



வார्षிக வார்பாவ வருடாந்த அறிக்கை Annual Report 2019

தீர்க்கை (புடிவரி) தீர்க்கை
மில்லகோ (தனி) நிறுவனம்
Milco (Pvt) Ltd





Milco (Pvt) Ltd

No. 45, Nawala Road, Narahenpita, Colombo 05.

Annual Report 2019

January - December

Our Vision

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

Our Mission

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



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CORPORATE INFORMATION

Name of the Company	- Milco (Pvt) Ltd
Legal Status	- A Private Limited Liability Company incorporated in Sri Lanka under the provisions of the Companies Act No 17 of 1982 and re-registered under the Companies Act No. 07 of 2007
Registered Office	- No. 45, Nawala Road, Narahenpita, Colombo 05. - Tel: 0112586174, 0114500541 - Fax: 0112368082/ 0112577540/0114500555 - Website: www.milco.lk - E-mail: info@milco.lk
Factories	- Colombo Milk Factory (CMF) - Ambewala Spray Dried Milk Factory (SDMF) - Digana Milk Factory (DMF) - Polonnaruwa Condensed Milk Factory (PMF)
Date of Incorporation	- 09 th May 1996
Date of Re-registration	- 19 th May 2008
Company Registration Number	- N (PVS) 17159 (OLD) - PV 2942 (New)
Company Secretaries	- Financial Services & Commercial Agencies (Pvt) Ltd. No. 300/3, Nawala Road, Nawala
Directors	Mr. K P P H Mihiripenna - Chairman Mr. Asanka Punchihewa - Working Director Ms. Biyanka N Gamage - Director Mr. B D Mahilal Chandima - Director Mr. M H M Fazal - Director Mr K S T Yasapala - Director Mr B P Jayasiri - Director Mr A Dissanayake - Director Mr S A Kumarasiri - Director Mr D K K Vasanthi - Director
Auditors	- Internal Audit Manager Mr I A Kariyawasam - External – Government Audit Auditor General's Department
Bankers	- Peoples' Bank - Bank of Ceylon

With immense joy, I present this message for Milco Pvt Ltd's annual report for the year 2019, a company with a rich history spanning nearly sixty-five years. Despite facing a loss of 862 million rupees in 2019 under the previous management, Milco has remained committed to its mission beyond mere profit-making. Notably, the company has maintained its dedication to providing essential facilities and extension services to rural communities.

While Milco's primary role revolves around processing and supplying milk-related products to consumers, the company has also taken on various initiatives to support the development of cattle farms. In 2019, several programs were successfully executed, targeting dairy farmers. Some of these programs include:

- Establishment of a milk freezing center at Puliyankulama in the Northern Province.
- Provision of facilities for grass cultivation to 902 farmers.
- Strengthening farmers associated with MILCO by supporting 30 farms with a daily milk production capacity of 200 liters and 42 farms with a daily milk production capacity of 100 liters each.
- Encouraging 40 farmers to start milking by selecting free-range cows that were not being milked.
- Conducting 445 mobile veterinary clinics.

While the traditional methods of farm development are valuable, Milco recognizes that relying solely on these practices may not suffice to secure the necessary raw milk supply for the company. As such, a crucial strategy involves establishing company-owned dairy farms and purchasing milk from local dairy farmers. This approach aims to bolster the capabilities of local farmers and equip them to tackle the challenges in milk production that lie ahead.

Milco prides itself on being a responsible public institution, committed to providing high-quality products to customers and sourcing only top-notch raw materials. The company sets itself apart from some competitors by not solely adhering to the standard criteria for purchasing milk that falls short of meeting daily demands. Preserving the industry's existence and ensuring the company's perpetuity necessitate safeguarding product quality, fostering innovation through research and development, and maintaining effective human resource management through ongoing personnel development—core principles that Milco has steadfastly upheld.

I take this opportunity to express my gratitude to the dedicated staff, dairy farmers, distribution and trading partners, as well as our loyal customers, who have supported this esteemed institution throughout its journey. Your unwavering support has been instrumental in Milco's continued success and impact.

Thank You



Renuka Perera
Chairman

The Directors of Milco (Pvt) Ltd have the pleasure of presenting the Report of the Directors and the Audited Financial Statement for the year ended 31st December 2019.

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 139.6Mn and depreciation charges are as shown.

BOARD OF DIRECTORS

The following Board of Directors was continued from 01.01.2019

Eng. A M Z Cader – Chairman

Mr Nihal Edirisinghe – 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 as follows.

Mr. A.M.Z. Cader was resigned w.e.f. 12.02.2019

Mr. Nihal Edirisinghe was resigned w.e.f. 12.02.2019

Mr. D.G.S. Wickrama was resigned w.e.f. 12.02.2019

Mr. K Sarath Chaminda was resigned w.e.f. 12.02.2019

Mr K.P. P. H. Mihiripenna was appointed as Chairman w.e.f. 12.02.2019

Mr M.H.M. Fazal was appointed w.e.f. 12.02.2019

Mr Asanka Punchihewa was appointed as Working Director w.e.f. 12.02.2019

Mr B.D.M. Chandima was appointed w.e.f. 12.02.2019

Mr K.S.T. Yasapala was appointed w.e.f. 18.10.2019

Mr Bimal Priyankara Jayasiri was appointed w.e.f. 18.10.2019

Mr D.M.A.B. Dissanayake was appointed w.e.f. 18.10.2019

Mr Senarath Athula Kumarasiri was appointed w.e.f. 18.10.2019

Mr D .K. Krishnakumar Wasanji was appointed w.e.f. 18.10.2019

SHARE INFORMATION

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

RESERVES

Cumulative loss brought forward of Rupees 145,248,000/= adjusted for the current year's loss Rupees 930,429,360/= after tax given in page 1 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

During the year company had reported a taxable loss.

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

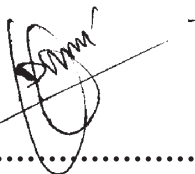
The Board of Directors is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. In view of this, we continue to apply the going concern concept in preparing the Accounts of the Company.

APPOINTMENT OF AUDITORS

Auditor General be the Auditor of the Company for the year 2019

The Auditor General be the Auditor of the Company for the year ended 31.12.2019. 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,

A handwritten signature in black ink, consisting of a stylized 'G' followed by a series of loops and a horizontal line.

.....
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.



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My No.: FLS/C/MILCO/01/19/10 Your No.:

Date: 26th May 2023

Chairman

Milco Private Limited

The financial statements of Milco Pvt Ltd for the year ended as at 31st December 2019 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, 2019 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 trade debtor credit balance of Rs. 13,604,379 to trade debtor debit balance and the other receivable credit balance of Rs. 14,875,643 to other receivable debit balance. In addition, the value of creditor balance of Rs. 21,751,560 has been set off to creditor debt balance and stated in the financial statements. Further it was observed that a debit value of Rs. 237,515,813 was available in the amounts payable to government institutions and balances payable to other institutions.
- (b) According to Sri Lanka Accounting Standard 02, the closing stock should be stated in the financial statements at the lower of cost or net realizable value. However, stocks which are of 6 – 28 years were available namely - a stock of 1556 engineering items of which the value was recognized as Rs. 6,041,166 and 555 engineering stock items of which the value was not recognized at Ambewela Milk Factory, 17 spare parts for the value of Rs. 1,043,529 and 225 items of which the value was not recognized at Polonnaruwa Milk Factory, 137 machine spare parts for the value of Rs. 326, 940, 25 vehicle spare parts for the value of Rs. 195,746 and 35 machine spare parts and 41 vehicle spare parts of which the value was not recognized, raw material and packaging stock for the value of Rs. 13,533, 994 and general stocks for the value of Rs. 89,690 at Digana Milk Factory. Therefore, the stocks were over/under calculated.

- (c) As per para 5.5.15 of Sri Lanka Accounting Standard 09 the losses should be adjusted on expected credit loss method. However, when the trade and other receivable balance Rs.1,191,235,517 was evaluated, the above method had not been followed and the profit and trade and other receivable balance were over calculated.
- (d) According to paras 50 and 51 of Sri Lanka Account Standard 16, the lifetime of the assets should be reviewed annually and be accounted in the accounts as a change in estimated after estimating the productive lifetime. However, 1567 fixed asset items valued at Rs. 256, 221,539 were completely depreciated and their productive lifetime had not been reviewed even though they were used from year 2013 to 31st of December 2019.
- (e) As per Sri Lanka Account Standard 21, when a payment is made, the foreign exchange rate as at the date of making payment should be applied. However, when an advance payment was made to a foreign supplier for the amount of USD 19,180,692 in 2016 for the Badalgama Milk Factory Project, the section related to the year under review had been transferred to the work in progress account, applying the exchange rate as at the end of the year not the rate existed on the date of payment. Accordingly, an amount of Rs.210,518,165 should have been transferred, but an amount of Rs.217,134,563 had been transferred and an excess of Rs.6,616,398 had been accounted. Further the retaining amount of 10% should also be calculated on the rate as at the date of transaction. Accordingly, an amount of Rs.70,172,722 was to be transferred but an amount of Rs.72,378,188 had been transferred and hence an amount Rs.2,205,466 was over accounted as the exchange rate at the end of the year was considered when the amount was transferred to the work in progress account.
- (f) As per para 2.04 of the loan agreement entered into with the Department of External Resources for factory modification project, all the expenses borne by the Department of External Resources, including the currency variation should be borne by the company. Accordingly, the loan balance to be paid as at 31st December 2019 with regard to the above project should be accounted valuing to the foreign exchange rate as at the end of the year in line with para 23 of Sri Lanka Accounting Standard 21. Thus, since the adverse effect of foreign exchange rate variation, which should be accounted as liabilities from 2013 to 2019, Rs.1,649,291,235 has not been accounted for, the company's liabilities were understated by an amount equal to that value, and therefore the retained earnings of 2019 had been overcalculated. Furthermore, the value of Rs. 302,868,271 was not adjusted in the accounts as the foreign exchange change of the reviewed year, the profit of the year was also overcalculated by the same amount.
- (g) Although impairment adjustments should be made for idle machinery in accordance with paragraph 12 (f) of Sri Lanka Accounting Standards 36, the ice cream cone filling machine purchased in the year 2014 leased on 20 January 2011 to the dairy factory at Digana at a cost of Rs.15,445,587 to install in the Colombo factory, Yogurt mixing machine worth Rs.104,177,779 taken from Colombo Dairy Factory, 4 machines worth Rs.2,275,000 had not been dealt with accordingly.
- (h) For the establishment of Badalgama Milk Processing Factory in Gampaha district, an agreement was entered into for the contract value of Rs. 9,932,709,286 in the year 2015. As of December 31, 2019, Rs. 11,671,726,295 had been spent and the construction work of the project was currently being implemented. It was estimated that after the completion

