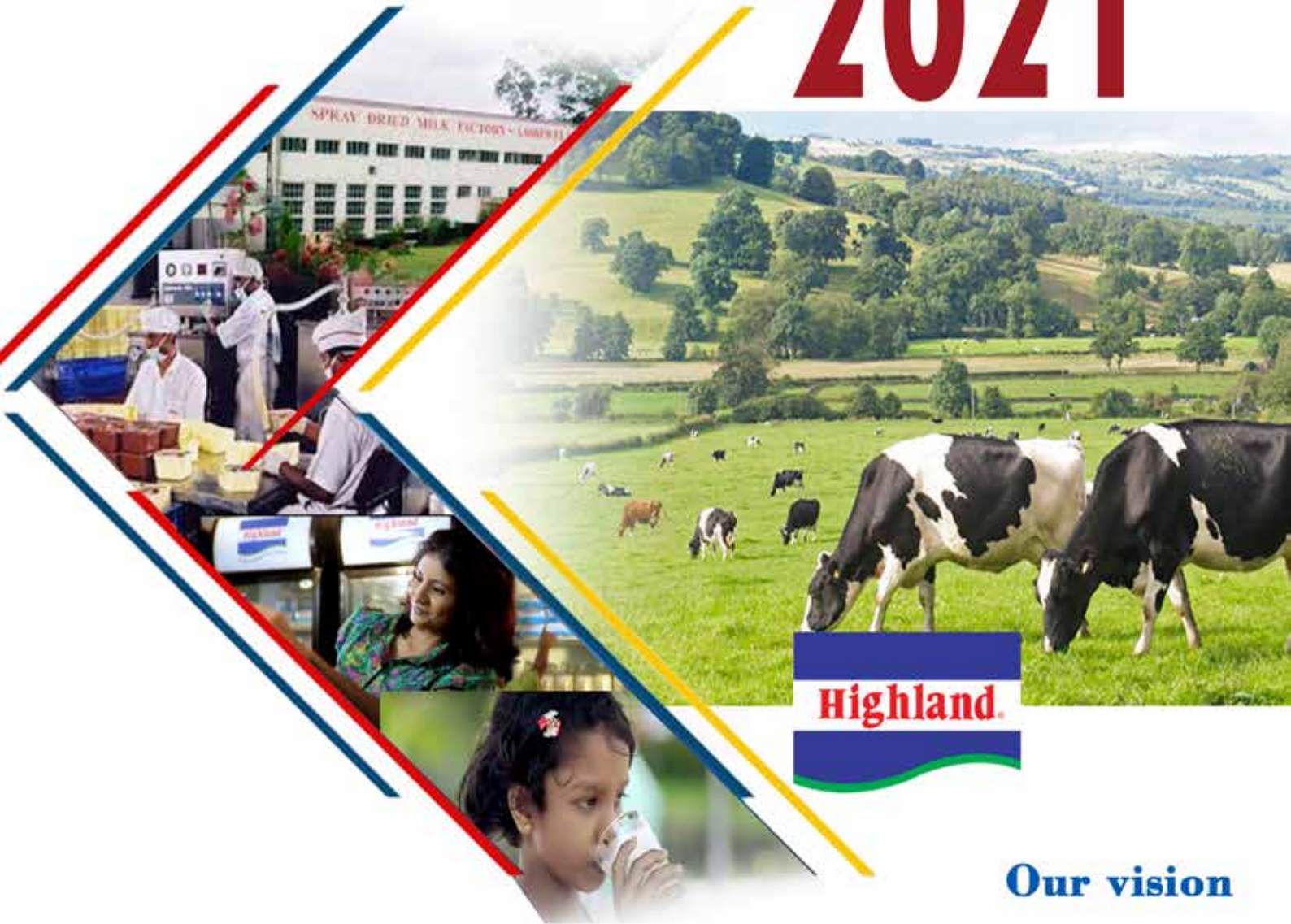




MILCO (pvt) Ltd

No 45, Nawala Road, Narahenpita,
Colombo 05.

Annual Report 2021



Our vision

**“MILCO to be the
“Best in Class” nutritious food and beverage
company in Sri Lanka”**

Our Mission

“To be a proactive partner in achieving the targeted growth in fresh milk production while strengthening the local dairy farmer. Modern technology supported with continuous improvement of nutritious food and beverage to provide our valued consumers at affordable prices.”

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Corporate Information

Name of the Company	- Milco (Pvt) Ltd
Legal Status	- A Private Limited Liability Company incorporated in Sri Lanka under the provisions of the Companies Act No 17 of 1982 and re-registered under the Companies Act No. 07 of 2007
Registered Office	- No. 45, Nawala Road, Narahenpita, Colombo 05. - Tel: 0112586174, 0114500541 - Fax: 0112368082/ 0112577540/0114500555 - Website: www.milco.lk - E-mail: info@milco.lk
Factories	- Colombo Milk Factory (CMF) - Ambewala Spray Dried Milk Factory (SDMF) - Digana Milk Factory (DMF) - Polonnaruwa Condensed Milk Factory (PMF)
Date of Incorporation	- 09 th May 1996
Date of Re-registration	- 19 th May 2008
Company Registration Number	- N (PVS) 17159 (OLD) - PV 2942 (New)
Company Secretaries	- Financial Services & Commercial Agencies (Pvt) Ltd. No. 300/3, Nawala Road, Nawala
Directors	Mr. Lasantha Wickramasinghe - Chairman Mr. U.M.Indika Abeywickrama - Director Mr. Sanjeewa Gunawardena - Director Mr. H.Vijitha Kumara - Director Mr H.Anthonige Amarasena - Director Mr.H.M.Muthubanda Herath - Director Mr.G.A.Aruna Prasanna - Director Mr.G.S.M .Kelum Gunathilake - Director
Auditors	- Internal Audit Ernst & Young Consulting Services (Pvt) Ltd. -External – Government Audit Auditor General's Department
Bankers	- Peoples' Bank - Bank of Ceylon

Mr. Lasantha Wickramasinghe

Mr. Lasantha Wickramasinghe is an experienced IT professional and an experienced business systems analyst with a strong background in the computer software industry. He is an expert in requirements analysis, functional design of ERP solutions, and agile software development. His expertise lies in supply chain management and tax reporting, and he has played a key role in designing critical functionalities for the global ERP system, including logistics, freight calculations, pricing, and tax management.

He holds a bachelor's degree in special mathematics from the University of Colombo and two master's degrees in information technology and production management.

Mr. S. W. Gunawardhana

Mr. S. W. Gunawardena holds a Bachelor of Science degree from the University of Colombo and a Master of Business Administration degree from the Postgraduate Institute of Management, University of Sri Jayewardenepura.

He has worked in leading trading institutes in Sri Lanka and abroad and currently serves on the Board of Directors of the E B Creasy Group and Laxapana Batteries PLC.

Mr. U.M.I. Abeywickrama

Mr. Ushan Indika, a Chartered Computer Engineer with the British Computer Association, holds a master's degree in business management from a university in Costa Rica. He has served in the private sector as a director for over 30 years.

Mr. S. Hemantha Vijitha Kumara

Mr. Hemantha Vijitha Kumara is a graduate of the University of Kelaniya in Physics. He holds a Bachelor of Science in Economics from the University of Kelaniya and a Postgraduate Diploma in Economics from the International University of Japan. He currently serves as a Director of the Department of Development Finance.

Mr. H.M.M. Bandara Herath

Mr. Herath has also served as the Executive Director of the Land Reclamation Corporation, Managing Director of Remark Holdings, Managing Director of Doodoo International (PVT.) Ltd., Managing Director of Jathaka Youth Services Limited, and a member of the Board of Directors of Sugathadasa Stadium and the Sri Lanka Bureau of Foreign Employment.



Brief Profile of the Directors & senior Management

Mr. G.S.M. Kelum Gunathilaka

Mr. Gunathilaka is a graduate of the University of Sri Jayewardenepura. He has worked as a news producer at the Independent Television Network (ITN) and has also served as a media secretary in several government ministries.

Mr.G.A. Aruna Prasanna

Mr. Prasanna is a holder of a Higher National Diploma in Governance, Democracy and Public Policy. He has also served as a Board Member of AMR Distribution (Pvt.) Ltd and as the Marketing Manager of IDAPZ (Pvt.) Ltd.

Mr. H. A. Amarasena

He is a graduate of the University of Colombo, a lawyer and a public notary. He is currently practicing law.

Brief Profile of the Directors & senior Management



SN	Tit.	Name	Designation
1	Mr.	M.A.S. Munasinghe	General Manager - Administration
2	Mr.	P.I.O. Fernando	General Manager - Projects & Operations
3	Mr.	H.M.U. Herath	Manager
4	Mr.	Nalaka de Silva	Manager-Innovation of Technology
5	Mr.	H.M.W. Rajapaksha	Manager-Innovation of Technology
6	Mr.	M.G.P. Premathilaka	Manager - Finance
7	Mr.	D.M. Auwardt	Deputy General Manager - DD & MP
8	Mr.	D.M.M. Dissanayake	Manager- DD & MP
9	Mrs.	B.K.U.B. Rodrigo	Manager - Legal
10	Mr.	Pradeep Senadeera	Manager - Projects & Engineering
11	Mr.	S. Sarawanabavan	Manager - Marketing & Sales
12	Mr.	M.P.K. Jayaratne	Manager - QA & RD
13	Mr.	W.N. Upananda	Manager -Stores
14	Mr.	M.G.B. Jayarathne	Manager - Transport
15	Mr.	G.A.P.J. Udayakumara	Factory Manager
16	Mr.	P.L.K. Lal Cooray	Actg Factory Manager
17	Mr.	G.Y.G. Saman	Actg Factory Manager
18	Mr.	W.P. Wijethilake	Factory Manager

I'm pleased to present this message for Annual Report 2021 of Milco (Private) Limited. This past year was challenging, marked by the ongoing global pandemic's impact and evolving economic pressures, which notably affected production costs and market dynamics for the Sri Lankan dairy industry.

Despite these hurdles, Milco remained steadfast in our core mission: to bolster local dairy farmers and provide nutritious, quality dairy products under our trusted **Highland** brand. We focused on operational efficiencies and careful financial management to navigate rising costs, and I'm pleased to report we managed to maintain profitability under these difficult conditions.

Our commitment to our dairy farmers, the backbone of our operations, never wavered. We continued strong milk collection efforts and ensured the consistent availability of essential dairy products whole over the country. We also maintained our wide range of products, from liquid milk to butter, cheese, and yogurts, all proudly carrying the **Highland** name.

Looking ahead, we recognize areas for improvement, particularly regarding milk collection and optimizing profitability. We're actively working to enhance our production and sales capabilities and strengthen our farmer partnerships. Our long-term vision to contribute to Sri Lanka's milk self-sufficiency remains our guiding principle.

My sincere thanks go to our dedicated employees for their resilience, our loyal dairy farmers for their invaluable contributions, and our customers and stakeholders for their continued trust and support. We face the future with renewed determination, confident in Milco's vital role in the nation's well-being.



L B Wickramasinghe
Chairman

The Directors of Milco (Pvt) Ltd have the pleasure of presenting the Report of the Directors and the Audited Financial Statement for the year ended 31st December 2021.

PRINCIPAL ACTIVITY

The principal activities of the Company during the year were collecting fresh milk, processing, packing, distributing, and marketing milk products.

PROPERTY PLANT AND EQUIPMENT

Additions made during the year to the Property, Plant & Equipment of the Company is Rupees 226.20 Mn and further details are shown in note 03 to the financial statements.

BOARD OF DIRECTORS

The following Board of Directors was continued from 01.01.2021

Mr. Lasantha Wickramasinghe – Chairman
Mr. Ushaan Madusha Indika Abeywickrama – Director
Mr. Sanjeewa Gunawardena – Director
Mr. Hemantha Vijitha Kumara – Director
Mr. Hewa Anthonige Amarasena – Director
Mr.H.M.Muthubanda Herath – Director
Mr.G.A.Aruna Prasanna – Director
Mr.G.S.M.Kelum Gunathilake – Director

The following appointments / Resignations to the Board took effect as follows.

Mr.H.M.Muthubanda Herath was Appointed on 06.01.2021
Mr.G.A.Aruna Prasanna was Appointed on 06.01.2021
Mr.G.S.M.Kelum Gunathilake was Appointed on 19.07.2021

SHARE INFORMATION

The Stated Capital of the Company in number & value throughout the year under review was Rupees 319,454,060.

RESERVES

Cumulative loss brought forward of Rupees 28,787,324/= adjusted against the current year's profit of Rupees 333,024,779/= after tax, as shown on page 1 of the accounts. The 2021 accounts have been restated with the 2022 accounts, and the 2021 year loss is Rupees 1,809,192,200/=.

Reserves include Capital Reserve of Rupees 25,000,000/= and sinking fund of Rupees 1,689,978/= at the year end.

DIRECTORS' INTEREST IN CONTRACTS

The Directors of the Company were not directly or indirectly involved in any contracts with the Company.

CORPORATE GOVERNANCE

The Board of Directors ensures Good Corporate Governance. It is the duty of the Board of Directors to ensure that the performance is in line with the Company objectives as well as the objectives and expectations of the Stakeholders.

TAXATION

The income tax liability arising from interest income was set off against brought forward tax losses. Company has made operating Loss during the year and thereby no tax liability was reported from operating activities.

STATUTORY PAYMENTS

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments due to the Government and to Employees Provident Fund and Employees Trust Fund have been paid accurately and on time.

COMPLIANCE

The Company has not engaged in activities that contravene the laws or regulations that are applicable to Sri Lanka or elsewhere.

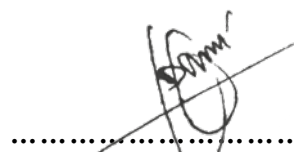
GOING CONCERN

The Board of Directors is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. In view of this, we continue to apply the going concern concept in preparing the Accounts of the Company.

APPOINTMENT OF AUDITORS

The Auditor General be the Auditor of the Company for the year ended 31.12.2021. As far as the Directors are aware, the Auditors do not have any relationship with the Company that would have an impact on their independence.

