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වருடාந்த அறிக்கை
ANNUAL REPORT
2013 - 2014



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 1982
Registered Office	- No. 45, Nawala Road, Narahenpita, Colombo 05. - Tel: 0112586174, 0112582331-4, 0112586872 - Fax: 0112368082/ 0115333328 - 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. 28, Rosmead Place, Colombo 07.
Directors	- Mr. Sunil Wickremasinghe - Chairman Mr. Sanjaya Leelaratne - Deputy Chairman Mr. Naushard Junaideen - Working Director Mr. S.Loganathan - Director Mr. Ajith Dissanayake - Director Mr. Thilanka Weerasinghe - Director Mr. W.G.R.H.Panditharathne - Director Mr. Mohamed Cader - Director Mr. S.S.Mudalige - Director
Auditors	- Internal 1. M/ S SJMS Associates, No. 02. Castle Lane, Colombo 04. - April 2012 2. Ernst & Young Advisory Services (Pvt) Ltd, 201, De Saram Place, Colombo 10. - May 2012 onwards -External M/S BDO Partners, No: 65/2, Sir Chittampalam A Gadiner Mawatha, Colombo 02.
Bankers	- Peoples' Bank - Bank of Ceylon

Corporate Overview

Against a backdrop of a growing economy and competitive market conditions, I am pleased with the progress the Company has made in growing volumes. Reported profits, are in line with expectations. The completion of our modernization facilities at Polonnaruwa, Digana and Ambewela under the DESMI Project provides us with the capacity to process over 600,000 liters of milk per day up from 250,000 liters per day into Yoghurt, Milk Powder, ice Cream, UHT milk, Condensed Milk, Cheese and Curd that is free of chemical preservatives. We are proud of this investment, which has been critical to our volume growth and improved efficiencies. In keeping with the government policies our efforts are to popularize the consumption of fresh milk thus the investment in two UHT lines in Polonnaruwa and Digana. Our goal is to provide top quality nutrition to the people of our country and eliminate the use of imported milk powder which incurs high foreign exchange. In the last year, all of the major retailers began sourcing fresh milk from the pool of limited producers and this heightened level of completion to procure good quality milk.

Financial Results

Revenues grew from Rs. 3.5 Billion in 2010 to Rs. 8.2 Billion in 2014 with a profit of Rs. 166,376,900.00. In 2011 we paid out Rs. 2,874 Million for 52.8 Million liters of raw milk. In 2014 we paid out Rs. 3,339 Million for 65.6 Million liters of milk. The total benefits were channeled through 2200 farmer managed societies to 64,000 farmers.

Dairy farmers who supply the company have also seen significant pressure on their costs, which along with a strong rise in the commodity value of milk, has necessitated increases in the price we are paying for our raw milk.

The increased revenue generated from sales during the year was initially sufficient to offset the increased procurement costs.

As we reported during the year, the business is acting to drive further efficiencies and reduce costs as a means to offset margin pressures and I am pleased with with progress in these areas. Notwithstanding the fact that we are already the lowest cost operator in the sector, we are targeting cost reductions across the supply chain from the collection of milk from farms, to its processing and packing and finally its onward distribution to customers. To date we have identified a number of further cost saving opportunities within our supply chain. These included the closures of our operating facilities at Narahenpita and building an ultra-modern plant at Badalgama, which were announced during 2014. We will continue to seek to improve our operating efficiencies across the business and also to continue to invest in projects that will help us improve margins.

Outlook

We have previously highlighted the intense competitive pressures that have impacted the business in the last year. In recent months we have increased the amount paid for raw milk supplies. The pressure on margins caused by higher input costs continues and is unhelpful, but we are working relentlessly to improve our cost base where possible. The board remains optimistic about the Company's long-term prospects.

Profitable growth must be the focus for our industry if we are to successfully meet this demand, both now and in the near future. We are certainly aware of the threat to our market share posed by our major international competitors.

While Milco does not control the milk price, we can provide farmers with the right resources and know-how to help control key input costs that impact their bottom lines. We need to be looking beyond the short term market challenges and thinking about where we want to be 10 years from now, and making sure that we, both at Milco and in the industry more broadly, have the fundamentals in place to achieve that. Milco's three Strategic priorities are founded on feedback from farmers and the industry about their priority area; targeting farm profitability, protecting and promoting our industry, and addressing consumer needs. At Milco, we are constantly working to improve our engagement with farmers and farmer managed societies to bring Milco closer to the industry. It has been a focus and we continue to improve the way we do it. We are identifying target areas that will really help to accelerate profitability and milk growth over the next few years. These include cow numbers, farm business management, employment and workforce skills, new on-farm investment, and ongoing industry promotion. These align well with our existing Strategic Priorities.

We have achieved some great results through our cooperative efforts. Our relationships with many industry organizations, including the NLDB, AP&H, dairy farmer organizations, the Regional FMSs and others, remain strong and all have contributed invaluable input to the planning we do on the strategic direction of the industry and Milco's investment decisions.

I would like to take this opportunity to thank all of the Company's personnel for their contribution during the year and in particular, in serving our customers. I wish everyone well for the future and thank them for the support and commitment they have given the business through the years.

Finally, I thank on behalf of the MILCO Board of Directors, the Honorable Minister & the Honorable Deputy Minister, Secretary of the Ministry and all ministry staff who supported us in great detail and every individual who had a part to play in the development of MILCO and the Milk Industry in particular.



Sunil Wickramasinghe
Chairman

The Directors of Milco (Pvt) Ltd have pleasure in presenting the Report of the Directors and the Audited Financial Statement for the year ended 31st March 2014.

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 204.5 Mn and depreciation charges are as shown.

BOARD OF DIRECTORS

The following Board of Directors were appointed by the Secretary to the Treasury after formulating of new Ministry of Livestock and Rural Community Development with effect from 13th May 2010.

- Mr. Sunil Chandra Sillapana **WICRAMASINGHE - Chairman**
- Mr. Kankanamge Sanjaya **LEELARATHNE - Deputy Chairman**
- Mr. Mohammed Naushard **JUNAIDEEN - Working Director**
- Mr. Raju **SIVARAMAN - Director - M.Sc (Arch) FIA (Sri Lanka)**
- Mr. Selvadurai **LOGANATHAN - Director - FCMA (UK) FSCMA (Sri Lanka)**
- Mr. Ajith **DISSANAYAKE - Director - (Ph.D)**
- Mr. Thilanka **WEERASINGHE - Director Attorney at Law, Notary Public,
Commissioner for Oaths**
- Mr. Arinesarajah **SHAKTHEVALE - Director - Post Graduation Diploma Agri:
Econ (UK) Bachelors Degree (Vet) Peradeniya**
- Mr. Rathnathilake **LEKAMGE - Director**

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

- Mr. Arinesarajah **SHAKTHEVALE** resigned w.e.f. 21.12.2010.
- Mr. Rathnathilake **LEKAMGE** resigned w.e.f. 21.12.2010.
- Mr. Danuka **DICKWELLA** was appointed w.e.f. 21. 12. 2010.
- Mrs. Dashika **EDWARDS** was appointed w.e.f. 12 .01. 2011 - **Degree (English)**
- Mr. Danuka **DICKWELLA** resigned w.e.f. 26. 04. 2011
- Mr. W.G.R.H.Panditharathne was appointed w.e.f. 26.04.2011
- Mrs. Dashika **EDWARDS Degree (English)** resigned w.e.f. 28. 12. 2012
- Mr. Raju **SIVARAMAN - Director - M.Sc (Arch) FIA (Sri Lanka)** resigned w.e.f. 28. 12. 2012
- Mr. Mohamed Cader was appointed w.e.f. 10.01.2013
- Mr. M.P.D.U.K.Mapa Pathirana was appointed w.e.f. 17.12.2012 (Representative of the Treasury)
- Mr. M.P.D.U.K.Mapa Pathirana resigned w.e.f. 27. 03. 2013
- Mr.S.S.Mudalige was appointed w.e.f. 24.04.2013 (Representative of the Treasury)

SHARE INFORMATION

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

RESERVES

Cumulative profit brought forward of Rupees 1,035,313,218/= adjusted for the current year's Profit Rupees 166,376,900/= after tax given in page 3 of accounts.

