MILCO
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ANNUAL REPORT

2010-2011

Our Vision

To be the **"Best in Class"** nutritions food and beverage company in Sri Lanka.

Our Mission

To make our country self sufficient in fresh milk offer a variety of nutritious food products to all segments of the society and for all age group from weaning food.

CONTENTS

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	- 09th May 1996
Date of Re-registration	- 19th May 2008
Company Registration Number	- N (PVS) 17159 (OLD) - PV 2942 (New)
Company Secretary	- Financial Services & Commercial Agencies No 28, Rosmead Place, Colombo 07.
Directors	- Mr.Sunil Wickremasinghe - Chairman Mr.Sanjaya Leelarathne - Deputy Chaiman Mr.Naushard Junaideen - Working Director Mr.R.Sivaram - Director Mr.S.Loganathan - Director Mr.Ajith Dissanayake - Director Mr.Thilanka Weerasinghe - Director Mrs.Dashika Edwards - Director Mr.W.G.R.H.Panditharathne - Director
Auditors	- Internal M/ S SJMS Associates, No. 02. Castle Lane, Colombo 04. - External M/S BDO Partners, No:65/2, Sir Chithampalam A Gadinar Mawatha, Colombo 02.
Bankers	- Peoples Bank - Bank of Ceylon

It gives me great pleasure to present a review of the Company's performance for the year ended 31st March, 2011.

The Company's turn over during the year under review showed a reasonable growth of 11.5% over the previous year. A Total turnover of Rs. 4.7 billion was achieved as compared with Rs. 4.2 billion for 2009/2010.

The profitability of the Company for the year under reference was Rs. 111 million before tax. There is a reduction in the profitability of the company due to the increase in fresh milk price paid to the farmer and not increasing the finished product prices. It was our corporate responsibility and this effort cost the company a sum of Rs. 86.2 million which would have added to the profit during the period under reference. As per the request made by the treasury to build up a working Capital for 06 months, the company managed to reserve a sum of Rs. 935 Million as at to-date. The requirement is Rs. 2.1 billion for the payment of milk, raw and packaging, salaries etc. for this purpose. The reserved working capital is placed on fixed deposits with the state banks namely Bank of Ceylon, People's Bank and the State Mortgage Bank on reasonable interest rates ranging from 8.5% - 9.0% per annum.

Milk Collection and Procurement

The milk collection activities were hampered during the latter part of last year and the beginning of this year due to heavy floods and death of approximately 75,000 animals. However, due to good efforts by MILCO team in the field, the situation has improved remarkably, collection moving upto approximately 185,000 Ltrs per day at present. There are 2300 farmer managed societies giving milk to MILCO from all corners of Sri Lanka. There are 77 Chilling Centres spread in the country to chill the milk and transport to the four (4) factories. The details of comparative collections are given below.

Year	Ltrs. (Million)	Growth %
2006	53.46	
2007	53.98	+ 0.97
2008	53.40	-1.07
2009	54.85	+2.71
2010	55.51	+1.20
2011 to-date	32.56	
2011 Est.	61.80	+11.33

Expansion

It is imperative that the milk collection activities gets into the inner rural and the Plantation Sector. It is intended to install 25 Mini Cooling Stations capacities ranging from 300 Ltrs, 500 Ltrs and 1,000 Ltrs. in these areas. The price of fresh milk to farmers has been increased up to Rs. 50/= per Ltr. of milk for minimum total solids of 12.5% thus paying for good quality milk. The price of milk paid to farmers is now at world market price or better. In addition to these efforts, the Company will take the initiative to employ 50 Three-wheelers as a self employment project to collect the milk from the Mini Cooling Stations in the morning hours and sell MILCO products in the afternoon hours. It is envisaged to have an income of approx. Rs. 1,000 per/day. This project is expected to be spread throughout the country as a corporate responsibility and a sales benefit to the Company.

Fresh Milk Quality

It is of paramount importance that the milk quality is well preserved organoleptically and bacteriologically to produce excellent food products. As a first measure since the later part of last year the milk is collected daily from the Chilling Centers to the factories. In addition farmer training programmes have been arranged for fresh milk production and basic milk hygiene practices.

Production

MILCO has four (4) manufacturing facilities namely Colombo (Narahenpita), Digana, Ambewela and Polonnaruwa. The total products manufactured are from fresh milk collected from the farmers in Sri Lanka. There are Ten (10) Categories and 52 Stock keeping units are made available to the consumers under the "HIGHLAND" brand. The categories are, pasteurized and sterilized liquid milk, yoghurt, ice Cream, butter, ghee, cheese, curd, condensed milk and full cream milk powder. In addition to this product portfolio, it's our intention to introduce "HIGHLAND SPRING" mineral drinking water and chocolate.

Sales & Marketing
MILCO has 115 distributors spread in the country to distribute the finished products. The sales force consists of 26 Sales Representatives, 07 Area Managers and 06 Administrative Staff. In addition the Company has 11 Sales Centers with 50 Staff members. The country has been demarcated in to 09 regions for this purpose. Product renovation and innovation is in progress. A "fat free, sugar free" yoghurt has been introduced recently to the market and its gradual consumer confidence is seen. In addition, industrial trials for consumer panel tasting have been completed to introduce a strawberry flavoured yoghurt. On the part of product renovation, the condensed milk under the brand name 'HIGHLAND MILKMITE" with an international touch has been introduced. This is to find the export market for this product which has a shelf life of 09 months. Further efforts will be made to undertake trials to produce low caloried Ice cream.

UHT
The most significant change that will take place in the near future is the introduction of long life UHT milk which has a shelf life of one month. The present pasteurized liquid milk has only three (3) days and has been a difficult task to distribute due to short shelf life. There will be 3 pack sizes at the initial launch – 180 ml (2 Flavour) at 25/=, 450 ml at Rs. 55/= and 900 ml at Rs. 100/=. This will be the beginning of an era to transform our consumers from Powder to Liquid Milk Consumption.

MILCO Staff
The establishment of a "Carrier path development" to our staff is very essential. The staffs training for various categories have commenced. A performance development guide with key performance indicators will be established for the year end staff appraisals. The experienced staff is our asset at MILCO. The Company employs a total of 1460 Staff Members of all categories.

The way forward
MILCO is committed to offer nutritious food for the people of Sri Lanka. The product categories will be for all consumer segments of society from weaning food to adult and old age. It will be under the banner of "Value for money". MILCO will be transformed from just a food and beverage company into a "Nutritious food and beverage company" that will offer nutrition to the nation. MILCO has a bright out look to be the "Best in class" Company in Sri Lanka that will serve the people and protect the institution.

General
MILCO has to sort out a few issues to get into the winning path. The main obstacle is the lethargic and insufficient fresh milk growth in the country which arrests the company growth. Our main objective is to own at least a 50% Market share of the milk based product portfolio in the country. Sri Lanka imports milk products to the value of USD $ 390 million approx. per annum. In order to stop imports and save foreign exchange the country has to produce 600 million ltrs of fresh milk per year.

As at now it stands at 125 million ltrs per year. Technically its "YES" to achieve this task. The Ministry of Livestock & Rural Community Development has embarked upon many initiatives to increase the fresh milk production. Our intention is to be self sufficient in fresh milk by the year 2015.

Finally, I thank on behalf of the MILCO Board of Directors all those who had a part to play in the development of MILCO and the Milk Industry in particular.

Sunil Wickramasinghe
Chairman
Milco (Pvt.) Ltd

DEPUTY CHAIRMAN'S MESSAGE

It is really a great pleasure to present this statement as Deputy Chairman of this Company, in its Annual Report for the year ended 31st March 2011.

As an acclaimed government institution, we have two missions to be accomplished. The first and foremost is to protect the consumers who have trusted our products and as well, it is very significant to protect the milk farmers who are directly affiliated with our institution.

Nevertheless, a great responsibility lies with us to safeguard the job security of over 1500 employees. As in the private sector, our institution is not profit-oriented, but our motive is to provide nutritious and high quality products to our valued customers.

Fortunately, the Board of Directors and the top management have made a wise decision as to increase the milk payment of the farmers in order to encourage them without passing on that burden to the ultimate consumer. Therefore, we are trying to bear the cost by increasing the effectiveness and efficiency within the company by increasing the volume through utilizing sophisticated technology. In comparison to previous years, there has been a proven difference in the way we direct the company ethically.

Finally, I would like to pass my heartfelt gratitude to Honorable Minister, Deputy Minister, the Board of Directors, the Trade Unions and all the employees who have made a great contribution to the success of the company.

Sanjaya Leelaratne
Deputy Chairman
Milco (Pvt.) Ltd

I pen these words upon assuming duties as Working Director of Milco (Private) Limited in May 2010.

We at Milco had been able to proceed ahead with the help of the Hon. Minister, Secretary and the Ministry officials and of course the Chairman, Deputy Chairman and staff of all categories of Milco (Pvt) Ltd.

I take this opportunity to thank all of you for the cooperation and support extended to achieve the targets.

Although we have had some setbacks due to the ravaging floods in the east, Milco was able to sustain the impact purely due to the hard work by the employees of Milco, Ministry and the Hon. Minister.