FOR AND ON BEHALF OF THE BOARD,



Secretary to the Company

Financial Services & Commercial Agencies (Pvt) Ltd
(RCS2000074) No. 300/3, Nawala Road, Nawala

MILCO (PVT) LTD. PERFORMANCE HIGHLIGHTS



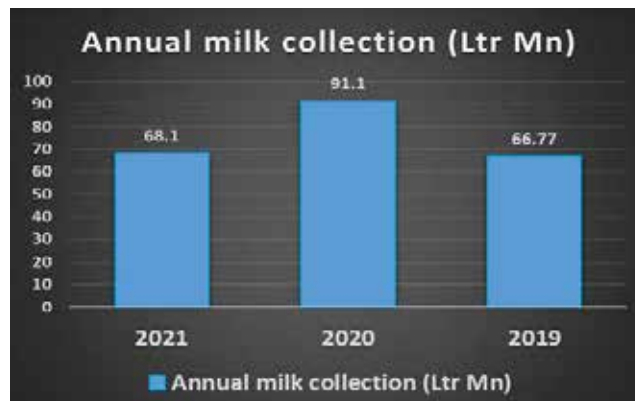
Following the decline in milk collection, revenue was significantly impacted in 2019. However, it began to recover in 2020 and 2021, with a slight increase in milk collection levels and product price fluctuations.



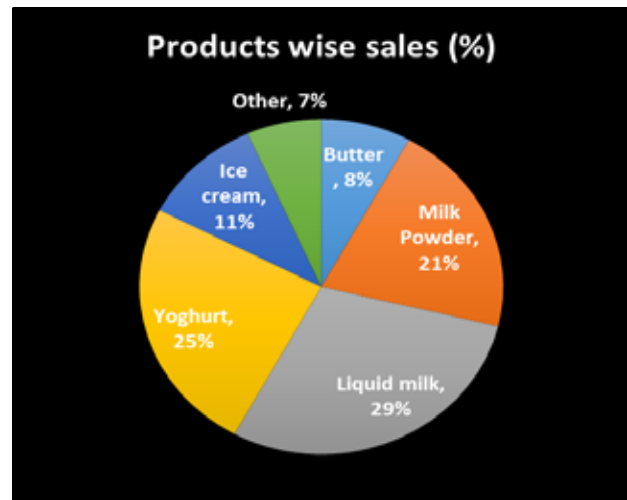
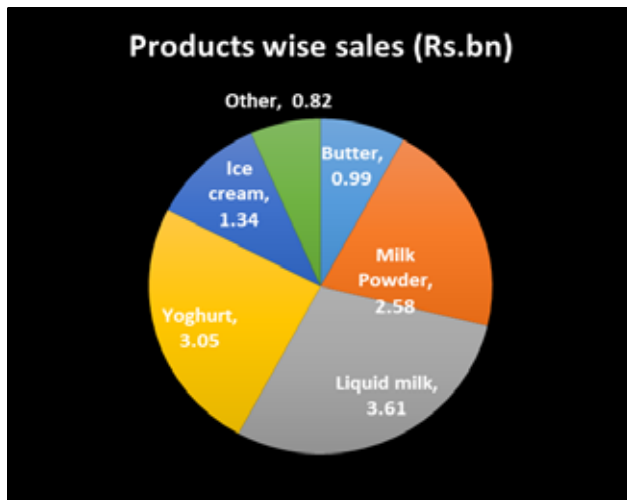
The GP ratio was significantly impacted in 2019 due to the decline in the realizable value of milk powder stock (which was not in salable condition). Since there were no abnormal transactions reported in 2020, GP has returned to its normal position. However, in 2021, GP decreased because of a drop in milk collection.



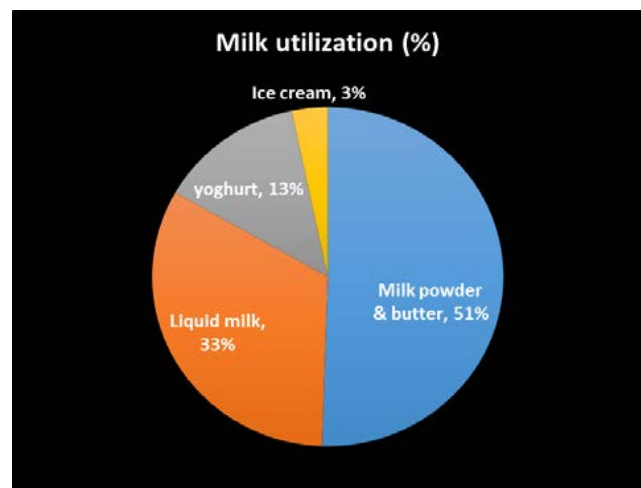
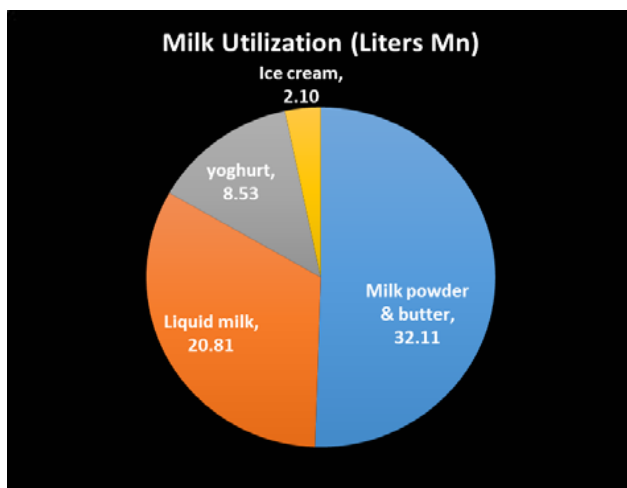
Following the stock valuation adjustment on non-salable milk powder stock, the company reported net losses during the 2019 financial year. It recovered in 2020, recording a net profit of Rs.225.76mn for the period. However, in 2021, profits decreased due to a drop in milk collection.



Due to intense competition, the annual collection level fell to 66 million liters in 2019, then slightly increased to 91 million in 2020. However, in 2021, it dropped again to 68 million.



During the review period, liquid milk reported the highest sales value at Rs. 3.61 billion, accounting for 29% of total sales. Yoghurt and milk powder sales contributed 25% and 21% to total sales, respectively. Together, these three products accounted for 75% of total sales, while the remaining sales consisted of ice cream varieties, butter, curd, ghee, condensed milk, and cheese varieties.



Shown above is an analysis of milk utilization for production during the period. A total of 32.11 million liters of milk have been utilized for milk powder and butter production, which accounts for 51% of the total milk collection. Additionally, 20.81 million liters of milk were used for liquid milk production, while the remainder was allocated for yoghurt and other products production.

Periodical Board Meetings have been held by the Board of Directors on a once a month basis during the year under review. Corporate plan and the annual budget have been key instruments in ensuring and maintaining financial control and these have been prepared in consultations with all lie managers at the commencement of the financial year and approved by the Board.

Monthly performance report compared with the previous month and the budget has been tabled regularly at the subsequent monthly meetings. This report provides timely information on financial and operational performance with targets and enables the Board of Directors to make effective management decisions in terms of profit and loss of the company.

AUDIT COMMITTEE

Audit committee should be chaired by the Director who represents the Treasury, the committee functioned with another two non executive directors, which operates as a sub-committee of the Board, and served by the internal audit, which has been outsourced to ensure greater sense of independence.

M/s. Ernest & Young Advisory Services (Pvt) Ltd, functioned as Internal Auditors during the year. It had branch offices operating in the factories of Colombo, Ambewela, Polonnaruwa and Digana in addition to the Head Office.

An Audit plan prepared by the internal auditors is submitted for approval of the audit committee at the beginning of the year and internal audit checks and tests are carried out throughout the year in accordance with this plan. Detailed reports on the audit findings are discussed initially with the respective managers and departmental heads for their comments and responses. Based on those comments a summary report is prepared and submitted for audit committee review and follow up action. Audit committee meets once a month.

CORPORATE MANAGEMENT

The Board of Directors ensures that the company maintains proper accounting records to represent with reasonable accuracy the financial position of the company to the shareholders. They also ensure that financial statements are prepared and presented in compliance with the Sri Lanka Accounting Standards and the requirements of the Companies act.

Charter of the committee

The Audit Committee Charter, approved by the Board of Directors defines the purpose, authority, composition, meeting, and responsibilities of the Committee.

The purpose of the Audit Committee is to:

1. Assist the Board of Directors in fulfilling its overall responsibilities for the financial reporting process.
2. Review the system of internal controls and risk management.
3. Monitor and evaluate the effectiveness of the internal audit function.
4. Review the Company's process for monitoring compliance with laws and regulations.
5. Review the independence and performance of the external auditors.

Composition

The Committee consisted of three Independent Non-Executive Directors namely Mr. Sanjeewa Gunawardena, Mr. Ushan Abeywickrama and the Chairman of the Committee, Mr. S.H.V. Kumara. Audit Committee Chairman is the Treasury Representative. The Company Secretary functions as Secretary to the Audit Committee.

The principal activities of the Committee are detailed below.

Meetings

The Audit Committee met eight times during the year under review. The General Manager, Finance Manager, Audit Representative from Government Audit Department, Audit Manager from Ernst & Young and functional heads of the Strategic Business Units (SBUs) were invited if deemed necessary for audit committee meetings.

Internal Audit and Risk Management

The Internal Audit function of the Company has been outsourced to Messrs. Ernst & Young. Control weaknesses highlighted in the internal audit reports were examined by the committee and follow up action taken by the management on the audit recommendations were also reviewed. The committee reviewed the effectiveness of the internal audit functions and the scope and procedures for internal audit during the ensuing year.

Internal Controls

During its meetings, the Committee reviewed the adequacy and effectiveness of the internal control systems and the Company's approach to its exposure to the business and financial risks. Processes are in place to safeguard the assets of the organization and to ensure that the financial reporting system can be relied upon in the preparation and presentation of financial statements.

A comprehensive Management Report and Accounts are produced at every month end highlighting all the key performance criteria pertaining to the Company's SBUs which is reviewed by the Senior Management on a monthly basis. SBU Boards review performance on a Monthly basis.

Financial Statements

The Committee reviewed the Company Monthly Financial Statements, the Annual Report and Accounts for reliability, consistency and compliance with the Sri Lanka Accounting Standards and other statutory requirements, including the Companies Act, No 7 of 2007, prior to issuance. The committee also reviewed the adequacy of disclosure in the published Financial Statements.

External Auditors

External Auditors of the company is carried out by the Auditor General in terms of the Constitution of the country. The Committee ensured that the external audit is carries out effectively and independently and maintained a continuous rapport with the representatives of the Auditor General in relation to the audit approach and procedure.

The external auditors kept the Audit Committee informed on an on-going basis of all matters of significance. The Committee met with the Auditors and discussed issues arising from the audit and corrective action taken when necessary.

Conclusion

The Audit Committee is satisfied that the control environment prevailing in the organization provides reasonable assurance regarding the reliability of the financial reporting of the Company, the assets are safeguarded and that the Listing Rules of the Milco (Pvt) Ltd have been complied with.



Mr.S.H.V Kumara.

Chairman of the Audit Committee



MILCO (PRIVATE) LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31ST DECEMBER, 2021

		As at 31st December, 2021 Rs.	As at 31st December, 2020 Rs.
ASSETS	Note		
Non-Current Assets			
Property, Plant and Equipment	2	5,332,387,240	5,630,047,816
Right-of-Use Assets	2.1	58,696,472	48,315,935
Capital Work-In-Progress	3	12,748,439,240	12,536,392,498
Financial Instrument - Amortised cost	4	897,013,432	811,519,828
Long-term Advances	5	83,777,083	139,152,682
Total Non-Current Assets		19,120,313,466	19,165,428,759
Current Assets			
Inventories	6	1,284,519,222	1,132,938,074
Trade and Other Receivables	7	932,985,740	1,075,106,153
Income Tax Receivable	8	61,932,163	121,164,639
Cash and Cash Equivalents	9	51,943,162	17,228,129
Total Current Assets		2,331,380,287	2,346,436,994
Total Assets		21,451,693,754	21,511,865,754
EQUITY AND LIABILITIES			
Stated Capital and Reserves			
Stated Capital	10	319,454,060	319,454,060
Capital Reserve	11	25,000,000	25,000,000
Revaluation Reserve		336,454,463	336,454,463
Sinking Fund	12	1,689,978	1,689,978
Retained Earnings		333,024,779	(28,787,324)
Shareholders' Fund		1,015,623,279	653,811,177
Non-Current Liabilities			
Deferred Tax Liability	13	-	-
Non-interest Bearing Borrowings	14.2	2,108,063	2,108,063
Interest Bearing Borrowings - Long-Term	14.1	18,558,163,698	18,449,096,221
Retirement Benefit Obligations - Gratuity	15	587,470,655	841,552,796
Deferred Income - Government Grant	16	113,902,491	20,081,884
Total Non-Current Liabilities		19,261,644,907	19,312,838,963
Current Liabilities			
Trade and Other Payables	17	914,918,069	775,475,909
Interest Bearing Borrowings - Short Term	14.1	31,762,332	96,110,896
Bank Overdrafts	18	227,745,167	673,628,809
Total Current Liabilities		1,174,425,567	1,545,215,614
Total Equity and Liabilities		21,451,693,754	21,511,865,754

Figures in brackets indicate deductions.

The accounting policies and notes on pages 06 to 35 form an integral part of these Financial Statements.

I certify that these Financial Statements have been prepared in compliance with the requirements of the Companies Act No.07 of 2007.

.....
M. G. P. Premathilaka
Manager- Finance

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 on 12.02.2024

.....
B.L.A.J. Dharmakeerthi
Chairman

.....
Kelum Gunathilake
Director

MILCO (PRIVATE) LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31ST DECEMBER, 2021



		For the Year Ended 31 st December, 2021 Rs.	For the Year Ended 31 st December, 2020 Rs.
	Note		
Revenue	19	12,476,320,252	11,104,710,548
Cost of Sales		(11,292,970,296)	(9,703,560,044)
Gross Profit		1,183,349,956	1,401,150,505
Other Operating Income	20	75,153,207	33,475,777
		1,258,503,163	1,434,626,282
Administrative Expenses		(825,937,229)	(798,515,146)
Distribution Expenses		(427,630,386)	(336,890,593)
Other Expenses		(7,552,976)	(6,696,851)
Profit/ (Loss) from Operations		(2,617,427)	292,523,692
Finance Income	21	66,109,595	52,972,581
Finance Expenses	22	(29,167,006)	(119,739,982)
Net Profit Before Taxation		34,325,163	225,756,290
Income Tax Expenses	23	-	-
Net Profit for the Year after Taxation		34,325,163	225,756,290
Other Comprehensive Income			
Item that will not be reclassified subsequently to profit or loss:			
Remessurement of Defined Benefit Plan, Net of Taxes		327,486,940	(109,295,614)
Total Other Comprehensive Income Net of Tax		327,486,940	(109,295,614)
Total Comprehensive Income		361,812,103	116,460,676
Basic Earning Per Share	24	11.33	3.65

Figures in brackets indicate deductions.

