

Two black and white cows are standing in a lush green field under a clear blue sky. The cows are facing the camera, and their heads are slightly tilted. The background shows a line of trees and a bright, sunny atmosphere.

The Goodness Guarantee

Nature's best is not easily bought over the counter. Yet for over thirty years we've been building our reputation with a range of natural dairy products and beverages that is now synonymous with purity, freshness and high quality. Our commitment to green-friendly manufacturing processes further adds to our corporate value, matched only by the guarantee of real goodness in every brand we own.



Our Vision

“To **become the most** desired entity and **leader** in the Sri Lankan **dairy industry**”

Our Mission

“Provide **high-quality** dairy products to all with a focus on **safety** and **nutrition**”

CORPORATE PROFILE

Name of Company	-	Lanka Milk Foods (CWE) PLC
Legal Status	-	A Public Quoted Company with Limited Liability under the provisions of Companies Act No. 7 of 2007
Registered Office	-	Welisara, Ragama, Sri Lanka Tel : +9411 2956263-5, +9411 5222600 Fax : +9411 2956266 Email : lakspray@lmfgroup.lk Website : www.lmfgroup.lk
Date of Incorporation	-	12th November 1981 Company Registration Number - PQ 142
Company Secretary	-	Mrs. W. C. Hewage
Board of Directors	-	Mr. D. H. S. Jayawardena - <i>Chairman</i> Mr. R. K. Obeyesekere - <i>Director</i> Mr. Zaki Alif - <i>Director</i> Mr. C. R. Jansz - <i>Director</i> Ms. D. S. C. Jayawardena - <i>Director</i> Mr. D. S. K. Amarasekera - <i>Independent Non-Executive Director</i> Dr. A. Shakthevale - <i>Independent Non-Executive Director</i>
Auditors	-	Messrs. KPMG (Chartered Accountants) 32A, Sir Mohamed Macan Markar Mawatha P O Box 186 Colombo 3, Sri Lanka.
Subsidiary Companies	-	Lanka Dairies (Pvt) Limited Ambewela Livestock Company Limited Pattipola Livestock Company Limited Ambewela Products (Pvt) Limited Indo Lanka Exports (Pvt) Limited
Bankers	-	Bank of Ceylon Hatton National Bank PLC Seylan Bank PLC The Hongkong & Shanghai Banking Corporation Limited Standard Chartered Bank PLC Commercial Bank PLC DFCC Vardhana Bank PLC

OUR PRODUCTS



Lakspray Milk Powder

This is the flagship brand of the LMF Group and also the pioneer milk powder brand in the country. Lakspray has nourished the people of Sri Lanka for 45 years, thus obtaining the trust of many Sri Lankan households. Lakspray is produced in New Zealand and is certified by the New Zealand Food Safety Authority. It is a natural full cream milk powder, produced from 100% pure cow's milk, free of chemical additives or preservatives. Since it is a natural milk powder, it is creamier than instant milk powder, which enables its consumers to prepare a larger number of tea cups. Lakspray is rich in milk proteins, vitamins and minerals, promoting healthy growth in children. Lakspray is currently available in multiple pack sizes : 50g,100g, 175g, 400g, 900g and 1 Kg to suit different customer requirements.

Lakspray Trim contains skim milk powder, fortified with additional vitamins and minerals to cater the nutritional needs of health conscious consumers. This product is an agglomerated super instant mix soluble in water of any temperature. This product comes in 400g pack size.

Daily UHT Treated Flavoured Milk

Daily is a land mark beverage brand as the first product in Sri Lanka to be processed using UHT treatment and aseptic packaging, fifteen years ago. Aseptic packaging is the world's most advanced food preservation technology, enabling the food content to be preserved for six months without using any artificial additives or preservatives. Daily milk is produced using premium quality milk from Ambewela Farms, which is a premier dairy farm in Sri Lanka. This brand comes in a 200ml pack size and consists of eight delicious flavours – vanilla, chocolate, strawberry, banana, coffee, mango, Faluda and Kulfi. The one litre take-home pack was introduced under the Faluda variant to cater to the higher demand of the Ramadan season. Daily milk is also popular in the Maldives, and many queries have been received from a number of countries, regarding the import of Daily milk from LMF.

Daily ACTIV UHT Treated Malt Chocolate Food Drink

ACTIV was the latest extension to the Daily brand, to meet the growing demand for malt based dairy beverages in the Sri Lankan market. Consumer research reveals younger consumers prefer refreshments whilst the older consumers focus on nutrition. ACTIV has met the consumer expectations with the right combination of taste and nutrition value. ACTIV is a sterling success among local youth and is associated with many of their activities and aspirations. This milk based product is full of natural goodness and the quality associated with our farms. ACTIV is also exported to the Maldivian market and won the hearts and minds of the young people of the Maldives as well.



Ambewela Dairy Range

The Ambewela dairy brand was launched in 2004, with the vision of providing a premium quality dairy product range to Sri Lankan consumers and to contribute towards the development of the local dairy industry. Full Cream liquid milk (pure fresh milk) was introduced first under the Ambewela brand. Ambewela is produced using premium quality pure cow's milk from Ambewela Farm. In the farms, milking is done under strict hygienic conditions, according to the best international dairy practices, resulting in only the purest quality fresh milk, conforming to highest international dairy standards. Ambewela Full Cream milk is UHT processed and aseptically packed, with a shelf life of six months at room temperature. Ambewela has no artificial additives or preservatives. Ambewela milk is gradually becoming the most sought after milk product by parents, as it is perceived to be the best option for their children's healthy growth.

In 2009, realising the quantum of consumer equity built within the short span of five years, the Ambewela brand was extended to other forms of liquid milk such as UHT Non-fat milk, UHT flavoured milk, and allied product categories such as yoghurts and natural cheeses. These new products are manufactured in the newly established, state of the art, dairy complex in Ambewela, using fresh, premium quality, pure cow's milk from the Ambewela Farms.

My Juicee Fruit Drink

My Juicee is one of many fruit drinks in the market, providing daily dietary requirements of vitamin C. This product is processed using premium quality fruit pulps and concentrates sourced both locally and internationally, on keeping with international quality standards. This brand is presently targeted at the young adult market of Sri Lanka, not only as a refreshing thirst quencher but also as a nutritious beverage. The product is aseptically packed under strict hygienic conditions and is available in Apple, Mango, Mixed Fruit and Orange variants. Available pack sizes are 200ml – to consume while on the move, and 1 litre as a take-home family pack.

BLU Energy Drink

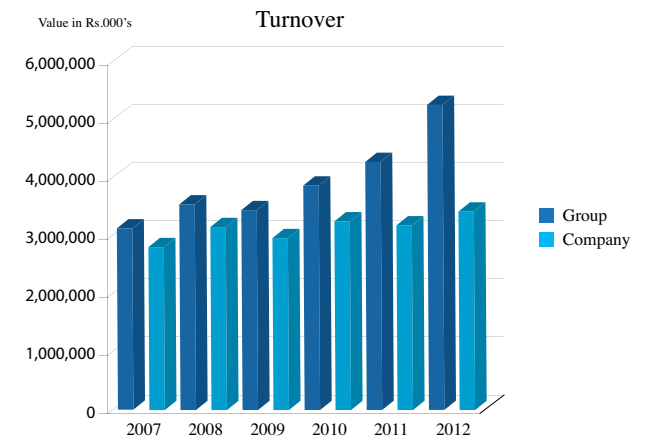
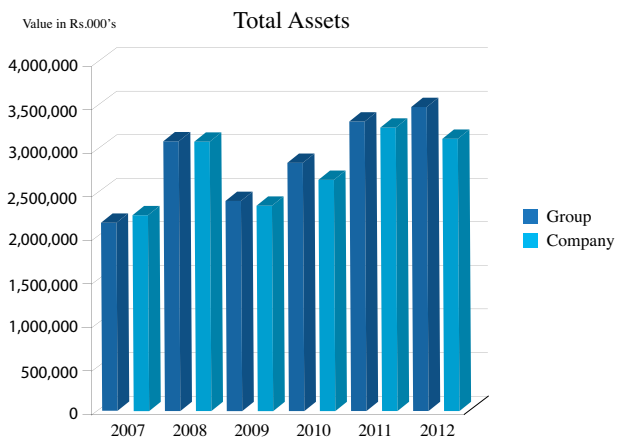
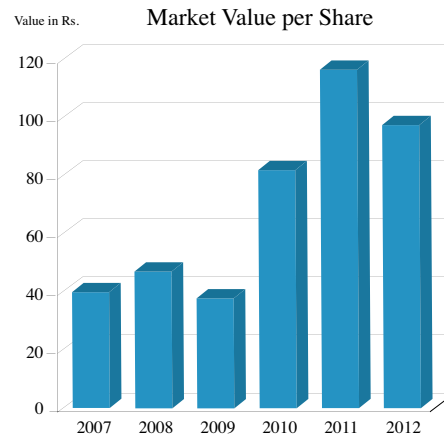
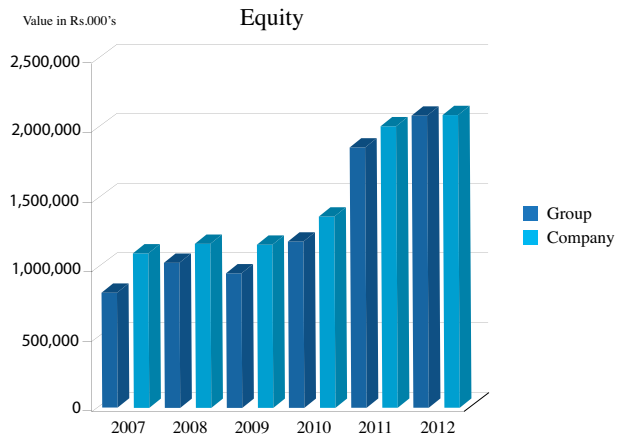
BLU Energy drink was launched in early 2012, to capitalise on the recent staggering growth in the Sri Lankan energy drink market. BLU is an internationally acclaimed brand which is available in more than 30 countries worldwide. It is a product of Poland and is manufactured using the latest water purification technology, in the most pristine of conditions to guarantee the highest quality standards to its consumers worldwide. Research and development has led to the creation of this next-generation energy drink which provides great tasting, sustained and hydrating energy without the usual bitter after tastes of other brands. BLU is available in two variants – Regular & Cranberry Flavour, packed in 250ml cans.



FINANCIAL HIGHLIGHTS

	Group		Company		
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	
Revenue	5,054,241	4,284,927	3,428,867	3,190,564	
Gross Profit	782,169	462,674	410,155	292,266	
Profit before Taxation	234,219	55,356	94,833	26,817	
Taxation	(41,492)	(11,978)	(31,245)	(10,706)	
Profit After Taxation	192,727	43,738	63,588	16,111	
Non-current Assets	1,635,376	1,660,963	1,519,208	1,540,126	
Current Assets	1,874,883	1,673,460	1,598,915	1,723,739	
Total Assets	3,510,259	3,334,423	3,118,123	3,263,865	
Total Equity	2,103,619	1,873,392	2,089,422	2,025,834	
Non-current Liabilities	124,759	150,435	115,372	141,987	
Current Liabilities	1,281,881	1,310,596	913,329	1,096,044	
Net Assets	2,103,619	1,873,392	2,089,422	2,025,834	
RATIOS					
Earnings per share	Rs.	4.68	1.25	1.59	0.46
Dividend per share	Rs.	1.00	-	1.00	-
Dividend cover	Times	4.68	-	1.59	-
Net assets per share	Rs.	52.59	53.53	52.24	57.88
Market value per share	Rs.	97.80	116.90	97.80	116.90
Price earning ratio	Times	20.90	93.52	61.51	254.13
Return on equity	%	9.16	2.33	3.04	0.80
Return on total assets	%	5.49	1.31	2.04	0.49
Gross profit ratio	%	15.48	10.80	11.96	9.16
Operating Profit Ratio	%	4.57	(0.73)	2.04	(3.11)
Net profit ratio	%	3.81	1.02	1.85	0.50
Current ratio	Times	1.46	1.28	1.75	1.57
Liquidity ratio	Times	0.56	0.48	0.89	0.86

The Goodness Guarantee





A photograph of a cow in a milking parlor. The cow is dark-colored with white patches on its legs and face. It is standing in a metal stall. A large, clear plastic milk canister is suspended from the ceiling by a metal frame. The canister is partially filled with white milk. The background is dark, and the lighting is focused on the cow and the canister.

Management Information

“Over the past five years, milk production in the farms has increased from 2.7 million litres to 4.7 million litres per annum, recording a 74% growth”

"IT MUST ALSO BE NOTED THAT THE SCALE OF POST-WAR INFRASTRUCTURE DEVELOPMENT CONTINUES APACE, AND I BELIEVE THAT OVER THE NEXT FEW YEARS, THIS WILL NO DOUBT TRANSFORM THE INVESTMENT AND ECONOMIC OPPORTUNITIES FOR THE DAIRY INDUSTRY IN SRI LANKA."

CHAIRMAN'S REVIEW

"I see further potential in the Northern



The Goodness Guarantee

and Eastern markets”

I am pleased to present the Annual Report and Audited Accounts of your company for the year ended 31 March 2012.

Economic Environment

The operating conditions during the year both in Sri Lanka and overseas, imposed many pressures on the business. The global economy was impacted by the sovereign debt crisis experienced by several European countries and the continuing unemployment and low consumer demand woes of the United States.

Sri Lanka's growth rate of 8.3% for 2011 was indeed a satisfactory performance within the global context. While the economy was stable for much of 2011, the latter part of the year saw a degree of volatility with widening deficits in trade and current accounts and a looming balance of payments crisis leading to the depreciation of the rupee, policy rate increases and curbs on credit. In spite of these concerns, the Central Bank has forecasted a growth of over 7% for 2012. It must also be noted that the scale of post-war infrastructure development continues apace, and I believe that over the next few years, this will no doubt transform the investment and economic opportunities for the dairy industry in Sri Lanka.

Industry Overview

As part of its food security drive, the government is promoting the local dairy industry with the objective of meeting the national dairy requirement through domestic liquid milk production, by the year 2020. A slew of measures have been adopted to support the local industry; among them price controls and tariffs on imported milk products, the relaxing of duty and other levies on high-yielding breeds and modern dairy equipment, higher mandated purchasing prices and support for local dairy farmers to set up dairy farms and milk collection centres. In the North & East, milk production and dairy development is taking shape and the government has taken meaningful steps to encourage farmers in these areas to make Sri Lanka self-sufficient in liquid milk. Apart from the support rendered to the infrastructural development of the local dairy industry, the government has launched an effective marketing campaign to promote the consumption of liquid milk among Sri Lankans via the media, with a multitude of popular personalities in the country such as sports stars and artistes taking the lead. This will undoubtedly benefit the local dairy industry as an attitudinal change among consumers is needed to realise the nation's vision of being self sufficient in milk.

Whilst the liquid milk sector was blessed with a number of potential growth opportunities, the imported milk powder sector was in turmoil during the year due to the rise on prices, import tariffs and the restraint on the retail price ceiling imposed on milk powder by the government. In fact, there were situations where the selling price was less than the price of importation, which badly affected the industry. The situation was compounded by the volatility in the exchange rate. Even though global milk powder prices rose considerably, we were unable to increase prices locally in accordance with these increases as the Consumer Affairs Authority did not give us permission to make a price increase for a long time. This led to many milk powder brands curbing their advertising and promotional spend, as the returns generated did not justify the investments. Your company has been fortunate that the falls in the powdered milk segment have been offset by our other product categories, given the strategic diversification of our product portfolio.

"PRUDENT MANAGEMENT PRACTICES, ANALYTICAL
DECISION MAKING, STRONG GOVERNANCE
STRUCTURES AND STRICT COST MANAGEMENT
POLICIES HAVE BEEN THE DRIVERS OF THE RESULTS
YOU SEE IN THIS YEAR'S ANNUAL REPORT."

CHAIRMAN'S REVIEW

"Commitment to prudent cost management

Performance Highlights

In 2011/12, Lanka Milk Foods (CWE) PLC Group enjoyed a 341% growth over the previous year, recording profit after tax of Rs.192.7 Million and revenue of Rs.5 Billion. The increase in profitability was the result of prudent practices such as forward booking and purchasing of milk powder to mitigate losses incurred from price hikes and foreign exchange rate fluctuations. Your company witnessed a shift in its growth segments during the year, with powdered milk recording stagnant performance while the liquid milk and juice segments grew by 25% and 45% respectively.

The highlight of your company's successes in 2011/12 was its launch of Daily Activ in the chocolate malted food drink category. Already, Daily Activ has successfully penetrated the market and has consistently grown its market share post-launch.

In a further diversification of our product portfolio, LMF entered the carbonated energy drink segment during the year, with the launch of BLU energy drinks. The product has created considerable competition in the segment and is currently available in regular and Cranberry variants while more flavours are planned during the coming year.

The Company also recorded satisfactory growth in its mass market distribution operation of imported food brands such as Happy Cow, Farley's Rusks, and Casilan, enlarging our market share as well as the distribution channels.

We have analysed market trends and made strategic plans to extend value addition in the liquid milk segment by adding more health based dairy products to the Ambewela brand portfolio. Such niche value-added products will enable us to combat imported options which retail at higher prices.

In the cheese segment, your Company is developing processed cheeses to better suit the local palate, in addition to our range of natural cheeses. We have also planned to re-launch our Ambewela Ball cheese range with an international design, during the year.

We will make continued efforts to penetrate export markets with our juice and milk packs. Already, our Daily brand has become a leading dairy product in the Maldivian market. In terms of market penetration locally, I see further potential in the Northern and Eastern markets which we will pursue intensely during the coming year.

The Goodness Guarantee

and pursuing a zero-waste policy”

Subsidiary Performance

Lanka Dairies (Pvt) Ltd has completed a satisfactory year, with noteworthy profit growth over the previous financial year. I commend the team at LDL for its commitment to prudent cost management and pursuing a zero-waste policy, which has reaped rich dividends.