Milk purchase prices were increased considerably which has given the farmer encouragement and enthusiasm to indulge in dairy farming. It is my strong belief that more people would take up to dairy farming after the milk price increment.

The proposed mega dairies initiated by the Ministry on the NLDB farms will help Milco purchase more quality milk and process whereby help the government of Sri Lanka to reduce the import bill on milk products.

I wish Milco (Pvt) Limited all the very best and appreciate all employees to rally round to work together to reach the intended goals.

Best and Warm Regards.

Naushard Junaideen
Working Director
Milco (Pvt.) Ltd

MESSAGE FROM FACTORY MANAGER COLOMBO

During the year 2010/2011 Colombo Milk Factory has re-arranged its functions to optimize the overall performance of the organization. Having concerned on the possibilities of generation of income, Colombo Milk Factory was able to maintain a maximum capacity of yoghurt production without having incurred for plant and machinery, with the re-arrangement of working patterns. Ice cream production was enhanced with the introduction of two continuous ice cream freezers at a cost of Rs. 17 million, replacing the old equipment and optimizing the processing capacity. The quality of the distribution of sterilized milk bottles could be upgraded with the replacement of the old iron crates with plastic crates purchased.

We could launch two varieties of new products, namely Sugar Free Fat Free Yoghurt and Strawberry Yoghurt, as a result of the un-tiring efforts made by the research and development unit of the Head Office.

This factory which commenced at the inception of National Milk Board in 1956, has expanded now with a variety of products and now it has become to a saturated point as far as the location is concerned. It has become a necessity to expand the physical extents of the buildings to expand the capacity, especially when the requirement of storage etc is considered. Further, even though the factory is located at Narahenpita which was not a populated area at that time, the present situation is entirely different.

Considering those factors it has been planned to shift the factory to a new location out of the Colombo City, with modernized plant equipment. This would be a turning point in the history of the company as the processing capacities would be enhanced to a great extent.

Sudath Munasinghe
Factory Manager,
Colombo Milk Factory.
Milco (Pvt.) Ltd

MESSAGE FROM FACTORY MANAGER AMBEWELA

I am very pleased forwarding a message to the Annual Report for financial year ended 31.03.2011

Local consumers who have been consuming milk powder mostly preferred “Highland” milk powder and Butter which is produced in our Ambewela factory and almost 60 % of milk collected by Milco company have been utilized for these two productions.

These milk powder and butter have been produced hygienically and of high quality by utilizing the milk Collected from Anuradhapura, Polonnaruwa, Batticoloe, Ampara, Monaragala, Badulla, Nuwara Eliya distircts milk farmers and it is proud to state that the products have been awarded ISO – 22000 quality certificate as a proof for the good management system of the factory.

In the future with the increase of milk production island wide, it would be utilized for liquid milk and value increased milk production in other factories and excess milk would be utilized by Ambewela factory to produce milk powder and butter. It is believed that Machinery of Ambewela factory would have to be modernized in the future for this purpose.

Finally, as one of the stakeholders of the Company it is our objective to contribute our efforts in order to strengthen the function of the firm.

A. N. Pinnalanda
Factory Manager – Ambewela
Milco (Pvt.) Ltd

MESSAGE FROM FACTORY MANAGER DIGANA

The overall performance of Digana Milk Factory during 2010/2011 was satisfactory compared to the previous years, mainly in Yoghurt and Ice Cream production.

Plans are in place to improve the productivity of the Factory by introducing new technology. This will be achieved through the commissioning of the new UHT treatment based liquid milk processing line. Production capacity of Yoghurt and Ice cream will be doubled by the introduction of new machines. For the achievement of above it is essential to motivate employees at all levels. The potential for Yoghurt and Ice Cream is shown in the following chart.

Product	2007/2008	2008/2009	2009/2010	2010/2011
Yoghurt Production (80ml Cup)	10,044,064	10,767,619	13,114,715	14,245,333
Ice Cream Production(in Ltrs)	1,755,830	2,101,976	2,370,809	2,280,411

Product	2007/2008	2008/2009	2009/2010	2010/2011
Yoghurt Sales (in Rs.)	84,945,652.70	105,881,838.00	127,429,934.00	145,620,240.00
Ice Cream Sales (in Rs.)	114,862,048.60	145,717,716.05	175,198,660.80	179,717,907.25

With the implementation of proposed projects and highly motivated staff will make Digana Milk Factory a profitable manufacturing establishment.

R.M.J.B Ratnayake
Actg. Factory Manager – Digana
Milco (Pvt.) Ltd

MESSAGE FROM FACTORY MANAGER POLONNARUWA

With great pleasure, I am forwarding this message to the Annual Report for the financial year 2010/2011.

After taking over the activities of this factory from I D P L in the year 2008, MILCO has started Condensed Milk production under the Highland Brand name. Later Highland Condensed Milk was qualified to obtain "S L S" certificate.

During the year 2010/2011 few changes were introduced to condensed milk container for the benefit of the consumer. We have introduced an easy opening system to the condensed milk Tin and it was decorated attractively and re-named as "Highland Milkmite. The same quality Highland Milkmite in 05kg cans are very popular among confectionery producers and many large & small hotels use our condensed milk to make a quick and delicious cup of tea.

By the middle of 2011 our company has taken a huge step in the Dairy industry in Sri Lanka by investing for two U H T milk producing Plants from Finland. The aim of this investment was to reduce the production of powdered milk and produce more nutritious Liquid Milk for the nation. In keeping with government policy, we hope to encourage the use of liquid milk in every home instead of powdered milk.

Out of those two UHT Machines, one has been installed in our factory and liquid UHT milk production has been started. The other UHT Machine will be installed in our Digana Factory in the near future and from both UHT machines, liquid UHT milk which could be kept at room temperature for one month without spoiling, would be available all over the Island in the near future.

Mean while, we are planning to produce Yoghurt and Ice Cream in our factory for North, North Central and East within the year 2012.

Finally I could mention that this factory would be the most successful unit in Milco with the help of top management and devoted, capable staff I have in this factory.

A R V Abeysinghe
Acting Factory Manager - Polonnaruwa.
Milco (Pvt.) Ltd

It is a great pleasure for me to forward this review of the Annual Report of MILCO (Pvt) Ltd, for the year ended 31st March 2011.

MILCO is the only state owned dairy Company in Sri Lanka. Our continuous effort is to pay the best possible milk price to the farmers and produce nutritious products to the people of Sri Lanka. Our ultimate aim is to be the "Best in Class" nutritious food and beverage Company in Sri Lanka.

During the year, we have increased the farm gate prices twice. An increase of 10% was given to the Farmers on 22nd June 2010, from an average of Rs.31/= per litre to Rs.35/= per litre and further on 1st March 2011 farm gate price was increased up to Rs.50/= per litre as per "Mahinda Chinthanaya", the effective rate of hike was 42.85% and currently it stands as a very much better rate in the history from National Milk Board (NMB) to MILCO. Simultaneously consumer prices were not increased by Milco on the Government request in order to keep the Nation's cost of living standard in a stable position, even though part of the cost was reimbursed by the Government and balance cost of Rs. 81 Mn. has to be incurred by the Company.

Due to the increase of farm gate price twice during the year we have contributed Rs. 1,847 Mn. to the rural economy which is an 8.05% increase compared to the previous year, but Raw Milk collection has come down by 2.43%, which is due to the heavy floods that affected the Eastern province during the end of 2010.

In addition to the farm gate price hike, company's milk procurement and related field development activities also expanded further by opening of new Chilling Centers and Milk Transport routes, forming of new Farmer Managed Societies (FMS), introduction of an efficient Bowser transport net-work system to bring down fresh milk to the factories located in Colombo, Digana, Ambewela and Polonnaruwa. Also direct financial assistance was given to farmers through Ministry and NGOs, especially World Vision etc..,

Further, through **"Milco Farmers Social Security Fund" (MFSSF),** we areproviding a considerable amount of benefits to Farmers and their families members.

At the end of this financial year MFSSF has grown up and accumulated a fund up to an amount of Rs. 41.5 Mn. Consisting a membership of 56,090 farmers coming under 1,805 Farmer Managed Societies (FMS), which commenced from the year of 2003/2004 with the contribution of =/25 cents per litre, from farmers and an equal amount of contribution by MILCO.

Milk procurement and related costs described above are as follows.

	Years 2010/11	2009/2010	Increase Decrease	%
Milk consumption lit Mn.	53,19	54.52	(1.33)	(2.43)%
Purchase Price (Avg) Rs./lit	34.73	31.35	3.38	10.78%
Milk payments Rs. Mn	1,846.9	1,709.3	137.6	8.05%
Chilling Cost Rs. Mn	295.3	273.2	22.10	8.08%
Development Cost Rs. Mn	138.6	135.9	2.10	1.54%
Bowser Cost Rs. Mn	163.8	144.4	19.40	13.43%

Financial Analysis

Due to the inflation increase in other costs, this year too, following increases are noticeable.

	2010/11 Rs.Mn	2009/2010 Rs.Mn	Increase Rs.Mn	%
Other Raw Material	386.7	359.7	27.0	7.50%
Packing Materials	410.0	386.2	23.8	6.16%
Labour Cost	430.4	370.6	59.8	16.13%
Furnace Oil	118.0	106.7	11.3	10.59%
Factory Fixed OH	142.4	137.7	4.7	3.41%
Selling & Distribution Cost	130.0	100.0	30.0	30.00%

Meanwhile, the following cost of the items has come down mainly due to the lower consumption of Raw Milk and change in other technical factors.