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

DIRECTORS' INTEREST IN CONTRACTS

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

CORPORATE GOVERNANCE

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

TAXATION

The income tax liability arising from interest income and differed Tax is Rupees 20,699,439/=. Profits on operating activities are exempted under Section 16 of the Inland Revenue Act No. 10 of 2006.

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

M/S BDO Partners, Chartered Accountants have been nominated by the Auditor General and appointed by the Director General of Department of Public Enterprises at the General Treasury as auditors to audit the Accounts of the Company for the year ended 31.03.2014. 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,



.....

Director



.....

Director

.....

Secretary to the Company

Financial Services & Commercial Agencies (Pvt) Ltd.
(Sec/555/91) No. 28, Rosmead Place, Colombo 07.

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 has branch offices operating with resident officials in the factories of Colombo, Ambewela, 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 through out 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.

The Audit Committee, according to the Public Enterprises Good Governance Regulations and Laws, should comprise of three non-executive Directors of whom one member necessarily has to be the representative of the Treasury, who also functions as Chairman of the Committee. The Committee functioned with two Non-Executive Directors and the undersigned led the Committee as the Chairman for the year under review.

During the period 2013/2014 regular meetings were held and Financial Controller together with the Manager Internal Audit attended all the meetings by invitation.

The purpose of the Audit Committee Meeting is to review in detail the Monthly Internal Audit Reports and the queries and it is discussed with the relevant Functional heads to obtain their clarifications and explanations to ensure corrective actions for highlighted issues that are recommended, communicated, and implemented on time to improve the Internal Control system.

The Committee was able to conduct nine Audit Committee Meetings during the year under review and in which discussions were held on audit queries raised by the Internal Auditors for the year. The Audit Committee observed all important issues and necessary advice was given to relevant Heads of Departments for follow up action.

The Committee also reviewed the Management Report forwarded by the External Auditors and advised the Chairman, Deputy Chairman and the Working Director to examine every aspect of the Management report in detail and take necessary action on these matters with a view to improve the state of affairs of the company.



S.S.MUDALIGE
CHAIRMAN – AUDIT COMMITTEE
MILCO (PRIVATE) LIMITED

BOARD OF DIRECTORS OF MILCO (PVT) LTD.



Left to Right

Mr. Ajith Dissanayake - Director, Mr. W.G.R.H. Panditharathne - Director,
Mr. Thilanka Weerasinghe - Director,
Mr. K. Sanjaya Leelarathne - Deputy Chairman, Mr. Sunil Wickramasinghe - Chairman,
Mr. M. Naushard Junaideen - Working Director, Mr. Selvadurai Loganathan - Director, Mr. Mohamed Cader - Director,
Mr. S.S. Mudalige - Director (Absent)

Report on the Financial Statements

We have audited the accompanying financial statements of Milco (Private) Limited which comprise the statement of financial position as at 31st March, 2014, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 05 to 35.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. Except as discussed in the paragraphs (a), (b) and (c), we conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Except as discussed in the paragraphs (a), (b) and (c), we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our qualified opinion.

Opinion

(a) Interest Bearing Loans and Borrowings / Non-Interest Bearing Loans and Borrowings

We have not received satisfactory evidence such as direct confirmations, in order to independently verify the existence and the accuracy of the balance payable to the Ministry of Agriculture & Live Stock Development amounting to Rs.83, 590,654/-.

Owing to the nature of the company's records we were unable to perform other audit procedures to satisfy ourselves as to the completeness and the existence of such payable as at the reporting date.

(b) Trade and Other Payables

We have not received satisfactory evidence such as direct confirmations, in order to verify independently the existence and the accuracy of the balance payable to the Department of Animal Production and Health amounting to Rs.20,446,164/-.

Owing to the nature of the company's records we were unable to perform other audit procedures to satisfy ourselves as to the completeness and the existence of such liability as at the reporting date.

(c) Cost of Sales

We have not received the satisfactory audit evidences to substantiate an adjustment made to inventory and cost of sales amounting to Rs.38,297,591/- in order to verify the occurrence and accuracy of such adjustment.

Owing to the nature of the company's records we were unable to perform other audit procedures to satisfy ourselves as to the occurrence and accuracy of such adjustment made to the cost of sales and inventory in the financial statements.

(d) Other Expense

We noted that sale of raw milk amounting to Rs.272,605,835/- to third parties have not been accounted in accordance with the Sri Lanka Accounting Standards No.18 – Revenue. Net effect of the transactions has been accounted under other expenses as net loss amounting to Rs.27,684,947/-.

In our opinion, so far as appears from our examination except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the matters referred in paragraphs (a),(b) and (c) and except for the effect on the financial statements of the matters referred to in the paragraph (d) the company maintained proper accounting records for the year ended 31st March, 2014 and the financial statements give a true and fair view of the company's state of affairs as at 31st March, 2014 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Emphasis of Matter

Without further qualifying our opinion, we draw attention to Notes 14.5 and 24.1 to the financial statements.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Section 151(2) of the Companies Act No. 07 of 2007.

CHARTERED ACCOUNTANTS

Colombo

27th October, 2014

SSR/fm



STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST MARCH, 2014

	Note	2013/2014 Rs.	2012/2013 Rs.
Revenue	3	7,019,769,523	6,385,233,896
Cost of Sales		<u>(6,014,077,202)</u>	<u>(5,898,800,752)</u>
Gross Profit		1,005,692,321	486,433,144
Other Operating Income	4	33,567,719	18,360,458
		<u>1,039,260,040</u>	<u>504,793,602</u>
Administrative Expenses		(592,005,140)	(517,309,520)
Distribution Expenses		(212,607,131)	(152,965,856)
Other Expenses		(29,961,747)	(57,266,103)
Profit / (Loss) from Operations		<u>204,686,022</u>	<u>(222,747,877)</u>
Finance Income	5	109,023,269	85,582,743
Finance Expenses	6	(152,602,195)	(130,303,147)
Net Profit / (Loss) before Taxation	7	<u>161,107,096</u>	<u>(267,468,281)</u>
Income Tax Expenses	8	(20,699,439)	(30,554,531)
Net Profit / (Loss) for the Year after Taxation		<u>140,407,657</u>	<u>(298,022,812)</u>
Other Comprehensive Income			
Actuarial Gains / (Loss) on Defined Benefit Plan, Net of Taxes		25,969,243	8,305,315
Total Other Comprehensive Income Net of Tax		<u>25,969,243</u>	<u>8,305,315</u>
Total Comprehensive Profit / (Loss)		<u>166,376,900</u>	<u>(289,717,497)</u>
Basic (Loss) / Earnings Per Share	9	4.40	(9.33)

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 to 35 form an integral part of these Financial Statements.

