



# CONTENTS

Corporate Information	1
Message from Chairman	2
Report of Directors	3 - 5
Corporate Governance	6
Auditor General's Report	7 - 15
Balance Sheet	16
Income Statement	17
Statement of Changes in Equity	18
Cash flow statement	19 - 20
Notes to the financial statements	21 - 56
Financial Highlights	57



# 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 1982
Registered Office	- No. 45, Nawala Road, Narahenpita, Colombo 05. - Tel: 0112586174, 0114500541 - Fax: 0112368082/ 0112577540/0114500555 - Website: <a href="http://www.milco.lk">www.milco.lk</a> - E-mail: <a href="mailto:info@milco.lk">info@milco.lk</a>
Factories	- Colombo Milk Factory (CMF) - Ambewala Spray Dried Milk Factory (SDMF) - Digana Milk Factory (DMF) - Polonnaruwa Condensed Milk Factory (PMF)
Date of Incorporation	- 09 <sup>th</sup> May 1996
Date of Re-registration	- 19 <sup>th</sup> 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. A M Z Cader - Chairman Mr. Nihal Edirisinghe - Working Director Ms. Biyanka N Gamage - Director Mr. D G Sumith Wickrama - Director Mr. M Janaka Deshapriya - Director Mr. A M T Aththanayake - Director Mr. K Sarath Chaminda - Director Dr. C N S Gamage - Director
Auditors	- Internal Ernst & Young Advisory Services (Pvt) Ltd, 201, De Saram Place, Colombo 10.  - External National Audit Office Auditor General
Bankers	- Peoples' Bank - Bank of Ceylon

Milco (Pvt.) Ltd., as a state-owned enterprise, has been playing a remarkable role in providing optimum level of dairy products to the market under Highland brand for around 66 years.

With four factories located in Narahenpita, Ambewela, Polonnaruwa and Digana, we proudly record the honor of being the main supplier of dairy products in the market by identifying the needs of the people of the country on a daily basis.

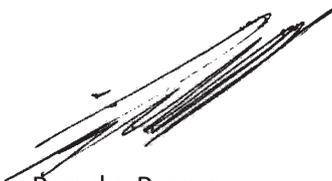
We have been able to supply high quality dairy products to the consumers in the competitive market continuously, uplifting the lives and economic strength of the rural dairy farmers.

Measures were taken by the government during the past few years to increase the milk production and as a result with the aim of increasing the milk production of the rural dairy farmers, factory modernization works were started by expanding the production capacity of our organization and a new milk powder manufacturing plant was established for Ambewela factory at a cost of 26.6 million Euros. This has enabled our company to make around 30,000 kilos of milk powder available in the market daily. In addition, construction of new Badalgama dairy factory is also underway. In the year 2018, Badalgama factory was able to receive machinery and equipment worth of 2353 million rupees.

Our vision is to be the best company in Sri Lanka which provides nutritional and high-quality dairy food and beverage to the consumers. Accordingly, our aim is to increase the production of milk by strengthening the rural dairy farmer and thereby increasing the production capacity of the institution to meet the needs and demands of the market. I wish that all the employees of the organization will have the courage and strength to successfully face the various challenges encountered in the journey towards this goal.

Further, I would like to express my heartfelt gratitude to honorable ministers and officials of the Ministry who have dedicated themselves for the success of the institution so far, to the board members who have provided the necessary support to the management and to the management and staff who have always devoted themselves for the welfare of the institution.

I hope that Milco will be able to crown the name “Highland” as the leading brand of dairy products in Sri Lanka.



Renuka Perera  
Chairman  
12-10-2022

The Directors of Milco (Pvt) Ltd have pleasure in presenting the Report of the Directors and the Audited Financial Statement for the year ended 31<sup>st</sup> December 2018.

## **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 102.4 Mn and depreciation charges are as shown.

## **BOARD OF DIRECTORS**

The following Board of Directors were continued from 01.01.2018

Mr. K.P.P.H. Mihiripenna – Chairman  
Mr. Tuder S Amarasinghe – Working Director  
Ms. Biyanka Gamage – Director - (Representative of the Treasury)  
Mr. J. A. S. Jayakody – Director  
Mr. B D M Chandima – Director  
Mr. M H M Fazal – Director

The following appointments / Resignations to the Board took effect during the year.

Mr S A D S L Weerasinghe was appointed w.e.f. 15.02.2018  
Mr M Maniyimuthu was appointed w.e.f. 15.02.2018  
Mr N A P C Napagoda was appointed w.e.f. 15.02.2018 and resigned w.e.f. 21.05.2018  
Mr K P P H Mihiripenna was resigned w.e.f. 10.05.2018  
Mr Tuder S Amarasinghe was resigned w.e.f. 13.05.2018  
Eng. A M Z Cader was appointed as Chairman w.e.f. 31.05.2018  
Mr Nihal Edirisinghe was appointed as Working Director w.e.f. 31.05.2018  
Mr J A S Jayakody was resigned w.e.f. 16.08.2018  
Mr. M H M Fazal was resigned w.e.f. 16.08.2018  
Mr. B D M Chandima was resigned w.e.f. 16.08.2018  
Mr D G S Wickrama was appointed w.e.f. 16.08.2018  
Eng. Janaka Deshaapriya was appointed w.e.f. 16.08.2018  
Mr A M T Aththanayaka was appointed w.e.f. 16.08.2018

Mr Sarath Chaminda was appointed w.e.f. 10.10.2018

Dr C N S Gamage was appointed as the Representative of the Line Ministry w.e.f. 15.10.2018

Current board of directors as at date is as follows.

Mr. Renuka Perera was appointed as Chairman w.e.f. 20.01.2022

Mr. W D R Crishantha was appointed as treasury representative w.e.f. 02.03.2022

Mr. H M M Herath was appointed w.e.f. 06.01.2021

Mr. Kelum Gunathilake was appointed w.e.f. 19.07.2021

Mr. Aruna Prasanna was appointed w.e.f. 06.01.2021

Mr. Ushaan Abeywickrama was appointed w.e.f. 15.01.2020

Dr Prasanna Mendis was appointed w.e.f. 15.01.2020

Mr. H A Amarasena was appointed w.e.f. 15.01.2020

## **SHARE INFORMATION**

The Stated Capital of the Company in number & value throughout the year under review was Rupees 319.4 Million.

## **RESERVES**

Cumulative profit brought forward of Rupees 785,181,360 /= adjusted for the current year's loss Rupees 481,785,860/= after tax given in page 2 of Accounts.

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 and differed Tax is Rupees 201,663,631/= and the company had made a taxable loss from its business activities during the year.

## 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 appointed by the Director General of Department of Public Enterprises at the General Treasury as auditors to audit the Accounts of the Company for the year ended 31.12.2018. As far as the Directors are aware, the Auditors do not have any relationship with the Company nor its subsidiaries 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  
(Sec/555/91) No. 300/3, Nawala Road, Nawala

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 line 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 Ernst & 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 the 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.



## ජාතික විගණන කාර්යාලය தேசிய கணக்காய்வு அலுவலகம் NATIONAL AUDIT OFFICE



My No.: FLS/C/MILCO/01/18/09 Your No.:

Date: 13<sup>th</sup> October 2020

Chairman  
Milco Private Limited

**The financial statements of Milco Pvt Ltd for the year ended as at 31<sup>st</sup> December 2018 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, 2018 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) Even though the assets, liabilities and income and expenditure balances should not be set off and presented in the financial statements except where permitted in para 32 of Sri Lanka Accounting Standards 01, the Company has set off the credit balance of Rs. 31,437,088 to debt balance and other receivables and stated in the financial statements.
- (b) Even though the company had been using the plant, property and equipment for the cost of Rs.172,639,245, which were fully depreciated, the effective life of the relevant assets had not been reviewed and adjustments to the accounts had not been performed as per paras 50 and 51 of Sri Lanka Accounting Standards 16
- (c) Although the profit was calculated as Rs.80,551,142 when calculating the employee benefit liabilities according to Sri Lanka Accounting Standards 19, since the profit was Rs.69,273,982 as per the comprehensive income statement, employee benefit liabilities had been calculated by adding an extra profit of Rs.11,277,160.
- (d) Even though transactions should be noted down in accordance with the foreign exchange as at the date on which the payment is made, as per Sri Lanka Accounting Standards No 21, the company has not followed the same and had transferred Rs. 748,015, 807 to the work in progress account from the advance relevant to year 2018, which was allocated for importation of machinery and spare parts required for Badalgama new Milk Factory for the exchange rate of the end of the year. While the advance amount to be credited was Rs. 576,287, 497 and an extra amount of Rs. 171,728,310 had been credited.

- (e) The Head Office, bought an ice cream machine at the expense of Rs.15,445,587/- on 17th January 2013 and handed over to the Digana milk factory in April 2014. Yet, it was not used and had been kept in stores until the date of audit, 16<sup>th</sup> November 2021. However, the adjustments for damages had to be made according to para 12 e of the Sri Lanka Accounting Standards No.36, the necessary adjustments were not made and no actions have been taken by identifying the responsible parties.
- (f) A yoghurt mixing machine bought to the value of Rs.104,177,779 which had been purchased on lease basis on 20th January 2011 to be commissioned in the Colombo factory, was commissioned in the Polonnaruwa factory on 30th August 2013 and as this machine had not been used from the date of purchase to December 16<sup>th</sup> November 2021, the date of audit, due to its technical errors, action was not so taken to make adjustments to the value of the machine in accordance with para 12 (e) of Sri Lanka Accounting Standard No.36 and no actions have been taken by identifying the responsible parties.
- (g) According to Company's Management and Performance reports, the Ambewela factory which has been constructed under the modification project, had received liquid milk in 2018 and 2019 to suffice 26% and 25% of the machine capacity, respectively. Though it has been reported that the Company requires 600,000 litres of liquid milk per day according to the machine capacity of the Badalgama factory, after completion of the construction activities of the factory, it was observed that this machine capacity was not fully utilised as the Company's current daily collection of liquid milk is around 200,000 litres. As such, action was not so taken to make adjustments to the value of the machine in accordance with para 12 (e) of Sri Lanka Accounting Standard No.36 for the machines bought spending Rs. 10,957,945,499, as at 31<sup>st</sup> December 2018.
- (h) As per Sri Lanka Accounting Standards 39, when loans and other receivables are evaluated, the amortized cost should be valued using effective interest rate. However, the audit was not satisfied with regard to the loans and other receivables for the amount of Rs.1,288,433,433 stated in the financial statements being account to the correct value.
- (i) The remainder of the opening balance out of the advances provided for the construction of Badalgama milk factory was 5,192,173.12 Euros and when it is calculated to the opening exchange rate it was Rs. 934,383,475. However, the said opening balance had been stated as Rs.560,536,942 under long term advances in the financial statement. Hence, due to overcalculation of Rs. 373,846,533 which was a result of the change in foreign exchange rate, the long-term advance account and the loan balances payable to the government have also been overcalculated.
- (j) Even though the depreciation of the relevant year in the comprehensive income statement was Rs. 493,952,107, according to Note 3 of the statement of financial status the depreciation of the year was Rs.542,428,556 and there is a difference of Rs. 3,175,911.
- (k) As per Note 3 of statement of financial status, the balance of property, plant and equipment as at 31<sup>st</sup> December 2018 was Rs.9,143,350, 785. However according to the schedule, the balance of property, plant and equipment was Rs.9,140,150, 838 and a difference of Rs. 3,199,946 was observed.
- (l) Even though the accumulated depreciation of property, plant and depreciation as at 31<sup>st</sup> December 2018 was Rs. 2,691, 849,950 as per note 3 of statement of financial status, the schedule depicts it as Rs.2,688,650,004 and a difference of 3,199,946 was observed.