	2010/11	2009/2010	Increase	
	Rs.Mn	Rs.Mn	Rs.Mn	%
Electricity	86.7	89.1	2.4	2.69%
Diesel	2.8	4.7	1.9	40.42%
Water	16.7	19.6	2.9	14.79%
Detergent & Cleaning	14.2	15.3	1.1	7.18%

Turnover

Milco had continuously increased its Turnover since 1999/2000 except in the year 2009/10. Even in 2009/10 it has come down only by 35 Mn. which is 0.82%, and again in 2010/11 it has gone up by 11.06% compared to the previous year.

Year	Gross Sales Rs. Mn.	Year	Gross Sales Rs. Mn.
99/2000	1,163	2005/06	2,362
2000/01	1,259	2006/07	2,847
2001/02	1,548	2007/08	3,348
2002/03	1,562	2008/09	4,248
2003/04	1,760	2009/10	4,213
2004/05	2,264	2010/11	4,680

Profitability

The Company has made a net profit of Rs.83 Mn. as the bottom line for the year and having accounted for the huge increase in farm gate cost incurred twice with recognition of improving the standard of living of the local dairy farmers and also to keep the cost of living in order. The incremental cost of production and other administrative costs are as shown below.

Year	Gross Profit	Net Profit
	Rs. Mn	Rs. Mn
2006/07	257	18
2007/08	452	104
2008/09	731	332
2009/10	697	301
2010/11	537	83

The followings increases in the cost has influenced the decrease in the net profit of the company in the year under review.

	2010/11	2009/10	Increase
	Rs. Mn	Rs. Mn	Rs. Mn
Advertising & Sales Promotion	27.9	17.4	10.5
NBT expenses	130.9	120.3	10.6
Legal & Professional Fee	4.3	3.1	1.2
Audit Services	1.8	.4	1.4
Directors' Remuneration	8.6	4.3	4.3
Staff Cost			
Salaries, Wages and Allied Exp:	550.4	473.9	76.5
Defined Con: plan cost-EPF& ETF	35.4	28.3	7.1
Defined Benefit Plan Costs-Gratuity	76.6	21.6	55.0

Further, the following losses in the Cattle feed plant (CFP) in Polgahawela and Curd Plant in Galle also have contributed as well for the declining of the Company's net profit.

	2010/11 Rs. Mn	2009/10 Rs. Mn	Increase Rs. Mn
Cattle Feed plant(Loss)	(23.3)	(16.8)	(6.5)
Curd plant (Loss)	(2.3)	(1.8)	(0.5)
Net Loss	(25.6)	(18.6)	(7.0)

Net profit of the Company has been exempted from Income tax under the BOI agreement and part of the net profit decrease has been influenced by the changes in macro economic conditions in the financial market. This is mainly, due to the changes in the rate of interest and instability in the foreign currency deposits.

	2010/11 Rs. Mn	2009/10 Rs. Mn	Drop Rs. Mn
Interest Income	83.6	88.4	(4.8)
Exchange gain/(Loss)	(15.2)	(4.8)	(10.4)
Net Income	68.4	83.6	(15.2)

Conclusion

In conclusion, I wish to appreciate the support, encouragement and the guidance extended by the Ministry and the Board of Directors to make this year a success. I would also make this opportunity to thank all the managers and their staff for the dedicated work rendered during the year.

I wish to extend my special thanks to finance staff who have performed exceptionally well in preparation and presentation of financial statements, the Internal Auditors M/s SJMS Associates and finally the External Auditors M/s BDO Partners for the consistent co-operation rendered towards the improvement of the system and procedures of the company and also in delivering the audited accounts within a very short time frame.

C.Madugalle
Financial Controller
Milco (Pvt.) Ltd

REPORT OF THE DIRECTORS

The Directors of Milco (Pvt) Ltd have pleasure in presenting their report and the audited financial statement for the year ended 31st March 2011.

PRINCIPAL ACTIVITY

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

REVIEW OF BUSINESS

The Review of the Chairman, Deputy Chairman, Working Director and Financial Controller which form an integral part of the report contain a detailed description of the operations of the company during the year ended 31.03.2011 and contains a fair review of the company's affairs.

PROPERTY PLANT AND EQUIPMENT

Details of additions made during the year to the property, plant & Equipment of the company is Rs.188.1 mn and depreciation charges are as shown.

BOARD OF DIRECTORS

The following New 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 followings Board of Directors resigned with effect from 10th May 2010 due to the change of the new line Ministry.
Mr.Kumar **Abeysinghe – Chairman**
Mr.N.M.K.P.M.**Nawarathne – Deputy Chairman**
Mr.Rumy **Jauffer – Working Director**
Mr.W.D.P.**Fonseka – Director**
Mr.D.**Venkateshwaran – Director**
Mr.C.B.**Herath - Director**
Mr.S.I.M.M.Nazvar - Director
Ms.M.Anoma Nandani **Jayamaha - Director**

From the new Board appointed w.e.f 13th May 2010, the following two Directors resigned with effect from 21st December 2010.

Mr. Arinesarajah **SHAKTHEVALE**
Mr. Rathnathilake **LEKAMGE**

The following two new Directors were appointed to the Board as follows

Mr. Danuka **DICKWELLA** w.e.f. 21. 12. 2010
Mrs. Dashika **EDWARDS** w.e.f. 12 .01. 2011 – **Degree (English)**

SHARE INFORMATION
The stated capitals of the company throughout the year under review were Rs.500 million and Rs. 319.4 million respectively.

RESERVES
Cumulative profit brought forward of Rs.1,108,087,428 adjusted for the current year's profit Rs. 83,191,550 after tax given in page 3 of accounts.

Reserves include Capital Reserve of Rs.25,000,000 and sinking fund of Rs.1,689,978 at the year end, the purpose of the fund and details are given in notes 17.1 & 18 of the accounts.

DIRECTORS' INTEREST IN CONTRACTS
The Directors of the company were not directly or indirectly involved in any contracts with the company as expressed and given under Note 27.3 of the accounts.

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 is given under Note No 23 to the accounts. Profits on operating activities are exempted under the Sec. 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 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.

EVENTS AFTER THE BALANCE SHEET DATE

GOING CONCERN
The Board of Directors is satisfied that the company has adequate resources to continue its operation 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 31.03.2011 and the formal appointment of the auditors was done at the Annual General Meeting of the Shareholders.

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.

BY ORDER OF THE BOARD

Sigd/.

Financial Services and Commercial Agencies (Private) Limited.,
(Sec/555/91)
No. 28, Rosmead Place,
Colombo 7.

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, Since there is no representative of the Treasury reference the Board of Directors of MILCO (Pvt) Ltd, the Committee functioned with three non executive directors, one of them acting as the Chairman of the committee, 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 SJMS Associates 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 normally should comprise 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. Since there is no representative of the Treasury in the present Board of Directors of MILCO (Pvt) Ltd, the Committee functioned with two Directors, the undersigned acting as the Chairman of the Committee.

During the period under review regular meetings were held. The Financial Controller, the two Asst. Managers (Finance) and the Manager Internal Audit attended all the meetings by invitation. The external Auditors attended one meeting. The heads of the factories and sectional heads of the Company were also invited to attend the meetings.

The Committee, at the meetings held during the year, reviewed in detail the internal audit queries and the monthly Internal Audit Reports, examined the clarifications and explanations given by the heads of the factories and the other functional heads on the matters highlighted in the Internal Audit Reports and advised the Officers concerned to ensure that the shortcomings and errors pointed out and highlighted in the Internal Audit Report are rectified and not repeated in the future. The Committee also advised the staff concerned to expedite sending replies for the Internal Audit queries.

The Committee after studying the Internal Audit Reports and discussing with the Internal Audit staff made recommendations to update the Internal Control Systems of the Company.

The Committee also reviewed and monitored 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 appropriate action on these matters with a view to improve the state of affairs of the Company.

S. LOGANATHAN
Acting Chairman – Audit Committee
Milco (Pvt.) Ltd

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF MILCO (PVT) LTD

1. **Report on the Financial Statements**

We have audited the accompanying financial statements of Milco (Pvt) Limited which comprise the balance sheet as at 31st March, 2011, the income statement, 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 26. The financial statements of the Company as of 31st March, 2010, were audited by another auditor whose report dated 14th February, 2011, expressed a qualified opinion for the company due to the matters related to the following areas;

i) Overstatement of Property, Plant & Equipment by Rs.7.5 Mn due to an error in Weighted Average Cost Computation.

ii) Distress Loan Balance as per ledger different from the payroll system by Rs.12.5 Mn.

iii) Availability of Bottle and Crates that corresponds to the deposits held amounting to Rs.31.4 Mn have not been identified.

2. **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.

3. **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 paragraph 4.1, 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 paragraph 4.1, 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.