Colombo

27th October, 2014

STATEMENT OF FINANCIAL POSITION AS AT 31ST MARCH, 2014



ASSETS	Note	As at	As at
		31st March, 2014	31st March, 2013
		Rs.	Rs.
ASSETS			
Non-current Assets			
Property, Plant and Equipment	10	1,216,457,203	1,179,966,653
Capital Work-In-Progress	11	121,433,331	152,183,113
Financial Instrument - Held to Maturity	15	906,182,013	791,211,741
		<u>2,244,072,547</u>	<u>2,123,361,507</u>
Current Assets			
Livestock	12	86,000	159,800
Inventories	13	606,043,554	545,276,044
Trade and Other Receivables	14	1,321,965,074	1,155,531,463
Financial Instrument - Held to Maturity	15	325,000,000	294,500,000
Cash and Cash Equivalents	16	33,748,164	73,589,060
		<u>2,286,842,792</u>	<u>2,069,056,367</u>
Total Assets		<u>4,530,915,339</u>	<u>4,192,417,874</u>
EQUITY AND LIABILITIES			
Stated Capital and Reserves			
Stated Capital	17	319,454,060	319,454,060
Capital Reserve	18	25,000,000	25,000,000
Revaluation Reserve		336,454,462	336,454,462
Sinking Fund	19	1,689,978	1,689,978
Retained Earnings		911,972,621	745,595,721
Shareholders' Fund		<u>1,594,571,121</u>	<u>1,428,194,221</u>
Non-Current Liabilities			
Deferred Tax Liability	20	25,952,174	19,857,289
Non-interest Bearing Borrowings	21	85,698,717	85,698,717
Interest Bearing Borrowings - Long Term	21	493,912,087	581,685,663
Retirement Benefit Obligations - Gratuity	22	434,250,500	401,297,112
Deferred Income - Government Grant	23	41,162,342	52,297,084
		<u>1,080,975,820</u>	<u>1,140,835,865</u>
Current Liabilities			
Trade and Other Payables	24	981,778,004	977,948,081
Income Tax Payable	25	13,667,232	9,917,476
Interest Bearing Borrowings - Short Term	21	102,105,535	92,751,742
Bank Overdrafts	26	757,817,627	542,770,489
		<u>1,855,368,398</u>	<u>1,623,387,788</u>
Total Equity and Liabilities		<u>4,530,915,339</u>	<u>4,192,417,874</u>

Figures in brackets indicate deductions.

Commitments and Contingencies

27 and 28

The accounting policies and notes on pages 05 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. C. Madugalle
Finance Controller

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

Mr. S.C.S. Wickramasinghe
Chairman

Mr. S. Loganathan
Director

Colombo
27th October, 2014
SSR/fm

	Stated Capital Rs.	Capital Reserve Rs.	Revaluation Reserve Rs.	Sinking Fund Rs.	Retained Earnings Rs.	Total Rs.
Balance as at 01st April, 2012	319,454,060	25,000,000	336,454,462	1,689,978	1,035,313,218	1,717,911,718
Net Loss for the Year	-	-	-	-	(298,022,812)	(298,022,812)
Other Comprehensive Income	-	-	-	-	8,305,315	8,305,315
Balance as at 31.03.2013	319,454,060	25,000,000	336,454,462	1,689,978	745,595,721	1,428,194,221
Net Profit for the Year	-	-	-	-	140,407,657	140,407,657
Other Comprehensive Income	-	-	-	-	25,969,243	25,969,243
Balance as at 31.03.2014	<u>319,454,060</u>	<u>25,000,000</u>	<u>336,454,462</u>	<u>1,689,978</u>	<u>911,972,621</u>	<u>1,594,571,121</u>

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 to 35 form an integral part of these Financial Statements.

Colombo
27th October, 2014

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2014



	31st March, 2014	31st March, 2013
	Rs.	Rs.
Cash Flow from Operating Activities		
Net (Loss)/Profit Before Taxation	161,107,096	(267,468,281)
Adjustments for ;		
- Depreciation on Property, Plant and Equipment	168,039,581	187,612,037
- Write Back of Long outstanding CWIP	1,007,636	737,646
- Income from Investment	(109,023,269)	(85,582,743)
- Interest Expense	136,802,933	109,168,553
- Lease Interest	15,799,262	20,075,269
- Recognized Income on Deferred Grants	(11,134,742)	(400,600)
- Write Back of Refundable Deposits	-	(13,965,821)
- Provision for Bad and Doubtful Debts	2,812,658	4,147,382
- Provision for Defined Benefit Plans - Gratuity	69,286,483	62,583,184
- Write Off Discarded Goods	1,005,918	1,580,341
	<u>274,596,460</u>	<u>285,955,248</u>
Operating Profit Before Working Capital Changes	435,703,556	18,486,967
(Increase)/Decrease in Inventories	(61,773,428)	(63,559,646)
(Increase)/Decrease in Trade and Other Receivables	(169,246,269)	(59,621,225)
Increase/(Decrease) in Trade and Other Payables	3,829,923	128,304,453
	<u>(227,189,774)</u>	<u>5,123,582</u>
Cash Generated from Operations	<u>208,513,782</u>	<u>23,610,549</u>
Interest Paid	(136,802,933)	(109,168,553)
Tax Paid - ESC and Income Tax	(11,862,431)	(18,942,785)
Payment of Defined Benefit Plans - Gratuity	(10,363,855)	(4,700,012)
	<u>(159,029,219)</u>	<u>(132,811,350)</u>
Net Cash Flow From/(Used In) Operating Activities	49,484,563	(109,200,801)
Cash Flow from Investing Activities		
Acquisition of Property, Plant and Equipment and CWIP	(155,572,481)	(46,059,294)
Investments in Property, Plant and Equipment in the Course of Construction	(18,207,868)	(59,830,668)
Proceeds from Disposal of Livestock	73,800	146,100
Interest Received	109,023,269	85,582,743
Withdrawal / (New) Short term and Long Term Investment (Net)	(145,470,272)	(49,884,275)
Net Cash From/(Used In) Investing Activities	<u>(210,153,552)</u>	<u>(70,045,394)</u>



CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2014

Cash Flow from Financing Activities

Government Grant Received	-	37,200,000
Lease Rental Paid	(38,550,984)	(38,550,984)
During the Year Loan granted	16,834,500	-
Proceeds from Loans and Borrowings - (Net of Repayments)	<u>(72,502,561)</u>	<u>(35,983,925)</u>
Net Cash From / (Used In) Financing Activities	<u>(94,219,045)</u>	<u>(37,334,909)</u>

Net Increase in Cash and Cash Equivalents		(254,888,034)	(216,581,104)
Cash and Cash Equivalents at the Beginning of the Year	Note A	<u>(469,181,429)</u>	<u>(252,600,325)</u>
Cash and Cash Equivalents at the End of the Year	Note B	<u><u>(724,069,463)</u></u>	<u><u>(469,181,429)</u></u>

At the Beginning of the Year

			Note A
Balances at Banks	70,198,394		29,892,575
Petty Cash in Hand	<u>3,390,666</u>		<u>3,115,191</u>
	73,589,060		33,007,766
Bank Overdrafts	<u>(542,770,489)</u>		<u>(285,608,091)</u>
	<u><u>(469,181,429)</u></u>		<u><u>(252,600,325)</u></u>

At the End of the Year

			Note B
Balances at Banks	28,734,485		70,198,394
Petty Cash in Hand	<u>5,013,679</u>		<u>3,390,666</u>
	33,748,164		73,589,060
Bank Overdrafts	<u>(757,817,627)</u>		<u>(542,770,489)</u>
	<u><u>(724,069,463)</u></u>		<u><u>(469,181,429)</u></u>

Figures in brackets indicate deductions.

The accounting policies and notes on pages 05 to 35 form an integral part of these Financial Statements.