The accounting policies and notes on pages 06 to 35 form an integral part of these Financial Statements.

	Stated Capital Rs.	Capital Reserve Rs.	Revaluation Reserve Rs.	Sinking Fund Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 31st December 2019	319,454,060	25,000,000	336,454,463	1,689,978	(145,248,000)	537,350,500
Net Profit for the Year	-	-	-	-	116,460,676	116,460,676
Other Comprehensive Income	-	-	-	-	-	-
Balance as at 31st December 2020	319,454,060	25,000,000	336,454,463	1,689,978	(28,787,324)	653,811,176
Net Profit for the Year					34,325,163	34,325,163
Other Comprehensive Income					327,486,940	327,486,940
Balance as at 31st December 2021	319,454,060	25,000,000	336,454,463	1,689,978	333,024,779	1,015,623,279

Figures in brackets indicate deductions.

The accounting policies and notes on pages 06 to 35 form an integral part of these Financial Statements.

MILCO (PRIVATE) LIMITED

CASH FLOW STATEMENT

for the year ended 31ST DECEMBER, 2021



	For the Year Ended 31 st December, 2021 Rs.	For the Year Ended 31 st December, 2020 Rs.
Cash Flow from Operating Activities		
Net Profit Before Taxation	34,325,163	225,756,290
Adjustments for ;		
Depreciation on Property, Plant and Equipment	517,715,524	521,879,592
Income from Investment	(59,041,321)	(52,972,581)
Interest Expense	27,581,235	115,771,068
Lease Interest	1,787,690	3,968,828
Recognized Income on Deferred Grants	(12,311,892)	(8,998,110)
Exchange Gain	(47,507,169)	(14,127,003)
Provision for Defined Benefit Plans - Gratuity	108,782,100	116,410,264
Disposal gains	11,778	(28,367)
ESC Weitten off	-	91,350,074
written off of capital work-in progress	542,273	-
Amortisation of right-of-use assets	13,051,662	13,321,663
Operating Profit Before Working Capital Changes	584,937,043	1,012,331,717
(Increase)/Decrease in Inventories	(151,581,149)	(39,807,244)
(Increase)/Decrease in Trade and Other Receivables	201,352,889	108,094,364
Increase/(Decrease) in Trade and Other Payables	139,442,160	13,388,626
Cash Generated from Operations	774,150,943	1,094,007,463
Interest Paid	(27,581,235)	(115,771,068)
Payment of Defined Benefit Plans - Gratuity	(35,377,300)	(35,718,123)
Net Cash From/ (Used In) Operating Activities	711,192,408	942,518,272
Cash Flow from Investing Activities		
Acquisition of Property, Plant and Equipment	(120,071,821)	(58,157,140)
Investments in Property, Plant and Equipment in the Course of Constr	(174,512,496)	(29,828,724)
Proceeds from disposal of Assets	4,475	51,353
Interest Received	59,041,321	52,972,581
New/ (Withdrawal) Short-Term and Long-Term Investment (Net)	(37,986,434)	(9,696,683)
Net Cash Used In Investing Activities	(273,524,956)	(44,658,613)
Cash Flow from Financing Activities		
Lease Rental Paid	(11,242,021)	(23,426,318)
Proceeds from long-term borrowings	140,839,733	-
Loans and Borrowings Repayments	(86,666,488)	(142,810,673)
Net Cash Used In Financing Activities	42,931,224	(166,236,990)
Net Increase in Cash and Cash Equivalents	480,598,676	731,622,669
Cash and Cash Equivalents at the Beginning of the Year (Note A)	(656,400,681)	(1,388,023,349)
Cash and Cash Equivalents at the End of the Year (Note B)	(175,802,005)	(656,400,681)



MILCO (PRIVATE) LIMITED

CASH FLOW STATEMENT

for the year ended 31ST DECEMBER, 2021

	For the Year Ended 31 st December, 2021 Rs.	For the Year Ended 31 st December, 2020 Rs.
Note A: At the Beginning of the Year		
Balances at Banks	12,456,380	7,989,149
Petty Cash in Hand	4,771,749	4,825,402
	<u>17,228,129</u>	<u>12,814,551</u>
Bank Overdrafts	(673,628,809)	(1,400,837,901)
	<u>(656,400,681)</u>	<u>(1,388,023,350)</u>
Note B: At the End of the Year		
Balances at Banks	10,895,767	12,456,380
Call deposits	40,000,000	-
Petty Cash in Hand	1,047,394	4,771,749
	<u>51,943,162</u>	<u>17,228,129</u>
Bank Overdrafts	(227,745,167)	(673,628,809)
	<u>(175,802,005)</u>	<u>(656,400,681)</u>

Figures in brackets indicate deductions.

The accounting policies and notes on pages 06 to 35 form an integral part of these Financial Statements.

1.1. CORPORATE INFORMATION

1.1.1 Legal and Domiciled Form

Milco (Private) Limited (The Company) is a limited liability company incorporated and domiciled in Sri Lanka.

The company was incorporated on 09th May, 1996 under the name 'Kiriya Milk Industries of Lanka (Private) Limited'. The name of the company was changed as 'Milco (Private) Limited' with effect from 23rd July 2001. As per the agreement entered into between the Government of Sri Lanka (GOSL) and the National Dairy Development Board of India (NDDB), all property, plant and equipment (other than land) owned and used by Milk Industries of Lanka Company Limited as at 03rd February, 1998 and leasehold rights of the land and buildings used by Milk Industries of Lanka (Private) Company Limited as at the same date were transferred to the Company with effect from 04th February, 1998. The value of Net Assets so transferred was Rs.306,500,020/-. Further, as per the letter dated 08th August, 2000 from Public Enterprises Reform Commission of Sri Lanka, annual lease rentals of leasehold land and buildings amounting to Rs. 20,427,900/- was waived off as per a cabinet decision.

The registered office of the company is located at No. 45, Nawala Road, Colombo 05 and the principal place of business is also at the same place. Major factories of the company are situated at Narahenpita, Ambewela, Digana, Polonnaruwa and construction of Badalgama factory was in progress as of 31st December 2021.

1.1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the company were collecting, processing, packing, distributing and dealing in milk related products.

1.1.3 Date of Authorization to Issue

The financial statements for the year ended 31st December, 2021 were authorized for issue in accordance with a resolution of the Board of Directors on 12.02.2024.

1.1.4 Responsibility for Financial Statements

The board of directors are responsible for the preparation and presentation of these financial statements

1.2. Summary of Significant Accounting Policies

1.2.1 General Accounting Policies

1.2.1.1 Basis of Preparation of Financial Statements

The financial statements have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS / LKAS) as issued by the Institute of Chartered Accountants of Sri Lanka

1.2.1.2 Basis of Measurement

The financial statements have been prepared under the historical cost convention basis with the exception of certain assets and liabilities at fair value or any other basis, as it may require or prescribe by specific SLFRS / LKAS.

1.2.1.3 Functional and Presentation Currency

Items included in the financial statements are measured using the currency of primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Sri Lanka Rupees, which is the company's functional and presentation currency.

1.2.1.4 Statement of Compliance

The statement of financial position, statement of comprehensive income, changes in equity and cash flows, together with accounting policies and notes ("financial statements") of the company as at 31st December, 2021 are prepared in compliance with the Sri Lanka Accounting Standards (LKAS and SLFRS) issued by the Institute of Chartered Accountants of Sri Lanka.

1.2.1.5 Going Concern

The Directors of the company have made an assessment of the company's ability to continue as a going concern and are satisfied that the company has the resources to continue in business for a foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern. Therefore, the financial statements are continued to be prepared on the going concern basis.

1.2.1.6 Comparative Information

The accounting policies have been consistently applied by the company and are consistent with those of the previous year. The previous year's figures and phrases have been re-arranged wherever necessary to conform to the current year's presentation/classification.

1.2.1.7 Foreign Currency Transaction

All foreign exchange transactions are converted to Sri Lanka Rupees, which is the reporting currency, at the rates of exchange prevailing at the time the transactions were effected.

Monetary assets and liabilities denominated in foreign currencies are translated to Sri Lanka Rupee equivalents using year end spot foreign exchange rates, the resulting gains or losses are accounted in the statement of comprehensive income.

Non-monetary assets and liabilities are translated using the exchange rates that existed when the values were determined. The resulting gain or loss is accounted in the statement of comprehensive income.

1.2.1.8 Materiality and Aggregation

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

1.2.1.9 Critical Accounting Estimates and Judgements

a) Judgements

In the process of applying the accounting policies, the management has made the judgements, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements.

b) Estimates and Assumptions

The preparation of the company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and the disclosure of contingent liabilities at reporting date.

The key assumptions concerning the future and other key sources of estimation uncertainty at the date of financial position, that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year, have been considered.

1.3 Assets and Bases of their Valuation

1.3.1 Property, Plant and Equipment

a) Measurement

All items of property, plant and equipment are initially recorded at cost. Where items of property, plant and equipment are subsequently revalued, the entire class of such assets is revalued.

Property, plant and equipment are stated at cost, excluding the cost of day to day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment when that cost is incurred, if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the company recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

When a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repairs and maintenance costs are recognized in profit or loss as incurred.

An item of property, plant and equipment is de-recognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition 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 comprehensive income in the year the asset is de-recognized.

b) Useful Lives of Property, Plant and Equipment

The company reviews the assets' residual values, useful lives and methods of depreciation at each reporting date; judgement made by the management based on the professional experts is exercised in the estimation of these values, rates and methods.

c) Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Assets held under finance lease are amortized over the shorter of the lease term or the useful lives of equivalent owned assets.

The economic useful lives are as follows:

Buildings	20 to 25 years
Plant and Machinery	04 to 30 years
Furniture and Fittings	05 years
Laboratory Equipment	05 years
Motor Vehicles	04 years
Tools and Equipment	05 years
Office Equipment	05 years
Bottles and Crates	04 years
Computers	04 years
Bottle Coolers	04 years
Software	03 years
Milk Cans	05 years

Depreciation of assets 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 de-recognized.

d) Restoration Costs

Expenditure incurred on repairs or maintenance of property, plant and equipment in order to restore or maintain the future economic benefits expected from originally assessed standard of performance is recognized as an expense when incurred.

e) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are recognised as expenses in the period in which they are incurred.

f) De- Recognition

An item of property, plant and equipment is de-recognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset is calculated as the difference between the net disposal proceeds and the carrying amount and is recognized in the statement of comprehensive income.

1.3.2 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Profit or Loss and Other Comprehensive Income in the expense category consistent with the function of the intangible asset.

1.3.3 Right-of-use assets recognised under SLFRS 16

a) Right-of-use assets

The company recognises right-of-use assets when the underlying asset is available for use. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain the ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life or the lease term. Right-of-use assets are subject to impairment.

Any excess of sales proceeds over the carrying amount of assets in respect of a sale and leaseback transaction that results in a finance lease is deferred and amortised over the lease term

b) Short-term leases and low value assets

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date. It also applies the lease of low value assets recognition exemption. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight line basis over the lease term.

1.3.4 Impairment of Non-Financial Assets

The company assesses at each reporting date to ascertain whether there is an indication that an asset may be impaired. If such indication exists or when annual impairment testing for an asset is required the company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or a group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risk specific to the asset.

Impairment losses of continuing operations are recognized in the statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to verify as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the company makes an estimate of the recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the assets' recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot "exceed" the carrying amount that would have been determined, net of depreciation had, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of comprehensive income.

1.3.5 Capital Work-in-Progress

Capital work-in-progress is transferred to the respective asset accounts at the time of the first utilization of the asset.

1.3.6 Financial Assets

The company classifies its financial assets in the following categories: Financial Assets at fair value through profit or loss, Loans and receivables, financial assets available for sale and Held-to-maturity financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

1.3.6.1 Initial Recognition and Measurement

The company determines the classification of its financial assets at initial recognition. All financial assets are recognized initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the company commits to purchase or sell the asset.

The company's financial assets include cash, investments in fixed deposits and trade and other receivables.

1.3.6.2 Subsequent Measurement

The subsequent measurement of financial assets depends on their classification as follows:

(a) Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or re-purchasing in the near term.

(b) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of comprehensive income.

(c) Held-to-Maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the company has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest rate (EIR) method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognized in the statement of comprehensive income in finance costs.

(d) Available-for-Sale Financial Investments

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available for sale financial investments are subsequently measured at fair value.

Unrealized gains and losses are recognized directly in equity (Other comprehensive income) in the 'Available for sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the statement of comprehensive income in 'Other operating income'. Where the company holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available for sale financial investments is reported as interest income using the EIR. Dividends earned whilst holding available for sale financial investments are recognized in the statement of comprehensive income as 'Other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the statement of comprehensive income in 'Impairment losses on financial investments' and removed from the 'Available for sale reserve'.

(d) Available-for-Sale Financial Investments

The company evaluates its available-for-sale financial assets to determine whether the ability and intention to sell them in the near term is still appropriate. When the company is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the company may elect to re-classify these financial assets in rare circumstances. Re-classification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the company has the intent and ability to hold these assets into a foreseeable future or until maturity. Re-classification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial assets accordingly.

For a financial asset to be re-classified out of the available-for-sale category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is re-classified to the statement of comprehensive income.

1.3.6.3 De-Recognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is de-recognized when:

- (a) The rights to receive cash flows from the asset have expired
- (b) The company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either

The company has transferred substantially all the risks and rewards of the asset, or the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the company has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognized to the extent of the company's continuing involvement in it.

In that case, the company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the company could be required to repay.

1.3.6.4 Impairment of Financial Assets

The company assesses at each reporting date to ascertain whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganizations where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial Assets Carried at Amortized Cost

For financial assets carried at amortized cost, the company first assesses to determine whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collaterals have been realized or has been transferred to the company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

Available-for-Sale Financial Assets

For available-for-sale financial assets, the company assesses at each reporting date to verify whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of comprehensive income - is removed from other comprehensive income and recognized in the statement of comprehensive income. Impairment losses on equity investments are not reversed through the statement of comprehensive income; increases in their fair value after impairments are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of comprehensive income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

1.3.7 Financial Liabilities

The company classifies its financial liabilities as financial liabilities at fair value through profit or loss or other financial liabilities, as appropriate. At the reporting date there were no financial liabilities at fair value through profit or loss.