4. **Opinion**

4.1 We did not observe the counting of the physical inventories amounting to Rs.347,851,960/- as of 31st March 2011, since that date was prior to the time we were initially engaged as auditors for the Company. Owing to the nature of the Company's inventory backward reconciliations records, we were unable to satisfy ourselves as to inventory quantities by other audit procedures.

4.2 In our opinion, so far as appears from our examination, except for the effects of such adjustment ,if any, as might have been determined to be necessary had we been able to satisfy ourselves of the matter referred to the above paragraph 4.1, the company maintained proper accounting records for the year ended 31st March, 2011 and the financial statements give a true and fair view of the Company's state of affairs as at 31st March, 2011 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

5. **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.

BDO Partners

CHARTERED ACCOUNTANTS
Colombo
24th November, 2011
SSR/cc

INCOME STATEMENT FOR THE YEAR ENDED 31ST MARCH 2011

	Notes	2010/2011 Rs.	2009/2010 (Restated) Rs.
Revenue	3	4,548,974,053	4,093,051,886
Cost of Sales		(4,012,024,624)	(3,395,561,341)
Gross Profit		536,949,429	697,490,545
Other Income	4	100,440,617	102,164,980
		637,390,046	799,655,525
Administrative Expenses		(413,113,697)	(332,794,334)
Distribution Expenses		(66,130,740)	(100,074,952)
Other Expenses		(31,977,865)	(22,290,469)
Finance Costs	5	(15,504,264)	(5,771,044)
		(526,726,566)	(460,930,799)
Profit Before Taxation	6	110,663,480	338,724,726
Income Tax Expense	7	(27,471,930)	(37,975,136)
Profit for the Year		83,191,550	300,749,590
Basic Earnings Per Share	8	3	9
Dividend Per Share			
- Final	9	-	0.92

Figures in brackets indicate deductions

The accounting policies and notes on pages 22 to 43 form an integral part of these financial statements.

24th November, 2011
Colombo

BALANCE SHEET
AS AT 31ST MARCH 2011

	Notes	As at 31.03.2011 Rs.	As at 31.03.2010 (Restated) Rs.
ASSETS			
Non-current Assets			
Property, Plant and Equipment	10	532,747,937	503,286,649
Capital Work In Progress		19,366,961	68,787,758
		552,114,898	572,074,407
Current Assets			
Livestock	11	1,431,645	444,255
Inventories	12	347,851,960	527,206,176
Trade and Other Receivables	13	895,480,728	777,229,208
Short term Investment	14	930,623,649	722,597,533
Cash and Cash Equivalents	15	394,346,782	368,024,946
		2,569,734,764	2,395,502,118
Total Assets		3,121,849,662	2,967,576,525
EQUITY AND LIABILITIES			
Stated Capital and Reserves			
Stated Capital	16	319,454,060	319,454,060
Capital Reserve	17	25,000,000	25,000,000
Revaluation Reserve		336,454,462	336,454,462
Sinking Fund	18	1,689,978	1,689,978
Retained Earnings		1,191,278,978	1,108,087,428
Shareholders' Fund		1,873,877,478	1,790,685,928
Non-Current Liabilities			
Non-interest Bearing Borrowings	19	85,698,717	85,698,717
Interest Bearing Borrowings	19	-	423,240
Retirement Benefit Obligations - Gratuity	20	201,703,631	125,097,698
Deferred Income - Government Grant	21	20,757,825	22,567,086
		308,160,173	233,786,741
Current Liabilities			
Trade and Other Payables	22	823,121,208	809,375,797
Income Tax Payable	23	27,758,202	42,819,482
Short Term Borrowings	19	423,240	4,677,604
Bank Overdrafts	24	88,509,361	86,230,973
		939,812,011	943,103,856
Total Equity and Liabilities		3,121,849,662	2,967,576,525

Figures in brackets indicate deductions

Commitments and Contingencies ***25 & 26***

The accounting policies and notes on pages 5 to 26 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.

Head of Finance

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

Approved and Signed for and on behalf of the Board

(Director) (Director)

24th November, 2011
Colombo
SSR/cc

STATEMENT OF CHANGES IN EQUITY AS AT 31ST MARCH 2011

	Stated Capital Rs.	Capital Reserve Rs.	Revaluation Reserve Rs.	Sinking Fund Rs.	Retained Earnings Rs. Restated	Total Rs. Restated
Balance as at 31.03.2009	306,500,020	25,000,000	336,454,462	1,689,978	836,699,281	1,506,343,741
Net Profit for the Year (Note 30.3)	-	-	-	-	300,749,590	300,749,590
Share Issue (Note 30.3)	12,954,040	-	-	-	-	12,954,040
Transferred to the Consolidated Fund-Dividend (Restated Note 30.3)	-	-	-	-	(29,361,443)	(29,361,443)
Balance as at 31.03.2010	319,454,060	25,000,000	336,454,462	1,689,978	1,108,087,428	1,790,685,928
Net Profit for the Year	-	-	-	-	83,191,550	83,191,551
Balance as at 31.03.2011	319,454,060	25,000,000	336,454,462	1,689,978	1,191,278,978	1,873,877,478

Figures in brackets indicate deductions

The accounting policies and notes on pages 5 to 26 form an integral part of these financial statements.

Colombo
24th November, 2011

CASH FLOW STATEMENT AS AT 31ST MARCH 2011

		As at 31.03.2011 Rs.	As at 31.03.2010 (Restated) Rs.
Cash Flow from Operating Activities			
Net Profit Before Taxation		110,663,480	338,724,726
Adjustments for ;			
- Depreciation on Property, Plant and Equipment		158,638,553	208,191,757
- Income from Investment		(88,453,539)	(88,453,539)
- (Profit)/Loss on Disposal of Property, Plant and Equipment		-	(2,090,432)
- Interest Expense		964,195	964,195
- Recognized income on Deferred Grants		(9,669,546)	(583,453)
- Stock Write off		260,681	25,778
- Exchange Loss		15,171,011	-
- Provision for Defined Benefit Plans - Gratuity		85,457,151	31,794,745
		162,368,505	149,849,051
Operating Profit before Working Capital Changes		273,031,985	488,573,777
(Increase)/Decrease in Inventories		179,093,535	(186,870,732)
(Increase)/Decrease in Trade and Other Receivables		(108,902,258)	(123,801,500)
Increase/(Decrease) in Trade and Other Payables		13,745,411	(4,567,806)
		83,936,688	(315,240,038)
Cash Generated from Operations		356,968,674	173,333,739
Interest Paid		-	(964,195)
Tax Paid		(42,533,303)	(24,909,378)
Payment of Defined Benefit Plans - Gratuity		(8,851,220)	(10,241,352)
		(51,384,523)	(36,114,925)
Net Cash Flow From/(Used In) Operating Activities		305,584,151	137,218,814
Cash Flow from Investing Activities			
Acquisition of Property, Plant and Equipment		(112,835,181)	(172,971,880)
Investments in Property, Plant and Equipment in the Course of Construction		(26,831,253)	-
Dividend Paid		-	(29,361,442)
Interest Received		85,078,392	81,432,195
Shorterm Investment		(223,197,127)	(8,063,846)
Proceeds from Disposal of Property, Plant and Equipment		-	2,394,598
Net Cash From/(Used In) Investing Activities		(277,785,169)	(126,570,375)
Cash Flow from Financing Activities			
Government Grant Received		7,860,285	1,197,156
Proceeds from Short Term Borrowings - (Net of Repayments)		(5,144,988)	(11,675,637)
Receipts From/(Payments To) Directors and Shareholders			(4,055,619)
Net Cash From/(Used In) Financing Activities		2,715,297	(14,534,100)
Net Increase in Cash and Cash Equivalents		30,514,279	(3,885,661)
Cash and Cash Equivalents at the beginning of Year	**Note 24**	281,793,973	285,679,634
Cash and Cash Equivalents at end of Year	**Note 24**	305,837,421	281,793,973

Figures in brackets indicate deductions

The accounting policies and notes on pages 5 to 26 form an integral part of these financial statements.

24th November, 2011
Colombo

1. CORPORATE INFORMATION

1.1 General

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

The company was incorporated on 9th May, 1996 under the name 'Kiriya Milk Industries of Lanka (Pvt) Limited'. The name of the company was changed as 'Milco (Pvt) 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 3rd February ,1998 and leasehold rights of the land & buildings used by Milk Industries of Lanka (Pvt) Company Limited as at the same date were transferred to the Company with effect from 4th February, 1998. The value of Net Assets so transferred was Rs.306,500,020/-. Further, as per the letter dated 8th August, 2000 from Public Enterprises Reform Commission of Sri Lanka, annual lease rentals of leasehold land & 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 & buildings.

The Registered Office of the Company is located at No. 45, Nawala Rd, Colombo 05 and the principal place of business is also at the same place. Major factories of the company are situated at Narahenpita, Ambewela, Digana and Polonnaruwa.

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.

1.3 Date of Authorization for issue the financial statements

The financial statements for the year ended 31st March 2011 were authorized for issue in accordance with a resolution of the Board of Directors on 24th November, 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 GENERAL ACCOUNTING POLICIES

2.1.1 Basis of Preparation

These financial statements presented in Sri Lanka Rupees have been prepared on an accrual basis under the historical cost convention basis in accordance with generally accepted accounting principles and the standards laid down by the Institute of Chartered Accountants of Sri Lanka.