Colombo

27th October, 2014

1 ACCOUNTING POLICIES

1.1. Corporate Information

1.1.1 Legal and Domicile Form

Milco (Private) Limited 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 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 for the Joint Venture. Although the Joint Venture Agreement is no longer in force, the company has not made appropriate adjustments in the accounts in respect of the said government land and buildings.

The registered office of the company is located at No. 46/56, Nawam Mawatha, Colombo 02 and the principal place of business is also at the same place. Major factories of the company are situated at Narahenpita, Ambewela, Digana and Polonnaruwa.

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 products.

1.1.3 Date of Authorization to Issue

The financial statements for the year ended 31st March, 2014 were authorized for issue in accordance with a resolution of the Board of Directors on 27th October, 2014.

1.1.4 Responsibility for Financial Statements

The board of directors is responsible for the preparation and presentation of these financial statements. The responsibility of the Directors in relation to the financial statements is set out in “the statement of director’s responsibility”.

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 with exception of certain assets and liabilities at fair value.

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 March, 2014 are prepared in compliance with the Sri Lanka Accounting Standards (LKAS and SLFRS) issued by the Institute of Chartered Accountants of Sri Lanka.

The preparation and presentation of these financial statements are in compliance with the Companies Act No. 7 of 2007.

1.2.1.5 Going Concern

The Directors of the Milco (Private) Limited has made an assessment of the company's ability to continue as a going concern and is satisfied that the company has the resources to continue in business for a foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the 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 affected.

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 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 a 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, management has made the judgements, apart from those involving estimations, which has most significant effect on the amounts recognized in the financial statements.

b) Estimates and Assumptions

The preparation of the company's financial statements require 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 & 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 is stated at cost, excluding the costs 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 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 depreciated over the shorter of the lease term or the useful lives of equivalent owned assets.

The economic useful lives are as follows:

Buildings	Over 20 Years
Plant and Machinery	Over 04 to 15 Years
Furniture and Fittings	Over 03 to 05 Years
Laboratory Equipment	Over 03 to 05 Years
Motor Vehicles	Over 08 to 15 Years
Tools and Equipment	Over 03 to 10 Years
Office Equipment	Over 2.5 to 05 Years
Bottles and Crates	Over 04 Years
Computers	Over 02 to 04 Years
Bottle Coolers	Over 2.5 to 05 Years
Software	Over 03 Years
Milk Cans	Over 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.

1.3.2 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 result 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.

1.3.3 Impairment of Non-Financial Assets

The company assesses at each reporting date 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 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 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 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.

1.3.4 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.

1.3.5 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-evaluate this designation at every reporting date.

1.3.5.1 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.

1.3.5.2 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. The losses arising from impairment are recognized in the statement of comprehensive income in finance costs.

(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'.

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 reclassify these financial assets in rare circumstances. Reclassification 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 for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified 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 reclassified to the statement of comprehensive income.

1.3.5.3 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.

1.3.5.4 Impairment of Financial Assets

The company assesses at each reporting date 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 has 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 is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate 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 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 collateral has 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 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.

1.3.6 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.

1.3.6.1 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.

1.3.6.2 Subsequent Measurement

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

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

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

(b) Other Financial Liabilities

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized 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.

1.3.6.3 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.

1.3.6.4 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.

1.3.7 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

1.3.8 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 been not measured at amortized cost due to unavoidable reasons of the company.

1.3.9 Cash and Cash Equivalents

Cash and cash equivalents includes cash in hand, deposits held at 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.

1.3.10 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.

1.3.11 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.

1.3.12 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 they 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.

1.3.13 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 reassessed 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 asset 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 asset 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.

1.3.14 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.

1.3.15 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 were 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 and 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 are contained in Note 22 on Page 28. 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 gross emoluments of employees to the Employees' Provident Fund and to the Employees' Trust Fund respectively.

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 is 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 Revenue Recognition

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

(a) Sale of Goods

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

(b) Interest Income

Interest income is recognized using the effective interest method.

(c) Dividend Income

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

1.3.19 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 is 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 expenses.

2. EFFECT OF SRI LANKA ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

a) SLFRS 9 - Financial Instruments : Classification and Measurement

SLFRS 9, as issued reflects the first phase of work on replacement of LKAS 39 and applies to classification and measurement of financial assets and liabilities as defined in LKAS 39. SLFRS 9 was issued in 2012 and become effective for the financial periods beginning on or after 01st January, 2015. Accordingly, the financial statements for the year ending 31st March, 2016 will adopt the SLFRS 9. The company will quantify the effect in due course.

b) SLFRS 10 - Consolidated Financial Statements

SLFRS 10 replaces the portion of LKAS 27 - Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC 12 - Consolidation Special Purpose Entities.

SLFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by SLFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore, are required to be consolidated by a parent, compared with the requirements that were in LKAS 27. SLFRS 10 was issued in 2012 and become effective for the financial periods beginning on or after 01st January, 2014. Accordingly, the financial statements for the year ending 31st March, 2015 will adopt the SLFRS 10. The company will quantify the effect in due course.

c) SLFRS 11 - Joint Arrangements

SLFRS 11 replaces LKAS 31 - Interest in Joint Ventures and SIC - 13 Jointly-controlled Entities- Non-monetary Contributions by Ventures. SLFRS 11 removes the option to account for Jointly Controlled Entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The company does not have any joint venture arrangements presently recognized under proportionate consolidation method.

d) SLFRS 12 - Disclosure of Interests in Other Entities

SLFRS 12 includes all of the disclosures that were previously in LKAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in LKAS 31 and LKAS 28. These disclosures relate to an entity's interest in subsidiaries, joint arrangements, associates and structured entities. The number of new disclosures is also required, but has no impact on the company's financial position or performance. SLFRS 12 was issued in 2012 and become effective for the financial periods beginning on or after 01st January, 2014. Accordingly, the financial statements for the year ending 31st March, 2015 will adopt the SLFRS 12.

e) SLFRS 13 - Fair Value Measurement

SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under SLFRS when fair value is required or permitted. This standard is effective for annual periods beginning on or after 01st January, 2014. Accordingly, the financial statements for the year ending 31st March, 2015 will adopt the SLFRS 13. Pending the full study of this standard, the financial impact is not yet known and reasonably estimable.



