



Pure & Simple

Lanka Milk Foods (CWE) PLC
Annual Report 2016 / 17

At Lanka Milk Foods, we have undergone immense change during our 50 years in the industry, evolving and adapting to the changing environment through the continuous innovation of our products and processes. With our mission to provide the highest quality to our customers, and our focus on safety, nutrition and wholesomeness, we are nourishing the nation, and bringing value to every stakeholder we serve.

We have exciting plans for the future—strategies that would see us unlock our true potential in the years ahead. As we venture on a journey of growth, we are dedicated towards reaching the goal we strive for year on year: to delight our consumers and other stakeholders by constantly focusing on our primary purpose of value creation, pure and simple.

***Pure
& Simple***

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Vision

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

Mission

Provide high-quality dairy products to all, with a focus on safety and nutrition

About the Company

Lanka Milk Foods (CWE) PLC (LMF) is a group of companies which includes five subsidiary organisations. The Group is into importing, packing, manufacturing, marketing and distributing some of Sri Lanka's best known dairy and beverage brands.

The Company's flagship brand "Lakspray" is a household name in Sri Lanka which has nourished generations of Sri Lankans for over 50 years. In addition, the Company markets many other leading brands including Ambewela, Daily and My Juicee. The Company has identified many growth categories within the dairy industry which it will be expanding into.

Our Products

Lakspray



Daily Activo



Drinking Yoghurt



Daily Daily



My Juice



Dairy Range



Cheese



Goat Milk



Yoghurt

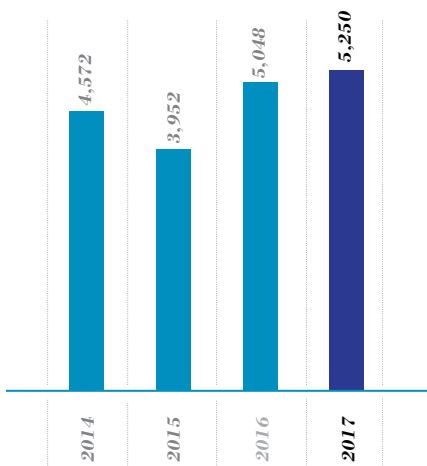


BLU Drink

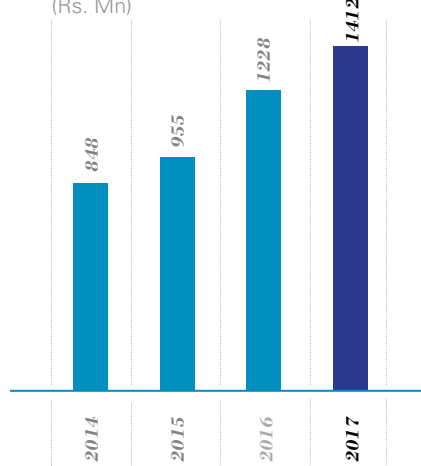


Financial Highlights

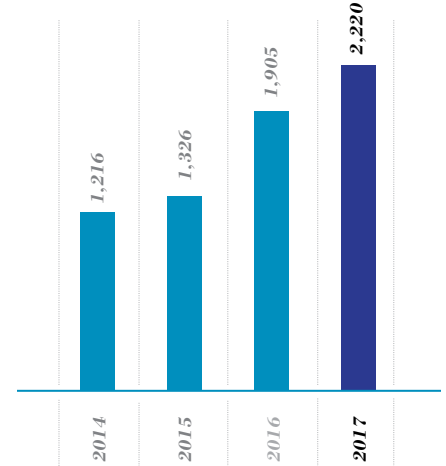
Group Revenue
(Rs. Mn)



Ambewela Products (Pvt) Ltd - Revenue
(Rs. Mn)




Lanka Dairies (Pvt) Ltd - Revenue
(Rs. Mn)



It is evident that the trusted Ambewela brand is driving the trend of liquid milk consumption in the country. This not only benefits our business, but also supports the nation to become self-sufficient in liquid milk in time to come.

		Group			Company		
		2017	2016	Change %	2017	2016	Change %
OPERATIONS							
Revenue	Rs. '000	5,250,208	5,048,510	4.00	2,053,427	2,394,015	(14.23)
Gross Profit	Rs. '000	789,861	733,442	7.69	154,936	222,274	(30.29)
Profit from Operations	Rs. '000	624,533	270,029	131.28	218,190	54,191	302.63
Profit/(Loss) Before Tax	Rs. '000	548,704	119,483	359.23	216,919	(37,470)	678.91
Profit/(Loss) for the Year	Rs. '000	541,956	120,597	349.39	233,843	(17,456)	1439.61
Profit/(Loss) Attributable to Equity Holders	Rs. '000	542,179	126,988	326.95	233,843	(17,456)	1439.61
Revenue per Employee	Rs. '000	7,192	6,859	4.85	6,732	7,849	(14.23)
FINANCIAL POSITION							
Non-Current Assets	Rs. '000	11,120,046	9,865,741	12.71	9,996,407	8,838,333	13.10
Current Assets	Rs. '000	1,838,876	1,790,653	2.69	1,784,554	1,567,493	13.85
Total Assets	Rs. '000	12,958,922	11,656,394	11.17	11,780,961	10,405,826	13.21
Total Equity	Rs. '000	11,811,602	10,158,993	16.27	11,344,713	10,000,059	13.45
Non-Current Liabilities	Rs. '000	514,450	556,378	(7.53)	51,429	44,765	14.89
Current Liabilities	Rs. '000	632,870	941,023	(32.75)	384,819	361,002	6.60
Net Assets Attributable to Equity Holders	Rs. '000	11,800,005	10,147,173	16.29	11,344,713	10,000,059	13.45
RATIOS							
Earning per Share	Rs.	13.56	3.17	327.76	5.85	(0.44)	1,429.54
Dividend per Share	Rs.	2.50	1.25	100.00	2.50	1.25	100.00
Dividend Cover	(Times)	5.42	2.54	113.38	2.34	(0.35)	768.57
Interest Cover	(Times)	7.36	3.10	137.42	22.35	2.19	920.55
Net Assets per Share	Rs.	295.01	253.69	16.29	283.63	250.01	13.45
Market Value per Share	Rs.	117.00	114.50	2.18	117.00	114.50	2.18
Price Earning Ratio	(Times)	8.63	36.12	(76.11)	20.00	(260.22)	107.68
Debt/Equity	%	9.72	13.76	(29.36)	3.84	4.06	5.42
Return on Equity	%	4.59	1.19	285.71	2.06	(0.18)	1,244.44
Return on Total Assets	%	4.18	1.04	301.92	1.98	(0.18)	1,200.00
Gross Profit Ratio	%	15.04	14.53	3.51	7.54	9.29	(18.84)
Net Profit/(Loss) Ratio	%	10.32	2.39	331.80	11.39	(0.73)	1,660.27
Current Ratio	(Times)	2.90	1.90	52.63	4.64	4.34	6.91
Liquid Ratio	(Times)	1.60	1.02	56.86	3.95	3.40	16.18





Cows in our dairy farms are fed with the most nutritious grasses imported from Australia and New Zealand, and feed supplements formulated by a global expert Nutritionist in order to produce the maximum quantity of best quality milk.

Pure and Simple...

Chairman's Statement



The importance of the dairy sector in economic terms is significant in a largely agri-based economy but not limited to farming alone, as it generates employment in many upstream and downstream industries. Milk and dairy products play an important role in a healthy, balanced diet.

I take great pride in placing before you the Annual Report and the Audited Financial Statements of Lanka Milk Foods (CWE) PLC for the financial year ended 31st March 2017. I am pleased to report that the Group's strategy to consolidate its market leadership in the liquid milk and flavoured milk categories yielded favourable results, with the Group posting a net profit of Rs. 542 Million as against Rs. 121 Million in the previous year. Personally, this gives me great satisfaction, because it is evident that the trusted Ambewela brand is driving the trend of liquid milk consumption in the country. This not only benefits our business, but also supports the nation to become self-sufficient in liquid milk in time to come.

Giving Dairy its Due

Every government needs to reiterate its unconditional support for the dairy industry, since it saves foreign exchange, contributes to jobs, investment and, most important of all, an industry which provides the nation with a wide range of nutritious foods. The total national milk production continued to expand, mainly due to government efforts to achieve self-sufficiency in liquid milk. However, the domestic milk production is not yet sufficient to meet the total demand at present.

Challenges Faced in the Milk Powder Sector

The prevailing challenges in the milk powder sector continued to persist as global prices too witnessed an upward trend, posing an obstacle for this segment of the business. The imposition of a 15% VAT on imported milk powder, and the volatile exchange rate resulted in a slowdown in the segment. While all costs continue to increase rapidly, the selling price of milk powder remains

stagnantly controlled by the Consumer Affairs Authority over a period of two years since March 2015, and the government has no plans yet, to increase the selling price even in the future.

Our Strategic Advantage

Ambewela Dairy Farms, situated in the Central Hill Country of Sri Lanka, at a height of 6,000 feet from sea level, offers us a strategic advantage. The rainfall in the farms is an average of 2,000mm annually and it rains about 200 days of the year. The temperature varies from 4°C to 20°C. Terrain is mountainous and climate is subtropical. The stringent scientific controls maintained in these farms result in producing the best quality milk in Sri Lanka, in line with international standards.

In 1,500 acres of grazing land, we rear around 2,100 cattle of Ayrshire and Friesian breeds. Grazing lands are cultivated with ryegrass imported from New Zealand due to its extraordinary high

content of protein. In addition, animals are fed with scientifically formulated feed concentrates. Animal health is attended to by a Veterinary Surgeon resident in the farms. These farms produce over 16,000 litres of high quality milk per day.

An ultra-modern, sophisticated dairy factory, Ambewela Products (Pvt) Ltd built in the farm premises at a cost of Rupees one billion adds value to the farm milk, producing Ambewela Yoghurt, Ambewela Cheese and flavoured milk. Ambewela Fresh Milk 1 Litre and 200ml packs are the market leaders in Sri Lanka in the fresh milk category. In addition, the Daily 200ml flavoured milk pack, which is also UHT processed and packed in Tetra paper, is a popular value added product of Ambewela milk. Daily, consists of different varieties such as Chocolate, Vanilla, Strawberry, Banana, Iced Coffee, Faluda and Daily Activ, a malt chocolate food drink. Ambewela natural cheeses of Gouda, Edam & Parmesan processed from best quality

“The Group’s strategy to consolidate its market leadership in the liquid milk and flavoured milk categories yielded favourable results, with the Group posting net profit of Rs. 542 Million as against Rs. 121 Million in the previous year.”



Rs.5.3Bn
Group Turnover



Rs.542Mn
Group Profit

Chairman's Statement



Ambewela farm milk is in high demand. The demand for Ambewela Yoghurt is beyond the production capacity of the factory now. The latest products in the basket are Drinking Yoghurt, 100g Spread Cheese pack and 200g Ambewela Butter cup. All Ambewela products are proved to be of best quality, as the process of milking is automated and milk is totally untouched with human hands and the entire process of value addition is meticulously monitored to reach the highest level of hygienic conditions. Moreover, Myjuicee, a ready to drink fruit drink manufactured using premium quality fruit pulps and concentrates is processed at Lanka Dairies (Pvt) Ltd. It is renowned among young adults for its natural taste combined with vitamin C. Other than its own brands, the LMF Company distributes well-known imported products, which includes Happy Cow Cheese, Farley's and Heinz. As a Group, we have numerous advantages which we are leveraging strongly to

ensure the sustainability of our business into the future.

Acknowledgements

I wish to thank my colleagues on the Board for their unstinted support. Our performance is the result of sustained hard work by the senior management and the entire team. I would like to extend my gratitude to our shareholders and customers alike for placing their faith in us, as we consolidate and grow our share in the industry.

A handwritten signature in black ink, appearing to read 'D H S Jayawardena'.

D H S Jayawardena

Chairman

28th July 2017

Director's Review



As one of the key players in the dairy sector, we are always focused on hygiene, safety and wholesome goodness of our products as they are consumed by infants and adults alike.

The brand perception amongst consumers remains high, which stood us in good stead and helped us retain our market share despite fierce competition from new and existing operators in the industry. As a Group we remained committed to investing in technology, talent and infrastructure as we believe these elements are the backbone of our success. These factors will also provide the platform to fuel our future growth ambitions.

Director's Review

The Lanka Milk Foods (CWE) PLC Group demonstrated its resilience yet again in the 2016/17 financial year, by posting an impressive net profit of Rs. 542 Million as against Rs. 121 Million in the previous year. The group of companies braced themselves to face the pressures imposed by external factors outside our control, such as the increasing CIF price of milk powder, introduction of 15% VAT, volatile currency exchange rates, amidst an environment of intense competition in the dairy industry. While all costs continue to increase rapidly, the selling price of milk powder remains stagnantly controlled by the Consumer Affairs Authority over a period of two years since March 2015. Cognisant of the challenges we would face during the financial year under consideration, the Group remained strongly focused on leveraging on its diversified nature, underpinned by prudent cost management and exploring avenues for enhanced profitability.

Repeating its outstanding performance from the preceding year, the liquid milk sector was the main contributor to our profitability. Lanka Dairies (Pvt) Ltd and Ambewela Products (Pvt) Ltd contributed admirably to deliver a remarkable income over the previous year, resulting in the Group recording an unprecedented turnover of Rs. 5.3 Billion.

Lanka Dairies (Pvt) Ltd improved its turnover from Rs. 1.9 Billion in the previous year to Rs. 2.2 Billion during the financial year ended 31st March 2017. Ambewela Products (Pvt) Ltd recorded a turnover of over Rs. 1.4 Billion during the said year as against Rs. 1.2 billion during the previous year. The net profit earned by Ambewela Products (Pvt) Ltd is Rs. 155 Million against Rs. 111 Million in the previous year. The powdered milk sector of the Group was not able to earn more profits, mostly due to the introduction of 15% VAT.

We remain highly optimistic about the prospects for the liquid milk business as currently the domestic milk production is not sufficient to meet the current total demand, which reflects the immense opportunity that exists to grow market share in the liquid milk segment. We have consistently been the first off the starting blocks when it comes to innovation in this segment. A total of Rs. 280 Million was invested in a new tetra pack plant at Lanka Dairies (Pvt) Ltd, during the year under review. The state-of-the-art plant has now commenced operations. As one of the key players in the dairy sector, we are always focused on hygiene, safety and wholesome goodness of our products as they are consumed by infants and adults alike.

The brand perception amongst consumers remains high, which stood us in good stead and helped us retain our market share despite fierce competition from new and existing operators in the industry. As a Group we remained

committed to investing in technology, talent and infrastructure as we believe these elements are the backbone of our success. These factors will also provide the platform to fuel our future growth ambitions. The successful implementation of ambitious expansion at our Ambewela and Welisara dairy plants has driven great success for all our brands.

It is evident that the LMF brands have carved out a majority share of the market and that their superior quality and wholesome goodness has helped raise the benchmark for the rest of the dairy industry. As a Group that is adding significant value to the dairy industry, we are mindful of the sustainability of our business. As a direct result of this avowed commitment, we remain invested in the future of the Group and our customers. Our dairy farms adopt the highest animal husbandry and dairy farming practices by taking steps to enhance cow comforts and veterinary

Repeating its outstanding performance from the preceding year, the liquid milk sector was the main contributor to our profitability. Lanka Dairies (Pvt) Ltd and Ambewela Products (Pvt) Ltd contributed admirably to deliver a remarkable income over the previous year, resulting in the Group recording and unprecedented turnover of Rs. 5.3 Billion.



Rs 2.2Bn

Turnover

Lanka Dairies (Pvt) Ltd



Rs 1.4Bn

Turnover

Ambewela Products (Pvt) Ltd

services of our farms to the best international dairy farming standards. This enables us to improve our high quality milk supply and further results in improved contribution to the local liquid milk sector.

Future Prospects

We are confident about the future of the Group because of the total backward integration that characterises our business. Having total control of our products from farm-to-table, we are in an exceptional position to deliver our promise of hygiene, taste and

sufficient measures to safeguard the Group from being impacted, to the greatest extent possible, through product diversification, enhanced production capacity and strategic positioning, backed by the sound credentials of the LMF Group.

Appreciation

I would like to place on record our deep gratitude to the Chairman and the Board of Directors for their guidance and support. We remain committed to creating value for our shareholders who remain unstinted in their support of



wholesome goodness. Our strategic measures to combat external challenges have placed us in a strong position, and we will continue to drive innovation and adopt technology to strengthen our competitiveness. We have taken

the Group. The resilience of the Group emanates from a dedicated team that understands our sustainable goals and works tirelessly to achieve them.

A handwritten signature in black ink, reading "D. S. C. Jayawardena". The signature is written in a cursive style and is positioned above a horizontal line.

D. S. C. Jayawardena

Director

28th July 2017

Board of Directors

Mr. D. H. S. Jayawardena

Chairman

Mr. Harry Jayawardena is one of the most successful and renowned businesspersons in Sri Lanka. He heads many successful enterprises in diversified business fields. Mr. Jayawardena was elected Chairman of Lanka Milk Foods (CWE) PLC in October 2008 after serving as its Managing Director for almost 17 years. He is the founder Director and current Chairman/ Managing Director of the Stassen Group of Companies – a diversified group in export and import trade.

He is also the Chairman of Aitken Spence PLC, Browns Beach Hotels PLC, Aitken Spence Hotel Holdings PLC, Aitken Spence Hotel Managements Asia (Pvt) Ltd., Negombo Beach Resorts (Pvt) Ltd., Lanka Power Projects (Pvt) Ltd., Milford Holdings (Pvt) Ltd., Milford Developers (Pvt) Ltd., Milford Exports (Ceylon) (Pvt) Ltd., Ceylon Garden Coir (Pvt) Ltd., C B D Exports (Pvt) Ltd., Timpex (Pvt) Ltd., Texpro Industries Ltd., Distilleries Company of Sri Lanka PLC, and its subsidiaries Periceyl (Pvt) Ltd, Balangoda Plantations PLC, Lanka Bell Ltd., Telecom Frontier (Pvt) Ltd., Bell Solutions (Pvt) Ltd. Melstacorp Limited., Bellvantage (Pvt) Ltd., Madulsima Plantations PLC, Lanka Dairies (Pvt) Ltd., Ambewela Livestock Company Ltd., Pattipola Livestock Company Ltd, Ambewela Products (Pvt) Ltd. Indo

Lanka Exports (Pvt) Ltd., and Bogo Power (Pvt) Ltd.

Mr. Jayawardena is a former Director of Hatton National Bank PLC, the largest listed bank in Sri Lanka and a former Chairman of Ceylon Petroleum Corporation and SriLankan Airlines. He is the Honorary Consul General for Denmark in Sri Lanka and the only Sri Lankan to be honoured with the prestigious “Knight Cross of Dannebrog” by Her Majesty Queen Margrethe II of Denmark, for his significant contribution to the Danish arts, sciences and business life.

He was awarded the title, “Deshamanya” in recognition of his service to the motherland in the year 2005.

Mr. C. R. Jansz

Director

Appointed Director to the Board of LMF in the year 1992. He has many years of experience in the import/ export field and services related to international trade including logistics, documentation, insurance, banking, and finance.

Mr. Jansz serves as the Chairman of DFCC Bank PLC. He also serves on the Boards of Lanka Dairies (Pvt) Ltd, Ambewela Livestock Company Ltd, Pattipola Livestock Company Ltd,

Ambewela Products (Pvt) Ltd and Indo Lanka Exports (Pvt) Ltd., Balangoda Plantations PLC., Distilleries Company of Sri Lanka PLC Melstacorp Ltd., Lanka Bell Ltd., Lanka Power Projects (Pvt) Ltd., Milford Holdings (Pvt) Ltd., Periceyl (Pvt) Ltd.,

Mr Jansz is a Former Chairman of Sri Lanka Shippers Council and former member of the National Trade Facilitation Committee of Sri Lanka. He holds a Diploma in Banking and Finance from the London Guildhall University – UK. He is a Chevening Scholar and a UN-ESCAP Certified Training Manager on Maritime Transport for Shippers.

Ms. D. S. C. Jayawardena

Director

Ms. Sanjivani Jayawardena was appointed to the Board of Lanka Milk Foods (CWE) PLC in 2008.

She is also a Director of Hatton National Bank PLC, Lanka Dairies (Pvt) Ltd., Ambewela Livestock Company Ltd., Pattipola Livestock Company Ltd, Ambewela Products (Pvt) Ltd, Indo Lanka Exports (Pvt) Ltd. Stassen Exports (Pvt) Ltd., Milford Exports (Ceylon) (Pvt) Ltd., Stassen International (Pvt) Ltd., Stassen Natural Foods (Pvt) Ltd., Ceylon Garden Coir (Pvt) Ltd., Milford Developers (Pvt) Ltd., Stassen Foods (Pvt) Ltd., and C B D Exports (Pvt) Ltd.

Dr. A. Shakthevale

Independent Non-Executive Director

Dr. Shakthevale is a Veterinarian cum Agricultural Economist with nearly 45 years of consulting, agricultural planning, project implementation, monitoring, and policy formulation experience. He has served in various positions towards the development, monitoring and administration of numerous agricultural sectors. He has experience in working in the public (agriculture, livestock, education and health sectors) and private sector, central and provincial ministries and also at district levels.

Dr. Shakthevale was appointed to the Board of LMF as an Independent Director in the year 2008.