2.1.2 Statement of Compliance

The Balance Sheet, Statement of Income, Changes in Equity and Cash Flows, together with Accounting Policies and Notes ("Financial Statements") of the company and as at 31st March, 2011 and for the year then ended have been prepared in compliance with the Sri Lanka Accounting Standards (SLAS) issued by the Institute of Chartered Accountants of Sri Lanka and the requirement of the Companies Act No. 7 of 2007.

2.1.3 Going Concern

The directors have made an assessment of the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease trading.

2.1.4 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 rearranged wherever necessary to conform to the current year's presentation as referred in the Note no 30.

2.1.5 Discontinuing Operations

A discontinuing operation is a clearly distinguishable component of the Company's business that is abandoned or terminated pursuant to a single plan and which represents a separate major line of industry or geographical area of operations.

As at the balance sheet date, the company does not have any discontinuing operations.

2.1.6 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 income statement.

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 Income Statement.

2.1.7 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.

2.1.8 Significant Accounting Judgments, Estimates and Assumptions

a) Judgments

In the process of applying the accounting policies, management has made the following 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 judgments, 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 balance sheet date, 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.

2.2 ASSETS & BASES OF THEIR VALUATION

2.2.1 Property, Plant & Equipment

a) Cost

Property, plant and equipment are recorded at cost less accumulated depreciation and less any impairment in value.

b) Cost and Valuation

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.

c) Depreciation

Provision for depreciation is calculated by using straight line method on the cost or valuation of all property, plant and equipment, in order to write off such amounts over the estimated useful lives of such assets.

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

The principal annual rates used for this purpose, which are consistent with that of the preceding years, are;

Buildings	Over 20 Years
Plant and Machinery	Over 06 to 10 Years
Furniture and Fittings	Over 03 to 05 Years
Laboratory Equipment	Over 03 to 05 Years
Motor Vehicles	Over 02 to 04 Years
Tools and Equipment	Over 03 to 10 Years
Office Equipment	Over 2.5 to 05Years
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 derecognized.

The asset's residual values, useful lives and methods of depreciation are reviewed and adjusted if appropriate at each financial year.

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

e) Derecognizing
An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognizing of the asset is calculated as the difference between the net disposal proceeds and the carrying amount.

2.2.2 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 income statement 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 income statement over the period of lease on a straight line basis.

2.2.3 Impairment of 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. These calculations are collaborated by valuation multiples, quoted share prices or other available fair value indicators.

Impairment losses of continuing operations are recognized in the income statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to equity. In this case the impairment is also recognized in equity up to the amount of any previous revaluation.

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 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.

That 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 income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

2.2.4 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.

2.2.5 Investments

Long Term Investment

Long term investments are classified as non current investments and are stated at cost less any impairment losses. The cost of the Investment includes acquisition charges such as brokerages, fee, duties and bank charges. Provision for impairment is made in the Income Statement when in the opinion of the Directors there has been a decline other than temporary in the value of the investments determined on individual basis.

Short Term Investments

Current investments are stated at cost.

2.2.6 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

2.2.7 Trade and Other Receivables

Trade and other receivables are recognized at the amounts they are estimated to realize net of provisions for impairment. Other receivables and dues from related parties are recognized at cost less provision for impairment. The amount of the provision is recognized in the income statement.

2.2.8 Cash and Cash Equivalents

Cash and cash equivalents are defined as cash in hand and demand deposits.

For the purpose of cash flow statement, cash & cash equivalent consists of cash in hand and deposits in banks net of outstanding bank overdrafts.

The cash flow statements are reported based on the indirect method.

2.3 LIABILITIES & PROVISIONS

2.3.1 Liabilities

Liabilities classified under current liabilities in the balance sheet are those expected to fall due within one year from the balance sheet date. Items classified as non-current liabilities are those expected to fall due at point of time after one year from the balance sheet date.

Trade and Other Payables

Trade creditors and other payables are stated at their book values.

2.3.2 Provisions, Contingent Assets and Contingent Liabilities

Provisions are recognized when the Company has present obligatio ns (legal & constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

All the contingent liabilities are disclosed as notes to the Financial Statements unless the outflow of resources is made contingent asset if exits are disclosed when inflow of economic benefit is probable.

2.3.3 Retirement Benefit Obligations

2.3.3.1 Defined Benefit Plans – Gratuity

Provision has been made for retirement gratuities, in conformity with SLAS 16 / Gratuity Act No.12 of 1983. The liability is not externally funded nor actuarially valued.

The retirement benefit obligation of Milco (Pvt) Limited is based on the formula method which has been prescribed by the appendix "D" of the SLAS – 16 Retirement Benefits.

The management has made following assumptions in determining the gratuity liability.

	2010/2011	2009/2010
Interest Rate	10%	18%
Maximum Retirement Age	57 Years	57 Years

2.3.3.2 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.

2.3.4 Grants & Subsidies

Grants and subsidies are credited to the income statement 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 balance sheet and credited to the income statement over the useful life of the related asset.

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

2.3.5 Taxation

2.3.5.1 Current Tax

Pursuant to Section 16 of Inland Revenue Act No 10 of 2006 and amendments thereon the profits of the Company are exempt from Income Tax for the period of 05 Years from April 1, 2006.

2.3.5.2 Deferred Taxation

Deferred tax is provided using the liability method on temporary differences at the Balance Sheet date 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 balance sheet date 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 Balance Sheet date 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 Balance Sheet date.

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.

However, no provision is made in these financial statements for Deferred Taxation in view of the tax exemption period enjoyed by the Company.

2.3.5.3 Commitments

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

2.4 INCOME STATEMENT

2.4.1 Revenue Recognition

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

Interest income is recognized as the interest accrued on the time basis (taking into account the effective yield on the asset) unless collectability is in doubt.

c) Others

Other income is recognized on an accrual basis.

d) Gains and Losses

Net gains and losses of a revenue nature on the disposal of property, plant and equipment and other non current assets including investments have been accounted for in the income statement having deducted from proceeds on disposal, the carrying amount of the assets and related property, plant and equipment amount remaining in revaluation reserve relating to that asset is transferred directly to accumulated profit/(loss).

2.4.2 Expenditure Recognition

2.4.2.1 Expenses are recognized in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All the expenditure incurred in the running of the business and in maintaining the property, plant and equipment in a state of efficiency has been charged to income in arriving at the profit for the year.

2.4.2.2 For the purpose of presentation of the income statement the directors are of the opinion that function of expenses method presents fairly the elements of the company's performance and hence such presentation method is adopted.

2.4.2.3 Borrowing Costs

Borrowing costs are recognized as an expense in the period in which they are incurred, except to the extent where borrowing costs are directly attributable to the acquisition, construction or production of qualifying assets which are assets that necessarily takes a substantial period of time to get ready for its intended purpose are added to the cost of those assets. Until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing cost eligible for capitalization.

2.5 GENERAL

2.5.1 Events Occurring after the Balance Sheet Date

All material events occurring after the balance sheet date have been considered and where necessary adjustments to or disclosures have been made in the respective notes to the Financial Statements.

2.5.2 Related Party Transactions

Disclosures are made in respect of the transactions in which the company has the ability to control or exercise significant influence over the financial and operating decisions/policies of the other, irrespective of whether a price is charged.

2.5.3 Earnings Per Share

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the number of voting or non voting ordinary shares.

2.5.3 Effect of Sri Lanka Accounting Standards (SLAS) issued but not yet effective

The following standards have been issued by the Institute of Chartered Accountants of Sri Lanka.

a) Sri Lanka Accounting Standard 44 Financial Instruments; Presentation (SLAS 44)

b) Sri Lanka Accounting Standard 45 Financial Instruments; Recognition and Measurement (SLAS 45)

c) Sri Lanka Accounting Standard 39 Share Based Payments (SLAS 39)

The effective date of SLAS 44, 45 and 39 was changed during the year to be effective for financial periods beginning on or after 01 January 2012. These three standards have been amended and forms part of the new set of financial reporting standards mentioned below.

Subsequent to the proposed convergence of Sri Lanka Accounting Standards with the International Financial Reporting Standards, the Council of the Institute of Chartered Accountants of Sri Lanka has adopted a new set of financial reporting standards that would apply for financial periods beginning on or after 01 January 2012. The application of these financial reporting standards is substantially different to the prevailing standards.

	2010/2011 Rs.	2009/2010 Rs.
3 TURNOVER		
Gross Sales	4,679,890,960	4,213,434,470
Less: Nation Building Tax	(130,916,907)	(120,382,584)
	4,548,974,053	4,093,051,886
4 OTHER INCOME		
Interest on call/fixed deposit	83,641,494	88,453,539
Intrest on Loan	10,786,161	8,856,272
Redundand Sales	447,446	590,182
Rent Income	200,100	-
Income from Circuit Bungalow	58,237	-
Sale of Used item	90,000	604,603
Surcharges of Returned Cheques	1,131,073	-
Non Refundable Deposit	54,500	785,500
Non Refundable tender Deposit	494,500	167,000
Profit on disposal of Fixed Asset	-	2,090,431
Diferred Income - Government Grants	612,106	583,453
Registration of Suppliers	2,925,000	34,000
	100,440,617	102,164,980
5 FINANCE COSTS		
Interest on Finance Lease	333,253	9,047
Exchange Loss	15,171,011	4,806,849
Interest on Bank Overdrafts	-	955,148
	15,504,264	5,771,044

6 PROFIT BEFORE TAXATION

Profit before taxation is stated after charging all expenses including the following.