The livestock subsidiaries; Ambewela Farm and Pattipola Farm recorded profits of Rs. 23.3 Million and Rs. 32.3 Million respectively during the year.

Appreciations

Prudent management practices, analytical decision making, strong governance structures and strict cost management policies have been the drivers of the results you see in this year's Annual Report. I extend my sincere gratitude to the management and employees of Lanka Milk Foods and its subsidiaries, who have given their best and shared in the collective vision of the company.

I wish to place on record my appreciation of the many business partners and other stakeholders who have enabled and supported your company to return a positive performance in trying conditions. Among them, I thank in particular our many distributors who have displayed loyalty and a strong commitment to mutually beneficial partnerships. I must also thank the millions of Sri Lankans who have loved and trusted our products for decades. I also thank you, our shareholders, for your trust in the management of the company and your belief in its potential.



D. H. S. Jayawardena

Chairman

22nd August 2012

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

The Directors of Lanka Milk Foods PLC have pleasure in presenting their Annual Report together with the Audited Financial Statements of the Company for the year ended 31 March 2012.

General

Lanka Milk Foods (CWE) PLC is a public limited liability company incorporated in Sri Lanka on 12th November 1981, quoted on the Colombo Stock Exchange in 1983 and registered under the provisions of the Companies Act no 07 of 2007. Prior to its privatisation in 1991, the Company was managed by the Cooperative Wholesale Establishment.

Principal Activities of the Company and Review of Performance During the Year

The principal activities of the Company are the manufacture, import, export, packing and marketing of powdered milk, dairy products and allied beverages.

A review of the business of the Company and its performance during the year with comments on the financial results, future strategies and prospects are contained in the Chairman's Review and Management Discussion of this report. This report together with the Financial Statements, reflect the state of affairs of the Company.

Financial Statements

The audited financial statements of the Company and the Group together with the Notes to the Accounts are presented from page 48 to 77 of this report. The Board of Directors approved the financial statements herein on 22/08/2012.

Summarised Financial Results of the Group

	2011/2012 Rs.000	2010/2011 Rs.000
Profit/(Loss) Operations	230,868	(31,377)
Profit before Tax	234,219	55,356
Taxation	41,492	11,978
Net Profit for the Year	192,727	43,738

Auditors' Report

The Report of the Auditors, Messrs KPMG, is presented on page 47 for the benefit of all stakeholders.

Accounting Policies

The accounting policies adopted by the Company in the preparation of the Financial Statements are detailed on pages 53 - 60 of this report. The policies are consistent with those of the previous period.

Directorate

The names of the Directors who held office as at the end of the accounting period are given below and their brief profiles appear on pages 26 - 27.

Mr. D. H. S. Jayawardena	-	<i>Chairman</i>
Mr. R. K. Obeysekere	-	<i>Director</i>
Mr. Zaki Alif	-	<i>Director</i>
Mr. C. R. Jansz	-	<i>Director</i>
Ms. D. S. C. Jayawardena	-	<i>Director</i>
Mr. D. S. K. Amarasekera	-	<i>Independent Non Executive Director</i>
Dr. A. Shakthevale	-	<i>Independent Non Executive Director</i>

The Goodness Guarantee

Interests Register

The Interests Register as per the Companies Act No. 7 of 2007 is maintained by the Company.

Remuneration of Directors

The Directors' remuneration is disclosed in Note 08 to the Financial Statements on page 62.

Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of the Financial Statements of the Company to reflect a true and fair view of the state of its affairs.

Directors' Shareholding

None of the Directors of the company held any shares of the Company during the period under review.

Name of the Director	Number of Shares	
	2011 / 2012	2010 / 2011
Mr. D. H. S. Jayawardena	Nil	Nil
Mr. R. K. Obeysekere	Nil	Nil
Mr. Zaki Alif	Nil	Nil
Mr. C. R. Jansz	Nil	Nil
Ms. D. S. C. Jayawardena	Nil	Nil
Mr. D. S. K. Amarasekera	Nil	Nil
Dr. A. Shakthevale	Nil	Nil

Auditors

Messrs KPMG, served as the Auditors during the year under review. The Auditors do not have any interest in the Company other than as Auditors.

The Auditors have expressed their willingness to continue in office. A resolution to re-appoint the Auditors and to authorise the Directors to determine their remuneration will be proposed at the Annual General Meeting.

Stated Capital

The Stated Capital of the Company is Rs. 999,950,000 represented by 39,998,000 Ordinary Shares.

Related Party Disclosures

Transactions with entities that are controlled, jointly controlled or significantly influenced by key managerial personnel or their close members of family or shareholders who have either control, significant influence or joint control over entity are set out in Note 33 to the Financial Statements.

Major Shareholders, Distribution Schedule and Other Information

Information on the twenty largest shareholders of the Company, the distribution of shareholding, percentage of shares held by the public, market values per share as per the requirements of the Listing Rules of the Colombo Stock Exchange are given on pages 78 - 80 under Investor Information.

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

Reserves

The movements of reserves during the year are given under the Statement of Changes in Equity on page 50.

Property, Plant & Equipment

Details and movements of Property, Plant and Equipment owned by the Company are given in Note 12 to the Financial Statements on page 66.

Land Holdings

Details of leasehold land owned by the company are given in Note 12 to the Financial Statements on page 65.

Investments

Details of quoted and unquoted investments made by the Company as at 31st March 2012 are given in Note 14 to the Financial Statements on page 67.

Dividend

In respect of the financial year ended 31st March 2012, the Directors have recommended a first and final dividend of Rs. 1.00 per share for the year.

Donations

The Company made donations to the value of Rs. 10,000 during the year.

Internal Controls

The Board of Directors has taken steps to ensure the implementation of an effective and comprehensive system of internal controls covering financial, operational and compliance controls.

Risk Management

The Risk Management processes currently practiced by the Company to identify and manage potential risks are given on page 30 - 31.

Contingent Liabilities

Except as disclosed in Note 31 to the Financial Statements on page 74, there were no material Contingent Liabilities as at the Balance Sheet date.

Statutory Payments

The Directors confirm that, to the best of their knowledge, all taxes, duties and levies payable by the Company and contributions, levies and taxes payable on behalf of and in respect of the employees of the Company and all other known statutory dues as were due and payable by the Company as at the Balance Sheet date, have been paid or, where relevant, provided for.

Events occurring after the Balance Sheet date

No material circumstances have arisen as at the date of the Auditors' Report, which would require adjustment to, or disclosure in the Financial Statements.

The Goodness Guarantee

Corporate Governance

The Company aspires to adhere to the best practices in Corporate Governance and the Corporate Governance Rules of the Colombo Stock Exchange. The Corporate Governance practices are presented on pages 32 - 35.

An Audit Committee and a Remuneration Committee function as Board Sub Committees with Directors who possess the requisite qualifications and experience. The composition of the said committees is as follows:

Audit Committee

Mr. D. S. K. Amarasekera
Dr. A. Shakthevale

Remuneration Committee

Mr. D. S. K. Amarasekera
Dr. A. Shakthevale

Annual General Meeting

The Annual General meeting will be held on 18th September 2012.

The Notice of the Annual General Meeting appears on page 82.

Going concern

The Board is satisfied that the Company has adequate resources to continue its operations in the foreseeable future.

This Annual Report is signed for and on behalf of the Board of Directors by



Mr. D. H. S. Jayawardena
Chairman



Ms. D. S. C. Jayawardena
Director



Mrs. W. C. Hewage
Company Secretary

Lanka Milk Foods (CWE) PLC

22nd August 2012

MANAGEMENT DISCUSSION AND ANALYSIS



The Operating structure of Lanka Milk Foods (CWE) PLC encompasses the holdings company and four subsidiary companies, which engage in extension services related to the main business.

A brief introduction to the company is given in the table below:

Company	Core Business/s	Brands
Lanka Milk Food (CWE) PLC (Est. 1981)	Packing and distributing whole milk powder and skim milk powder, importation and distribution of energy drinks in the local market	Lakspray and Lakspray Trim, BLU Energy Drink
Lanka Dairies (Pvt) Ltd (Est. 1996)	Manufacturing and distributing Ultra Heat Temperature (UHT) treated flavoured milk and fruit drinks; co-packing for UHT treated international beverage brands	Daily, Daily Activ and My Juicee
Ambewela Products (Pvt) Ltd (Est. 2006)	Manufacturing and distributing Ambewela UHT full cream, non-fat liquid milk, flavoured milk, yoghurt and cheese	Ambewela
Ambewela Livestock Company Ltd (Est. 2001)	Supplying pure cow's milk to group companies and external customers; trading in livestock and crops	Ambewela Farms
Pattipola Livestock Company Ltd (Est. 2001)	Supplying pure cow's milk to group companies and external customers; trading in livestock and crops; offering farm excursions to tourists	New Zealand Farms

The Goodness Guarantee



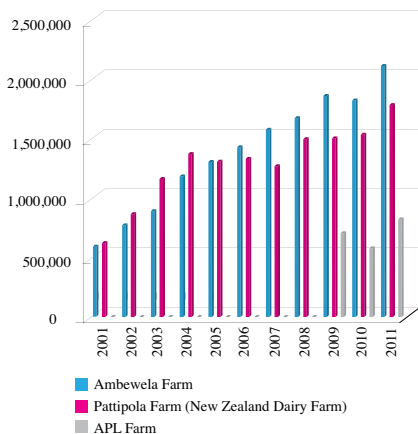
Lanka Milk Foods (CWE) PLC

During the year, Lanka Milk Foods (CWE) PLC operated under unfavourable conditions due to the price ceiling exercised by the government on essential commodities such as milk powders. This became a critical issue for the entire sector, resulting in many players curbing their communication spend and imposing severe internal cost control mechanisms. Local companies were the most affected by this issue, as multinationals were able to leverage on their parent companies overseas.

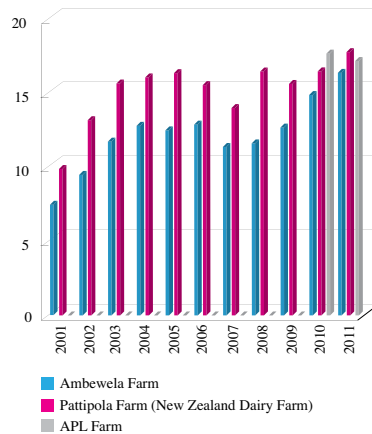
Despite these difficult conditions, LMF was able to post 7% growth in revenue to record Rs. 3.4 Billion while profit grew by 295% to Rs. 63.5 Million million. This performance was noteworthy as it justified the company's strategies of forward booking and purchasing of milk powder to mitigate losses arising from price increases and forex fluctuations.

Sales volumes of Lakspray averaged 450 – 500 metric tonnes per month, while the popularity of smaller packs sizes continued among consumers, as inflation took its toll on spending power. An extensive positioning exercise was undertaken for Lakspray during 2012, as LMF was of the opinion that the 45 year old brand needed a fresh outlook to reinforce the confidence of consumers, and needed to compete better with multinational milk powder brands.

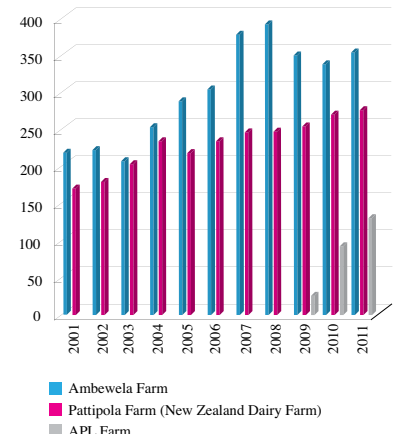
Total Milk Production (Ltrs.)



Average Milk Production per Cow in Litres



Average No. of Lactating Cows



MANAGEMENT DISCUSSION AND ANALYSIS

The Lakspray brand was successful in obtaining certification from the New Zealand Food Safety Authority, which will be a strong competitive advantage for the brand.

The Company entered the carbonated energy drinks market during the year, with the launch of BLU, an internationally popular energy drink. BLU has already made an positive impact on both top line and bottom line growth of the company, and is a segment to watch in the years to come. The Company plans to extend the BLU energy drink product range by introducing more flavours to the market in the next financial year while tapping into new channels to extend product distribution.

Lanka Dairies (Pvt) Ltd

Lanka Dairies (Pvt) Ltd (LDL), which manufactures and markets UHT treated flavoured milk and fruit drinks under the Daily and My Juicee brands, contributed the largest share of profit to the LMF Group, achieving a profit growth of 240%. Contributing factors to this achievement included an accelerated drive to eliminate points of waste and non-productivity with a view to curbing operating costs, and a stringent quality assurance system to minimise defects in the final output.

The Daily brand of UHT Flavoured Milk, manufactured and marketed by LDL, recorded a 37% growth in sales volumes in this year compared to 2010/11. This was driven mainly by a market trend to shift from carbonated beverages to more nutritious ready to drink beverages such as milk and fruit juices.

The My Juicee fruit drink brand recorded a solid 30% volume growth over the previous year and has successfully challenged many international brands of fruit juice by offering the equivalent value proposition at a lower price.

The newest addition to the portfolio of LDL in the year, Daily Activ malt chocolate food drink, contributed towards an additional 7500 cases of sales per month. This product was launched to fill a gap in LDL's portfolio for a refreshing, nutritious malt based drink. It is produced from 100% pure cow's milk, and has more milk content than any competitor brands in this category.

LDL also recorded significant growth in its export sales; tremendous growth was reported in sales to the Maldives, where the company exports an average of 3500 cases a month. Negotiations are currently underway with overseas buyers in several other overseas markets to export Daily and other ready to drink products in the LDL portfolio.

LDL also engages in contract packaging operations for overseas clientele, which has returned significant results during the year. Among projects undertaken in this area are ventures to pack Pure Ceylon Iced Tea in UHT treated aseptic packaging for the Italian market and fruit juices for the Indian market.

Growing demand for liquid milk and fruit juice in the domestic market as well as strong growth potential for its exports have necessitated capacity enhancements at the LDL plant. In the coming months, LDL will undertake the installation of next generation Tetra Pak aseptic packaging machinery, enabling higher production efficiency and modifying the existing packaging to deliver better handling and user convenience to consumers.

The company's main line of business – processing UHT treated beverages in aseptic packaging - is a nascent industry in Sri Lanka and sales volumes are set to grow consistently in the medium term due to the enhancement of living standards and the gradual urbanisation of Sri Lanka.

The Goodness Guarantee



Pattipola Livestock Company and Ambewela Livestock Company

At both Ambewela & Pattipola Farms, raw milk production has significantly increased, resulting in a notable profit growth in their holding companies. Over the past five years, milk production in the farms has increased from 2.7 million litres to 4.7 million litres per annum, recording a 74% growth, whereas the average productivity of a cow has reached 17 litres a day from 14 litres a day, which is a 20% growth. Both companies have profited from the sales growth experienced by LDL, which remains the primary customer of their raw milk, which is directly allocated to the production of UHT fresh milk, non fat milk and flavoured milk.

The government's decision to support the local dairy industry by reviewing the floor price of a litre of raw milk from Rs 50 to Rs 65 also helped supplement the profits generated by the livestock companies. Both livestock companies also reaped the benefits of streamlined operations and better management practices which led to lower operational costs.

MANAGEMENT DISCUSSION AND ANALYSIS



This has led to an increased sales record at Pattipola Farm outlet as it welcomes a large number of both local and foreign visitors annually. The Farm outlet sells products such as fresh milk, natural hand processed cheeses, goat milk, potatoes and other up-country vegetables and is a popular stop over for visitors to the region.

Ambewela Products (Pvt) Ltd

Although a comparatively new entrant to the market, Ambewela has become a household brand name, with growing demand from consumers for its offering of premium quality milk and allied products. The brand supports the government's vision of self sufficiency in milk production by the year 2020 and the state initiatives to promote consumption of locally produced liquid milk.

Ambewela UHT Fresh milk recorded a 23% growth in sales volume, attributable to a marked shift in consumer preference from powdered milk to fresh liquid milk. Ambewela Fresh milk dominates the UHT treated white milk category and research shows that the brand has won the trust of consumers who perceive it to be the best quality milk in the country.

The rapid spread of health issues such as high cholesterol, diabetes and high blood pressure among Sri Lankans has created a health-conscious segment which demands healthier options. In order to cater to this segment, Ambewela UHT non fat milk was introduced to the market, and is currently enjoying a 10% growth in volume during the year.

The Goodness Guarantee



“THE FARM OUTLET SELLS PRODUCTS SUCH AS FRESH MILK, NATURAL HAND PROCESSED CHEESES, GOAT MILK, POTATOES AND OTHER UP-COUNTRY VEGETABLES...”



Ambewela set yoghurt achieved a staggering 117% growth, due to its popularity among consumers who prefer its unique taste. A second yoghurt filling machine was installed during the year. However more capacity is required to meet the market demand for the product, which is widely available. The company is taking steps to expand distribution in general trade by appointing new distributors with cold storage and distribution facilities in areas of high potential.

The Group will continue to invest further in the state of the art manufacturing plant and dairy complex of Ambewela Products (Pvt) Ltd., in order to increase production capacities.

The company’s new product development strategy will include introducing more health-focused value addition to its Ambewela range of liquid dairy products. Plans are also in the pipeline to market farm outputs of the livestock companies, such as ball cheese, under the Ambewela brand, in order to enhance revenue streams. The ball cheese range is scheduled to be re-launched targeting the forthcoming Christmas season, with an attractive packaging on par with international standards.