He is also a Director to Madulsima Plantations PLC, Balangoda Plantations PLC., and KAYPEE International (Pvt) Ltd

He has served as a Secretary at the Ministry of Rehabilitation and Social Service in North East Provincial Council, Additional Secretary (Livestock) at the Ministry of Agriculture and Livestock Development for six years, Board Director for MILCO and NLDB, Project Manager, for the Millennium Development Goals Project, funded by the, UNDP; co-ordinating secretary (Parliamentary Affairs) to the Minister of Policy Planning and Implementation, Member of the Sri Lanka Independent Finance Commission, President of the

Veterinary Council of Sri Lanka. He has worked at FAO and UNDP, UNHABITAT, Land O'Lakes, Oxfam GD. At present, he is a member of the Executive Council and a member of the General Forum of the Organisation of Professionals Association of Sri Lanka and a freelance consultant in the field of livestock development.

Mr. D. S. K. Amarasekera

Independent Non-Executive Director

Mr. Kamantha Amarasekera is a member of the Institute of Chartered Accountants of Sri Lanka and is an Attorney-at-Law of the Supreme Court of Sri Lanka. He also holds a degree in Business Administration from the University of Sri Jayawardenapura and began his career in the year 1998.

He is an eminent Tax Consultant and the Senior Tax and Legal Partner of Amarasekera & Company, a leading tax consultancy firm in the country. In the year 2008, Mr. Amarasekera was appointed to the Board of Lanka Milk Foods (CWE) PLC as an Independent Director.

He is also a Director of Balangoda Plantation PLC, Browns Investments PLC, Eden Hotel Lanka PLC, Browns Capital PLC, Kelani Tyres PLC, Madulsima Plantations PLC, Palm Garden Hotels PLC.

Mr. D. Hasitha. S. Jayawardena

Non-Executive Director

Mr. Hasitha Jayawardena holds a Bachelor's Degree in Business Administration BBA (Hons) from the University of Kent in the United Kingdom. He was appointed to the Board of Lanka Milk Foods (CWE) PLC on 11th July 2016.

He serves as a Director in the Boards of Stassen Exports (Pvt) Ltd., Milford Exports (Ceylon) (Pvt) Ltd., Lanka Dairies (Pvt) Ltd., Ambewela Livestock Company Ltd., Pattipola Livestock Company Ltd., Ambewela Products (Pvt) Ltd., Stassen International (Pvt) Ltd., Stassen Natural Foods (Pvt) Ltd., Stassen Foods (Pvt) Ltd., Ceylon Garden Coir (Pvt) Ltd., Milford Developers (Pvt) Ltd., C B D Exports (Pvt) Ltd., Distilleries Company of Sri Lanka PLC., Periceyl (Pvt) Ltd., Melstacorp Ltd., Zahra Exports (Pvt) Ltd., and Mcsen Range (Pvt) Ltd.

Mr. Jayawardena has also worked as an Intern at the Clinton Global Initiative (CGI) programme in New York in 2007.

Management Discussion & Analysis

About the Group

Lanka Milk Foods (CWE) PLC is a group of companies, which includes five subsidiary organizations engaged in importing, packing, manufacturing, marketing and distributing some of Sri Lanka's best-known dairy and beverage brands. The company's flagship brand Lakspray is a household name in Sri Lanka, which has nourished generations of Sri Lankans for over 50 years.

In addition, the company markets many other leading brands including Ambewela, Daily, Lakspray Non-fat, My Juicee and more. In addition to its modern manufacturing and packaging facilities, the company also owns two of Sri Lanka's largest Dairy farms, which are Ambewela Farm, and Pattipola Farm. Besides proprietary brands, the Company distributes Happy Cow Cheese, Farley's and Heinz products.

Our Strategic Advantage

Backward Integration

Lanka Milk Foods (CWE) PLC exercises complete control of its supply chain from end-to-end, which is a key strategic advantage the group enjoys.

Lanka Milk Foods (CWE) PLC is a group of companies, which includes five subsidiary organizations engaged in importing, packing, manufacturing, marketing and distributing some of Sri Lanka's best-known brands.

The Group's expansion in the farms sector since 2001 has supported the backward integration process through enabling the liquid milk manufacturing companies of the group to source the best quality milk for its products.

The investment in new machinery and upgrading the farms to the world standards has enabled us to reap the benefit of having state-of-the-art farms and manufacturing plants. All dairy products of Ambewela brand are produced from the high quality milk produced in our own dairy farms. Stringent hygienic controls meticulously monitored in our dairy farms produce fresh milk, which is in line with international standards.

Cows in our dairy farms are fed with most nutritious grasses imported from Australia and New Zealand and feed supplements formulated by a global expert nutritionist in order to produce the maximum quantity of best quality milk. Further, we have our own feed mill at Ambewela Farms, where the special feed for our cows is produced. A resident veterinary surgeon maintains strict controls over the use of antibiotics in our farms. All Ambewela products are produced using milk from our own dairy farms.

Pattipola Farm, popularly known as New Zealand Farm, has now become a tourist attraction with over 8000 people visiting the farm on peak days.



Rs.2Bn

Turnover

Lanka Milk Foods (CWE) PLC

Rs.234Mn

Profit After Tax

Lanka Milk Foods (CWE) PLC

**CARING
MOTHERS
GIVE ONLY
THE BEST**



Management Discussion & Analysis



the best climate condition for cows to produce high quality milk, which is eventually made available to the consumer, untouched by human hands.

The Group holds some key strengths that enhance its position in the industry:

- Ability to provide fresh, nourishing milk from our own farms with world-class maintenance and expertise, directly from the udder to the production plant
- Being a long trusted brand name synonymous with its quality and freshness for nourishing the nation
- State-of-the-art manufacturing equipment, fully integrated machinery and plants
- Well-disciplined, experienced and committed staff
- Loyal customer base

Our scientifically maintained dairy farms have become of educational value to university students. Large size stud bulls, rabbits imported from Paris, and different breeds of goats are a main attraction of the New Zealand Farm, which add value to the tourism sector.

The Ambewela Dairy Farms situated at a height of 6,000 feet above sea level with its misty cold fresh air, is certainly

Since the management of Ambewela Dairy Farm was taken over by Lanka Milk Foods (CWE) PLC in the year 2001, there has been an impressive increase in the production of milk per cow per day.

Milk Production, per cow per day of Ambewela farms

Lts.





Our Products & Our Brands

LMF brands have carved out a majority share of the market and their superior quality and wholesome goodness has helped raise the benchmark for the rest of the dairy industry.

LAKSPRAY

This is the well-known milk powder brand in Sri Lanka, which has nourished the nation for over five decades. LAKSPRAY is manufactured from natural milk powder, which is made from pure cows' milk, free of chemical additives and preservatives.

LAKSPRAY NON-FAT, a natural milk powder with its fat extracted is available in a 400g pack to cater to the needs of the health-conscious consumer.

DAILY

Daily - UHT Treated Flavoured Milk

Over a period of two decades, DAILY has added life to many lives. DAILY was the pioneer product in Sri Lanka to be packed using UHT treatment and aseptic processes. It has become the landmark beverage brand of the country ever since.

This flavoured milk is produced using premium quality milk from Ambewela Farms, which is a prime dairy farm complex in Sri Lanka operating under modern farming techniques. The

product is shelf stable for six months, under ambient temperature and it is free of artificial additives or preservatives.

DAILY is available in 200ml packs of Vanilla, Chocolate, Strawberry, Banana, Iced Coffee and Faluda flavours. A one-litre pack is available for faluda variant. This range is exported to Maldives and is very popular amongst the Maldivian youth.

Daily ACTIV

UHT Treated Malt Chocolate Food Drink

ACTIV was launched under the brand – 'DAILY' in order to meet the increasing demand for malt based dairy beverages among Sri Lankan consumers. ACTIV exceeds the consumer expectations with the right combination of taste and nutritional value and it has become a great achievement. ACTIV is most famous among the youth and is associated with many of their activities and aspirations.



Having total control of our products from ‘farm to table’, we are in an exceptional position to deliver our promise of hygiene, taste and wholesome goodness.

This 200ml milk-based product is full of natural goodness and the quality associated with our farms. ACTIV is also exported to the Maldivian market and has won the hearts and minds of young Maldivian consumers.

MY JUICEE Fruit Drink

MYJUICEE is a ready to drink fruit drink that provides the daily dietary requirements of Vitamin C. It is processed using premium quality fruit pulps and concentrates sourced both locally and internationally, in keeping with international quality standards. The product is aseptically packed under extreme hygienic conditions and is available in Apple, Mango, Mixed Fruit, and Orange variants and pack sizes of 200ml, to consume while on the move, and one liter as a take home family pack.

Ambewela Dairy Range

The AMBEWELA brand has become the most established dairy brand in Sri Lanka for its premium quality dairy products produced from the finest cow's milk from our own dairy farms situated in AMBEWELA where milking is done under strict hygienic conditions, according to the best international dairy

practices and highest international dairy standards.

AMBEWELA FULL CREAM milk and AMBEWELA NON-FAT milk are UHT processed and aseptically packed in a Tetra brick aseptic pack with a cap to suit the modern lifestyle needs of our liquid milk consumers.

Ambewela UHT flavoured milk is available in 180ml pouch packs, in chocolate and vanilla flavours.

Ambewela Butter is a 200g tub introduced to the market in December 2014, and now available in all supermarkets island wide.

Ambewela Cheese

Cheese is a nutrient dense food and the Company has introduced four different types to cater to the diversified requirements of the consumers and the hospitality industry.

In the New Zealand Farm in Pattipola, cheese is produced using a more traditional approach and cheese produced is broadly classified as cottage cheese. The cheese varieties include EDAM, GOUDA and PARMESAN.

Ambewela Gouda can be found in the forms of ball cheese, blocks, grated and shredded types, and varieties of plain, chili, garlic, cumin and pepper flavours.

Ambewela Products (Pvt) Ltd (APPL), produces cheeses that cater to into the European palate as APPL provides cheese for the hospitality sector rather than the domestic market. The varieties include cheese blocks of Edam, Gouda and AMBEWELA SPREAD CHEESE in cups of 50ml and 100ml sizes.

Ambewela Set Yoghurt

An 80ml set yoghurt cup that has captured the hearts and minds of many consumers due to its superior taste, serene color, fine texture and nutritive value. AMBEWELA SET YOGHURT was introduced in the year 2009 as a product extension of the dairy products portfolio of Ambewela Products (Pvt) Ltd

BLU Drink

In 2012, Lanka Milk Foods (CWE) PLC introduced BLU to the Sri Lankan market. It is a product of Poland, manufactured using the latest technologies and highest water purification methodologies in the most

pristine of conditions to guarantee the highest quality standards to its consumers worldwide.

This pasteurised product is available in four variants which includes Regular, Cranberry, Lemon – Lime, and Blu Day in cans of 250ml.

Ambewela Drinking Yoghurt

Our creamy smooth vanilla flavoured AMBEWELA YOGHURT DRINK was introduced by Lanka Dairies (Pvt) Ltd., in February 2016. It is shelf stable for four months without refrigeration and contains no preservatives at all.

Ambewela Goat Milk

A 190ml ready to drink sterilised goat milk bottle, manufactured from milk of and healthy goats raised at our own farms.



Our Strategic Priorities

RISKS	MITIGATION MEASURES
<ul style="list-style-type: none"> Supply of milk for the increasing demand in liquid milk sector products 	<ul style="list-style-type: none"> Expansion of our own farms
<ul style="list-style-type: none"> Rising global milk powder prices 	<ul style="list-style-type: none"> Well negotiated future contracts
<ul style="list-style-type: none"> Depreciation of the Rupee 	<ul style="list-style-type: none"> Foreword contracts of future exchange rates
<ul style="list-style-type: none"> The threat from substitutes looms large. 'Ambewela' Tetra Pak could be substituted by pasteurised milk packets, sterilised milk, ultra high temperature (UHT) pouch milk packets and bottled pasteurised milk. 	<ul style="list-style-type: none"> Meticulous cost controls Ambewela Tetra Pack has a six-month shelf life without refrigeration.
<ul style="list-style-type: none"> There is the possibility that Lanka Dairies (Pvt) Ltd's market share and profitability, will be damaged if a significant new entrant enters the market 	<ul style="list-style-type: none"> We have significantly increased our investment, which makes it difficult for new entrants to catch up since Tetra Pak plant costs are high. Brand loyalty and product differentiation - As the Company has been in existence for 21 years it has high promotional expenditure on below-the-line promotional activities such as posters, danglers and wobblers, and has over time built the goodwill and high customer loyalty to the product. The availability of the space is filled by a proliferation of 'Ambewela' Tetra Pak liquid milk products.

Engagement with Stakeholders



Our key stakeholders can be clustered into the following broad categories:



Employees



Suppliers



Customers



Distributors



Shareholders



Community

The Lanka Milk Foods (CWE) PLC group of companies has built a sustainable business over decades with a product portfolio that strikes the right balance between wholesome goodness and nutrition, taste appeal, and hygiene. Our stakeholders in the value chain and end consumers are at the heart of our business, as are the environment and the community at large, within which we operate. Therefore, while we

create value for shareholders, we are also proud to be known as a respected business entity nourishing the nation through sustainable products for health and nutrition.

Our Stakeholders

Our stakeholders consist of Employees, Distributors, Suppliers, Shareholders, Customers, Environment and Community at large, and we interact

with these stakeholder groups on a regular basis. We define as stakeholders everyone who is affected by our business and everyone who influences our business activities.

Stakeholder Engagement

We consider our stakeholders as crucial business partners in our journey towards prosperity. We honour our commitment to these stakeholders through sound

business practices that relate specifically to each stakeholder group. Our operations embody sustainable practices so that we can uphold our commitment to these groups. As company policy, we engage closely with stakeholders groups to understand their concerns and analyse and implement ways in which we can satisfy their demands.

Employees

Employees are the driving force of the Company and we are proud of our reputation of being an employer that values diversity and offers an equitable work culture. Engaged in a people-intensive business such as ours, our people drive the Company's goals and objectives.

Employee Engagement

- Open door policy
- Welfare measures
- Work-life balance
- Career growth opportunities
- Health and safety measures
- Competitive remuneration
- Training and development

Distributors

The Group has an islandwide distributor chain to ensure the products are equally distributed to reach customers across the country.

Distributor Engagement

- We appoint distributors on a mutual agreement signed between the Lanka Milk Foods (CWE) PLC, and the distributor.
- The terms and the conditions in the agreements regularise the distribution process and the financial transactions between the Company and the distributor

Suppliers

Suppliers are vital partners in our journey of providing responsible products. As a result, we have a stringent supplier screening process that ensures the highest quality raw material is procured at competitive prices.

Supplier Engagement

- We ensure that our suppliers are practicing socially and environmentally responsible methods.

While we create value for shareholders, we are also proud to be known as a respected business entity nourishing the nation through sustainable products for health and nutrition.

- The Company conducts periodical site visits and ongoing communication with suppliers to ensure the stability and continuity of business.

Shareholders

Our shareholders are at the heart of our business and it is our responsibility to create value for our shareholders.

Shareholder Engagement

- Declaration of dividends
- Annual General Meeting
- Circulars about new product launches, etc.
- Financial Statements
- Open channel of communication

Customers

Customers are the inspiration for our products, and our operations are directed towards garnering a wider customer base by offering sustainably manufactured products that are safe for consumption. Because of our stringent quality standards, our brands are found in millions of households. Our state-of-the-art manufacturing facilities enables us to deliver high quality products to the market. We have obtained ISO 9001 quality certification for quality





Our sustainability commitment ensures that our brands are associated with the highest hygiene and health standards because we exercise control across our value chain.

management. We continue to adhere to product labelling requirements specified in the Food Act No. 26 of 1980, the regulations contained in the Food Labelling and Advertising Regulations of 2005 and the Consumer Affairs Authority Act No. 9 of 2003 for all our products.

Customer Engagement

- Recognise and respond to changing customer needs.
- Develop new products to meet the changing lifestyle demands of our customers.

- Customer relationship management system
- Address any consumer complaints
- Incorporate advanced technology to surpass stringent quality standards.
- Clear labelling of all our products enables consumers to make informed decisions.
- Looking at another aspect of product responsibility, the Company has pioneered low fat options for health conscious consumers to promote awareness about lifestyle diseases such as high cholesterol, heart disease and diabetes, which are on

the rise in Sri Lanka. As a responsible and ethical entity, we would like to guide the future generations to make the right food choices.

- Our products hold appeal across age and income barriers and to grow our share of the market further, a number of focused promotional and marketing activities are held in strategic locations to engage the target group.
- The company enjoys a social media presence through which it is able to engage with its younger consumers.

How we engage with our customer base:



Responsive to Customer Trends



New Product Development



Clear Labelling



Addressing Complaints



Responsible Products



Promotions and Marketing



Social Media Engagement



Product Responsibility

The Company takes a serious view of manufacturing responsible foods and ensures that the factors of safety, nutrition, quality and value are scrutinised and controlled under the most stringent quality standards. As the manufacturers and distributors of dairy and dairy related products, it is vital that our entire operational value chain adopts the highest safety standards. Our sustainability commitment ensures that our brands are associated with the highest hygiene and health standards because we exercise control across our value chain. The Company has installed a host of quality assurance systems to produce safe products that meet customers' expectations.

Quality Assurance

The Company has acquired a range of internationally recognised Quality Management System (QMS) standards, which span all the critical processes from the point of sourcing to the storage of finished goods. We operate advanced, fully-equipped chemical and microbiological laboratories to test samples before they are released for processing. The Quality Assurance Division controls all aspects of quality

and maintenance of environmental, hygiene and sanitation standards. We also operate our own laundry, water purification and janitorial services to maintain stringent control over hygiene of the processes.

On the farms, the Company adopts international cattle rearing practices for its European breeds-Ayrshire and Friesian, selected for their capacity to produce large quantities of milk. Every aspect from cattle feed to health of the cattle is monitored by professional agriculturalists. In terms of packaging of products, we can lay claim to one of the most modern packaging plants with automated packing systems for optimum hygiene. The Company has established, implemented and maintains a quality management system complying with the requirements of ISO 9001 since 2001. This demonstrates the Company's untiring commitment towards achieving excellence in quality. The Company aims to enhance customer satisfaction through the effective application of the system, including processes for continual improvement of the system and the assurance of conformity to customer and applicable statutory and regulatory requirements.



Community

Communities are at the heart of our business and our commitment is built on genuine interaction with all stakeholders.

Community Engagement

- Undertake CSR projects to benefit communities
- Donate our products for nutrition of school children visiting our plants
- Donation for religious and social causes
- Ensure minimal impact of our operations on surrounding communities
- Allow free entrance to our farm for students of Agriculture Studies Institutes and differently-abled children.
- Provide practical training for Agriculture and related subject students of universities.

The “Freshness Guarantee” of our Liquid Milk and Flavoured milk brands, Cheeses and Yoghurt is evident through the continued market leader position in the market.



Operating Environment

In 2016, the Sri Lankan economy grew at a rate of 4.4 per cent in real terms, amidst numerous global and domestic challenges, contracting slightly over the previous year. Unfavourable weather conditions that prevailed during the year adversely affected economic activity, primarily in the agriculture sector. Services and industries related activities showed year-on-year growth. The slowdown in consumption was driven by the moderation in private sector consumption expenditure due to tightened monetary and fiscal policies. There was a decline in the competitiveness of the economy as evidenced by the continued fall in the country's share of global exports. The rupee depreciated against all major currencies except the pound sterling in 2016. Meanwhile, the government encouraged the establishment of Dairy Development Zones in selected districts

through public-private partnerships (PPP), in order to increase domestic milk production and reduce expenditure incurred on importing of milk powder.

Our Capitals

- Financial Capital
- Intellectual capital
- Human Capital
- Social & Environmental Capital

Financial Capital

Led by its vision 'To become the most desired entity and leader in the Sri Lankan dairy industry, the Group sustained its focus on consolidating its leadership status in the liquid milk category. The “Freshness Guarantee” of our Liquid Milk & Flavoured milk brands, Cheeses and Yoghurt is evident through the continued market leader position maintained by the Group. It

is evident that we are harvesting the benefits of our judicious investments, tough decisions and tireless efforts.

The Lanka Milk Foods (CWE) PLC Group recorded an impressive net profit of Rs. 542 Million as against Rs. 121 Million in the previous year. This increase in net profit was mainly earned by the liquid milk sector, namely Lanka Dairies (Pvt) Ltd, and Ambewela Products (Pvt) Ltd. The Group turnover reached an unprecedented Rs. 5.3 Billion during the year.

Company Performance

Lanka Milk Foods (CWE) PLC

The powdered milk sector of the Group was not able to earn more profits, mostly due to the introduction of 15% VAT on powdered milk along with an import duty of Rs. 45 per Kg, and the continuous increase in exchange rate compared to the US Dollar. While all

Rs.2.2Bn

Turnover
Lanka Dairies (Pvt) Ltd

Rs.124Mn

Profit After Tax
Lanka Dairies (Pvt) Ltd

Rs.280Mn

Expansion Programme
Lanka Dairies (Pvt) Ltd

costs continue to increase rapidly, the selling price of powdered milk remains stagnantly controlled by the Consumer Affairs Authority over a period of two years since March 2015.

The Customs Import Duty on milk powder per kg, which was Rs. 225 per kg in the beginning of the year in April 2016, was reduced to Rs.135 in July 2016, to Rs.100 in November 2016 and Rs. 45 in December 2016. Even though the duty was reduced by Rs. 180 by the end of the third quarter of the financial year, the Company was unable to catch up with the drop, thus ending with a lower sales volume of Lakspray compared to the previous year, and with a gross profit of Rs. 155 Million compared to Rs. 222 Million last year. Despite the decrease in gross profit, the Company recorded a higher profit of Rs. 234 Million compared to the loss of Rs.17 Million last year because of the high investment yield (dividend income) during the year.