MILCO (PVT) LTD SIGNIFICANT ACCOUNTING POLICIES TO THE FINANCIAL STATEMENTS

	2013/2014 Rs.	2012/2013 Rs.
3. REVENUE		
Gross Sales	7,163,030,124	6,515,562,857
Less: Nation Building Tax	<u>(143,260,601)</u>	<u>(130,328,961)</u>
	<u>7,019,769,523</u>	<u>6,385,233,896</u>
4. OTHER INCOME		
Redundant Sales	821,217	493,313
Rent Income	-	21,200
Fines and Surcharges	1,593	-
Surcharges of Returned Cheques	-	528,783
Non Refundable Deposit	195,500	381,100
Non Refundable Tender Deposit	505,000	398,000
Diferred Income - Government Grants	9,203,742	400,600
Registration of Suppliers	1,672,500	1,987,000
Sundry Income	-	184,641
Exchange Gain	17,239,931	-
Refundable Deposits Write Back	-	13,965,821
Sale of Unusable Goods	141,458	-
Profit on Disposal of Fixed Asset	1,246,312	-
Cattle Feed Earnings	2,540,466	-
	<u>33,567,719</u>	<u>18,360,458</u>
5. FINANCE INCOME		
Interest on Call/Fixed Deposit - Local	74,019,582	51,718,612
Interest on Fixed Deposit - Foreign Currency (USD)	28,778,464	26,230,774
Interest on Staff Loans	<u>6,225,223</u>	<u>7,633,357</u>
	<u>109,023,269</u>	<u>85,582,743</u>
6. FINANCE COSTS		
Interest on Finance Lease	15,799,262	20,075,269
Exchange Loss	-	1,059,325
Interest on Loans	73,553,282	61,860,546
Interest on Bank Overdrafts	<u>63,249,651</u>	<u>47,308,007</u>
	<u>152,602,195</u>	<u>130,303,147</u>
7. PROFIT/(LOSS) BEFORE TAXATION		
Profit/(Loss) Before Taxation is Stated After Charging all Expenses including the following :		
Directors' Remuneration	14,111,973	12,361,514
Audit Services		
- Internal Audit Services	3,843,489	3,908,631
- External Audit Services	603,750	525,000
Depreciation on Property, Plant and Equipment	168,039,581	187,612,037
NBT Expenses	143,260,601	130,328,960
Advertising and Sales Promotions	79,012,976	69,143,273
Donations	35,200	217,000
Legal Expenses and Professional Fee	4,972,742	3,556,404
Provision for Impairment	2,812,658	4,147,382
Repairs and Maintenance Expenses	37,335,057	28,769,455
Staff Costs		
- Salaries ,Wages and Allied Expenses	665,658,924	679,579,143
- Defined Contribution Plan Costs - E.P.F and E.T.F	49,969,436	64,129,105
- Defined Benefit Plan Costs - Gratuity	<u>32,953,388</u>	<u>49,577,857</u>

		2013/2014 Rs.	2012/2013 Rs.
8. INCOME TAX EXPENSES	Note		
Current Income Tax Provision	8.1	14,604,554	10,697,242
Deferred Tax Charge for the Year	20	6,094,885	19,857,289
		<u>20,699,439</u>	<u>30,554,531</u>

8.1 Reconciliation Between Current Tax (Income)/Expenses and the Product of Accounting Profit/(Loss)

Accounting Profit/(Loss) Before Taxation	166,376,900	(289,717,497)
Less: Income Considered Separately	<u>(109,023,269)</u>	<u>(83,967,966)</u>
Profit / (Loss) from Trade or Business	57,353,631	(373,685,463)
Less: Allowable expenses for Tax Purpose	<u>(57,353,631)</u>	<u>-</u>
Business (Loss)/Profit Applicable Taxation	-	(373,685,463)
Exempt Other Income	28,778,464	26,806,689
Liable Other Income	80,244,805	58,776,054
Tax Rate	28%	28%
Tax on Chargeable Profit or Income	22,468,545	16,457,295
Tax Effect on Deduction Under Section 32	(7,863,991)	(5,760,053)
Provision for the Year (Tax on Adjusted Income @ 28%)	<u>14,604,554</u>	<u>10,697,242</u>

8.2 Income derived from the foreign investment (Fixed Deposit in Foreign Currency) is exempted from income tax as per the provision of the Inland Revenue Department.

9. EARNINGS / (LOSS) PER ORDINARY SHARE

Basic Earning / (Loss) 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.

	2013/2014 Rs.	2012/2013 Rs.
Net Profit/(Loss) Attributable to Ordinary Shares	140,407,657	(298,022,812)
Weighted Average Number of Ordinary Share	31,945,406	31,945,406
	<u>4.40</u>	<u>(9.33)</u>

9.1 Diluted Earnings / (Loss) Per Share

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

10. PROPERTY, PLANT AND EQUIPMENT

Description of Assets	Balance				Cost/Valuation				Depreciation				Written Down Value					
	As At		As At		As At		As At		Charge		Transfer		Balance		As At		As At	
	Rs.	01.04.2013	Rs.	31.03.2014	Rs.	01.04.2013	Rs.	31.03.2014	Rs.	for the Year	Rs.	from	Rs.	31.03.2014	Rs.	31.03.2014	Rs.	31.03.2013
Freehold																		
Land	3,250,000	-	3,250,000	-	-	-	-	-	-	-	-	-	-	-	-	3,250,000	-	3,250,000
Building	139,545,642	-	139,545,642	37,296,042	6,586,204	-	-	43,882,246	-	-	-	-	-	43,882,246	95,663,396	102,249,600	-	102,249,600
Plant and Machinery	1,226,878,080	133,982,822	1,360,860,902	291,289,237	99,693,305	-	-	390,982,542	99,693,305	-	-	-	-	390,982,542	969,878,360	935,588,843	-	935,588,843
Furniture and Fittings	28,287,933	2,550,926	30,838,859	20,472,846	3,307,115	-	-	23,779,961	3,307,115	-	-	-	-	23,779,961	7,058,898	7,815,087	-	7,815,087
Laboratory Equipment	32,168,586	2,504,636	34,673,222	26,528,766	2,862,934	-	-	29,391,700	2,862,934	-	-	-	-	29,391,700	5,281,522	5,639,820	-	5,639,820
Motor Vehicles	113,999,722	-	113,049,722	69,341,013	12,113,551	(950,000)	-	80,504,564	12,113,551	-	-	(950,000)	-	80,504,564	32,545,158	44,658,709	-	44,658,709
Tools and Equipment	192,457,301	5,183,828	197,641,129	162,353,642	12,425,997	-	-	174,779,639	12,425,997	-	-	-	-	174,779,639	22,861,490	30,103,659	-	30,103,659
Bottles and Crates	232,201,199	23,867,677	256,068,876	204,383,400	16,069,909	-	-	220,453,309	16,069,909	-	-	-	-	220,453,309	35,615,567	27,817,799	-	27,817,799
Computer Equipment	19,233,181	475,900	19,709,081	13,708,576	3,183,598	-	-	16,892,174	3,183,598	-	-	-	-	16,892,174	2,816,907	5,524,605	-	5,524,605
Computer Software	2,587,209	-	2,587,209	2,587,209	-	-	-	2,587,209	-	-	-	-	-	2,587,209	-	-	-	-
Bottle Coolers	55,834,314	31,764,705	87,530,707	45,886,198	8,560,265	(68,312)	-	54,378,151	8,560,265	-	-	(68,312)	-	54,378,151	33,152,556	9,948,116	-	9,948,116
Office Equipment	4,977,820	647,534	5,625,354	3,663,924	763,964	-	-	4,427,888	763,964	-	-	-	-	4,427,888	1,197,466	1,313,896	-	1,313,896
Milk Cans	45,547,623	3,552,103	49,099,726	39,491,104	2,472,739	-	-	41,963,843	2,472,739	-	-	-	-	41,963,843	7,135,883	6,056,519	-	6,056,519
	<u>2,096,968,610</u>	<u>204,530,131</u>	<u>2,300,480,429</u>	<u>917,001,957</u>	<u>168,039,581</u>	<u>(1,018,312)</u>	<u>917,001,957</u>	<u>1,084,023,226</u>	<u>168,039,581</u>	<u>-</u>	<u>(1,018,312)</u>	<u>1,084,023,226</u>	<u>1,216,457,203</u>	<u>1,179,966,653</u>				

10.1 Revaluation

Milco (Pvt) Ltd has 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-Urbarn Land Appraisal). The surplus on revaluation amounting to Rs.336,454,462/= had been credited to revaluation account. Since the revaluation reserve has been accounted as at 31st March, 2009 there is an impact on depreciation charge for the year.