BOARD OF DIRECTORS

Standing from left to right

Ms. D. S. C. Jayawardena
Mr. D. S. K. Amarasekera
Dr. A. Shakthevale
Mr. C. R. Jansz
Mr. D. H. S. Jayawardena
Mr. R. K. Obeyesekere
Mr. Zaki Alif (Absent)





BOARD OF DIRECTORS



Mr. D. H. S. Jayawardena

Chairman

Aitken Spence PLC, Distilleries Company of Sri Lanka PLC, Lanka Milk Foods (CWE) PLC, Periceyl (Pvt) Limited, Stassen Exports (Pvt) Ltd, Lanka Bell (Pvt) Limited, Texpro Industries Limited, Lanka Bell Services (Pvt) Limited, Bell Solutions (Pvt) Limited, Continental Insurance Lanka Limited, Balangoda Plantations PLC, Madulsima Plantations PLC, Browns Beach Hotels PLC, Ambewela Livestock Company Limited, Pattipola Livestock Company Limited, Lanka Dairies (Pvt) Limited, Ambewela Products (Pvt) Limited, Indo Lanka Export (Pvt) Ltd., Bogo Power (Pvt) Ltd, Melsta Corporation (Pvt) Ltd, Lanka Power Projects (Pvt) Ltd, Aitken Spence Hotel Management Asia (Pvt) Ltd., Negombo Beach Resorts (Pvt) Ltd.

Managing Director

Stassen International (Pvt) Ltd, Stassen Natural Foods (Pvt) Ltd, Stassen Foods (Pvt) Ltd, Milford Exports (Ceylon) (Pvt) Limited, Ceylon Garden Coir (Pvt) Limited, Milford Developers (Pvt) Limited, Stassen Real-estate Developers (Pvt) Ltd

Director

Stassen Plantation Management Services (Pvt) Ltd, Ace Power Generation Matara (Pvt) Ltd, Ace Power Generation Horana (Pvt) Ltd, Milford Holdings (Pvt) Ltd

Others

Honorary Consul General for Denmark in Sri Lanka



Mr. R. K. Obeyesekere

Managing Director

CBD Exports Limited

Director

Distilleries Company of Sri Lanka PLC, Balangoda Plantations PLC, Madulsima Plantations PLC, Lanka Milk Foods (CWE) PLC, Periceyl (Pvt) Limited, Zahara Exports (Pvt) Limited, Lanka Power Projects (Pvt) Limited, Milford Exports (Ceylon) Limited, Lanka Dairies (Pvt) Limited, Ceylon Garden Coir (Pvt) Limited, Milford Developers (Pvt) Limited, Ambewela Livestock Company Limited, Ambewela Products (Pvt) Limited, Pattipola Livestock Company Limited. Stassen International (Pvt) Ltd, Stassen Natural Foods (Pvt) Ltd, Stassen Foods (Pvt) Ltd, Stassen Real-estate Developers (Pvt) Ltd, Stassen Exports (Pvt) Ltd, Stassen Plantation Management Services (Pvt) Ltd, Melsta Corporation (Pvt) Ltd, Milford Holdings (Pvt) Ltd



Mr. Zaki Alif

Chairman

CBD Exports Limited

Director

Stassen Exports (Pvt) Limited, Stassen International (Pvt) Limited, Stassen Natural Foods (Pvt) Limited, Stassen Foods (Pvt) Limited, Milford Exports (Ceylon) (Pvt) Limited, Lanka Dairies (Pvt) Limited, Ceylon Garden Coir (Pvt) Limited, Stassen Real Estate Developers (Pvt) Ltd, Milford Developers (Pvt) Ltd, Lanka Milk Foods (CWE) PLC, Ambewela Livestock Company Ltd, Pattipola Livestock Company Ltd, Stassen Plantation Management Services (Pvt) Ltd, Ambewela Products (Pvt) Ltd, Madulsima Plantations PLC

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Mr. C. R. Jansz

Director

Distilleries Company of Sri Lanka PLC, Balangoda Plantations PLC, Periceyl (Pvt) Limited, Lanka Bell Limited, Timpex (Pvt) Limited, Texpro Industries Limited, Milford Holdings (Pvt) Limited, Ambewela Products (Pvt) Limited, Pattipola Livestock Company Limited, Ambewela Livestock Company Limited, Lanka Power Projects (Pvt) Limited, Lanka Dairies (Pvt) Limited, Indo Lanka Exports (Pvt) Ltd, Melsta Corp. (Pvt) Ltd, DFCC Bank PLC, Lanka Milk Foods (CWE) PLC.



Ms. D. S. C. Jayawardena

Director

Lanka Milk Foods (CWE) PLC, Ambewela Livestock Company Limited, Pattipola Livestock Company Limited, Lanka Dairies (Pvt) Limited, Ambewela Products (Pvt) Limited, Indo Lanka Exports (Pvt) Ltd, Hatton National Bank PLC



Mr. D. S. K. Amarasekera

Independent Non-Executive Director

Madusima Plantations PLC, Balangoda Plantations PLC. Senior Tax and Legal Partner of Amarasekera & Company, Tax Consultant, Member of the Institute of Chartered Accountants of Sri Lanka, and an Attorney-at-Law of the Supreme Court of Sri Lanka.



Dr. A. Shakthevale

Independent Non-Executive Director

Retired, Additional Secretary (Livestock), from the Ministry of Agriculture and Livestock in 2002, served as the Secretary, Ministry of Rehabilitation and Social Service in the Northeast Provincial Council, Served as a Board Director for MILCO and NLDB, Worked for FAO, UNDP, UNHABITAT, Land O'Lakes, Oxfam GB, Past President of Sri Lanka Veterinary Association, Past President of Sri Lanka Veterinary Council, worked for several leading local livestock organisations and at present is a freelance Consultant in the field of livestock development.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors under the Companies Act No.7 of 2007 are responsible for ensuring compliance of the requirements set out therein to prepare Financial Statements for each financial year giving true and fair view of the state of affairs such as profit and loss of the Company and its subsidiaries as at the balance sheet date.

The Board of Directors accepts the responsibility for the integrity and objectivity of the Financial Statements presented. The Directors confirm that proper accounting records and policies have been maintained in the preparation of the Financial Statements which have been prepared and presented in accordance with the Sri Lanka Accounting Standards and comply with the requirements in the Companies Act and the listing rules of the Colombo Stock Exchange. Further, the Directors confirm that the Financial Statements have been prepared on a ongoing basis and are of the view that sufficient funds and other resources are available within the Group to continue its operations which in the long run will enable the Company to facilitate planned future expansions and capital commitments.

The Directors have taken adequate measures to safeguard the assets of the Group and have established implementation of appropriate internal control systems in order to prevent and detect fraud and other irregularities.

The Directors are also confident that the Company would satisfy the solvency test requirement in the Companies Act No. 07 of 2007 under Section 56 (2) on the payment of the proposed dividend and have sought a certificate of solvency from its Auditors.

The External Auditors were provided with all the necessary information and explanations to enable them to form their opinion on the Company's financial statements.

Compliance Report

The Directors confirm to the best of their knowledge that all statutory payments pertaining to the government and employees that were due in respect of the company and its subsidiaries have been paid as at the balance sheet date.



On behalf of the Board of Directors

Mrs. W. C. Hewage
Company Secretary

22nd August 2012

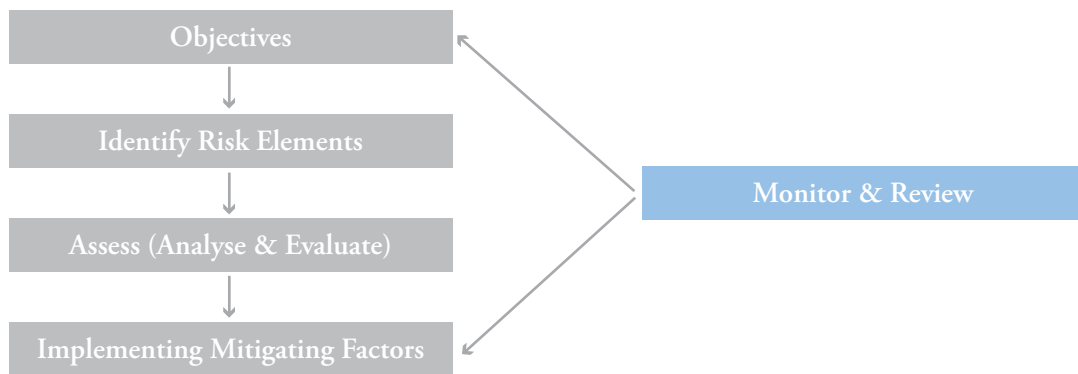
The Goodness Guarantee

OUR TEAM



RISK MANAGEMENT

The diversification strategy of Lanka Milk Foods has increased overall risk over the several years. The Board has an overall responsibility for monitoring risk and ensuring that it is managed at an acceptable level. To reduce overall risk, the Board considers risk assessment and identification of mitigating factors to be pivotal in achieving Group strategic objectives. The Group risk management framework is illustrated below.



An effective risk management framework enables us to prioritise and allocate resources against those risks that underscore the ongoing sustainability of the organisation. The principal risks in achieving the Group objective of enhancing shareholders value and safeguarding group assets have been identified below. The nature and scope of risk are subject to change and not all the factors listed are within the control of the Company. It should be noted that other factors besides those listed may affect the performance of the business. Common risks which the Company is exposed to are elaborated below.

Business Risk

Business risk management is a dynamic process due to constant change in the operating environment of the Group. World wide natural disasters such as floods, droughts and earthquakes can have an adverse impact on global milk powder prices. Price of sugar in world markets, also affects the import of spray dried milk powder.

The price of local raw milk also increased due to the current inflation in the country. Price fluctuations in the dairy market, which were a direct result of regulations imposed by the relevant authorities, also impacted the Company’s business risk, demonstrating that the business operations of the Group are subject to a variety of risk factors. The Company has mitigated some of these risks through avoidance, reduction, alternative actions and share or insure.

Management constantly monitors and evaluates risk factors in order to respond effectively. Manufacturing and operating facilities are maintained to food manufacturing and operating standards.

Legal and Regulatory Risk

Risk arising from non-compliance with statutory and regulatory requirements is a real possibility in light of sudden and frequent changes to compliance requirements. Depending on the product manufactured by the company, legal and regulatory requirements also differ. Amendments to the Government Acts, such as the Food Act No. 26 of 1980 and the Consumer Affairs Act No. 09 of 2003, also affected the business. The Company’s legal and marketing departments conduct regular reviews of compliance with prevailing statutory and legal requirements, to mitigate legal and regulatory risk.

Human Risk

The Company is exposed to a risk from the inability to attract and retain skilled staff at middle to senior management and losing skilled labour and operational staff, as there work categories are highly skilled blue-collar jobs. International level job placement agencies constantly headhunt such labour to fill job opportunities overseas. Losing trained, skilled staff creates a significant impact on the cost of operations. Aside from the mitigation of the recruitment and training costs, the loss in efficiency in

The Goodness Guarantee

production processes is also places a great strain on the Company. Therefore, the Company has taken steps to improve its incentive and remuneration structure in order to retain staff and labour involved in key processes. The Company has also taken steps to improve its employee safety standards in the production facilities and has provided required protective gear to those staff who need it.

Investment Risk

The Group handles a significant amount of investments in dairy projects and to ensure their smooth processing, the Chairman together with the Finance Manager evaluates the investment regularly. Through critical analysis of the dairy projects, the management team carries out contingency plans to enhance productivity and project returns. Further, clearly formulated governance structures are in place to give robust support and guidance on matters related to capital expenditure, which are reviewed by the Audit Committee as well as by the Internal Audit Division.

Technological Risks

This type of risk stems largely from the failure in operations and information technology. The specialised machinery used in the Company's production facilities such as the sterilising, filling and distribution machines, face a critical risk spare parts and software, due to both running the risk of becoming obsolete. The Company is required to monitor and upgrade relevant software systems and machinery or spare parts before they reach obsolescence. These measures are proactively taken by the Company and when such regular upgrading/repair work is undertaken, care is taken to ensure that the production process is not disrupted through predictive maintenance on all technologies. In relation to information systems, the IT division has identified risks associated with the system and implements strict barriers, such as password protection and restricted access, stringent user guidelines, contingency plans and physical security measures, all of which are closely monitored.

Operational Risks

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Dairy products are by nature highly sensitive and can easily be contaminated. There are risks associated with the quality of the finished products which depends on quality processes. Instances of failure are very rare and if at all are due to unforeseeable reasons. However these instances are detrimental to the company and its brands. The company has taken steps to ensure that quality related issues are addressed by adding many protective measures into the manufacturing and packing processes and by identifying faulty equipment well in advance.

Credit Risks

This risk is where a customer of the Group is unable to meet his financial obligations on time. The Company engages in large volumes of credit sales to supermarkets and distributors, which is an inherent characteristic of the sales and distribution methods used in the fast moving consumer goods industry in Sri Lanka. However this results in a significant amount of credit risk especially in the current economic context where distributors may not be able to settle their debts. To mitigate this risk, aggressive and effective credit management/ recovery systems has been implemented and contractual agreements are made with all parties, to ensure the Company has legal recourse should debtors default. At present, the level of credit exposure faced by the Company is managed by retaining adequate lead of bank guarantees.

Conclusion

Risk is a factor that cannot be nullified; further unforeseen risk may appear in the future. At present the Group is in a position to face this level of risk through effective risk management, to minimise and mitigate potential losses in both finance and reputation.

CORPORATE GOVERNANCE

The Board of Directors is responsible for the governance of the Company, in a manner that protects the rights and interests of the shareholders and all other stakeholders. The shareholders' role in governance is to appoint Directors who adhere to appropriate corporate governance in the Company.

The Directors of Lanka Milk Foods (CWE) PLC maintain the highest standards of integrity and transparency in their governance and have implemented many procedures which are guided by the code of practice of the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka, together with the provisions of Companies Act No. 07 of 2007 and the Listing Rules of Colombo Stock Exchange.

It is also a reflection of the company's prestigious history, its values and its corporate social responsibilities.

Disclosure

According to the Policy of the Company all relevant information is disclosed to the shareholders.

In addition, Financial Statements are prepared in accordance with the Sri Lanka Accounting Standards and Companies Act and in conformity with the Stock Exchange requirements.

Internal Controls

The Board of Directors are of the unanimous view that the Company's internal control within the business as for publication purposes, provides reasonable assurance of safeguarding assets, maintenance of proper accounting records and the reliability of financial information.

The Company has an Internal Audit Division which submits its reports on a regular basis to the Chairman.

Board Meetings

The Board Meetings for each subsidiary are held on three consecutive days whenever they are required to review performance of the Company with reference to the Financial Statements, the Ambewela Project and investment proposals. The Board comprises of the following Directors.

Mr. D. H. S. Jayawardena - *Chairman*

Mr. R. K. Obeyesekere - *Director*

Mr. Z. Alif - *Director*

Mr. C. R. Jansz - *Director*

Ms. D. S. C. Jayawardena - *Director*

Mr. D. S. K. Amarasekera - *Independent Non-Executive Director*

Dr. A. Shakthevale - *Independent Non-Executive Director*

Future Company Assets

The Board of Directors after reviewing the Financial Statements and Cash Flow of the Group is extremely confident that for the reasonable future the Group has more than adequate resources to continue their day to day operations.

Non-Executive Directors

As per the Colombo Stock Exchange listing rules set out in Section 6, Lanka Milk Foods (CWE) PLC has appointed Mr. D. S. K. Amarasekera and Dr A Shakthevale as Independent Non-Executive Directors with effect from 1st May 2008.

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Independence of Directors

The Board of Directors of Lanka Milk Foods (CWE) PLC, having studied the criteria in accordance under Section 7.10 of Rules of Corporate Governance declares the two Non-Executive Directors to be independent Directors.

Remuneration Committee

The following two Independent Non-Executive Directors are appointed to the Remuneration Committee. Mr. D.S.K. Amarasekera, Member of the Institute of Chartered Accountants of Sri Lanka is appointed as the Chairman of the Audit Committee. The two Independent Non-Executive Directors are not paid any remuneration. Aggregate remuneration paid to the Board of Directors is declared in Note 8 of the Annual Report.

- Mr. D. S. K. Amarasekera
- Dr. A. Shakthevale

Audit Committee

The following two Independent Non-Executive Directors are appointed to the Audit Committee. Mr. D. S. K. Amarasekera, Member of the Institute of Chartered Accountants of Sri Lanka is appointed as the Chairman of the Audit Committee.

- Mr. D. S. K. Amarasekera
- Dr. A. Shakthevale

The Audit Committee recommends that the Board selects KPMG, as independent Auditors to audit and report on the annual consolidated Financial Statements of the Company.

Compliance Report

The Directors confirm that to the best of their knowledge, all taxes and duties are paid by the Company. All contributions, levies and all taxes payable on behalf of the employees of the Company, and also all other statutory duties as at the Balance Sheet date have been paid on behalf of the Company.

CORPORATE GOVERNANCE

Disclosure Regarding the Board of Directors

Rule No	Subject	Applicable requirement	Compliance Details
7.10.1(a) to (c)	Non Executive Directors	Two or at least one third of Non-Executive Directors which ever higher should be independent	Two out of seven Directors are Non-Executive Directors
7.10.2(a)	Independent Directors	Two or one third of Non-Executive Directors which ever higher should be independent	All Non Executive Directors are Independent.
7.10.2(b)	Declaration of independence Directors	Each Non-Executive Director submit assigned declaration of Independent or Non independent in the prescribed format	Non-Executive Directors have submitted the above declaration in the prescribed format.
7.10.3 (a)	Disclosure relating to Directors	Names of Independent Directors should be disclosed in the Annual Report	The names of the Independent Directors are provided on pages 26 & 27 of the Annual Report.
7.10.3 (c)	Disclosure relating to Directors	A brief resume of each Director should be included in the Annual Report including the area of expertise.	A brief resume of each Director is provided on pages 26 -27 of the Annual Report.

Disclosure Regarding the Remuneration & Remuneration Committee.