Further, the imposition of 15% VAT on imported milk powder with effect from 1st November 2016 and the increase in Port Authority Levy from 5% to 7.5% was yet another blow to the industry.

Lanka Dairies (Pvt) Ltd

Meanwhile, Lanka Dairies (Pvt) Ltd improved its turnover from Rs. 1.9 billion of the previous year to Rs. 2.2 Billion during the financial year ended 31st March 2017. This increase in turnover is mostly due to the increase in sale of Ambewela fresh milk one litre pack, which is the market leader in fresh milk and has emerged as a household name. Flavoured liquid milk in 200ml Daily pack has become a leading thirst quencher with considerable nutritive value, contributing to the success of Lanka Dairies (Pvt) Ltd. This consumer-friendly Daily pack is exported to Maldives, weekly.

Lanka Dairies (Pvt) Ltd has commenced an expansion programme costing Rs. 280 Million to meet the ever-increasing consumer demand for liquid milk. Our own dairy farms at Ambewela, that are scientifically maintained in line with international standards, provide the fresh milk for this Ambewela fresh milk pack, which is processed and packed under the most modern and sophisticated manufacturing technology.

'Ambewela' Tetra Pak liquid milk dominates and enjoys a large market share, since Lanka Dairies (Pvt) Ltd has access to fresh quality liquid milk from both 'Ambewela' and 'Pattipola' farms which other competitors do not have, and as such is able to maintain the premium quality and unique taste which is accepted by the consumers. In addition, since Lanka Dairies (Pvt) Ltd has a large distribution network,

'Ambewela' is easily available and with the use of above-the-line and below-the-line communication very popular.

Ambewela Products (Pvt) Ltd

Ambewela Products (Pvt) Ltd experienced a roaring success as Ambewela Yoghurt reached the highest level in the Sri Lankan market. Ambewela Yoghurt, quite unlike its competitors is manufactured using only the quality milk produced in our own dairy farms at Ambewela. At Ambewela dairy farms, the milk is produced under most stringent, hygienic and scientific controls. This Company recorded a turnover of over Rs. 1.4 Billion during the said year as against Rs. 1.2 Billion during the previous year. The net profit earned by this Company was Rs. 155 Million against Rs. 111 Million in the previous year.

Ambewela Products (Pvt) Ltd experienced a roaring success as Ambewela Yoghurt reached the highest level in the Sri Lankan market. At Ambewela Dairy Farms, the milk is produced under most stringent, hygienic and scientific controls.



Management Discussion & Analysis

Different varieties of Ambewela cheese produced with best of milk and using the most modern machinery is very much sort in demand by the consumer. Ambewela Spread Cheese 100ml cup and the Ambewela butter 200ml tub are two new products introduced to the market. The future of this Company will undoubtedly contribute largely towards the success of the Lanka Milk Foods Group of Companies.

Ambewela and Pattipola Dairy Farms

All dairy products of Ambewela brand are produced from the high quality milk produced in our own dairy farms. Stringent hygienic controls meticulously monitored in our dairy farms produce fresh milk, which is in line with international standards. Cows in our dairy farms are fed with most nutritious grasses imported from Australia and New Zealand, and feed supplements formulated by a global expert Nutritionist in order to produce the maximum quantity of best quality milk. It is at our own feed mill at Ambewela farms, that the special feed for our cows is produced. A resident Veterinary Surgeon maintains strict controls over the use of antibiotics in our farms. Ambewela Cheese produced using our own milk has become the hot favourite not only among locals but also among foreigners. Saanan, Jamunapari and Boer goats are reared at the New Zealand farm, to provide fresh goat milk for 190 ml Ambewela Goat Milk bottle.

The Ambewela Dairy Farms situated at a height of 6000Ft above sea level with its misty cold fresh air, is certainly the best climatic condition for cows to produce high quality milk, which is eventually made available to the consumer, untouched by human hands from the udder of the cow to the consumer.

Rs.1.4Bn

Turnover
Ambewela Products (Pvt) Ltd

Ambewela and New Zealand dairy farms continue to do good work in dairy farming, adopting best practices in managing the farms. Our dairy livestock, which consists of imported breeds of cows, ensures high yield and excellent quality of milk. Despite our market leadership position, we remain focused on improving systems and processes to sustain our commitment to the people of the nation.

Intellectual Capital

Technology and Innovation

- Lanka Dairies is the pioneer UHT Manufacturing Company in Sri Lanka using Tetra Pak Technology. The Company closely works with world's leading food processing and packaging solutions company Tetra Pak to provide safe, hygienic and healthy food.
- Tetra Pak cartons are lightweight, easy to transport and fully recyclable since the pack is primarily paper based. The aseptic technology allows the product inside to stay fresh, without the need of any preservatives. The pack need not be refrigerated until opened.
- On average, more than three-quarters of a Tetra Pak carton's weight is made up of paperboard – which comes from wood. All the wood fibre used in paperboard comes from forests independently certified as being managed in accordance with the principles of sustainable forest management.

Rs.155Mn

Profit After tax
Ambewela Products (Pvt) Ltd

- The Company has established, implemented and maintains a quality management system complying with the requirements of ISO 9001 since 2001.

Human capital

Employees

Employees are the driving force of the Company and we are proud of our reputation of being an employer that values diversity and offers an equitable work culture. Engaged in a people-intensive business such as ours, our people drive the Company's goals and objectives. We have ensured an optimal work environment for employees that strikes the right balance between personal and professional lives.

During the year, the Company focused on ensuring its employees acquired new skills and underwent training, and received effective rewards and recognition for their achievements. The Company enjoys a low attrition rate with a loyal and committed workforce.

Recruitment

- The Group gives opportunities for different professionals and skilled labour in diversified fields.
- We recruit from the local vicinity providing youth employment to farm and factory areas.
- Recruitment focuses on young labourers who are provided training and absorbed to the permanent cadre as skilled labourers.

- Recruiting youth, giving them targets while training and being employed
- Providing them with market statistics and practical experience in the market, laboratories and factories.

Employee Benefits

- We adhere to all labour regulations, ensuring a good, committed work force in the entity.
- We ensure standards of cleanliness is maintained by employees in work environment.
- We have in place an employee guideline to maintain equal and approachable health and hygiene standards for employees.
- For the benefit of female employees, we adhere to all the labour related laws, while ensuring that the welfare of female employees who work in factories and farms are properly looked after,
- We focus on employee welfare and currently cover a full package of insurance and accident cover in line with labour regulations.
- We have initiated occupational health and safety measures ensuring an accident-free work environment.
- We have taken precautionary steps to minimise occupational hazards and in case of employee food and hygiene,



730

Total Employees

we have taken safety standards in line with ISO standards.

- We ensure that employees are provided with recreation and mental and physical health stability. We have provided indoor recreation and sports facilities for employees. In addition, we provide monetary support on outdoor recreation for employees.

As of 31st March 2017, the LMF Group provided employment to 730 personnel compared to 736 in the preceding year.

4:1

Male : Female Ratio

Employees are the driving force of the Company and we are proud of our reputation of being an employer that values diversity and offers an equitable work culture.

Majority of the total cadre is represented by factory and farm workers.

Gender ratio is approximately 4:1 (male:female) owing to the high labour intensive work required at the farm and the factory floor.

Total Number of Employees

	2016		2017	
	Male	Female	Male	Female
Executives	58	4	64	4
Non-Executives	377	30	405	32
Casual /Check Roll	178	89	132	93
TOTAL	613	123	601	129
	736		730	

Management Discussion & Analysis

Training & Development

A culture of learning and development has been nurtured over the years and we encourage employees to take full advantage of training opportunities to improve their competence and achieve career progression. The Company invests heavily in technical, sales and marketing training for its employees. A strong culture of mentoring young talent by senior managers, and rewarding outstanding performers has engendered a culture of constant learning amongst the employees. The Company's farms are proving to be an 'agricultural and dairy university' for students, who gain practical insights into farming during their pursuit of studies in agriculture.

Occupational Health & Safety

Worker health and safety is uppermost in our minds. The Company strives for incident-free operations and to attain this, there is strong emphasis on taking necessary precautions. Our staff is actively involved in ensuring the absence of injuries and environmental hazards that could affect the workforce. Protective gear is mandatory for workers engaged in specific operations, whilst the workforce in general is educated on safety and hygiene aspects of the operation. Our products have become reputed for their hygiene and safety standards and we protect this positioning closely by ensuring high standards of cleanliness.

Employee Well-being

Welfare and protection is a valuable tool for the Company to bond with employees. The local communities surrounding our factories have benefitted immensely from the Company as an important employment creator. By recruiting locally, the Company is able to uplift the livelihoods of youth in the area that would otherwise have to migrate to satellite towns in search of gainful employment. Realising the aspirations of its workforce, many of whom hail from rural towns and villages, the Company



Our community engagement process is very involved and has resulted in a perception of a Company that delivers valuable service to every level of the economic and social pyramid.

offers a comprehensive bouquet of staff benefits, which ensure an ideal work-life balance for its workforce. Some of the benefits that employees receive are a comprehensive medical cover for all staff, subsidised nutritious lunch for staff and a quota of company manufactured products. They are also liable to receive cash incentives above industry standards, including monthly sales incentives, attendance incentives for non-executive staff, leave encashment for unutilised leave and ex-gratia payments. Leisure and recreational opportunities are provided regularly to promote further fellowship amongst staff members.

Social & Environmental Capital Community

Communities are at the heart of our business and our commitment is built on genuine interaction with all stakeholders. We value our relationships with the community at large and maintain the support of the local communities where we operate. We

take a long-term approach to listening and responding to the needs of our stakeholders, and contributing to the development of communities through targeted investments. Our community engagement process is very involved and has resulted in a perception of a Company that delivers valuable service to every level of the economic and social pyramid. Operating closely with surrounding communities in the vicinity of our factories, the Company strives to provide them with a better standard of living by contributing to social, health and educational causes.

CSR Initiatives in 2016/17

- Facilitating Pilgrims: The Company embraces cultural and religious diversity and engages with the local community in various events that bring people together on a common platform. We continued our practice of distributing free milk for devotees of all faiths during religious events and occasions at various places of worship during the year.

- **Nourishing Young Lives:** The Company sustained its practice of providing nutritious milk to children from underprivileged schools in order to promote their health and well-being. In practice for the last decade, an entire generation of schoolchildren has benefitted from our endeavours of distributing milk and milk products.
- **Promoting School Trips:** The Company welcomes school trips to the factory to familiarise children with the milk production process while emphasising the importance of consuming milk and milk products. This is an ongoing feature through out the year and free milk and milk products are supplied to the children when they tour factory premises.
- **Supporting the Underprivileged:** The Company provided free refreshments and nourishment to residents of welfare homes for the aged and underprivileged, donating generous rations of milk powder.
- **Free entrance provided to underprivileged children for farm visits at the New Zealand Farm.**

Environment

Environmental sustainability allows the needs of man to be met without jeopardising the ability of future generations to meet their needs. This realisation has inspired us to adopt sustainable dairy farming techniques that protect the environment and minimise any harmful impact. The Company adopts a variety of international dairy farming practices that give priority of the

preservation and long-term sustenance of nature. An effective waste water treatment plant ensures that all water in the production process is treated before being released into the environment. By treating waste water effluents before releasing them into the environment, we ensure that we minimise any inadvertent instances of environmental pollution in any way.

As the market leader in the dairy sector, we feel that the Group should take ownership of demonstrating environmental stewardship. Every aspect of our operations is rendered sustainable by ensuring recycling and renewal to the greatest extent possible. Dairy farming is a source that future generations have to benefit from, and towards that end, we intend to ensure that our farms remain productive far into the future.

Our packaging operation too, uses aseptic recycled packaging material. Further, disposal of solid waste is conducted in a controlled manner to ensure it is disposed of in the optimum way. Our self-burning incinerator for solid waste has proven to be an eco-friendly method to dispose waste. The water effluent treatment plant at Lanka Dairies (Pvt) Ltd, recycles water for safe reuse of water in on the plant premises, thereby protecting the environment.

- The Company uses most efficient technologies and techniques to treat the waste generated, prior to release into the environment. The Company is committed to treating the waste from manufacturing operations in a responsible manner and adheres to

strict quality requirements for returning it to the environment. The Company utilises a self-burning incinerator for solid waste and modern liquid wastewater treatment plant for liquid waste. The Company ensures full compliance of applicable regulatory and statutory requirements laid down by the Central Environmental Authority.

- The Company encourages its operations and investments to lower their carbon footprint. The Company is focused on the reduction of the negative impact on the environment through minimisation of raw materials, energy, manpower and other resources consumption and waste gas, waste water, waste and other emissions.

Future Outlook

The Lanka Milk Foods (CWE) PLC group of companies is optimistic about future growth prospects given the market leadership of our brands and preference for liquid milk, which positions us well for growth. In recent years, the Group has made heavy investments in enhancing its technology both in the factories and on its farms. Operating in a sector where challenges have always dogged the industry, we have devised strategies to overcome or mitigate them to the greatest extent. As a result, we have established a forward momentum of growth that holds us in good stead as we support the national vision to become self sufficient in milk production. Underpinning our entire operation is the Group's unwavering commitment to creating value for all our stakeholder groups.

How we minimise impact on the environment



Waste water
Treatment



Recyclable
Packaging



Lower Carbon
Footprint





The Group has acquired a range of internationally recognised Quality Management System (QMS) standards which span all the critical processes from the point of sourcing to storage of finished goods. We operate advanced, fully equipped chemical and microbiological laboratories to test samples before they are released for processing.

Pure and Simple...



Corporate Governance

The Board of Directors

The Board of Directors of the Company is responsible for the governance of the Company in good faith, 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 key responsibilities of the Board are;

- To enhance shareholder value
- Provide direction and guidance in formulating corporate strategies
- Approving major investments
- Monitoring systems and procedures especially with regard to internal controls and risk management.

The Directors' Interests in the Affairs of the Company are explained on pages 47 to 48 of this Annual Report.

Company Secretary

The Company Secretary is qualified to act as per the provisions of the Companies Act No. 7 of 2007, and also functions as the Legal Advisor to the Company.

Disclosure

According to the Policy of the Company all relevant information is disclosed to the shareholders on a timely basis.

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 whenever they are required to review performance of the Company, with reference to the Financial Statements, investment proposals and any other important matters relating to the Group.

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 customary 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.

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.

The Board Comprises of the following Directors.

<i>Name of the Director</i>	<i>Status</i>
Mr. D. H. S. Jayawardena	Chairman
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
Mr. D. Hasitha Stassen Jayawardena	Non-Executive Director

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 to the Financial Statements.

Mr. D. S. K. Amarasekera

Dr. A. Shakthevale

The Report of the Remuneration Committee is given on page 45 of this Annual Report.

Audit Committee

The Audit Committee comprises of two Independent Non-Executive Directors as follows;

Mr. D. S. K. Amarasekera

Dr. A. Shakthevale

The detailed report of the Audit Committee is on page 44 of this Annual Report.

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 reporting date have been paid on behalf of the Company.

The Company's compliance with the Colombo Stock Exchange Listing rules and the best practices as per the Code of Best Practice on Corporate Governance issued jointly by Institute of Chartered Accountants of Sri Lanka and Securities and Exchange Commission is set out in the below table.

Disclosure Regarding the Board of Directors

Section	Applicable Requirement	Compliance Status	Compliance Details
7.10.1(a) to (c)	Non-Executive Directors Two or at least one third of Non-Executive Directors whichever is higher should be independent	Complied	Two out of six Directors are Non-Executive Directors
7.10.2(a)	Independent Directors Two or one third of Non-Executive Directors whichever is higher should be independent	Complied	All Non-Executive Directors are Independent.
7.10.2(b)	Independent Directors' Declaration Each Non-Executive Director submit assigned declaration of Independent or Non-Independent in the prescribed format	Complied	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	Complied	The names of the Independent Directors are provided on pages 16 and 17 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 their area of expertise.	Complied	A brief resume of each Director is provided on pages 16 and 17 of the Annual Report.

Corporate Governance

<i>Disclosure Regarding the Remuneration Committee</i>			
Section	Applicable Requirement	Compliance Status	Details
7.10.5	<i>Remuneration Committee</i> Listed Company shall have a Remuneration Committee	Complied	The Remuneration Committee comprises of Mr. D.S.K Amarasekera and Dr. A. Shakthevale
7.10.5(a)	<i>Composition of the Remuneration Committee</i> * Shall compromise of Non-Executive Directors a majority of whom will be Independent * The Chairman of the committee shall be a Non-Executive Director.	Complied	Please refer page 45 of the Annual Report
7.10.5(b)	<i>The functions of the Remuneration Committee</i> The Remuneration Committee shall recommend the remuneration payable to the Board and the Executive Officers.	Complied	Please refer page 45 of the Annual Report
7.10.5(c)	<i>Disclosure in the Annual Report</i> 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	Complied Complied Complied	Please refer page 45 of the Annual Report Please refer page 45 of the Annual Report Please refer page 70 of the Annual Report

<i>Content Under the Audit Committee</i>			
Section	Applicable Requirement	Compliance Status	Details
7.10.6(a)	<i>Composition of the Audit Committee</i> * Non-Executive Director shall be appointed as the Chairman of the Committee. * Chief Executive Officer and Chief Financial Officer should attend Audit Committee meetings. * The Chairman of the Audit Committee or one member of a professional accounting body. * Shall compromise of Non-Executive Directors a majority of whom will be Independent.	Complied	Please refer page 44 of the Annual Report
7.10.6(b)	<i>Audit Committee Functions</i> Should be as outlined in the Section 7.10.6(b) of the Listing Rules	Complied	Please refer page 44 of the Annual Report

Content Under the Audit Committee

7.10.6(c)	<i>Disclosure in the Annual Report relating to the Audit Committee</i>	Complied	Please refer page 44 of the Annual Report
	1. The Names of Directors in the Audit Committee		
	2. Basis of determination of the Independence of the Auditors and disclosure of the basis for such determination		
	3. The Annual Report shall contain a Report of the Audit Committee		

Content Under the Related Party Transactions Review Committee

Section	Applicable Requirement	Compliance Status	Details
9.2.1 & 9.2.3	<i>Related Party Transactions Review Committee</i>	Complied	The Committee was formed on 01st January 2016. The functions of the Committee are stated in the Related Party Transactions Review Committee report in page 46 of the Annual Report.
9.2.2	<i>Composition of the Related Party Transactions Review Committee</i>	Complied	Please refer page 46 of the Annual Report
9.2.4	<i>Related Party Transactions Review Committee Meetings</i>	Complied	The transactions were reviewed in respect of the financial year 2016/17 at the meeting.
9.3.1	<i>Immediate Disclosures</i>	Complied	Company did not have any non-recurrent related party transactions which require immediate disclosure to the Colombo Stock Exchange.
9.3.2(a)	<i>Disclosure: Non-Recurrent Related Party Transactions</i>	Complied	Company did not have any non-recurrent related party transactions with aggregate value which exceeds 10% of the equity or 5% total assets whichever is lower. Hence, no disclosure is required.
9.3.2(b)	<i>Disclosure: Recurrent Related Party Transactions</i>	Complied	Lanka Milk Foods (CWE) PLC carries out transactions with its subsidiaries and expected to extend over a period which are carried out on continuous basis and are in the ordinary course of the business of the Company. However, the aggregate values of these transactions were below 10% of gross revenue of the 2016/2017 Financial Statements.
9.3.2(c)	<i>Report by the Related Party Transactions Review Committee</i>	Complied	Refer Report by the Related Party Transactions Review Committee on page 46 of the Annual Report.
9.3.2(d)	<i>A Declaration by the Board of Directors</i>	Complied	Refer the Annual Report of Board of Directors for an affirmative statement of compliance of the Board on page 46 of the Annual Report.

Enterprise Risk Management

Risk is an inalienable part of the world of business and therefore risk management should be viewed as a fundamental pillar on which companies build their corporate strategy. A company's enterprise risk management should be transparent and comprehensive to ensure long term sustainability of operations. Every vulnerability, probability, threat and weakness needs to be carefully addressed in order to ensure that risk in any venture is mitigated to the best of the capabilities of the corporation. Failing to address its risks properly might prompt entities to face even greater risks as a result. Therefore, it is imperative that those identified and assessed risks are then managed according to an established risk management framework, so that there is an optimal trade-off between risk and return.

In the modern market context, risk is defined as the probability or threat of a liability, loss or other negative occurrence caused by external or internal vulnerabilities, which would affect the desired objectives. Thus, Lanka Milk Foods (LMF) employs numerous policies, procedures and practices that work in conjunction to arrive at coordinated and economical solutions that mitigate the probability and impact of identified vulnerabilities by embedding risk management in the daily management of the business. Risk and methodology of mitigation are presented here in the areas of operations, financial reporting and compliance with applicable laws and regulations.

Our Aspiration

To promote a culture of Risk Management to help the enterprise maintain the provision of quality products while ensuring appropriate relationships with our customers and other Stakeholders.

Administrative Support for Managing Risk

Here at LMF, the Board considers risk management as imperative in achieving the Group objectives, and considers it the responsibility of the Board to monitor and manage risks in an acceptable manner.

The Board, with the help of the senior management, is required to take decisions that would increase the shareholder value of the Group in terms of investing in capital assets, which would enhance its future earning capacity.