of this factory, which is currently being built, according to the machine capacity, the company would need four 400,00 liters of liquid milk per day. At present, it was observed that the Badalgama machines cannot be used at their full capacity as the daily amount of liquid milk that can be collected by the institution for the other 4 active factories of Ambewela, Polonnaruwa, Digana and Colombo is about 200,000 liters. Accordingly, no impairment adjustments have been made in accordance with paragraph 12 (e) of Sri Lanka Accounting Standards 36 for these installed machines.

- (i) After the offer of purchase order for Uninterruptible Power Supply Unit of Ambewela Dairy Factory, the Board of Directors cancelled the same and company was sued for damages of Rs.40 million by the supplier which was not disclosed in the notes to the financial statements in accordance with paragraph 86 of Sri Lanka Accounting Standard 37.
- (j) In the year under review, three projects costing Rs.805,860,149 including work in progress had been completed, but the said values had not been capitalized due to the lack of a completion certificate. Furthermore, for the development project of Ambewela Dairy Factory, which is included in that balance, Rs. 71,342,562 had been spent up to the review year and the project had been completed, but the project had not been capitalized.
- (k) Although the statement of financial condition showed a value of fixed assets of Rs.6,065,801.089, there was no physical verification of the fixed assets and the company did not maintain a properly maintained fixed asset register, so the existence of the cost of fixed assets could not be checked in the calculation of depreciation for the accuracy of the cost of removed assets.
- (l) According to the financial statements, the policy related to property, plant, equipment, building plant and equipment, furniture and fixtures, laboratory equipment, automobiles, tools and equipment, and office equipment did not specify the useful life, and although the effective life of automobiles was eight to 15 years according to the company's policy. However, according to the fixed assets register of the Polonnaruwa Dairy Factory, it was observed that the useful life of the cars was taken as four years and the assets were depreciated. Accordingly, it was observed that the depreciation policy of the company was not specified.
- (m) In the reviewed year head office, it was observed that in the closing stock of non-issued packaging materials worth Rs. 4,263,869 and non-issued general stock worth Rs. 46,162 and the packaging material has been unused for a period of four to nine years after the date of last use. It was observed that the average stock was 17 years old, and the stock was overcalculated by that amount as it was unusable.
- (n) In the 2019 financial statement, an allocation of 12,096,362 rupees has been made for deficient stocks and this allocation includes packaging materials, general stocks, engineering stocks. These had been reduced from the stock without carrying out investigations on these deficient stocks and recovering them from the responsible officials. Schedules for that value were also not submitted to the audit by 30 September 2002, the date of audit.

- (o) Although 17 750 kg of unused milk powder packs worth Rs. 15,699,277 existing before the year 2016 were present in the Ambewela factory, they were not identified as obsolete stock as of 31 December 2019.
- (p) According to the schedule presented with the company's statement of financial position, as on December 31, 2019, the stock value of products in Digana Dairy Factory is 18,682,897 Rupees, in Colombo Dairy Factory 32,549,875 Rupees and the packaging stock of Tunip Division is 10,327,148 Rupees. However, the final product stock values adjusted in the production accounts of each of those factories were Rs.24,578,706, Rs.66,693,720 and Rs.44,017,045 respectively. A difference of Rs.5,895,809, Rs.34,143,845 and Rs.33,689,879 was observed between the final product stock values reconciled in the production accounts of the factories as at December 31, 2019 in the statement of financial position.
- (q) According to the financial statements, the interest income of the factory employee loans was Rs. 6,818,527, but according to the factory financial statements, the same value was Rs. 5,554,487 and hence a difference of Rs. 1,264,040 was observed.
- (r) According to the renewal notices submitted by the company to the audit, the interest value of fixed deposits is Rs. 21,871,329, but due to the fact that the same value is shown as Rs. 19,921,714 in the financial statements of the year under review, the interest income is less by Rs. 1,949,615 and the interest value of USD deposits should be Rs. 20,585,179 in the financial statements for the year 2019. According to the financial statements, it was observed that the value was Rs. 23,178,274 and Rs.2,593,095 more was taken to the financial statements.
- (s) The Bank of Ceylon current account number 20 65 230 related to the Colombo factory and the People's Bank current account number 134-1-001-2- 2083302 for the Ambewela factory had not been submitted to the audit and according to the balance confirmation letters, the bank balance was Rs. 3,050,801 and Rs.70,996 respectively.
- (t) Due to debiting the interest Rs.12,662,825 related to the dollar deposit due on June 30, 2020 to the deposit account without showing it as interest receivable, the value of the dollar deposit was overcalculated and the interest receivable value was undercalculated. Also, the interest receivable of Rs. 4,097,600 for the long-term fixed deposit balance maturing in 2020 was not shown as the interest receivable and was debited to the deposit balance, so the interest receivable was undercalculated by that value in the over-calculation of the long-term fixed deposit balance.
- (u) Due to the fact that a time analysis was not submitted to the audit for the expenses creditors amounting to Rs.424,278,363 and other creditors amounting to Rs.114,908,066 in the financial statements, it was not possible to satisfactorily verify the long-term outstanding balances.
- (v) In the allocation balance for taxes, there was an allocation balance for income tax fines of 8,425,296 rupees which existed before the year 2000 and the said balance had not been settled.

- (w) Of the contract deposit balance of Rs 9,583,244 held at the head office of the company, the value over five years was Rs 6,756,059 i.e. 70.5% and the management had not focused its attention on making those deposits into income.
- (x) The pension benefit actuarial loss of Rs. 67,714,812 in the year under review, had been deducted from the cost of sales in the year of loss. Therefore, Cost of sales had been reduced by that value.
- (y) The value of the trade receivables of the Colombo Milk Factory over ten years is Rs. 12,081,861 which is 5 percent of the total trade receivables value. The company had not taken steps to recover the balance of these long-standing debts and the value between 5-10 years was Rs. 15,075,786 and the value for 1-5 years was Rs. 33,113,941 and the value was 6 and 13 percent of the total trade debtor value respectively. Thus it is observed that recovery of this loan balance is uncertain.
- (z) In Colombo Milk Factory, 1 year to 13 years inclusive of advance deposits and prepayments of Rs. 1,484,000 had not been settled and a deposit credit balance of Rs.150,000 had been offset against the deposit debit balance.
- (aa) According to the letter No. TO/REV/05/33/06 dated September 8, 2022 of the Director General of the Department of Foreign Resources of the Treasury, the liability was not accounted for in the financial statements even though the commitment charges on the unused loan balance of the loan amount given for the dairy factory modernization project was Rs.56,821,121.
- (bb) Although the balance of trade and other debtors in the financial statements of Ambewela factory was Rs.89,206,616, the total of the debtor time analysis was Rs.50,992,402. Accordingly, a difference of 38,214,214 rupees was observed.
- (cc) Although the trade debtor balance in the financial statements of Digana Factory was Rs.264,324,904, as per debtor time analysis, it was Rs.262,523,544 and thus a difference of Rs.1,801,360 was observed. From the presented trade debtor value of Rs.262,523,544, the trade debtor balance value over five years was Rs.6,345,394. The company had made further sales to those customers without taking proper measures to recover these debts and thus the information about the approval for those sales, credit sales limit, debt collection period etc. was not submitted to the audit.
- (dd) Trade Debt Balance of Polgahawela Animal Feed Manufacturing Plant as at December 31, 2019 is Rs.3,305,948, Animal Feed Debtor Balance is Rs. 1,122,395 which was 38 percent of the total trade debtor balance. The company had not taken steps to recover this debtor balance for fifteen years. The transport debtors amounting to Rs.4,648,463 were outstanding for a period of 10-15 years and it was 46 percent of the total value of transport debtors. It is observed that recovery of these loans is uncertain.
- (ee) Rs. 256,269,701 have been shown as deferred tax assets under Note No. 14.1 of the financial statements and due to the mismatch of the deferred tax related to stock allocations of Rs.1,693,491, in the calculation of the deferred tax assets, the deferred tax asset had been undercalculated by Rs.1,693,491.