	2010/2011 Rs.	2009/2010 Rs.
Directors' Remunuration	8,674,785	4,360,944
- Audit Services	1,883,970	431,250
Depreciation on Property, Plant and Equipment	158,638,553	208,191,757
NBT Expenses	130,916,907	120,382,584
Advertising & Sales Promotions	27,867,924	17,323,440
Donations	3,000	-
Legal Expenses and Professional Fee	4,313,340	3,109,609
Provision for Bad & Doubtful Debts	587,915	127,970
Loss on Operations of Cattel Feed	23,347,247	16,813,576
Staff Costs		
- Salaries ,Wages and Allied Expenses	550,436,211	473,910,825
- Defined Contribution Plan Costs - E.P.F and E.T.F	35,385,293	28,273,615
- Defined Benefit Plan Costs - Gratuity	76,605,933	21,553,393

			2010/2011 Rs.	2009/2010 Rs.
7	**INCOME TAX EXPENSES**			
	Current Income Tax Provision	7.1	27,471,930	27,871,951
	Deemed Dividend Tax	7.2	-	10,103,185
			27,471,930	37,975,136

7.1 ***Reconciliation Between Current Tax Expenses/(Income) and the Product of Accounting Profit***

7.1.a

			2010/2011 Rs.	2009/2010 Rs.
	Accounting Profit Before Taxation		110,663,480	338,724,726
Less:	Income Considered Separately		(100,440,617)	(102,164,980)
	Profit from Trade or Business		10,222,863	236,559,746
Less:	Exempt Profit	7.3	(10,222,863)	(236,559,746)
	Business Profit applicable taxation		-	-
	Exempt Other income		(21,949,389)	(23,707,689)
	Liable Other Income		78,491,228	78,457,291
	Accounting Profit/Loss Chargeable to income taxes		78,491,228	78,457,291
	Tax Rate		35%	35%
	Tax on Chargeable profit or income		27,449,509	27,460,051
Add:	Tax Effect on Disallowable expenses in determining taxable income		-	-
Less:	Tax Effect on Disallowable expenses in determining taxable income		-	-
			27,449,509	27,460,051
	Tax Effect on deduction under section 32		-	-
	Tax on Adjusted income @ 35%		27,449,509	27,460,051
	Social Responsibility Levy @ 1.5 %		411,743	411,900
			27,861,252	27,871,951
	Under or Over provisions for previous year		(389,322)	-
	Provision for the year		27,471,930	27,871,951

7.1.b Income derived from the foreign investment (Fixed deposit in Foreign currency) is exempted from the income tax as per the provision of Inland Revenue Department

7.2 **Deemed Dividend Tax**

	2010/2011 Rs.	2009/2010 Rs.
Divisible Profit for the year 2009/2010	-	304,901,330
Dividend Paid	-	(39,464,626)
Under Distribution Profit	-	265,436,704
1/4 the of undistributed profit (25% of 265,436,704/=)	-	66,359,176
Tax @ 15% of Rs.66,359,176/=		9,953,876
SRL @ 1.5% of Rs. 9,953,876/=		149,308
	-	10,103,185

7.3 As per the Sec 16 of Inland Revenue Act No 10 of 2006 and amendments thereon the business profit and income of the company exempt from income tax for the period of 5 years commencing on 1st of April 2006.

8 EARNINGS PER ORDINARY SHARE

Basic Earnings Per Share is calculated by dividing the net profit attributable to equity holders of the company by the weighted average number of ordinary share in issue

	2010/2011 Rs.	2009/2010 Rs.
Net Profit Attributable to Ordinary Shares	83,191,550	300,749,590
Weighted Average Number of Ordinary Share	31,945,406	31,945,406
	3	9

8.1 Diluted Earning Per Share

There is no potentially diluted ordinary share of the company and as a result the diluted earning per share is the same as basis EPS shown above.

9 DIVIDEND PER SHARE

	2010/2011	2009/2010
Dividend Paid	-	29,361,443
Number of Ordinary Share	31,945,406	31,945,406
	-	0.92

10 PROPERTY, PLANT AND EQUIPMENT & CAPITAL WORK IN PROGRESS

10.1 PROPERTY, PLANT AND EQUIPMENT

	Cost/Valuation				Depreciation				Written Down Value	
Description of Asset	Balance As At 01.04.2010	Additions	Disposals	Balance As At 31.03.2011	Balance As At 01.04.2010	Charge for the Year	On Disposals	Balance As At 31.03.2011	As At 31.03.2011	As At 31.03.2010
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Freehold										
Building	89,475,607	27,093,315	-	116,568,922	21,335,899	4,456,876	-	25,792,775	90,776,148	68,139,708
Plant & Machinery	336,636,845	84,982,894	-	421,619,739	74,887,239	48,859,442	-	123,746,681	297,873,058	261,749,606
Furniture & Fittings	17,470,782	7,031,969	-	24,502,751	8,878,052	5,938,977	-	14,817,029	9,685,722	8,592,730
Laboratory Euipment	25,378,370	5,675,041	-	31,053,411	12,915,872	7,640,895	-	20,556,767	10,496,644	12,462,498
Motor Vehicles	113,674,722	-	-	113,674,722	111,917,871	1,267,431	-	113,185,302	489,420	1,756,851
Tools & Euipment	160,762,271	15,183,409	-	175,945,680	90,425,622	49,466,785	-	139,892,407	36,053,274	70,336,649
Bottle and Crates	183,209,740	30,244,287	-	213,454,027	144,087,035	23,040,580	-	167,127,615	46,326,411	39,122,705
Computer Euipment	8,592,271	8,831,296	-	17,423,567	3,530,365	2,290,823	-	5,821,188	11,602,379	5,061,906
Computer Software	2,587,209	-	-	2,587,209	2,367,895	165,784	-	2,533,679	53,530	219,314
Bottle Coolers	39,591,180	6,790,998	-	46,382,178	27,926,438	9,054,169	-	36,980,607	9,401,571	11,664,742
Office Euipment	3,038,834	1,194,743	-	4,233,577	1,611,460	805,554	-	2,417,014	1,816,563	1,427,374
Milk Cans	40,230,580	1,071,888	-	41,302,468	29,309,122	4,108,051	-	33,417,173	7,885,295	10,921,458
	1,020,648,411	188,099,841	-	1,208,748,252	529,192,870	157,095,365	-	686,288,235	522,460,017	491,455,541
Leasehold Assets										
Plant & Machinery	15,431,880	-	-	15,431,880	3,600,772	1,543,188	-	5,143,960	10,287,920	11,831,108
	15,431,880	-	-	15,431,880	3,600,772	1,543,188	-	5,143,960	10,287,920	11,831,108
	1,036,080,291	188,099,841	-	1,224,180,132	532,793,642	158,638,553	-	691,432,195	532,747,937	503,286,649

10.1 (a) Revaluation

Milco (Pvt) Ltd has revalued its assets except Buildings, Bottels & Crates, Computer Software, Milk Cans on 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 Apprisal). The resultant Surplus on valuation of Rs.336,454,462/= had been credited to revaluation account. Since the revaluation reserve has been accounted in 31st March, 2009 there is a impact on depreciation charge for the year.

10.2 Capital Work-in-Progress

	Balance As At 01.04.2010	Addition During the Year	Capitalized During the Year	Charged To P/L	Balance As At 31.03.2011
Construction Of Ragama Hospital Outlet	88,157	-	44,000	-	44,157
Karapitiya Hospital Sales Outlet	11,985	-	-	-	11,985
Construction Of Ambalanthota	3,972,908	-	3,972,908	-	-
Const. Of Wast Water Tra. Plant	12,821,873	3,523,656	-	-	16,345,529
Rain Water Drainage System	1,085,083	-	-	-	1,085,083
Katuwanwila - Construction	240,826	-	240,826	-	-
Const. Of New Cold Room	7,187,373	496,160	7,683,533	-	-
Karaliyadda - Civil Const (Pvt) Land	77,806	-	25,935	-	51,871
Madavachichiya Mcc - Civil Repair	369,788	1,661,681	2,031,469	-	-
Supp & Inst. & Comm. Of Chil Water Coil	3,100,000	-	3,100,000	-	-
Refrigeration Compressor - 03 Nos	5,576,678	8,117,415	13,694,093	-	-
Bowser Tank	3,031,620	-	3,031,620	-	-
Tangalla - Const Of New Sales Centre	1,200	-	1,200	-	-
Embilipitiya - Civil Construction	2,714,296	623,999	3,338,294	-	-
Kekirawa Civil Constructions	3,680,725	280,094	3,960,819	-	-
Rm' Office & Quarters At Polgahawela - Civil Rep	1,943,927	84,939	2,028,865	-	-
Meepe Rm'S Office - Const. Of Pre-Fabricated Building	3,924,833	326,473	4,251,306	-	-
Nawala Outlet - Const Of Outlet	6,007,290	145,300	6,152,590	-	-
Sterilizing Plant Cmf - Civil Rep	3,124,586	515,200	3,639,786	-	-
Installation of Ammonia Coil With Tank	-	7,800,000	7,800,000	-	-
Construction Of Mini Cooling Centre - Tilicultry	-	1,041,251	-	-	1,041,251
Installation Of Racks For Central Stores	-	787,085	-	-	787,085
Modification Of Curd Processing Plant	-	1,428,000	1,428,000	-	-
Construction of A.H.V. Plant	4,100,676		4,100,676	-	-
Installation of CPV	5,041,232		5,041,232	-	-
Installation of Network	684,897		684,897	-	-
	68,787,758	26,831,253	76,252,050	-	19,366,961