Legal Function

The Group's centralised legal department ensures that the Group complies with laws and regulations. All legal agreements are thoroughly analysed by the Company Secretary and compliance with the Companies Act is ensured. Possible adverse impacts resulting from laws and regulations are assessed and necessary action plans are formulated to mitigate the impact of such risks on the business. The opinions of the Group's tax consultants pertaining to all tax matters are considered, and necessary steps are taken to ensure full compliance with statutory requirements.

Financial Reporting Function

Documentation and reporting also plays a key role in managing risk. The financial reporting division makes sure that all financial reporting aspects are addressed while coordinating with all relevant authorities and institutions. The Board reviews reports of all financial related information and publicises relevant data.

Internal Controls and Internal Audit Function

The Internal Audit function is mainly engaged in matters such as monitoring internal controls, examining financial information, and in reviewing the efficiency and effectiveness of the operations in order to achieve the management's objective of ensuring orderly and efficient conduct of business, detecting and preventing fraud and error, thus safeguarding Group assets.

<i>Risk & Implication</i>	<i>Mitigation Activities</i>
1. FINANCIAL RISKS	
i. Interest Rate Risk	
<p>This is the risk of exposure of an entity's financial condition to adverse movements in interest rates.</p>	<ul style="list-style-type: none"> • Striking a balance between short term vs long term borrowings and fixed vs floating rate borrowings. • Negotiating with banks and financiers. • Monitoring interest rates and socioeconomic circumstances to create accurate forecasts. • Assessing the impacts of movements of interest rates on Financial Statements.
ii. Foreign Exchange Risk	
<p>This is the risk of an investment receivable payable's value changing due to changes in foreign currency exchange rates.</p>	<ul style="list-style-type: none"> • Monitoring exchange exposures and leading or lagging payments/receipts. • Being thoroughly familiar with the frequent changes seen in foreign currency rates with our bankers. • Monitoring local and international events and news related to economic developments which can impact exchange rates.
iii. Liquidity Risk	
<p>This relates to not having sufficient funds to meet the financial commitments in a timely manner. This refers to both short term cash flow risk and long term funding risk.</p>	<ul style="list-style-type: none"> • The Company regularly reviews its liquidity position to assure its ability to generate adequate funds for operations, financing activities and investments. • Projected borrowings are covered by committed facilities and a healthy industry related gearing ratio is maintained. • Enhanced banking facilities and financial assistance obtained through our excellent relationships with related institutions provide us with more strength in this area.
iv. Credit Default Risk	
<p>This is the risk of losses arising from a debtor being unable to meet his obligations in full or the debtor being overdue for payment settlement for more than an agreeable period.</p>	<ul style="list-style-type: none"> • Covering the financial commitment of each party in financial transactions through bank guarantees and cash deposits for certain order levels above a certain value. • Structured approval levels for credit limits for each customer • Periodical evaluation of customers. • Supervision and recovery procedures on overdue debtors and legal procedures for long outstanding debtors.

Enterprise Risk Management

Risk & Implication	Mitigation Activities
v. Investment Risk	
Risk and return go hand in hand and a business must invest and reinvest its returns in order to ensure future growth, expansion and sustainability.	<ul style="list-style-type: none"> The Group has mainly invested in its dairy farms, the sophisticated modern dairy complex at Ambewela Farms and the expansion project at Lanka Dairies (Pvt) Ltd. With the rapid increase in demand and the government policy to improve the dairy sector, the management is confident that the investments will realise high returns time.
2. BUSINESS RISKS	
i. Scarcity of Raw Material	
Due to seasonal fluctuations in the supply of raw material the Company faces challenging circumstances in meeting the market demand. E.g. raw cow milk	<ul style="list-style-type: none"> Increased number of cows in our own farms ensures a continuous flow of raw milk for production lines in Ambewela Products (Pvt) Ltd and Lanka Dairies (Pvt) Limited. Effective supply chain management under competitive circumstances has benefited the Group to a beneficial edge. Effective forecasting and assessment of market trends.
ii. Quality Risk	
This is a major risk component to a Company that is in the business of food and beverages. Therefore, employees of all levels are responsible for maintaining the quality of the product.	<ul style="list-style-type: none"> Proper training and awareness are given to employees in production of all levels relating to the quality processes of the Company and production process. The product and process improvements are implemented and revised periodically to meet the quality goals. Revision of quality controls methods and testing methods for raw and powdered milk as per local and international standards. Measures are also taken to ensure quality throughout the whole supply chain. Maintaining the world renowned ISO 9001 standard.
iii. Natural Events	
Adverse weather conditions may affect reduced consumer demand as well as the natural grazing system in our farms	<ul style="list-style-type: none"> Whenever possible measures are taken to mitigate the effect of these natural events on the Group's strategic and operational goals and objectives.
iv. Economic Environment & Government Policy Changes	
The Group's business operations are sensitive to economic conditions such as consumer spending which is affected by the disposable income of the people, inflation, producer price controlling, minimum certified price for raw milk and changing import duties on milk powder.	<ul style="list-style-type: none"> These conditions are taken into account when purchasing raw materials and in the sales plans.

<i>Risk & Implication</i>	<i>Mitigation Activities</i>
v. Compliance, Regulatory and Legal Risks	
<p>This refers to the possible legal actions against the Company as well as compliance and regulatory requirements related risks.</p>	<ul style="list-style-type: none"> • The Company always takes preventive measures to mitigate such risks by complying with all relevant regulations and regulatory matters. • The management frequently reviews regulatory changes and assesses impacts of new requirements on the business. • In case of breach of agreements, the Company involves internal and external legal experts to mitigate such risks. • A comprehensive compliance checklist is reviewed periodically.
3. INFORMATION TECHNOLOGY RISK	
<p>This includes hardware and software failure, human error, spam, viruses and malicious attacks as well as natural disasters such as fires/ floods, etc. It is of immense importance to develop a response plan in an event of crisis through identifying risks to the IT systems and data in order to reduce or manage such risks.</p>	<ul style="list-style-type: none"> • System backups are taken to mitigate software failures and the software is regularly updated to the latest versions. • Root causes are found and problems fixed in respect of application failures. • Latest anti-spyware and anti-virus protection are installed to protect from virus while firewall and other security controls such as passwords are used to prevent hacking and unauthorised access to the computers systems. • Information security is guaranteed by graduated levels of access rights granted to selected employees depending on their operational needs and level of responsibility.
4. HUMAN RISK	
<p>This refers to the lack of ability in attracting, retaining, developing and motivating the best employees throughout the Group especially in the middle to senior management levels. Losing key personnel and skilled workers for better job prospects abroad.</p>	<ul style="list-style-type: none"> • Our remuneration packages are benchmarked to ensure that we remain competitive. • Including incentive arrangements where appropriate. • Professional growth avenues. • Responding to grievances and staff complaints. • Providing a wide range of benefits to employees including surgical and hospitalisation cover for all employees, while providing a healthy and pleasant working environment. • Measures are taken to retain and minimise casual/temporary labour turnover.
<p>This may impact on the Group's ability to deliver its operational and strategic objectives. This may even affect the product quality, output, market share and the Company's reputation.</p>	
5. COMPETITION & CONSUMER PREFERENCES	
<p>The risk involved with competition is the risk that arises when competitors reduce the Group's market share and/or drive down margins in specific markets. The changing consumer preferences, lifestyle changes and global trends need to be met to mitigate unfavourable conditions.</p>	<ul style="list-style-type: none"> • Improving our product lines. • Focusing on brand development. • Ensuring that our prices offer good value. • Building stronger relationships with suppliers. • Ensuring the product quality and focusing on the global trends – healthy lifestyle, liquid milk consumption etc.

Report of the Audit Committee

Composition

The Audit Committee appointed by and responsible to the Board of Directors comprises of two Independent Non-Executive Directors. The Chairman of the committee is Mr. D.S.K. Amarasekera, an Attorney-at-Law and Chartered Accountant, and Dr. A. Shakthevale the Independent Non-Executive Director is the other member of the Audit Committee. They possess the requisite knowledge to carry out their roles effectively and to discuss matters that come within their purview independently and professionally.

Meetings and Reviews

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

Financial Reporting

The Committee reviews the financial reporting system adopted by the Company in the preparation of its Quarterly and Annual Financial Statements together with the Management and the External Auditors. This helps to ensure reliability of the processes, the consistency of the Accounting Policies adopted, and compliance with the Sri Lanka Accounting Standards and the provision of the Companies Act No. 7 of 2007.

Internal Audit

The Internal audit division carries out the internal audit function of the Company and the Audit Committee reviews the effectiveness of the internal audit plan to ensure that it is 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 2018, subject to the approval of the shareholders 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 policies, and its assets are properly accounted for and adequately safeguarded.



D. S. K. Amarasekera

Chairman
Audit Committee



Dr. A. Shakthevale

Director
Audit Committee

28th July 2017

Report of the Remuneration Committee

The Remuneration Committee of Lanka Milk Foods (CWE) PLC, appointed and responsible to the Board of Directors, comprises of two Independent Non-Executive Directors. They are namely Mr. D. S. K. Amarasekera who chairs the committee and Dr. A. Shakthevale. This Committee is responsible for determining the remuneration policy relating to key management personnel.

Remuneration Policy

The remuneration policy of the Company is to attract, motivate and retain 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.

Meetings

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



D. S. K. Amarasekera

Chairman
Remuneration Committee



Dr. A. Shakthevale

Director
Remuneration Committee

28th July 2017

Report of the Related Party Transactions Review Committee

Composition

As per the latest directive issued by the Securities and Exchange Commission of Sri Lanka, which has been incorporated into the Listing Rules of the Colombo Stock Exchange (CSE), the Board established the Related Party Transactions Review Committee on 01st January 2016. The Related Party Transactions Review Committee is responsible to the Board of Directors, and comprises of two Independent Non-Executive Directors.

Mr. D. S. K. Amarasekera, an Attorney-at-Law and Chartered Accountant, was appointed as the Chairman of the Committee. The other member of the Committee is Dr. A. Shakthevale. A brief profile of each member is given on pages 16 to 17 of the Annual Report.

The Group Finance Manager also attended these meetings by invitation when needed.

Purpose of the Committee

The purpose of the Committee as set out in Appendix 9A of the CSE Listing Rules is to review all related party transactions except for transactions set out in Rule 9.5, either prior to the transaction being entered into or, if the transaction is expressed to be

conditional on such review, prior to completion of the transaction.

Meetings

The Committee was appointed on 01st January 2016, the transactions were reviewed in respect of the financial year 2016/17 at a meeting as required by the applicable rules/regulations for the period under review, and a process has been set in place to facilitate compliance in future.

Disclosures

As per the existing practice, related party transactions are disclosed to the stakeholders through the Company's Financial Statements and in order to comply with the rules set out in Appendix 9A of the CSE Listing Rules the Committee newly appointed will establish its functions with a view of further strengthening the internal procedures and policies with the requirements thereof, and relevant disclosures will be made in a timely and detailed manner in future reports.

A related party transaction entered into without pre-approval of the Committee, shall not be deemed to violate the policy, or be invalid or unenforceable, so long as the transaction is brought to the notice of the Committee as promptly as reasonably practical, after it is entered into or after it becomes reasonably evident that the transaction is covered by the Policy.



D. S. K. Amarasekera

Chairman



Dr. A. Shakthevale

Director

Related Party Transactions Review Committee

28th July 2017

Annual Report of the Board of Directors

The Board of Directors of Lanka Milk Foods (CWE) PLC has pleasure in presenting the 35th Annual Report together with the Audited Financial Statements of the Company and the Group for the year ended 31st March 2017.

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. 7 of 2007. The Company was managed by the Cooperative Wholesale Establishment till its privatisation in 1991.

The Group is in the business of manufacturing, importing, exporting, packing, marketing and distributing powdered milk, dairy products, allied beverages and trading carbonated canned beverages. The core activities of LMF Group are; trading of value added consumables, trading of internationally and locally sourced commodities to both domestic and regional markets.

Review of Performance for the Financial Year

A review of the business of the Company and its performance during this financial year with the comments on the financial results, future strategies and prospects are contained in the Chairman's Statement, Director's Review and Management Discussion and Analysis of this Annual Report, together with the Financial Statements, reflect the position of the Company.

Financial Statements

The Financial Statements of the Company and the Group for the year ended 31st March 2017 as approved by the Board of

Directors on 28th July 2017 are given on pages 54 to 96 of the Annual Report.

Auditors' Report

The Auditor's Report on the Financial Statements of the Company and the Group is set out on page 53 of the Annual Report.

Accounting Policies

The Accounting Policies adopted in the preparation of the Financial Statements are in accordance with the Sri Lanka Accounting Standards and are presented on the pages 60 to 68 of the Annual Report.

Results and Dividends

	2016/17	2015/16
For the year ended 31st March	Rs. '000	Rs.' 000
Profit from operations	624,533	270,029
Profit before tax	548,704	119,483
Income tax (expense)/ revasal	(6,748)	1,114
Profit for the year	541,956	120,597

In respect of the year ended 31st March 2017, the Directors have declared a dividend of Rs.2.50 per share, (2016 – Rs.1.25 per share).

Stated Capital

The Stated Capital of the Company is Rs. 999,950,000 and it consists of 39,998,000 Ordinary Shares. There was no change in the stated capital during the year.

Reserves

The total Group Reserves as at 31st March 2017 amounted to Rs. 10,800,055 (2015 /16 – Rs. 9,147,223) The movements of reserves during the period are given under the Statement of Changes in Equity on page 56 of the Annual Report.

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 pages 72 to 75.

Land Holdings

Details of Leasehold Land owned by the company are given in Note 12 to the Financial Statements on page 73.

Investments

Details of Quoted and Unquoted investments made by the Company as at 31st March 2017 are given in Note 13 to 14 the Financial Statements on pages 75 to 76.

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 97 to 99 under Investor Information.

Employees

The number of persons employed by the Company and Group as at 31st March 2017 was 305 (2015 /16 305) and 730 (2015 /16 -736) respectively.

Annual Report of the Board of Directors

Directorate

The Directors listed on the Inner Back Cover have been Directors of the Company throughout the year under review and their brief profiles appear on pages 16 to 17 of the Annual Report.

Directors' Remuneration

The Remuneration of the Directors is given in Note 8 on page 70 to the Financial Statements.

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.

Related Party Disclosures

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

Interests Register

The Company maintains an Interests Register conforming to the Provisions of the Companies Act No. 7 of 2007.

Directors' Shareholdings

The Directors' Shareholdings in the Company were as follows:

	As at 31st March 2017	As at 31st March 2016
Mr. D. H. S. Jayawardena	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
Mr. D. Hasitha Stassen Jayawardena	Nil	Nil

Donations

During the year donations amounting to Rs. 5,000 were made by the Company.

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.

Events After the Reporting Period

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

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 reporting date, have been paid or, where relevant, provided for.

Internal Controls

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

Risk Management

The Risk Management processes currently practiced by the Company to identify and manage potential risks are given on page 40 - 43 of the Annual Report.

Contingent Liabilities

Except as disclosed in Note 30 to the Financial Statements on page 85, there

were no materials contingent liabilities as at the reporting date.

Environment

The Company has not engaged in any activity that was detrimental to the environment and has been in due compliance with all applicable laws and regulations of the country to the best of its ability.

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 36 to 39 of the Annual Report.

Going Concern

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

Annual General Meeting

The 35th Annual General meeting of the Company will be held at Sri Lanka Foundation Institute on Thursday, 24th of August 2017 at 10.00 a.m. The Notice of Meeting appears on page 104 of the report.

Signed for and on behalf of the Board of Directors,



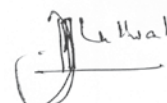
D. H. S. Jayawardena

Chairman



D. S. C. Jayawardena

Director



H. K. Bulathwatte

Company Secretary

Lanka Milk Foods (CWE) PLC
28th July 2017

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 reporting 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 an 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 External Auditors were provided with all the necessary information and explanations to enable them to form their opinion on the Company Financial Statements.

Compliance Report

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

On behalf of the Board of Directors

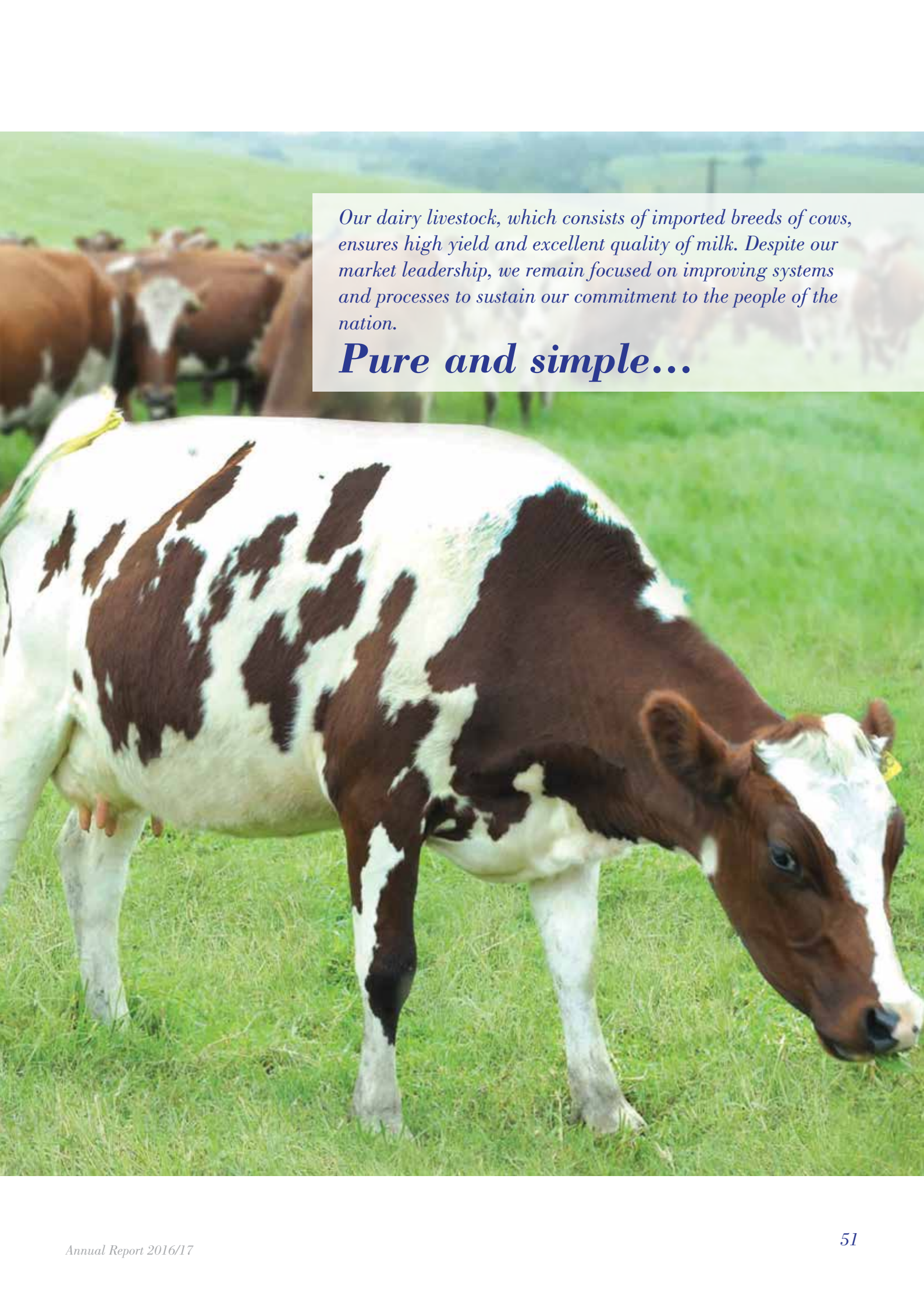


H. K. Bulathwatte

Company Secretary

28th July 2017





Our dairy livestock, which consists of imported breeds of cows, ensures high yield and excellent quality of milk. Despite our market leadership, we remain focused on improving systems and processes to sustain our commitment to the people of the nation.

Pure and simple...

Independent Auditors' Report



KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300, Sri Lanka.

Tel : +94 - 11 542 6426
Fax : +94 - 11 244 5872
+94 - 11 244 6058
+94 - 11 254 1249
Internet : www.kpmg.com/lk

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 Company"), and the consolidated financial statements of the Company and its subsidiaries ("Group"), which comprise the statement of financial position as at 31st March 2017, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes set out on pages 54 to 96.

Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements

and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31st March 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following;

- a) The basis of opinion and scope and limitations of the audit are as stated above.
- b) In our opinion:
 - We have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.
 - The financial statements of the Company give a true and fair view of its financial position as at 31st March 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
 - The financial statements of the Company and the Group comply with the requirements of sections 151 and 153 of the Companies Act No. 07 of 2007.