- (ff) When comparing the nation building tax value of each factory accounts with the nation building tax value contained in the financial statements, a total difference of Rs. 465,989 is observed in the accounts of Ambewela Milk Factory, Polonnaruwa Milk Factory and Polgahawela Factory.
- (gg) Accumulated depreciation as at December 31, 2019 is Rs.3,214,024,197 as per note number 03 of the statement of financial position but as per this calculation the balance on that date was Rs.3,217,236,716 so a difference of Rs.3,212,519 was observed.
- (hh) As of December 31, 2019, the loan balances of the two loan programs, namely the Badalgama New Factory Project, the Milk Factory Modernization Project, were 5,685,332,903 rupees and 9,840,374,273 rupees, respectively, according to the treasurer's report. According to the company's financial statements, the loan balances of the Dairy Factory Modernization Project and the Badalgama New Factory Project were Rs. 6,632,493,444 and Rs. 11,782,003,429 respectively. Accordingly, differences of Rs.947,160,541 and Rs. 1,941,629,156 were observed respectively.
- (ii) According to the letter No. TO/REV/05/33/06 dated September 8, 2022 of the Director General, Department of Treasury Operations of the Ministry of Finance, the loan balance to be paid under the milk factory modernization project as of the last day of the review year is Rs. 5,476,523,562. However, it has been indicated in the financial statements of the company as Rs. 6,632,493,444 and therefore it has been overcalculated by Rs.1,155,969,882. Since the accumulated payable interest of Rs. 886, 412, 722 had not been accounted, the accumulated profit and the interest payable has been understated. Further, the interest payable for the year under review, i.e Rs. 760,127,701 had not been accounted and therefore the profit of the year under review had been over-calculated by that amount and the interest payable had been under calculated.
- (jj) As per the Financial Statements as at 31st December 2019, the total of the property plant and equipment and the annual depreciation value was Rs. 9,283,037,804, Rs. 142,023,141 and Rs. 527,623,340. However, the total of the financial statements of Head office, 4 milk factories and the cattle feed farm at Polgahawela was Rs. 9,279,686,960 Rs. 141,872,240 and Rs. 527,610,766 respectively. Hence the difference was respectively Rs. 3,305,844, Rs.150,901 and Rs.12,574.
- (kk) The reasons and approval for writing off the milk related products for the value of Rs. 47,180,280 and for raw material/packaging material for the value of Rs. 7,978,511 in year 2019 had not been submitted for the audit. Further, the approvals related to the milk related products for the value of Rs.11,756,219 which were issued free of charge and the details of the parties to which they were issued were not submitted for audit.
- (ll) The total current asset value of the company in the year under review was Rs. 2,509,695,611 and the total current liability value was Rs. 2,298,345,024. Accordingly, it is observed that the current assets rate of the company is not in an excellent position. The Company has obtained a overdraft for the value of Rs. 600 million from Bank of Ceylon pledging stocks of products, packaging stocks and other movable assets and short-term credit facilities of 75 million rupees from the Bank of Ceylon and 300 million rupees from the Pan Asia Bank were obtained by pledging the next-day cheques due from the debtors. Accordingly, it was observed that the company has faced a problem of leverage

due to the inability to clear the stocks and debtors included in the company's current assets as required in the short term with this pledge.

- (mm) Although the opening balance of the loan received from the Treasury under Note No. 15.1.4 of the Financial Statements of the company was Rs. 17,921,082,356, as per the schedule, the balance of the loan was Rs. 17,920,826,970, but a difference of Rs. 255,386 was observed.
- (nn) According to the head office schedule, the credit balance was Rs.204,172,625 and the debit balance was Rs.9,406,733. Out of that creditor balance, the balance between 1 and 5 years was 5,048,684 rupees and the outstanding balance for more than 5 years was 7,008,243 rupees and even at the end of the financial year, the institution had not taken steps to settle those balances.
- (oo) Overdrafts of Rs. 139,500,000 and Rs. 100,000,000 have been taken from People's Bank and Pan Asia Bank respectively pledging the fixed deposits of the company of Rs. 209,097,006 and Rs. 205,000,000. Apart from the American dollar fixed deposits held by the company, 2,920,652.78 USD were pledged as collateral and a loan of Rs.700,000,000 has been obtained from Bank of Ceylon and another loan of Rs.120,000,000 was obtained from the Bank of Ceylon with another 2,920,652.78 USD as collateral.

I have not been able to confirm or verify by alternative means the quantitative items included in the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity and the Statement of Cash Flows as described above. As a result, I was unable to determine whether any adjustments were required to be made to the recorded or unrecorded values or transactions of the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes of Equity and Cash Flow Statement.

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.

1.4 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 and Companies Act No 07 of 2007 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 nd June 2003	
(i) Section 6.5.1	Even though financial statements and the draft annual report should be submitted to the Auditor General within 60 days from the financial year end, the statements were submitted on 29 th June 2022. Accordingly, a delay of 850 days occurred.
(ii) Section 4.2.6	Even though the Performance Reports/ Progress Reports were to be prepared and submitted, no such reports were submitted for year 2019
(iii) Section 5.1.2	Organization Structure and the Performance Indicators which were to

	be included in the Business Plan, were not included for the Business Plans of year 2018 and 2019
(b) Finance Circular No 01/2014 dated 17 th February 2014	
(i) Section 5 (2)	Statement of Financial Position, Cash Flow Statement and Plan for Repayment of Loans of the year were not included to the Action Plan and instead, a format containing the details of loan repayment as at 31 st December 2019 was submitted to the audit.

- 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) An agreement was entered into with a foreign contractor in year 2016 to establish Badalgama Milk Processing Factory for the contract value of Rs. 9,718,217,432 (EUR63,935,641) and it was due to be completed in year 2019. Work in progress value was Rs.11,671,726,295 as at 31st December 2019. 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 and therefore, the minimum bid of Rs. 9,718, 217, 432 (EUR 63,935,641) could not have been accepted.
 - (b) In order to check the procurement activities under the construction of the office building of the Digana Dairy Factory which was started in 2017, the procurement files containing the details of vouchers, certified work sheets and contract agreements etc. related to the payments were requested, but due to the non-submission to the audit, it was not possible to check the payments of Rs. 10,222,824 that had been paid in the year under review.
 - (c) In relation to the Badalgama New Dairy Project, no provision was made for consultancy in preparing the estimates for the total cost of EUR63,935,641. In the year under review, Rs.3,231,715 was paid to the contractor for the project, of which Rs.1,000,000 was paid to the company for consultancy. The file related to the selection of the consulting firm was not submitted for audit.
 - (d) The action plan was not prepared for the expenditure of Rs. 550.12 million, out of the capital asset rehabilitation improvement and capital asset purchase included in the capital budget document prepared by the institution, the estimated cost of which is more than one million rupees.

3. Other Audit Observations

- (a) The Ambewela milk factory was disconnected from the national grid due to a fault in the power transformer and MV Panel. Due to the fact that the company had not entered into an agreement with the contractor related to this construction regarding the warranty period and maintenance work, the restoration was delayed. Therefore, an additional total cost of Rs. 5,653,612 (per month at 1,884,537) for the last three months of the review year had to be incurred due to obtaining the necessary electricity from the company's generators.
- (b) When the boiler used for the production of the new plant of the Ambewela milk factory is malfunctioned, approximately 1080 liters of milk, valued at 74,206 rupees, had to be removed for cleaning. Throughout the two-month period of October and November 2018, this issue occurred on 18 occasions. Consequently, a total of 19,440 liters of milk, worth Rs. 1,335,708, was wasted due to the repeated cleaning of the malfunctioning boiler. This substantial annual loss highlights the lack of necessary measures taken to address this significant downtime issue.
- (c) In the year 2017, after the installation of the new machinery at the Abewela Milk Factory under the Factory Modernization Project, all the spare parts that were given to be used in the future were piled up in the warehouse without sorting and even by the end of the year 2019, the materials had not been entered into the inventory or any other action had been taken.
- (d) The company owns two lands, the 12-acre land where the Polonnaruwa Milk Factory is located and another 37-acre land in the same district. But at the end of the year 2019, the company did not have the deeds and documents related to these two lands and it was revealed in the investigation conducted on December 31, 2019 that the 37-acre land on which the sports club is built is currently not being used, the dairy shop and the cowshed and more than 15 acres of the land remains idle without being used for any cultivation or construction.
- (e) The following observations are made regarding the production of milk powder unsuitable for human consumption:-
 - i. From July 2017, the new milk powder factory in Abewela started production and according to the company's laboratory reports, from that date to January 18, 2018, 720 metric tons of milk powder costing 475.2 million rupees were defective and was not suitable for human consumption, and according to an inspection carried out by the Peradeniya Gannoruva Veterinary Research Institute On August 7, 2018, this milk powder is suitable to be used as a raw material for the food of ruminant animals. 666,075 kg of the stock of milk powder which was brought back to the warehouse after receiving complaints from customers was still in the warehouse as on 31st December 2019 due to which other operational activities of the warehouse were disrupted and a disciplinary inquiry was not conducted regarding this loss.



- ii. In terms of sub-sections 1.2.1 (c) of the Procurement Guidelines, the bids shall not be restricted being competitive or implied not to be competitive and any interested parties shall be invited to participate in the bids. Contrary to this, it was observed that the bidders had been limited by the conditions of "the entire stock of milk powder must be purchased at once" in the invitation for bids to sell the stock of 666,075 kg of milk powder unsuitable for human consumption as an ingredient for animal feed, and therefore the above stock was still in the warehouses on December 31, 2019.
- (f) According to the cabinet decision No. AMP/15/0205/631/012 dated April 8, 2015 related to the project of Badalgama New Dairy Factory, the company should enter into a refund-loan agreement with the Treasury, but the agreement was not entered into even on October 27, 2022.
- (g) During the 2014 annual inventory survey conducted in the Ambewela factory, it was determined that 2,041 spare parts stock items valued at 6,041,166 rupees were unusable, but the stock items were kept as materials in the warehouse belonging to the production department as of December 18, 2019, the date of the audit, without any action being taken to remove or auction them.
- (h) According to the financial statement notes, even though the last year's actuarial profit was Rs.80,551,142, , the profit was stated under comprehensive income as Rs.69,273,982 and it was observed that the comparative information was not correct as the difference was Rs. 11,277,160. Even though this difference was pointed out in last year's report, no corrections have been made.
- (i) According to Note No 03 of Statement of Financial Position, the cars purchased on lease basis for the value of Rs.48,000,958 have been transferred to freehold cars on December 31, 2019 due to the expiry of the lease period, but on that date, the value of the accumulated depreciation amount of Rs.48,000,958 has not been transferred from depreciation of the leased cars to freehold cars.