1.3.7.1 Initial Recognition and Measurement

All financial liabilities are recognized initially at fair value. This includes directly attributable transaction costs. The company's financial liabilities include loans and borrowings, trade and other payables and bank overdrafts.

1.3.7.2 Subsequent Measurement

The measurement of financial liabilities depends on their classification as follows:

(a) Financial Liabilities at Fair Value Through Profit or Loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term.

(b) Other Financial Liabilities

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of comprehensive income when the liabilities are de-recognized as well as through the effective interest rate method (EIR) amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance costs in the statement of comprehensive income.

1.3.7.3 De-Recognition

A financial liability is de-recognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

1.3.7.4 Off-setting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal 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.

1.3.8 Inventories

Inventories are measured at the lower of cost and net realizable value, after making due allowances for obsolete and slow-moving items. Net realizable value is the price at which inventories can be sold in the ordinary course of business less the estimated cost of completion and estimated cost necessary to make the sale.

The cost incurred in bringing inventories to its present location and condition is accounted using the following cost formula:

- Raw Material - At cost determined on Weighted Average Basis,
- Finished Goods - At the cost of direct materials, direct labour and appropriate proportion of fixed production overheads at normal operating capacity,
- Work-In-Progress - At the cost of input materials,
- Packing Material - At cost determined on Weighted Average Basis,
- Other Stocks - At cost determined on Weighted Average Basis,
- Goods In Transit - At actual cost.

1.3.9 Trade and Other Receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

Other receivables are recognized at the amounts they are estimated to realize net of provisions for impairment. The amount of the provision is recognized in the statement of comprehensive income. However, staff loans have not been measured at amortized cost due to unavoidable reasons of the company.

1.3.10 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held as call deposits with banks, other short-term highly liquid investments with original maturities of three months. Bank overdrafts are shown within current liabilities in the statement of financial position.

1.3.11 Stated Capital

(a) Classification

Ordinary shares with discretionary dividends are classified as equity when there is no obligation to transfer cash or other assets.

(b) Dividends

Dividends are recognized when the shareholders' right to receive the dividend is established. In the case of interim dividends to equity shareholders, this is when declared by the directors. In the case of final dividends, this is when approved by the shareholders at the Annual General Meeting.

1.3.12 Current and Deferred Income Tax

a) Current Taxes

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to the Commissioner General of Inland Revenue.

The provision for income tax is based on the elements of income and expenditure as reported in the financial statements and computed in accordance with the provision of the Inland Revenue Act No. 10 of 2006.

b) Deferred Taxation

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

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

The carrying amount of deferred tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are re-assessed at each date of the statement of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the date of the statement of financial position.

Income tax relating to items recognized directly in equity is recognized in equity.

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

1.3.13 Employee Benefits

(a) Defined Benefit Plans – Gratuity

Provision has been made for retirement gratuities, in conformity with LKAS 19 / Gratuity Act No.12 of 1983. The liability is not externally funded. The gratuity liabilities are based on actuarial valuation carried out. The actuarial gains and losses are charged or credited to the statement of other comprehensive income in the period in which they arise.

The retirement benefit obligation of the company is based on the actuarial valuation carried out by Messrs. Actuarial & Management Consultants (Pvt) Ltd. The actuarial valuations involve making assumptions about discount rates and future salary increases. The complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Details of the key assumptions used in the estimates contain in note no 16. The main assumptions used relate to mortality, disability rates and withdrawal rates. The assumptions regarding the discount rate and salary rate are of critical importance in determining the pace of providing for a final salary retirement scheme.

(b) Defined Contribution Plans – Employees’ Provident Fund and Employees’ Trust Fund

Employees are eligible for Employees’ Provident Fund Contributions and Employees’ Trust Fund Contributions in line with respective statutes and regulations. The company contributes 12% and 3% of the gross emoluments of employees to the Employees’ Provident Fund and to the Employees’ Trust Fund respectively.

1.3.14 Grants and Subsidies

Grants and subsidies are credited to the statement of comprehensive income over the period necessary to match them with related cost, which are intended to compensate on a systematic basis.

Grants related to assets, including non-monetary grants at fair value, are deferred in the statement of financial position and credited to the statement of comprehensive income over the useful life of the related asset.

Grants related to income are recognized in the statement of comprehensive income in the period in which they are receivable.

1.3.15 Trade and Other Payables

Trade payables are obligations to pay for services that have been acquired in the ordinary course of business. These are classified as current liabilities where payment is due within one year or less if not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Short-term payables with no stated interest rate are measured at original invoiced amount since the effect of discounting is immaterial.

1.3.16 Provisions

Provisions are recognized when the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement are determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

1.3.17 Commitments

All material commitments as at the reporting date have been identified and disclosed in the notes to the financial statements.

1.3.18 Related Party Transactions

Disclosure is made in respect of the transaction 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 charged. Relationship between parent and subsidiaries shall be disclosed irrespective of whether there have been transactions between those related parties.

1.3.19 Revenue Recognition

Revenue from contracts with customers

Revenue from contracts with customers is recognised when the control of the goods or services is transferred to the customer at an amount that reflect consideration to which the Company expects to be entitled in exchange for those goods or services.

(a) Goods transferred at a point of time

Under SLFRS 15, revenue is recognised upon satisfaction of a performance obligation. The revenue recognition occurs at a point of time when the control of the asset is transferred to the customer, generally, on delivery of the goods.

(b) Service transferred over time

Under SLFRS 15, the company determines, at the contract inception, whether it satisfies the performance obligation over time or at a point of time. For each performance obligation satisfied over time, the company recognises the revenue over time by measuring the progress towards the complete satisfaction of that performance obligation.

(c) Interest Income

Interest income is recognized using the effective interest method.

(d) Dividend Income

Dividend income is recognized when the right to receive payment is established.

(e) Other Income

Other income is recognized on accrual basis.

1.3.20 Expenditure

The expenditures are recognized on an accrual basis. All expenses incurred in the ordinary course of business and in maintaining property, plant and equipment in a state of efficiency are charged against income in arriving at the profit for the year.

For the purpose of presentation of the statement of comprehensive income information, expense by function method is used to classify the expenses.

2. PROPERTY, PLANT AND EQUIPMENT

a) Tangible assets

Description of Assets	Balance			Cost/Valuation			Depreciation			Written Down Value		
	As At 01.01.2021 Rs.	Additions Rs.	Disposals Rs.	Transfers Rs.	Balance As At 31.12.2021 Rs.	Balance As At 01.01.2021 Rs.	Charge for the Year Rs.	On Disposals Rs.	Transfers Rs.	Balance As At 31.12.2021 Rs.	As At 01.01.2021 Rs.	As At 31.12.2021 Rs.
Freehold												
Land	3,250,000	-	-	-	3,250,000	-	-	-	-	-	3,250,000	3,250,000
Buildings	520,473,372	-	-	-	520,473,372	214,249,986	42,816,620	-	-	257,066,606	306,223,386	263,406,766
Plant and Machinery	7,526,283,307	56,757,102	-	-	7,583,040,409	2,328,742,898	395,647,630	-	-	2,724,390,529	5,197,540,409	4,858,649,881
Furniture and Fittings	52,975,771	3,276,009	-	-	56,251,780	44,157,965	3,413,658	-	-	47,571,622	8,817,806	8,680,157
Laboratory Equipment	85,143,815	2,604,219	-	-	87,748,034	68,534,460	5,178,643	-	-	73,713,104	16,609,354	14,034,930
Motor Vehicles	147,942,408	-	-	(11,000,160)	136,942,248	156,393,667	2,431,269	-	(687,510)	158,137,427	(8,451,259)	(21,195,179)
Tools and Equipment	349,504,412	24,624,872	(20,614)	-	374,108,670	297,804,319	26,259,186	(8,933)	-	324,054,572	51,700,094	50,054,098
Bottles and Crates	367,060,224	14,249,916	-	-	381,310,140	340,664,284	15,859,064	-	-	356,523,348	26,395,940	24,786,792
Computer Equipment	55,303,068	10,721,631	-	-	66,024,699	44,658,892	7,202,800	-	-	51,861,692	10,644,175	14,163,006
Bottle Coolers	152,100,544	92,140,780	-	-	244,241,324	146,103,948	12,853,898	-	-	158,957,846	5,996,596	85,283,478
Office Equipment	10,776,014	1,533,480	(28,000)	-	12,281,495	8,888,627	1,199,440	(23,428)	-	10,064,639	1,887,387	2,216,855
Milk Cans	80,187,849	19,996,311	-	-	100,184,160	70,791,363	4,732,036	-	-	75,523,399	9,396,486	24,660,761
	9,351,000,784	225,904,321	(48,614)	(11,000,160)	9,565,856,330	3,720,990,410	517,594,245	(32,361)	(687,510)	4,237,864,785	5,630,010,374	5,327,991,546
Intangible Assets												
Computer Software	2,837,209	300,000	-	4,179,530	7,316,739	2,799,766	121,279	-	-	2,921,045	37,443	4,395,694
Total	9,353,837,993	226,204,321	(48,614)	(6,820,630)	9,573,173,069	3,723,790,176	517,715,524	(32,361)	(687,510)	4,240,785,829	5,630,047,816	5,332,387,240

2.1 RIGHT-OF-USE ASSETS

Description of Assets	Balance			Value			Amortisation			Net value		
	As At 01.01.2021	Additions	Disposals	Transfers	Balance As At 31.12.2021	Balance As At 01.01.2021	Charge for the Year	On Disposals	Transfers	Balance As At 31.12.2021	As At 01.01.2021	As At 31.12.2021
Leasehold Assets												
Motor Vehicles	73,187,966	-	-	24,119,710	97,307,676	24,872,032	13,051,662	-	687,510	38,611,204	48,315,935	58,696,472
Total	73,187,966	-	-	24,119,710	97,307,676	24,872,032	13,051,662	-	687,510	38,611,204	48,315,935	58,696,472

3.1 Following amounts related to right-of-use assets have been recognised in income statement during the year.
Amortization of right of use assets
Interest on lease liabilities

MILCO (PRIVATE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31ST DECEMBER, 2021



- 3. CAPITAL WORK-IN-PROGRESS**
- Construction of New Milk Factory - Badalgama (Refer Note 14) *
- Construction of Gatabe Sales Outlet
- Installation of Cup & Cone Filler at Digana Milk Factory
- Modernization of Factories- Polonnaruwa, Ambewela and Digana
- Pro- Fit Management Information System Implementation
- Lorry Chasis Under Development
- Construction of Chilling Centre- Lunugala
- Construction of office building at Digana Milk Factory
- Construction of cold room at Polonnaruwa Milk Factory
- Construction of Chilling Centre- Mundalama
- Renovation of circuit bungalow
- Construction of insulated tank at Badalgama Factory

Balance As At 01.01.2021	Inurred During the Period	Capitalized/ Charged During the Period	As At 31.12.2021
Rs.	Rs.	Rs.	Rs.
11,672,291,523	196,215,332	-	11,868,506,855
150,000	-	-	150,000
15,445,587	-	-	15,445,587
790,264,562	-	-	790,264,562
4,179,530	-	4,179,530	-
17,714,550	339,708	13,119,550	4,934,708
250,480	-	250,480	-
19,635,143	9,962,262	-	29,597,405
16,169,330	7,543,255	-	23,712,585
291,793	-	291,793	-
-	2,546,752	-	2,546,752
-	13,280,786	-	13,280,786
12,536,392,498	229,888,095	17,841,353	12,748,439,240

3.1 As detailed in note no 14 to these financial statements, modernization of the above factories and construction of New Milk Factory - Badalgama have been financed by loans granted by the Treasury of the Government of Sri Lanka.

3.2 Considering the nature, expenses incurred on Lunugala and Mundalama Chilling Centers amounting to Rs.250,480 and Rs.291,793 have been charged to income statement during the year.

	As at 31st December, 2021 Rs.	As at 31st December, 2020 Rs.
4 FINANCIAL INSTRUMENT - AMORTISED COST		
4.1 Long-Term Fixed Deposits		
Fixed Deposits - BOC - US \$	692,013,432	606,519,828
Fixed Deposits - PB & PABC	205,000,000	205,000,000
	<u>897,013,432</u>	<u>811,519,828</u>

Investments pledged as collaterals to obtain various financial assistance from the financial institutions are disclosed in note no. 29 to these financial statements.

5 LONG TERM ADVANCES

Advance to DESMI - Relocate CMF to Badalgama

Balance at the beginning of the year	139,152,682	139,152,682
Transferred to Capital Work in Progress	(59,951,113)	-
Adjustment of exchange impact	4,575,513	-
Balance at the end of the year	<u>83,777,083</u>	<u>139,152,682</u>

As detailed in note no 14 to these financial statements, establishment of a diary processing plant at Badalgama has been financed by a loan granted by the Treasury of the Government of Sri Lanka. On 22/10/2015, Treasury of Government of Sri Lanka made advance payment of an amount equivalent to EURO 19,180,692 (30% of the contract value)

6 INVENTORIES

Raw and Packing Materials	6.1	348,715,189	311,566,260
Work-in-Progress		6,476,414	8,616,684
Finished Goods		254,710,797	230,501,369
Consumables	6.2	666,501,160	585,225,407
Goods in Transit	6.3	10,360,031	9,124,716
Kiri Sisilakaya mini cooler stock		9,871,432	-
Provision for Inventory	6.4	(12,115,801)	(12,096,362)
		<u>1,284,519,222</u>	<u>1,132,938,074</u>

6.1 Raw and Packing Materials

Raw Materials - Dairy Production	78,511,981	65,456,573
Packing Material	247,136,880	224,256,409
Raw Milk Stock	16,010,386	14,816,775
Bottle Cooler Stock	3,496,313	3,496,313
Drugs and Other Stock	3,540,190	3,540,190
Raw material- redundant items	19,439	-
	<u>348,715,189</u>	<u>311,566,260</u>

MILCO (PRIVATE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31ST DECEMBER, 2021