			2010/2011 Rs.	2009/2010 Rs.
11	**LIVESTOCK**			
	Livestock		1,431,645	444,255
			1,431,645	444,255
12	**INVENTORIES**			
	Raw & Packing Materials	**Note 12.1**	119,012,506	94,685,795
	Work in Progress		1,445,255	-
	Finished Goods		44,174,890	246,930,721
	Consumables	**Note 12.2**	193,204,694	192,302,325
	Good in Transit	**Note 12.3**	1,367,402	4,640,120
	Provision for Inventory	**Note 12.4**	(11,352,787)	(11,352,785)
			347,851,960	527,206,176
12.1	**Raw Materials**			
	Raw Materials - Dairy Production		14,080,669	32,004,615
	Packing Materials -Dairy Production		88,111,421	40,912,904
	Redundant Packing Material Stores		-	5,349,136
	Packing Materials -Cattle Feed		429,497	-
	Raw Milk Stock		4,420,779	6,567,115
	Drugs & Other Stock		11,970,140	9,852,025
			119,012,506	94,685,795
12.2	**Consumables**			
	Genaral Stores		25,423,147	29,220,812
	Engineering Stores		135,212,658	132,604,385
	Motor Stores		11,072,278	12,421,259
	Fuel & Lubricant Stores		13,469,273	12,478,952
	Staff Welfare - Milk Powder		175,000	-
	Milk Can Stock		7,852,338	5,576,917
			193,204,694	192,302,325
12.3	**Good In Transit**			
	Finished Good in Transit		456,206	455,586
	Good in Transit Lab Equipment		125,798	125,798
	Row Milk In Transit		4,315,748	2,164,733
	Y/G Culture		925,970	1,894,002
	Fernance oil		(4,456,320)	-
			1,367,402	4,640,120
12.4	**Provision For Inventory**			
	Packing Material		(10,082,202)	(10,082,202)
	General Stores		(213,355)	(213,355)
	Engineering Stores		(986,336)	(986,334)
	Fuel Stores		(70,894)	(70,894)
			(11,352,787)	(11,352,785)

		2010/2011 Rs.	2009/2010 Rs.
13 TRADE AND OTHER RECEIVABLES			
Trade Debtors	13.1	214,078,748	201,936,875
Receivable from Government of Sri Lanka	13.2	426,522,058	364,390,800
Other Debtors	13.3	7,134,521	8,120,267
Advances, Deposits and Prepayments		71,550,530	55,764,340
Staff Debtors	13.4	133,190,033	117,119,469
Import Control		3,395,194	3,136,631
Interest Receivable on Fixed deposits		36,110,088	26,760,826
Other Receivables		3,499,556	-
		895,480,728	777,229,208

13.1 Trade Debtors

	2010/2011 Rs.	2009/2010 Rs.
Total Debtors	258,682,415	245,952,617
Less: Provision for Doubtful debtors	(44,603,667)	(44,015,742)
	214,078,748	201,936,875

13.2 Receivable from Government of SriLanka & Ministry

	2010/2011 Rs.	2009/2010 Rs.
Receivable from the Ministry of Livestock and Development - Expenses Reimburshment	4,010,626	-
Receivable from Government of Sri Lanka -Milk Payment Subsidy	181,779,400	37,130,194
Receivable from Government of Sri Lanka- Kiriyaya Conversion **(13.5)**	347,961,144	347,961,144
Receivable from Government of Sri Lanka-Milk Industries Lanka Current Account	1,117,224	1,117,225
Receivable from Parliament Affaires	197,800	-
Receivable from Government of Sri Lanka - Share Issue	12,954,040	12,954,040
	548,020,235	399,162,603
Less: Provision for Doubtful Receivables	(121,498,177)	(34,771,803)
	426,522,058	364,390,800

13.3 Other Debtors

	2010/2011 Rs.	2009/2010 Rs.
Total Receivables	7,134,521	8,386,583
Less: Provision for Doubtful Receivables	-	(266,316)
	7,134,521	8,120,267

13.4 Staff Debtors

	2010/2011 Rs.	2009/2010 Rs.
Total Receivables	133,190,033	117,119,469
Less: Provision for Doubtful Receivables	-	-
	133,190,033	117,119,469

13.5 This is the net current liability transferred from Milk Industries of Lanka Company.As per the agreement referred to in Note 1.1 to these financial statements, this is payable by Government of Sri Lanka to the Company.

Further, as discribed by the letter dated 08th August 2000 received from Public Enterprises Reform Commission, the Board of Directors of the Company has dicided to account for any additional liabilities resulted from the liabilities prevaild as at 3rd February, 1998 as receivable from the Government of Sri Lanka.

		2010/2011 Rs.	2009/2010 Rs.
14	**SHORT TERM INVESTMENT**		
	Corporate Banking	25,500,000	150,000,000
	Overseas Customer Unit	439,623,649	432,597,533
	Bank of Ceylon - Treasure	315,500,000	100,000,000
	HDFC	-	40,000,000
	State Mortgage & Investment Bank	150,000,000	-
		930,623,649	722,597,533
15	**CASH AND CASH EQUIVALENTS**		
	Balances at Banks	393,001,398	367,468,275
	Petty Cash in Hand	1,345,384	556,670
		394,346,782	368,024,946
16	**STATED CAPITAL**		
	Stated Capital in Numbers	31,945,406	31,945,406
		Rs.	**Rs.**
	Stated Capital in Value	319,454,060	319,454,060
17	**CAPITAL RESERVE**		
17.1	**Reserve on Acquisition & Upgrading of Plant and Machinery**		
	Transferred From Retained Earnings	25,000,000	25,000,000
		25,000,000	25,000,000

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.

			2010/2011 Rs.	2009/2010 Rs.
18.	**SINKING FUND**			
	Transferred from Retained Earnings		1,689,778	1,506,596
	Profit on disposal of Cans		-	183,182
			1,689,778	1,689,778

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

19. BORROWINGS

INTEREST BEARING BORROWINGS

			2010/2011 Rs.	2009/2010 Rs.
19.1	**Lease Creditors**			
	Long Term Portion		-	423,240
	Current Maturity Portion	**19.1.1**	423,240	4,677,604
			423,240	5,100,844
19.1.1.	**Gross Lease Creditor**			
	Balance at the beginning of the year		5,573,737	10,718,726
	Less: During the year Payments		(5,144,988)	(5,144,989)
	Balance at end of the year		428,749	5,573,737
	Interest in Suspense			
	Balance at the beginning of the year			
	During the year Payments		472,893	1,562,261
	Balance at end of the year		(467,383)	(1,089,368)
			5,510	472,893
	Net Liability		423,239	5,100,844
19.2	**NON-INTEREST BEARING BORROWINGS**			
	Long Term Portion			
	National Milk Board		2,108,063	2,108,063
	Ministry of Agriculture & Live Stock Development		83,590,654	83,590,654
			85,698,717	85,698,717

			2010/2011 Rs.	2009/2010 Rs.
20.	**RETIREMENT BENEFIT OBLIGATION - GRATUITY**			
	Balance at the Beginning of the year		125,097,698	103,544,305
	Provision for the year		13,718,742	7,590,244
	Interest Cost		12,509,769	18,637,975
	Gain/Loss from Changes in Assumption		59,228,640	5,566,526
	Payment Made During the Year		(8,851,220)	(10,241,352)
	Balance at the end of the year		201,703,629	125,097,698
21	**GOVERNMENT GRANT**			
21.1	Balance at the Beginning of the year		22,567,086	21,953,383
	Grant Received During the year		7,860,285	1,197,156
	Grant recognized to the income statement During the year		(9,669,546)	(583,453)
	Balance at the end of the year	21.2	20,757,825	22,567,086
21.2	**Deferred Government Grant**			
	Grant to Polonnaruwa Factory		12,954,034	12,954,033
	Grant of Samanthurai		2,038,400	2,184,000
	Grant of Thirukkovil		1,931,000	1,931,000
	Grant of Thimilathive		2,520,000	2,700,000
	Grant of Milk Can		114,391	142,989
	Grant of Assets		-	182,908
	Grant of 14 sales Outlet		1,200,000	1,275,000
	Grant of OSON Viyana		-	1,197,156
			20,757,825	22,567,086
22.	**TRADE AND OTHER PAYABLES**			
	Trade Creditors		88,504,986	92,562,800
	Expense Creditors		105,859,187	150,056,158
	Other Payables		628,757,035	566,756,839
			823,121,208	809,375,797

22.1 An amount of Rs.505,521,564 is outstanding from the date on which the assets and liabilities were transferred to "Milco (Pvt) Limited" from "Kiriya Milk Industries of Lanka (Pvt) Limited.