W.P.C. Wickramarathna
Auditor General

MILCO (PVT) LTD.

STATEMENT OF FINANCIAL POSITION

AS AT 31ST DECEMBER, 2019



		As at 31st December, 2019 Rs.	As at 31st December, 2018 Rs.
ASSETS	Note		
Non-Current Assets			
Property, Plant and Equipment	3	6,065,801,089	6,451,500,834
Capital Work-In-Progress	4	12,588,158,537	11,894,455,027
Financial Instrument - Amortised cost	5	787,696,142	769,263,440
Long-term Advances	6	139,152,682	356,287,245
Total Non-Current Assets		19,580,808,449	19,471,506,547
Current Assets			
Inventories	7	1,093,130,830	1,505,734,350
Trade and Other Receivables	8	1,191,235,517	1,288,433,432
Income Tax Receivable	9	212,514,712	172,903,239
Cash and Cash Equivalents	10	12,814,551	19,269,258
Total Current Assets		2,509,695,611	2,986,340,280
Total Assets		22,090,504,060	22,457,846,827
EQUITY AND LIABILITIES			
Stated Capital and Reserves			
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		(145,248,000)	785,181,360
Shareholders' Fund		537,350,500	1,467,779,860
Non-Current Liabilities			
Deferred Tax Liability	14	-	-
Non-interest Bearing Borrowings	15	2,108,063	2,108,063
Interest Bearing Borrowings - Long-Term	15	18,572,055,438	18,202,111,219
Retirement Benefit Obligations - Gratuity	16	651,565,041	527,308,101
Deferred Income - Government Grant	17	29,079,994	41,712,392
Total Non-Current Liabilities		19,254,808,536	18,773,239,775
Current Liabilities			
Trade and Other Payables	18	762,087,282	841,105,671
Interest Bearing Borrowings - Short Term	15	135,419,841	123,568,773
Bank Overdrafts	19	1,400,837,901	1,252,152,747
Total Current Liabilities		2,298,345,024	2,216,827,191
Total Equity and Liabilities		22,090,504,060	22,457,846,827

Figures in brackets indicate deductions.

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

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



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 (29.06.2022



Mr. Renuka Perera
 Chairman

Colombo Date



W.D.R. Krishantha
 Director

		For the Year Ended 31 st December, 2019 Rs.	For the Year Ended 31 st December, 2018 Rs.
	Note		
Revenue	20	10,313,820,273	11,612,344,021
Cost of Sales		(9,917,539,530)	(11,385,405,568)
Gross Profit		396,280,743	226,938,453
Other Operating Income	21	29,709,723	366,304,291
		425,990,466	593,242,745
Administrative Expenses		(688,427,005)	(640,583,272)
Distribution Expenses		(399,206,715)	(475,008,669)
Other Expenses		(55,158,791)	(18,071,620)
Profit/ (Loss) from Operations		(716,802,045)	(540,420,816)
Finance Income	22	49,926,845	46,135,691
Finance Expenses	23	(195,839,348)	(189,164,365)
Net Loss Before Taxation		(862,714,548)	(683,449,491)
Income Tax Expenses	24	-	201,663,631
Net Loss for the Year after Taxation		(862,714,548)	(481,785,860)
Other Comprehensive Income			
Item that will not be reclassified subsequently to profit or loss:			
Remessurement of Defined Benefit Plan, Net of Taxes		(67,714,812)	69,273,982
Total Other Comprehensive Income Net of Tax		(67,714,812)	69,273,982
Total Comprehensive Income		(930,429,360)	(412,511,878)
Basic Earning/(Loss) Per Share	25	(27.01)	(15.08)

Figures in brackets indicate deductions.

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

MILCO (PVT) LTD.
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER, 2019



	Stated Capital Rs.	Capital Reserve Rs.	Revaluation Reserve Rs.	Sinking Fund Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 31st December 2017	319,454,060	25,000,000	336,454,463	1,689,978	1,197,693,238	1,880,291,738
Net Profit for the Year	-	-	-	-	(481,785,860)	(481,785,860)
Other Comprehensive Income	-	-	-	-	69,273,982	69,273,982
Balance as at 31st December 2018	319,454,060	25,000,000	336,454,463	1,689,978	785,181,360	1,467,779,860
Net Profit for the Year	-	-	-	-	(930,429,360)	(930,429,360)
Other Comprehensive Income	-	-	-	-	-	-
Balance as at 31st December 2019	319,454,060	25,000,000	336,454,463	1,689,978	(145,248,000)	537,350,500

Figures in brackets indicate deductions.

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

	For the Year Ended 31 st December, 2019 Rs.	For the Year Ended 31 st December, 2018 Rs.
Cash Flow from Operating Activities		
Net Loss Before Taxation	(862,714,548)	(683,449,491)
Adjustments for ;		
Depreciation on Property, Plant and Equipment	527,623,340	542,428,556
Income from Investment	(49,926,845)	(46,135,691)
Interest Expense	190,620,525	182,496,282
Lease Interest	5,225,511	6,730,089
Recognized Income on Deferred Grants	(12,632,398)	(19,757,115)
Exchange Gain	2,566,588	(88,548,642)
Provision for Defined Benefit Plans - Gratuity	98,254,612	87,046,552
Disposal Gain	(566,035)	(12,600,907)
ESC Weitten off	15,364,873	12,434,370
Capital work-in progress written off	741,099	-
Operating Profit Before Working Capital Changes	(85,443,279)	(19,355,997)
(Increase)/Decrease in Inventories	412,603,520	238,629,532
(Increase)/Decrease in Trade and Other Receivables	95,115,502	198,690,823
Increase/(Decrease) in Trade and Other Payables	(73,730,889)	(36,230,360)
Cash Generated from Operations	348,544,854	381,733,998
Interest Paid	(190,620,525)	(182,496,282)
Tax Paid - ESC and Income Tax	(52,893,933)	(60,035,055)
Payment of Defined Benefit Plans - Gratuity	(41,712,485)	(38,582,223)
Net Cash From/ (Used In) Operating Activities	63,317,912	100,620,438
Cash Flow from Investing Activities		
Acquisition of Property, Plant and Equipment	(87,503,835)	(102,363,192)
Investments in Property, Plant and Equipment in the Course of Construct	(516,304,352)	(1,695,632,797)
Proceeds from disposal of Assets	665,582	12,670,787
Interest Received	49,926,845	46,135,691
New/ (Withdrawal) Short-Term and Long-Term Investment (Net)	(20,999,289)	(72,298,872)
Net Cash Used In Investing Activities	(574,215,049)	(1,811,488,384)
Cash Flow from Financing Activities		
Government Grant Received	-	4,573,003
Lease Rental Paid	(30,448,356)	(28,501,283)
During the Year Loan Granted	509,141,829	2,239,963,647
Loans and Borrowings Repayments	(122,936,197)	(101,859,626)
Adjustment of exchange impact in long term advances	-	(543,766,109)
Net Cash Used In Financing Activities	355,757,276	1,570,409,632
Net Increase in Cash and Cash Equivalents	(155,139,861)	(140,458,314)
Cash and Cash Equivalents at the Beginning of the Year (Note A)	(1,232,883,488)	(1,092,425,174)
Cash and Cash Equivalents at the End of the Year (Note B)	(1,388,023,350)	(1,232,883,488)

MILCO (PVT) LTD.
CASH FLOW STATEMENT (CONTD...)
FOR THE YEAR ENDED 31ST DECEMBER, 2019



	For the Year Ended 31st December, 2019 Rs.	For the Year Ended 31st December, 2018 Rs.
At the Beginning of the Year		
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>
Bank Overdrafts	<u>(1,252,152,747)</u>	<u>(1,117,173,348)</u>
	<u>(1,232,883,489)</u>	<u>(1,092,425,174)</u>
At the End of the Year		
Balances at Banks	7,989,149	13,963,657
Petty Cash in Hand	4,825,402	5,305,601
	<u>12,814,551</u>	<u>19,269,258</u>
Bank Overdrafts	<u>(1,400,837,901)</u>	<u>(1,252,152,747)</u>
	<u>(1,388,023,350)</u>	<u>(1,232,883,488)</u>

Figures in brackets indicate deductions.

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

1.1. CORPORATE INFORMATION

1.1.1 Legal and Domiciled Form

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

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

The registered office of the company is located at No. 45, Nawala Road, Colombo 05 and the principal place of business is also at the same place. Major factories of the company are situated at Narahenpita, Ambewela, Digana, Polonnaruwa and construction of Badalbama factory was in progress as of 31st December 2019.

1.1.2 Principal Activities and Nature of Operations

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

1.1.3 Date of Authorization to Issue

The financial statements for the year ended 31st December, 2019 were authorized for issue in accordance with a resolution of the Board of Directors on 29.06.2022.