Rule No	Subject	Applicable requirement	Details
7.10.5 (a)	Composition of the Remuneration Committee	* Shall comprise of Non-Executive directors a majority of whom will be Independent * The Chairman of the committee shall be a Non-Executive Director.	Please refer page 37.
7.10.5 (a)	Remuneration Committee	Listed Company shall have Remuneration Committee	The Remuneration Committee comprises of Mr.D.S.K Amarasekera and Dr. A. Shakthevale
7.10.5 (b)	Disclosure of the function of the Remuneration Committee	The Remuneration Committee shall recommend the remuneration payable to the Board and the executive officers.	Please refer page 37 Annual Report
7.10.5 (c)	Disclosure in the Annual Report relating to the Remuneration Committee	The Annual Report should set out 1. Names of Directors in the Remuneration Committee 2. Statement of remuneration policy 3. The aggregated remuneration paid to Executive and Non-Executive Directors	Please refer page 37 Annual Report Please refer page 37 Annual Report Please refer page 37 Annual Report

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Content under the Audit Committee

Rule No	Subject	Applicable requirement	
7.10.6 (a)	Composition of the Audit Committee	<p>Non-Executive Director shall be appointed as the Chairman of the committee</p> <p>Chief Executive Officer and Chief Financial Officer should attend Audit committee meetings</p> <p>The Chairman of the Audit Committee or one member of a professional accounting body shall comprise of Non Executive Directors a majority of whom will be Independent</p>	Please refer page 36 Annual Report
7.10.6 (b)	Audit Committee functions	Should be as outlined in the section 7.10.6(b) of the listing rules	Please refer page 36 Annual Report
7.10.6 (c)	Disclosure in the Annual Report relating to the Audit Committee	<p>1. The Names of Directors in the Audit Committee</p> <p>2. Basis of determination of the Independence of the Auditors and disclose the basis for such determination</p> <p>3. The Annual Report shall contain a Report of the Audit Committee</p>	Please refer page 36 Annual Report

REPORT OF THE AUDIT COMMITTEE

Audit Committee Report

The Chairman of the Committee is Mr. D.S.K. Amarasekera, an Attorney-At-Law and Chartered Accountant. The other member of the Audit Committee is the Independent Non Executive Director, Dr. A Shakthevale. Both members of the Audit Committee have the requisite knowledge to carry out their roles effectively and to discuss matters that come within their purview independently and professionally.

Meetings and Reviews

During the financial year ended 31st March 2012, the Committee met once in every quarter and the members of the Committee attended all these meetings. The Finance Manager and the Internal Auditor of the Company were also present at these meetings.

Financial Reporting

The Committee reviewed and discussed the financial reporting system adopted by the Company in the preparation of its quarterly and Annual Financial statements with the Management and the External Auditors to ensure reliability of the process and consistency of the Accounting Policies adopted and in its compliance with the Sri Lanka Accounting Standards and the provision of the Companies Act No. 7 of 2007.

Internal Audit

The Internal Audit function of the Company is carried out by the Internal Audit Division and the Audit Committee reviewed the effectiveness of the internal audit plan to ensure that it has been designed to provide reasonable assurance that the financial reporting system adopted by the Company can be relied on, in the preparation and presentation of financial statements.

Recommendation

The Audit Committee has recommended to the Board of Directors that Messrs KPMG be appointed as Auditors for the financial year ending 31st March 2013, subject to the approval of the share holders at the Annual General Meeting. The independence of the External Auditors is assessed by the Audit Committee and confirmed as satisfactory.

Conclusion

The Audit Committee is satisfied that the Company's accounting policies, operational controls and risk management processes provide reasonable assurance that the affairs of the Company are managed in accordance with the Company's policies, and its assets are properly accounted for and adequately safeguarded.



Mr. D. S. K. Amarasekera

Chairman



Dr. A Shakthevale

Director

22nd August 2012

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REPORT OF THE REMUNERATION COMMITTEE

The Remuneration Committee which consists of two Independent Non-Executive Directors namely the Chairman - Mr. D S K Amarasekera and Dr. A Shakthevale, is responsible for determining the remuneration policy relating to key management personnel.

The remuneration policy of the Company is to attract the best professional and managerial talent to the Company and also to motivate and encourage staff to perform at the highest possible level. The Committee is responsible for monitoring the remuneration policy of the Company for its executives and other senior staff, in line with the competitive market for talent.

The Committee meets once in every quarter. Members of the Committee and the Finance Manager attend these meetings.



Mr. D. S. K. Amarasekera

Chairman



Dr. A Shakthevale

Director

22nd August 2012

A photograph of two men in a factory or industrial setting. They are wearing light blue work shirts. The man in the foreground is holding a yellow hard hat. The background shows industrial machinery and structures.

Sustainability Report

“Lanka Milk Foods (CWE) PLC has always endeavored to be an employer of choice and is proud of its team of well trained, committed employees”



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CORPORATE SUSTAINABILITY REPORT



As a Company whose original purpose of providing vital nutrition to the country remains undiminished, Lanka Milk Foods (CWE) PLC operates on a fundamentally socially responsible platform. Growing our business in a sustainable manner is our top priority and in doing so, we are mindful of the need to work with multiple stakeholders in ways that fulfill mutual ambitions and enable the Company to work towards long term goals.

Nurturing Our People

Lanka Milk Foods (CWE) PLC has always endeavoured to be an employer of choice and is proud of its team of well trained, committed employees. The Company and its management have, over the years, nurtured solid relationships with employees, which have led to excellent employee relations sans unionisation.

As at 31 March 2012, LMF provided employment to 716 personnel of which 56 represent the executive cadre and 336 the non executive cadre. 60% of the total cadre is represented by factory and farm workers.

Productivity enhancement and employee satisfaction go hand in hand and as such, we were indeed pleased to record our highest ever revenue per employee of Rs. 7,058,995 during the year.

Financial Year	Revenue per Employee (LKR)
2007/ 2008	6,664,000
2008/ 2009	6,628,000
2009/ 2010	6,224,000
2010/ 2011	6,174,000
2011/ 2012	7,058,995

Table: Employee productivity

The Goodness Guarantee



“THE QMS ADDRESSES ALL
CRITICAL PROCESSES FROM THE
POINT OF SOURCING TO THE
STORAGE OF FINISHED GOODS.”

Considerable emphasis is placed on the training and development of the team at LMF, including overseas training for identified high performers in their functional specialities. All new recruits experience a comprehensive orientation which introduces them to the organisation, its culture and its operations at the very outset of their employment. Field staff are provided with on-the-job training under the supervision of experienced peers, in order to perform at optimum levels.

The Company practises high standards of health and safety at all its facilities, in order to minimise the likelihood of workplace accidents. All factory and farm workers are provided with protective gear while the quality assurance department monitors and maintains stringent levels of hygiene and quality. The factory premises include a medical centre that provides immediate care for those with injuries or illnesses.

The Company offers its employees cash incentives above the industry standards; these include monthly sales incentives, attendance incentives for non-executive staff, leave encashment for unutilised leave and handsome ex-gratia payments.

In order to promote work life balance among its staff, the Company provides recreational facilities and board games at the factory premises while also granting an annual allowance for all employees to undertake a recreational trip with colleagues to strengthen interpersonal relationships and team spirit. Subsidised meals are also prepared at the fully fledged in-house 24 hour catering service for the Welisara factories.

CORPORATE SUSTAINABILITY REPORT

LMF extends the benefits of employment to the immediate families of employees through initiatives such as medical insurance schemes that cover employees and their dependants; a free 1 kg pack of milk powder every month as well as concessionary prices on other LMF products; and a gala Christmas party every year.

The Company recently introduced a management trainee programme which will, on a regular basis, provide opportunities for new graduates to gain exposure by working at LMF. The programme will enable graduates to sharpen their skills and acquire valuable experience of working environments, which will in turn enable them to become productive managers in the future.

Product Responsibility

Lanka Milk Foods recognises the critical needs it fulfils in providing nutrition to the nation, and as such, practices a strong degree of product responsibility. The quality management system (QMS) has been internationally certified since year 2000, and the current QMS complies with international standard ISO 9001:2008. The QMS developed by LMF ensures its ability to provide consistent products that meet customer expectations and abide by applicable regulatory requirements. The QMS addresses all critical processes from the point of sourcing to the storage of finished goods.

The quality policy at our farms maintains the high quality and productivity of our cows by ensuring that they are well-nourished, reared in conducive conditions and are disease-free. Our farms, with a combined acreage of over 1500 acres, contain 1965 cattle belonging to two European breeds - Ayrshire and Friesian. These breeds have been chosen for their capacity to produce far larger quantities of milk than Asian breeds. Furthermore, cattle feed is manufactured at our in-house feedmill in order to ensure optimum quality of the feed concentrate. The processes followed at our farms have made them an essential training ground for undergraduate agriculture students of the local universities, for whom we conduct free programmes.

The Company operates fully equipped chemical and microbiological laboratories which follow international testing standards of the International Dairy Federation and The American Dairy Products Institute. The Quality Assurance Division continuously monitors the quality of the products while also supervising the maintenance of environmental, hygiene and sanitation standards, both within the plant and its surroundings. Swab and exposure tests are carried out on a weekly basis. In order to ensure a higher quality of service and a greater sense of ownership, most functions such as laundry, water purification, and janitorial services are operated in-house, under the supervision of qualified officers.

Customer Satisfaction

Customer satisfaction levels are monitored through various means including a feedback process which allows customers to directly engage with the company. Customer complaints, which are very few in number, are taken very seriously and are dealt with in a transparent and accountable manner.

Protecting the Environment

As a manufacturing entity, LMF is governed by several environmental laws and regulations. It has always been our objective to go beyond complying with these requirements by voluntarily improving our environmentally friendly practices.

Aseptic packaging is a paper based bio degradable packaging type, which is more environmental friendly in the long term.

State of the art waste treatment plants have been installed in order to treat solids and liquid wastes before they are released to the environment. Lanka Dairies has also reduced its noise pollution by minimising its use of generators, by switching to batteries for power supply. The Company is also exploring the use of energy efficient fuels to operate its boilers.

Social Performance

Since inception, LMF has opened its doors to educational tours for schoolchildren, reflecting the Company's sufficient commitment to transparency in its operations. Every year, we educate nearly 20,000 children on nutrition and well being; this is especially significant given the government's drive to encourage the consumption of milk and to make the country self in its dairy

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“SINCE INCEPTION, LMF HAS OPENED ITS DOORS TO EDUCATIONAL TOURS FOR SCHOOLCHILDREN, REFLECTING THE COMPANY’S SUFFICIENT COMMITMENT TO TRANSPARENCY IN ITS OPERATIONS..”

needs. These children, belonging to schools and other higher education institutions, are taken through a structured programme, which includes presentations and demonstrations conducted by trained personnel and a guided tour through the LMF plant in Welisara. The plants are constructed in such a manner that the production processes may be observed with no disturbance to workflow. The students are offered to a chilled cup of milk as well as a few other product samples during their visit.

The Company takes an active role in the communities around which we operate and firmly believes in forming mutually beneficial, sustainable partnerships with them. We support their social and religious activities both monetarily and otherwise, and several such projects were carried out during the year under review.

A blood donation camp was organised in collaboration with the National Blood Transfusion Service in December 2011 at the LMF premises in Welisara. The enthusiasm generated by this cause resulted in over 100 employees volunteering to donate a total of 70 pints of blood which was far beyond our anticipated target.

Financial Information

“In 2011/12, Lank Milk Foods (CWE) PLC Group enjoyed a 341% growth over the previous year, recording profit after tax of Rs.192.7 Million and revenue of Rs.5 Billion”





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Cash Flow Statements	51
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KEY PERFORMANCE INDICATORS

Rs. 5,054 Mn

GROUP TURNOVER | Growth **17.95%**

(2011 - Rs. 4,285 Mn)

Rs. 234 Mn

GROUP PROFIT BEFORE TAX | Growth **323%**

(2011 - Rs. 55.3 Mn)

Rs. 2,061 Mn

SHARE HOLDERS' FUNDS | Growth **10.04%**

(2011 - Rs. 1,873 Mn)

Rs. 3,510 Mn

TOTAL ASSETS | Growth **5.28%**

(2011 - Rs. 3,334 Mn)

Rs. 4.68

EARNING PER SHARE (GROUP) | Growth **274.4%**

(2011 - Rs. 1.25)

INDEPENDENT AUDITORS' REPORT



KPMG
 (Chartered Accountants)
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 P. O. Box 186,
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 Sri Lanka.

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TO THE SHAREHOLDERS OF LANKA MILK FOODS (CWE) PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Lanka Milk Foods (CWE) PLC, the consolidated financial statements of the Company and its subsidiaries as at 31st March 2012 which comprise the balance sheet as at 31st March 2012, and 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 set out in pages 48 to 77.

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. 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 policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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 opinion.

Opinion – Company

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31st March 2012 and the financial statements give a true and fair view of the Company's state of affairs as at 31st March 2012 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Opinion – Group

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at 31st March 2012 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiaries dealt with thereby, so far as concerns the shareholders of the Company.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Section 153(2) to 153(7) of the Companies Act No. 07 of 2007.

Chartered Accountants

22nd August 2012
 Colombo.

KPMG, a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International cooperative ("KPMG International"), a Swiss entity.

M.R. Mihular FCA	Ms. M. P. Perera FCA	P.Y.S. Perera FCA
C.P. Jayatilake FCA	T.J.S. Rajakarier FCA	W.W.J.C. Perera FCA
Ms. S. Joseph FCA	Ms. S.M.B. Jayasekara ACA	W.K.D.C. Abeyrathne ACA
S.T.D.L. Perera FCA	G.A.U. Karunaratne ACA	R.M.D.B. Rajapakse ACA

Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA

INCOME STATEMENTS

<i>For the Year ended 31st March</i>	Note	Group		Company	
		2012 Rs.000's	2011 Rs.000's	2012 Rs.000's	2011 Rs.000's
Revenue	5	5,054,241	4,284,927	3,428,867	3,190,564
Cost of Sales		(4,272,072)	(3,822,253)	(3,018,712)	(2,898,298)
Gross Profit		782,169	462,674	410,155	292,266
Other Operating Income	6	85,263	89,682	6,498	1,902
Administrative Expenses		(275,347)	(256,155)	(135,651)	(198,922)
Distribution Expenses		(327,742)	(298,546)	(211,137)	(194,405)
Other Operating Expenses		(33,475)	(29,032)	-	-
Profit/(Loss) from Operations		230,868	(31,377)	69,865	(99,159)
Finance Income		96,486	157,653	105,720	158,925
Finance Expense		(93,135)	(70,920)	(80,752)	(32,949)
Net Finance Income	7	3,351	86,733	24,968	125,976
Profit before Taxation	8	234,219	55,356	94,833	26,817
Taxation	9	(41,492)	(11,978)	(31,245)	(10,706)
Profit for the Year		192,727	43,738	63,588	16,111
Attributable to:					
Equity Holders of the Company		187,229	43,738	63,588	16,111
Non Controlling Interest		5,498	-	-	-
Profit for the Year		192,727	43,738	63,588	16,111
Basic Earnings Per Share	10	4.68	1.25	1.59	0.46
Dividend Per Share	11	1.00	-	1.00	-

Figures in brackets indicate deductions.


The Financial Statements are to be read in conjunction with related notes, which form a part of the Financial Statements set out in pages 53 to 77.

BALANCE SHEETS

As at 31st March	Note	Group		Company	
		2012 Rs.000's	2011 Rs.000's	2012 Rs.000's	2011 Rs.000's
Assets					
Non Current Assets					
Property, Plant and Equipment	12	1,173,231	1,242,341	221,727	220,188
Investment in Subsidiaries	13	-	-	35,600	15,000
Long Term Investments	14.1	237,700	237,700	237,700	237,700
Biological Assets	15.1	224,445	180,922	-	-
Amounts Due from Related Parties	19.1	-	-	1,024,181	1,067,238
		1,635,376	1,660,963	1,519,208	1,540,126
Current Assets					
Inventories	16	1,154,284	1,043,406	787,282	786,613
Biological Assets	15.2	14,529	11,057	-	-
Short Term Investments	14.2	67,203	61,702	67,203	61,702
Trade Receivables	17	463,279	363,941	208,290	246,859
Other Receivables	18	101,792	64,504	10,361	38,794
Amounts Due from Related Parties	19.3	4,214	75,413	463,196	544,654
Tax Receivables		25,453	21,936	22,189	15,950
Cash and Cash Equivalents	20	44,129	31,501	40,394	29,167
		1,874,883	1,673,460	1,598,915	1,723,739
Total Assets		3,510,259	3,334,423	3,118,123	3,263,865
Equity and Liabilities					
Equity					
Stated Capital	21	999,950	999,950	999,950	999,950
Capital Reserves	22	105,116	105,116	105,116	105,116
Revenue Reserves		955,555	768,326	984,356	920,768
Total Equity attributable to Owners of the Company		2,060,621	1,873,392	2,089,422	2,025,834
Non Controlling Interest		42,998	-	-	-
Total Equity		2,103,619	1,873,392	2,089,422	2,025,834
Liabilities					
Non Current Liabilities					
Interest Bearing Loans and Borrowings	25	63,645	96,323	63,645	96,323
Deferred Tax Liability	23	29,932	27,618	29,932	27,618
Retirement Benefit Obligations	24	31,182	26,494	21,795	18,046
		124,759	150,435	115,372	141,987
Current Liabilities					
Trade and Other Payables	26	776,839	859,679	617,476	802,324
Amounts Due to Related Parties	27	83,147	109,248	83,147	110,231
Income Tax Payable		3,526	-	-	-
Interest Bearing Loans and Borrowings	25	32,678	32,678	32,678	32,678
Bank Overdraft	20	385,691	308,991	180,028	150,811
		1,281,881	1,310,596	913,329	1,096,044
Total Liabilities		1,406,640	1,461,031	1,028,701	1,238,031
Total Equity and Liabilities		3,510,259	3,334,423	3,118,123	3,263,865

The Financial Statements are to be read in conjunction with the related notes, which form a part of the Financial Statements set out on pages 53 to 77.

I certify that the Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 7 of 2007.