23. INCOME TAX PAYABLES

		2010/2011 Rs.	2009/2010 Rs.
Balance at the Beginning of the year		53,313,361	35,633,217
ADD: Provision for the year	Income Tax	27,471,930	37,413,928
	SRL	412,078	561,209
		81,197,369	73,608,355
Less: Payments made during the year		(27,225,241)	(542,223)
Tax credits			
ESC		(12,015,317)	(15,503,788)
WHT		(3,704,730)	(4,248,983)
Gross income tax payable		38,252,081	53,313,361
Less: WHT Receivables		(10,493,879)	(10,493,879)
Net Tax Liability		27,758,202	42,819,482

24. BANK OVERDRAFTS

Cash and cash equivalents included in the Cash Flow Statement comprise following Balance Sheet items.

	Notes	2010/2011 Rs.	2009/2010 Rs.
Balances at Banks	15	393,001,398	367,468,275
Petty Cash in Hand	15	1,345,385	556,670
		394,346,782	368,024,945
Bank Overdrafts		(88,509,361)	(86,230,973)
		305,837,421	281,793,972

25 UNRECOGNIZED CONTRACTUAL COMMITMENTS

There have been no capital commitments contracted but not provided for, or authorized by the board but not contracted for, outstanding as at the balance sheet date.

26 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

26.1 Contingent Liabilities

There is no contingent assets as at the balance sheet date.

26.2 Contingent Assets

There is no contingent assets as at the balance sheet date.

27 RELATED PARTY DISCLOSURE

27.1 Substantial Shareholding and Ultimate Ownership

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

27.2 Key Management Personnel Information

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

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

	2010/2011 Rs.	2009/2010 Rs.
Short Term Employee Benefits	8,674,785	4,720,493

27.3 Related Party Transactions

As per the declaration made by the directors of the company there were no any significant related party transaction taken throughout the period which would required to necessarily be disclosed by the Sri Lanka Accounting Standards.

28 ASSETS PLEDGED AS COLLATERALS

There were no assets pledged as at the balance sheet date.

29 EVENTS AFTER THE BALANCE SHEET DATE

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

30 COMPARATIVE FIGURES

30.1 Comparative figures and phases have been re-arranged/re- classified, restated to conform to current year's presentation/classification as disclosed below.

30.1.1 Income Statement

a) Exchange Loss which was classified under Other Expenses has been reclassified under Finance Expenses

30.1.2 Balance Sheet

a) Import Control Account which was classified under inventory has been reclassified under Trade and other receivable considering the nature of asset.

b) Interest receivables which was included under short term investment has been reclassified under Trade and other receivables as such receivables are not reinvested at the reporting date.

c) Call deposits and Saving Accounts' balances which was classified as Shorterm investment have been reclassified under Cash and Cash Equivalents.

d) ESC Payable and Penalties on Income Tax which was included in the Income Tax Liabilities have been reclassified under Trade and other payables. And also WHT receivables which was shown separately under current asset has been setoff against the Gross income tax Liability.

30.2 Effect on the comparative information on reclassification is quantified as follows.

				2009/2010 Rs.
30.2.1 Income Statement				
a) Other Expenses				
	As per Audited Accounts			27,097,320
	Less	**Previous Classification**	**Reclassified As**	
	Exchange Loss	Other Expenses	Finance Expenses	(4,806,849)
	As per Reclassification			22,290,471
b) Finance Expense				
	As per Audited Accounts			964,195
	Add	**Previous Classification**	**Reclassified As**	
	Exchange Loss	Other Expenses	Finance Expenses	4,806,849
	As per Reclassification			5,771,044
30.2.1 Balance Sheet				
a) Inventories				
	As per Audited Accounts			530,342,807
	Less	**Previous Classification**	**Reclassified As**	
	Import Control Account	Inventory	Other Receivables	(3,136,631)
	As per Reclassification			527,206,176
b) Trade and Other Receivables				
	As per Audited Accounts			747,331,757
	Add	**Previous Classification**	**Reclassified As**	
	Import control Account	Inventory	Other Receivables	3,136,631
	Interest Receivables	Short-term Investment	Other Receivables	26,760,820
	As per Reclassification			777,229,208
C) Short - term Deposits				
	As per Audited Accounts			1,031,983,267
	Less	**Previous Classification**	**Reclassified As**	
	Interest Receivables	Short-term Investment	Other Receivables	(26,760,820)
	Saving and Call Deposits	Short-term Investment	Cash & Cash Equivalents	(282,624,926)
	As per Reclassification			722,597,521
d) Cash and Cash Equivalents				
	As per Audited Accounts			85,400,020
	Add	**Previous Classification**	**Reclassified As**	
	Saving and Call Deposits	Short-term Investment	Cash & Cash Equivalents	282,624,926
	As per Reclassification			368,024,946
e) Trade and Other Payables				
	As per Audited Accounts			797,110,764
	Add	**Previous Classification**	**Reclassified As**	
	ESC Payables	Income Tax Liability	Trade and Other Payables	2,868,605
	Penalties on Income Tax - CGIR	Income Tax Liability	Trade and Other Payables	9,396,428
				809,375,797
	As per Reclassification			
f) Income Tax Liability				
	As per Audited Accounts			65,578,394
	Less:	**Previous Classification**	**Reclassified As**	
	ESC Payables	Income Tax Liability	Trade and Other Payables	(2,868,605)
	Penalties on Income Tax - CGIR	Income Tax Liability	Trade and Other Payables	(9,396,428)
	WHT Set Off	Current Asset	Set Off	(10,493,879)
				42,819,482

30.3 The following balances have been restated in order to confirm the correctness and comparability of the financial statement presentations and the balances.

a) Income tax expenses have been restated as the previous Income tax expense in the income statement excluded the provision for deemed dividend tax where such provision was incorporated with dividend paid amount and accounted directly through Statement of Change in Equity.

Accordingly the following comparative figures for 2009/2010 have been restated in the 2010/2011 financial statement and such effect of restatement have been taken as follows

		As disclosed in 2009/2010	Restated 2010/2011	Adjustments
(i)	**Income Statement**			
	Income Tax Expenses	27,871,953	37,975,136	(10,103,183)
	Net profit for the year after taxation	310,852,773	300,749,590	10,103,183
	Net Effect			-

		As disclosed in 2009/2010	As disclosed in 2010/2011	Adjustments
(i)	**Statement of Changes in Equity**			
	Net profit for the year after taxation	310,852,773	(10,103,183)	(10,103,183)
	Transfer to Consolidated fund - Dividend Paid	39,464,626.0	29,361,443	10,103,183
	Net Effect			-

b) A share issue amounting to Rs 12,954,040/- for the Treasury to the Government of Sri Lanka has not been recorded in 2009/2010. Accordingly, comparatives to the financial statements of 2010/2011 has been restated by the same amount.

		2010/2011	2009/2010	2008/2009	2007/2008	2006/2007
OPERATION RESULTS						
Turnover (Net)	Rs. 000'	4,548,974	4,093,052	4,242,074	3,238,452	2,720,475
Gross Profit	Rs. 000'	536,949	697,490	731,398	452,203	256,503
Profit before tax	Rs. 000'	110,664	338,725	351,737	109,374	20,883
Income tax Expenses	Rs. 000'	(27,472)	(37,975)	(19,581)	(5,107)	(2,415)
Profit After Tax	Rs. 000'	83,192	300,750	332,156	104,267	18,468
BALANCE SHEET						
Stated Capital	Rs. 000'	319,454	319,454	306,500	306,500	306,500
Retained earnings	Rs. 000'	1,191,279	1,108,087	836,699	429,637	338,026
Sinking Fund	Rs. 000'	1,690	(11,264)	1,690	1,682	1,662
Reserve for upgrading / replacement of Plant & Machinery	Rs. 000'	25,000	25,000	25,000	25,000	
Revaluation Reserve	Rs. 000'	336,455	336,455	336,455		
Shareholders fund	Rs. 000'	1,873,878	1,777,732	1,506,344	762,819	646,188
Property Plant & Equipment	Rs. 000'	552,115	572,074	607,598	346,041	312,146
Net Current Assets/(Liabilities)	Rs. 000'	1,629,923	1,452,398	1,114,635	677,114	562,254
Long term/(Deferred Liabilities)	Rs. 000'	(308,160)	(233,787)	(216,297)	(260,678)	(228,542)
RATIOS						
Earning per share	Rs.	2.71	9.81	10.84	3.40	0.60
Total Assets to share holders fund/ times		1.67	1.66	1.75	2.39	2.66
Net Assets per share	Rs.	58.66	56.06	49.15	24.89	21.08
Return on share holders equity	%	4.44	16.80	22.05	13.67	2.86
Gross Profit Ratio	%	11.80	17.04	17.24	13.96	9.43
Net Profit Ratio	%	1.83	7.35	7.83	3.22	0.68
Current Assets Ratio/ Times		2.73	2.54	2.22	1.84	1.66
Quick Assets Ratio (Times)		2.36	1.98	1.84	1.45	1.31