1.1.4 Responsibility for Financial Statements

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

1.2. Summary of Significant Accounting Policies

1.2.1 General Accounting Policies

1.2.1.1 Basis of Preparation of Financial Statements

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

1.2.1.2 Basis of Measurement

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

1.2.1.3 Functional and Presentation Currency

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

1.2.1.4 Statement of Compliance

The statement of financial position, statement of comprehensive income, changes in equity and cash flows, together with accounting policies and notes ("financial statements") of the company as at 31st December, 2019 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 repurchasing 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 a statement of comprehensive income when the liabilities are de-recognized as well as through the effective interest rate method (EIR) amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance costs in the statement of comprehensive income.

1.3.7.3 De-Recognition

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

1.3.7.4 Off-setting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

1.3.8 Inventories

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

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

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

1.3.9 Trade and Other Receivables

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

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

1.3.10 Cash and Cash Equivalents

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

1.3.11 Stated Capital

(a) Classification

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

(b) Dividends

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

1.3.12 Current and Deferred Income Tax

a) Current Taxes

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

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

b) Deferred Taxation

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

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

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

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

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

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

1.3.13 Employee Benefits

(a) Defined Benefit Plans – Gratuity

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

The retirement benefit obligation of the company is based on the actuarial valuation carried out by Messrs. Actuarial & Management Consultants (Pvt) Ltd. The actuarial valuations involve making

assumptions about discount rates and future salary increases. The complexity of the valuation, the underlying assumptions and its long term nature, a defined benefit obligation are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. Details of the key assumptions used in the estimates contain in note no 16. The main assumptions used relate to mortality, disability rates and withdrawal rates. The assumptions regarding the discount rate and salary rate are of critical importance in determining the pace of providing for a final salary retirement scheme.

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

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

1.3.14 Grants and Subsidies

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

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

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

1.3.15 Trade and Other Payables

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

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

1.3.16 Provisions

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

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

1.3.17 Commitments

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

1.3.18 Related Party Transactions

Disclosure is made in respect of the transaction in which one party has the ability to control or exercise significant influence over the financial and operating policies/decisions of the other, irrespective of whether a price is charged. Relationship between parent and subsidiaries shall be disclosed irrespective of whether there have been transactions between those related parties.

1.3.19 Revenue Recognition

Revenue from contracts with customers

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

(a) Goods transferred at a point of time

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

(b) Service transferred over time

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

(c) Interest Income

Interest income is recognized using the effective interest method.

(d) Dividend Income

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

(e) Other Income

Other income is recognized on accrual basis.

1.3.20 Expenditure

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

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

3. PROPERTY, PLANT AND EQUIPMENT

a) Tangible assets

Description of Assets	Balance		Additions		Cost/Valuation		Transfers		Balance		Depreciation		Balance		Written Down Value	
	As At								As At				As At		As At	
	Rs.	01.01.2019	Rs.	01.01.2019	Rs.	31.12.2019	Rs.	01.01.2019	Rs.	31.12.2019	Rs.	01.01.2019	Rs.	31.12.2019	Rs.	31.12.2019
Freehold																
Land	3,250,000		-	-	-	3,250,000	-	-	-	-	-	-	-	-	3,250,000	3,250,000
Buildings	507,345,106		2,876,067	510,221,172	-	510,221,172	-	129,024,894	42,472,865	171,497,759	378,320,212	378,320,212	378,320,212	338,723,413	338,723,413	338,723,413
Plant and Machinery	7,375,587,018		46,232,055	7,433,197,173	-	7,433,197,173	11,378,100	1,531,318,511	397,436,776	1,928,755,287	5,844,268,507	5,844,268,507	5,844,268,507	5,504,441,887	5,504,441,887	5,504,441,887
Furniture and Fittings	45,887,661		4,794,545	50,682,206	-	50,682,206	-	37,509,607	3,230,290	40,739,897	8,378,053	8,378,053	8,378,053	9,942,308	9,942,308	9,942,308
Laboratory Equipment	77,485,874		5,030,394	82,516,268	-	82,516,268	-	53,179,696	7,425,785	60,605,481	24,306,178	24,306,178	24,306,178	21,910,788	21,910,788	21,910,788
Motor Vehicles	97,101,450		-	142,852,408	(2,250,000)	48,000,958	48,000,958	96,242,880	3,180,658	97,194,750	858,570	858,570	858,570	45,657,658	45,657,658	45,657,658
Tools and Equipment	322,203,703		11,543,262	333,746,966	-	333,746,966	-	244,312,620	26,125,415	270,438,034	77,891,084	77,891,084	77,891,084	63,308,931	63,308,931	63,308,931
Bottles and Crates	349,496,153		5,814,173	355,310,326	-	355,310,326	-	302,855,435	20,568,620	323,424,055	46,640,718	46,640,718	46,640,718	31,886,271	31,886,271	31,886,271
Computer Equipment	48,134,443		4,369,288	52,503,731	-	52,503,731	-	32,267,911	5,931,322	38,199,234	15,866,532	15,866,532	15,866,532	14,304,497	14,304,497	14,304,497
Bottle Coolers	148,634,639		3,465,905	152,100,544	-	152,100,544	-	138,813,799	3,819,502	142,633,301	9,820,840	9,820,840	9,820,840	9,467,243	9,467,243	9,467,243
Office Equipment	9,964,767		319,339	10,197,986	(86,121)	-	-	7,050,391	944,765	7,987,370	2,914,376	2,914,376	2,914,376	2,210,616	2,210,616	2,210,616
Milk Cans	80,176,804		2,045	80,178,849	-	80,178,849	-	58,811,020	6,392,997	65,204,017	21,365,784	21,365,784	21,365,784	14,974,832	14,974,832	14,974,832
	9,065,267,617		84,447,074	9,206,757,629	(2,336,121)	59,379,058	59,379,058	2,631,386,764	517,528,994	3,146,679,184	6,433,880,853	6,433,880,853	6,433,880,853	6,060,078,444	6,060,078,444	6,060,078,444
Intangible Assets																
Computer Software	2,837,209		-	2,837,209	-	-	-	2,632,871	83,333	2,716,204	204,338	204,338	204,338	121,005	121,005	121,005
Leasehold Assets																
Motor Vehicles	75,245,958		17,294,907	73,442,966	-	(19,097,898)	(19,097,898)	57,830,315	10,011,012	67,841,327	17,415,643	17,415,643	17,415,643	5,601,639	5,601,639	5,601,639
Total	9,143,350,784		101,741,981	9,283,037,804	(2,336,121)	40,281,160	40,281,160	2,691,849,950	527,623,340	3,217,236,716	6,451,500,834	6,451,500,834	6,451,500,834	6,065,801,089	6,065,801,089	6,065,801,089

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 31st March, 2009 there is an impact on depreciation charge thereafter.

MILCO (PVT) LTD.
NOTES TO THE FINANCIAL STATEMENTS
AS AT 31ST DECEMBER, 2019



	Balance As At 01.01.2019	Incurred During the Period	Capitalized/ Charged During the Period	Balance As At 31.12.2019
	Rs.	Rs.	Rs.	Rs.
4. CAPITAL WORK-IN-PROGRESS				
Construction of New Milk Factory - Badalgama (Refer Note 15) *	10,957,945,499	713,780,796	-	11,671,726,295
Construction of Gatabe Sales Outlet	150,000	-	-	150,000
Installation of Cup & Cone Filler at Digana Milk Factory	15,445,587	-	-	15,445,587
Modernization of Factories- Polonnaruwa, Ambewela and Digana (Refer Note 15) *	790,264,562	-	-	790,264,562
Development Projects at Ambewela Milk Factory	71,342,562	-	-	71,342,562
Construction of Cool Room at Polonnaruwa Milk Factory	11,378,100	-	(11,378,100)	-
Pro- Fit Management Information System Implementation	2,571,770	1,607,760	-	4,179,530
Construction of Chilling Centre- Palathoppur	26,190	714,909	(741,099)	-
Lorry Chasis Under Development	45,330,756	-	(27,616,206)	17,714,550
Construction of Chilling Centre- Lunugala	-	57,500	-	57,500
Construction of building at Ambewela Milk Factory	-	7,055,125	-	7,055,125
Construction of office building at Digana Milk Factory	-	10,222,824	-	10,222,824
	<u>11,894,455,027</u>	<u>733,438,915</u>	<u>(39,735,405)</u>	<u>12,588,158,537</u>

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".

4.3 Expenses incurred on Construction of Chilling Centre- Palathoppur has been charged to income statement during the year.