		As at 31st December, 2021 Rs.	As at 31st December, 2020 Rs.
6.2 Consumables			
General Stores		71,676,256	45,659,458
Engineering Stores		522,449,741	487,268,325
Motor Stores		13,682,272	12,304,752
Fuel and Lubricant Stores		42,167,381	30,964,002
Milk Can Stock		16,525,511	9,028,871
		<u>666,501,160</u>	<u>585,225,407</u>
6.3 Goods In Transit			
Finished Goods in Transit		8,190,395.92	7,984,541.78
Goods in Transit Lab Equipment		125,798	125,798
Raw Milk In Transit		894,437	537,476
Yogurt Culture		1,149,400	476,900
		<u>10,360,031</u>	<u>9,124,716</u>
6.4 Provision For Inventory			
Packing Material		(10,163,806)	(10,163,806)
General Stores		(332,731)	(332,731)
Engineering Stores		(1,523,655)	(1,523,655)
Fuel Stores		(76,170)	(76,170)
Raw materials		(19,439)	-
		<u>(12,115,801)</u>	<u>(12,096,362)</u>
6.5	Inventories pledged as collaterals to obtain various financial assistance from the financial institutions are disclosed in Note No. 29 to these financial statements.		
7 TRADE AND OTHER RECEIVABLES			
Trade Receivables	7.1	512,497,848	668,205,047
Receivable from the Government of Sri Lanka	7.2	9,373,875	9,373,875
Other Debtors		44,900,865	46,400,866
Advances, Deposits and Prepayments		161,400,112	146,537,518
Staff Debtors		172,940,380	164,864,339
Import Control		3,704,361	19,839,349
Interest receivables on fixed deposits		28,168,299	19,885,159
		<u>932,985,740</u>	<u>1,075,106,153</u>

	As at 31st December, 2021 Rs.	As at 31st December, 2020 Rs.
7.1 Trade Receivables		
Total Debtors	563,411,473	719,118,672
Less: Provision for Impairment	(50,913,625)	(50,913,625)
	<u>512,497,848</u>	<u>668,205,047</u>
7.2 Receivable from the Government of Sri Lanka		
Receivable from the Ministry of Livestock and Development	9,279,542	9,279,542
Receivable from Government of Sri Lanka - Milk Subsidiary	278,981,206	278,981,206
Receivable from Parliament Affairs	94,333	94,333
	<u>288,355,081</u>	<u>288,355,081</u>
Less: Provision for Impairment	(278,981,206)	(278,981,206)
	<u>9,373,875</u>	<u>9,373,875</u>
8 INCOME TAX RECEIVABLE		
WHT Receivables	9,038,230	9,038,230
ESC Receivables	52,893,933	112,126,408
	<u>61,932,163</u>	<u>121,164,639</u>
9 CASH AND CASH EQUIVALENTS		
Balances at Banks	10,895,767	12,456,380
Investments in call deposits	40,000,000	-
Petty Cash in Hand	1,047,394	4,771,749
	<u>51,943,162</u>	<u>17,228,129</u>
10 STATED CAPITAL		
Issued and fully paid	No of Shares 31,945,406	319,454,060
	<u>319,454,060</u>	<u>319,454,060</u>
The cabinet paper "no: 21/0199/323/012 on Modernization project of Polonnaruwa, Ambewela and Digana dairy factories", dated 11.01.2021, which was presented by the Ministry of Agriculture was approved by the cabinet on 08.02.2021. Accordingly, approval was grant to; a. convert the loan on-lent to Milco (Pvt) Ltd, as equity contribution of General Treasury. b. waive off the outstanding loan interest as at 31.12.2020. c. Accordingly, Rs.8,169,034,183.39 to be converted to government equity.		
11 CAPITAL RESERVE		
11.1 Acquisition and Upgrading of Plant and Machinery	<u>25,000,000</u>	<u>25,000,000</u>

The above Reserve is created from the Revenue Reserve during the year of 2008/2009 which would be utilized for acquisition of heavy plant and machinery such as power plant, sterilizer etc.

MILCO (PRIVATE) LIMITED

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AS AT 31ST DECEMBER, 2021



	As at 31st December, 2021 Rs.	As at 31st December, 2020 Rs.
12 SINKING FUND		
Transferred from Retained Earnings	1,689,978	1,689,978
	<u>1,689,978</u>	<u>1,689,978</u>
The Sinking Fund created from the proceeds of the cans sold to the farmers. The said fund will be utilized to meet the financial requirement of purchases intended to issue on recovery basis to farmers in the future.		
13 DEFERRED TAX LIABILITY		
At the Beginning of the Year	-	-
Charge (to)/from Statement of Comprehensive Income	-	-
At the End of the Year	<u>-</u>	<u>-</u>
13.1 Tax effect on Temporary Difference on Property, Plant and Equipmen	872,145,657	890,599,613
Tax effect on Temporary Difference on Retirement Benefit Obligation	(117,090,015)	(162,821,301)
Less: Tax effect on Temporary Differences on Tax Losses	(993,044,433)	(1,046,468,637)
Probable Deferred Tax Liability	<u>(237,988,790)</u>	<u>(318,690,325)</u>
Deferred tax assets amounting to LKR 237,988,790 have not been recognised in the financial statements as there are no sufficient taxable temporary differences or convincing evidence that sufficient taxable profits will be available against which the unrecognised deferred tax assets can be utilised by the Company.		
14 LOANS AND BORROWINGS		
14.1 Interest Bearing Borrowings		
Payable within One Year 15.1.1 to 15.1.4	31,762,332	96,110,896
Payable after One Year 15.1.1 to 15.1.4	18,558,163,698	18,449,096,221
	<u>18,589,926,029</u>	<u>18,545,207,117</u>
14.1.1 Gross Lease Creditor		
Balance at the Beginning of the Year	21,946,682	45,373,000
During the Year Additions	-	-
During the Year Payments	(11,242,022)	(23,426,318)
Balance at the end of the Year	<u>10,704,661</u>	<u>21,946,682</u>
Interest in Suspense		
Balance at the Beginning of the Year	2,902,948	6,871,776
On Lease Facility Obtained During the Year	-	-
Amount Transferred to Statement of Comprehensive Income	(1,787,690)	(3,968,828)
Balance at the End of the Year	<u>1,115,258</u>	<u>2,902,948</u>
Net Liability	<u>9,589,402</u>	<u>19,043,734</u>
Current Maturity Portion	6,762,312	9,444,408
Long-Term Maturity Portion	2,827,090	9,599,326
	<u>9,589,402</u>	<u>19,043,734</u>

	As at 31st December, 2021 Rs.	As at 31st December, 2020 Rs.
14.1.2 Bank Loans and Borrowings		
Balance at the Beginning of the Year	111,666,508	238,749,870
Received During the Year	-	-
Less: During the Year Payments	(86,666,488)	(127,083,362)
Balance at the End of the Year	25,000,020	111,666,508
Current Maturity Portion	25,000,020	86,666,488
Long-Term Maturity Portion	-	25,000,020
	25,000,020	111,666,508

Assets pledged as collaterals to above loans and borrowings are disclosed in note no. 29 to these financial statements.

14.1.3 Borrowings From Treasury of The Government of Sri Lanka

Balance at the Beginning of the Year	18,414,496,875	18,414,496,875
Granted During the Year	140,839,733	-
Balance at the End of the Year	18,555,336,607	18,414,496,875
Current Maturity Portion	-	-
Long-Term Maturity Portion	18,555,336,607	18,414,496,875
	18,555,336,607	18,414,496,875

- (a) Milco (Pvt) Limited, on 31st December 2009, entered into an agreement with Desmi Contracting A/S, a company incorporated in Denmark, for the modernization of processing factories (The Project) of the company at a cost of Euro 33.7mn.

Cabinet paper No.12/1141/504/104 (Revision of original cabinet decision dated 23rd November 2011) presented by the Minister of Finance and Planning on “Modernization of processing Factories of Milco (Private) Limited” had been approved by the Cabinet on 18th August 2012 and accordingly, it was authorized to the Department of External Resources to Borrow Euro 33.7mn from Export Credit Fund (EKF) of Denmark on the terms agreed upon by the Ministry of Finance and Planning. It also authorized the Treasury of Government of Sri Lanka to sign an on-lending agreement with Milco (Private) Limited.

Subsequently, the Government of Sri Lanka entered into an on-lending agreement with Milco (Private) Limited for the borrowings of Euro 33.7mn from the aforesaid party under the following conditions.

- Repayment of principal, interest, commitment fee, structuring fee and other costs shall be made in Rupees to the Treasury of Government of Sri Lanka.
- An amount equivalent to Euro 2,274,016.40 is payable up-front as EKF Premium.
- Overdue charges at 2% per annum, in the event of default of payments.

- (b) Milco (Pvt) Limited, on 15th May 2015, entered into an agreement with Desmi Contracting A/S, a company incorporated in Denmark, for establishment of a dairy processing plant at Badalgama (The Project) of the company at a cost of Euro 63.9Mn.

Cabinet paper No.14/1399/511/001-i (Dated 9th October 2014) presented by the Ministry of Livestock and Rural Community Development on “Establishment of a Dairy Processing Plant at Badalgama” was approved by the Cabinet on 17th December 2014 and accordingly, authorized to the Department of External Resources to Borrow Euro 63.9mn from Export Credit Fund (EKF) of Denmark on the terms agreed upon by the Ministry of Livestock and Rural Community Development (Ref:MLRCD/03/15).

Subsequently, the Government of Sri Lanka entered in to an on-lending agreement behalf of the Milco (Private) Limited with Hongkong and Shanghai Banking Limited (HSBC) for the borrowings of Euro 63.9mn from the aforesaid party under the following conditions.

- i. Repayment of principal, interest, commitment fee, structuring fee and other costs shall be made in Rupees to the Treasury of Government of Sri Lanka.
- ii. An amount equivalent to Euro 2,234,919 is payable up-front as (Eksport Kredit Fonden/Export Credit Fund) EKF Premium.
- iii. An amount equivalent to Euro 19,180,692.30 (30% of the contract value) has been paid to Desmi Contracting A/S by Milco (Pvt) Ltd as an advance payment in 2015 pursuant to the terms of contract
- iv. Over due chargers at 2% per annum, in the event of default of payments.

Milco (Private) Limited has not signed the subsidiary loan agreement with General Treasury to the Government of Sri Lanka as yet.

	As at 31st December, 2021 Rs.	As at 31st December, 2020 Rs.
14.2 Non-Interest Bearing Borrowings		
Long-Term Portion		
National Milk Board	2,108,063	2,108,063
	2,108,063	2,108,063
15 RETIREMENT BENEFIT OBLIGATION - GRATUITY		
Balance at the Beginning of the Year	841,552,796	651,565,041
Current Service Cost	46,591,348	49,755,160
Interest Cost	62,190,752	66,655,104
(Gain)/ Loss from Changes in Assumption	(327,486,940)	109,295,614
Payment Made During the Year	(35,377,300)	(35,718,123)
Balance at the End of the Year	587,470,655	841,552,796

Messrs. Actuarial & Management Consultants (Private) Limited Actuaries, carried out an actuarial valuation of the defined benefit plan gratuity using the projected unit credit method as at 31st December, 2021. Appropriate and compatible assumptions were used in determining the cost of retirement benefits.

The Principal Assumptions Used were as Follows:

Expected Salary Increment	10% p.a
Discount Rate	12.00% p.a
Staff Turnover Factor	5% p.a
Maximum Retirement Age	60 Years

Sensitivity of Assumptions Employed in Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employee benefits liability measurement.

The sensitivity of the statement of comprehensive income and statement of financial position is the effect of the assumed changes in discount rate and salary increment rate on the profit or loss and employment benefit obligation for the year.

Increase/ (Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment Rate	Effect on Change to Statement of Rs.	Effect on Employee Benefit Obligation Rs.
1%	*	35,023,362	552,447,293
-1%	*	(39,109,617)	626,580,272
**	1%	(36,475,922)	623,946,577
**	-1%	33,256,941	554,213,714

* Salary Increment Rate 10% for the Company

** Discount Rate 12.00%

MILCO (PRIVATE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31ST DECEMBER, 2021



	As at 31st December, 2021 Rs.	As at 31st December, 2020 Rs.
16 GOVERNMENT GRANT		
16.1 Balance at the Beginning of the Year	20,081,884	29,079,994
Grant Received During the Year	106,132,499	-
Grant Recognized to the Statement of Comprehensive Income During the Year	(12,311,892)	(8,998,110)
Balance at the End of the Year	<u>113,902,491</u>	<u>20,081,884</u>
16.2 Deferred Government Grant		
Grant of Samanthurai	473,200	618,801
Grant of Thimilathive	585,000	765,000
Grant of Milk Cans	114,392	114,392
Grant of 14 Sales Outlets	393,750	468,750
Grant of LCRD	16,000,582	16,000,582
Grant of Cooling tanks	-	727,792
Grant of Electric Grass Cutters	52,776	52,776
Grants of Coolers	190,542	1,333,793
Grants of Bottle Coolers under	82,237,500	-
Grants of Milk Analysers	13,854,750	-
	<u>113,902,491</u>	<u>20,081,884</u>
17 TRADE AND OTHER PAYABLES		
Trade Creditors	361,331,710	262,896,321
Expense Creditors	375,558,756	346,801,069
Other Payables	178,027,603	165,778,518
	<u>914,918,069</u>	<u>775,475,909</u>
18 BANK OVERDRAFTS		
Bank of Ceylon	125,499,680	414,044,838
People's Bank	101,149,827	240,439,753
Pan Asia Bank	1,095,659	19,144,218
	<u>227,745,167</u>	<u>673,628,809</u>

	For the Year Ended 31st December, 2021 Rs.	For the Year Ended 31st December, 2020 Rs.
19 REVENUE		
Gross Sales	12,476,320,252	11,104,710,548
	<u>12,476,320,252</u>	<u>11,104,710,548</u>
20 OTHER INCOME		
Surcharges on Returned Cheques	4,712,373	2,363,316
Non Refundable Deposit	61,000	24,000
Non Refundable tender Deposit	1,748,500	163,500
Differed Income	12,311,892	8,998,110
Registration of Suppliers	3,193,500	3,248,000
Sundry Income	4,165,853	3,351,759
Exchange Gain	47,507,169	14,127,003
Fines & Surcharges	490,884	434,922
House Rent	574,008	444,151
Sale of Unserviceable Items	388,028	292,648
Disposal gain	-	28,367
	<u>75,153,207</u>	<u>33,475,777</u>
21 FINANCE INCOME		
Interest on Call/Fixed Deposit - Local	12,589,123	14,760,152
Interest on Fixed Deposit - Foreign Currency (USD)	46,452,198	31,134,260
Interest on Staff Loans	7,068,275	7,078,169
	<u>66,109,595</u>	<u>52,972,581</u>
22 FINANCE COSTS		
Interest on Finance Lease	1,585,770	3,968,914
Interest on Loans	2,325,157	10,260,496
Interest on Bank Overdrafts	25,256,078	105,510,572
	<u>29,167,006</u>	<u>119,739,982</u>

		For the Year Ended 31st December, 2021 Rs.	For the Year Ended 31st December, 2020 Rs.
23 INCOME TAX EXPENSES			
Current Income Tax Provision	24.1	-	-
Deferred Tax Charge for the Year	14	-	-
		<u>-</u>	<u>-</u>
23.1 Accounting Profit Before Taxation		34,325,163	225,756,290
Less: Income Considered Separately		(66,109,595)	(67,127,951)
Profit from Trade or Business		(31,784,432)	158,628,339
Less: Net allowable and Disallowable Expenses for Tax Purpose		478,781,149	790,669,720
Business (Loss)/Profit Applicable Taxation		446,996,717	949,298,059
Tax Rate		18%	18%
Exempt Other Income		46,452,198	31,134,260
Liable Other Income		19,657,397	949,298,059
Tax Rate		18%	18%
Tax on Chargeable Profit or Income		83,997,740	170,873,651
Tax Effect on Deductions		(83,997,740)	(170,873,651)
Provision for the Year (Tax on Adjusted Income)		<u>-</u>	<u>-</u>

24 EARNINGS/(LOSS) PER ORDINARY SHARE

Basic Earning Per Share is calculated by dividing the net profit/(loss) attributable to equity holders of the company by the weighted average number of ordinary shares in issue.