- (m) Actions have not been taken to settle the advance balance of Rs. 11,307,636 which was provided over 10 years as employee advances for various activities. Further, advances of Rs.384,275 and Rs.3,498,375 paid for construction in year 2012 and 2014 had not been settled in remaining advance balance.
- (n) Rs.100,000 and Rs.821,564 were indicated as credits obtained by vehicle sale included in advances, deposits and previous payments in financial statements.
- (o) As per schedule, the balance of previous payments as at 31<sup>st</sup> December 2018 was Rs.25,500,823 but the value included in the advances, deposits and previous payments was Rs. 18,847,532 and therefore the difference between the balances was Rs.6,653,291.
- (p) Even though the the trade debtor balance of the Financial Statement in Ambewela factory was Rs.138,211,444, the balance as per the schedule was Rs. 137,441,575 and the difference between the balances was Rs.769,869.
- (q) As per the age analysis of the debtors of Polonnaruwa factory, the balance was Rs.83,633,046. However, the schedules submitted for the audit indicated a balance of Rs.83,232,275 and the difference between the balances was Rs.400,771
- (r) The gross income in the financial statements depicted Rs.11,849,851,230. However, as per the submitted schedule, income was Rs.11,760,545,396 and the difference between the balances was Rs. 89,305,833.
- (s) As per Note 16 of the financial statements, when employee benefit obligations are calculated, the total of the service cost and the interest cost is Rs. 87,046,552. However, the said total cost indicated in the financial statements under sales cost and employee expenses is Rs.81,454,572 and therefore a difference of Rs.5,591,980 was observed.
- (t) A negative balance of Rs.18,558,260 was in the other income of the Head Office and accordingly other income has been under calculated.
- (u) Since the period of the USD fixed deposit is from 06<sup>th</sup> July 2018 to 06<sup>th</sup> July 2019, the interest relevant to 31<sup>st</sup> December 2018 should have been accounted as receivable Fixed Deposit Interest, the company has capitalized an amount of Rs. 10,902,220 to the fixed deposit. Further, since the withholding tax value is Rs.527,115, the Fixed Deposit has been over calculated by Rs.10,902,220 and the receivable fixed deposit interest and receivable withholding tax have been undercalculated by Rs.10,357,105 and Rs.527,115 respectively.
- (v) Since the interest income which is Rs.1,754,669, relevant to the fixed deposit for the period from 01<sup>st</sup> January 2019 to 07<sup>th</sup> February was included to the interest income of the year under review, the interest income has been overcalculated by the said amount.
- (w) Negative tax balance of the account payable for the amount of Rs.8,745,377 had been deducted from the accounts payable.
- (x) When the tax balances were reconciled with the NBT mentioned in the Financial Statement, a difference of Rs.577,307 was observed in the total accounts of Colombo Milk Factory, Ambewela Milk Factory and Polonnaruwa Milk Factory.
- (y) An amount of Rs.188,811,584 has been indicated in Note 14 to the accounts as deferred tax revenue and when it was calculated, Rs.1,693,491 which is the deferred tax effect relevant to the stock allocations had not been considered and therefore it has been undercalculated.

- (z) As per the schedule submitted along with the statement of financial status, final product stock value of the head office and regional outlets as at 31<sup>st</sup> December 2018 was Rs.39,174,887 and as per the consolidated product account, the final product stock value of regional outlets was Rs.37,989,723. Accordingly, a difference of Rs.1,185,164 was observed between consolidated schedule and product account.
- (aa) It was observed that the sales cost and the profit of the company is depicted Rs.6,373,221 more and Rs.6,373,221 less respectively due to lower adjustments of final stock value which was Rs.6,373,221.
- (bb) It was observed that unusable packing materials for the value of Rs.11,137,515 are there in the last stock of Ambewela Milk Factory and accordingly, profit and the last stock are overcalculated.
- (cc) As per the unissued stock schedule of Colombo Milk Factory, the stock values of raw materials and packing materials are Rs.19,439 and Rs. 6,073,274 respectively and accordingly, profit and the last stocks are overcalculated.
- (dd) Even though the written off stocks and releases were Rs. 23,622,718 under sales and distributions as per the schedule submitted along with the income statement, the written off stocks and releases submitted for audit indicated Rs.24,099,106. Accordingly, a difference of Rs.476,388 was observed.
- (ee) Even though the value of the packing materials at the Head Office as at 31<sup>st</sup> December of the year under review mentioned in the combined schedule submitted along with the statement of consolidated financial status was Rs.25,404,514, the stock verification reports reported Rs.26,137,961 and a difference of Rs.733,447 was observed.
- (ff) The total of the debit balance of trade debtors for the value of Rs.4,142,872 which have been there for more than 5 years and the debit balance of debtors for the value of Rs.12,564,281 have been offset to the debtor credit balance.
- (gg) Even though the opening balance of the loan obtained from the General Treasury of Sri Lanka in note no 15.1.3 of the financial statement of the company has been indicated as Rs.15,781,118,709, as per the schedule the credit balance granted for renovations of factories and Badalgama project was Rs. 15,780,863,322. Although the loan amount in the year under review was Rs.2,140,219,033 the amount was Rs.2,139,963,647 under Note No 15.1.3. Accordingly, the difference of Rs.255,386 in the opening balance had not been identified and set off to the difference of the amount received.
- (hh) As per para 2.04 of the agreement entered into Department of External Resources for factory renovation project, all the expenses borne by the Department of External Resources, i.e., currency variation should be borne by the company. Accordingly, the loan balances to be paid as at 31<sup>st</sup> December 2018 relevant to the above project should be valued to the foreign exchange at the end of the year as per Sri Lanka Accounting Standard 21 and 23. Since the adverse impact of the variations in foreign exchange Rs.1,339,422,864 has not been accounted, the liability of the company has undercalculated in the same amount and the accumulated profit has been overcalculated.
- (ii) The loan balances of the 02 loan programmes, Milk Factory Renovation project and Badalgama Project amounted to Rs.5,685,332,903 and 9,419,337,943 respectively as per Report 814 of the Treasury and as per the financial Statements of the company, the loan balances of Milk Factory Renovation project and Badalgama Project was Rs.6,632,493,444 and 11,288,333,525 respectively. Accordingly, differences of Rs. 947,160,541 and Rs.1,868,995,557 were observed.

- (jj) As per report 814-1(V2) of the Department of External Resources of Treasury the commitment charges charged on the unused loan balances of the loan granted for milk factory renovation project was Rs.56,821,121. However no adjustments have been made in the financial statements.
- (kk) In line with the reports of the Department of Treasury Operations of Ministry of Finance, the Treasury has paid the loan back to the relevant bank under factory renovation project as at the last day of the year under review and the amount not reimbursed by the company to the Treasury is Rs. 4,501,780,602. However, this amount has been mentioned in the financial statements as Rs.6,632,493,444 and it is an overcalculation by Rs.2,130,712,842 and the interest payable, Rs. 790,127,700 has also not been accounted.
- (ll) Even though the opening bank loan balance is Rs.363,545,693 in the financial statement of the company, the schedule indicates an amount of Rs.363,801,080 which results in a difference of Rs.255,387. Further the payment value in the year under review was Rs.102,115,013 and it has been mentioned in the financial statements as Rs.101,859,626 and there is a difference of Rs.255,387.
- (mm) Schedules for stock provisions of Rs.12,096,362 were not submitted for audit.
- (nn) Although the annual interest value which should be accounted on the loan instalments is Rs.37,387,517, it is stated in the financial statement as Rs.38,063,199, which is a difference of Rs.680,476.
- (oo) It has been observed that stocks for the value of Rs.6,559,174 at Ambewela Milk Factory in the year under review had not been used. Further, 408 engineering stock items with unidentified values have been removed and therefore profit and last stocks are overcalculated.
- (pp) Balance confirmation letters relevant to lease debtors which is Rs.48,772,108 as at 31<sup>st</sup> December 2018 have not been submitted for audit.

### 1.3 The responsibility of the Management and the parties in control over Financial Statements

It is the responsibility of the Management for preparing and fair presentation of these Financial Statements in accordance with the Sri Lanka Public Sector Accounting Standards and to determine the internal control required for preparing the Financial Statements free of quantitative error statements which might occur due to frauds and defaults.

In preparing the Financial Statements, it is the responsibility of the Management to decide the sustainability of the Institute. And, unless the Management is of the view to liquidate the Institute or to terminate the operations in the absence of any other alternatives, it is also a responsibility of the Management to disclose the matters pertaining to book keeping and the sustainability of the Institute, on sustainability basis.

The parties in control are vested with the responsibility on the Financial Reporting process of the Institute.

In terms of subsection 16(1) of the National Audit Act, No.19 of 2018, the books and reports on income, expenditure, assets and liabilities must be duly maintained enabling to prepare the annual and periodical Financial Statements of the Institute.

### 1.3 The responsibility of the Auditor on auditing of Financial Statements

It is my responsibility to issue the report of the auditor of the financial statements of the company based on the audit conducted in line with Sri Lanka Auditing Standards. However, due to the matters mentioned in the disclaimer of opinion I was not able to obtain sufficient and appropriate audit evidences to provide a basis for audit opinion on these financial statements.

### 2. The Report on other legal and regulatory requirements

Special provisions have been incorporated in the National Audit Act, No.19 of 2018 on the following requirements:

- As per the requirements in Section 163 (2) (d) of Companies Act No 7 of 2007 and Section 12 (a) of National Audit Act no 19 of 2018, I was not able to obtain all the information and explanation necessary for an audit and I was not able to determine in my investigation that the company has maintained proper financial statements.
- Other than the impact from the matters mentioned in the disclaimer of opinion in this report, the company complies to the requirements mentioned in Section 151 of Companies Act No 07 of 2007.
- Financial Statements submitted by the company corresponds to the previous year as per the requirement of Section 6 (1) (d)(III) of National Audit Act No 19 of 2018.

No matter was encountered to declare the following, based on the action taken and evidence obtained, and within the limitations of quantitative matters.