	As at 31 st December, 2019 Rs.	As at 31 st December, 2018 Rs.
5 FINANCIAL INSTRUMENT - AMORTISED COST		
5.1 Long-Term Fixed Deposits		
Fixed Deposits - BOC - US \$	578,599,135	559,058,332
Fixed Deposits - PB & PABC	209,097,006	210,205,108
	<u>787,696,142</u>	<u>769,263,440</u>

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	356,287,245	560,536,942
Adjustment of exchange impact	-	543,766,109
Transferred to Capital Work in Progress	(217,134,563)	(748,015,807)
Balance at the end of the year	<u>139,152,682</u>	<u>356,287,245</u>

As detailed in note no 15 to these financial statements, establishment of a dairy 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	7.1	321,342,530	387,696,803
Work-in-Progress		5,895,808	2,989,381
Finished Goods		218,770,084	677,601,473
Consumables	7.2	548,245,734	441,729,431
Goods in Transit	7.3	10,973,035	7,813,624
Provision for Inventory	7.4	(12,096,362)	(12,096,362)
		<u>1,093,130,830</u>	<u>1,505,734,350</u>

7.1 Raw and Packing Materials

Raw Materials - Dairy Production	70,799,062	82,419,493
Packing Material	230,784,760	274,243,365
Raw Milk Stock	12,722,205	23,997,441
Bottle Cooler Stock	3,496,313	3,496,313
Drugs and Other Stock	3,540,190	3,540,190
	<u>321,342,530</u>	<u>387,696,803</u>

MILCO (PVT) LTD.
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AS AT 31ST DECEMBER, 2019



		As at 31st December, 2019 Rs.	As at 31st December, 2018 Rs.
7.2 Consumables			
General Stores		53,108,135	50,418,442
Engineering Stores		443,052,222	339,872,187
Motor Stores		13,159,699	12,570,054
Fuel and Lubricant Stores		29,896,808	29,839,877
Milk Can Stock		9,028,871	9,028,871
		<u>548,245,734</u>	<u>441,729,431</u>
7.3 Goods In Transit			
Finished Goods in Transit		5,151,487	4,837,300
Goods in Transit Lab Equipment		125,798	125,798
Raw Milk In Transit		4,827,551	2,755,326
Yogurt Culture		868,200	95,200
		<u>10,973,035</u>	<u>7,813,624</u>
7.4 Provision For Inventory			
Packing Material		(10,163,806)	(10,163,806)
General Stores		(332,731)	(332,731)
Engineering Stores		(1,523,655)	(1,523,655)
Fuel Stores		(76,170)	(76,170)
		<u>(12,096,362)</u>	<u>(12,096,362)</u>
7.5	Inventories pledged as collaterals to obtain various financial assistance from the financial institutions are disclosed in Note No. 30 to these financial statements.		
8 TRADE AND OTHER RECEIVABLES			
Trade Receivables	8.1	755,350,643	832,713,150
Receivable from the Government of Sri Lanka	8.2	6,973,875	6,973,875
Other Debtors		48,852,088	67,564,460
Advances, Deposits and Prepayments		159,647,848	151,382,104
Staff Debtors		161,476,069	161,602,135
Import Control		58,934,995	68,197,709
		<u>1,191,235,517</u>	<u>1,288,433,432</u>

	As at 31st December, 2019 Rs.	As at 31st December, 2018 Rs.
8.1 Trade Receivables		
Total Debtors	806,264,268	883,626,774
Less: Provision for Impairment	(50,913,625)	(50,913,625)
	<u>755,350,643</u>	<u>832,713,150</u>
8.2 Receivable from the Government of Sri Lanka		
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	278,981,206
Receivable from Parliament Affairs	94,333	94,333
	<u>285,955,081</u>	<u>285,955,081</u>
Less: Provision for Impairment	(278,981,206)	(278,981,206)
	<u>6,973,875</u>	<u>6,973,875</u>
9 INCOME TAX RECEIVABLE		
WHT Receivables	9,038,230	6,925,129
ESC Receivables	203,476,482	165,978,111
	<u>212,514,712</u>	<u>172,903,239</u>
10 CASH AND CASH EQUIVALENTS		
Balances at Banks	7,989,149	13,963,657
Petty Cash in Hand	4,825,402	5,305,601
	<u>12,814,551</u>	<u>19,269,258</u>
11 STATED CAPITAL		
Issued and fully paid	No of Shares 31,945,406	319,454,060
	<u>319,454,060</u>	<u>319,454,060</u>
12 CAPITAL RESERVE		
12.1 Acquisition and Upgrading of Plant and Machinery	<u>25,000,000</u>	<u>25,000,000</u>

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

MILCO (PVT) LTD.

NOTES TO THE FINANCIAL STATEMENTS

AS AT 31ST DECEMBER, 2019



		As at 31st December, 2019 Rs.	As at 31st December, 2018 Rs.
13 SINKING FUND			
Transferred from Retained Earnings			1,689,978
		-	1,689,978
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.			
14 DEFERRED TAX LIABILITY			
At the Beginning of the Year		-	190,386,471
Charge (to)/from Statement of Comprehensive Income		-	(190,386,471)
At the End of the Year		-	-
14.1	Tax effect on Temporary Difference on Property, Plant and Equipmer	784,548,101	589,435,761
	Tax effect on Temporary Difference on Retirement Benefit Obligation	(91,219,106)	(73,823,134)
Less:	Tax effect on Temporary Differences on Tax Losses	(949,598,697)	(704,424,211)
	Probable Deferred Tax Liability	(256,269,701)	(188,811,584)
Deferred tax assets amounting to LKR 256,269,701 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.			
15 LOANS AND BORROWINGS			
15.1 Interest Bearing Borrowings			
Payable within One Year	15.1.1 to 15.1.4	135,419,841	123,568,773
Payable after One Year	15.1.1 to 15.1.4	18,572,055,438	18,202,111,219
		18,707,475,279	18,325,679,992
15.1.1 Short term loans			
Short term loans taken from Pan Asia Bank		15,727,311	-
		15,727,311	-
15.1.2 Gross Lease Creditor			
Balance at the Beginning of the Year		48,772,108	77,273,391
During the Year Additions		27,049,248	-
During the Year Payments		(30,448,356)	(28,501,283)
Balance at the end of the Year		45,373,000	48,772,108
Interest in Suspense			
Balance at the Beginning of the Year		5,860,539	12,590,628
On Lease Facility Obtained During the Year		6,236,748	-
Amount Transferred to Statement of Comprehensive Income		(5,225,511)	(6,730,089)
Balance at the End of the Year		6,871,776	5,860,539
Net Liability		38,501,224	42,911,569
Current Maturity Portion		19,454,480	23,549,207
Long-Term Maturity Portion		19,046,744	19,362,363
		38,501,224	42,911,569

	As at 31st December, 2019 Rs.	As at 31st December, 2018 Rs.
15.1.3 Bank Loans and Borrowings		
Balance at the Beginning of the Year	361,686,067	363,545,693
Received During the Year	-	100,000,000
Less: During the Year Payments	(122,936,197)	(101,859,626)
Balance at the End of the Year	238,749,870	361,686,067
 Current Maturity Portion	 100,238,050	 100,019,567
Long-Term Maturity Portion	138,511,820	261,666,500
	<u>238,749,870</u>	<u>361,686,067</u>

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

15.1.4 Borrowings From Treasury of The Government of Sri Lanka

Balance at the Beginning of the Year	17,921,082,356	15,781,118,709
Granted During the Year	493,414,518	2,139,963,647
Balance at the End of the Year	18,414,496,875	17,921,082,356
 Current Maturity Portion	 -	 -
Long-Term Maturity Portion	18,414,496,875	17,921,082,356
	<u>18,414,496,875</u>	<u>17,921,082,356</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 15th May 2015, entered into an agreement with Desmi Contracting A/S, a company incorporated in Denmark, for establishment of a dairy processing plant at Badalgama (The Project) of the company at a cost of Euro 63.9Mn.

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

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

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

As at 31st December 2019, the project was in progress, 50 shipments have been arrived to the location for a value of EURO 37,424,319 (100% of the shipment value) and 19 milestone payments were released to the contractor amounting to EURO 24,425,951

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, 2019 Rs.	As at 31st December, 2018 Rs.
15.2 Non-Interest Bearing Borrowings		
Long-Term Portion		
National Milk Board	2,108,063	2,108,063
	<u>2,108,063</u>	<u>2,108,063</u>
16 RETIREMENT BENEFIT OBLIGATION - GRATUITY		
Balance at the Beginning of the Year	527,308,101	559,394,914
Current Service Cost	36,401,372	29,093,239
Interest Cost	61,853,240	57,953,313
(Gain)/ Loss from Changes in Assumption	67,714,812	(80,551,142)
Payment Made During the Year	(41,712,485)	(38,582,223)
Balance at the End of the Year	<u>651,565,041</u>	<u>527,308,101</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 31st December, 2019. 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	10.23% 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%	*	43,607,265	607,957,776
-1%	*	(49,189,955)	700,754,996
**	1%	(51,822,354)	703,387,395
**	-1%	46,677,102	604,887,939

* Salary Increment Rate 10% for the Company

** Discount Rate 10.23%

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AS AT 31ST DECEMBER, 2019



	As at 31st December, 2019 Rs.	As at 31st December, 2018 Rs.
17 GOVERNMENT GRANT		
17.1 Balance at the Beginning of the Year	41,712,392	56,896,504
Grant Received During the Year	-	4,573,003
Grant Recognized to the Statement of Comprehensive Income During the Year	(12,632,398)	(19,757,115)
Balance at the End of the Year	<u>29,079,994</u>	<u>41,712,392</u>
17.2 Deferred Government Grant		
Grant of Samanthurai	764,401	910,000
Grant of Thimilathive	945,000	1,125,000
Grant of Milk Cans	114,392	114,392
Grant of 14 Sales Outlets	543,750	618,750
Grant of LCRD	16,000,582	17,335,969
Grant of Cooling tanks	6,086,091	16,982,502
Grant of Electric Grass Cutters	52,776	52,776
Grants of Coolers	4,573,003	4,573,003
	<u>29,079,994</u>	<u>41,712,392</u>
18 TRADE AND OTHER PAYABLES		
Trade Creditors	222,900,853	261,537,239
Expense Creditors	424,278,363	237,010,677
Other Payables	114,908,066	342,557,755
	<u>762,087,282</u>	<u>841,105,671</u>
19 BANK OVERDRAFTS		
Bank of Ceylon - 1758	855,850,737	725,746,361
Bank of Ceylon - 1766	34,087,742	6,861,252
People's Bank - 41180210331	209,859,167	203,436,653
People's Bank - 41120210937	22,120,066	28,474,311
People's Bank - Polgahawela	330,793	3,380,062
BOC - Kandy City Branch - 9326	8,015,636	711,964
People's Bank - 210332	9,932,147	15,108,872
Bank of Ceylon	93,622	93,622
Pan Asia 100311007597	248,602,840	257,935,810
Bank of Ceylon - 7963	1,582,596	1,918,545
People's Bank - Kaduruwela	10,196,989	8,485,295
People's Bank - Nuwara Eliya	5,860	-
Pan Asia Bank	159,706	-
	<u>1,400,837,901</u>	<u>1,252,152,747</u>