	Balance As At		Incurred during the Year	Capitalized during the Year		Charged To Statement of Comprehensive Income		Balance As At	
	01.04.2013	Rs.		Rs.	Rs.	Rs.	31.03.2014	Rs.	31.03.2013	Rs.
11. CAPITAL WORK-IN-PROGRESS									
Construction of Waste Water Treatment Plant	16,345,529	-	-	-	16,345,529	-	-	16,345,529	16,345,529
Karaliyadda - Civil Const (Pvt) Land	25,936	-	-	25,936	-	-	-	-	25,936
Construction of New Milk Factory - Badalgama	318,530	-	-	-	318,530	-	-	318,530	318,530
Construction of Padiyathalawa Outlet	4,398,559	-	-	4,398,559	-	-	-	-	4,398,559
Installation of Chill Water Plant - DMF	10,413,780	-	-	10,413,780	-	-	-	-	10,413,780
Installation of Chill Water Plant - PMF	10,413,780	-	-	10,413,780	-	-	-	-	10,413,780
Construction of Illuppachchenai Outlet	4,180,864	-	-	4,180,864	-	-	-	-	4,180,864
Construction of Building - Digana	426,492	-	-	-	426,492	-	-	426,492	426,492
U.H.T Spareparts and Civil Construction - DMF	-	19,065,504	19,065,504	19,050,504	-	-	-	15,000	-
Construction of Chilling Center - SDMF	474,227	-	-	474,227	-	-	-	-	474,227
Construction of Gatabe Sales Outlet	-	150,000	150,000	-	150,000	-	-	-	-
UHT Work-In-Progress	1,007,636	-	-	-	1,007,636	-	-	-	1,007,636
Leasehold Property being Installed - Polonnaruwa Milk Factory									
Yoghurt Mix Plant	104,177,780	-	-	-	104,177,780	-	-	104,177,780	104,177,780
	<u>152,183,113</u>	<u>19,215,504</u>	<u>48,957,650</u>	<u>1,007,636</u>	<u>121,433,331</u>	<u>152,183,113</u>	<u>1,007,636</u>	<u>152,183,113</u>	<u>152,183,113</u>

		As At 31st March, 2014 Rs.	As At 31st March, 2013 Rs.
12. LIVESTOCK			
	Cattle Feed and Model Farm	86,000	159,800
		<u>86,000</u>	<u>159,800</u>
13. INVENTORIES			
	Raw and Packing Materials	215,240,035	182,088,400
	Work-in-Progress	5,018,370	896,652
	Finished Goods	136,443,063	153,817,169
	Consumables	259,673,901	210,092,458
	Goods in Transit	1,020,970	9,734,150
	Provision for Inventory	(11,352,785)	(11,352,785)
		<u>606,043,554</u>	<u>545,276,044</u>
13.1 Raw and Packing Materials			
	Raw Materials - Dairy Production	94,518,011	44,190,176
	Raw Materials - Cattle Feed	-	3,527,438
	Packing Materials - Dairy Production	98,735,776	119,130,015
	Raw and Packing Materials - Cattle Feed	3,016,521	2,091,109
	Raw Milk Stock	15,429,537	9,106,374
	Drugs and Other Stock	3,540,190	4,043,288
		<u>215,240,035</u>	<u>182,088,400</u>
13.2 Consumables			
	General Stores	23,791,258	15,889,133
	Engineering Stores	196,087,408	162,505,439
	Motor Stores	10,688,894	10,398,539
	Fuel and Lubricant Stores	14,238,814	16,896,089
	Milk Can Stock	14,867,527	4,403,258
		<u>259,673,901</u>	<u>210,092,458</u>
13.3 Goods In Transit			
	Finished Goods in Transit	-	4,386,474
	General Stores	455,254	-
	Goods in Transit Lab Equipment	125,798	125,798
	Raw Milk In Transit	-	4,372,474
	Yogurt Culture	439,918	849,404
		<u>1,020,970</u>	<u>9,734,150</u>
13.4 Provision For Inventory			
	Packing Material	(9,420,229)	(10,082,202)
	General Stores	(213,355)	(213,355)
	Engineering Stores	(1,648,307)	(986,334)
	Fuel Stores	(70,894)	(70,894)
		<u>(11,352,785)</u>	<u>(11,352,785)</u>

13.5 Inventories pledged as collaterals to obtain various financial assistance from the financial institutions are disclosed in Note No. 31 to these financial statements.

		2013/2014 Rs.	2012/2013 Rs.
14. TRADE AND OTHER RECEIVABLES			
Trade Debtors	14.1	616,395,079	499,064,480
Receivable from the Government of Sri Lanka	14.2	389,373,433	389,032,305
Other Debtors	14.3	15,341,226	8,345,078
Advances, Deposits and Prepayments		76,579,174	67,228,738
Staff Debtors	14.4	159,243,687	136,860,659
Import Control		14,762,660	9,141,492
Interest Receivable on Fixed Deposits		39,765,936	35,364,832
WHT Receivables		10,493,879	10,493,879
Other Receivables		10,000	-
		<u>1,321,965,074</u>	<u>1,155,531,463</u>
14.1 Trade Debtors			
Total Debtors		655,299,750	535,156,493
Less: Provision for Impairment		(38,904,671)	(36,092,013)
		<u>616,395,079</u>	<u>499,064,480</u>
14.2 Receivable from the Government of Sri Lanka			
Receivable from the Ministry of Livestock and Development - Expenses Reimbursement		6,818,530	6,477,402
Receivable from Government of Sri Lanka - Milk Payment Subsidy -Current		30,930,979	30,930,979
Receivable from Government of Sri Lanka - Milk Payment Subsidy - Before 2006		34,771,803	34,771,803
Receivable from Government of Sri Lanka - Kiriya Conversion (14.5)		347,961,144	347,961,144
Receivable from Government of Sri Lanka - Milk Industries Lanka Current Account		1,117,224	1,117,224
Receivable from Parliament Affairs		94,333	94,333
Receivable From Government of Sri Lanka - NLDB/Lanlib		3,000,000	3,000,000
		424,694,013	424,352,885
Less: Provision for Impairment		(35,320,580)	(35,320,580)
		<u>389,373,433</u>	<u>389,032,305</u>
14.3 Other Debtors			
Total Receivables		15,341,226	8,345,078
		<u>15,341,226</u>	<u>8,345,078</u>
14.4 Staff Debtors			
Total Receivables		159,243,687	136,860,659
		<u>159,243,687</u>	<u>136,860,659</u>
14.5			

As per the agreement referred to in note no. 1.1 to these financial statements, this amount is receivable from the Government of Sri Lanka. Further, as described by a letter dated 08th August, 2000 received from the Public Enterprises Reform Commission, the Board of Directors of the Company has decided to account for any additional liabilities resulted from the liabilities prevailed as at 03rd February, 1998 as receivable from the Government of Sri Lanka.

The company is in the process of negotiations with the Government of Sri Lanka to settle such recoverable amounts against the payables to the Government by means of taxes and other statutory payments mentioned in note no. 24. Hence, the recoverability of such balances depends on the decision of the Government.