- As per the requirement in section 12 (d) of the National Audit Act, No.19 of 2018, that any member of the governing body of the Institute has any direct or indirect interest in any contract pertaining to the Institute outside general business circumstances;
- As per the requirement in section 12 (e) of the National Audit Act, No.19 of 2018, that except the following observations, action has been taken not in compliance with any applicable written laws or other general or special orders issued by the governing body of the company.

Reference to the laws and rules/provisions	Description
(a) Treasury Circular No PED/12 dated 02 <sup>nd</sup> June 2003	Even though financial statements and the draft annual report should be submitted to the Auditor General within 60 days from the financial year end as per Section 6.5.1 of the Circular, Financial Statements of year 2018 was submitted on 25 <sup>th</sup> May 2021.
(b) Inland Revenue Act No 24 of 2019	Income tax of Rs.47,778,622 and the penalty of Rs.8,425,296 due for a long period of time had not been paid.
(c) Circular No 842 dated 19 <sup>th</sup> December 1978	Fixed Assets Register had not been maintained and updated. Further, an annual board of survey had not been conducted.

- As per the requirement in section 12 (g) of the National Audit Act, No.19 of 2018, that action has been taken not in compliance with the powers, functions and duties of the Institute.
- As per the requirement in section 12 (h) of the National Audit Act, No.19 of 2018, that the resources of the company have not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.
  - (a) Contract of Constructing Badalgama Milk Factory had been awarded to a foreign construction company deviating from government procurement guidelines. This project had been implemented as an unsolicited project and in procurement guideline 23 it has been mentioned that only the projects to which contractors with specific technical skills cannot be found, can be implemented as an unsolicited project. Nevertheless, it is possible to find a contractor through international bidding procedure for such a construction. Accordingly, it was not confirmed whether the construction cost estimate of 25,215,692 EUR was properly utilized.
  - (b) At the beginning of the year relevant to the milk factory renovation project, a balance of Rs.805,860,149 connecting to work in progress was included and it was observed that no expense in this regard was borne in the year under review. Even at the end of the year, no action was taken to capitalize the said balances.
  - (c) Since a bill of quantity had not been prepared for the constructions amounting to 25,215,692 EUR in the agreement entered into by Milco and DESMI constructions, the auditor observed that there is a complexity in assessing the accuracy in payments and quality of the constructions.
  - (d) When estimates were prepared for the project of Euro 63,935,641 for Badalgama new Milk Factory, no provisions had been made for consultation, which is one of the critical parts of a project and when the project was being implemented, consultants were instantly appointed. Therefore, the consultants were paid from local funds. Accordingly, in the year under review, it was observed that out of the amount of Rs.8,146,736 paid from local funds, 69% i.e. Rs.5,584,365 was paid for consultation.
  - (e) An amount of Rs.1,874,345 had been paid to a foreign supplier to create a Management information System for Milk Factories and to check bills relevant to Badalgama Milk Factory. However, it has been observed that government procurement guidelines had not been followed in the process.
  - (f) Since there is no pasteurization division in Badalgama new milk factory and the removal of Colombo milk factory closes down its pasteurization division, it was observed that the market will be lost.
  - (g) Even though the fixed assets for the value of Rs. 6,451,500,834 are indicated in the financial statement of year 2018, it has been observed that the company has not conducted a physical verification of fixed assets. Further, since the company does not maintain properly updated fixed assets registers it was not possible to examine cost/existence, accuracy in calculating depreciation, cost of the disposed fixed assets and accuracy of the balance of depreciations and accuracy of the total in the year.
  - (h) Even though lands in 39 locations are controlled by the company on 50 year lease basis, no information were submitted on the extent of lands in 07 locations. Lands at 19 locations do not have agreements and out of these lands, information on lands in 13 locations were not submitted for audit. No actions have been taken to get these lands transferred to the company and it was observed that the plans too are not in the custody of the company. Further buildings for the value of Rs. 507,345,106 have been constructed in these non transferred lands.

- (i) No actions were taken to recover Rs.278,981,206 with various debtors as the subsidies receivable from Government of Sri Lanka and Rs.6.909,758 to be received from Ministry of Agriculture and Livestock.
- (j) The total trade debtor balance of this milk factory was Rs.387,384,930 and the debtors for the amount of Rs.33,063,229 are balances existing for more than one year. Highland products issued on credit basis amounted up to Rs.23,301,860 had been identified as inactive loans and the debtor balance over one year is 68 percent. No legal action has been taken by the company against these debtors.
- (k) Ambewela factory has paid Rs.1,289,342 for purchase orders in 2017 and before as advance payments to various institutions and persons. However, even at the end of the year under review the said tasks were not done and the advance payments were not settled.
- (l) As per the schedule, the trade debtor balance the trade debtor balance in Digana factory was Rs.77,796,261 and Rs.6,345,394 out of the said amount are balances above 5 years old. It is 8% from the total debtors.
- (m) As at 31<sup>st</sup> December 2018, the debtor balance at Polgahawela factory was Rs.16,027,297 and animal feed debtors were amounted to Rs.11,378,834. 28% out of the said balance, which is Rs.3,248,760 were over 13 years. Total transport debtors which amount up to Rs.4,648,233 too were over 13 years and no actions have been taken to recover these balances even at the end of year under review.
- (n) At a sample audit investigation conducted at Ambewela Milk Factory with regard to pricing of the products sold by the company, following observations were made.
  - i. Prices of certain products mentioned in the price list have been changed and since there were no information on the previous prices, it was not possible to identify manufacturing prices.
  - ii. The welfare price of a packet of 400g milk powder was Rs.256.25. However, 32,514 packets were sold for Rs.220 each and a sales value of Rs. 11,786,633 has been lost.
- (o) At Digana milk factory, when the value of the written off stocks were assessed, the writing off of each product has been calculated for the entire year at a same price. However, when it comes to Colombo milk factory the product stocks have been written off for various prices. Accordingly, it was observed that the company does not have a specific methodology to evaluate the values of written off products.
- (p) It was observed as at 31<sup>st</sup> December that when product stock values are evaluated, the unit cost values of 20 products under 04 product categories vary from Rs.57.88 to Rs.366.07 and they are different from factory to factory.
- (q) Even though laboratory reports had been issued stating that the production of 771,625 kilograms of milk powder in July 2017 are flawless, due to the complaints of the customers stating that the milk powder issued in August 2017 are not suitable for human consumption, they were called back to the stores and even at 31<sup>st</sup> December 2018 no actions had been taken for 666,075 kilograms of milk powder which were stored at Ambewela milk factory.
- (r) It was observed that raw materials and packing materials of Rs. 13,533,994 which have not ever issued for 5 years are kept at Digana milk factory and since they are unusable, the stocks have been overcalculated by the value.
- (s) It was observed that engineering stocks for the value of Rs. 1,043,529 which are not issued have been there at Polonnaruwa Milk Factory in the year under review.

- (t) In the year under review, the written off stocks of Colombo factory is Rs.5,132,845 and it was observed at the sample check that the unit prices used to calculate stock values of each product have been changed and it indicates an abnormal variation of 47% to 1223%.
- (u) Even though the Company and the Treasury of Sri Lanka had to enter into a re-loan agreement on the Badalgama project as per the Cabinet decision dated 08-04-2015 on CP No.15/0205/631/012, no such agreement had been entered into up to 31st December 2021.
- (v) The loan amount of Rs.2,108,063 which should be paid to National Milk Board which comes from year 1998 remains unsettled as at 31<sup>st</sup> December 2018.
- (w) In Advance, deposit and pre-payment balance, the balance of prepayment over 5 years was Rs. 4,284,638 and out of this, an opening balance of Rs. 1,389,285 and a credit balance of Rs.30,092 was present. However, no action had been taken to settle them or to obtain relevant goods and services from relevant parties.

### 3. Other Audit Observations

- (a) According to the information given by the company, 78 usable vehicles are present and it was observed that out of all the vehicles used by the company 04 vehicles are owned by the other institutions.
- (b) It was observed that cases have been files against Rs.10,910,901 to be recovered by 04 debtors of Colombo Milk Factory.
- (c) No actions had been taken to settle the old balances of Rs.56,203,918 belonging to the Head Office mentioned under accounts payable in the financial statements.
- (d) Out of the total trade debtor value of Rs. 261,537,239, 1 to 5 year value was Rs.254,842,627 and the value of debtors above 5 years was Rs. 6,694,612.
- (e) Even though the travelling expenses, sales commission and storage expenses are increased by 59%, 1049% and 325% respectively in the year under review, the sales have been increased only by 14%. Further, purchase of milk is reduced by 1% in the current year compared to the previous year. However, the development cost, bowser cost, diesel cost, water cost, and travelling cost have increased by 18%, 31%,32%, 40%, 242% respectively.
- (f) In accordance with the financial statements and schedules of each factory as at 31<sup>st</sup> December 2018, the balance trade and other receivables after allocations for impairment was Rs.1,925,355,045. However, as per the financial statement of the company, the balance was Rs. 1,288,433,433 and a difference of Rs. 307,026,781 was observed.
- (g) Since the sales value of Polonnaruwa milk factory is different as per the factory financial statements and the accounts, the accuracy of economic service charges of Rs. 10,418,126 mentioned in the financial accounts could not be confirmed to the audit.



**W.P.C. Wickramarathna Auditor**  
Auditor General

**MILCO (PVT) LTD.**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 31ST DECEMBER, 2018**



		As at 31st December, 2018 Rs.	As at 31st December, 2017 Rs.
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Property, Plant and Equipment	3	6,451,500,834	6,883,830,329
Capital Work-In-Progress	4	11,894,455,027	9,458,612,172
Financial Instrument - Amortised cost	5	769,263,440	608,415,927
Long-term Advances	6	356,287,245	560,536,942
<b>Total Non-Current Assets</b>		<b>19,471,506,546</b>	<b>17,511,395,370</b>
<b>Current Assets</b>			
Inventories	7	1,505,734,350	1,744,363,882
Trade and Other Receivables	8	1,288,433,433	1,496,902,471
Income Tax Receivable	9	172,903,239	115,524,339
Cash and Cash Equivalents	10	19,269,258	24,748,174
<b>Total Current Assets</b>		<b>2,986,340,280</b>	<b>3,381,538,865</b>
<b>Total Assets</b>		<b>22,457,846,826</b>	<b>20,892,934,235</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Stated Capital and Reserves</b>			
Stated Capital	11	319,454,060	319,454,060
Capital Reserve	12	25,000,000	25,000,000
Revaluation Reserve		336,454,463	336,454,463
Sinking Fund	13	1,689,978	1,689,978
Retained Earnings		785,181,360	1,197,693,238
<b>Shareholders' Fund</b>		<b>1,467,779,860</b>	<b>1,880,291,739</b>
<b>Non-Current Liabilities</b>			
Deferred Tax Liability	14	-	190,386,471
Non-interest Bearing Borrowings	15	2,108,063	2,108,063
Interest Bearing Borrowings - Long-Term	15	18,202,111,219	16,085,402,450
Retirement Benefit Obligations - Gratuity	16	527,308,101	559,394,914
Deferred Income - Government Grant	17	41,712,392	56,896,504
<b>Total Non-Current Liabilities</b>		<b>18,773,239,775</b>	<b>16,894,188,401</b>
<b>Current Liabilities</b>			
Trade and Other Payables	18	841,105,671	877,336,031
Interest Bearing Borrowings - Short Term	15	123,568,773	123,944,715
Bank Overdrafts	19	1,252,152,747	1,117,173,348
<b>Total Current Liabilities</b>		<b>2,216,827,191</b>	<b>2,118,454,095</b>
<b>Total Equity and Liabilities</b>		<b>22,457,846,826</b>	<b>20,892,934,235</b>

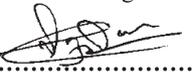
Figures in brackets indicate deductions.