MILCO (PVT) LTD.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2019

	For the Year Ended 31st December, 2019 Rs.	For the Year Ended 31st December, 2018 Rs.
20 REVENUE		
Gross Sales	10,509,415,104	11,849,851,230
Nation Building Tax	(195,594,831)	(237,507,209)
	<u>10,313,820,273</u>	<u>11,612,344,021</u>
21 OTHER INCOME		
Surcharges on Returned Cheques	6,415,722	11,213,726
Non Refundable Deposit	42,500	142,000
Non Refundable tender Deposit	513,000	1,395,837
Subsidy on Milk Powder Sales	-	212,222,190
Differed Income	12,632,398	19,757,115
Registration of Suppliers	3,572,000	2,881,000
Sundry Income	2,226,434	231,951
Exchange Gain	-	88,548,642
Fines & Surcharges	1,159,556	645,893
House Rent	1,782,804	1,421,552
Sale of Unserviceable Items	579,231	1,306,862
Disposal gain	566,035	12,600,907
Margin on Liquid Milk Sale	220,042	13,936,616
	<u>29,709,723</u>	<u>366,304,291</u>
22 FINANCE INCOME		
Interest on Call/Fixed Deposit - Local	19,930,044	18,586,884
Interest on Fixed Deposit - Foreign Currency (USD)	23,178,274	20,727,052
Interest on Staff Loans	6,818,527	6,821,755
	<u>49,926,845</u>	<u>46,135,691</u>
23 FINANCE COSTS		
Interest on Finance Lease	5,218,823.28	6,668,083
Interest on Loans	38,258,234.33	38,063,199
Interest on Bank Overdrafts	152,362,290.35	144,433,083
	<u>195,839,348</u>	<u>189,164,365</u>

MILCO (PVT) LTD.
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FOR THE YEAR ENDED 31ST DECEMBER, 2019



		For the Year Ended 31st December, 2019 Rs.	For the Year Ended 31st December, 2018 Rs.
24 INCOME TAX EXPENSES			
Current Income Tax Provision	24.1	-	-
Deferred Tax Charge for the Year	14	-	(190,386,471)
Deferred Tax Charge against other comprehensive income		-	(11,277,160)
		<u>-</u>	<u>(201,663,631)</u>
24.1 Accounting Profit Before Taxation		(862,714,548)	(683,449,491)
Less: Income Considered Separately		(50,492,880)	(134,684,332)
Profit from Trade or Business		(913,207,428)	(818,133,823)
Less: Net allowable and Disallowable Expenses for Tax Purpose		(1,173,494,460)	(1,450,464,440)
Business (Loss)/Profit Applicable Taxation		-	-
Tax Rate		14%	14%
Exempt Other Income		-	-
Liabile Other Income		49,926,845	134,684,332
Tax Rate		14%	14%
Tax on Chargeable Profit or Income		6,989,758	13,982,705
Tax Effect on Deductions		(6,989,758)	(13,982,705)
Provision for the Year (Tax on Adjusted Income)		<u>-</u>	<u>-</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.

	2019 Rs.	2018 Rs.
Net Profit/(loss) Attributable to Ordinary Shares	(862,714,548)	(481,785,860)
Weighted Average Number of Ordinary Share	31,945,406	31,945,406
	<u>(27.01)</u>	<u>(15.08)</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:

	For the Year 31st December 2019	For the Year 31st December 2018
Short-term employee benefits	<u>3,957,907</u>	<u>5,545,434</u>

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.

MILCO (PVT) LTD.
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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 31.12.2019 Rs.	Balance Outstanding As At 31.12.2018 Rs.	Repayment	Assets Pledged
Loan granted by Bank of Ceylon	700,000,000	11,666,500	186,666,520	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	45,000,000	75,000,000	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 Bank of Ceylon	12,484,000	47	19,547	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
Bank Overdraft facility provided by Bank of Ceylon	600,000,000	629,192,300	597,682,334	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	187,669,547	181,026,572	On Demand	Fixed deposit amounting to Rs. 155,000,000.
Post Dated Cheque discounting facility provided by Bank of Ceylon	75,000,000	58,983,395	85,545	On Demand	Lodgment of Trade related Post dated Cheques.
Post Dated Cheque discounting facility provided by Pan Asia Bank	300,000,000	100,000,000	75,805,603	On Demand	Lodgment of Trade related Post dated Cheques.
Bank Overdraft facility provided by Pan Asia Bank	100,000,000	100,000,000		On Demand	Fixed deposit amounting to Rs. 50,000,000 and 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 were authorized for issue that require adjustments to, or disclosures in the Financial Statements, except following.

Cabinet paper no. 21/0199/323/012 dated, 11.01.2021, presented by the Ministry of Agriculture on "Modernization project of Polonnaruwa, Ambewela and Digana dairy factories" was approved by the cabinet on 08.02.2021.

Accordingly, approval was grant to;

- a. convert the loan on-lent to Milco (Pvt) Ltd, as equity contribution of General Treasury.
- b. waive off the outstanding loan interest as at 31.12.2020

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.

	Carrying Amount Rs.	Fair Value Rs.
Financial Assets		
Financial Instrument - Amortised cost	787,696,142	787,696,142
Trade and Other Receivables	1,031,587,670	1,031,587,670
Cash and Cash Equivalents	12,814,551	12,814,551
Total Financial Assets	<u>1,832,098,363</u>	<u>1,832,098,363</u>
Financial Liabilities		
Trade and Other Payables	723,395,542	723,395,542
Interest Bearing Loans and Borrowings	254,477,181	254,477,181
Payable to the Treasury of Government of Sri Lanka	18,414,496,875	18,414,496,875
Bank Overdraft	1,400,837,901	1,400,837,901
Total Financial Liabilities	<u>20,793,207,498</u>	<u>20,793,207,498</u>

32.1 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	Less than 2 Months	2 to 12 Months	1 to 5 Years	Over 5 Years	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Financial Instrument - Held to Maturity	-	-	-	787,696,142	-	787,696,142
Trade and Other Receivables	-	1,031,587,670	-	-	-	1,031,587,670
Cash and Cash Equivalents	12,814,551	-	-	-	-	12,814,551
Total Financial Assets	12,814,551	1,031,587,670	-	787,696,142	-	1,832,098,363
Financial Liabilities						
Trade and Other Payables	-	723,395,542	-	-	-	723,395,542
Interest Bearing Loans and Borrowings	-	28,661,075	118,316,270	107,499,836	-	254,477,181
Payable to the Treasury of Government of Sri Lanka	-	-	-	-	18,414,496,875	18,414,496,875
Bank Overdraft	1,400,837,901	-	-	-	-	1,400,837,901
Total Financial Liabilities	1,400,837,901	752,056,617	118,316,270	107,499,836	18,414,496,875	20,793,207,498
Total Net Financial Assets/ (Liabilities)	(1,388,023,349)	279,531,053	(118,316,270)	680,196,306	(18,414,496,875)	(18,961,109,135)

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.

MILCO (PVT) LTD.
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31ST DECEMBER, 2019



		For the Year Ended 31st December, 2019 Rs.	For the Year Ended 31st December, 2018 Rs.
Revenue		10,313,820,273	11,612,344,021
Cost of Sales	I	<u>(9,917,539,530)</u>	<u>(11,385,405,568)</u>
Gross Profit		396,280,743	226,938,453
Other Operating Income	II	<u>29,709,723</u>	<u>366,304,291</u>
		425,990,466	593,242,745
Administrative Expenses	III	(688,427,005)	(640,583,272)
Distribution Expenses	IV	(399,206,715)	(475,008,669)
Other Expenses	V	<u>(55,158,791)</u>	<u>(18,071,620)</u>
Profit/ (Loss) from Operations		<u>(716,802,045)</u>	<u>(540,420,816)</u>
Finance Income	VI	49,926,845	46,135,691
Finance Expenses	VII	<u>(195,839,348)</u>	<u>(189,164,365)</u>
Net Profit/ (Loss) Before Taxation		<u>(862,714,548)</u>	<u>(683,449,491)</u>
Income Tax Expenses		-	201,663,631
Net Profit/(Loss) for the Year after Taxation		<u><u>(862,714,548)</u></u>	<u><u>(481,785,860)</u></u>