	2021 Rs.	2020 Rs.
Net Profit/(loss) Attributable to Ordinary Shares	361,812,103	116,460,676
Weighted Average Number of Ordinary Share	31,945,406	31,945,406
	<u>11.33</u>	<u>3.65</u>

24.1 Diluted Earnings Per Share

There is no potentially diluted ordinary share of the company and as a result, the diluted earnings per share is the same as basic earnings (loss) per share as shown above.

25 UNRECOGNIZED CONTRACTUAL COMMITMENTS

There have been no capital commitments contracted but not provided for, or authorized by the board but not contracted for, outstanding as at the reporting date except as detailed below.

26 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

26.1 Contingent Liabilities

There are no contingent liabilities as at the reporting date, except following.

01. Certain employees have filed cases in the labor Tribunal against the Company Claiming back wages, re-instatement ...etc. for arbitration and also fundamental rights against the company.

Since a reliable estimate of the amounts which will be resulting a future cash out flow can not be made and the out come is unknown, a provision had not been made in the accounts in respect of above contingencies.

02. Milco (Pvt) Ltd had contracted M/S Super Neat Technology (Pvt) Ltd for procurement of UPS (uninterrupted power supply) to Ambewela Milk Factory, for a consideration of Rs.94,906,281.25 in 2018. However, subsequently in 2019, the Board of Directors of Milco (Pvt) Ltd has decided to cancel the tender on the ground of inadequate funds to pay supplier and some flaws noted in the procurement process.

Following the above, the supplier, M/S Super Neat Technology (Pvt) Ltd filed a case against Milco (Pvt) Ltd in 2019 to recover the losses incurred by them due to cancellation of tender. Legal proceedings are in-progress as of the reporting date and no provision has been made in the financial statements as a reliable estimation can not be made on the same..

26.2 Contingent Assets

There are no contingent assets as at the reporting date.

27 RELATED PARTY DISCLOSURE

27.1 Substantial Shareholding and Ultimate Ownership

The company is a wholly owned government enterprise, which holds 100% ordinary shares of the company.

27.2 Key Management Personnel Information

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the company as well as its related parties, directly or indirectly, including any director (whether executive or otherwise) of the company.

The remuneration of directors and other members of key management during the year were as follows:

	For the Year Ended 31st December 2021	For the Year Ended 31st December 2020
Short-term employee benefits	3,303,762	2,527,657

27.3 Related Party Transactions

As per the declaration made by the directors of the company, there were no significant related party transactions taken place throughout the period which would require to be disclosed as per Sri Lanka Accounting Standards.

28 COMPARATIVE INFORMATION

Comparative figures have been re-classified where necessary in line with the presentation requirements for the current year.

MILCO (PRIVATE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31ST DECEMBER, 2021



29 ASSETS PLEDGED AS COLLATERALS

Following assets have been pledged as security against loans

Nature of Liabilities The Name of Bank	Loan / Facility Granted Rs.	Balance Outstanding As At 31.12.2021 Rs.	Balance Outstanding As At 31.12.2020 Rs.	Repayment	Assets Pledged
Loan granted by Bank of Ceylon	700,000,000	-	46,666,480	Repayable in 120 equal monthly instalments of Rs.5,833,335/-	Fixed Deposits Amounting US\$ 3,150,040.69 of Bank of Ceylon.
Loan granted by Bank of Ceylon	120,000,000	-	15,000,000	Repayable in 48 equal monthly instalments of Rs.2,500,000/-	Fixed Deposits Amounting US\$ 3,150,040.69 of Bank of Ceylon.
Loan granted by Bank of Ceylon	100,000,000	24,999,976	49,999,984	Repayable in 48 equal monthly instalments of Rs.2,083,334/-	Fixed Deposits Amounting US\$ 3,150,040.69 of Bank of Ceylon.
Bank Overdraft facility provided by Bank of Ceylon	600,000,000	2,330,365	312,267,147	On Demand	Stock in trade movables and effect of the obligation including stocks of packing materials and finished goods and other moveable property lying in and upon or stored at No. 45, Nawala Road, Narahenpita in the district of Colombo, Western Province and present and or future book debts of the company.
Bank Overdraft facility provided by People's Bank	189,500,000	3,852,557	177,426,763	On Demand	Fixed deposit amounting to Rs. 210,000,000.
Post Dated Cheque discounting facility provided by Bank of Ceylon	75,000,000	-	4,500	On Demand	Lodgment of Trade related Post dated Cheques.
Post Dated Cheque discounting facility provided by Pan Asia Bank	300,000,000	-	18,984,512	On Demand	Lodgment of Trade related Post dated Cheques.
Bank Overdraft facility provided by Pan Asia Bank	100,000,000	-	-	On Demand	Fixed deposit amounting to Rs. 50,000,000 and lodgment of Trade related Post dated Cheques.

30 EVENTS AFTER THE REPORTING DATE

There have been no material events that occurred between the reporting date and the date on which the financial statements were authorized for issue that require adjustments to, or disclosures in the Financial Statements.

31 FAIR VALUE OF FINANCIAL INSTRUMENTS

31.1 Fair Value of the Financial Instrument Carried at Amortized Cost

Set out below is a comparison, by class, of the carrying amounts and fair values of the company's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non-financial assets and liabilities.

	Carrying Amount Rs.	Fair Value Rs.
Financial Assets		
Financial Instrument - Amortised cost	897,013,432	897,013,432
Trade and Other Receivables	932,985,740	932,985,740
Cash and Cash Equivalents	51,943,162	51,943,162
Total Financial Assets	<u>1,881,942,334</u>	<u>1,881,942,334</u>
Financial Liabilities		
Trade and Other Payables	914,918,069	914,918,069
Interest Bearing Loans and Borrowings	25,000,020	25,000,020
Payable to the Treasury of Government of Sri Lanka	18,555,336,607	18,555,336,607
Bank Overdraft	227,745,167	227,745,167
Total Financial Liabilities	<u>19,722,999,863</u>	<u>19,722,999,863</u>

31.2 Fair Value of Financial Assets and Liabilities Not Carried at Fair Value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not recorded at fair value in the financial statements.

31.3 Assets for which fair Value Approximate Carrying Value

For the financial assets and financial liabilities that have a short-term maturity, it is assumed that the carrying amounts approximate their fair value. This assumption is also applied to demand deposits and call deposits without a specific maturity period.

32 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

32.1 Introduction

Risk is inherent in the company's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the company's continuing profitability and each individual within the company is accountable for the risk exposures relating to his or her responsibilities.

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the company's risk management framework. The Board has delegated its authority to its key management personnel who are responsible for developing and monitoring company's risk management policies.

Principal Financial Instruments

The principal financial instruments used by the company, from which financial instrument risk arises, are as follows:

Instrument

- Trade Receivables
- Cash and Cash Equivalents
- Trade and Other Payables
- Bank Overdrafts
- Bank Loans

32.2 Credit Risk – Default Risk

Credit risk is risk arising due to the uncertainty in counterparty's ability to meet its obligations. The risk of loss of principal or loss of a financial reward stemming from a borrower's failure to repay a loan or otherwise meets a contractual obligation.

32.3 Liquidity Risk and Funding Management

Liquidity risk refers to the possibility of company not having sufficient cash to meet its payment obligations. This arises primarily due to mismatches in the maturity profile of company's assets and liabilities. Adequate liquidity is critical to meet the company's financial commitment and to accommodate additional funding needs of the growing business volumes.

The company's primary objective in liquidity risk management is to ensure adequate funding for its businesses throughout market cycles.

32.3.1 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

Company	On Demand	Less than 2 Months	2 to 12 Months	1 to 5 Years	Over 5 Years	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Instrument - Held to Maturity	-	-	-	897,013,432	-	897,013,432
Trade and Other Receivables	-	932,985,740	-	-	-	932,985,740
Cash and Cash Equivalents	51,943,162	-	-	-	-	51,943,162
Total Financial Assets	51,943,162	932,985,740	-	897,013,432	-	1,881,942,334
Financial Liabilities						
Trade and Other Payables	-	914,918,069	-	-	-	914,918,069
Interest Bearing Loans and Borrowings	-	2,083,302	22,916,718	-	-	25,000,020
Payable to the Treasury of Government of Sri Lanka	-	-	-	-	18,555,336,607	18,555,336,607
Bank Overdraft	227,745,167	-	-	-	-	227,745,167
Total Financial Liabilities	227,745,167	917,001,371	22,916,718	-	18,555,336,607	19,722,999,863
Total Net Financial Assets/ (Liabilities)	(175,802,005)	15,984,369	(22,916,718)	897,013,432	(18,555,336,607)	(17,841,057,530)

32.4 Interest Rate Risk

Interest rate risk is a key constitute of the market risk exposure of the company due to adverse and unanticipated movements in future interest rate which arises from core business activities; granting of credit facilities, accepting deposits and issuing debt instruments.

As of the reporting date, the company has no interest rate sensitive financial assets or financial liabilities.

MILCO (PRIVATE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31ST DECEMBER, 2021



		For the Year Ended 31st December, 2021 Rs.	For the Year Ended 31st December, 2020 Rs.
Revenue		12,476,320,252	11,104,710,548
Cost of Sales	I	(11,292,970,296)	(9,703,560,044)
Gross Profit		1,183,349,956	1,401,150,505
Other Operating Income	II	75,153,207	33,475,777
		1,258,503,163	1,434,626,282
Administrative Expenses	III	(825,937,229)	(798,515,146)
Distribution Expenses	IV	(427,630,386)	(336,890,593)
Other Expenses	V	(7,552,976)	(6,696,851)
Profit/ (Loss) from Operations		(2,617,427)	292,523,692
Finance Income	VI	66,109,595	52,972,581
Finance Expenses	VII	(29,167,006)	(119,739,982)
Net Profit/ (Loss) Before Taxation		34,325,163	225,756,290
Income Tax Expenses		-	-
Net Profit/(Loss) for the Year after Taxation		34,325,163	225,756,290

	For the Year Ended 31st December, 2021 Rs.	For the Year Ended 31st December, 2020 Rs.
I. COST OF SALES		
Cost of Purchase of Raw Milk	6,205,146,399	5,297,736,481
Chilling Cost	416,346,522	412,909,018
Development Cost	290,084,953	262,476,767
Bowser Cost	273,990,628	245,612,988
Net Stock Adjustments on Raw Materials	(636,399)	502,902
Cost of Other Raw Materials	1,366,151,522	1,034,614,747
Total Cost of Raw Materials	<u>8,551,083,626</u>	<u>7,253,852,902</u>
Cost of Packing Materials	1,270,586,898	952,755,788
Cost of Processing and Packing Labor	510,914,376	480,708,484
Prime Cost	<u>10,332,584,899</u>	<u>8,687,317,174</u>
Energy Cost		
Furnace Oil	350,705,901	344,487,550
Electricity	154,545,666	147,063,404
Diesel	34,041,935	45,548,155
Water	23,629,010	20,858,618
Other Energy Cost	195,812	79,523
Total Energy Cost	<u>563,118,323</u>	<u>558,037,251</u>
Other Consumables		
Lab Chemicals	11,133,259	10,396,662
Detergent & Cleaning Material	54,816,038	53,457,091
Wages and Staff Welfare of Factory Staff	427,282,178	421,221,031
Marginal Cost	<u>11,388,934,698</u>	<u>9,730,429,209</u>
Factory Overheads		
Depreciation of Plant and Machinery	458,316,520	463,178,689
Repairs and Maintenance of Plant and Machinery	110,508,369	102,497,181
Repairs and Maintenance of Buildings	59,588,865	43,835,774
Transport	6,080,304	4,352,162
Insurance	21,669,880	20,465,782
Total Factory Overheads	<u>656,163,939</u>	<u>634,329,589</u>
Total Cost of Production	<u>12,045,098,637</u>	<u>10,364,758,798</u>
Net Stock/ Transfer Adjustments on Finish Goods	(753,705,879)	(552,236,491)
Adjustment for Changes in Actuary Assumption	-	(109,295,614)
Unrealised profit adjustment	1,577,537	333,351
	<u><u>11,292,970,296</u></u>	<u><u>9,703,560,044</u></u>

	For the Year Ended 31st December, 2021 Rs.	For the Year Ended 31st December, 2020 Rs.
II. OTHER INCOME		
Surcharges on Returned Cheques	4,712,373	2,363,316
Non Refundable Deposit	61,000	24,000
Non Refundable tender Deposit	1,748,500	163,500
Differed Income	12,311,892	8,998,110
Registration of Suppliers	3,193,500	3,248,000
Sundry Income	4,165,853	3,351,759
Exchange Gain	47,507,169	14,127,003
Fines & Surcharges	490,884	434,922
House Rent	574,008	444,151
Sale of Unserviceable Items	388,028	292,648
Disposal gain	-	28,367
	<u>75,153,207</u>	<u>33,475,777</u>
III. PERSONNEL EXPENSES		
Staff Salaries	264,265,786	253,748,355
Staff Allowances	2,320,463	2,900,985
Contributions to Employees' Provident Fund	26,513,888	24,491,464
Contributions to Employees' Trust Fund	6,615,267	6,017,764
Provision for Defined Benefit Plans - Gratuity	28,503,386	54,799,645
Overtime	16,461,580	15,522,679
Staff Bonus	12,690,779	12,809,704
Casual Wages	1,549,874	2,267,264
Overtime	31,522	115,009
E.P.F.	11,163	24,623
E.T.F.	9,544	12,992
Incentives	2,039,996	2,941,500
Leave Payment	11,488,264	18,566,319
Transport Allowance	4,093,266	3,759,069
Fuel Allowances	1,681,083	1,031,188
Staff Training	1,682,697	287,000
Medical expenses	2,329,278	2,340,334
Death Donation	386,000	220,000
Gift Vouchers	475,421	394,778
Staff Welfare	44,653,249	25,866,278
Mid day Allowance	312,465	345,632
Field Allowance	1,296,200	493,400
Uniform	562,635	31,052
Telephone Allowances	144,000	111,542
Professional allowance	2,951,500	-
	<u>433,069,306</u>	<u>429,098,577</u>