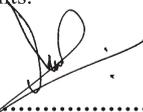
The accounting policies and notes on pages 06 to 36 form an integral part of these Financial Statements.

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

  
 .....  
**Mr. 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 19.02.2021

  
 .....  
**Mr. L. B. Wickramasinghe**  
**Chairman**

  
 .....  
**Mr. G. A. Aruna Prasanna**  
**Director**



# MILCO (PVT) LTD.

## STATEMENT OF COMPREHENSIVE INCOME

### FOR THE YEAR ENDED 31ST DECEMBER, 2018

	Note	For the Year Ended 31 <sup>st</sup> December, 2018 Rs.	For the Year Ended 31 <sup>st</sup> December, 2017 Rs.
Revenue	20	11,612,344,021	10,161,297,363
Cost of Sales		(11,385,405,568)	(9,816,602,389)
<b>Gross Profit</b>		226,938,453	344,694,974
Other Operating Income	21	366,304,291	363,516,040
		593,242,745	708,211,015
Administrative Expenses		(640,583,272)	(675,736,219)
Distribution Expenses		(475,008,669)	(351,383,353)
Other Expenses		(18,071,620)	(84,960,167)
<b>Profit/ (Loss) from Operations</b>		(540,420,816)	(403,868,724)
Finance Income	22	46,135,691	68,268,545
Finance Expenses	23	(189,164,365)	(99,332,951)
<b>Net Loss Before Taxation</b>		(683,449,491)	(434,933,130)
Income Tax Expenses	24	201,663,631	(171,265,774)
<b>Net Loss for the Year after Taxation</b>		(481,785,860)	(606,198,904)
<b>Other Comprehensive Income</b>			
Item that will not be reclassified subsequently to profit or loss:		-	-
Remessurement of Defined Benefit Plan, Net of Taxes		69,273,982	(31,090,295)
<b>Total Other Comprehensive Income Net of Tax</b>		69,273,982	(31,090,295)
<b>Total Comprehensive Income</b>		(412,511,878)	(637,289,198)
Basic Earning/(Loss) Per Share	25	(15.08)	(18.98)

Figures in brackets indicate deductions.

The accounting policies and notes on pages 06 to 36 form an integral part of these Financial Statements.

**MILCO (PVT) LTD.  
STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31ST DECEMBER, 2016**



	<b>Stated Capital Rs.</b>	<b>Capital Reserve Rs.</b>	<b>Revaluation Reserve Rs.</b>	<b>Sinking Fund Rs.</b>	<b>Retained Earnings Rs.</b>	<b>Total Rs.</b>
<b>Balance as at 31st December 2016</b>	319,454,060	25,000,000	336,454,463	1,689,978	1,665,982,437	2,348,580,937
Reversal of Provision for Impairment	-	-	-	-	169,000,000	169,000,000
<b>Restated balance as at 31st December 2016</b>	<u>319,454,060</u>	<u>25,000,000</u>	<u>336,454,463</u>	<u>1,689,978</u>	<u>1,834,982,437</u>	<u>2,517,580,937</u>
Net Profit for the Year	-	-	-	-	(606,198,904)	(606,198,904)
Other Comprehensive Income	-	-	-	-	(31,090,295)	(31,090,295)
<b>Balance as at 31st December 2017</b>	<u>319,454,060</u>	<u>25,000,000</u>	<u>336,454,463</u>	<u>1,689,978</u>	<u>1,197,693,238</u>	<u>1,880,291,738</u>
Net Profit for the Year	-	-	-	-	(481,785,860)	(481,785,860)
Other Comprehensive Income	-	-	-	-	69,273,982.12	69,273,982
<b>Balance as at 31st December 2018</b>	<u><u>319,454,060</u></u>	<u><u>25,000,000</u></u>	<u><u>336,454,463</u></u>	<u><u>1,689,978</u></u>	<u><u>785,181,360</u></u>	<u><u>1,467,779,860</u></u>

Figures in brackets indicate deductions.

The accounting policies and notes on pages 06 to 36 form an integral part of these Financial Statements.



# MILCO (PVT) LTD. CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2018

	As at 31st December, 2018 Rs.	As at 31st December, 2017 Rs.
<b>Cash Flow from Operating Activities</b>		
Net Loss Before Taxation	(683,449,491)	(434,933,130)
Adjustments for ;		
Depreciation on Property, Plant and Equipment	542,428,556	409,914,031
Income from Investment	(46,135,691)	(68,268,545)
Interest Expense	182,496,282	92,475,371
Lease Interest	6,730,089	8,503,419
Recognized Income on Deferred Grants	(19,757,115)	(38,614,634)
Provision for Bad and Doubtful Debts	-	(777,885)
Exchange Gain	(88,548,642)	(9,683,424)
Provision for Defined Benefit Plans - Gratuity	87,046,552	90,080,655
Disposal Gain	(12,600,907)	(9,348,044)
ESC Weitten off	12,434,370	-
<b>Operating Profit Before Working Capital Changes</b>	<u>(19,355,997)</u>	<u>39,347,814</u>
(Increase)/Decrease in Inventories	238,629,532	(895,251,375)
(Increase)/Decrease in Trade and Other Receivables	198,690,823	(155,051,768)
Increase/(Decrease) in Trade and Other Payables	(36,230,360)	179,027,822
<b>Cash Generated from Operations</b>	<u>381,733,998</u>	<u>(831,927,507)</u>
Interest Paid	(182,496,282)	(92,475,371)
Tax Paid - ESC and Income Tax	(60,035,055)	(51,881,194)
Payment of Defined Benefit Plans - Gratuity	(38,582,223)	(42,866,940)
<b>Net Cash From/ (Used In) Operating Activities</b>	<u>100,620,438</u>	<u>(1,019,151,012)</u>
<b>Cash Flow from Investing Activities</b>		
Acquisition of Property, Plant and Equipment	(102,363,192)	(151,058,361)
Investments in Property, Plant and Equipment in the Course of Construction	(1,695,632,797)	(2,812,115,004)
Proceeds from disposal of Assets	12,670,787	9,348,044
Interest Received	46,135,691	68,268,545
New/ (Withdrawal) Short-Term and Long-Term Investment (Net)	(72,298,872)	370,670,156
<b>Net Cash Used In Investing Activities</b>	<u>(1,811,488,384)</u>	<u>(2,514,886,620)</u>
<b>Cash Flow from Financing Activities</b>		
Government Grant Received	4,573,003	20,999,619
Lease Rental Paid	(28,501,283)	(31,021,689)
During the Year Loan Granted	2,239,963,647	2,688,148,110
Loans and Borrowings Repayments	(101,859,626)	(93,579,736)
Adjustment of exchange impact in long term advances	(543,766,109)	-
<b>Net Cash Used In Financing Activities</b>	<u>1,570,409,632</u>	<u>2,584,546,303</u>
<b>Net Increase in Cash and Cash Equivalents</b>	(140,458,314)	(949,491,329)
<b>Cash and Cash Equivalents at the Beginning of the Year (Note A)</b>	(1,092,425,174)	(142,933,845)
<b>Cash and Cash Equivalents at the End of the Year (Note B)</b>	<u>(1,232,883,488)</u>	<u>(1,092,425,174)</u>

**MILCO (PVT) LTD.  
CASH FLOW STATEMENT (CONTD...)  
FOR THE YEAR ENDED 31ST DECEMBER, 2018**



	<b>As at 31st December, 2018 Rs.</b>	<b>As at 31<sup>st</sup> December, 2017 Rs.</b>
<b>At the Beginning of the Year</b>		
Balances at Banks	20,487,923	31,668,018
Petty Cash in Hand	<u>4,260,251</u>	<u>407,350</u>
	24,748,174	32,075,368
Bank Overdrafts	<u>(1,117,173,348)</u>	<u>(175,009,212)</u>
	<u><u>(1,092,425,174)</u></u>	<u><u>(142,933,845)</u></u>
<b>At the End of the Year</b>		
Balances at Banks	13,963,657	20,487,923
Petty Cash in Hand	<u>5,305,601</u>	<u>4,260,251</u>
	19,269,258	24,748,174
Bank Overdrafts	<u>(1,252,152,747)</u>	<u>(1,117,173,348)</u>
	<u><u>(1,232,883,488)</u></u>	<u><u>(1,092,425,174)</u></u>

Figures in brackets indicate deductions.

The accounting policies and notes on pages 06 to 36 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 09<sup>th</sup> 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 23<sup>rd</sup> 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 03<sup>rd</sup> 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 04<sup>th</sup> February, 1998. The value of Net Assets so transferred was Rs.306,500,020/-. Further, as per the letter dated 08<sup>th</sup> 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 Badalbama factory was in progress as of 31<sup>st</sup> December 2018.

### **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 31<sup>st</sup> December, 2018 were authorized for issue in accordance with a resolution of the Board of Directors on 19.02.2021

### **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 31<sup>st</sup> December, 2018 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	03 to 05 years
Laboratory Equipment	03 to 05 years
Motor Vehicles	08 to 15 years
Tools and Equipment	03 to 10 years
Office Equipment	2.5 to 05 years
Bottles and Crates	04 years
Computers	02 to 04 years
Bottle Coolers	2.5 to 05 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 Leases

#### a) Finance Leases – Where the Company is the Lessee

Leases which assume that transfer substantially all the risks and rewards incidental to the ownership are classified as finance leases. Assets acquired by way of a finance lease are measured at an amount equal to the lower of their fair value or the present value of minimum lease payments at the inception less accumulated depreciation and accumulated impairment losses.

The corresponding principal amount payable to the lessor is shown as a liability. The finance charges allocated to future periods are separately disclosed in the notes.

The interest element of the rental obligation applicable to each financial year is charged to the statement of comprehensive income over the period of the lease so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The cost of improvements to, or on leased property is capitalized, and depreciated over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is shorter.

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 amortized over the lease term.

#### b) Operating Leases

Leases where the lessor effectively retains substantially all the risks and rewards of an asset under the leased term, are classified as operating leases.

Lease payments (excluding cost of service such as insurance and maintenance) paid under operating leases are recognized as an expense in the statement of comprehensive income over the period of the lease on a straight line basis.