R. N. Attygalle
Finance Manager

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

Signed for and on behalf of the board ;



D. H. S. Jayawardena
Chairman



D. S. C. Jayawardena
Director

22nd August 2012
Colombo

STATEMENTS OF CHANGES IN EQUITY

For the Year ended 31st March 2012

Group

	Attributable to Owners of the Company					Non-Controlling Interest	Total Equity
	Stated Capital	Revaluation Reserve	Dairy Development Project Reserve	Retained Earnings	Total		
	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's		
Balance as at 1st April 2010	299,985	105,116	110,000	682,031	1,197,132	-	1,197,132
Final Dividends for 2009/10	-	-	-	(59,997)	(59,997)	-	(59,997)
Right Issue during the year	699,965	-	-	-	699,965	-	699,965
Direct Cost on Share Issue	-	-	-	(7,086)	(7,086)	-	(7,086)
Profit for the year	-	-	-	43,378	43,378	-	43,378
Balance as at 31st March 2011	999,950	105,116	110,000	658,326	1,873,392	-	1,873,392
Balance as at 1st April 2011	999,950	105,116	110,000	658,326	1,873,392	-	1,873,392
Acquisition of Subsidiary	-	-	-	-	-	37,500	37,500
Profit for the year	-	-	-	187,229	187,229	5,498	192,727
Balance as at 31st March 2012	999,950	105,116	110,000	845,555	2,060,621	42,998	2,103,619

Company

	Stated Capital	Revaluation Reserve	Dairy Development Project Reserve	Retained Earnings	Total
	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's
	Balance as at 1st April 2010	299,985	105,116	110,000	861,740
Final Dividends for 2009/10	-	-	-	(59,997)	(59,997)
Profit for the Year	-	-	-	16,111	16,111
Right Issue during the year	699,965	-	-	-	699,965
Direct Cost on Share Issue	-	-	-	(7,086)	(7,086)
Balance as at 31st March 2011	999,950	105,116	110,000	810,768	2,025,834
Balance as at 1st April 2011	999,950	105,116	110,000	810,768	2,025,834
Profit for the Year	-	-	-	63,588	63,588
Balance as at 31st March 2012	999,950	105,116	110,000	874,356	2,089,422

Figures in brackets indicate deductions.

The Financial Statements are to be read in conjunction with the related notes, which form a part of the Financial Statements set out on pages 53 to 77.

CASH FLOW STATEMENTS

<i>For the Year Ended 31st March</i>	Group		Company	
	2012 Rs.000's	2011 Rs.000's	2012 Rs.000's	2011 Rs.000's
Cash Flow from Operating Activities				
Profit before tax	234,219	55,356	94,833	26,817
<i>Adjustments for:</i>				
Depreciation on property, plant and equipment	122,570	112,389	18,754	16,219
Negative Goodwill on Acquisition of Subsidiary	(8,431)	-	-	-
Impairment of balance due from subsidiary companies	-	-	10,000	85,897
Provision for bad and doubtful receivables	-	702	583	2,086
Gain on disposal of investments	(4,592)	-	(4,592)	-
Gain on disposal of property, plant and equipment	(2,469)	(1,790)	(1,815)	(1,790)
Provision for retirement benefit obligation	8,155	2,637	6,250	3,242
Increase in fair value of Livestock	(56,872)	(56,536)	-	-
Gain on disposal of livestock	-	(5,615)	-	-
Dividend income	(94,338)	(116,152)	(94,338)	(116,152)
Interest income	(1,579)	(8,679)	(11,382)	(11,245)
Interest expense	31,693	66,928	20,207	(32,949)
Operating profit/(loss) before working capital changes	228,356	49,240	38,500	(27,875)
(Increase)/decrease in inventories and biological assets	(57,753)	(218,416)	(669)	(164,335)
(Increase)/decrease in trade and other receivables	(40,970)	(75,346)	66,419	(43,598)
(Increase)/decrease in related party balances	(39,754)	(11,264)	128,261	(253,504)
Increase/(decrease) in trade and other payables	(105,330)	244,677	(193,224)	247,955
Cash flows generated from/(used in) operations	(15,451)	(11,109)	39,287	(241,357)
Interest paid	(31,693)	(66,928)	(20,207)	32,949
Income Tax paid	(39,169)	(72,666)	(35,170)	(69,324)
Retiring Gratuity paid	(3,467)	(3,931)	(2,501)	(1,620)
Net Cash Flow from Operating Activities	(89,780)	(154,634)	(18,591)	(279,352)

CASH FLOW STATEMENTS (contd.)

<i>For the Year Ended 31st March</i>	Group		Company	
	2012 Rs.000's	2011 Rs.000's	2012 Rs.000's	2011 Rs.000's
Cash Flow from Investing Activities				
Interest received	1,579	8,679	1,563	11,245
Dividend received	94,388	116,152	94,338	116,152
Investment in shares	(8,299)	(21,090)	(8,297)	(21,090)
Acquisition of livestock	(13,450)	(29,036)	-	-
Proceeds from disposal of shares	7,388	-	7,388	-
Proceeds from disposal of property, plant and equipment	3,171	1,790	1,815	1,790
Proceeds from sale of livestock	26,799	5,615	-	-
Long term advance to related party	-	-	(43,235)	(149,760)
Acquisition of property, plant and equipment	(54,161)	(148,478)	(20,293)	(41,800)
Net cash flows from investing activities	57,365	(66,368)	33,279	(83,464)
Cash Flow from Financing Activities				
Repayment of borrowings	(32,678)	(32,678)	(32,678)	(32,678)
Proceeds from right issue	-	699,965	-	699,965
Dividend paid	-	(59,997)	-	(59,997)
Share Issue Expenses Paid	-	(7,086)	-	(7,086)
Net cash flow from financing activities	(32,678)	600,204	(32,678)	600,204
Net increase/(decrease) in cash and cash equivalents	(65,093)	379,202	(17,990)	237,389
Cash and cash equivalents at the beginning of the year	(277,490)	(656,692)	(121,644)	(359,033)
Cash and cash equivalents on acquisition of Subsidiary	1,021	-	-	-
Cash and cash equivalents at the end of the year (Note 20)	(341,562)	(277,490)	(139,634)	(121,644)
Note B				
Analysis of cash and cash equivalents at the end of the year				
Cash and cash equivalents	44,129	31,501	40,394	29,167
Bank overdraft (Note 20)	(385,691)	(308,991)	(180,028)	(150,811)
	(341,562)	(277,490)	(139,634)	(121,644)

The Financial Statements are to be read with conjunction with the related notes, which form a part of the Financial Statements set out on pages 53 to 77.

NOTES TO THE FINANCIAL STATEMENTS

1. CORPORATE INFORMATION**1.1 Reporting Entity**

Lanka Milk Foods (CWE) PLC (“the Company”) is a limited liability Company incorporated and domiciled in Sri Lanka. The registered office of the Company is located at No 579/1, Welisara, Ragama. The Ordinary shares of the company are listed in the Colombo Stock Exchange.

The Consolidated financial statements of the Company as at and for the year ended 31st March 2012 comprise the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”).

Description of the nature of the operation and principal activities of the Company and its subsidiaries are given in Note 30 to the Financial Statements.

2. BASIS OF PREPARATION**2.1 Statement of Compliance**

The Financial Statements are prepared in accordance with Sri Lanka Accounting Standards (SLAS), adopted by the Institute of Chartered Accountants of Sri Lanka (ICASL) and the requirements of the Companies Act No. 07 of 2007 and Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, except for Biological Assets - livestock of the Company which are measured and recognized in accordance with International Accounting Standard 41.

2.2 Basis of Measurement

The financial statements have been prepared on the historical cost basis except for biological assets which are measured at fair value as explained in notes to the financial statements.

No adjustments have been made for inflationary factors affecting the financial statements. The accounting policies are consistent with those used in the previous years. Certain comparative amounts have been reclassified to conform with the current year’s presentation.

2.3 Functional and Presentation Currency

The Group adopted Sri Lanka Rupee as the functional currency since it is used to a significant extent in the operations and is useful to reflect the economic substance of the underlying events and circumstances relevant to the Group entities.

These financial statements are presented in Sri Lanka rupees and have been given to nearest thousand, unless stated otherwise.

2.4 Use of Estimates and Judgements

The preparation of financial statements in conformity with Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

NOTES TO THE FINANCIAL STATEMENTS

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Information about significant areas of uncertainty and critical judgment in applying accounting policies that have been most significant affect on the amount recognized in the financial statement include in the following notes.

Note 24 – Retirement Benefit Obligations

Note 23 – Deferred Tax Liability

Note 15 – Biological Assets

2.5 **Going Concern**

The Board of Directors have made an assessment of the Group's ability to continue as a going concern in the foreseeable future and they do not intend to liquidate or cease trading.

3. **SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, where applicable and deviations if any, have been disclosed accordingly.

3.1 **Basis of Consolidation**

3.1.1 **Business combinations**

Business combinations are accounted for using the acquisition method as at the acquisition date which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquire; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed

3.1.2 **Subsidiaries**

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

3.1.3 **Transactions Eliminated on Consolidation**

Intra-group balances and transactions and any unrealized gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains.

3.2 Assets and Bases of their Valuation

3.2.1 Property, Plant and Equipment

3.2.1.1 Cost

Items of property, plant and equipment are stated at cost/deemed cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. This also includes costs of dismantling and removing the items and restoring the site on which they are located. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property plant and equipment.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

3.2.1.2 Subsequent Expenditure

The Group recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognized in the income statement as an expense as incurred.

3.2.1.1 De-recognition

The carrying amount of 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.

3.2.1.2 Depreciation

Depreciation is recognised in profit and loss on a straight line basis over the estimated useful lives of items of property, plant and equipment.

Depreciation of an asset 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 derecognised.

The estimated useful lives are as follows:

Class of Assets	Useful Lifetime
Plant and Equipment	10 years
Farm Equipment	10 years
Vehicles	5 years
Fixtures and Fittings	5 years
Computers and Accessories	5 years
Office Equipment	5 years
Roads	5 years

Buildings on leasehold land are depreciated over the unexpired period of lease.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

NOTES TO THE FINANCIAL STATEMENTS

3.2.1.3 Capital Work in Progress

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

3.2.1.4 Operating Leases

The land occupied by the Company is on 50 years operating lease from the Government of Sri Lanka. The lease payments under the operating lease are recognized as an expense.

3.2.2 Biological Assets**3.2.2.1 Live Stock**

Live Stock are stated at fair value less cost to sell with any resultant gain or loss recognized in the Income Statement.

3.2.2.2 Non Perennial Agricultural Crop

Non Perennial Agricultural Crop is stated at its cost incurred on cultivation.

3.2.3 Investments**3.2.3.1 Long term Investments**

In the parent Company's financial statements, investments in subsidiaries are carried at cost less impairment losses. Other long term investments are carried at cost less accumulated impairment losses.

Provision for impairment is made when in the opinion of the directors' there has been a decline which is other than temporary in the value of the investment.

3.2.3.2 Current Investments

Current Investments are classified as current assets and are stated at lower of cost and market value on an aggregated portfolio basis, with any resultant gains or losses recognised in profit and loss.

3.2.4 Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

The cost of other finished goods inventories is based on weighted average principle and cost of packing material and engineering spares are based on first in first out (FIFO) method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

3.2.4.1 Provision for Obsolete Inventories

Specific provisions are made by giving consideration to the condition of inventory.

3.2.5 Trade and Other Receivables

Trade and other receivables are recognized at the amounts they are estimated to realise net of provisions for impairment.

Other receivables and dues from related parties are recognised at cost less provision for impairment. The amount of the provision is recognized in the income statement.

3.2.6 Cash and Cash Equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short term highly liquid investments, readily convertible to known amounts of cash and subject to insignificant risk of change in value. For the purpose of the Cash Flow Statement, cash and cash equivalents consists of cash in hand and deposits in banks net of outstanding bank overdrafts.

3.2.7 Impairment

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

3.2.7.1 Calculation of Recoverable Amount

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit and loss. An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.3 Liabilities and Provisions

3.3.1 Liabilities

All known liabilities have been accounted for in preparing the Financial Statements. Liabilities are recognized when the Group has a legal or constructive obligation as a result of past events and it is probable that an outflow of economic benefits will be required to settle the obligation.

3.3.1.1 Current Liabilities

Liabilities classified as current liabilities in the Balance Sheet are those obligations expected to be settled in the entity's normal operating cycle, and due to be settled within twelve months after the balance sheet date, or the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the Balance Sheet date.

3.3.1.1.1 Trade and Other payables

Trade and other payables are stated at their cost.

3.3.1.2 Non Current Liabilities

All liabilities other than current are classified as non-current.

NOTES TO THE FINANCIAL STATEMENTS

3.3.1.2.1 Retirement Benefit Obligations**a) Defined Benefit Plan – Gratuity**

The retirement benefit obligation is calculated by using “Projected Unit Credit Method” (PUC) based on the valuation performed by an independent professional actuary as prescribed in Sri Lanka Accounting Standard No.16 - Employee Benefits (Revised 2006).

The present value of defined benefit obligation is determined by discounting the estimated future cash flows using the interest rates of high quality corporate bonds that are denominated in currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related retirement obligations.

The key assumptions used in the computation are disclosed in Notes to the Financial Statements.

However, according to the Payment of Gratuity Act No.12 of 1983, the liability for gratuity payment to an employee arises only after the completion of five years continued service with the company.

This liability is not externally funded. The item is grouped under non- current liabilities in the Balance Sheet.

b) Defined Contribution Plans - Employees Provident Fund and Employees Trust Fund

All employees who are eligible for Employees Provident Fund contribution and Employees Trust Fund contribution are covered by relevant contribution funds in line with respective statutes and regulations. The Group contributes 12% and 3% of gross emoluments of employees to Employees’ Provident Fund and Employees’ Trust Fund respectively.

3.3.1.2.2 Provisions

Provisions are recognized if as a result of a past event, the Group has a present legal or constructive Obligation that can be estimated reliably and it is probable that an outflow of economic benefit will be required to settle the obligation.

3.4 Income Statement**3.4.1 Revenue**

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

Revenue is recognized when the risks and rewards of ownership has been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

3.4.2 Interest Income

Interest income is recognised as the interest accrues, unless future collection is in doubt.

3.4.3 Disposal of Property, Plant and Equipment

Gains or losses of on the disposal of Property, Plant and Equipment are accounted for in the Income Statement.

3.4.4 Sale of Farm products

Sales are recognized when the risks and rewards of ownership has been transferred to the buyer.

3.4.5 Fair Value Adjustment on the Biological Assets

Gain or loss arising from changes in fair value of Biological assets is dealt in the Income Statement.

3.4.6 Other Income

Other income is recognised on an accrual basis.

3.4.7 Expenditure Recognition

- a) All expenditure incurred in running of the business and in maintaining the Property, Plant and Equipment in a state of efficiency has been charged to revenue in arriving at the profit for the year.
- b) For the purpose of presentation of Income Statement, the Directors are of the opinion that the function of expenses method present fairly the elements of the enterprise's performance, hence such presentation method is adopted.

3.4.8 Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred, except to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset, in which case they are capitalised as part of the cost of that asset.

3.4.9 Income Tax Expense

Income tax expense comprises current and deferred tax. Income tax expense is recognized in Income Statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

3.4.9.1 Current Income Tax

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 provisions of the Inland Revenue Act No. 10 of 2006 and subsequent amendments thereto.

3.4.9.2 Deferred Taxation

Deferred tax is provided using the liability method on temporary difference at the Balance Sheet date between the tax base of assets and liabilities, and their carrying amounts for financial reporting purposes.

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 tax 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 asset 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 tax rates that are expected to apply to the year when the asset is realized or liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted as at the balance sheet date. Income tax relating to items recognized directly in equity is recognized in equity.

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

NOTES TO THE FINANCIAL STATEMENTS

3.5 Related Party Transactions

Disclosure has been made in respect of the transactions 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 being charged.

3.6 Earnings Per Share

The Company presents basic Earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of shares outstanding during the period.

3.7 Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment). Segmental information is presented in respect of the Group's business segments. The primary format business or industry segment is based on management structure.

Segmental results, assets and liabilities includes items directly attributable to segment as well as those that can be allocated on a reasonable basis.

3.8 Cash Flow Statement

The cash flow statement is prepared under the Indirect Method. Interest paid is classified as operating cash flows whereas interest received and dividend received are classified as investing cash flows.

3.9 Comparative Information

The Accounting Policies have been consistently applied by the Group and are consistent with those of the previous year's figures and phrases which have been re-arranged wherever necessary to conform to the current presentation.

3.10 Events after Balance Sheet Date

All material post balance sheet events have been considered and where appropriate adjustment to or Disclosures have been made in the Financial Statements.

3.11 Commitments and Contingencies

Commitments and contingencies as at the Balance Sheet date are disclosed in the Financial Statements.

4. NEW ACCOUNTING STANDARDS ISSUED BUT NOT EFFECTIVE AS AT THE BALANCE SHEET DATE

The Institute of Chartered Accountants of Sri Lanka has issued new volume of Sri Lanka Accounting standards which will become applicable for financial periods beginning on or after 1st January 2012. Accordingly, these standards have not been applied in preparing these financial statements as they were not effective for the year ended 31st March 2012.

These Sri Lanka Accounting standards comprise accounting standards prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS). Application of Sri Lanka Accounting Standards prefixed SLFRS and LKAS for the first time shall be deemed to be an adoption of SLFRSs.

The Group is currently in the process of evaluating the potential effects of these Standards on its financial statements and the impact on the adoption of these Standards have not been quantified as at Balance Sheet date.