Chartered Accountants

28 July 2017
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
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA
G.A.U. Karunaratne FCA
R.H. Rajan ACA
P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyrathne FCA
R.M.D.B. Rajapakse FCA
C.P. Jayatilake FCA
Ms. S. Joseph FCA
S.T.D.L. Perera FCA
Ms. B.K.D.T.N. Rodrigo FCA
Principals - S.R.L. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA
Ms. C.T.K.N. Perera ACA

Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 31ST MARCH	Note	Group		Company	
		2017 Rs.000's	2016 Rs.000's	2017 Rs.000's	2016 Rs.000's
Revenue	5	5,250,208	5,048,510	2,053,427	2,394,015
Cost of Sales		(4,460,347)	(4,315,068)	(1,898,491)	(2,171,741)
Gross Profit		789,861	733,442	154,936	222,274
Other Operating Income	6	679,184	352,335	376,899	198,177
Administrative Expenses		(396,512)	(336,371)	(184,999)	(172,743)
Distribution Expenses		(376,186)	(408,111)	(128,414)	(186,768)
Other Operating Expenses		(71,814)	(71,266)	(232)	(6,749)
Profit from Operations		624,533	270,029	218,190	54,191
Finance Income		17,818	4,383	17,257	807
Finance Expense		(93,647)	(154,929)	(18,528)	(92,468)
Net Finance Expense	7	(75,829)	(150,546)	(1,271)	(91,661)
Profit/(Loss) Before Taxation	8	548,704	119,483	216,919	(37,470)
Income Tax (Expense)/ Reversal	9	(6,748)	1,114	16,924	20,014
Profit/(Loss) for the Year		541,956	120,597	233,843	(17,456)
Other Comprehensive Income					
Items that are or may be reclassified to profit or loss					
Net change in Fair value of Available for Sale Investments		1,161,622	(1,302,080)	1,161,622	(1,302,080)
Items that will never be reclassified to profit or loss					
Actuarial Loss on Defined Benefit Obligation (Net of tax)		(971)	(3,539)	(813)	(1,005)
Other Comprehensive Income / (Expense) for the Year		1,160,651	(1,305,619)	1,160,809	(1,303,085)
Total Comprehensive Income/ (Expense) for the year		1,702,607	(1,185,022)	1,394,652	(1,320,541)
Profit Attributable to :					
Owners of the company		542,179	126,988	233,843	(17,456)
Non controlling interest		(223)	(6,391)	-	-
Profit/(Loss) for the Year		541,956	120,597	233,843	(17,456)
Total Comprehensive Income Attributable to					
Owners of the company		1,702,830	(1,178,631)	1,394,652	(1,320,541)
Non controlling interest		(223)	(6,391)	-	-
Total Comprehensive Income/ (Expense) for the Year		1,702,607	(1,185,022)	1,394,652	(1,320,541)
Basic Earnings/(Loss) Per Share	10	13.56	3.17	5.85	(0.44)

Figures in brackets indicate deductions.

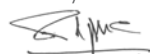
The Financial Statements are to be read in conjunction with related notes, which form a part of the Financial Statements of the Group set out in pages 60 to 96.

Statement of Financial Position

AS AT 31ST MARCH	Note	Group		Company	
		2017 Rs.000's	2016 Rs.000's	2017 Rs.000's	2016 Rs.000's
Assets					
Non Current Assets					
Property, Plant and Equipment	12	1,564,886	1,584,723	162,710	186,883
Investment in Subsidiaries	13	-	-	755,262	755,495
Available for Sale Investments	14.1	8,989,283	7,827,661	8,989,283	7,827,661
Biological Assets	15.1	476,725	385,063	-	-
Deferred Tax Asset	23	89,152	68,294	89,152	68,294
		11,120,046	9,865,741	9,996,407	8,838,333
Current Assets					
Inventories	16	823,102	826,306	262,735	339,698
Biological Assets	15.2	19,208	10,245	-	-
Financial Assets Held for Trading	14.2	244,838	247,029	244,838	247,029
Trade Receivables	17	367,598	502,103	113,453	193,650
Other Receivables	18	100,692	67,574	15,868	20,265
Amounts Due from Related Companies	19	43,948	54,298	958,492	730,416
Income Tax Receivables		51,373	38,625	27,736	18,942
Cash and Cash Equivalents	20	188,117	44,473	161,432	17,493
		1,838,876	1,790,653	1,784,554	1,567,493
Total Assets		12,958,922	11,656,394	11,780,961	10,405,826
Equity and Liabilities					
Equity					
Stated Capital	21	999,950	999,950	999,950	999,950
Capital Reserves		105,116	105,116	105,116	105,116
Available for sale Reserve		8,751,583	7,589,961	8,751,583	7,589,961
Revenue Reserves		1,943,356	1,452,146	1,488,064	1,305,032
Total Equity attributable to Equity Holders of the Company		11,800,005	10,147,173	11,344,713	10,000,059
Non Controlling Interests		11,597	11,820	-	-
Total Equity		11,811,602	10,158,993	11,344,713	10,000,059
Liabilities					
Non Current Liabilities					
Loans and Borrowings	25	317,359	384,172	-	-
Deferred Tax Liability	23	114,178	99,778	-	-
Retirement Benefit Obligations	24	82,913	72,428	51,429	44,765
		514,450	556,378	51,429	44,765
Current Liabilities					
Trade and Other Payables	26	341,215	214,414	182,427	68,895
Amounts Due to Related Companies	27	9,813	28,039	124,650	26,022
Income Tax Payable		701	1,776	-	-
Loans and Borrowings	25	66,812	66,812	-	-
Bank Overdraft	20	214,329	629,982	77,742	266,085
		632,870	941,023	384,819	361,002
Total Liabilities		1,147,320	1,497,401	436,248	405,767
Total Equity and Liabilities		12,958,922	11,656,394	11,780,961	10,405,826

The Financial Statements are to be read in conjunction with the related notes, which form a part of the Financial Statements of the Group set out on pages 60 to 96.

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.

Approved and signed for and on behalf of the Board;



D.H.S. Jayawardena
Chairman
28 July 2017
Colombo



D.S.C. Jayawardena
Director

Statement of Changes in Equity

FOR THE YEAR ENDED 31ST MARCH Group	Attributable to Equity Holders of the Company						Total	Non-Controlling Interest	Total Equity
	Stated Capital	Revaluation Reserve	Dairy Development Project Reserve	Available for Sale Reserve	Retained Earnings				
	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's			
Balance 1st April 2015	999,950	105,116	110,000	8,892,041	1,268,695	11,375,802	18,211	11,394,013	
Total Comprehensive Income									
Profit / (Loss) for the year	-	-	-	-	126,988	126,988	(6,391)	120,597	
Other Comprehensive Income									
Net change in Fair Value of Available for Sale Investments	-	-	-	(1,302,080)	-	(1,302,080)	-	(1,302,080)	
Actuarial Loss on Defined Benefit Obligation, Net of Tax	-	-	-	-	(3,539)	(3,539)	-	(3,539)	
Total Comprehensive income/ (Expense)	-	-	-	(1,302,080)	123,449	(1,178,631)	(6,391)	(1,185,022)	
Dividend Paid	-	-	-	-	(49,998)	(49,998)	-	(49,998)	
Balance as at 31st March 2016	999,950	105,116	110,000	7,589,961	1,342,146	10,147,173	11,820	10,158,993	
Balance as at 1st April 2016	999,950	105,116	110,000	7,589,961	1,342,146	10,147,173	11,820	10,158,993	
Total Comprehensive Income									
Profit / (Loss) for the year	-	-	-	-	542,179	542,179	(223)	541,956	
Other Comprehensive Income									
Net change in Fair Value of Available for Sale Investments	-	-	-	1,161,622	-	1,161,622	-	1,161,622	
Actuarial Loss on Defined Benefit Obligation, Net of Tax	-	-	-	-	(971)	(971)	-	(971)	
Total Comprehensive income/ (Expense)	-	-	-	1,161,622	541,208	1,702,830	(223)	1,702,607	
Dividend Paid	-	-	-	-	(49,998)	(49,998)	-	(49,998)	
Balance as at 31st March 2017	999,950	105,116	110,000	8,751,583	1,833,356	11,800,005	11,597	11,811,602	

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 of the Group set out in pages 60 to 96.

Statement of Changes in Equity

FOR THE YEAR ENDED 31ST MARCH Company	Stated Capital	Revaluation Reserve	Dairy Development Project Reserve	Available for Sale Reserve	Retained Earnings	Total
	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's	Rs.000's
Balance as at 1st April 2015	999,950	105,116	110,000	8,892,041	1,263,491	11,370,598
Total Comprehensive Income						
Loss for the year	-	-	-	-	(17,456)	(17,456)
Other Comprehensive Income						
Net change in Fair Value of Available for Sale Investments	-	-	-	(1,302,080)	-	(1,302,080)
Actuarial Loss on Defined Benefit Obligation, Net of Tax	-	-	-	-	(1,005)	(1,005)
Total Comprehensive Expense	-	-	-	(1,302,080)	(18,461)	(1,320,541)
Dividend Paid	-	-	-	-	(49,998)	(49,998)
Balance as at 31st March 2016	999,950	105,116	110,000	7,589,961	1,195,032	10,000,059
Balance as at 1st April 2016	999,950	105,116	110,000	7,589,961	1,195,032	10,000,059
Total Comprehensive Income						
Profit for the year	-	-	-	-	233,843	233,843
Other Comprehensive Income						
Net change in Fair Value of Available for Sale Investments	-	-	-	1,161,622	-	1,161,622
Actuarial Loss on Defined Benefit Obligation, Net of Tax	-	-	-	-	(813)	(813)
Total Comprehensive income	-	-	-	1,161,622	233,030	1,394,652
Dividend Paid	-	-	-	-	(49,998)	(49,998)
Balance as at 31st March 2017	999,950	105,116	110,000	8,751,583	1,378,064	11,344,713

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 of the Group set out in pages 60 to 96.

Statement of Cash Flows

FOR THE YEAR ENDED 31ST MARCH	Group		Company	
	2017 Rs.000's	2016 Rs.000's	2017 Rs.000's	2016 Rs.000's
Cash Flow from Operating Activities				
Profit/ (Loss) before tax	548,704	119,483	216,919	(37,470)
Adjustments for;				
Depreciation on property, plant and equipment	226,620	227,012	24,911	29,204
Changes in fair value of held for trading investments	8,765	58,900	8,765	58,900
Provision for impairment of investments in subsidiaries	-	-	233	6,749
Provision / (Reversal) of impairment of trade receivables	(9,366)	12,750	(8,325)	11,494
Gain on disposal of property, plant and equipment	(1,886)	(192)	(1,886)	(21)
Loss on translation of foreign currency	-	8,855	-	8,855
Provision for retirement benefit obligation	15,173	13,001	9,080	7,848
Provision for obsolete inventories	-	2,244	-	2,244
Change in fair value of biological assets	(170,790)	(75,003)	-	-
Loss on disposal of biological assets	10,794	46,038	-	-
Dividend income	(287,552)	(121,225)	(287,552)	(121,225)
Interest income	(2,884)	(887)	(10,083)	(807)
Interest expense	84,882	87,174	9,763	24,713
Operating profit/(loss) before working capital changes	422,460	378,150	(38,175)	(9,516)
Increase in inventories	3,204	202,846	76,963	276,774
(Increase)/decrease in trade and other receivables	110,783	(51,751)	92,917	14,597
(Increase)/decrease in amount due from related companies	10,350	(18,428)	(228,076)	107,323
(Increase)/decrease in amount due to related companies	(18,226)	10,364	98,628	(1,667)
Increase/(decrease) in trade and other payables	126,801	(107,239)	113,532	(113,826)
Cash flows generated from operations	655,372	413,942	115,789	273,685
Interest paid	(84,882)	(87,174)	(9,763)	(24,713)
Income tax paid	(26,721)	(15,496)	(12,411)	(7,905)
Retirement benefits paid	(5,947)	(5,518)	(3,545)	(3,305)
Net cash flows generated from operating activities	537,822	305,754	90,070	237,762
Cash Flow from Investing Activities				
Interest received	2,884	887	10,083	807
Dividend received	287,552	121,225	287,552	121,225
Investment in Financial Assets held for trading	(6,573)	-	(6,573)	-
Acquisition of biological assets	(60,266)	(31,784)	-	-
Proceeds from disposal of property, plant and equipment	1,886	209	1,886	38
Proceeds from sale of biological assets	119,638	46,043	-	-
Purchase and construction of property, plant and equipment	(206,835)	(22,500)	(738)	(1,145)
Net cash flows generated from investing activities	138,286	114,080	292,210	120,925

FOR THE YEAR ENDED 31ST MARCH	Group		Company	
	2017 Rs.000's	2016 Rs.000's	2017 Rs.000's	2016 Rs.000's
Cash Flow from Financing Activities				
Repayment of borrowings during the year	(66,813)	(466,812)	-	(400,000)
Dividend paid	(49,998)	(49,998)	(49,998)	(49,998)
Net Cash flows used in financing activities	(116,811)	(516,810)	(49,998)	(449,998)
Net increase/(decrease) in cash and cash equivalents	559,297	(96,976)	332,282	(91,311)
Cash and cash equivalents at the beginning of the year	(585,509)	(488,533)	(248,592)	(157,281)
Cash and cash equivalents at the end of the year (Note 20)	(26,212)	(585,509)	83,690	(248,592)
Note B				
Analysis of cash and cash equivalents at the end of the year				
Cash and cash equivalents	188,117	44,473	161,432	17,493
Bank overdraft	(214,329)	(629,982)	(77,742)	(266,085)
	(26,212)	(585,509)	83,690	(248,592)

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 of the Group set out in pages 60 to 96.

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 have a primary listing on the Colombo Stock Exchange.

The Consolidated Financial Statements of the Group as at and for the year ended 31st March 2017 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities").

The principal activity of the Company is importing, packaging and distribution of milk allied products. Description of the nature of the operation and principal activities of the subsidiaries are given in Note 29 to the Financial Statements.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

The consolidated and separate financial statements have been prepared in accordance with the Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka and the requirements of the Companies Act No. 7 of 2007.

The consolidated financial statements were authorized for issue by the Board of Directors on 28th July 2017.

2.2 Basis of Measurement

The consolidated and separate financial statements of the Group and the Company have been prepared on the historical cost basis except for the following material items, which are measured on an alternative basis on each reporting date.

- | | |
|--|--|
| i. Available-for-sale financial assets | Fair value. |
| ii. Defined Benefit Obligation | Actuarially valued and recognized at Present value of the defined benefit obligation |
| iii. Biological assets | Fair value less costs to sell |
| iv. Non derivative financial assets | Fair value. |
| at Fair value through profit or loss | |

No adjustments have been made for inflationary factors affecting the financial statements.

2.3 Functional and Presentation Currency

The Group adopted Sri Lankan 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.

All amounts have been given rounded to the nearest thousand, unless otherwise indicated.

2.4 Use of Estimates and Judgments

In preparing these consolidated and separate financial statements, management has made judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

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 judgments 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 prospectively.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the financial statements is included in the following notes.

- | | | |
|--------------|---|--|
| Note 15 | – | Biological Assets |
| Note 23 | – | Deferred Tax Assets; availability of future taxable profit against which Tax losses carried forward can be used. |
| Note 24 | – | Retirement Benefit Obligations; key actuarial assumptions |
| Note 17 | – | Impairment Loss; key assumptions underlying recoverable amounts |
| Note 26 & 30 | – | Provisions and contingencies; key assumptions about likelihood and Magnitude of an outflow of resources |

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.

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. SIGNIFICANT ACCOUNTING POLICIES

The Group has consistently applied the following accounting policies to all periods presented in these consolidated and separate financial statements.

3.1 Basis of Consolidation

3.1.1 Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognized 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 acquiree; less
- The net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed

3.1.2 Non-controlling interests

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

3.1.3 Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

3.1.4 Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

3.1.5 Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

3.2 Statement of Financial Position

3.2.1 Property, Plant and Equipment

3.2.1.1 Recognition and Measurement

Items of property, plant and equipment are stated at 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.

Notes to the Financial Statements

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.

3.2.1.3 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.

3.2.1.4 Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using straight line method over their estimated useful lives, and is generally recognized in profit or loss. This most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

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 derecognized.

The estimated useful lives of property, plant and equipment for current and comparative periods 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 and adjusted if appropriate.

3.2.1.5 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.

3.2.1.6 Operating Leases

The land occupied by the Group is on 50 years' operating lease from the Government of Sri Lanka. Payments made under operating leases are recognized in profit or loss on a straight line basis over the term of the lease.

3.2.1.7 Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss is reversed for other assets except goodwill 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 amortization, if no impairment loss had been recognized.

3.2.2 Biological Assets

Biological Assets are measured at fair value less cost to sell, with any change therein recognized in profit or loss except Non Perennial Agricultural Crop is stated at its cost incurred on cultivation.

3.2.3 Financial Instruments

The Group classifies non derivative financial assets into following categories: available for sale financial assets, loans and receivables, held to maturity financial assets and financial assets at fair value through profit or loss.

The Group classifies non derivative financial liabilities into other financial liabilities category

3.2.3.1 Non-derivative financial assets

The Group initially recognizes loans and receivables and debt securities issued on the date at which they are originated. All other financial assets (including assets designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset is measured initially at fair value plus, for an asset not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expires, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Subsequent measurement

(a) Available for sale financial assets

Available-for-sale investments are non-derivative investments that were designated as available-for-sale or not classified as another category of financial assets. These include quoted equity securities.

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein are recognized in

OCI and accumulated in fair value reserve. When these assets are derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

Dividend income was recognised in profit or loss when the Group becomes entitled to the dividend. In the parent Company's financial statements, investments in subsidiaries are carried at cost less impairment losses in accordance with the Parent Company's accounting policy for investments in Subsidiaries.

(b) Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payment that are not quoted in an active market. These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using effective interest method. These include trade receivables, other receivables, and amounts due from related parties, cash and cash equivalents.

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 Flows Statement, cash and cash equivalents consists of cash in hand and deposits in banks net of outstanding bank overdrafts.

(c) Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income, are recognized in profit or loss. These include quoted equity securities.

Notes to the Financial Statements

3.2.3.2 Non-derivative financial liabilities

Other financial liabilities are recognized initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

Other financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to the initial recognition, these liabilities are measured at amortized cost using effective interest rate method.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire. Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

(a) Current Liabilities

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

(b) Non-Current Liabilities

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

3.2.3.3 Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique.

3.2.3.4 Impairment of Financial Assets (Non-Derivatives)

Financial assets not classified as at fair value through profit or loss are assessed at each reporting date to determine whether there is an objective evidence of impairment.

Objective evidence that financial assets are impaired includes;

- default or delinquency by a debtor;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

Financial assets carried at Amortized Cost

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through profit or loss.

Available for Sale Financial Assets (AFS)

Impairment losses on available for sale financial assets are recognized by reclassifying the losses accumulated in the available for sale reserve to profit or loss. The amount reclassified is the difference between acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss previously recognized in profit or loss.

If the fair value of an impaired available for sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed through profit or loss. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available for sale are not reversed through profit or loss.

3.2.4 Inventories

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

The cost of milk powder 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.

3.2.5 Retirement Benefit Obligations

a) Defined Benefit Plan – Gratuity

The defined benefit obligation is calculated by using the Projected Unit Credit Method based on the valuation performed by an independent professional actuary as prescribed in Sri Lanka Accounting Standard 19, “Employee Benefits”.

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 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 Group recognizes all actuarial gains and losses arising from the defined benefit plans immediately in the other comprehensive income. The liability is disclosed under non – current liabilities in the Statement of Financial Position.

The key assumptions used in 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 Group. The liability is not externally funded.

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.

c) Short term employee benefits

Short term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.2.6 Stated Capital

Ordinary Shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

3.2.7 Provisions

Provisions are recognized 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. Provisions and liabilities are recognized in the Statement of Financial Position.

3.3 Statement of Profit or Loss

3.3.1 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.

Notes to the Financial Statements

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.

Revenue is recorded at invoice value net of brokerage and other levies related to revenue.

3.3.2 Interest Income

Interest income is recognised using effective interest rate method.

3.3.3 Disposal of Property, Plant and Equipment

Gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

3.3.4 Sale of Farm products

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

3.3.5 Fair Value Adjustment on the Biological Assets

Gain or loss arising from changes in fair value of biological assets is dealt in the statement of profit or loss.

3.3.6 Other Income

Other income is recognised on an accrual basis.

3.3.7 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 statement of profit or loss, 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.

3.3.8 Foreign Exchange Gain/Loss

Transactions in foreign currencies are recorded in the functional currency at the average spot exchange rate on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the average spot exchange rate ruling at the reporting date. The average spot exchange rate used is the middle rate of

the commercial bank's spot rates quoted for purchase or sale of the relevant foreign currency. The Group do not have any non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency.

3.3.9 Borrowing Costs

Borrowing costs are recognized 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 capitalized as part of the cost of that asset.

3.3.10 Income Tax

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

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 thereon.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year and any adjustments to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted at the reporting date.

Deferred Taxation

Deferred tax is recognized in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation 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 future 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.

Deferred tax assets are reviewed at each reporting date and are 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 reporting date and are recognized to the extent that it has become probable that future taxable profit will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. Deferred 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.

3.4 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.

3.5 Earnings per Share

The Group 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.

3.6 Segment Reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenues and expenses that relate to transactions with any of the group's other components. All operating segments operating results are reviewed regularly by the group's operating decision maker to make decisions about the resources to each segment and to assess its performance, and for which discrete financial information is available.

3.7 Financial Guarantees

Liabilities under financial guarantee contracts are recorded initially at their fair value, which is generally the fee as per market rate. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortization and the best estimate of the expenditure required settling the obligations.

3.8 Materiality Aggregation

Each material class of similar items is presented separately in the financial statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.

3.9 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.

3.10 Comparative Information

The Group 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.

3.11 Events after the Reporting Date

All material events occurring after the reporting date have been considered and where appropriate adjustments or disclosures have been made in the Financial Statements.

3.12 Commitments and Contingencies

Commitments and contingencies as at the reporting period are disclosed in the Financial Statements.

4 NEW STANDARDS ISSUED BUT NOT EFFECTIVE AS AT REPORTING DATE

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standards which will become applicable for financial periods beginning on or after 1st April 2018. Accordingly, these Standards have not been applied in preparing these financial statements.