### 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.

#### (a) Defined Benefit Plans – Gratuity – (Contd..)

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 comprises the fair value of the consideration received or receivable for the services rendered in the ordinary course of the company activities. Revenue is recorded at invoiced value net of brokerage, selling expenses and other levies related to turnover.

**(a) Sale of Goods**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the company and the revenue and associated costs incurred can be reliably measured. Revenue is measured at fair value of the consideration received or receivable net of trade discounts and sales taxes. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably.

**(b) Interest Income**

Interest income is recognized using the effective interest method.

**(c) Dividend Income**

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

**(d) 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. EFFECT OF SRI LANKA ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE**

The standards and interpretations that are issued but not yet effective up to the date of issuance of the company's financial statements are disclosed below. The company intends to adopt these standards, if applicable, when they become effective.

**i) SLFRS 9 - Financial Instruments**

SLFRS 9 reflects the replacement of LKAS 39 and applies to classification and measurement, impairment and hedge accounting of financial assets and Liabilities.

SLFRS 9 will change the below:

- New impairment requirements for all financial assets that are not measured at fair value through profit or loss
- Amendments to the previously finalised classification and measurement requirements for financial assets

Under SLFRS 9, the impairment model is a more 'forward looking' model in that a credit event no longer has to occur before credit losses are recognised. For financial assets measured at amortised cost or fair value through other comprehensive income (FVTOCI), an entity will now always recognise (at a minimum) 12 months of expected losses in profit or loss. Lifetime expected losses will be recognised on these assets when there is a significant increase in credit risk after initial recognition.

In other changes, SLFRS 9 also introduces additional application guidance to clarify the requirements for contractual cash flows of a financial asset to be regarded as giving rise to payments that are Solely Payments of Principal and Interest (SPPI).

A third measurement category has also been added for debt instruments – FVTOCI, which applies to debt instruments that meet the SPPI contractual cash flow characteristics test and where the entity is holding the debt instrument to both collect the contractual cash flows and to sell the financial assets.

This standard will be effective for the financial period beginning on or after 01st January, 2018.

The first time application of SLFRS 9 has a wide and potentially very significant impact on the accounting for financial instruments. The new impairment requirements are likely to bring significant changes for impairment provisions for Loans and Advances, Lease Rental receivables, hire purchases and other financial assets not measured at fair value through profit or loss.

The company has not yet made a detailed assessment of the impact of this standard.

**ii) SLFRS 15 - Revenue from Contracts with Customers**

An entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This means that revenue will be recognised when control of goods or services is transferred, rather than on transfer of risks and rewards as it is currently the case under LKAS 18 Revenue. To accomplish this, SLFRS 15 requires the application of a five-step model:

1. Identify the contract,
2. Identify the performance obligations,
3. Determine the transaction price,
4. Allocate the transaction price to each performance obligation,
5. Recognise revenue when each performance obligation is satisfied.

This standard will be effective for the financial period beginning on or after 01<sup>st</sup> January, 2018.

The company has not yet made a detailed assessment of the impact of this standard.

**iii) The following new accounting standards and amendments to existing standards are not expected to have an impact to the financial statements,**

- Agriculture: Bearer Plants (Amendments to LKAS 16 on ‘Property ,Plants and Equipment’ and LKAS 41 on ‘agriculture’)- Effective date- 01<sup>st</sup> January, 2016.
- Regulatory Deferral Assets- SLFRS 14- Effective date 01<sup>st</sup> January, 2016

### 3. PROPERTY, PLANT AND EQUIPMENT

#### a) Tangible assets

Description of Assets	Balance		Additions		Cost/Valuation		Transfers		Balance		Depreciation		Balance		Written Down Value		
	As At		Rs.		Disposals		Rs.		As At		Charge		As At		As At		
	01.01.2018	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	01.01.2018	Rs.	for the Year	Rs.	31.12.2018	Rs.	01.01.2018	Rs.	31.12.2018
<b>Freehold</b>	3,250,000	-	-	-	-	-	-	-	-	-	-	-	-	-	3,250,000	3,250,000	
Land	502,378,146	4,966,960	507,345,106	86,972,555	42,052,339	86,972,555	42,052,339	129,024,894	415,405,591	378,320,212							
Buildings	7,353,588,196	21,998,822	7,375,587,018	1,132,022,157	399,296,354	34,485,283	3,024,324	37,509,607	6,221,566,039	5,844,268,507							
Plant and Machinery	43,358,988	2,528,673	45,887,661	77,485,874	45,940,662	53,179,696	23,381,537	8,873,705	8,873,705	8,378,053							
Furniture and Fittings	69,322,199	8,163,675	77,485,874	102,100,902	5,091,978	10,950,000	(435,320)	96,242,880	858,570								
Laboratory Equipment	101,665,582	16,974,117	322,203,703	220,131,163	24,181,457	244,312,620	81,887,674	77,891,084	46,640,718								
Motor Vehicles	302,018,837	16,146,479	349,496,153	283,483,001	19,438,234	302,855,435	49,932,473	6,828,738	15,866,532								
Tools and Equipment	333,415,474	14,727,254	48,134,443	125,558,840	13,254,959	138,813,799	14,184,566	9,820,840									
Bottles and Crates	33,525,690	8,891,232	9,964,767	6,604,738	939,739	7,050,391	2,593,882	2,914,376									
Computer Equipment	139,743,407	1,330,113	80,176,804	51,853,396	6,957,624	58,811,020	28,323,408	21,365,784									
Bottle Coolers	9,198,620																
Office Equipment	80,176,804																
Milk Cans	8,971,641,942	102,113,192	(11,698,266)	3,210,749	9,065,267,617	2,631,386,764	6,855,792,294	6,433,880,853									
<b>Intangible Assets</b>	2,587,209	250,000	2,837,209	2,587,209	45,662	2,632,871	204,338										
Computer Software	70,650,958	-	75,245,958	42,612,923	15,217,391	57,830,315	28,038,035	17,415,643									
Motor Vehicles																	
<b>Total</b>	<u>9,044,880,109</u>	<u>102,363,192</u>	<u>(11,698,266)</u>	<u>7,805,749</u>	<u>9,143,350,784</u>	<u>2,161,049,781</u>	<u>542,428,556</u>	<u>(11,628,386)</u>	<u>2,691,849,950</u>	<u>6,883,830,328</u>	<u>6,451,500,834</u>						

#### 11.1 Revaluation

Milco (Pvt) Ltd revalued its assets except for Buildings, Bottles and Crates, Computer Software, Milk Cans in April, 2008 at an aggregated value of Rs.500,409,271/= by Mr. S.N. Wijepala, Chartered Valuation Surveyor (Dip in Valuation CT, B.Sc. Estate Management, M.S.C-Urban Land Appraisal). The surplus on revaluation amounting to Rs. 336,454,462/- had been credited to revaluation account. Since the revaluation reserve was accounted as at 31<sup>st</sup> March, 2009 there is an impact on depreciation charge thereafter.

	Balance	Incurring	Capitalized	Balance
	As At	During the	During the	As At
01.01.2018	Rs.	Period	Period	31.12.2018
	Rs.	Rs.	Rs.	Rs.
<b>4. CAPITAL WORK-IN-PROGRESS</b>				
Construction of New Milk Factory - Badalgama (Refer Note 15) *	8,605,330,033	2,352,615,466	-	10,957,945,499
Construction of Gatabe Sales Outlet	150,000	-	-	150,000
Installation of Cup & Cone Filler - DMF	15,445,587	-	-	15,445,587
Modernization of Factories- Polonnaruwa, Ambewela and Digana (Refer Note 15) *	790,264,562	-	-	790,264,562
Development Projects- SDMF	34,737,659	36,604,903	-	71,342,562
Establishment of Generators at Chilling Centres	2,995,192	215,557	3,210,749	-
Construction of Cool Room at Polonnaruwa Milk Factory	8,991,714	2,386,386	-	11,378,100
Pro- Fit Management Information System Implementation	697,425	1,874,345	-	2,571,770
Construction of Chilling Centre- Palathoppur	-	26,190	-	26,190
Lorry Chassis Under Development	-	49,925,756	4,595,000	45,330,756
	<u>9,458,612,172</u>	<u>2,443,648,604</u>	<u>7,805,749</u>	<u>11,894,455,027</u>

**4. CAPITAL WORK-IN-PROGRESS**

Construction of New Milk Factory - Badalgama (Refer Note 15) \*

Construction of Gatabe Sales Outlet

Installation of Cup & Cone Filler - DMF

Modernization of Factories- Polonnaruwa, Ambewela and Digana (Refer Note 15) \*

Development Projects- SDMF

Establishment of Generators at Chilling Centres

Construction of Cool Room at Polonnaruwa Milk Factory

Pro- Fit Management Information System Implementation

Construction of Chilling Centre- Palathoppur

Lorry Chassis Under Development

**4.1** As detailed in note no 15 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.

**4.2** Developments carried at Ambewela milk factory including "Power Expansion System, Construction of Water Tank and Refrigeration plant, Construction of Equilization tank, Establishment of new generators".

	As at 31 <sup>st</sup> December, 2018 Rs.	As at 31 <sup>st</sup> December, 2017 Rs.
<b>5 FINANCIAL INSTRUMENT - AMORTISED COST</b>		
<b>5.1 Long-Term Fixed Deposits</b>		
Fixed Deposits - BOC - US \$	559,058,332	450,713,349
Fixed Deposits - PB & PABC	210,205,108	157,702,578
	769,263,440	608,415,927

Investments pledged as collaterals to obtain various financial assistance from the financial institutions are disclosed in note no. 30 to these financial statements.