	For the Year Ended 31st December, 2021 Rs.	For the Year Ended 31st December, 2020 Rs.
III.I ADMINISTRATION AND ESTABLISHMENT EXPENSES		
Repairs and Maintenance	63,918,299	40,786,024
Directors Expense	3,303,762	2,527,657
Travelling	4,220,362	5,236,336
Garden Maintains	12,096,851	8,983,635
Bank Charges	2,333,280	2,773,782
Bungalow Expenses	289,946	173,163
Quality Control Expenses	2,748,246	1,584,579
Depreciation on Property, Plant and Equipment	38,629,545	26,930,175
Legal Charges	3,101,542	2,945,018
Printing and Stationary	8,822,798	7,670,210
Security Charges	51,491,196	53,952,408
PEST control	189,000	141,108
Sundry Expenses	873,274	243,667
Electricity expenses	15,590,307	15,711,861
Water expenses	763,578	656,940
Rent & Rates	19,090,773	20,609,735
Stamp Expenses	(179,733)	98,902
Postage Expenses	254,608	294,608
Advertisement	2,257,398	373,923
News Papers & Periodicals	366,350	405,470
Vehicle License	464,140	356,290
Vehicle Hiring	1,235,157	2,382,817
Accounting & Auditing expenses	7,290,469	6,272,366
Consultancy Charges	3,454,980	4,493,185
Insurance	26,488,206	25,686,932
Fuel Expenses	28,738,730	27,604,847
DESMI Project Expenses	27,889,081	14,195,695
Telephones Expenses	4,530,189	3,887,447
ESC - Write Off	59,232,476	91,350,074
Loss from dissocial of fixed asserts	11,778	-
Entertainment Expenses	627,671	1,015,405
Exchange loss	-	-
Charity and donations	2,000,000	72,310
Fine and surcharges	657,413	-
Vehicle tracking system maintenance fee	86,250	-
	<u>392,867,922</u>	<u>369,416,568</u>
Total Administration Expenses	<u>825,937,229</u>	<u>798,515,146</u>

	For the Year Ended 31st December, 2021 Rs.	For the Year Ended 31st December, 2020 Rs.
IV. SELLING AND DISTRIBUTION EXPENSES		
Advertisements and Sales Promotion	96,020,037	66,855,441
Transport Expenses	125,525,391	91,043,224
Sales Commission	38,433,556	26,710,818
Warehousing Chargers	-	279,128
Vehicle hiring chargers	34,722,782	22,781,892
Out Let Expense	116,179,893	115,307,573
Repair & Maintanance of Motor Vehicle	16,070	(42,523)
Repairs & Maintenance of Bottle Coolers	37,725	114,811
Fuel	256,455	274,065
Free issues and write off of Finish Goods	16,438,477	13,566,165
	<u>427,630,386</u>	<u>336,890,593</u>
V. OTHER EXPENSES		
Loss on Milk Transfers	219,573	1,259,755
Stock write-off- Finish goods	4,184,285	5,437,096
Stock write-off- Raw & packing materials	2,757,013	-
Expenses on Kiri Sisilakaya project	392,104	-
	<u>7,552,976</u>	<u>6,696,851</u>
VI. FINANCE INCOME		
Interest on call/fixed deposit	12,589,123	14,760,152
Interest on Fixed Deposit - Foreign Currency (USD)	46,452,198	31,134,260
Interest on Distress Loan	6,798,796	6,857,181
Interest on Motor Cycle Loan	256,062	183,569
Interest on Special Loan	13,416	37,419
	<u>66,109,595</u>	<u>52,972,581</u>
VII. FINANCE COSTS		
Interest on Bank Overdrafts	25,256,078.25	105,510,572
Lease Interest	1,585,770.48	3,968,914
Loan Interest	2,325,157	10,260,496
	<u>29,167,006</u>	<u>119,739,982</u>



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தேசிய கணக்காய்வு அலுவலகம்

NATIONAL AUDIT OFFICE



My No.: FLS/C/MILCO/01/21/24/04 Your No.:

Date: 30th September 2024

Chairman
Milco Private Limited

The financial statements of Milco Pvt Ltd for the year ended as at 31st December 2021 and the Auditor General's Report on other legal and regulatory requirements in terms of section 12 of the National Audit Act, No.19 of 2018

1. Financial Statements

1.1 Disclaimer of Opinion

The Financial Statements of Milco Private Limited for the year ended as at 31st December, 2021 comprised with the Comprehensive Income Statement, Change of Equity, Cash Flow Statement and Notes related to such Financial Statements as at the same above date, and the summary of important accounting policies, was audited within my supervision in terms of Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka to be read with the provisions of the National Audit Act, No.19 of 2018. My Report will be tabled in Parliament in accordance with Article 154(6) of the Constitution in due course.

I do not express any opinion with regard to the financial statements of the company. Due to the importance of the facts discussed under the basis for disclaimer of opinion, it was not possible for me to obtain sufficient and appropriate audit evidences to provide a basis for audit opinion on these financial statements.

1.2 Basis for Qualified Opinion

- (a) Assets, liabilities, income, and expense balances should not be presented as setoffs in the financial statements except as permitted by Chapter 32 of Sri Lanka Accounting Standards No. 01. Following observations are made in this regard.
- In the year under review, the total credit balance of Rs. 18,297,619 has been set off to trade creditor account and the net trade creditor balance of Rs. 349,759,934 has been stated in the Financial Statement.
 - Since Rs. 112,725,177 which is the total of amounts payable to the other creditors, accrued payments and payables to state institutions and the balances payable to other parties have been set off, the above balances were under calculated by this value.
 - The debit balances amounting to Rs. 3,934,393 was set off to the debtor account and the net debtor balance of Rs. 210,678,419 has been presented in the financial statements.
 - Due to set off of the debit balance amounting to Rs.33,387,747 within the debtor balance of the distributors amounting to Rs. 47,007, 961, the debtor balance was under calculated.
- (b) There were total assets for the value of Rs. 21,451,693.754 and the total liabilities of Rs. 20,436,070,475 and a equity balance of Rs. 1,015,623,279 and when the financial statements are submitted, the ledger accounts, schedules, journals and financial statements prepared for each factory were presented and no trial balance was presented.
- (c) According to the chapters 5.5.15 in Sri Lanka Financial Reporting Standards, No. 9, the expected credit loss method should be used for subsequent measurements for the trade debtor balance of Rs. 563,411,473, the debtor balance was not calculated and therefore it was observed that the trade and other debtors were over or under calculated.
- (d) According to paragraphs 50 and 51 of the Sri Lanka Accounting Standard 16 the lifetime of the assets should be reviewed annually, and useful lifetime should be estimated and accounted as a difference in the estimates. However, 7,131 asset items of the value of Rs. 596,279,628 which were depreciated had been using by the company and no such review or disclosures were made.
- (e) As per Sri Lanka Accounting Standards 21, the value of any payment should be obtained in accordance with the foreign currency exchange as at the date of payment. Even though the amount to be spent for the importation of machinery required for Badalgama milk factory, which was 525,070.28 Euros, was Rs. 113,502,752, the actual amount spent was Rs. 116,280,515 as per Note 3 of the Financial Statements and it is an excess of Rs. 2,777,763.
- (f) According to Note 02 of the Financial Position Statement of the company, the depreciation amount is Rs. 517, 715, 524. However, there was a difference of Rs. 20,769,459 in the depreciation noted down, since the amounts indicated in the Comprehensive Income Statement in the financial statements was Rs, 496,946,065 (Rs. 458,316,520 as factory depreciation and Rs. 38,629,545 as administrative and development cost).
- (g) Even though the opening balance of the motor vehicles in the year under review was Rs. 147,942.408 the final balance of the motor vehicles was mentioned as Rs. 151,142,408 in Note No 02 of the previous year financial statements and therefore the balance of motor vehicles was noted less Rs.3,200,000. Further the when the accumulated depreciation is written, the final balance has been noted as Rs.156,393,667 against the true value of Rs.159,593,667, i.e. RS.3,196,000 less.
- (h) When there was a negative balance of Rs.8,451,259 as the opening net balance in the year under review with regard to motor vehicles, an amount of Rs.2,431,269 has been accounted as depreciation and therefore the final net balance is shown as a negative balance of Rs.21,195,179.

- (i) Motor vehicles of the cost of Rs.11,000,160, tools and equipment of Rs.20,614 and office equipment of Rs.28,000 have been disposed in the year under review and it was not possible to check the accuracy of the relevant values since written evidence had not been submitted for audit.
- (j) In note No 03 under the non-current assets of the statement of financial position, an opening balance of Rs.16,169,330 has been indicated as the work in progress of Polonnaruwa Milk Factory and the expenses of the year under review have been indicated as Rs.7,543,255. However, as per the work in progress mentioned in the financial statement of Polonnaruwa Milk Factory, the opening balance of the year and the cost borne in the year is Rs.11,822,998 and Rs.20,169,261 respectively and therefore a difference of Rs. 4,346,332 and Rs.12,626,006 was observed respectively. Further according to the statement of financial position work in progress of Polonnaruwa Milk Factory has not been capitalized and an amount of Rs.12,626,606 had been capitalized according to the Financial statement of Polonnaruwa Milk Factory.
- (k) Even though the amounts of Rs.28,223,096 and Rs.28,528,279 should be transferred to the work in progress as the advance of year 2020 and 2021 respectively out of the 30 percent advance provided to the project to import of spare parts of the relevant machinery, and the amount of Rs. 9,407,698 and Rs. 9,509,426 as the retaining amount of 10 percent, the company has not done so and an amounts of Rs.31,585,570 and Rs.28,365,543 have been transferred as the advance relevant to the said payments and amounts of Rs, 10,528,523 and Rs.9,455,181 respectively have been transferred as 10 percent retaining amounts on the exchange rates at the end of the year. As a result, an excess of Rs.3,362,474 and Rs.1,120,825 have been transferred as advance payment and 10 percent retaining respectively in the year 2020 and Rs.162,736 and Rs.54,245 less have been transferred as advance payment and 10 percent retaining amount respectively for the year 2021.
- (l) Even though the unaccounted amount of Rs.94,076,984 spent for spare parts of relevant machinery and the construction of Badalgama new Milk Factory should be adjusted to the opening balances of the company, it had not been done and had accounted as the expenses of the year under review.
- (m) An amount of Rs.2,115,000 was paid from local funds for consultancy services for the construction of Badalgama milk factory and including the said amount a total of Rs.27,889,081 had been paid by the company for the factory. Even though it should be accounted under work in progress, it has been set off against the profit of the year under review.
- (n) Even though the value of the amount remaining (363,076.24 EURO) at the end of the year out of the initial advance payment of 19,180,692.30 EUROS paid for DESMI project to construct Badalgama milk factory should be Rs. 81,401,693, it has been stated in the financial statements as Rs.83,777,083 it had been over calculated by Rs, 2,375,390. The relevant exchange loss for the said amount should be Rs. 999,614. However, it had been the said value has been indicated in the financial statements as profit of Rs. 4,575,513 and therefore it has been over calculated by Rs.5,575,127 and that value should be accounted in company's comprehensive income statement. However, the company has included it into the loan balance of the General Treasury.
- (o) Even though the amount of Rs. 56,751,375 relevant to DESMI project should be transferred to the work in progress account from the opening balance, an amount of Rs. 59,951,113 had been transferred, and it was an excess of Rs. 3,199,738.
- (p) Written evidence relevant to Rs. 7,543,255, the cost for a cool room for Polonnaruwa factory borne in the year under review under work in progress and the cost of Rs. 13,280,786 to

construct the tank at the Badalgama factory had not been submitted for audit therefore accuracy could not be checked.

- (q) July 06th is the date of the maturity of dollar deposit and the interest for the dollar FD was Rs. 19,092,300 and the interest income to be received for the remaining 179 days of the year under review was Rs. 25,452,720, totals up to Rs. 44,545,020. However, it has been indicated as Rs. 46,452,198, with a difference of Rs. 1,907,178.
- (r) As per the schedules submitted for auditor relevant to trade creditor balance under trade and other balances payable, the account amount was Rs. 360,173,996. However, the submitted balance of the creditor balance of the head office was Rs.349,759,934 and therefore there was a difference of 10,414,062.
- (s) As per the schedules submitted relevant to the other payable balances included in Note No 17 of the trade and other payable balances under current assets of company's financial position statement, the economic services charges which could be covered has been indicated as Rs. 52,893,933. However, it has been mentioned in other payables schedule of the financial statement of the Head Office as negative balance of Rs. 203,476,482 and therefore there is a difference of Rs. 256,370,415. As per the Schedules, a net balance of Rs.281,192,118 had been indicated in the financial statement of the head office.
- (t) No age analysis and a creditor balance list for the balance of R. 45,039,718 of Polonnaruwa factory, the balance of Rs. 11,517,959 of Digana factory and the balance of Rs. 1,229,974 of Polgahawela cattle feed division had been submitted for the audit.
- (u) In the comprehensive income statement, an amount of Rs. 59,232,476 had been indicated as ESC write off and it had not been mentioned under non-cash items in the cash flow statement.
- (v) Even though an amount of Rs.13,739,172 had been stated as the depletion of assets in the comprehensive income statement, it has been indicated in the cash flow statement as Rs.13,051,662 and therefore a difference of Rs. 687,570 can be observed.
- (w) As per the calculation of the audit, the deferred tax assets were Rs. 284,390,275, but as per note no 13 of the financial statements it has been mentioned as Rs.237,988,790 and there is a difference of Rs.46,411,485,
- (x) Even though the approval of the Cabinet of Ministers was granted to make the sub credit balance of Rs. 8,169,034,183 (grants from the General Treasury for the factory project renovation project) as at 31st December 2020 an investment and to ignore the arrears of interest to be paid, no action has been taken to account the said credit as investments and to write off the interest. Therefore, the assets balance and long term liability balance have been under calculated and over calculated respectively.
- (y) 93 percent i.e. Rs.50,598,700 of the total debtor balance i.e. Rs.54,198,075 of Polonnaruwa factory are debtor balances with over 06 months and which have elapsed the general loan period of one month and Rs.534,140 and Rs.40,804,344 are balances which are coming from year 2018 and 2019 respectively. The recovery of those balances was uncertain and no impairment adjustments have been done.
- (z) Even though the value of the stocks issued free of charge and the stocks written off was Rs. 23,379,775, as per the schedules submitted for the audit, the balance was Rs.46,113,191 and therefore a difference of Rs. 22,733,416 was observed.