- SLFRS 15 – Revenue from contract with customers

This standard establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including LKAS 18 – 'Revenue', LKAS 11 – 'Construction Contracts' and IFRIC 13 – 'Customer Loyalty Programmes'.

SLFRS 15 is effective for annual periods beginning on or after 1st January 2018 with early adoption permitted.

Notes to the Financial Statements

- Sri Lanka Accounting Standard – SLFRS 9 “Financial Instruments: Classification and Measurement

SLFRS 9 – “Financial Instruments: Classification and Measurement” replaces the existing guidance in LKAS 39 - ‘Financial Instruments: Recognition and measurement’. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments including a new expected credit loss model for calculating impairment on financial assets.

SLFRS 9 is effective for annual periods beginning on or after 1st January 2018 with early adoption permitted.

A Group shall apply this SLFRS to all items within the scope of LKAS 39 “Financial Instruments: Recognition and Measurement”.

- SLFRS 16 - “Leases”

SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosures of leases for both parties to a lease contract. SLFRS 16 is effective for annual reporting period beginning on or after 1st January 2019, with early adoption permitted.

The Group is assessing the potential impact to the financial statements resulting from the application above accounting standards.

FOR THE YEAR ENDED 31ST MARCH	Group		Company	
	2017	2016	2017	2016
	Rs.000's	Rs.000's	Rs.000's	Rs.000's
5 REVENUE				
Gross Revenue	5,363,012	5,160,780	2,095,145	2,442,948
Less : Nation Building Tax	(112,804)	(112,270)	(41,718)	(48,933)
	5,250,208	5,048,510	2,053,427	2,394,015
6 OTHER OPERATING INCOME				
Gain on disposal of property, plant and equipment	1,886	192	1,886	21
Gain on disposal of Biological Assets	402	566	-	-
Change in Fair Value of Biological Assets	170,791	75,003	-	-
Commission Income	70,806	66,170	70,806	66,170
Dividend income	287,552	121,225	287,552	121,225
Sundry Income	124,482	79,472	205	1,054
Reversal of Bad Debts Provision	15,140	-	8,325	-
Storage Income	8,125	9,707	8,125	9,707
	679,184	352,335	376,899	198,177
7 NET FINANCE EXPENSE				
Finance Income				
Interest on fixed deposits	335	23	268	23
Interest on loans and receivables	2,165	377	2,118	377
Interest from Trade Receivables	384	487	299	407
Gain on translation of foreign currency	14,934	3,496	7,174	-
Interest on inter company loan	-	-	7,398	-
	17,818	4,383	17,257	807
Finance Expense				
Interest on Bank Overdraft	(30,991)	(38,142)	(8,121)	(15,940)
Interest on long term borrowings	(53,891)	(49,032)	(1,642)	(8,773)
Loss on change in fair value of Financial Assets Held for Trading	(8,765)	(58,900)	(8,765)	(58,900)
Loss on translation of foreign currency	-	(8,855)	-	(8,855)
	(93,647)	(154,929)	(18,528)	(92,468)
Net Finance Expense	(75,829)	(150,546)	(1,271)	(91,661)

Notes to the Financial Statements

FOR THE YEAR ENDED 31ST MARCH	Group		Company	
	2017	2016	2017	2016
	Rs.000's	Rs.000's	Rs.000's	Rs.000's
8 PROFIT/ (LOSS) BEFORE TAXATION				
Profit/ (Loss) before Taxation is stated after charging all the expenses including the followings.				
Directors' Emoluments	6,813	6,217	6,813	6,217
Auditors' Remuneration				
- Audit services	4,139	3,607	2,525	2,310
- Audit related services	518	494	518	494
Impairment of Investment in Subsidiaries	-	-	232	6,749
Depreciation on Property, Plant and Equipment	226,620	227,012	24,911	29,204
Lease Rent for Land	29,612	28,520	67	67
Provision /(Reversal) for Impairment of Trade Receivables	(9,366)	12,750	(8,325)	11,494
Management fees	1,000	1,160	1,000	1,160
Personnel Costs (Note 8.1)	460,898	403,587	255,602	219,602
8.1 Personnel Costs				
Defined Contribution Plan Costs - EPF and ETF	38,391	33,924	21,886	16,539
Defined Benefit Plan Cost - Retirement Benefit Obligation	15,173	13,001	9,080	7,848
Other Staff Costs	407,334	356,662	224,636	195,215
	460,898	403,587	255,602	219,602
Total Number of Employees as the end of the year	730	736	305	305
9 INCOME TAX - EXPENSE/ (REVERSAL)				
Income Tax for the year (Note 9.1)	11,116	1,923	1,835	147
Under provision with respect to previous years	1,804	-	1,781	-
Deferred Taxation Reversal for the year (Note 23.1)	(6,172)	(3,037)	(20,542)	(20,161)
	6,748	(1,114)	(16,924)	(20,014)

- a) The profits and income of Lanka Milk Foods (CWE) PLC is liable for income tax at the rate 28% 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 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 is liable for income tax at the rate of 28%.
- c) As per the agreement entered into with Board of Investment of Sri Lanka, the profit of Ambewela Products (Private) Limited, a subsidiary company is exempt from income tax for a period of 10 years from the year of assessment, the company commences to make profits or any year of assessment not later than two years reckoned from the date of commencement of commercial operations of the company, whichever comes first. The said exemption commenced with effect from the Y/A 2011/12.

	Group		Company	
	2017 Rs.000's	2016 Rs.000's	2017 Rs.000's	2016 Rs.000's
9.1 Reconciliation of Accounting Profit to Income Tax Expense				
Profit/(Loss) before Tax	548,704	119,483	216,919	(37,470)
Consolidation adjustments	6,820	(9,760)	-	-
	555,524	109,723	216,919	(37,470)
Non business income	(10,282)	(946)	(10,083)	(807)
Disallowable expenses	313,816	437,041	43,021	121,857
Tax deductible expenses	(241,617)	(494,557)	(16,310)	(20,745)
Tax exempt income	(398,106)	(196,988)	(295,879)	(121,246)
Loss of Ambewela Product (Private) Limited	-	(64,846)	-	-
Business income/ (Loss) (Note 9.1.1)	219,335	(210,573)	(62,332)	(58,411)
Non business income	10,282	946	10,083	807
Tax loss claimed during the year	(81,727)	(9,796)	(3,529)	(282)
Qualifying Payments during the year	(52,460)	(3)	-	-
Taxable Income/ (Tax Loss)	(123,905)	(8,853)	6,554	525
Income tax @ 28%	1,842	161	1,835	147
Income tax @ 10%	9,274	1,762	-	-
Income tax expense	11,116	1,923	1,835	147
9.1.1 Business Income	223,225	-	-	-
Business Income exempted	97,254	-	-	-
Business Loss	(101,144)	(210,573)	(62,332)	(58,411)
	219,335	(210,573)	(62,332)	(58,411)
9.2 Accumulated Tax Losses				
Tax loss brought forward	1,262,197	1,059,100	322,836	264,707
Adjustments related to prior years	312,368	2,320	-	-
Loss for the Year	101,144	210,573	62,332	58,411
Tax loss claimed during the Year	(81,727)	(9,796)	(3,529)	(282)
Tax loss carried forward	1,593,982	1,262,197	381,639	322,836
10 BASIC EARNINGS/ (LOSS) PER SHARE				
The calculation of basic earnings/ (loss) per share is based on the profit / (loss) after tax attributable to ordinary shareholders divided by the weighted average number of ordinary shares outstanding during the year.				
	Group		Company	
	2017	2016	2017	2016
Profit/ (Loss) Attributable to Ordinary Shareholders (Rs.'000)	542,179	126,988	233,843	(17,456)
Weighted Average Number of Ordinary Shares ('000)	39,998	39,998	39,998	39,998
Basic Earnings/ (Loss) Per Share (Rs.)	13.56	3.17	5.85	(0.44)
11 DIVIDEND PER SHARE				
Dividend Per Share (Rs.)	2.50	1.25	2.50	1.25

Dividend proposed are taken in to consideration for computation of dividend per share. Proposed final dividend has not been recognized as a liability as at reporting date until it is approved at the Annual General meeting.

Notes to the Financial Statements

12 PROPERTY, PLANT AND EQUIPMENT

12.1 Group

	As at 01/04/2016 Rs.000's	Additions/ Transfers Rs.000's	Disposals/ Transfers Rs.000's	As at 31/03/2017 Rs.000's
Cost /Deemed Cost				
Leasehold buildings	824,879	-	-	824,879
Plant and machinery	1,807,283	24,539	-	1,831,822
Laboratory equipment	10,134	315	-	10,449
Factory equipment	218,061	12,787	-	230,848
Canteen equipment	3,007	8	-	3,015
Office equipment	9,882	417	-	10,299
Fire fighting equipment	4,255	-	-	4,255
Furniture and fittings	10,379	632	-	11,011
Fixtures	179	5	-	184
Computers	14,296	801	-	15,097
Motor vehicles	210,403	18,847	(1,076)	228,174
Milk collection equipment	3,660	-	-	3,660
Motor roads and others	63,039	-	-	63,039
	3,179,457	58,351	(1,076)	3,236,732
Accumulated Depreciation				
Leasehold buildings	357,898	23,220	-	381,118
Plant and machinery	834,954	158,049	-	993,003
Laboratory equipment	6,637	181	-	6,818
Factory equipment	131,221	20,685	-	151,906
Canteen equipment	2,343	74	-	2,417
Office equipment	8,845	520	-	9,365
Fire fighting equipment	4,255	-	-	4,255
Furniture and fittings	9,064	719	-	9,783
Fixtures	165	5	-	170
Computers	11,939	866	-	12,805
Motor vehicles	179,514	16,447	(1,076)	194,885
Milk collection equipment	3,660	-	-	3,660
Motor roads and others	44,291	5,854	-	50,145
	1,594,786	226,620	(1,076)	1,820,330
Written Down Value	1,584,671			1,416,402
Capital Work in Progress	52	148,484	(52)	148,484
	1,584,723			1,564,886

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**12.1 Group (Continued)**

	2017 Rs.000's	2016 Rs.000's
Written Down Value		
Leasehold buildings	443,761	466,981
Plant and machinery	838,819	972,329
Laboratory equipment	3,631	3,497
Factory equipment	78,942	86,840
Canteen equipment	598	664
Office equipment	934	1,037
Fire fighting equipment	-	-
Furniture and fittings	1,228	1,315
Fixtures	14	14
Computers	2,292	2,357
Motor vehicles	33,289	30,889
Milk collection equipment	-	-
Motor roads and others	12,894	18,748
	1,416,402	1,584,671
Capital Work in Progress	148,484	52
	1,564,886	1,584,723

(a) The cost of fully depreciated property, plant and equipment as at the reporting date are as follows;

Lanka Milk Foods (CWE) PLC	218,624	181,148
Lanka Dairies (Private) Limited	144,825	136,120
Ambewela Livestock Company Limited	93,380	91,389
Pattipola Livestock Company Limited	55,328	54,438
Ambewela Products (Private) Limited	40,012	39,598
	552,169	502,693

(b) 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 deemed to be the cost of buildings which have been subsequently measured at cost less accumulated depreciation and accumulated impairment losses.

(c) 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

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

12.1 Group (Continued)

The details of buildings on leasehold lands as at 31st March 2017 are as follows:

Name of Premises and address	Extent (Hectares)	Building (Square feet)	No of Buildings	Cost of the Building Rs '000	Accumulated Depreciation Rs '000	Written down value Rs '000
Welisara	3.275	140,800	3	434,416	257,176	177,240
Ambewela	458.47		131	390,463	123,942	266,521
				824,879	381,118	443,761

12.2 Company

	As at 01/04/2016 Rs.000's	Additions/ Transfers Rs.000's	Disposals/ Transfers Rs.000's	As at 31/03/2017 Rs.000's
Cost /Deemed Cost				
Leasehold buildings	358,951	-	-	358,951
Plant and machinery	176,554	203	-	176,757
Laboratory equipment	2,843	-	-	2,843
Factory equipment	9,132	147	-	9,279
Canteen equipment	3,007	8	-	3,015
Office equipment	8,134	288	-	8,422
Fire fighting equipment	4,223	-	-	4,223
Furniture and fittings	3,951	64	-	4,015
Fixtures	164	-	-	164
Computers	10,332	-	-	10,332
Motor vehicles	110,254	28	(1,076)	109,206
	687,545	738	(1,076)	687,207
Accumulated Depreciation				
Leasehold buildings	222,174	8,548	-	230,722
Plant and machinery	154,015	4,472	-	158,487
Laboratory equipment	2,815	7	-	2,822
Factory equipment	5,504	641	-	6,145
Canteen equipment	2,343	75	-	2,418
Office equipment	7,323	404	-	7,727
Fire fighting equipment	4,223	-	-	4,223
Furniture and fittings	3,564	258	-	3,822
Fixtures	164	-	-	164
Computers	9,066	426	-	9,492
Motor vehicles	89,471	10,080	(1,076)	98,475
	500,662	24,911	(1,076)	524,497
Written Down Value	186,883			162,710

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**12.3 Company (Continued)**

Written Down Value	2017 Rs.000's	2016 Rs.000's
Leasehold buildings	128,229	136,777
Plant and machinery	18,270	22,539
Laboratory equipment	21	28
Factory equipment	3,134	3,628
Canteen equipment	597	664
Office equipment	695	811
Fire fighting equipment	-	-
Furniture fittings	193	387
Fixtures	-	-
Computers	840	1,266
Motor vehicles	10,731	20,783
	162,710	186,883

13 INVESTMENT IN SUBSIDIARIES

	2017		2016	
	No. of Shares	Cost Rs.000's	No. of Shares	Cost Rs.000's
Lanka Dairies (Private) Limited	500,000	5,000	500,000	5,000
Ambewela Livestock Company Limited	3,000,000	51,137	3,000,000	51,137
Pattipola Livestock Company Limited	1,000,000	46,815	1,000,000	46,815
Ambewela Products (Private) Limited	1,000,000	1,010,000	1,000,000	1,010,000
Indo Lanka Exports (Private) Limited	306,000	30,600	306,000	30,600
		1,143,552		1,143,552
Less : Provision for Impairment of Investments (Note 13.1)		(388,290)		(388,057)
		755,262		755,495

13.1 Provision for Impairment of Investments

	2017 Rs.000's	2016 Rs.000's
Balance as at 1st April	388,057	381,308
Charge for the year	233	6,749
Balance as at 31st March	388,290	388,057

13.1.1 The Company has made a provision for impairment of Rs.388,289,675/- on the investment in subsidiaries as at 31st March 2017 due to adverse business environment in which the subsidiary companies are operated. This has resulted in continuous operating losses and negative operating cash flows in subsidiary companies and adjusted net asset basis has been considered as the recoverable amount for the calculation of provision for impairment as at the each reporting date. The breakup of the impairment provision is as follows;

	2017 Rs.000's	2016 Rs.000's
Ambewela Livestock Company Limited	51,137	51,137
Pattipola Livestock Company Limited	46,815	46,815
Ambewela Products (Private) Limited	271,435	271,435
Indo Lanka Exports (Private) Limited	18,903	18,670
	388,290	388,057

Notes to the Financial Statements

14 INVESTMENT IN SHARES

	2017		2016	
	No of Shares	Fair Value Rs.000's	No of Shares	Fair Value Rs.000's
14.1 Available for Sale Investments				
Group/Company				
Distilleries Company of Sri Lanka PLC	-	-	37,961,500	7,827,661
Melstacorp PLC	151,846,000	8,989,283	-	-
		8,989,283		7,827,661
14.2 Financial Assets Held for Trading				
Group/Company				
Browns Beach Hotels PLC	1,251,558	26,658	1,251,558	40,676
Colombo Dockyard PLC	219,948	16,716	219,948	23,776
Commercial Bank of Sri Lanka PLC - Voting	1,544,964	201,464	1,454,797	182,577
		244,838		247,029

15 BIOLOGICAL ASSETS

	Group		Company	
	2017 Rs.000's	2016 Rs.000's	2017 Rs.000's	2016 Rs.000's
15.1 Livestock				
Balance as at the beginning	385,063	371,252	-	-
Additions during the year	37,069	19,595	-	-
Increase in Fair Value during the year	170,790	75,003	-	-
Disposals during the year	(116,197)	(80,787)	-	-
Balance as at the end	476,725	385,063	-	-
15.2 Non Perennial Crops - At Cost				
Balance as at the beginning	10,245	9,350	-	-
Additions during the year	23,197	12,189	-	-
Disposals during the year	(14,234)	(11,294)	-	-
Balance as at the end	19,208	10,245	-	-

The Group has used the following significant criterias in determining the fair value of the Biological Assets as at 31st March 2017.

Weight

Pregnancy

Milk Production

Lactations

Age

15.3 Measurement of Fair Values

a) Fair Value Hierarchy

The fair value measurements of the standing livestock have been categorized as Level 2 fair values based on observable market sales data.

b) Level 2 Fair Values

The break down of the total gains (losses) in respect of Level 2 fair values is shown below.

Group	2017 Rs.000's	2016 Rs.000's
Gain included in other income		
Change in fair value (realized)	402	566
Change in fair value (unrealized)	170,790	75,003
	171,192	75,569
Loss included in other operating expense		
Change in fair value (realized)	11,196	46,604
	11,196	46,604

15.4 Valuation Techniques Used

Type

Livestock comprises cattle characterised as commercial or breeders

Valuation Technique

Market Comparison Technique:

The fair values are based on the market price of livestock of similar age, weight, pregnancy, Lactations and milk production.

15.5 Sensitivity Analysis

Sensitivity Variation on Selling Price

Values as appearing in the statement of Financial Position are sensitive to sales price changes with regard to the average price applied. Simulations made for Livestock show that an increase or a decrease by 10% of the estimated future selling price has the following effect on the net present value of Biological Assets.

As at 31st March Group	-10% Rs. Rs.000's	2017 Rs. Rs.000's	+ 10% Rs. Rs.000's
Livestock	429,053	476,725	524,398
Total	429,053	476,725	524,398

Sensitivity Variation on Average Animal Weight

Values as appearing in the statement of Financial Position are sensitive to average animal weight changes. Simulations made for Livestock show that an increase or a decrease by 10kg of average animal weight has the following effect on the net present value of Biological Assets.

As at 31st March Group	-10% Rs. Rs.000's	2017 Rs. Rs.000's	+ 10% Rs. Rs.000's
Livestock	442,378	476,725	512,366
Total	442,378	476,725	512,366

Notes to the Financial Statements

16 INVENTORIES	Group		Company	
	2017 Rs.000's	2016 Rs.000's	2017 Rs.000's	2016 Rs.000's
Raw Materials and Consumables	699,681	719,699	170,931	285,787
Finished Goods	52,857	83,102	5,488	45,353
Work-in progress	14,092	11,958	11,674	10,802
Goods in Transit	82,292	38,453	75,800	-
	848,922	853,212	263,893	341,942
Less : Provision for Obsolete Inventories (Note 16.1)	(25,820)	(26,906)	(1,158)	(2,244)
	823,102	826,306	262,735	339,698
16.1 Provision for Obsolete Inventories				
Balance as at 1st April	26,906	24,662	2,244	-
Charge/ (Write off) during year	(1,086)	2,244	(1,086)	2,244
Balance as at 31st March	25,820	26,906	1,158	2,244
17 TRADE RECEIVABLES				
Trade Receivables	439,454	583,325	150,382	238,904
Less: Provision for Impairment Loss (Note 17.1)	(71,856)	(81,222)	(36,929)	(45,254)
	367,598	502,103	113,453	193,650
17.1 Provision for Impairment Loss				
Balance as at 1st April	81,222	68,472	45,254	33,760
Charge/ (Reversal) for the year	(9,366)	26,398	(8,325)	14,494
Write off during the year	-	(13,648)	-	(3,000)
Balance as at 31st March	71,856	81,222	36,929	45,254
18 OTHER RECEIVABLES				
Deposits and Prepayments	24,984	27,242	396	7,743
Other Taxes Recoverable (Note 18.1)	2,548	9,770	909	2,791
Sundry Receivables	63,813	23,340	7,223	4,614
Staff Loans and Advances	9,347	7,222	7,340	5,117
	100,692	67,574	15,868	20,265
18.1 Other Taxes Recoverable				
Withholding Tax	29	29	-	-
Nation Building tax	909	2,791	909	2,791
Value Added Tax	1,610	6,950	-	-
	2,548	9,770	909	2,791

19 AMOUNT DUE FROM RELATED COMPANIES

	Group		Company	
	2017	2016	2017	2016
	Rs.000's	Rs.000's	Rs.000's	Rs.000's
Lanka Dairies (Private) Limited	-	-	614,322	369,769
Stassen Exports Limited	41,137	47,430	18,128	10,415
Aitken Cargo (Private) Limited	196	-	-	-
Ambewela Products (Private) Limited	-	-	1,118	21,225
Ambewela Livestock Company Limited	-	-	316,305	316,265
Aitken Spence PLC	1,874	1,485	1,874	1,363
Distilleries Company of Sri Lanka PLC	741	5,358	736	5,348
Lanka Bell (Private) Limited	-	25	-	25
Pattipola Livestock Company Limited	-	-	198,334	198,331
	43,948	54,298	1,150,817	922,741
Less : Provision for Impairment	-	-	(192,325)	(192,325)
	43,948	54,298	958,492	730,416

20 CASH AND CASH EQUIVALENTS

Cash at Bank and in Hand	39,060	36,009	12,375	9,029
Call Deposit	149,057	8,464	149,057	8,464
	188,117	44,473	161,432	17,493
Less : Bank Overdraft	(214,329)	(629,982)	(77,742)	(266,085)
Cash and cash equivalents for the purpose of cash flow statement	(26,212)	(585,509)	83,690	(248,592)

20.1 Security details over bank overdraft facilities

Name of the company	Bank	Facility Value (Rs.Mn)	Nature of assets pledged
Lanka Milk Foods (CWE) PLC	HNB	300	Investment in quoted shares of Melstacorp PLC, Inventories and Trade Receivables
	HSBC	100	
Lanka Dairies (Private) Limited	HNB	200	Corporate Guarantee from Lanka Milk Foods (CWE) PLC
Ambewela Products (Private) Limited	HNB	100	Corporate Guarantee from Lanka Milk Foods (CWE) PLC
Ambewela Livestock Company Limited	HNB -Wattala	40	Corporate Guarantee from Lanka Milk Foods (CWE) PLC
	HNB -Nuwara Eliya	10	
Pattipola Livestock Company Limited	HNB- Wattala	40	Corporate Guarantee from Lanka Milk Foods (CWE) PLC
	HNB -Nuwara Eliya	10	

21 STATED CAPITAL

	Group		Company	
	2017	2016	2017	2016
	Rs.000's	Rs.000's	Rs.000's	Rs.000's
39,998,000 Ordinary Shares	999,950	999,950	999,950	999,950

Notes to the Financial Statements

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 and Equipment at the date of revaluation. The revaluation was carried out during the financial year ended 31st March 1990 in order to incorporate the 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 at the date of acquisition.