	<u>As At 31st March, 2014 Rs.</u>	<u>As At 31st March, 2013 Rs.</u>
15. FINANCIAL INSTRUMENT - HELD TO MATURITY		
15.1 Short Term Fixed Deposits		
People's Bank - Corporate Banking Unit	-	175,000,000
Bank of Ceylon - Overseas Customer Unit	325,000,000	-
Bank of Ceylon - Treasury	-	100,000,000
Call Deposits	-	19,500,000
	<u>325,000,000</u>	<u>294,500,000</u>
15.2 Long Term Fixed Deposits		
Bank of Ceylon - Treasury	318,666,267	247,489,399
Fixed Deposits - BOC - US \$ 4,491,415/-	587,515,746	543,722,342
	<u>906,182,013</u>	<u>791,211,741</u>
Investments pledged as collaterals to obtain various financial assistance from the financial institutions are disclosed in note no. 31 to these financial statements.		
16. CASH AND CASH EQUIVALENTS		
Balances at Banks	28,734,485	70,198,394
Petty Cash in Hand	5,013,679	3,390,666
	<u>33,748,164</u>	<u>73,589,060</u>
17. STATED CAPITAL		
	Nos.	Nos.
Stated Capital in Numbers	<u>31,945,406</u>	<u>31,945,406</u>
	Rs.	Rs.
Stated Capital in Value	<u>319,454,060</u>	<u>319,454,060</u>
18. CAPITAL RESERVE		
18.1 Reserve on Acquisition and Upgrading of Plant and Machinery		
Transferred from Retained Earnings	25,000,000	25,000,000
	<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.		
19. SINKING FUND		
Transferred from Retained Earnings	1,689,978	1,689,978
	<u>1,689,978</u>	<u>1,689,978</u>

The Sinking Fund created from the proceeds of the cans sold to the farmers. The said fund will be utilized to meet the financial requirement of purchases intended to issue on recovery basis to farmers in future.

	As At 31st March, 2014 Rs.	As At 31st March, 2013 Rs.
20. DEFERRED TAX LIABILITY		
At the Beginning of the Year	19,857,289	-
Charge (to)/from Statement of Comprehensive Income	6,094,885	19,857,289
At the End of the Year	<u>25,952,174</u>	<u>19,857,289</u>
20.1		
Tax effect on Temporary Difference on Property, Plant and Equipment	83,351,471	70,679,387
Tax effect on Temporary Difference on Retirement Benefit Obligations	(43,425,050)	(40,129,712)
Less: Tax effect on Temporary Differences on Tax Losses	<u>(13,974,247)</u>	<u>(10,692,386)</u>
Probable Deferred Tax Liability	<u>25,952,174</u>	<u>19,857,289</u>
<p>The differerd tax assets arising from carry forward of unused tax losses has been recognized only to the extent of 35% of the net taxable temporary difference available against which the unsued tax losses can be utilized.</p>		
21. LOANS AND BORROWINGS		
21.1 Interest Bearing Borrowings		
Payable within One Year	21.1.1 and 21.1.2 102,105,535	92,751,742
Payable after One Year	21.1.1 and 21.1.2 493,912,087	581,685,663
	<u>596,017,622</u>	<u>674,437,405</u>
21.1.1 Gross Lease Creditor - Merchant Bank of Sri Lanka		
Balance at the beginning of the Year	115,652,952	154,203,936
Add: During the Year Additions	-	-
Less: During the Year Payments	<u>(38,550,984)</u>	<u>(38,550,984)</u>
Balance at the end of the Year	<u>77,101,968</u>	<u>115,652,952</u>
Interest in Suspense		
Balance at the beginning of the Year	30,382,182	50,457,451
Interest In Suspense on Lease Facility Obtained During the Year	-	-
Less: Amount Transferred to Statement of Comprehensive Income	<u>(15,799,262)</u>	<u>(20,075,269)</u>
Balance at the end of the Year	<u>14,582,920</u>	<u>30,382,182</u>
Net Liability	<u>62,519,048</u>	<u>85,270,770</u>
Current Maturity Portion	28,017,364	22,751,722
Long Term Maturity Portion	<u>34,501,684</u>	<u>62,519,048</u>
	<u>62,519,048</u>	<u>85,270,770</u>
21.1.2 Bank Loans and Borrowings		
Balance at the beginning of the Year	589,166,635	625,150,559
Received during the Year	16,834,500	34,016,096
Less: During the Year Payments	<u>(72,502,561)</u>	<u>(70,000,020)</u>
Balance at the end of the Year	<u>533,498,574</u>	<u>589,166,635</u>
Current Maturity Portion	74,088,171	70,000,020
Long Term Maturity Portion	<u>459,410,403</u>	<u>519,166,615</u>
	<u>533,498,574</u>	<u>589,166,635</u>

Assets pledged as collaterals to above loans and borrowings are disclosed in Note No. 31 to these financial statements.

	As At 31st March, 2014 Rs.	As At 31st March, 2013 Rs.
21. LOANS AND BORROWINGS (Contd...)		
21.2 Non-Interest Bearing Borrowings		
Long Term Portion		
National Milk Board	2,108,063	2,108,063
Ministry of Agriculture and Livestock Development	83,590,654	83,590,654
	85,698,717	85,698,717
22. RETIREMENT BENEFIT OBLIGATION - GRATUITY		
Balance at the beginning of the Year	401,297,112	351,719,255
Current Service Cost	25,143,799	23,894,066
Interest Cost	44,142,684	38,689,118
(Gain)/Loss from Changes in Assumption	(25,969,240)	(8,305,315)
Payment Made During the Year	(10,363,855)	(4,700,012)
Balance at the end of the Year	434,250,500	401,297,112

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 March, 2014. Appropriate and compatible assumptions were used in determining the cost of retirement benefits.

The Principle Assumption Used were as Follows:

Expected Salary Increment	10% p.a	10% p.a
Discount Rate	11% p.a	11% p.a
Staff Turnover Factor	5% p.a	5% p.a
Maximum Retirement Age	60 Years	60 Years

Sensitivity of Assumptions Employed in Actuarial Valuation

The following table demonstrate 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 Escalation Rate	Effect on Change to Statement of Comprehensive Income Rs.	Effect on Employee Benefit Obligation Rs.
1%	*	28,942,403	(28,942,403)
-1%	*	(32,777,999)	32,777,999
**	1%	(32,814,356)	32,814,356
**	-1%	29,459,913	(29,459,913)

* Salary Escalation Rate 10% for the Company

** Discount Rate 11%

	As At 31st March, 2014 Rs.	As At 31st March, 2013 Rs.
23 GOVERNMENT GRANT		
23.1 Balance at the beginning of the Year	52,297,084	52,297,084
Grant Received During the Year	-	37,200,000
Grant Recognized to the Statement of Comprehensive Income During the Year	(11,134,742)	(37,200,000)
Balance at the end of the Year	<u>41,162,342</u>	<u>52,297,084</u>
23.2 Deferred Government Grant		
Grant of Samanthurai	1,601,600	1,747,200
Grant of Thirukkivil	-	1,931,000
Grant of Thimilathive	1,980,000	2,160,000
Grant of Milk Cans	114,392	114,392
Grant of Assets	3,049,981	8,094,492
Grant of 14 Sales Outlets	975,000	1,050,000
Grant of LCRD	33,441,369	37,200,000
	<u>41,162,342</u>	<u>52,297,084</u>
24. TRADE AND OTHER PAYABLES		
Trade Creditors	133,481,778	137,088,290
Expense Creditors	209,566,154	204,880,968
Other Payables	638,730,072	635,978,823
	<u>981,778,004</u>	<u>977,948,081</u>

24.1 Other payables include long outstanding balances of Rs.512,468,267/- which includes Rs.505,521,564/= which is outstanding from the date on which the assets and liabilities were transferred to "Kiriya Milk Industries of Lanka Co (Private) Limited" from "Milk Industries of Lanka Co. Limited". The said amount includes the statutory liabilities payable to Inland Revenue Department and other Government institutions.

Company is in the process of negotiations with the Government of Sri Lanka to settle such recoverable amounts against the amount mentioned in note no. 14.5.