<i>For the Year Ended 31st March</i>	Group		Company	
	2012 Rs.000's	2011 Rs.000's	2012 Rs.000's	2011 Rs.000's
5. Revenue				
Gross Revenue	5,134,742	4,391,589	3,490,603	3,270,740
Less : Nation Building Tax	(80,501)	(100,065)	(61,736)	(73,579)
Turnover Tax	-	(6,597)	-	(6,597)
	5,054,241	4,284,927	3,428,867	3,190,564
6. Other Operating Income				
Gain on disposal of property, plant and equipment	2,469	1,790	1,815	1,790
Negative goodwill on acquisition of subsidiary	8,431	-	-	-
Gain on disposal of livestock	-	5,615	-	-
Gain on disposal of investments	4,592	-	4,592	-
Increase in fair value of livestock	56,872	56,536	-	-
Gate Income	11,919	7,453	-	-
Sundry Income	980	18,288	91	112
	85,263	89,682	6,498	1,902
7. Net Finance Income				
Finance Income				
Dividend income	94,338	116,152	94,338	116,152
Interest on fixed deposits	463	7,256	447	92
Interest on employee loans	532	92	532	452
Interest from Trade Receivables	584	1,331	584	1,331
Gain on translation of foreign currency	569	32,822	-	31,528
Interest on amount due from Related Companies	-	-	9,819	9,370
	96,486	157,653	105,720	158,925
Finance Expense				
Interest on overdraft	(21,198)	(50,934)	(10,388)	(32,949)
Interest on long term borrowings	(9,819)	(15,994)	(9,819)	-
Interest on bills discounted	(676)	-	-	-
Loss on translation of foreign currency	(61,442)	(3,992)	(60,545)	-
	(93,135)	(70,920)	(80,752)	(32,949)
Net Finance Income	3,351	86,733	24,968	125,976

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31st March	Group		Company	
	2012 Rs.000's	2011 Rs.000's	2012 Rs.000's	2011 Rs.000's
8. Profit from Operations				
<i>Profit from Operations is stated after charging all the expenses including the followings.</i>				
Directors' Emoluments	2,840	2,420	2,840	2,420
Auditors' Remuneration				
- Audit Services	2,516	2,497	1,815	1,650
- Non Audit Services	686	686	274	274
Impairment on investment in subsidiaries	-	-	10,000	-
Depreciation on Property, Plant and Equipment	122,570	112,389	18,754	16,219
Lease Rent for Land	21,500	19,446	67	67
Provision for bad and doubtful debts	2,515	702	583	2,086
Management fees	1,000	1,000	1,000	1,000
Personnel Costs (Note 8.1)	171,364	214,662	141,700	129,919
8.1 Personnel Costs				
Defined Contribution Plan Costs - EPF and ETF	11,932	19,727	10,071	11,418
Defined Benefit Plan Cost - Retiring Gratuity	8,155	2,637	6,250	3,242
Other Staff Costs	151,277	192,298	125,379	115,259
	171,364	214,662	141,700	129,919
Total number of employees as at the end of the year	716	694	300	292
9. Taxation				
Income Tax for the year (Note 9.1)	23,953	21,247	14,308	20,294
Adjustment for prior years	14,623	319	14,623	-
Deferred Taxation Charge/(Reversal)	2,314	(9,588)	2,314	(9,588)
Deemed Dividend Tax	602			
	41,492	11,978	31,245	10,706

- a) The Profits and Income of Lanka Milk Foods (CWE) PLC are liable for income tax at the rate of 28% (2011-35%) in terms of the Provisions of the Inland Revenue Act No.10 of 2006 and subsequent amendments thereto.
- b) In terms of the provisions of the Inland Revenue Act No.10 of 2006 and subsequent amendments thereto, the profits and income of Lanka Dairies (Private) Limited, Pattipola Livestock Company Limited and Ambewela Livestock Company Limited generated from agricultural undertaking and animal husbandry are taxed at the rate of 10% . Other income are liable for Income tax at the rate of 28% (2011- 35%).
- c) As per the agreement entered into with Board of Investment of Sri Lanka, the profits and income of Ambewela Products (Private) Limited, enjoy a ten year tax holiday from the Year of Assessment in which the entity commences to make profits or any Year of Assessment not later than two years reckoned from the date of commencement of commercial operations which ever is earlier.

<i>For the Year Ended 31st March</i>	Group		Company	
	2012 Rs.000's	2011 Rs.000's	2012 Rs.000's	2011 Rs.000's
9. Taxation (Contd.)				
9.1 Reconciliation of Accounting Profit to Income Tax Expense				
Profit before tax	234,219	55,356	94,833	26,817
Consolidation Adjustment	(15,119)	-	-	-
Non business income	(165,723)	(174,733)	(108,820)	(129,188)
Disallowable expenses	188,476	239,377	71,598	156,232
Tax deductible expenses	(155,811)	(27,976)	(14,836)	(9,770)
Tax exempt income	(14,214)	(47,516)	-	-
Loss of Ambewela Products (Pvt) Ltd	98,484			
	170,312	44,508	42,775	44,091
Business income	170,312	44,508	42,775	44,091
Business Profit/ (loss)	-	1,790	-	1,790
	170,312	46,298	42,775	45,881
Business income	171,069	51,323	43,024	45,881
Non business income	8,900	16,333	8,324	11,245
Tax loss claimed	(31,647)	(1,926)	-	-
Taxable Income	147,565	60,705	51,099	57,126
Income tax @ 28% (2011- 35%)	14,307	19,997	14,308	19,994
Income tax @ 10% (2011- 10%)	9,646	1,253	-	-
Social responsibility levy @ 1.5%	-	-	-	300
Income tax expense	23,953	21,247	14,308	20,294
Accumulated Tax Losses				
Tax loss brought forward	580,739	566,026	-	-
Adjustments during the year	-	14,803	-	-
Loss for the Year	-	1,836	-	-
Tax loss claimed during the Year	(31,647)	(1,926)	-	-
Tax loss carried forward	549,092	580,739	-	-

10. Basic Earnings Per Share

The calculation of Basic Earnings Per Share is based on the profit after tax attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding during the year.

	Group		Company	
	2012	2011	2012	2011
Profit Attributable to Ordinary Shareholders (Rs.'000)	187,229	43,738	63,588	16,111
Weighted Average Number of Ordinary Shares ('000)	39,998	34,998	39,998	34,998
Basic Earning Per Share (Rs.)	4.68	1.25	1.59	0.46
11. Dividends Per Share				
Dividends Per Share (Rs.)	1.00	-	1.00	-

Dividend proposed, are taken in to consideration for computation of Dividend per share. This proposed dividend has not been recognised as a liability as at Balance Sheet date until it is approved at the Annual General meeting.

NOTES TO THE FINANCIAL STATEMENTS

*As at 31st March 2012***12. Property, Plant and Equipment****12.1 Group**

Cost / Valuation	As at 01.04.2011 Rs.000's	Additions/ Transfers Rs. 000's	Disposals/ Transfers Rs. 000's	As at 31.03.2012 Rs.000's
Leasehold buildings	732,824	23,388	-	756,212
Plant and machinery	867,389	35,760	-	903,149
Laboratory equipment	9,089	205	-	9,294
Factory equipment	176,898	7,972	(103)	184,767
Canteen equipment	2,728	157	(241)	2,644
Office equipment	7,753	1,514	-	9,267
Fire fighting equipment	4,255	-	-	4,255
Furniture and fittings	6,946	298	-	7,244
Fixtures	164	-	-	164
Computers	13,081	1,090	-	14,171
Motor vehicles	143,787	799	(6,274)	138,312
Milk collection equipment	1,939	-	-	1,939
Motor roads and others	33,067	749	-	33,816
	1,999,920	71,932	(6,618)	2,065,234
Accumulated Depreciation	As at 01.04.2011 Rs.000's	Charge for the Year Rs.000's	Disposals/ Transfers Rs.000's	As at 31.03.2012 Rs.000's
Leasehold buildings	271,113	17,102	-	288,215
Plant and machinery	353,979	65,273	-	419,252
Laboratory equipment	5,985	90	-	6,075
Factory equipment	36,538	17,616	(103)	54,051
Canteen equipment	2,192	62	(241)	2,013
Office equipment	6,820	265	-	7,085
Fire fighting equipment	4,255	-	-	4,255
Furniture and fittings	5,207	507	-	5,714
Fixtures	164	-	-	164
Computers	9,458	1,341	-	10,799
Motor vehicles	82,386	14,768	(5,573)	91,581
Milk collection equipment	1,939	-	-	1,939
Motor roads and others	12,801	5,546	-	18,347
	792,837	122,570	(5,917)	909,490
Written Down Value	1,207,084			1,155,744
Capital Work in Progress	35,258			17,487
	1,242,341			1,173,231

As at 31st March 2012

12. Property, Plant and Equipment (Continued)

12.1 Group (Continued)

	2012 Rs.000's	2011 Rs.000's
Written Down Value		
Leasehold buildings	467,997	461,711
Plant and machinery	483,897	513,410
Laboratory equipment	3,219	3,104
Factory equipment	130,716	140,360
Canteen equipment	631	536
Office equipment	2,182	933
Fire fighting equipment	-	-
Furniture and fittings	1,530	1,739
Fixtures	-	-
Computers	3,372	3,623
Motor vehicles	46,731	61,401
Milk collection equipment	-	-
Motor roads and others	15,469	20,266
	1,155,744	1,207,083
Capital Work in Progress	17,487	35,258
	1,173,231	1,242,341
(a) The cost of fully depreciated property, plant and equipment as at the Balance Sheet date are as follows;		
Lanka Milk Foods (CWE) PLC	182,105	160,291
Lanka Dairies (Private) Limited	147,036	148,407
Ambewela Livestock Company Limited	68,652	57,699
Pattipola Livestock Company Limited	30,753	30,753
	428,546	397,150

- (b) All factory and office buildings are constructed on leasehold lands obtained from the Government of Sri Lanka on a 50 years lease. Lease rentals are paid annually. Details of the Land obtained from Government of Sri Lanka under lease are as follows;

Company	Location	Annual Lease rental (Rs.)	Lease commenced from
Lanka Milk Foods (CWE) PLC	Welisara	67,000	1st Feb 1983
Ambewela Livestock Company Limited	Ambewela	12,768,610	3rd Oct 2001
Pattipola Livestock Company Limited	Pattipola	8,664,150	3rd Oct 2001
		21,499,760	

- (c) The Company carried out a valuation of buildings during the financial year ended 31st March 1990 in order to incorporate the value of buildings prior to privatization of the company. The corresponding increase in the carrying amount was credited to revaluation reserve. The resulting carrying amount has been considered as deemed to be the cost of the buildings which have been subsequently measured at cost less accumulated depreciation and accumulated impairment losses.
- (d) The lease hold rights of land and buildings and immovable plant and machinery amounting to Rs.900 Mn. have been pledged as security against letter of credit facility obtained from Hatton National Bank PLC.

NOTES TO THE FINANCIAL STATEMENTS

*As at 31st March 2012***12. Property, Plant and Equipment (Contd.)****12.2 Company**

Cost / Valuation	As at 01.04.2011 Rs.000's	Additions/ Transfers Rs. 000's	Disposals/ Transfers Rs. 000's	As at 31.03.2012 Rs.000's
Leasehold buildings	358,951	-	-	358,951
Plant and machinery	149,164	7,420	-	156,584
Laboratory equipment	2,803	40	-	2,843
Factory equipment	2,935	3,574	(103)	6,406
Canteen equipment	2,728	157	(241)	2,644
Office equipment	6,221	1,496	-	7,717
Fire fighting equipment	4,223	-	-	4,223
Furniture and fittings	2,655	39	-	2,694
Fixtures	164	-	-	164
Computers	10,742	970	-	11,712
Motor vehicles	64,950	435	(4,200)	61,185
	605,536	14,131	(4,544)	615,123

Accumulated Depreciation	As at 01.04.2011 Rs.000's	Charge for the Year Rs.000's	Disposals/ Transfers Rs.000's	As at 31.03.2012 Rs.000's
Leasehold buildings	193,033	7,541	-	200,574
Plant and machinery	137,010	2,229	-	139,239
Laboratory equipment	2,781	6	-	2,787
Factory equipment	2,772	294	(103)	2,963
Canteen equipment	2,192	62	(241)	2,013
Office equipment	5,563	170	-	5,733
Fire fighting equipment	4,223	-	-	4,223
Furniture and fittings	2,572	34	-	2,606
Fixtures	164	-	-	164
Computers	8,194	1,013	-	9,207
Motor vehicles	31,596	7,405	(4,200)	34,801
	390,100	18,754	(4,544)	404,310
Written Down Value	215,436			210,813
Capital Work in Progress	4,752			10,914
	220,188			221,727

	2012 Rs.000's	2011 Rs.000's
Written Down Value		
Leasehold buildings	158,377	165,918
Plant and machinery	17,345	12,154
Laboratory equipment	56	22
Factory equipment	3,443	163
Canteen equipment	631	536
Office equipment	1,984	658
Fire fighting equipment	-	-
Furniture fittings	88	83
Fixtures	-	-
Computers	2,505	2,548
Motor vehicles	26,384	33,354
	210,813	215,436
Capital Work in Progress	10,914	4,752
	221,727	220,188

As at 31st March

	Holding Percentage	2012		2011	
		No. of Shares	Cost Rs.000's	No. of Shares	Cost Rs.000's
13. Investment in Subsidiaries					
Lanka Dairies (Private) Limited	100%	500,000	5,000	500,000	5,000
Ambewela Livestock Company Limited	100%	3,000,000	51,137	3,000,000	51,137
Pattipola Livestock Company Limited	100%	1,000,000	46,815	1,000,000	46,815
Ambewela Products (Private) Limited	100%	1,000,000	10,000	1,000,000	10,000
Indo Lanka Exports (Private) Limited	51%	306,000	30,600		
			143,552		112,952
Less : Provision for fall in value of investments			(107,952)		(97,952)
			35,600		15,000

As at 31st March

	No of Shares	2012		No of Shares	2011	
		Cost Rs.000's	Market Value Rs.000's		Cost Rs.000's	Market Value Rs.000's
14. Investments						
Group and Company						
14.1 Long Term Investments						
Distilleries Company of Sri Lanka PLC	37,961,500	237,700	5,504,418	37,961,500	237,700	6,833,070
		237,700	5,504,418		237,700	6,833,070
14.2 Short Term Investments						
Asia Capital PLC	60	2	2	29,260	798	2,546
Browns Beach Hotels PLC	1,251,558	24,876	18,272	1,251,558	24,876	26,658
Colombo Dockyard PLC	219,948	1,900	50,588	209,475	1,900	53,437
Commercial Bank of Sri Lanka PLC - Voting	1,370,406	29,375	137,040	635,439	21,078	168,900
Lanka Ventures PLC	-	-	-	100,000	2,000	3,800
Merchant Bank of Sri Lanka PLC	103,471	11,048	3,032	103,471	11,048	4,780
Seylan Bank PLC - Voting	80	1	5	80	1	6
Seylan Bank PLC - Non Voting	80	1	2	80	1	3
		67,203	208,941		61,702	260,130

NOTES TO THE FINANCIAL STATEMENTS

<i>As at 31st March</i>	Group		Company	
	2012 Rs.000's	2011 Rs.000's	2012 Rs.000's	2011 Rs.000's
15. Biological Assets				
15.1 Livestock - At Fair Value				
Balance as at 1st April	180,922	132,075	-	-
Additions during the year	13,450	17,979	-	-
Gain on fair value for the year	56,872	56,536	-	-
Disposals during the year	(26,799)	(25,668)	-	-
Balance as at 31st March	224,445	180,922	-	-
15.2 Non Perennial Crops - At Cost				
Balance as at 1st April	11,057	7,906	-	-
Additions during the year	3,651	11,057	-	-
Disposals during the year	(179)	(7,906)	-	-
Balance as at 31st March	14,529	11,057	-	-

The group has used the following significant criterias in determining the fair value of the Livestock as at 31st March 2012.

Weight

Pregnancy

Milk Production

Lactations

Age

<i>As at 31st March</i>	Group		Company	
	2012 Rs.000's	2011 Rs.000's	2012 Rs.000's	2011 Rs.000's
16. Inventories				
Raw Materials and Consumables	852,761	591,470	534,080	352,684
Finished Goods	165,071	138,828	121,566	122,038
Goods in Transit	136,452	313,108	131,636	311,891
	1,154,284	1,043,406	787,282	786,613
17. Trade Receivables				
Trade Receivables	517,958	416,105	248,244	286,230
Less: Provision for doubtful debts	(54,679)	(52,164)	(39,954)	(39,371)
	463,279	363,941	208,290	246,859

<i>As at 31st March</i>	Group		Company	
	2012 Rs.000's	2011 Rs.000's	2012 Rs.000's	2011 Rs.000's
18. Other Receivables				
Deposits and Prepayments	22,639	21,945	496	4,822
Less: Provision for Doubtful Receivables	(61)	(61)	-	-
	22,578	21,884	496	4,822
Insurance Receivables	-	2,360	-	2,123
Other Taxes Recoverable (Note 18.1)	68,455	5,022	3,833	4,191
Sundry Receivables	4,987	30,807	1,646	24,166
Staff Loans and Advances	5,772	4,431	4,386	3,492
	101,792	64,504	10,361	38,794
18.1 Other Taxes Recoverable				
With holding Tax	29	29	-	-
Turnover Tax	2,603	2,603	2,603	2,603
National Security Levy	509	509	509	509
Nation Building Tax	1,810	2,903	1,810	2,903
Value Added Tax	66,616	2,090	2,023	1,288
	71,567	8,134	6,945	7,303
Less: Provision for NSL and TT Recoverable	(3,112)	(3,112)	(3,112)	(3,112)
	68,455	5,022	3,833	4,191

<i>As at 31st March</i>	Company	
	2012 Rs.000's	2011 Rs.000's
19. Amounts Due from Related Parties		
19.1 Long Term Receivables		
Ambewela Products (Private) Limited (Note 19.2)	1,276,415	1,233,180
Indo Lanka Exports (Private) Limited (Note 19.4)	-	30,600
	1,276,415	1,263,780
Less : Provision for Doubtful Receivables	(252,234)	(196,542)
	1,024,181	1,067,238
19.2 Ambewela Products (Private) Limited		
Interest bearing receivables	96,323	129,000
Non interest bearing receivables	1,180,092	1,104,180
	1,276,415	1,233,180

Interest bearing receivables represent the funds advanced to Ambewela Products (Private) Limited to finance the Ambewela Farm Dairy project. These funds are utilized by Ambewela Products (Private) Limited to finance the import of machinery and construction of buildings for the Ambewela Dairy Farm Project. These advances are unsecured and interest is charged by Lanka Milk Foods (CWE) PLC at an interest rate of Average Weighted Prime Lending Rate (AWPLR) + 1% premium less 6 months average LIBOR rate.