**6 LONG TERM ADVANCES**

**Advance to DESMI - Relocate CMF to Badalgama**

Balance at the beginning of the year	560,536,942	1,757,139,993
Adjustment of exchange impact	543,766,109	-
Transferred to Capital Work in Progress	(748,015,807)	(1,196,603,051)
Balance at the end of the year	356,287,245	560,536,942

As detailed in note no 15 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)

**7 INVENTORIES**

Raw and Packing Materials	<b>7.1</b>	387,696,803	295,998,200
Work-in-Progress		2,989,381	3,573,094
Finished Goods		677,601,473	1,001,950,179
Consumables	<b>7.2</b>	441,729,431	422,502,449
Goods in Transit	<b>7.3</b>	7,813,624	32,436,322
Provision for Inventory	<b>7.4</b>	(12,096,362)	(12,096,362)
		1,505,734,350	1,744,363,882

**7.1 Raw and Packing Materials**

Raw Materials - Dairy Production	82,419,493	59,506,743
Packing Material	274,243,365	207,123,703
Raw Milk Stock	23,997,441	22,331,251
Bottle Cooler Stock	3,496,313	3,496,313
Drugs and Other Stock	3,540,190	3,540,190
	387,696,803	295,998,200

		<b>As at 31st December, 2018 Rs.</b>	<b>As at 31<sup>st</sup> December, 2017 Rs.</b>
<b>7.2 Consumables</b>			
General Stores		50,418,442	49,306,886
Engineering Stores		339,872,187	327,250,702
Motor Stores		12,570,054	13,233,088
Fuel and Lubricant Stores		29,839,877	23,682,902
Milk Can Stock		9,028,871	9,028,871
		<u>441,729,431</u>	<u>422,502,449</u>
<b>7.3 Goods In Transit</b>			
Finished Goods in Transit		4,837,300	27,098,611
Goods in Transit Lab Equipment		125,798	157,789
Raw Milk In Transit		2,755,326	4,310,023
Yogurt Culture		95,200	869,899
		<u>7,813,624</u>	<u>32,436,322</u>
<b>7.4 Provision For Inventory</b>			
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)
		<u>(12,096,362)</u>	<u>(12,096,362)</u>
<b>7.5</b>	Inventories pledged as collaterals to obtain various financial assistance from the financial institutions are disclosed in Note No. 30 to these financial statements.		
<b>8 TRADE AND OTHER RECEIVABLES</b>			
Trade Receivables	<b>8.1</b>	832,713,150	768,218,016
Receivable from the Government of Sri Lanka	<b>8.2</b>	6,973,875	239,481,699
Other Debtors		67,564,460	113,981,755
Advances, Deposits and Prepayments		151,382,104	162,998,941
Staff Debtors		161,602,135	159,157,724
Import Control		68,197,709	53,064,336
		<u>1,288,433,433</u>	<u>1,496,902,471</u>

	As at 31st December, 2018 Rs.	As at 31 <sup>st</sup> December, 2017 Rs.
<b>8.1 Trade Receivables</b>		
Total Debtors	883,626,774	819,131,640
Less: Provision for Impairment	(50,913,625)	(50,913,625)
	<u>832,713,150</u>	<u>768,218,016</u>
<b>8.2 Receivable from the Government of Sri Lanka</b>		
Receivable from the Ministry of Livestock and Development	6,879,542	6,879,542
Receivable from Government of Sri Lanka - Milk Subsidiary	278,981,206	512,037,806
Receivable from Parliament Affairs	94,333	94,333
	<u>285,955,081</u>	<u>519,011,681</u>
Less: Provision for Impairment	(278,981,206)	(279,529,982)
	<u>6,973,875</u>	<u>239,481,699</u>
<b>9 INCOME TAX RECEIVABLE</b>		
WHT Receivables	6,925,129	4,985,326
ESC Receivables	165,978,111	119,627,771
Payable to Department of Inland Revenue	-	(9,088,758)
	<u>172,903,239</u>	<u>115,524,339</u>
<b>10 CASH AND CASH EQUIVALENTS</b>		
Balances at Banks	13,963,657	20,487,923
Petty Cash in Hand	5,305,601	4,260,251
	<u>19,269,258</u>	<u>24,748,174</u>
<b>11 STATED CAPITAL</b>		
Issued and fully paid	No of Shares 31,945,406	319,454,060
		<u>319,454,060</u>
<b>12 CAPITAL RESERVE</b>		
<b>12.1</b> 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.



	<b>As at 31st December, 2018 Rs.</b>	<b>As at 31<sup>st</sup> December 2017 Rs.</b>
<b>13 SINKING FUND</b>		
Transferred from Retained Earnings	1,689,978	1,689,978
	<u>1,689,978</u>	<u>1,689,978</u>
<p>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.</p>		
<b>14 DEFERRED TAX LIABILITY</b>		
At the Beginning of the Year	190,386,471	31,663,933
Charge (to)/from Statement of Comprehensive Income	(190,386,471)	158,722,538
At the End of the Year	<u>-</u>	<u>190,386,471</u>
<b>14.1</b> Tax effect on Temporary Difference on Property, Plant and Equipment	589,435,761	271,489,594
Tax effect on Temporary Difference on Retirement Benefit Obligations	(73,823,134)	(55,939,491)
<b>Less:</b> Tax effect on Temporary Differences on Tax Losses	(704,424,211)	(25,163,632)
Probable Deferred Tax Liability	<u>(188,811,584)</u>	<u>190,386,471</u>
<p>Deferred tax assets amounting to LKR 188,811.584 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.</p>		
<b>15 LOANS AND BORROWINGS</b>		
<b>15.1 Interest Bearing Borrowings</b>		
Payable within One Year <b>15.1.1, 15.1.2 and 15.1.3</b>	123,568,773	123,944,715
Payable after One Year <b>15.1.1, 15.1.2 and 15.1.3</b>	18,202,111,219	16,085,402,450
	<u>18,325,679,992</u>	<u>16,209,347,165</u>
<b>15.1.1 Gross Lease Creditor</b>		
Balance at the Beginning of the Year	77,273,391	47,486,937
During the Year Additions	-	60,808,143
During the Year Payments	(28,501,283)	(31,021,689)
Balance at the end of the Year	<u>48,772,108</u>	<u>77,273,391</u>
<b>Interest in Suspense</b>		
Balance at the Beginning of the Year	12,590,628	7,736,698
On Lease Facility Obtained During the Year	-	13,357,349
Amount Transferred to Statement of Comprehensive Income	(6,730,089)	(8,503,419)
Balance at the End of the Year	<u>5,860,539</u>	<u>12,590,628</u>
Net Liability	<u>42,911,569</u>	<u>64,682,763</u>
Current Maturity Portion	23,549,207	21,771,032
Long-Term Maturity Portion	19,362,363	42,911,731
	<u>42,911,569</u>	<u>64,682,763</u>

	<b>As at 31st December, 2018 Rs.</b>	<b>As at 31<sup>st</sup> December 2017 Rs.</b>
<b>15.1.2 Bank Loans and Borrowings</b>		
Balance at the Beginning of the Year	363,545,693	337,125,429
Received During the Year	100,000,000	120,000,000
<b>Less:</b> During the Year Payments	<u>(101,859,626)</u>	<u>(93,579,736)</u>
Balance at the End of the Year	361,686,067	363,545,693
Current Maturity Portion	100,019,567	102,173,684
Long-Term Maturity Portion	<u>261,666,500</u>	<u>261,372,009</u>
	<u>361,686,067</u>	<u>363,545,693</u>

Assets pledged as collaterals to above loans and borrowings are disclosed in note no. 30 to these financial statements.

**15.1.3 Borrowings From Treasury of The Government of Sri Lanka**

Balance at the Beginning of the Year	15,781,118,709	13,212,970,600
Granted During the Year	<u>2,139,963,647</u>	<u>2,568,148,110</u>
Balance at the End of the Year	17,921,082,356	15,781,118,709
Current Maturity Portion	-	-
Long-Term Maturity Portion	<u>17,921,082,356</u>	<u>15,781,118,709</u>
	<u>17,921,082,356</u>	<u>15,781,118,709</u>

- (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.

- 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 2,274,016.40 is payable up-front as EKF Premium.
- iii. Overdue charges at 2% per annum, in the event of default of payments.

- (b) Milco (Pvt) Limited, on 15<sup>th</sup> 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 17<sup>th</sup> 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.

As at 31st December 2018, the project was in progress, 43 shipments have been arrived to the location for a value of EURO 36,630,705.55 (100% of the shipment value) and 14 milestone payments were released to the contractor amounting to EURO 21,721,006.23

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, 2018 Rs.	As at 31st December, 2017 Rs.
<b>15.2 Non-Interest Bearing Borrowings</b>		
<b>Long-Term Portion</b>		
National Milk Board	2,108,063	2,108,063
	<u>2,108,063</u>	<u>2,108,063</u>
<b>16 RETIREMENT BENEFIT OBLIGATION - GRATUITY</b>		
Balance at the Beginning of the Year	559,394,914	477,636,427
Current Service Cost	29,093,239	32,238,884
Interest Cost	57,953,313	57,841,771
(Gain)/ Loss from Changes in Assumption	(80,551,142)	34,544,772
Payment Made During the Year	<u>(38,582,223)</u>	<u>(42,866,940)</u>
Balance at the End of the Year	<u>527,308,101</u>	<u>559,394,914</u>

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 31<sup>st</sup> December, 2018. 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	11.73% 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 Comprehensive Income Rs.	Effect on Employee Benefit Obligation Rs.
1%	*	33,318,218	493,989,883
-1%	*	(37,391,849)	564,699,950
**	1%	(40,077,886)	567,385,987
**	-1%	36,237,117	491,070,984

\* Salary Increment Rate 10% for the Company

\*\* Discount Rate 11.73%

	<b>As at 31st December, 2018 Rs.</b>	<b>As at 31st December, 2017 Rs.</b>
<b>17 GOVERNMENT GRANT</b>		
<b>17.1</b>		
Balance at the Beginning of the Year	56,896,504	74,511,519
Grant Received During the Year	4,573,003	20,999,619
Grant Recognized to the Statement of Comprehensive Income During the Year	(19,757,115)	(38,614,634)
Balance at the End of the Year	<u>41,712,392</u>	<u>56,896,504</u>
<b>17.2 Deferred Government Grant</b>		
Grant of Samanthurai	910,000	1,055,600
Grant of Thimilathive	1,125,000	1,305,000
Grant of Milk Cans	114,392	114,392
Grant of 14 Sales Outlets	618,750	693,750
Grant of LCRD	17,335,969	25,796,073
Grant of Cooling tanks	16,982,502	27,878,913
Grant of Electric Grass Cutters	52,776	52,776
Grants of Coolers	4,573,003	-
	<u>41,712,392</u>	<u>56,896,504</u>
<b>18 TRADE AND OTHER PAYABLES</b>		
Trade Creditors	261,537,239	231,428,134
Expense Creditors	237,010,677	221,904,432
Other Payables	342,557,755	424,003,465
	<u>841,105,671</u>	<u>877,336,031</u>
<b>19 BANK OVERDRAFTS</b>		
Bank of Ceylon - 1758	725,746,361	740,585,869
Bank of Ceylon - 1766	6,861,252	29,994,721
People's Bank - 41180210331	203,436,653	134,847,090
People's Bank - 41120210937	28,474,311	37,625,440
Bank of Ceylon - 1471	-	2,062,198
People's Bank - Polgahawela	3,380,062	94,117
BOC - Kandy City Branch - 9326	711,964	7,156,213
Bank of Ceylon - Nuwara Eliya	-	11,395,285
People's Bank - 210332	15,108,872	-
Bank of Ceylon	93,622	93,622
Pan Asia 100311007597	257,935,810	153,318,794
Bank of Ceylon - 7863	1,918,545	-
People's Bank - Kaduruwela	8,485,295	-
	<u>1,252,152,747</u>	<u>1,117,173,348</u>