22.2 Dairy Development Project Reserve

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

23 DEFERRED TAXATION

	Group		Company	
	2017 Rs.000's	2016 Rs.000's	2017 Rs.000's	2016 Rs.000's
Balance as at the beginning	31,485	35,106	(68,294)	(47,742)
Reversal for the year (Note 23.1)	(6,459)	(3,621)	(20,858)	(20,552)
Balance as at the end	25,026	31,485	(89,152)	(68,294)
Deferred tax asset	(89,152)	(68,294)	(89,152)	(68,294)
Deferred tax liability	114,178	99,778	-	-
	25,026	31,485	(89,152)	(68,294)

The amounts shown in the statement of financial position represent the followings;

	2017			2016		
	Deferred tax assets Rs.000's	Deferred tax liabilities Rs.000's	Net deferred tax (asset/ liability Rs.000's	Deferred tax assets Rs.000's	Deferred tax liabilities Rs.000's	Net deferred tax (asset/ liability Rs.000's
Lanka Milk Foods (CWE) PLC	(121,260)	32,108	(89,152)	(102,928)	34,634	(68,294)
Lanka Dairies (Private) Limited	(51,425)	58,401	6,976	(58,994)	65,296	6,302
Ambewela Products (Private) Limited	(1,021)	99,697	98,676	(746)	89,371	88,625
Pattipola Livestock Company Limited	(11,030)	19,556	8,526	(11,486)	16,338	4,852
	(184,736)	209,762	25,026	(174,154)	205,639	31,485

23.1 Deferred tax reversal

	Group		Company	
	2017 Rs.000's	2016 Rs.000's	2017 Rs.000's	2016 Rs.000's
Statement of profit or loss	(6,172)	(3,037)	(20,542)	(20,161)
Other comprehensive income	(287)	(584)	(316)	(391)
	(6,459)	(3,621)	(20,858)	(20,552)

23.2 Deferred Taxation (Continued)

The deferred tax liability is attributable to the followings;

Company	2017		2016	
	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect
	Rs.000's	Rs.000's	Rs.000's	Rs.000's
On Property, plant and Equipment	114,670	32,108	123,695	34,634
On Retirement Benefit Obligations	(51,429)	(14,401)	(44,765)	(12,534)
On Accumulated Tax Losses	(381,639)	(106,859)	(322,836)	(90,394)
		(89,152)		(68,294)
Group				
Group	2017		2016	
	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect
	Rs.000's	Rs.000's	Rs.000's	Rs.000's
On Property, plant and Equipment	1,118,765	172,241	1,168,509	176,041
On Retirement Benefit Obligations	(72,803)	(17,049)	64,014	(14,832)
On Accumulated Tax Losses	(989,921)	(167,687)	(1,012,119)	(159,322)
On Biological Assets	273,960	37,521	218,376	29,598
		25,026		31,485

Deferred tax asset has not been recognized in the Financial Statements of subsidiary of the Group (Ambewela Livestock Company Limited) since it is not probable that future taxable profits will be available against which the Company can utilize the benefit there from. The deferred tax asset has been recognized in the Financial Statements to the extent of deferred tax liability. The unrecorded deferred tax assets of subsidiary as at 31st March 2017 is Rs.9,654,423.

Notes to the Financial Statements

24 RETIREMENT BENEFIT OBLIGATIONS

	Group		Company	
	2017 Rs.000's	2016 Rs.000's	2017 Rs.000's	2016 Rs.000's
Balance as at the Beginning	72,428	60,822	44,765	38,826
Interest cost	7,604	6,083	4,700	3,883
Current service cost	7,569	6,918	4,380	3,965
Actuarial loss	1,259	4,123	1,129	1,396
Payments during the year	(3,722)	(4,696)	(2,874)	(3,099)
Payments due as at year end	(2,225)	(822)	(671)	(206)
Balance as at the end	82,913	72,428	51,429	44,765

24.1 The total amount charged to Statement of Comprehensive Income and other Comprehensive Income in respect of Retirement Benefit Obligations made up as follows;

Interest cost	7,604	6,083	4,700	3,883
Current service cost	7,569	6,918	4,380	3,965
Expense recognized in profit or loss	15,173	13,001	9,080	7,848
Actuarial Loss	1,259	4,123	1,129	1,396
Expense recognized in Other Comprehensive Income	1,259	4,123	1,129	1,396

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.

LKAS 19 - Employee Benefit requires the use of actuarial techniques to make a reliable estimate of the amount of retirement benefit using the Projected Unit Credit Method in order to determine the present value of the retirement benefit obligation as at the reporting date. The following key assumptions were made in computing the retirement gratuity obligation as at the reporting date.

	2017 Rs.000's	2016 Rs.000's
i.) Discount rate	12.5%	10.5%
ii.) Annual salary increment rate	5%-12%	5%-12%
iii) Retirement Age	55 years	55 years

The calculation of the retirement benefit obligation is sensitive to the assumptions set out above. The following table summarizes how the impact on the defined benefit obligation at the end of the reporting period would have increased (decreased) as a result of a change in the respective assumptions by one percent.

	Group Defined benefit obligation		Company Defined benefit obligation	
	One percentage point increase Rs.000's	One percentage point decrease Rs.000's	One percentage point increase Rs.000's	One percentage point decrease Rs.000's
Effect on the discounting rate	(3,515)	3,871	(2,156)	2,372
Effect on the salary escalation rate	3,921	(3,617)	2,421	(2,238)

25 LOANS AND BORROWINGS

	Group		Company	
	2017	2016	2017	2016
	Rs.000's	Rs.000's	Rs.000's	Rs.000's
Term Loans - Secured				
Balance as at beginning	450,984	917,796	-	400,000
Add : Loans obtained during the year	-	200,000	-	200,000
	450,984	1,117,796	-	600,000
Less : Repayments during the year	(66,813)	(666,812)	-	(600,000)
Balance as at end	384,171	450,984	-	-
Amount payable within one year	66,812	66,812	-	-
Amount payable after one year	317,359	384,172	-	-
	384,171	450,984	-	-

25.1 Terms and Conditions of the loan obtained by the subsidiary, Lanka Dairies (Private) Limited

Financial Institution	Purpose	Assets Pledged	Interest Rate
DFCC Bank PLC	Import and installation of new machinery to the factory	Mortgaged value of imported machines and Corporate Guarantee provided by Lanka Milk Foods (CWE) PLC	AWPLR + 1.25

26 TRADE AND OTHER PAYABLES

	Group		Company	
	2017	2016	2017	2016
	Rs.000's	Rs.000's	Rs.000's	Rs.000's
Trade and Other Payables	185,778	188,083	46,051	56,905
Accrued Expenses	23,399	23,036	4,338	8,695
Outstanding letters of credit	128,432	-	128,432	-
Unclaimed Dividend	3,606	3,295	3,606	3,295
	341,225	214,414	182,427	68,895

27 AMOUNTS DUE TO RELATED COMPANIES

	Group		Company	
	2017	2016	2017	2016
	Rs.000's	Rs.000's	Rs.000's	Rs.000's
Stassen Exports (Private) Limited	2,437	5,738	151	814
Indo Lanka Exports (Private) Limited	-	-	23,176	23,512
Aitken Spence PLC	1,981	1,535	1,260	1,329
Aitken Cargo (Private) Limited	165	1,068	-	-
Ambewela Products (Private) Limited	-	-	100,008	-
Milford Exports (Ceylon) Limited	50	-	50	-
Distilleries company of Sri Lanka PLC	5,164	19,351	-	38
Madulsima Plantation PLC	-	281	-	281
Lanka Bell (Private) Limited	16	66	5	48
	9,813	28,039	124,650	26,022

Notes to the Financial Statements

28 COMMITMENTS

28.1 Operating Lease Commitments

In accordance with the agreements entered by the Company and Group Entities, following operating lease commitments are outstanding as at the reporting date.

28.1.1 Future minimum lease payments

At 31st March, the minimum future lease payments under non-cancellable leases were as follows;

	Group		Company	
	2017 Rs.000's	2016 Rs.000's	2017 Rs.000's	2016 Rs.000's
Less than one year	29,839	28,588	67	67
Between one and five years	150,089	153,764	335	335
More than five years	898,971	920,102	670	737
	1,078,899	1,102,454	1,072	1,139

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 the factory and office complex have been constructed.

b) Group

Ambewela Livestock Company Limited and Pattipola Livestock Company Limited have annual commitments of Rs.17,554,955/- and Rs. 11,911,227/- 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.

The rent payable in respect of each successive year shall be an amount to be determined by multiplying the previous years lease rent by the GDP deflator of the preceding year which is determined by the Central Bank of Sri Lanka and published in its Annual Report.

28.2 Capital Commitments

There are no material capital commitments as at the reporting date.

29. DETAILS OF SUBSIDIARIES

Company	Principal Activities	Class of shares held	Group Interest	Non-controlling Interest
Lanka Dairies (Private) Limited	Producing, Packing and selling of UHT products, "Daily", "Ambewela Farm Fresh Milk" and fruit juice.	Ordinary	100%	-
Ambewela Livestock Company Limited	Rearing of cattle to produce and sale of cow milk and agricultural development of the farm.	Ordinary	100%	-
Pattipola Livestock Company Limited	Rearing cattle, goats, rabbits to produce and sell milk and milk allied products such as natural cheeses, goat milk and meat and agricultural development of the farm.	Ordinary	100%	-
Ambewela Products (Private) Limited	Rearing of cattle to produce and sale of cow milk, processing and packaging of processed fat and liquid milk and milk allied products such as yoghurt.	Ordinary	100%	-
Indo Lanka Exports (Private) Limited	Manufacturing and exporting of fruit juices.	Ordinary	51%	49%

30. CONTINGENT LIABILITIES

There are no significant contingent liabilities as at the reporting date, which require adjustments to or disclosures in the financial statements except for the following.

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 Dairies (Private) Limited	HNB	325
Lanka Dairies (Private) Limited	DFCC	385
Ambewela Products (Private) limited	HNB	150
Ambewela Livestock Company Limited	HNB	60
Pattipola Livestock Company Limited	HNB	60
Indo Lanka Exports (Private) Limited	HSBC	32

31. EVENTS OCCURRING AFTER THE REPORTING DATE

There are no other material events occurring after the reporting 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. 2.50 per share amounting to Rs. 99,995,500 for the year ended 31st March 2017. This is to be approved at the Annual General Meeting to be held on 24th August 2017.

Notes to the Financial Statements

	Powdered milk		Liquid Milk and Others		Agriculture		Elimination		Group	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	Rs. 000's	Rs. 000's	Rs. 000's	Rs. 000's	Rs. 000's	Rs. 000's	Rs. 000's	Rs. 000's	Rs. 000's	Rs. 000's
Statement of profit or loss and other comprehensive income										
Total Revenue	2,053,427	2,394,015	3,631,438	3,133,629	421,949	324,409	(856,606)	(803,543)	5,250,208	5,048,510
Profit (loss) from operation	218,190	54,191	357,759	208,486	48,006	(2,408)	578	9,760	624,533	270,029
Financing Income/(Cost)	(1,271)	(91,661)	(60,072)	(54,458)	(7,088)	(4,427)	(7,398)	-	(75,829)	(150,546)
Income tax Expenses/ (Reversal)	16,924	20,014	(19,032)	(18,245)	(4,640)	(655)	-	-	(6,748)	1,114
Profit/(loss) for the Year	233,843	(17,456)	278,655	135,783	36,278	(7,490)	(6,820)	-	541,956	120,597
Statement of financial position										
Total Asset	11,780,961	10,405,826	2,591,186	2,351,270	603,793	506,161	(2,017,018)	(1,606,863)	12,958,922	11,656,394
Total Liabilities	436,248	405,767	1,344,685	1,384,155	757,967	695,686	(1,391,576)	(988,207)	1,147,320	1,497,401
Total Net Assets	11,344,713	10,000,059	1,246,501	967,115	(154,170)	(189,525)	(625,442)	(618,656)	11,811,602	10,158,993
Capital Expenditure	738	1,145	199,173	12,900	14,322	15,303	(7,398)	-	206,835	29,348
Depreciation on Property, plant and equipment	24,911	29,204	190,706	190,622	11,348	10,197	(345)	(3,011)	226,620	227,012

33. RELATED PARTY DISCLOSURES

The Group / Company carries out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard (LKAS) 24 - "Related Party Disclosures".

Details of related party transactions are reported below:

33.1 Transactions with Subsidiary Companies

Name of the Company	Name of Common Directors	Nature of Transaction	Amount	
			2017 Rs.	2016 Rs.
Lanka Dairies (Private) Limited	Mr.D.H.S.Jayawardena	Sale of Goods	212,136,191	211,160,667
	Mr.C.R.Jansz	Settlement of Goods Sales	174,981,543	207,701,219
	Ms.D.S.C.Jayawardena	Expense Reimbursement	-	49,988,999
	Mr.D.Hasitha S.Jayawardena	Inter Company Debtor Settlement	-	4,914,819
		Short Term Loan Granted	200,000,000	-
		Short Term Loan Interest	7,398,079	-
		Bank Guarantees Provided	885,000,000	885,000,000
Ambewela Livestock Company Limited	Mr.D.H.S.Jayawardena	Expense Reimbursement	157,512	2,075,634
	Mr.C.R.Jansz	Sale of Goods	637,908	545,090
	Ms.D.S.C.Jayawardena	Settlement of Goods Sales	755,014	535,748
	Mr.D.Hasitha S.Jayawardena	Bank Guarantees Provided	60,000,000	60,000,000
Pattipola Livestock Company Limited	Mr.D.H.S.Jayawardena	Expense Reimbursement	73,494	1,579,239
	Mr.C.R.Jansz	Sale of Goods	72,924	881,731
	Ms.D.S.C.Jayawardena	Settlement of Goods Sales	143,906	920,990
	Mr.D.Hasitha S.Jayawardena	Goods Purchases	180,450	73,114
		Settlement of Goods Purchases	180,450	73,114
	Bank Guarantees Provided	60,000,000	60,000,000	
Ambewela Products (Private) Limited	Mr.D.H.S.Jayawardena	Sale of Goods	45,546,799	80,596,433
	Mr.C.R.Jansz	Expense Reimbursement	80,388	5,610,908
	Ms.D.S.C.Jayawardena	Settlement of Goods Sales and Others	65,743,550	245,975,909
	Mr.D.Hasitha S.Jayawardena	Advanced Received	100,000,000	-
		Bank Guarantees Provided	150,000,000	150,000,000
Indo Lanka Exports (Private) Limited	Mr.D.H.S.Jayawardena	Expense Reimbursement	335,796	611,731
	Mr.C.R.Jansz	Bank Guarantees Provided	31,600,000	31,600,000
	Ms.D.S.C.Jayawardena			

Notes to the Financial Statements

33. RELATED PARTY DISCLOSURES (CONTINUED)

33.2 Transactions with Other Related Companies

Name of the Company	Name of Common Directors	Nature of Transaction	Amount	
			2017 Rs.	2016 Rs.
Milford Exports Ceylon Limited	Mr.D.H.S.Jayawardena	Management Fee	1,100,000	1,060,000
	Ms.D.S.C.Jayawardena	Director Fee	1,725,000	1,665,000
	Mr.D.Hasitha S.Jayawardena	Dividend Paid	16,783,175	16,783,175
Stassen Exports Limited	Mr.D.H.S.Jayawardena	Reimbursement of Expenses	7,988,146	9,202,001
	Ms.D.S.C.Jayawardena	Services Obtained	6,760,162	5,763,844
	Mr.D.Hasitha S.Jayawardena	Sale of Goods	25,846,134	17,753,926
		Services Rendered and Others	91,881,355	83,809,372
		Related Party Settlement	110,579,196	89,136,759
Hatton National Bank PLC	Ms.D.S.C.Jayawardena	Bank Charges	1,211,635	1,329,590
		Interest Paid	6,454,197	24,656,401
		Bank Overdraft	77,647,044	265,547,803
		Interest Received	268,003	23,200
		Fixed Deposit	140,000,000	-
		Import Loan	-	200,000,000
Distilleries Company Of Sri Lanka PLC	Mr.D.H.S.Jayawardena	Sale of Milk Foods and Energy Drinks	9,049,571	13,413,170
	Mr.C.R.Jansz	Dividend Received	125,584,637	116,656,514
	Mr.D.Hasitha S.Jayawardena	Dividend Paid	-	954,666
		Services Obtained	1,472,581	531,322
		Related party settlement	12,151,228	12,356,293
Aitken Spence and Company PLC	Mr.D.H.S.Jayawardena	Sale of Goods	14,087,563	13,567,464
		Services Obtained and Others	5,526,093	5,386,588
		Related Party Settlement	7,981,610	16,941,838
Lanka Bell (Private) Limited	Mr.D.H.S.Jayawardena	Telephone Charges	961,173	824,274
	Mr.C.R.Jansz	Commission Income on Bell Cards	-	380,079
		Purchase of Bell Cards	2,326,000	-
		Sale of Goods	133,817	88,412
		Related Party Settlement	3,172,088	-
Madulsima Plantation PLC	Mr.D.H.S.Jayawardena	Sale of Goods	-	207,867
	Mr.D S K Amarasekara	Services Obtained & Others	1,084,514	1,115,512
	Dr.A Shakthevale	Related Party Settlement	1,365,986	-
Melstacrop Limited	Mr.D.H.S.Jayawardena	Dividend Income Received	151,846,000	-
	Mr.C.R.Jansz	Dividend Paid	8,387,605	-
	Mr.D.Hasitha S.Jayawardena	Sale of Milk Foods and Energy Drinks	3,740,079	-
		Related Party Settlement	3,740,079	-

33.3 Terms and conditions of transactions with related party

Transactions with related parties are carried out in the ordinary course of business. The pricing applicable to related party transactions is based on the assessment of risk and pricing model of the Company and is comparable with that is applicable to transactions between the company and its unrelated customers. Details of related party transactions are reported above.

33. RELATED PARTY DISCLOSURES (CONTINUED)

33.4 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 Group.

a) Loans to Directors

There are no loans granted to the Directors of the Company

b) Key Management Personnel Compensation

	Group		Company	
	2017 Rs.000's	2016 Rs.000's	2017 Rs.000's	2016 Rs.000's
Short-term employee benefits	4,739	4,717	4,739	4,717
Post employment benefits	574	499	574	499
	5,313	5,216	5,313	5,216

c) Other Transactions with Key Management Personnel

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

34. FINANCIAL RISK MANAGEMENT

Overview

The Group has exposure to the following risks from its use of financial instruments

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risks, and the Group's management of capital. Further, quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

34.1 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

Exposure to Credit Risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows;

	Group		Company	
	2017 Rs.000's	2016 Rs.000's	2017 Rs.000's	2016 Rs.000's
Trade Receivables	439,454	583,325	150,382	238,904
Other Receivables (Note a)	75,708	40,332	15,868	20,265
Amounts Due from Related Companies	43,948	54,298	958,492	730,416
Cash and cash equivalents	188,117	44,473	161,432	17,493
Available for Sale Investments	8,989,283	7,827,661	8,989,283	7,827,661
Financial Assets Held for Trading	244,838	247,029	244,838	247,029
	9,981,348	8,797,118	10,520,295	9,081,768

Note a.

The other receivables exclude advances, deposits and prepayments balance as at each year end.

Notes to the Financial Statements

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.1 Credit risk (Continued)

34.1.1 Trade and Other Receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

Management also considers the demographics of the Group's customer base, including the country in which customers operate, as these factors may have an influence on credit risk. However, geographically there is no concentration of credit risk.

The Group has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered.

34.1.2 Impairment losses

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of Trade and Other Receivables. The main component of this allowance is the collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The aging of trade receivables at the reporting date was as follows;

As at	31st March 2017		31st March 2016	
	Gross Balance	Impairment	Gross Balance	Impairment
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Past due 0-60 days	266,081	-	243,549	35
Past due 60-180 days	102,492	433	170,604	101
Past due 180-365 days	4,379	796	78,310	4,447
More than one year	66,502	70,627	90,862	76,639
Total	439,454	71,856	583,325	81,222

As at	31st March 2017		31st March 2016	
	Gross Balance	Impairment	Gross Balance	Impairment
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Past due 0-60 days	109,842	-	103,431	32
Past due 60-180 days	3,600	146	52,374	3
Past due 180-365 days	260	103	34,642	4,241
More than one year	36,680	36,680	48,457	40,978
Total	150,382	36,929	238,904	45,254

34.1.3 Investments

The Group limits its exposure to credit risk by investing only in liquid securities which are listed in Colombo stock exchange.