Non interest bearing receivables represent the funds advanced by Lanka Milk Foods (CWE) PLC to Ambewela Products (Private) Limited to finance the Ambewela Farm Dairy project. The company has not charged interest on these funds during the year ended 31st March 2012. (Interest was charged at the rate of 8.13% only for the funds advanced during the year ended 31st March 2011.)

NOTES TO THE FINANCIAL STATEMENTS

<i>As at 31st March</i>	Group		Company	
	2012 Rs.000's	2011 Rs.000's	2012 Rs.000's	2011 Rs.000's
19.3 Short Term Receivable				
Lanka Dairies (Private) Limited	-	-	159,471	238,490
Indo Lanka Exports (Private) Limited (Note 19.4)	-	75,413	3,728	37,608
Ambewela Livestock Company Limited	-	-	304,024	325,058
Pattipola Livestock Company Limited	-	-	188,298	191,512
Distilleries Company PLC	4,080	-	-	-
Maudulsima Plantation PLC	52	-	-	-
Collision Repair Centre (Private) Limited	82	-	-	-
Less : Provision for doubtful receivables	-	-	(192,325)	(248,014)
	4,214	75,413	463,196	544,654

19.4 Due From Indo Lanka Exports (Private) Limited

The Company has entered into a agreement with Tunip Agro Limited of India to import fruit pulp and concentrates, process, pack and export fruit juices after value addition in Sri Lanka under Indo-Sri Lanka Free Trade Agreement. In this connection, a Company has been incorporated under the name "Indo Lanka Exports (Private) Limited". The initial investment of the above project was around Rs.60 Mn. out of which Rs.30.6 Mn. has been invested by Lanka Milk Foods (CWE) PLC. In addition to above sum, the Company has provided funds to Indo Lanka Exports (Private) Limited of which Rs.3,727,698 outstanding as at 31st March 2012 (2011 - Rs. 37,608,000) and no interest has been charged during the year ended 31st March 2012 (2011 Rs. 6.8 Million). During the year, the Company was allotted 306,000 shares of Indo Lanka Exports (Private) Limited for a consideration of Rs.30.6 Mn which constitutes a holding of 51% of the stated capital of the company.

<i>As at 31st March</i>	Group		Company	
	2012 Rs.000's	2011 Rs.000's	2012 Rs.000's	2011 Rs.000's
20. Cash and Cash Equivalents				
Cash at Bank and in Hand	36,485	24,118	32,750	21,784
Call Deposit	7,644	7,383	7,644	7,383
	44,129	31,501	40,394	29,167
Less : Bank Overdraft	(385,691)	(308,991)	(180,028)	(150,811)
Cash and cash equivalents for the purpose of cash flow statement	(341,562)	(277,490)	(139,634)	(121,644)
21. Stated Capital				
39,998,000 Ordinary Shares	999,950	999,950	999,950	999,950
21.1 Movement in Stated Capital				
Balance as at 1st April	999,950	299,985	999,950	299,985
Issued during the Year	-	699,965	-	699,965
Balance as at 31st March	999,950	999,950	999,950	999,950

22. Reserves**22.1 Capital reserve on revaluation of property**

The capital reserve on revaluation of property represents difference between the revalued amount and the carrying value of Property, Plant & Equipment as at the date of revaluation. The revaluation was carried out during the financial year ended 31st March 1990 in order to incorporate the fair value of the buildings on leasehold land prior to the privatization of the company. The revalued amounts of Property plant and equipment were considered as deemed cost as at the date of privatization.

22.2 Dairy Development Project Reserve

The dairy development project reserve relates to amount set aside out from retained earnings for the development of dairy project.

23. Deferred Taxation

Deferred tax assets/ Liabilities are measured at the rate of 28% that is applicable for the year of assessment 2011/12.

<i>As at 31st March</i>	Group		Company	
	2012 Rs.000's	2011 Rs.000's	2012 Rs.000's	2011 Rs.000's
Balance as at 1st April	27,618	37,206	27,618	37,206
Origination/(Reversal) of temporary differences	2,314	(9,588)	2,314	(9,588)
Balance as at 31st March	29,932	27,618	29,932	27,618
The deferred tax liability is attributable to the followings;	2012		2011	
	Temporary Difference Rs.	Tax Effect Rs.	Temporary Difference Rs.	Tax Effect Rs.
Group and Company				
On Property, plant and Equipment	128,694	36,034	116,682	32,671
On Retirement Benefit Obligations	(21,795)	(6,102)	(18,046)	(5,053)
	106,899	29,932	98,636	27,618

Deferred tax assets have not been recognised in the Financial Statement of subsidiaries (Ambewela Livestock Company Limited, Pattipola Livestock Company Limited, Lanka Dairies (Private) Limited, Indo Lanka Exports (Private) Limited and Ambewela Products (Private) Limited) since it is not probable that future taxable profits will be available against which the group can utilise the benefit there from. The Deferred Tax Asset have been recognised in the Financial Statements to the extent of deferred tax liability. The cumulative unrecorded Deferred Tax Assets of subsidiaries as at 31st March 2012 is Rs. 22,966,150.

<i>As at 31st March</i>	Group		Company	
	2012 Rs.000's	2011 Rs.000's	2012 Rs.000's	2011 Rs.000's
24. Retirement Benefit Obligations				
Balance as at 1st April	26,494	27,788	18,046	16,424
Interest cost	1,986	3,057	1,985	1,971
Current service cost	3,483	2,097	1,579	1,312
Actuarial (gain)/loss	2,686	(2,517)	2,686	(41)
Payments during the year	(3,467)	(3,931)	(2,501)	(1,620)
Balance as at 31st March	31,182	26,494	21,795	18,046
The expense is recognised in the following items in the income statement.				
Cost of Sales	1,043	540	1,042	540
Administration Expenses	3,987	757	2,083	1,081
Distribution Expenses	3,125	1,340	3,125	1,621
	8,155	2,637	6,250	3,242

The Retirement benefit obligations of the Group is based on the actuarial valuation carried out by Actuarial and Management Consultants (Private) Limited, a firm of professional actuaries.

SLAS 16 - Employee Benefits (Revised 2006) requires the use of actuarial techniques to make a reliable estimate of the amount of retirement benefit by using the Projected Unit Credit Method as at the Balance Sheet date. The following key assumptions were made in computing the retirement benefit obligation as at the Balance Sheet date.

- i.) Discount rate - 11%
- ii.) Annual salary increment rate - 5%
- iii) Retirement Age - 55 Years

NOTES TO THE FINANCIAL STATEMENTS

<i>As at 31st March</i>	Group		Company	
	2012 Rs.000's	2011 Rs.000's	2012 Rs.000's	2011 Rs.000's
25. Interest Bearing Loans and Borrowings				
Term Loan - Secured				
Balance as at 1st April	129,001	161,679	129,001	161,679
Add : Loans obtained during the year	-	-	-	-
	129,001	161,679	129,001	161,679
Less : Repayments during the year	(32,678)	(32,678)	(32,678)	(32,679)
Balance as at 31st March	96,323	129,001	96,323	129,001
Amount payable within one year	32,678	32,678	32,678	32,678
Amount Payable after one year	63,645	96,323	63,645	96,323
	96,323	129,001	96,323	129,001

Lanka Milk Foods (CWE) PLC has obtained a term loan of Euro.2.1 Mn.(Rs.260 Mn.) from DFCC Bank PLC to fund Ambewela Dairy Project of Ambewela Products (Private) Limited. The Loan carries an interest rate of Average Weighted Prime Lending Rate (AWPLR) + 1% premium less 6 months average LIBOR rate. Principle amount is repayable over a period of 8 years in 16 consecutive semi annual installments commencing from June 2007. This loan is secured by a corporate guarantee issued by Distilleries Company of Sri Lanka PLC .

<i>As at 31st March</i>	Group		Company	
	2012 Rs.000's	2011 Rs.000's	2012 Rs.000's	2011 Rs.000's
26. Trade and Other Payables				
Trade and Other Payables	608,059	511,228	465,623	470,538
Accrued Expenses	31,537	41,800	14,610	25,135
Outstanding letters of credit	130,384	292,362	130,384	292,362
Unclaimed Dividend	2,516	2,527	2,516	2,527
Security Deposit	4,343	11,762	4,343	11,762
	776,839	859,679	617,476	802,324
27. Amounts Due to Related Parties				
Stassen Exports (Private) Limited	77,112	105,060	77,112	106,043
Aitken Spence PLC	3,207	1,071	3,207	1,071
Continental Insurance Lanka Limited	22	-	22	-
Milford Exports (Ceylon) Limited	2,806	2,857	2,806	2,857
Distilleries Company of Sri Lanka PLC	-	208	-	208
Maudulsima Plantation PLC	-	52	-	52
	83,147	109,248	83,147	110,231

28. Commitments

28.1 Operating Lease Commitments

In accordance with the agreements entered by the Company and Group Entities, following operating lease commitments are due.

a) Company

The Company has an annual commitment of Rs.67,000/- per annum for 50 years from 1983 on the lease of the land at Welisara on which factory and office complex had been constructed.

b) Group Entities

Ambewela Livestock Company Limited and Pattipola Livestock Company Limited have annual commitments of Rs.12,768,610/- and Rs.8,664,150/- per annum respectively to the Government of Sri Lanka for a period of 50 years from 2001 on the lease of lands on which farms are located.

28.2 Capital Commitments

There are no material capital commitments as at the balance sheet date.

29. Segmental Reporting

	Powdered milk		Liquid Milk and Others		Agriculture		Elimination		Group	
	2012 Rs. 000's	2011 Rs. 000's	2012 Rs. 000's	2011 Rs. 000's	2012 Rs. 000's	2011 Rs. 000's	2012 Rs. 000's	2011 Rs. 000's	2012 Rs. 000's	2011 Rs. 000's
Total Revenue	3,428,868	3,190,564	1,682,411	1,020,109	351,676	236,130	(408,714)	(161,876)	5,054,241	4,284,927
Profit or loss from operation	69,865	(99,159)	85,742	(58,038)	57,532	42,194	17,729	83,626	230,868	(31,377)
Financing Income/(Cost)	24,968	125,976	(20,268)	(34,265)	(1,349)	(4,978)	-	-	3,351	86,733
Income tax Expenses	(31,245)	(10,706)	(9,582)	(1,265)	(665)	(7)	-	-	(41,492)	(11,978)
Profit for the Year	63,588	16,111	55,892	(93,568)	55,518	37,209	17,729	83,626	192,727	43,378
Segment Asset	3,118,123	3,263,865	1,677,850	1,425,191	348,431	324,758	(1,634,145)	(1,679,391)	3,510,259	3,334,423
Segment Liabilities	1,028,701	1,238,031	1,811,809	1,691,574	540,927	572,772	(1,974,801)	(2,041,346)	1,406,636	1,461,031
Segment Net Assets	2,089,422	2,025,834	(133,960)	(266,383)	(192,496)	(248,014)	297,655	361,955	2,060,621	1,873,392
Segment Capital Expenditure	14,131	37,048	55,329	78,736	2,472	13,164	-	(406)	71,932	128,542
Depreciation on Property, plant and equipment	18,754	16,219	95,557	87,270	8,259	9,607	-	(707)	122,570	112,389

NOTES TO THE FINANCIAL STATEMENTS

30. Group Structure

Name of the Company	Effective Holding	Nature of the Operation
Lanka Milk Foods (CWE) PLC	Holding Company	Packing and distribution all milk powder and skim milk powder
Lanka Diaries (Private) Limited	100%	Packing and selling of UHT products, "Daily", "Ambewela Farm Fresh Milk" and "Suntop".
Ambewela Livestock Company Limited	100%	Rearing of cattle to produce milk, processing and packaging of processed fat and liquid milk and milk allied products.
Pattipola Livestock Company Limited	100%	Rearing cattle, goats, rabbits to produce and sell milk and milk allied products such as natural cheeses, yoghurt, goat milk and meat and agricultural development of the farm.
Ambewela Products (Private) limited	100%	Rearing of cattle to produce and sale of cow milk, cheese, yogurt and agricultural development of the farm.
Indo Lanka Exports (Private) Limited	51%	Manufacturing and exporting fruit juices.

The company acquired 51% of shares in Indo Lanka Exports (Private) Limited in May 2011. The financial statements of the Indo Lanka Exports (Private) Limited is included in the consolidated financial statements as at 31st March 2012

The acquisition had the following effect on the Group's assets and liabilities.

	Rs 000's
Inventories	56,596
Trade Receivables	42,134
Other Receivables	53,522
Cash and cash equivalents	1,021
Trade and other payables	(22,489)
Related party payables	(54,253)
Total net assets acquired	76,531

31. Contingent Liabilities

The company has provided corporate guarantees to the following companies for the financial facilities obtained by those companies.

Name of the company	Name of the Bank	Amount of the guarantee Rs. Mn
Lanka Diaries (Private) Limited	HNB	325
Ambewela Products (Private) limited	HNB	60
Ambewela Livestock Company Limited	HNB	60
Pattipola Livestock Company Limited	HNB	60
Indo Lanka Exports (Private) Limited	HSBC	230

There are no other significant contingent liabilities as at Balance Sheet date, which require adjustments to or disclosures in the financial statements except above.

32. Post Balance Sheet Events

There are no other material events occurring as at the balance sheet date that require adjustment to or disclosure in the Financial Statements other than the following.

The board of directors has recommended a final dividend of Rs. 1.00 per share amounting to Rs. 39,998,000 for the year ended 31st March 2012. This is to be approved by shareholders at the Annual General Meeting to be held on 18th September 2012.

33. Related Party Disclosures

33.1 Transactions with Subsidiary Companies

Name of the Company	Name of Common Directors	Nature of Transaction	Amount	
			2012 Rs.	2011 Rs.
Lanka Diaries (Private) Limited	Mr. D.H.S Jayawardena	Service rendered and Others	130,465,327	75,763,523
	Mr. R.K. Obeyesekere	Funds Received	238,004,054	96,000,000
	Mr. Zaki Alif	Funds Transferred	90,000,000	158,000,000
	Mr. C.R. Jansz	Service obtained and Others	61,479,784	839,965
	Ms. D.S.C. Jayawardena	Bank Guarantee Provided	325,000,000	325,000,000
Ambewela Livestock Company Limited	Mr. D.H.S Jayawardena	Services rendered	5,898,207	3,463,864
	Mr. R.K. Obeyesekera	Funds Transfer	26,008,170	50,000,000
	Mr. Zaki Alif	Sale of Milk Foods	-	194,363
	Mr. C.R. Jansz	Purchase of Capital items	-	380,880
	Ms. D.S.C. Jayawardena	Services obtained and others	923,795	297,190
		Bank Guarantee Provided	60,000,000	60,000,000
Pattipola Livestock Company Limited	Mr. D.H.S Jayawardena	Services rendered and others	3,848,207	1,982,520
	Mr. R.K Obeyesekera	Sale of Milk Foods and others	-	221,350
	Mr. Zaki Alif	Funds Transfer	6,008,554	50,000,000
	Mr. C.R. Jansz	Services obtained and others	1,053,620	153,140
	Ms. D.S.C. Jayawardena	Purchase of Capital items	-	253,920
		Bank Guarantee Provided	60,000,000	60,000,000
Ambewela Products (Private) Limited	Mr. D.H.S Jayawardena	Loan Interest Income	9,819,310	15,994,127
	Mr. R.K Obeyesekera	Funds Transfer	91,276,384	98,494,635
	Mr. Zaki Alif	Funds Received	83,000,000	-
	Mr. C.R. Jansz	Services rendered and others	41,395,217	35,266,602
		Services Obtained and others	14,754,027	-
		Advance Payment	1,502,265	-
	Ms. D.S.C. Jayawardena	Interest Income on Current A/C	-	2,566,097
	Bank Guarantee Provided	60,000,000	60,000,000	
Indo Lanka Exports (Private) Limited	Mr. D.H.S Jayawardena	Funds transfer	46,768,900	4,153,475
	Mr. C.R Jansz	Fund received	81,068,000	-
		Imports and exports expenses	-	5,101,368
		Service rendered and others	418,538	639,750
		Bank Guarantees Provided	230,000,000	230,000,000
		Advance paid for shares	-	30,600,000

NOTES TO THE FINANCIAL STATEMENTS

33.2 Transactions with Key Management Personnel

Key Management Personnel (KMP) are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the company. Such KMPs include the Board of Directors of the company and other personnel who involve in above activities.

a) Loans to Directors

No loans have been given to the Directors of the Company.

b) Key Management Personnel Compensation

<i>As at 31st March</i>	Group		Company	
	2012 Rs.000's	2011 Rs.000's	2012 Rs.000's	2011 Rs.000's
Short-term employee benefits	2,055	1,415	2,055	1,415
Post employment benefits	201	138	201	138
	2,256	1,553	2,256	1,553

c) Other Transactions with Key Management Personnel

There were no other transactions with key management personnel during the year.