# MILCO (PVT) LTD.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2018

	For the Year Ended 31st December, 2018 Rs.	For the Year Ended 31st December, 2017 Rs.
<b>20 REVENUE</b>		
Gross Sales	11,849,851,230	10,368,822,141
Nation Building Tax	(237,507,209)	(207,524,778)
	11,612,344,021	10,161,297,363
<b>21 OTHER INCOME</b>		
Surcharges on Returned Cheques	11,213,726	2,715,597
Non Refundable Deposit	142,000	114,800
Non Refundable tender Deposit	1,395,837	1,135,426
Subsidy on Milk Powder Sales	212,222,190	293,934,010
Differed Income	19,757,115	38,614,634
Registration of Suppliers	2,881,000	2,399,371
Sundry Income	231,951	370,665
Exchange Gain	88,548,642	9,683,424
Fines & Surcharges	645,893	737,050
House Rent	1,421,552	1,177,920
Sale of Stud Bulls	-	1,175,798
Sale of Unserviceable Items	1,306,862	1,868,455
Disposal gain	12,600,907	9,348,044
Outlet Income	-	123,000
Margin on Liquid Milk Sale	13,936,616	117,848
	366,304,291	363,516,040
<b>22 FINANCE INCOME</b>		
Interest on Call/Fixed Deposit - Local	18,586,884	43,164,271
Interest on Fixed Deposit - Foreign Currency (USD)	20,727,052	18,330,314
Interest on Staff Loans	6,821,755	6,773,960
	46,135,691	68,268,545
<b>23 FINANCE COSTS</b>		
Interest on Finance Lease	6,668,083	6,857,580
Interest on Loans	38,063,199	46,581,345
Interest on Bank Overdrafts	144,433,083	45,894,026
	189,164,365	99,332,951

		<b>For the Year Ended 31st December, 2018 Rs.</b>	<b>For the Year Ended 31st December, 2017 Rs.</b>
<b>24 INCOME TAX EXPENSES</b>			
Current Income Tax Provision	<b>24.1</b>	-	9,088,758
Deferred Tax Charge for the Year	<b>14</b>	(190,386,471)	158,722,538
Deferred Tax Charge against other comprehensive income		(11,277,160)	3,454,477
		<u>(201,663,631)</u>	<u>171,265,774</u>
<b>24.1 Accounting Profit Before Taxation</b>		(683,449,491)	(434,933,130)
<b>Less:</b> Income Considered Separately		(134,684,332)	157,000
Profit from Trade or Business		(818,133,823)	116,000
<b>Less:</b> Net allowable and Disallowable Expenses for Tax Purpose		(1,450,464,440)	(2,185,945,259)
Business (Loss)/Profit Applicable Taxation		-	-
Tax Rate		14%	10%
Exempt Other Income		-	18,330,314
Liable Other Income		134,684,332	49,938,231
Tax Rate		14%	28%
Tax on Chargeable Profit or Income		13,982,705	13,982,705
Tax Effect on Deductions		(13,982,705)	(4,893,947)
Provision for the Year (Tax on Adjusted Income)		<u>-</u>	<u>9,088,758</u>

**25 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.

	<b>2018 Rs.</b>	<b>2017 Rs.</b>
Net Profit/(loss) Attributable to Ordinary Shares	(481,785,860)	(606,198,904)
Weighted Average Number of Ordinary Share	31,945,406	31,945,406
	<u>(15.08)</u>	<u>(18.98)</u>

**25.1 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.

**26 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.

**27 CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

**27.1 Contingent Liabilities**

There are no contingent liabilities as at the reporting date.

**27.2 Contingent Assets**

There are no contingent assets as at the reporting date.

**28 RELATED PARTY DISCLOSURE**

**28.1 Substantial Shareholding and Ultimate Ownership**

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

**28.2 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:

	<b>For the Year Ended 31st December, December 2018</b>	<b>For the Year Ended 31st December, December 2017</b>
Short-term employee benefits	5,545,434	4,520,000

**28.3 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.

**29 COMPARATIVE INFORMATION**

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

30 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 31.12.2018 Rs.	Balance Outstanding As At 31.12.2017 Rs.	Repayment	Assets Pledged
Loan granted by Bank of Ceylon	700,000,000	186,666,520	256,666,540	Repayable in 120 equal monthly instalments of Rs.5,833,335/-	Fixed Deposits Amounting US\$ 2,920,652.78 of Bank of Ceylon.
Loan granted by Bank of Ceylon	120,000,000	75,000,000	105,000,000	Repayable in 48 equal monthly instalments of Rs.2,500,000/-	Fixed Deposits Amounting US\$ 2,920,652.78 of Bank of Ceylon.
Loan granted by Central Finance	12,484,000	19,547	1,305,155	Repayable in 60 monthly instalments of Rs.319,586/- at the first 48 months and Rs. 4,998/- per month for the rest.	Linear ice cream cup and cone filler with accessories
Loan granted by Central Finance	16,834,500	-	28,832	Repayable in 60 monthly instalments of Rs.454,512/- at the first 48 months and Rs. 5,000/- per month for the rest.	Yoghurt cup filler Fill matic 8000 - YS302 - 8
Loan granted by Central Finance	7,528,750	-	800,551	Repayable in 48 equal monthly instalments of Rs.205,735/-	Toyota Vanguard Jeep
Bank Overdraft facility provided by Bank of Ceylon	600,000,000	597,682,334	596,431,527	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	139,500,000	181,026,572	125,829,779	On Demand	Fixed deposit amounting to Rs. 155,000,000 of People's Bank.
Post Dated Cheque discounting facility provided by Bank of Ceylon	75,000,000	85,545	29,994,721	On Demand	Lodgment of Trade related Post dated Cheques.
Post Dated Cheque discounting facility provided by Pan Asia Bank	150,000,000	75,805,603	15,501,637	On Demand	Lodgment of Trade related Post dated Cheques.

**31 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 are authorized for issue that require adjustments to, or disclosures in the Financial Statements.

**32 FAIR VALUE OF FINANCIAL INSTRUMENTS**

**32.1 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.

	<b>Carrying Amount Rs.</b>	<b>Fair Value Rs.</b>
<b>Financial Assets</b>		
Financial Instrument - Amortised cost	769,263,440	769,263,440
Trade and Other Receivables	1,068,853,620	1,068,853,620
Cash and Cash Equivalents	19,269,258	19,269,258
<b>Total Financial Assets</b>	<b>1,857,386,318</b>	<b>1,857,386,318</b>
<b>Financial Liabilities</b>		
Trade and Other Payables	841,105,671	841,105,671
Interest Bearing Loans and Borrowings	361,686,067	361,686,067
Payable to the Treasury of Government of Sri Lanka	17,921,082,356	17,921,082,356
Bank Overdraft	1,252,152,747	1,252,152,747
<b>Total Financial Liabilities</b>	<b>20,376,026,841</b>	<b>20,376,026,841</b>

**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.

**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.



### 33 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

#### 33.1 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

#### 33.2 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.

### 33.3 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.

#### 33.3.1 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

Company	On Demand Rs.	Less than 2 Months Rs.	2 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Financial Instrument - Held to Maturity	-	-	-	769,263,440	-	769,263,440
Trade and Other Receivables	-	1,068,853,620	-	-	-	1,068,853,620
Cash and Cash Equivalents	19,269,258	-	-	-	-	19,269,258
<b>Total Financial Assets</b>	<u>19,269,258</u>	<u>1,068,853,620</u>	<u>-</u>	<u>769,263,440</u>	<u>-</u>	<u>1,857,386,318</u>
<b>Financial Liabilities</b>						
Trade and Other Payables	-	841,105,671	-	-	-	841,105,671
Interest Bearing Loans and Borrowings	-	20,843,030	104,176,501	236,666,536	-	361,686,067
Payable to the Treasury of Government of Sri Lanka	-	-	-	-	17,921,082,356	17,921,082,356
Bank Overdraft	1,252,152,747	-	-	-	-	1,252,152,747
<b>Total Financial Liabilities</b>	<u>1,252,152,747</u>	<u>861,948,701</u>	<u>104,176,501</u>	<u>236,666,536</u>	<u>17,921,082,356</u>	<u>20,376,026,841</u>
<b>Total Net Financial Assets/ (Liabilities)</b>	<u>(1,232,883,489)</u>	<u>206,904,919</u>	<u>(104,176,501)</u>	<u>532,596,904</u>	<u>(17,921,082,356)</u>	<u>(18,518,640,522)</u>

### 33.4 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.

### 34 RESTATEMENT OF PROVISIONS FOR IMPAIRMENT- RECEIVABLE FROM THE GOVERNMENT OF SRI LANKA

The company had recognised an accumulated receivable amounting to Rs.495,543,106 as receivable from government of Sri Lanka-Milk Subsidiary, in the financial statements for the year ended 31st December 2016. Due to uncertainty of realisation of such receivables, an impairment had been recognised amounting to Rs.447,981,206 against such receivables.

However, part of such receivables recognised as impaired, Rs.169,000,000 has been realised during the financial year ended 31st December 2018. In accordance with the criteria set out in LKAS 01- Presentation of Financial Statements, the amount has been adjusted retrospectively to provide a better presentation;

	As disclosed in 31.12.2016 Rs.	Re-classified in 31.12.2016 Rs.	Adjustment Rs.
<b>STATEMENT OF FINANCIAL POSITION</b>			
Retained Earnings	1,834,982,437	2,003,982,437	169,000,000
Provision for Impairment (Receivable from the Government of Sri Lanka)	448,529,982	279,529,982	(169,000,000)

**MILCO (PVT) LTD.**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 31ST DECEMBER, 2018**



		<b>For the Year Ended 31st December, 2018 Rs.</b>	<b>For the Year Ended 31<sup>st</sup> December, 2017 Rs.</b>
Revenue		11,612,344,021	10,161,297,363
Cost of Sales	<b>I</b>	<u>(11,385,405,568)</u>	<u>(9,816,602,389)</u>
<b>Gross Profit</b>		226,938,453	344,694,974
Other Operating Income	<b>II</b>	<u>366,304,291</u>	<u>363,516,040</u>
		593,242,745	708,211,015
Administrative Expenses	<b>III</b>	(640,583,272)	(675,736,219)
Distribution Expenses	<b>IV</b>	(475,008,669)	(351,383,353)
Other Expenses	<b>V</b>	<u>(18,071,620)</u>	<u>(84,960,167)</u>
<b>Profit/ (Loss) from Operations</b>		(540,420,816)	(403,868,724)
Finance Income	<b>VI</b>	46,135,691	68,268,545
Finance Expenses	<b>VII</b>	<u>(189,164,365)</u>	<u>(99,332,951)</u>
<b>Net Profit/ (Loss) Before Taxation</b>		(683,449,491)	(434,933,130)
Income Tax Expenses		201,663,631	(171,265,774)
<b>Net Profit/(Loss) for the Year after Taxation</b>		<u><u>(481,785,860)</u></u>	<u><u>(606,198,904)</u></u>