(aa) Following differences were observed when checking the schedules and factory financial statements with the financial statements of the year under review.

Description	Balances as per the Schedules and the Factory Financial Statements Rs.	Balance as at financial statements Rs	Difference Rs.
Property, Plant and Equipment			
-cost	9,594,216,873	9,573,173,069	21,043,804
-depreciation of the year	530,767,186	496,946,065	33,821,121
Accumulated depreciation of 08 property, plant and equipment	3,893,681,904	3,897,020,435	7,924,615
Assets with equity rights			
-cost	76,264,089	97,307,676	21,043,587
-Accumulated depreciation	41,861,765	38,611,204	3,250,561
-net value	34,402,324	58,696,472	24,294,148
Overdraft interest expense	19,905,504	25,256,078	5,350,574
cost of sales	10,854,516,132	11,292,970,296	438,454,164

As described above, it was unable for me to verify quantitative item options included in the financial position statement, comprehensive income statement, change of equity statement and cash flow statement. Therefore, it was not possible for me to determine whether it is required to do any adjustment for the reported or unreported values and items which are in financial position statement, comprehensive income statement, change of equity statement and cash flow statement.

1.3 Responsibility of the parties managing and controlling on the financial statements

It is the management's responsibility to prepare and fairly present these statements in accordance with Sri Lankan accounting standards and to determine the internal controls necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing financial statements, determining the going concern of the company is the responsibility of the management, and if the management intends to close the company It is also the management's responsibility to keep the account on a going concern basis and to disclose matters related to the going concern of the company, except if there is no other option to stop operations.

Controlling parties are responsible for the company's financial reporting process.

In terms of sub-section 16 (1) of the National Audit Act No. 19 of 2018, the company shall maintain proper books and records of its income, expenditure, assets and liabilities to enable it to prepare annual term financial statements.

1.4 Auditor's Responsibility in Auditing Financial Statements.

Based on the audit conducted in accordance with the Sri Lankan Auditing Standards, it is my responsibility to issue the audit report on the financial statements. However, due to the matters described in the Basis for Opinion section, I was unable to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

2. Report on other legal and regulatory requirements.

- 2.1 The National Audit Act No. 19 of 2018 and companies Act No. 7 of 2007 contain special provisions regarding the said requirements.
 - 2.1.1 Section 163 (2) (d) of the Companies Act No. 7 of 2007 and as required by Section 12 (a) of the Audit Act No 19 of 2018 I have not been able to obtain all the information and explanation required for the audit and I have not been able to determine that the Company has maintained proper financial records as shown by my examination.
 - 2.1.2 The financial statements of the Company comply with the requirements of Section 151 of the Companies Act, No. 07 of 2007, except to the effect of the matters set out in the Basis for Disclaimer of Opinion in this report.
 - 2.1.3 According to the requirement mentioned in Section 6(1) (V) (iii) of the National Audit Act No. 19 of 2018, the company's financial statements are consistent with the previous year.
- 2.2 Actions adopted and evidence obtained to the extent and substance in limitation, nothing came to my attention enough to make the following remarks.
 - 2.2.1 According to the requirement mentioned in Section 12 (d) of the National Audit Act No. 19 of 2018 that any member of the company's board of directors is directly or indirectly related to a subsidiary company outside the ordinary course of business
 - 2.2.2 According to the requirement mentioned in section 12(f) of the National Audit Act No.19 of 2018, except for the following observations, those who have acted in a way that does not comply with any relevant written law or general or special directives issued by the supervisory board.

Reference to the regular command

Description

(a) Public Business Circular

No. PED/12 dated June 02 2003

(i) Section 6.5.1

Although 60 days after the end of the financial year financial reports and the draft annual report presented to the Auditor General, the

financial statements of year 2020 was submitted on March 11, 2024. Accordingly, there was a delay of 710 days.

- (ii) Section 4.2.6 although performance reports/ progress reports should be prepared and submitted no such reports were submitted for the year 2021.
- (iii) Section 5.1.2 The business plan prepared for 2019 and 2020 did not include the organizational structure and performance indicators that should be included in the business plan.
- (b) Public Finance Circular The financial statement and cash flow statement of the annual
No. 01/2014 dated budget which should be linked to the prepared action plan and a
17 February 2014 loan repayment plan for the year were not prepared
- Section 5(2)

2.2.3. That the powers, duties and functions of the company have not been acted upon as per the requirement mentioned in Section 12 (g) of the National Audit Act No. 19 of 2018.

2.2.4 According to the requirement mentioned in Section 12 (h) of the National Audit Act No. 19 of 2018 except for the following observations, the resources of the company are not used efficiently, and effectively.

(a) Since a Bill of Quantity had not been prepared for the constructions worth of EURO 25,215,692 in the agreement entered into with Milco and foreign private contractor with regard to the construction of new milk factory Badalgama, there is a confusion with regard to the precision when payments are made and of the quality of the standard of the construction.

(b) For the establishment of Badalgama Milk Processing Factory, a contract value of Rs.9,718,217,432 (Euro 63,935,641) was contracted as a foreign contract company in 2016 and it was scheduled to be completed in 2019. As of December 31, 2021, Rs. 11,868,506,855 had been spent and the project was being implemented. The contract for the construction of the Badalgama Milk Dairy was given to a foreign construction company outside of the government's procurement guidelines. This project has been implemented as an unsolicited project and the related procurement guidelines, under section 3 of the supplementary 23, have specified the contractors who must be found with special technical knowledge. (That only impossible projects can be implemented as unsolicited projects.) But since it is possible to find a contractor through international quotations for the construction of such a factory, the minimum bid for the construction cost Rs 9,718,217,432 (Euro 63,935,641) cannot be accepted.

(c) As per Supplement 28 of Procurement Guidelines, if the estimated value of any procurement activity is between Rs. 10 Mn to 20 Mn such procurement should be approved by the line Ministry. The estimated cost for the construction of the office building of Digana milk factory was Rs. 3,976,320 excluding PAYE tax and NBT and the cost for the polyethylene cover for the roof of the building was Rs. 13,453,900 excluding PAYE tax and NBT and the total was Rs.17,430,220. However, this was carried out without a ministry approval and only with an approval at the institution level for less than 10Mn as two tasks. As per the above supplement, at least 05 bids should be evaluated before offering. However, only 02 bids were considered, and the contract had been awarded. A total payment of Rs.29,597,405 had been made Rs.9,962,262 in the year under review and Rs.19,635,143 in previous two years.

2.3 Other matters

(a) The depreciation, net value for the last date of the year etc had not been updated and maintained in the fixed assets register of the company with the cost of Rs.981,084,381.

(b) In the balance of allocation for taxes of the head office included in the financial statements of the company, there is a balance of allocation made for income tax fines of Rs.8, 425,296 which has existed for many years, and it had not been settled even at the end of the year under review

(c) As per the creditor age analysis no actions have been taken to settle the balances of the creditors for a period of 01 year to 05 years for the value of Rs.4,548,588 and the creditor balance of Rs.9,102,469 over 05 years.

(d) The gross profit ratio of the company in the year under review was as less as 9.48 percent and the nett profit ratio was 0.28 percent and it is observed that this will negatively affect the going concern of the company. Further the earning per share in the year 1.07 and in the previous year t was 7.07. Therefore, the earning per share has been declined by 84.87 percent.

(e) Even though the total sales income showed an growth of 12.35 percent in relation to the previous year, it was observed that the cost of sales increased by 16.38 percent. The improvement in the cost of sales was affected by the increase of the primary cost by Rs. 1,645,267,725 and the overhead cost by Rs.21,034,350. The increase in the factory overhead cost was caused by the increase of building and maintenance cost by rs.15,753,091.

(f) The balance of Rs. 2,108,063 to be paid to National Milk Board since a long time under the interest free loan mentioned under note no. 14.2 of the Financial Statements had not been settled even in the year under review.

(g) Property, Plant and Equipment in the financial statements in the year under review depicted a balance of Rs. 5,332,387,240, the company has not done any asset verification with regard to Property, Plant and Equipment since year 2008.

(h) in July 2017 the new milk powder machines in Ambewela had started productions, the laboratory reports had confirmed that 720 metric tonnes of milk powder for the value of Rs, Mn 475.2 produced upto 18th January 2018 were not suitable for human consumption. After an examination conducted by the Veterinary Research Institute Gannoruwa it was confirmed on 07th August 2018 that such milk powder is suitable to be used as ingredient of the feed for ruminants. 666,075 Kilograms of Milk powder which was recalled after customer complaints were stored in the stores even on 31st December 2021 causing disturbances to other operating activities and no action had been taken to conduct an investigation on the loss and to recover any amount from responsible officers.

(i) The value of the total advances paid as at 31st December 2021 by Ambewela factory was Rs.3,632,777 and Rs. 1,268,432 out of that amount i.e. 35 percent remain as balances over 04 years to 12 years and recovery of the same is uncertain.

(j) Since an amount higher than the due amount has been given to the sales agents an amount of Rs.26,373,018 had been charged from the sales agents.

(k) The balance of prepayment as per the Schedule as at 31st December 2021 was Rs.5,929,081 and an amount of Rs.5,075,133 out of that i.e. 86 percent were the balance of more than 05 years.

(l) The capacity of the Badalgama milk factory was limited to 25 percent and the milk processing plant for the value of Rs.11,868,506,855, the ice cream cone filler at Digana milk factory of the value of Rs. 15,445,587, the yogurt mixer valued for Rs. 104,177,779 and other 04 machines for the value of Rs. 2,275,000 at Colombo Milk Factory were inactive.

(m) The work in progress for the value of Rs. 805,860,149 coming from the beginning of year 2019 remained the same as at the end of the year under review and no actions were taken to end those work.

(n) The total debtor balance of Digana milk factory for the value of Rs.54,718,600 was consisted of Rs, 6,626,011 which are more than 05 years and no action had been taken to recover the balances.

(o) Rs.2,776,919 and Rs. 951,761 remained as credit and debit balances respectively which are non-moving balances to be recovered from the regional sales outlets which under the head office of Milco.



W.P.C. Wickramaratne

Auditor General

MILCO (PRIVATE) LIMITED

FINANCIAL HIGHLIGHT



	2021 Jan to Dec	2020 Jan to Dec	2019 Jan to Dec	2018 Jan to Dec	2017 Jan to Dec	2016 Jan to Dec	2015 Jan to Dec	2014 Apr to Dec	2013/2014 Apr to Mar	2012/2013 Apr to Mar
OPERATION RESULTS										
Turnover(Net)	Rs. Mn	12,476.32	11,104.71	10,313.82	11,612.34	10,161.30	8,679.47	7,584.73	5,627.62	6,385.23
Total expenses	Rs. Mn	12,583.26	10,965.40	11,256.17	12,094.13	10,767.49	8,352.38	7,597.03	5,385.66	6,683.26
Gross Profit	Rs. Mn	1,183.35	1,401.15	396.28	226.94	375.96	835.60	572.76	770.97	486.43
Profit before tax	Rs. Mn	34.33	225.76	(862.71)	(683.45)	(434.93)	339.33	382	248.16	(267.47)
Income tax expenses	Rs. Mn	-	-	-	201.66	(171.26)	(12.25)	(16.12)	(6.20)	(30.56)
Profit after tax	Rs. Mn	34.33	225.76	(862.71)	(481.79)	(606.19)	327.08	(12.30)	241.96	(298.02)
BALANCE SHEET										
Stated Capital	Rs. Mn	319.45	319.45	319.45	319.45	319.45	319.45	319.45	319.45	319.45
Retained Earnings	Rs. Mn	333.02	-	145.25	785.18	1,183.74	1,665.98	1,257.79	1,230.94	745.60
Sinking Fund	Rs. Mn	1.69	1.69	1.69	1.69	1.69	1.69	1.69	1.69	1.69
Reserve for upgrading/replacement of Plant & Machinery	Rs. Mn	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00
Revaluation Reserve	Rs. Mn	336.45	336.45	336.45	336.45	336.46	336.46	336.46	336.46	336.46
Shareholders Fund	Rs. Mn	1,015.62	653.81	537.35	1,467.78	1,866.34	2,348.58	1,940.39	1,913.53	1,428.20
Non Current Assets	Rs. Mn	19,120.31	19,165.43	19,580.81	19,471.51	17,511.40	14,763.67	12,261.55	8,143.18	2,123.36
Net Current Assets/(Liabilities)	Rs. Mn	1,156.95	801.22	211.35	769.51	1,090.41	1,670.87	(243.15)	(143.37)	445.67
Long Term /(Deferred Liabilities)	Rs. Mn	19,261.64	19,312.84	19,254.81	18,773.24	16,735.47	14,085.96	10,078.01	6,086.27	1,140.84
RATIOS										
Earnings per share	Rs.	1.07	3.65	(27.01)	(15.08)	(18.98)	10.24	(0.39)	7.57	(9.33)
Total Assets to Shareholders Fund	Times	21.12	32.90	41.11	15.30	11.10	7.41	7.24	5.40	2.94
Net Assets per Share	Rs.	31.79	20.47	16.82	45.95	58.42	73.52	60.74	59.90	44.71
Return on equity	%	3.38	34.53	(160.55)	(32.82)	(32.48)	13.93	(0.63)	12.64	(20.87)
Gross Profit Ratio	%	9.48	12.62	3.84	1.95	3.70	9.63	7.55	13.70	7.62
Net Profit Ratio	%	0.28	2.03	(8.36)	(4.15)	(5.97)	3.77	(0.16)	4.30	(4.67)
Current Assets Ratio	Times	1.99	1.52	1.09	1.35	1.52	2.73	0.88	0.94	1.27
Quick Assets Ratio	Times	0.89	0.79	0.62	0.67	0.69	1.85	0.05	0.66	0.94