		As at 31st March, 2014 Rs.	As at 31st March, 2013 Rs.
25. INCOME TAXATION			
Income Tax Payables / (Receivables)	25.1	29,629,285	29,629,285
WHT Receivables		(4,346,691)	(11,334,279)
ESC Receivables		(11,615,362)	(8,377,530)
		13,667,232	9,917,476
25.1 Income Tax Payables /Receivables			
Balance at the beginning of the Year		29,629,285	29,629,285
Add: Provision for the Year - Income Tax		14,604,555	10,697,242
		44,233,840	40,326,527
Less: Payments made during the Year		-	-
Tax credits set off against Liabilities			
- ESC		(14,604,555)	(10,697,242)
Gross Income Tax Payable		29,629,285	29,629,285
26. BANK OVERDRAFTS			
Bank of Ceylon - 1758		428,958,934	354,552,803
Bank of Ceylon - 1766		13,361,143	11,616,180
People's Bank - 41180210331		299,856,717	160,336,870
People's Bank - 41120210937		13,937,425	14,910,062
Bank of Ceylon - 1279942		-	1,268,198
Bank of Ceylon - 1471		1,614,042	-
Fund Transfers		89,366	86,376
		757,817,627	542,770,489

27. 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.

28. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

28.1 Contingent Liabilities

There are no contingent liabilities as at the reporting date.

28.2 Contingent Assets

There are no contingent assets as at the reporting date.

29. RELATED PARTY DISCLOSURE

29.1 Substantial Shareholding and Ultimate Ownership

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

29.2 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 was as follows :

	<u>2013/2014</u> Rs.	<u>2012/2013</u> Rs.
Short Term Employee Benefits	<u>14,111,973</u>	<u>12,361,514</u>

29.3 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.

30. COMPARATIVE INFORMATION

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

31. ASSETS PLEDGED AS COLLATERALS

Following assets have been pledged as security for liabilities

Nature of Liabilities The Name of Bank	Loan / Facility Granted Rs.	Balance Outstanding as at 31.03.2014 Rs.	Balance Outstanding as at 31.03.2013 Rs.	Repayment	Security Pledged
Loan Granted by Bank of Ceylon	700,000,000	533,498,574	589,166,635	Repayable in 120 equal monthly instalments of Rs.5,833,335/-	i) Fixed Deposits Amounting to Rs.315,500,000 of Bank of Ceylon. ii) Fixed Deposits Amounting US\$ 4,095,896.38 of Bank of Ceylon.
Bank Overdraft facility provided by Bank of Ceylon	384,000,000	428,958,934	354,552,803	On Demand	i) 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	45,000,000 20,000,000 40,000,000	299,856,717	160,336,870	On Demand On Demand On Demand	i) Fixed Deposits Amounting to Rs.50,000,000 of People's Bank. ii) Fixed Deposits Amounting to Rs.25,000,000 of People's Bank. iii) Fixed Deposits Amounting to Rs.50,000,000 of People's Bank.

32. EVENTS AFTER THE REPORTING DATE

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

33. COMPARATIVE FIGURES

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

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

34.1 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 - Held to Maturity	1,231,182,013	1,231,182,013
Trade and Other Receivables	1,321,965,074	1,321,965,074
Total Financial Assets	2,553,147,087	2,553,147,087
Financial Liabilities		
Trade and Other Payables	1,321,965,074	1,321,965,074
Interest Bearing Loans and Borrowings	533,498,574	533,498,574
Total Financial Liabilities	1,855,463,648	1,855,463,648

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 already recorded at fair value in the financial statements.

Assets for which fair Value Approximates 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.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

35.1 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	Risk(s)
· Trade Receivables	Credit risk
· Cash and Cash Equivalents	Liquidity risk
· Trade and Other Payables	Liquidity risk
· Bank Overdrafts	Liquidity risk
· Bank Loans	Interest rate risk/ Liquidity risk

35.2 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 meet a contractual obligation.

35.3 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.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Contd...)

35.3 Liquidity Risk and Funding Management (Contd...)

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.

35.3.1 Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

Company	On Demand Rs.	Less than 2 Months Rs.	2 to 12 Months Rs.	1 to 5 Years Rs.	Over 5 Years Rs.	Total Rs.
Financial Assets						
Financial Instrument - Held to Maturity	-	325,000,000	906,182,013	-	-	1,231,182,013
Trade and Other Receivables	-	396,639,523	264,393,015	198,244,761	462,687,777	1,321,965,076
Cash and Cash Equivalents	33,748,164	-	-	-	-	33,748,164
Total Financial Assets	33,748,164	721,639,523	1,170,575,028	198,244,761	462,687,777	2,586,895,253
Financial Liabilities						
Trade and Other Payables	-	240,191,553	192,153,243	211,368,569	317,052,850	960,766,215
Interest Bearing Loans and Borrowings	-	18,682,877	93,620,347	384,547,903	99,166,495	596,017,622
Bank Overdraft	757,817,627	-	-	-	-	757,817,627
Total Financial Liabilities	757,817,627	258,874,430	285,773,590	595,916,472	416,219,345	2,314,601,464
Total Net Financial Assets / (Liabilities)	(724,069,463)	462,765,093	884,801,438	(397,671,711)	46,468,432	272,293,789

35.4 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.

		2013/2014	2012/2013	2011/2012	2010/2011	2009/2010
<u>OPERATION RESULTS</u>						
Turnover (Net)	Rs. 000'	7,019,769	6,385,234	5,263,152	4,548,974	4,093,052
Gross Profit	Rs. 000'	1,005,692	486,433	221,896	536,949	697,490
Profit before tax	Rs. 000'	161,107 (	267,468 ) (	244,788)	110,664	338,725
Income tax Expenses	Rs. 000'	(20,699 ) (	30,555 ) (	10,918 ) (	27,472 ) (	37,975)
Profit After Tax	Rs. 000'	140,408 (	298,023 ) (	255,706)	83,192	300,750
<u>BALANCE SHEET</u>						
Stated Capital	Rs. 000'	319,454	319,454	319,454	319,454	319,454
Retained earnings	Rs. 000'	911,973	745,596	1,035,313	1,191,279	1,108,087
Sinking Fund	Rs. 000'	1,690	1,690	1,690	1,690 (	11,264)
Reserve for upgrading / replacement of Plant & Machinery	Rs. 000'	25,000	25,000	25,000	25,000	25,000
Revaluation Reserve	Rs. 000'	336,455	336,455	336,455	336,455	336,455
Shareholders fund	Rs. 000'	<u>1,594,572</u>	<u>1,428,195</u>	<u>1,717,912</u>	<u>1,873,878</u>	<u>1,777,732</u>
Property Plant & Equipment	Rs. 000'	2,244,073	2,123,362	2,275,337	664,893	572,074
Net Current Assets/(Liabilities)	Rs. 000'	1,205,867	445,668	537,718	1,629,923	1,452,398
Long term/(Deferred Liabilities)	Rs. 000'	(1,080,976 ) (	1,140,836 ) (	1,095,144 ) (	308,160 ) (	233,787)
<u>RATIOS</u>						
Earning per share	Rs.	4.40	(9.33)	(8.00)	2.60	9.41
Total Assets to share holders fund/ times		2.84	2.94	2.37	1.63	1.66
Net Assets per share	Rs.	46.79	44.71	53.78	62.19	56.06
Return on share holders equity	%	10.43	(20.29)	(14.88)	4.19	16.80
Gross Profit Ratio	%	14.33	7.62	4.22	11.80	17.04
Net Profit Ratio	%	2.00	(4.67)	(4.86)	1.83	7.35
Current Assets Ratio/ Times		1.23	1.27	1.43	2.73	2.54
Quick Assets Ratio (Times)		0.91	0.94	1.04	2.36	1.98