# MILCO (PVT) LTD.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER, 2018

	<b>For the Year Ended 31st December, 2018 Rs.</b>	<b>For the Year Ended 31<sup>st</sup> December, 2017 Rs.</b>
<b>I. COST OF SALES</b>		
Cost of Purchase of Raw Milk	6,254,217,942	6,337,508,675
Chilling Cost	421,442,468	433,807,487
Development Cost	288,963,699	245,314,955
Bowser Cost	294,113,152	242,105,632
Net Stock Adjustments on Raw Materials	605,463	(916,412)
Cost of Other Raw Materials	968,969,461	905,256,658
Total Cost of Raw Materials	8,228,312,184	8,163,076,994
Cost of Packing Materials	1,131,363,981	992,639,946
Cost of Processing and Packing Labor	470,948,130	436,930,435
Prime Cost	9,830,624,295	9,592,647,376
Energy Cost		
Furnace Oil	377,083,401	357,587,138
Electricity	132,079,297	134,147,733
Diesel	98,022,919	74,229,267
Water	25,782,779	18,300,164
Other Energy Cost	56,439	34,587
Total Energy Cost	633,024,835	584,298,889
Other Consumables		
Lab Chemicals	11,693,558	17,654,989
Detergent & Cleaning Material	66,220,434	39,229,898
Wages and Staff Welfare of Factory Staff	279,215,650	307,752,465
Marginal Cost	10,820,778,773	10,541,583,617
Factory Overheads		
Depreciation of Plant and Machinery	459,494,249	333,646,110
Repairs and Maintenance of Plant and Machinery	195,496,533	165,412,895
Repairs and Maintenance of Buildings	22,053,156	21,700,335
Transport	2,128,738	620,869
Insurance	29,049,708	24,361,620
Total Factory Overheads	708,222,383	545,741,829
Total Cost of Production	11,529,001,156	11,087,325,446
Net Stock/ Transfer Adjustments on Finish Goods	(224,449,597)	(1,270,686,661)
Adjustment for Changes in Actuary Assumption	80,551,142	-
Unrealised profit adjustment	302,867	(36,396)
	11,385,405,568	9,816,602,389



	<b>For the Year Ended 31st December, 2018 Rs.</b>	<b>For the Year Ended 31<sup>st</sup> December, 2017 Rs.</b>
<b>II. OTHER INCOME</b>		
Surcharges on Returned Cheques	11,213,726	2,715,597
Non Refundable Deposit	142,000	114,800
Non Refundable tender Deposit	1,395,837	1,135,426
Subsidy on Milk Powder Sales	212,222,190	293,934,010
Differed Income	19,757,115	38,614,634
Registration of Suppliers	2,881,000	2,399,371
Sundry Income	231,951	370,665
Exchange Gain	88,548,642	9,683,424
Fines & Surcharges	645,893	737,050
House Rent	1,421,552	1,177,920
Sale of Stud Bulls	-	1,175,798
Sale of Unserviceable Items	1,306,862	1,868,455
Disposal gain	12,600,907	9,348,044
Outlet Income	-	123,000
Margin on Liquid Milk Sale	13,936,616	117,848
	<u>366,304,291</u>	<u>363,516,040</u>
<b>III. PERSONNEL EXPENSES</b>		
Staff Salaries	225,812,029	233,680,496
Staff Allowances	18,625,959	19,106,941
Contributions to Employees' Provident Fund	20,783,117	22,596,727
Contributions to Employees' Trust Fund	5,205,863	5,648,295
Provision for Defined Benefit Plans - Gratuity	903,430	32,092,921
Overtime	12,065,910	13,027,471
Staff Bonus	10,276,133	8,950,045
Casual Wages	2,931,757	1,000,698
Overtime	23,800	46,716
E.P.F.	12,443	21,287
E.T.F.	3,111	5,322
Incentives	1,315,510	1,465,341
Leave Payment	14,624,543	13,675,630
Transport Allowance	3,192,222	383,450
Fuel Allowances	1,563,935	1,145,012
Staff Training	1,113,450	1,171,763
Medical expenses	2,408,865	1,653,814
Death Donation	150,000	755,895
Gift Vouchers	364,146	362,985
Staff Welfare	13,926,488	14,139,460
Mid day Allowance	490,721	298,626
Field Allowance	562,050	285,250
Uniform	54,157	13,370
Telephone Allowances	195,166	185,670
	<u>336,604,805</u>	<u>371,713,182</u>

	<b>For the Year Ended 31st December, 2018 Rs.</b>	<b>For the Year Ended 31<sup>st</sup> December, 2017 Rs.</b>
<b>III.I ADMINISTRATION AND ESTABLISHMENT EXPENSES</b>		
Repairs and Maintenance	40,141,160	39,022,676
Directors Expense	7,640,118	10,909,648
Travelling	7,014,862	10,316,844
Garden Maintains	12,323,610	19,080,546
Bank Charges	2,858,392	5,127,934
Bungalow Expenses	1,738,269	1,527,090
Quality Control Expenses	2,253,062	1,638,449
Depreciation on Property, Plant and Equipment	34,457,858	39,256,804
Legal Charges	3,538,723	3,928,198
Printing and Stationary	10,549,616	9,362,509
Security Charges	54,228,567	40,567,644
PEST control	122,400	230,591
Sundry Expenses	3,898,369	7,140,586
Electricity expenses	13,012,863	12,686,182
Water expenses	679,352	734,134
Rent & Rates	20,695,776	19,060,419
Stamp Expenses	(7,915)	6,196
Postage Expenses	385,724	375,427
Advertisement	688,210	3,102,183
News Papers & Periodicals	528,010	577,934
Vehicle License	145,895	224,963
Vehicle Hiring	2,677,101	1,623,202
Accounting & Auditing expenses	9,970,428	8,786,021
Consultancy Charges	4,943,731	3,925,578
Insurance	15,318,689	13,066,792
Fuel Expenses	31,840,428	28,492,412
DESMI Project Expenses	-	6,379,266
Telephones Expenses	6,995,889	6,192,896
Inventory write off/ Free issues	-	1,991,519
ESC - Write Off	12,434,370	-
Other Expense	983,153	4,522
Entertainment Expenses	904,242	3,249,171
Stud Bull Project	661,016	5,434,701
Non Refundable Deposits	356,500	-
	<u>303,978,467</u>	<u>304,023,036</u>
Total Administration Expenses	<u>640,583,272</u>	<u>675,736,219</u>



	<b>For the Year Ended 31st December, 2018 Rs.</b>	<b>For the Year Ended 31<sup>st</sup> December, 2017 Rs.</b>
<b>IV. SELLING AND DISTRIBUTION EXPENSES</b>		
Advertisements and Sales Promotion	83,447,686	95,223,334
Transport Expenses	135,416,772	85,093,147
Sales Commission	58,593,641	5,097,774
Warehousing Chargers	22,690,119	5,340,939
Vehicle hiring chargers	40,534,143	23,699,678
Out Let Expense	106,614,058	112,497,860
Repair & Maintanance of Motor Vehicle	14,903	42,990
Repairs & Maintenance of Bottle Coolers	48,383	94,718
Fuel	1,014,951	1,365,483
Free issues and write off of Finish Goods	26,634,013	22,927,430
	<u>475,008,669</u>	<u>351,383,353</u>
<b>V. OTHER EXPENSES</b>		
Loss on Milk Transfers	15,057,783	33,019,922
Stock write-off	3,013,837	20,672,957
Discarded Milk	-	31,267,288
	<u>18,071,620</u>	<u>84,960,167</u>
<b>VI. FINANCE INCOME</b>		
Interest on call/fixed deposit	18,586,884	43,164,271
Interest on Fixed Deposit - Foreign Currency (USD)	20,727,052	18,330,314
Interest on Distress Loan	6,512,797	6,475,326
Interest on Motor Cycle Loan	202,634	168,898
Interest on Flood Loans	-	13,475
Interest on Special Loan	106,324	116,261
	<u>46,135,691</u>	<u>68,268,545</u>
<b>VII. FINANCE COSTS</b>		
Interest on Bank Overdrafts	144,433,083	45,894,026
Lease Interest	6,668,083	6,857,580
Loan Interest	38,063,199	41,581,345
Interest on Desmi Loan	-	5,000,000
	<u>189,164,365</u>	<u>99,332,951</u>



## FINANCIAL HIGHLIGHTS In Rs. Million

		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
<b><u>OPERATION RESULTS</u></b>								
Turnover (Net)	Rs. Mn	11,612.34	10,161.30	8,679.47	7,584.73	5,627.62	7,019.77	6,385.23
Gross Profit	Rs. Mn	226.94	375.96	835.60	572.76	770.97	1,005.69	486.43
Profit before tax	Rs. Mn	( 683.45 )	( 434.93 )	339.33	3.82	248.16	161.11	( 267.47 )
Income tax Expenses	Rs. Mn	201.66	( 171.26 )	( 12.25 )	( 16.12 )	( 6.20 )	( 20.70 )	( 30.56 )
Profit After Tax	Rs. Mn	( 481.79 )	( 606.19 )	327.08	( 12.30 )	241.96	140.41	( 298.02 )

## **BALANCE SHEET**

Stated Capital	Rs. Mn	319.45	319.45	319.45	319.45	319.45	319.45	319.45
Retained earnings	Rs. Mn	785.18	1,183.74	1,665.98	1,257.79	1,230.94	911.97	745.60
Sinking Fund	Rs. Mn	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
Revaluation Reserve	Rs. Mn	336.45	336.46	336.46	336.46	336.46	336.46	336.46
Shareholders fund	Rs. Mn	<u>1,467.78</u>	<u>1,866.34</u>	<u>2,348.58</u>	<u>1,940.39</u>	<u>1,913.53</u>	<u>1,594.57</u>	<u>1,428.20</u>
Non current assts	Rs. Mn	19,471.51	17,511.40	14,763.67	12,261.55	8,143.18	2,244.07	2,123.36
Net Current Assets/(Liabilities)	Rs. Mn	769.51	1,090.41	1,670.87	( 243.15 )	( 143.37 )	431.48	445.67
Long term/(Deferred Liabilities)	Rs. Mn	18,773.24	16,735.47	14,085.96	10,078.01	6,086.27	1,080.98	1,140.84

## **RATIOS**

Earning per share	Rs.	(15.08)	(18.98)	10.24	(0.39)	7.57	4.40	(9.33)
Total Assets to share holders fund	Times	15.30	11.10	7.41	7.24	5.40	2.84	2.94
Net Assets per share	Rs.	45.95	58.42	73.52	60.74	59.90	49.92	44.71
Return on equity	%	(32.82)	(32.48)	13.93	(0.63)	12.64	8.81	(20.87)
Gross Profit Ratio	%	1.95	3.70	9.63	7.55	13.70	14.33	7.62
Net Profit Ratio	%	(4.15)	(5.97)	3.77	(0.16)	4.30	2.00	(4.67)
Current Assets Ratio	Times	1.35	1.52	2.73	0.88	0.94	1.23	1.27
Quick Assets Ratio	Times	0.67	0.69	1.85	0.05	0.66	0.91	0.94