33.3 Transactions with Other Related Companies

Name of the Company	Name of Common Directors	Nature of Transaction	Amount	
			2012 Rs.	2011 Rs.
Milford Exports Ceylon Limited	Mr. D.H.S. Jayawardena	Management Fee	1,000,000	1,000,000
	Mr. R.K. Obeyesekere	Directors' fee	1,500,000	1,500,000
	Mr. Zaki Alif	Dividend Paid	-	20,139,810
Stassen Exports Limited	Mr. D.H.S. Jayawardena	Sale of Milk Foods	12,135,910	11,336,778
	Mr. R.K. Obeyesekere	Purchase of food Items to	724,802,548	661,019,999
	Mr. Zaki Alif	sell and Other Services services obtained and others	3,824,928	
Hatton National Bank PLC	Ms. D S C Jayawardena	Interest Paid	8,954,861	14,655,026
		Debit tax Paid	-	2,461,932
		Bank Charges	751,429	924,128
		Bank Overdraft	175,630,242	124,065,941
Distilleries Company of Sri Lanka PLC.	Mr. D.H.S. Jayawardena	Sale of Milk Foods and		
	Mr. R.K. Obeyesekere	energy Drinks	9,701,083	3,550,408
	Mr. C.R. Jansz	Dividend Income	88,846,613	109,645,466
		Dividend Paid	-	1,145,600
		Purchase of Fixed Assets	5,714,284	
Aitken Spence PLC	Mr. D.H.S. Jayawardena	Purchase of Goods and Services	1,804,494	1,747,252
		Sale of Milk Foods	10,532,165	9,114,298
Lanka Bell (Pvt) Ltd.	Mr. D.H.S. Jayawardena Mr. C.R. Jansz	Clearing Charges and others	12,932,965	15,022,276
		Telephone Charges	1,220,117	1,256,193
Browns Beach Hotels PLC.	Mr. D.H.S. Jayawardena	Sale of Milk Foods	-	983,282
		Investment for shares	-	21,091,070
		Purchase of snacks	-	-
Maudulsima Plantation PLC..	Mr. D.H.S. Jayawardena	Sale of Milk Foods	218,719	197,450
	Mr. R.K. Obeyesekere	Casual Wages Paid	879,861	559,721
	Mr. Zaki Alif			
Continental Insurance Lanka Ltd	Mr. D.H.S. Jayawardena	Services Obtained Marine Insurance	2,374,043	4,735,573
		Services Obtained Other Insurance	23,428,606	24,993,418
DFCC Bank PLC	Mr. C.R. Jansz	Overdraft Interest	4,307	4,811
		Bank Charges	3,981	200,309
		Loan Repayment	32,677,564	32,677,564
		Loan Interest paid	9,819,310	15,994,127

SHAREHOLDER INFORMATION

1 Stock Exchange Listing

The issued ordinary shares of the Company are listed with Colombo Stock Exchange Lanka Milk Foods (CWE) PLC is a public quoted company. Its issued ordinary shares are listed with the Colombo Stock Exchange.

Ticker symbol - LMF - N0000

ISIN - LK0112N00009

2 Analysis of Shareholders as at 31 March

Range of Shareholding	2012			2011		
	No of Share Holders	No of Share	Percentage (%)	No of Share Holders	No of Share	Percentage (%)
Up to - 500	2,633	376,064	0.94	2,715	407,249	1.02
501 - 1,000	370	317,765	0.79	420	364,048	0.91
1,001 - 5,000	495	1,268,183	3.17	569	1,469,518	3.67
5,001 - 10,000	127	959,686	2.40	133	983,878	2.46
10,001 - 50,000	123	2,548,026	6.37	126	2,592,498	6.48
50,001 - 10,0000	17	1,339,073	3.35	20	1,492,633	3.73
100,001 - 1,000,000	25	6,426,652	16.07	29	7,008,615	17.52
1,000,000 & Over	4	26,762,551	66.91	5	25,679,561	64.20
Total	3,794	39,998,000	100.00	4,017	39,998,000	100.00

3 Categories of Shareholders

Category of Shareholders	2012			2011		
	No of Share Holders	No of Share	Percentage (%)	No of Share Holders	No of Share	Percentage (%)
Individuals -Local	3,537	7,205,105	18.01	3,744	7,385,874	18.47
Individuals - Overseas	53	416,965	1.04	52	683,760	1.71
Companies - Local	198	26,065,541	65.17	215	22,341,777	55.86
Companies - Overseas	6	6,310,389	15.78	6	9,586,589	23.97
Total	3,794	39,998,000	100.00	4,017	39,998,000	100.00

The Goodness Guarantee

4 Twenty Major Shareholders

Name	As at 31st March 2012		As at 31st March 2011	
	No. of Shares	% of Issued capital	No. of Shares	% of Issued capital
1. MILFORD EXPORTS (CEYLON) LIMITED	13,426,540	33.57	13,426,540	33.57
2. MILLS ENTERPRISES LIMITED	6,120,290	15.30	6,120,290	15.30
3. MELSTACORP (PRIVATE) LIMITED	5,860,661	14.65	-	-
4. WALDOCK MACKENZIE LTD/ MR. H.M.S. ABDULHUSSEIN	1,355,060	3.39	1,345,060	3.36
5. DISTILERIES COMPANY OF SRI LANKA PLC	763,733	1.91	763,733	1.91
6. BANK OF CEYLON NO. 1 ACCOUNT	716,600	1.79	716,600	1.79
7. ASSOCIATED ELECTRICAL CORPORATION LTD	715,100	1.79	590,100	1.48
8. E.W. BALASURIYA & CO. (PVT) LTD	618,212	1.55	561,012	1.40
9. NATIONAL SAVINGS BANK	311,300	0.78	316,300	0.79
10. HUSSEINALLY MOHSINALLY SHAIKH ABDULHUSSEIN	280,266	0.70	280,266	0.70
11. RUKAIYA HUSSEINALLY ABDULHUSSEIN	280,000	0.70	280,000	0.70
12. RENUKA HOTELS PLC	253,466	0.63	253,466	0.63
13. COMMERCIAL BANK OF CEYLON PLC A/C NO.04	250,000	0.63	250,000	0.63
14. YUSUF HUSSEINALLY ABDULHUSSEIN	201,933	0.5	-	-
15. DINESH NAGENDRA SELLAMUTTU	178,754	0.45	179,054	0.45
16. ESSAJEE CARIMJEE & COMPANY (PVT) LTD	173,966	0.43	-	-
17. GULAMHUSSEIN MOHSINALLY ABDULHUSSEIN	155,633	0.39	-	-
18. MARIAPILLAI RADHAKRISHNAN	150,000	0.38	-	-
19. EMPLOYEES TRUST FUND BOARD	149,766	0.37	282,166	0.71
20. RENUKA CONSULTANTS & SERVICES LTD	148,183	0.37	168,183	0.42
SUB TOTAL	32,109,463	80.28		
OTHER SHAREHOLDERS	7,888,537	19.72		
TOTAL	39,998,000	100.00		

The percentage of shares held by the public as at 31st March 2012 is 34.57%

SHAREHOLDER INFORMATION

5 Directors' Shares

Directors do not hold any shares of Lanka Milk Foods (CWE) PLC

6 Value Per Share

		Company	
		2011/2012	2010/2011
Earnings	Rs.	1.24	0.46
Dividend	Rs.	1.00	-
Net Assets	Rs.	52.24	57.88
7 Market Value Per Share			
Highest during the year	Rs.	140.00	149.00
Lowest during the year	Rs.	80.00	113.00
Value as at last trading date (31st March)	Rs.	97.80	116.90
8 Share Trading			
No. of shares traded during the year		13,221,219	14,740,000
Value of shares traded during the year		1,409,066,710	1,721,283,575
No. of days traded		223	231

The Goodness Guarantee

TEN YEAR SUMMARY

Company	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
OPERATING RESULT										
Turnover	3,428,867	3,190,564	3,259,460	2,969,741	3,161,061	2,814,514	2,706,477	2,117,906	1,980,337	2,223,839
Gross Profit	410,155	292,266	547,064	370,366	583,530	424,079	367,007	162,314	440,833	5,534,843
Profit before Tax	94,833	26,817	309,883	26,817	193,508	148,096	121,413	(35,710)	141,350	216,896
Taxation	(31,245)	(10,706)	(107,466)	2,169	(94,722)	(54,406)	(20,679)	3,170	(47,472)	(116,560)
Profit after Tax	63,588	16,111	202,417	28,986	98,786	93,690	100,734	(32,540)	95,878	100,336
Dividends	39,998	-	59,997	-	38,998	29,998	29,998	-	17,999	44,998
BALANCE SHEET										
Property, Plant and Equipment	221,727	220,188	194,607	201,177	210,223	212,157	224,705	237,474	248,450	259,009
Investment	273,300	299,402	293,312	313,028	313,028	393,776	374,159	373,654	375,108	372,151
Current Assets	1,598,915	1,723,739	1,206,060	1,046,059	1,984,676	1,275,627	1,126,581	1,039,949	770,118	890,381
Total Assets	3,118,123	3,263,865	2,663,192	2,365,851	3,102,264	2,256,399	1,892,364	1,610,990	1,352,135	1,482,957
Total Equity	2,089,422	2,025,834	1,376,841	1,174,424	1,180,930	11,112,142	1,048,450	947,716	998,255	947,375
Non Current Liabilities	115,372	141,987	182,632	203,891	244,951	248,456	198,361	55,196	57,797	60,319
Current Liabilities	913,329	1,096,044	1,103,719	987,536	1,676,383	895,801	645,553	608,078	296,083	475,263
RATIOS										
Earnings per shares	1.59	0.46	6.75	0.97	3.29	3.12	3.36	(1.08)	3.20	3.34
Dividend per shares	1.00	-	1.50	-	1.30	1.00	1.00	-	0.60	1.50
Dividend cover (Times)	1.59	-	4.50	-	2.53	3.12	3.36	-	5.33	2.23
Price earning ratio (Times)	61.51	254.13	12.19	39.33	14.35	12.81	7.82	(17.99)	7.04	3.06
Total assets to equity (Times)	1.49	1.61	1.93	2.01	2.01	0.20	1.80	1.70	1.35	1.57
Net assets per Share	52.24	57.88	34.42	29.36	29.52	277.82	34.95	31.60	33.28	31.58
Market Value per share (as at 31st March)	97.80	116.90	82.25	38.00	47.25	40.00	26.25	19.25	22.50	10.25
Return on equity	3.04	0.80	14.70	2.47	8.37	0.84	9.61	(3.43)	9.60	10.59
Return on Total Assets	2.04	0.49	7.60	1.23	3.18	4.15	5.32	(2.02)	7.09	6.77
Gross Profit Ratio	11.96	9.16	16.78	12.47	18.46	15.07	13.60	7.66	22.26	24.89
Net Profit Ratio	1.85	0.50	37.00	7.83	16.93	3.33	3.72	(1.54)	(4.84)	4.51
Current Ratio	1.75	1.57	1.09	1.06	1.18	1.42	1.75	1.71	2.60	1.87
Liquidity Ratio	0.89	0.86	1.70	1.60	1.38	1.64	0.98	1.08	1.65	1.26

NOTICE OF MEETING

Notice is hereby given that the thirtieth (30th) Annual General Meeting of Lanka Milk Foods (CWE) PLC is convened on Tuesday the Eighteenth (18th) of September 2012 at the Auditorium, Sri Lanka Foundation Institute, No.100, Independence Square, Colombo 7, at 10.00 a.m., when the following ordinary business will be transacted,

1. To receive and consider the Report of the Directors, the Statement of Accounts and the Balance Sheet of the Company for the year ended 31st March 2012 with the Auditor's Report thereon.
2. To declare a dividend as recommended by the Directors.
3. To re-elect Dr. A. Shakthevale who retires by rotation at the Annual General Meeting in terms of Article No.94 of the Articles of Association, as a Director of the company.
4. To re-elect Mr. D.H.S. Jayawardena, who has reached the age of 70 years, under and in terms of section 210 and 211 of the companies Act No. 7 of 2007 as a Director of the company by passing the following Resolution.
"That Mr. D.H.S. Jayawardena who is over 70 years of age be and is hereby re-appointed a Director of the Company and it is further specially declared that the age limit of 70 years referred to in section 210 of the companies Act No.7 of 2007 shall not apply to the said Mr. D.H.S. Jayawardena."
5. To re-appoint KPMG as the Auditors for the ensuing year and to authorize the Directors to determine their remuneration.
6. To authorize the Directors to determine payments for the year 2013, for charitable and other purposes, as set out in the Company's donations Act (Cap 147).
7. Special Business - to pass the following resolution to amend the Articles of Association of the Company to increase the number of Directors.

That Article No.79 of Articles of Association of Lanka Milk Foods (CWE) PLC be amended by the deletion of the existing Article 79 and substitution therefore of the following new Article:

"The Directors shall not be less than Two (02) nor more than Twelve (12) in number. Subject to the provisions of the Act and these Presents, the Company may from time to time by ordinary Resolution increase or reduce the number of Directors."

By order of the Board



Mrs. W. C. Hewage
Company Secretary

Lanka Milk Foods (CWE) PLC
22nd August 2012

NOTES:

1. A Member entitled to attend, or to attend and vote at the Meeting, is entitled to appoint a Proxy to attend, or to attend and vote as the case may be, in his or her stead.
2. A Proxy need not be a Member of the Company. The Form of Proxy is enclosed herewith.
3. The completed Form of Proxy should be deposited at the registered office of the Company at Lanka Milk Foods (CWE) PLC, Welisara, Ragama, before 10 a.m. on 16th September 2012.

FORM OF PROXY

I/We.....

of.....

being a member - members of the above named Company hereby appoint Don Harold Stassen Jayawardena, or failing him Rajapal Kumar Obeyesekere, or failing him Zaki Alif, or failing him Cedric Royle Jansz, or failing him D.S.K. Amarasekera, or failing him Shakthevale Arinesarajah, or failing him D.S.C.Jayawardena, or failing her

.....
.....

ofas

my/our proxy represent me/us and to vote for me/us and on my /our behalf at the Thirtieth Annual General Meeting to be held on Tuesday, 18th September 2012 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

Signed this day

of 2012

(.....)
Folio No

.....
Signature/s

FORM OF PROXY

Notes:

(a) In the terms of Article 72 of the article of Association of the Company:-

The Instrument appointing a proxy shall be in writing and,

(i) In the case of an individual shall be signed by the appointer or by his attorney; and

(ii) In the case of a Corporation shall be either under its common seal or signed by its attorney or an officer on behalf of the corporation.

The Company may, but shall not be bound to, require evidence of the authority of any such attorney or officer. A proxy need not be a member of the Company.

It terms of Article 73 of the Article of Association of the Company:-

The Instrument appointing a proxy shall be lodged, and the power of attorney (if any) under which it is signed or a notorially certified copy thereof shall if required be deposited for inspection, at the office in each case not less than forty eight hours before the time appointed for holding the meeting or adjourned meeting, or in the case of a poll before the time appointed for the taking of the poll at which the person named in the instrument proposed to vote, and in default the instrument of proxy shall not treated as valid.

In terms of Article 67 of the Article of Association of the Company:-

In the case of joint-holders of a share the senior who tenders a vote, whether in person or by proxy or attorney or by representative, shall be accepted to the execution of the votes or the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint-holding.

The first joint-holder thereby has power to sign the proxy without the concurrence of the other joint-holding.

(b) The full name and the registered address of the shareholder appointing the proxy should be legibly entered in the form of proxy.

(c) In the case of non-resident shareholders the stamping can be attended to on return of the signed form of proxy to Sri Lanka.

(d) To be valid the completed form of proxy should be deposited with the Secretary, Lanka Milk Foods (CWE) PLC at the registered office of the company at 579/1, Welisara, Ragama, not later than 48 hrs prior to the time appointed for the holding of the meeting.

(e) Every alteration or addition to the form of proxy must be duly authenticated by the full signature of the shareholder signing form of proxy. Such signature should as far as possible be placed in proximity to the alteration or addition intend to be authenticated.

CIRCULAR TO SHAREHOLDERS

Notice is hereby given to the shareholders that the Thirtieth (30th) Annual General Meeting of Lanka Milk Foods (CWE) PLC will be convened on Tuesday, the Eighteenth (18th) of September 2012 at the Auditorium of the Sri Lanka Foundation Institute at 10.00 a.m. For identification purposes you are kindly requested to bring the National Identity Card or any other form of valid identity such as a driving license or a passport.

A shareholder (other than a Director of the Company) appointing a Proxy to attend the meeting should indicate on the Proxy, the proxy holder's National Identity Card Number and where necessary the shareholders identification. The Proxy holders are also kindly requested to bring the National Identity Card or any other form of valid identity such as a driving license or a passport for identification purposes.

We regret the inconvenience caused to shareholders as a result of adhering to the above procedures, which have been laid down considering the best interest of the Company.

By Order of The Board

LANKA MILK FOODS (CWE) PLC



(Mrs) W. C. Hewage
COMPANY SECRETARY

22nd August 2012

Note :

01. A member is entitled to attend and vote at the meeting.
02. A member is also entitled to appoint a Proxy to attend and vote in his / her stead.
03. A Proxy need not be a member of the Company.

ඔබට සිංහල හෝ දමිල භාෂාවෙන් සකසනලද පිටපත් අවශ්‍ය නම්,
ඒ බව ලේකම්, සී.ස. ලංකා මිල්ස් ලුඩ්ස් (සී.ඩබ්ලිව්.ඊ) පී.වී.සී., වැලිසර, රාගම
යන ලිපිනයට 2012 සැප්තැම්බර් 03 වැනි දිනට ප්‍රථම දන්වන්න.

සිங்களම් අல்லතු தமிழ் மொழி பெயர்ப்புகள் உங்களுக்குத் தேவையானால்
தயவு செய்து நிறுவனச் செயலாளர், லங்கா மில்க் புட்ஸ் (ஈ டபிள்யூ ஈ) பி.எல்.சி,
வெலிசர நாகம எனும் முகவரிக்கு கடிதமூலம் 2012 செப்டெம்பர் 03 ஆம் திகதிக்கு
முன்னர் விண்ணப்பிக்கவும்.

If you require a translated copy in Sinhala or Tamil, please make a request
by a letter addressed to the Company Secretary, Lanka Milk Foods(CWE) PLC,
Welisara, Ragama on or before 03rd September 2012.

ATTENDANCE SLIP

Please bring this Attendance Slip and your National identity Card when attending the Annual General Meeting to be held at Auditorium, Sri Lanka Foundation Institute, No. 100, Colombo 07 on 18th September 2012 at 10.00 a.m.

Signature of Shareholder :

Shareholder's Full Name :

Shareholder's NIC Number :

No. of Shares :

Signature of Proxy Holder :
(if applicable)

Proxy Holder's Full Name :

Proxy Holder's NIC Number :