	For the Year Ended 31st December, 2019 Rs.	For the Year Ended 31st December, 2018 Rs.
I. COST OF SALES		
Cost of Purchase of Raw Milk	4,629,414,135	6,254,217,942
Chilling Cost	425,531,416	421,442,468
Development Cost	260,485,819	288,963,699
Bowser Cost	247,967,584	294,113,152
Net Stock Adjustments on Raw Materials	488,424	605,463
Cost of Other Raw Materials	1,099,619,705	968,969,461
Total Cost of Raw Materials	6,663,507,082	8,228,312,184
Cost of Packing Materials	1,313,757,788	1,131,363,981
Cost of Processing and Packing Labor	552,336,471	470,948,130
Prime Cost	8,529,601,341	9,830,624,295
 Energy Cost		
Furnace Oil	329,252,004	377,083,401
Electricity	141,676,555	132,079,297
Diesel	55,173,113	98,022,919
Water	22,103,605	25,782,779
Other Energy Cost	92,153	56,439
Total Energy Cost	548,297,430	633,024,835
 Other Consumables		
Lab Chemicals	10,615,442	11,693,558
Detergent & Cleaning Material	68,056,539	66,220,434
Wages and Staff Welfare of Factory Staff	355,224,055	279,215,650
Marginal Cost	9,511,794,807	10,820,778,773
 Factory Overheads		
Depreciation of Plant and Machinery	459,788,527	459,494,249
Repairs and Maintenance of Plant and Machinery	194,149,607	195,496,533
Repairs and Maintenance of Buildings	9,643,643	22,053,156
Transport	3,591,535	2,128,738
Insurance	30,730,303	29,049,708
Total Factory Overheads	697,903,615	708,222,383
Total Cost of Production	10,209,698,421	11,529,001,156
Net Stock/ Transfer Adjustments on Finish Goods	(224,638,837)	(224,449,597)
Adjustment for Changes in Actuary Assumption	(67,714,812)	80,551,142
Unrealised profit adjustment	194,758	302,867
	9,917,539,530	11,385,405,568

MILCO (PVT) LTD.
DETAIL NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER, 2019



	For the Year Ended 31st December, 2019 Rs.	For the Year Ended 31st December, 2018 Rs.
II. OTHER INCOME		
Surcharges on Returned Cheques	6,415,722	11,213,726
Non Refundable Deposit	42,500	142,000
Non Refundable tender Deposit	513,000	1,395,837
Subsidy on Milk Powder Sales	-	212,222,190
Differed Income	12,632,398	19,757,115
Registration of Suppliers	3,572,000	2,881,000
Sundry Income	2,226,434	231,951
Exchange Gain	-	88,548,642
Fines & Surcharges	1,159,556	645,893
House Rent	1,782,804	1,421,552
Sale of Unserviceable Items	579,231	1,306,862
Disposal gain	566,035	12,600,907
Margin on Liquid Milk Sale	220,042	13,936,616
	<u>29,709,723</u>	<u>366,304,291</u>
III. PERSONNEL EXPENSES		
Staff Salaries	229,043,057	225,812,029
Staff Allowances	13,608,970	18,625,959
Contributions to Employees' Provident Fund	21,496,286	20,783,117
Contributions to Employees' Trust Fund	5,360,949	5,205,863
Provision for Defined Benefit Plans - Gratuity	40,298,106	903,430
Overtime	13,037,938	12,065,910
Staff Bonus	13,952,543	10,276,133
Casual Wages	1,781,277	2,931,757
Overtime	22,200	23,800
E.P.F.	10,720	12,443
E.T.F.	2,680	3,111
Incentives	1,220,359	1,315,510
Leave Payment	10,330,764	14,624,543
Transport Allowance	3,853,696	3,192,222
Fuel Allowances	1,235,848	1,563,935
Staff Training	671,600	1,113,450
Medical expenses	1,982,018	2,408,865
Death Donation	280,000	150,000
Gift Vouchers	350,378	364,146
Staff Welfare	13,497,107	13,926,488
Mid day Allowance	359,010	490,721
Field Allowance	560,600	562,050
Uniform	243,935	54,157
Telephone Allowances	123,500	195,166
	<u>373,323,541</u>	<u>336,604,805</u>

	For the Year Ended 31st December, 2019 Rs.	For the Year Ended 31st December, 2018 Rs.
III.I ADMINISTRATION AND ESTABLISHMENT EXPENSES		
Repairs and Maintenance	38,610,720	40,141,160
Directors Expense	6,518,158	7,640,118
Travelling	9,923,389	7,014,862
Garden Maintains	11,617,039	12,323,610
Bank Charges	2,685,539	2,858,392
Bungalow Expenses	1,480,378	1,738,269
Quality Control Expenses	1,622,190	2,253,062
Depreciation on Property, Plant and Equipment	29,342,782	34,457,858
Legal Charges	4,982,320	3,538,723
Printing and Stationary	12,495,734	10,549,616
Security Charges	54,222,339	54,228,567
PEST control	556,800	122,400
Sundry Expenses	1,011,907	3,898,369
Electricity expenses	13,900,139	13,012,863
Water expenses	718,818	679,352
Rent & Rates	20,959,813	20,695,776
Stamp Expenses	16,826	(7,915)
Postege Expenses	338,883	385,724
Advertisment	546,171	688,210
News Papers & Periodicals	524,480	528,010
Vehicle License	359,693	145,895
Vehicle Hiring	3,484,858	2,677,101
Accounting & Auditing expenses	8,628,939	9,970,428
Consultancy Charges	5,656,123	4,943,731
Insurance	28,002,155	15,318,689
Fuel Expenses	29,320,421	31,840,428
DESMI Project Expenses	3,004,165	-
Telephones Expenses	5,480,713	6,995,889
ESC - Write Off	15,364,873	12,434,370
Other Expense	94,511	983,153
Entertainment Expenses	1,066,002	904,242
Stud Bull Project	-	661,016
Non Refundable Deposits	-	356,500
Exchange loss	2,566,588	-
	<u>315,103,463</u>	<u>303,978,467</u>
Total Administration Expenses	<u><u>688,427,005</u></u>	<u><u>640,583,272</u></u>



	For the Year Ended 31st December, 2019 Rs.	For the Year Ended 31st December, 2018 Rs.
IV. SELLING AND DISTRIBUTION EXPENSES		
Advertisements and Sales Promotion	68,377,727	83,447,686
Transport Expenses	115,743,779	135,416,772
Sales Commission	28,282,771	58,593,641
Warehousing Chargers	8,948,457	22,690,119
Vehicle hiring chargers	40,137,026	40,534,143
Out Let Expense	124,688,644	106,614,058
Repair & Maintanance of Motor Vehicle	476,827	14,903
Repairs & Maintenance of Bottle Coolers	63,266	48,383
Fuel	731,999	1,014,951
Free issues and write off of Finish Goods	11,756,219	26,634,013
	<u>399,206,715</u>	<u>475,008,669</u>
V. OTHER EXPENSES		
Loss on Milk Transfers	-	15,057,783
Stock write-off- Finish goods	47,180,280	3,013,837
Stock write-off- Raw & packing materials	7,978,511	-
	<u>55,158,791</u>	<u>18,071,620</u>
VI. FINANCE INCOME		
Interest on call/fixed deposit	19,930,044	18,586,884
Interest on Fixed Deposit - Foreign Currency (USD)	23,178,274	20,727,052
Interest on Distress Loan	6,453,526	6,512,797
Interest on Motor Cycle Loan	204,218	202,634
Interest on Special Loan	160,782	106,324
	<u>49,926,845</u>	<u>46,135,691</u>
VII. FINANCE COSTS		
Interest on Bank Overdrafts	152,362,290	144,433,083
Lease Interest	5,218,823	6,668,083
Loan Interest	38,258,234	38,063,199
	<u>195,839,348</u>	<u>189,164,365</u>



FINANCIAL HIGHLIGHTS In Rs. Million

		2019 Jan to Dec	2018 Jan to Dec	2017 Jan to Dec	2016 Jan to Dec	2015 Jan to Dec	2014 Apr to Dec
<u>OPERATION RESULTS</u>							
Turnover (Net)	Rs. Mn	10,313.82	11,612.34	10,161.30	8,679.47	7,584.73	5,627.62
Total expenses		11,256.17	12,094.13	10,767.49	8,352.38	7,597.03	5,385.66
Gross Profit	Rs. Mn	396.28	226.94	375.96	835.60	572.76	770.97
Profit before tax	Rs. Mn	(862.71)	(683.45)	(434.93)	339.33	3.82	248.16
Income tax Expenses	Rs. Mn	-	201.66	(171.26)	(12.25)	(16.12)	(6.20)
Profit After Tax	Rs. Mn	(862.71)	(481.79)	(606.19)	327.08	(12.30)	241.96
<u>BALANCE SHEET</u>							
Stated Capital	Rs. Mn	319.45	319.45	319.45	319.45	319.45	319.45
Retained earnings	Rs. Mn	(145.25)	785.18	1,183.74	1,665.98	1,257.79	1,230.94
Sinking Fund	Rs. Mn	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
Revaluation Reserve	Rs. Mn	336.45	336.45	336.46	336.46	336.46	336.46
Shareholders fund	Rs. Mn	<u>537.35</u>	<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>
Non current assts	Rs. Mn	19,580.81	19,471.51	17,511.40	14,763.67	12,261.55	8,143.18
Net Current Assets/(Liabilities)	Rs. Mn	211.35	769.51	1,090.41	1,670.87	(243.15)	(143.37)
Long term/(Deferred Liabilities)	Rs. Mn	19,254.81	18,773.24	16,735.47	14,085.96	10,078.01	6,086.27
<u>RATIOS</u>							
Earning per share	Rs.	(27.01)	(15.08)	(18.98)	10.24	(0.39)	7.57
Total Assets to share holders fund	Times	41.11	15.30	11.10	7.41	7.24	5.40
Net Assets per share	Rs.	16.82	45.95	58.42	73.52	60.74	59.90
Return on equity	%	(160.55)	(32.82)	(32.48)	13.93	(0.63)	12.64
Gross Profit Ratio	%	3.84	1.95	3.70	9.63	7.55	13.70
Net Profit Ratio	%	(8.36)	(4.15)	(5.97)	3.77	(0.16)	4.30
Current Assets Ratio	Times	1.09	1.35	1.52	2.73	0.88	0.94
Quick Assets Ratio	Times	0.62	0.67	0.69	1.85	0.05	0.66