the Company No. 579/1, Welisara, Ragama, not less than five (5) days before the date of the meeting. This is in order to enable the Company Secretary to compile the queries and forward same to the attention of the Board of Directors so that such queries could be addressed at the meeting.

For any queries on this matter, please contact the undersigned.


Telephone : +94 11 2956263 / +94 11 5222600

Fax : +94 11 2956266

E-mail : [legal@lmfgroup.lk](mailto:legal@lmfgroup.lk)

The Board wishes to thank the shareholders of the Company for their unwavering cooperation.

Yours faithfully



**Ms. H. K. Bulathwatte**

Company Secretary  
Lanka Milk Foods (CWE) PLC  
03rd September 2020  
Colombo

<https://www.lmfgroup.lk/reports/>





## ANNEXURE I

To: Ms. H. K. Bulathwatte  
Company Secretary  
Lanka Milk Foods (CWE) PLC  
579/1, Welisara, Ragama.

I would like to receive the **printed version** of the Annual Report of Lanka Milk Foods (CWE) PLC

Summarized printed version in Sinhala

|  |  |
|--|--|
| Full Name of the Shareholder<br>(as on the CDS account/ Share Certificate) |  |
| Shareholder's NIC/ Passport/ Company Registration No.                      |  |
| Folio Number   |  |
| Address  |  |
| Contact Number   |  |

.....  
Signature

.....  
Date

### Notes:

1. Please complete the Form of Request by filling in legibly the required information in BLOCK LETTERS, signing in the space provided and filling in the date of signature.
2. Please post the completed Form of Request to the Company Secretary at the address given above or e-mail to [legal@lmfgroup.lk](mailto:legal@lmfgroup.lk) or facsimile on +94 11 2956266

ANNEXURE II

LANKA MILK FOODS (CWE) PLC  
38TH ANNUAL GENERAL MEETING  
REGISTRATION OF SHAREHOLDER DETAILS FOR ONLINE PARTICIPATION

To: Ms. H. K. Bulathwatte  
Company Secretary  
Lanka Milk Foods (CWE) PLC  
579/1, Welisara, Ragama.

- 1 Full Name of the Shareholder/s:  
Primary : .....  
  
\*Joint : .....  
  
\*Joint : .....
- 2 Shareholder/s Address: .....
- 3 Shareholder's NIC No. / Passport No. / Co. Reg. No.:  
Primary  
\*Joint  
\*Joint
- 4 Shareholder's Contact No.:  
Fixed line: ..... Mobile : .....
- 5 Shareholder's e-mail : .....
- 6 Name of the Proxyholder : .....
- 7 Proxyholder's NIC No. / Passport No : .....
- 8 Proxyholder's Contact No.:  
Fixed line: ..... Mobile : .....
- 9 Proxyholder's e-mail : .....

I/We hereby certify that the details given above are true and accurate and are furnished for the purpose of enabling my/our online participation at the Annual General Meeting. I/We acknowledge that the Company shall have the right to disable my/our participation in the event the above information furnished are found to be incorrect or inconsistent with shareholding records.

\* Strike out if not applicable

..... / ....  
Shareholder's / Date  
Signature

..... / ....  
\*1st Joint holder's/Date  
Signature

..... / ....  
\*2nd Joint holder's/Date  
Signature

**Note:**

- 1 It is mandatory for the shareholder/s to provide the e-mail address in the space provided above in order to forward the log in information to facilitate the online participation at the meeting.
- 2 Duly filled Registration of Shareholder Details Form should be forwarded to reach the Company Secretary via e-mail to agm\_2020@lmfgroup.lk or facsimile on +94 11 2956266 or by post to the registered address of the Company No. 579/1, Welisara, Ragama not less than five (05) days before the date of the meeting.

# CORPORATE INFORMATION

|                                      |  |
|--------------------------------------|--|
| <b>Name of the Company</b>           | Lanka Milk Foods (CWE) PLC   |
| <b>Legal Form</b>                    | 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  |
| <b>Company Registration Number</b>   | PQ 142   |
| <b>Date of Incorporation</b>         | 12th November 1981   |
| <b>Accounting Year End</b>           | 31st March   |
| <b>Registered Office</b>             | 579/1, Welisara, Ragama, Sri Lanka<br>Tel: +9411 2956263-5, +9411 5222600<br>Fax: +9411 2956266<br>Email: lakspray@lmfgroup.lk   |
| <b>Subsidiary Companies</b>          | Lanka Dairies (Pvt) Limited<br>Ambewela Livestock Company Limited<br>Pattipola Livestock Company Limited<br>Ambewela Products (Pvt) Limited<br>United Dairies Lanka (Pvt) Limited<br>Indo Lanka Exports (Pvt) Limited  |
| <b>Board of Directors</b>            | Mr. D. H. S. Jayawardena - Executive Chairman<br>Mr. C. R. Jansz - Executive Director<br>Ms. D. S. T. Jayawardena - Executive Director<br>Ms. D. S. C. Jayawardena - Executive Director<br>Mr. D. S. K. Amarasekera - Independent Non-Executive Director<br>Dr. A. Shakthevale - Independent Non-Executive Director<br>Mr. D. Hasitha. S. Jayawardena - Non-Independent Non-Executive Director |
| <b>Group Chief Executive Officer</b> | Mr. M. Dahanayake  |
| <b>Company Secretary</b>             | Ms. H. K. Bulathwatte  |
| <b>Auditors</b>                      | Messrs. KPMG (Chartered Accountants)<br>32A, Sir Mohamed Macan Markar Mawatha<br>P O Box 186<br>Colombo 3, Sri Lanka.  |
| <b>Bankers</b>                       | Hatton National Bank PLC<br>Hong Kong & Shanghai Banking Corporation Ltd<br>DFCC Bank PLC<br>Commercial Bank of Ceylon PLC<br>Bank of Ceylon   |
| <b>Website</b>                       | <a href="http://www.lmfgroup.lk">www.lmfgroup.lk</a>   |



Lanka Milk Foods (CWE) PLC  
579/1, Welisara, Ragama, Sri Lanka  
Tel : +9411 2956263-5, +9411 5222600  
Fax : +9411 2956266  
Web : [www.lmfgroup.lk](http://www.lmfgroup.lk)  
Email : [lakspray@lmfgroup.lk](mailto:lakspray@lmfgroup.lk)