34.1.4 Cash and Cash Equivalents

The Group held cash and cash equivalents of Rs. 188,117 ('000) as at 31st March 2017 (Rs.44,473 ('000) as at 31st March 2016) which represent its maximum credit exposure on these assets.

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

34.1 Credit risk (Continued)

34.1.5 Guarantees

The Group's policy is to provide corporate guarantees to its subsidiaries. Following represents all the corporate guarantees provided by the parent to its subsidiaries as at the reporting date (Refer Note 30)

34.2 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities.

As at 31st March	Carrying amount Rs.'000	2017			
		0-2 months Rs.'000	2-6 months Rs.'000	6-12 months Rs.'000	More than 1 year Rs.'000
Group					
Financial Liabilities (Non Derivatives)					
Trade and Other Payables	341,215	79,469	234,530	27,216	-
Amounts Due to Related Companies	9,813	9,813	-	-	-
Interest bearing loans and borrowings	384,171	-	-	66,812	317,359
Bank Overdraft	214,329	162,832	51,497	-	-
	949,528	252,114	286,027	94,028	317,359
Company					
Financial Liabilities (Non Derivatives)					
Trade and Other Payables	182,427	4,612	177,815	-	-
Amounts Due to Related Companies	124,650	101,474	-	23,176	-
Bank Overdraft	77,742	77,742	-	-	-
	384,819	183,828	177,815	23,176	-

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Notes to the Financial Statements

34.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

34.3.1 Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than Sri Lankan Rupees (LKR). The foreign currencies in which the set transactions primarily denominated are United States Dollars (USD) and Euro.

34.3.1.1 Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts;

As at 31st March	2017 USD	2016 USD
Group		
Trade and Other Payables	(17)	(2,494)
Gross statement of financial position exposure	(17)	(2,494)

The following significant exchange rates were applicable during the year;

	Average rate		Reporting date spot rate	
	2017	2016	2017	2016
	Rs.	Rs.	Rs.	Rs.
USD	147.61	138.74	143.26	149.33

34.3.1.2 Sensitivity Analysis

A strengthening of the LKR, as indicated below, against the USD at 31st March 2017 would have increased/ (decreased) the equity and profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

	Strengthening		Weakening	
	Profit or Loss	Equity	Profit or Loss	Equity
	Rs.	Rs.	Rs.	Rs.
31st March 2017				
USD (10% movement)	244	244	(244)	(244)
31st March 2016				
USD (10% movement)	37,243	37,243	(37,243)	(37,243)

34.3 Market risk (Continued)**34.3.2 Interest rate risk**

At the reporting date, the Group's interest-bearing financial instruments were as follows;

As at 31st March	Carrying amount			
	Group		Company	
	2017 Rs.000's	2016 Rs.000's	2017 Rs.000's	2016 Rs.000's
Variable Rate Instruments				
Financial Liabilities				
Loans and Borrowings	384,171	450,984	-	-
Bank Overdrafts	214,329	629,982	77,742	266,085
	598,500	1,080,966	77,742	266,085

34.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from all of the Group's operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

34.5 Equity Price Risk

Values as appearing in the statement of Financial Position are sensitive to quoted price of the investment. Simulations made for available for sale investments and financial assets held for trading that an increase and decrease of Rs.10 has the following effect on the fair value of available for sale investments.

As at 31st March Group/Company	-10% Rs. Rs.000's	2017 Rs. Rs.000's	+ 10% Rs. Rs.000's
Available for sale investments	8,090,355	8,989,283	9,888,212
Financial Assets Held for Trading	220,354	244,838	269,321
	8,310,709	9,234,121	10,157,533

34.6 Capital management

The Group's debt to adjusted capital ratio at the end of the reporting period was as follows;

As at 31st March	Group		Company	
	2017 Rs.000's	2016 Rs.000's	2017 Rs.000's	2016 Rs.000's
Total liabilities	1,147,320	1,497,401	436,248	405,767
Less:				
Cash and cash equivalents	(188,117)	(44,473)	(161,432)	(17,493)
Net debts	959,203	1,452,928	274,816	388,274
Total equity	11,811,602	10,158,993	11,344,713	10,000,059
Net debt to equity ratio	0.08	0.14	0.02	0.04

There were no changes in the Group's approach to capital management during the year and the Group is not subject to externally imposed capital requirements.

Notes to the Financial Statements

35 FAIR VALUE MEASUREMENT

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1 : Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2 : Valuation techniques based on observable inputs.

Level 3 - Valuation techniques using significant unobservable inputs

35.1 Financial Instruments carried at Fair Value and Valuation Bases

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorized.

As at 31st March 2017	Level 1 Rs.'000	Level 2 Rs.'000	Level 3 Rs.'000	Total Rs.'000
Group/ Company				
Available for sale investments	8,989,283	-	-	8,989,283
Financial Assets Held for Trading	244,838	-	-	244,838
	9,234,121	-	-	9,234,121

As at 31st March 2016

Group/ Company				
Available for sale investments	7,827,661	-	-	7,827,661
Financial Assets Held for Trading	247,029	-	-	247,029
	8,074,690	-	-	8,074,690

35 FAIR VALUE MEASUREMENT (CONTINUED)**35.2 Fair value of Financial Instruments carried at amortized cost**

The following table summarizes the carrying amounts and the Company's estimate of fair values of those financial assets and liabilities not presented on the Company/Group's Statement of Financial Position at fair value.

As at 31st March	Group		Company	
	Carrying Amount Rs.'000	Fair Value Rs.'000	Carrying Amount Rs.'000	Fair Value Rs.'000
Assets				
Cash and cash equivalents	188,117	188,117	161,432	161,432
Trade and Other receivables	468,290	468,290	129,321	129,321
Amounts due from Related Companies	43,948	43,948	958,492	958,492
Liabilities				
Bank Overdraft	214,329	214,329	77,742	77,742
Trade and Other Payables	341,215	341,215	182,427	182,427
Amounts Due to Related Companies	9,813	9,813	124,650	124,650
Loans and Borrowings	384,171	384,171	-	-

Cash and cash equivalents

The carrying amount of the cash and cash equivalents and balances with banks approximate the fair value as these are short term in nature.

Trade and other Receivables/Amount due from Related Companies

Trade and other receivables are expected to be settled within one year from the reporting date and hence the discounting impact would be immaterial. Therefore carrying amount approximate the fair value as at the reporting date.

Trade and other Payables/Amount due to Related Companies

Trade and other payables are expected to be settled within one year from the reporting date and hence the discounting impact would be immaterial. Therefore carrying amount approximate the fair value as at the reporting date.

Loans and Borrowings/Bank Overdraft

Long term borrowings are repriced either monthly, quarterly or semi annually in line with the changes in the market rates. Hence carrying value of these borrowings approximate the fair value. Other borrowings are short term in nature and hence carrying value approximate the fair value.

Notes to the Financial Statements

36 ACCOUNTING CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES AS AT THE REPORTING DATE

Group Financial Instrument	Loans and Receivables	Classification		
		Available for sale investments	Fair value through profit or loss investments	Held to maturity investments
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Trade and Other Receivables	468,290	-	-	-
Amount due from Related Companies	43,948	-	-	-
Cash and Cash Equivalents	188,117	-	-	-
Available For Sale Investments	-	8,989,283	-	-
Financial Assets Held for Trading	-	-	244,838	-

Financial liabilities	Classification	
	Fair value through profit or loss investments	Amortized cost
	Rs.'000	Rs.'000
Trade and Other Payables	-	341,215
Interest Bearing Borrowings	-	384,171
Amounts Due to Related Parties Companies	-	9,813
Bank Overdraft	-	214,329

Company Financial Instrument	Loans and Receivables	Classification		
		Available for sale investments	Fair value through profit or loss investments	Held to maturity investments
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Trade and Other Receivables	129,321	-	-	-
Amount due from Related Parties Companies	958,492	-	-	-
Cash and Cash Equivalents	161,432	-	-	-
Available For Sale Investments	-	8,989,283	-	-
Financial Assets Held for Trading	-	-	244,838	-

Financial liabilities	Classification	
	Fair value through profit or loss investments	Amortized cost
	Rs.'000	Rs.'000
Trade and Other Payables	-	182,427
Amounts Due to Related Parties Companies	-	124,650
Bank Overdraft	-	77,742

Shareholder and Investor Information

1 STOCK EXCHANGE LISTING

The issued ordinary shares of the Company are listed with Colombo Stock Exchange

Date of listing Colombo Stock Exchange (CSE)-01.01.1983

Abbreviation in Colombo Stock Exchange (CSE)-"LMF.N".

Ticker symbol - LMF - N0000

ISIN - LK0112N00009

Stated Capital No.of Ordinary Shares -39,998,000

2 COMPOSITION ORDINARY SHAREHOLDERS

Category	No of Share Holders 31/03/2017	Total Shares 31/03/2017	Percentage (%) 31/03/2017	No of Share Holders 31/03/2016	Total Shares 31/03/2016	Percentage (%) 31/03/2016
Up to - 500	2,332	304,338	0.76	2,348	307,347	0.77
501 - 1,000	263	224,114	0.56	283	241,012	0.60
1,001 - 5,000	392	1,027,987	2.57	387	1,017,244	2.54
5,001 - 10,000	106	802,766	2.01	104	775,404	1.94
10,001 - 50,000	77	1,578,708	3.95	83	1,611,530	4.03
50,001 - 10,0000	20	1,488,147	3.72	19	1,425,095	3.56
100,001 - 1,000,000	21	5,678,874	14.20	21	5,782,611	14.46
1,000,001 & Over	5	28,893,066	72.23	5	28,837,757	72.10
Total	3,216	39,998,000	100.00	3,250	39,998,000	100.00

3 ANALYSIS OF ORDINARY SHARES

Category	No of Share Holders 31/03/2017	Total Shares 31/03/2017	Percentage (%) 31/03/2017	No of Share Holders 31/03/2016	Total Shares 31/03/2016	Percentage (%) 31/03/2016
Individuals -Local	2,980	6,256,194	15.64	3,018	6,290,152	15.73
Individuals - Overseas	49	337,307	0.85	47	324,980	0.81
Companies - Local	181	23,728,761	59.32	178	23,565,510	58.92
Companies - Overseas	6	9,675,738	24.19	7	9,817,358	24.54
Total	3,216	39,998,000	100.00	3,250	39,998,000	100.00

Shareholder and Investor Information

4 DIRECTORS' SHARES

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

		Company	
		2016/2017	2015/2016
5	VALUE PER SHARE		
	Earnings/ (Loss)	Rs. 5.85	(0.44)
	Dividend	Rs. 2.50	1.25
	Net Assets	Rs. 283.63	250.01
6	MARKET VALUE PER SHARE		
	Highest Price during the year	Rs. 135.00	180.00
	Lowest Price during the year	Rs. 100.00	110.00
	Value as at last trading date (31st March)	Rs. 117.00	114.50

7 TWENTY MAJOR SHAREHOLDERS

Name	As at 31st March 2017			As at 31st March 2016		
	No. of	% of	Name	No. of	% of	
	Shares	Issued Capital		Shares	Issued Capital	
1 Milford Exports (Ceylon) (Pvt) Limited	13,426,540	33.57	Milford Exports (Ceylon) (Pvt) Limited	13,426,540	33.57	
2 Melstacorp Plc	6,710,084	16.78	Melstacorp Plc	6,710,084	16.78	
3 Mills Enterprises Limited	6,120,290	15.30	Mills Enterprises Limited	6,120,290	15.30	
4 Mellon Bank N.A Commonwealth Of Massachus	1,346,814	3.37	Mellon Bank N.A Commonwealth Of Massachus	1,346,814	3.37	
5 Pershing LLC S/A Averbach Grauson & Co.	1,289,338	3.22	Pershing LLC S/A Averbach Grauson & Co.	1,234,029	3.09	
6 E.W Balasuriya & Co. (Pvt) Ltd	619,212	1.55	Mellon Bank N.A The Frontier Emerging Markets	643,075	1.61	
7 Yusuf Husseinally Abdulhussein	601,933	1.50	E.W Balasuriya & Co. (Pvt) Ltd	619,212	1.55	
8 Waldock Mackenzie Ltd/Mr H.M. Abdulhussein	547,118	1.37	Yusuf Husseinally Abdulhussein	601,933	1.50	
9 Mellon Bank N.A The Frontier Emerging Markets	488,075	1.22	Waldock Mackenzie Ltd/Mr H.M. Abdulhussein	547,118	1.37	
10 Rukaiya Husseinally Abdulhussein	400,000	1.00	Rukaiya Husseinally Abdulhussein	400,000	1.00	
11 Husseinally Mohsinally Abdulhussein	280,266	0.70	Husseinally Mohsinally Shaikh Abdulhussein	280,266	0.70	
12 Saema Enayat Lokhandwalla	280,000	0.70	Saema Enayat Lokhandwalla	280,000	0.70	
13 Commercial Bank Of Ceylon Plc A/C No.04	250,000	0.63	Commercial Bank Of Ceylon Plc A/C No.04	250,000	0.63	
14 Hallsville Trading Group Inc.	249,221	0.62	Hallsville Trading Group Inc.	249,221	0.62	
15 J.B.Cocoshell (Pvt) Ltd	242,399	0.61	Commercial Bank Of Ceylon Plc/Sithijaya Fund	200,772	0.50	
16 Commercial Bank Of Ceylon Plc/Sithijaya Fund	236,492	0.59	Essajee Carimjee Insurance Brokers (Pvt) Ltd	185,689	0.46	
17 Essajee Carimjee Insurance Brokers (Pvt) Ltd	185,689	0.46	Deutsche Bank Ag-Namal Growth Fund	185,000	0.46	
18 Dinesh Nagendra Sellamuttu	183,502	0.46	Dinesh Nagendra Sellamuttu	183,502	0.46	
19 Phillip Securities Pte Ltd	182,000	0.46	Phillip Securities Pte Ltd	182,000	0.46	
20 Gulamhussein Moshinally Abdulhussein	153,222	0.38	Gulamhussein Moshinally Abdulhussein	153,222	0.38	
Sub Total	33,792,195	84.49	Sub Total	33,798,767	84.51	
Other Shareholders	6,205,805	15.51	Other Shareholders	6,199,233	15.49	
Grand Total	39,998,000	100.00	Grand Total	39,998,000	100.00	

Public Shareholders as at 31st March 2017	No. of Public Shareholders	Public Share Holding %	Public Shareholders as at 31st March 2016	No. of Public Shareholders	Public Share Holding %
Public Shareholding	3213	34.35	Public Shareholding	3247	34.35

Ten Year Summary

Company-Rs.000	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
OPERATING RESULT										
Turnover	2,053,427	2,394,015	1,957,046	2,446,113	3,711,003	3,408,036	3,190,564	3,259,460	2,969,741	3,161,061
Gross Profit	154,936	222,274	63,033	171,232	514,890	388,821	292,266	547,064	370,366	583,530
Profit/ (Loss) before Tax	216,919	(37,470)	22,029	14,062	263,876	35,846	26,817	309,883	26,817	193,508
Taxation	16,924	20,014	46,264	29,957	(32,516)	(31,245)	(10,706)	(107,466)	2,169	(94,722)
Profit/ (Loss) after Tax	233,843	(17,456)	68,293	44,019	231,360	4,601	16,111	202,417	28,986	98,786
Dividends	99,995	49,998	49,998	-	59,998	39,998	-	59,997	-	38,998
STATEMENT OF FINANCIAL POSITION										
Property, Plant and Equipment	162,710	186,883	214,959	235,513	244,602	234,319	233,790	194,607	201,177	210,223
Investment	244,838	247,029	305,929	236,453	227,893	208,941	260,152	293,312	313,028	313,028
Current Assets	1,784,554	1,567,493	2,038,196	1,762,864	2,292,285	2,016,498	2,155,369	1,206,060	1,046,059	1,984,676
Total Assets	11,780,961	10,405,826	12,192,882	10,471,571	9,631,641	8,537,898	10,071,276	2,663,192	2,365,851	3,102,264
Total Equity	11,344,713	10,000,059	11,370,598	9,882,818	8,516,730	7,509,196	8,833,247	1,376,841	1,174,424	1,180,930
Non Current Liabilities	51,429	44,765	38,826	30,028	85,776	115,372	141,987	182,632	203,891	244,951
Current Liabilities	384,819	361,002	783,458	558,725	1,029,135	913,329	1,096,042	1,103,719	987,536	1,676,383
RATIOS										
Earnings per share (Rs.)	5.85	(0.44)	1.71	1.10	5.78	0.12	0.46	6.75	0.97	3.29
Dividend per share (Rs.)	2.50	1.25	1.25	-	1.50	1.00	-	1.50	-	1.30
Dividend cover (Times)	2.34	(0.35)	1.37	-	6.20	2.84	-	4.50	-	2.53
Price earning ratio (Times)	20.00	(260.22)	81.87	97.32	18.74	815.00	254.13	12.19	39.33	14.35
Total assets to equity (Times)	1.04	1.04	1.07	1.06	-	1.49	1.14	1.93	2.01	2.01
Net assets per Share (Rs.)	283.63	250.01	284.28	247.08	212.93	187.24	220.84	34.42	29.36	29.52
Market Value per share (as at 31st March) (Rs.)	117.00	114.50	140.00	107.10	108.30	97.80	116.90	82.25	38.00	47.25
Return on equity (%)	2.06	(0.18)	0.61	0.45	2.72	0.06	0.18	14.70	2.47	8.37
Return on Total Assets (%)	1.98	(0.18)	0.56	0.42	2.40	0.05	0.16	7.60	1.23	3.18
Gross Profit Ratio (%)	7.54	9.29	3.22	7.00	13.87	11.41	9.16	16.78	12.47	18.46
Net Profit/(Loss) Ratio (%)	11.39	(0.73)	3.49	1.80	6.23	0.14	0.50	37.00	7.83	16.93
Current Ratio (Times)	4.64	4.34	2.60	3.16	2.23	2.21	1.57	1.09	1.06	1.18
Liquidity Ratio (Times)	3.95	3.40	1.81	2.53	1.62	0.67	0.85	1.70	1.60	1.38

Notes

Notes

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Notice of Meeting

Notice is hereby given that the Thirty Fifth (35th) Annual General Meeting of Lanka Milk Foods (CWE) PLC will be held at the Auditorium of Sri Lanka Foundation Institute at No. 100, Sri Lanka Padanama Mawatha, Independence Square, Colombo 07 on Thursday the 24th August 2017 at 10.00 a.m., for the following purposes.

1. To receive and consider the Report of the Directors, the Financial Statements of the Company for the year ended 31st March 2017 with the Auditors' Report thereon.
2. To approve a final dividend of Rs. 2.50 per share, as recommended by the Board of Directors.
3. To re-elect Mr. D. S. K. Amarasekera 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 is over the age of 70 years and who retires 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.

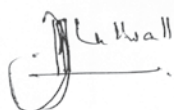
"That Mr. D. H. S. Jayawardena who attained the age of 70 on 17th August 2012 be and is hereby re-elected as a Director of the Company and it is hereby declared that the age limit of 70 years referred to in section 210 of the companies Act No.7 of 2007 shall not apply to the said Mr. D.H.S. Jayawardena."

5. To re-elect Dr. A. Shakthevale who is over the age of 70 years and who retires 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 Dr. A. Shakthevale who attained the age of 70 on 04th September 2012 be and is hereby re-elected as a Director of the Company and it is hereby 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 Dr. A. Shakthevale."

6. To re-appoint KPMG as the Auditors for the ensuing year and to authorize the Directors to determine their remuneration.
7. To authorize the Directors to determine payments for the year 2018, for charitable and other purposes, as set out in the Company's donations Act (Cap 147).

By order of the Board



Ms. H. K. Bulathwatte
Company Secretary

Lanka Milk Foods (CWE) PLC
28th July 2017

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. 22nd August 2017

Form of Proxy

LANKA MILK FOODS (CWE) PLC

I/We of

being a shareholder/s of the above Company, hereby appoint

.....of.....

..... (whom failing)

Don Harold Stassen Jayawardena, (whom failing)

Cedric Royle Jansz, (whom failing)

D. S. Kamantha Amarasekera, (whom failing)

Shakthevale Arinesarajah, (whom failing)

Don Sanjivani Clarinda Jayawardena, (whom failing)

Don Hasitha Stassen Jayawardena,

as my/our proxy to represent me/us and to vote for me/us and on my /our behalf at the Thirty Fifth Annual General Meeting to be held on Thursday, 24th of August 2017 at any adjournment thereof and at every poll which may be taken in consequence thereof to vote;

For Against

To approve a final dividend of Rs. 2.50 per share

--	--

To re-elect Mr. D. S. K. Amarasekera who retires in terms of Article No.94 of the Articles of Association of the Company

--	--

To re-elect Mr. D. H .S. Jayawardena, who retires in terms of section 210 and 211 of the Companies Act No. 7 of 2007

--	--

To re-elect Dr. A. Shakthevale, who retires in terms of section 210 and 211 of the Companies Act No. 7 of 2007

--	--

To re-appoint Auditors and to authorise the Directors to determine their remuneration

--	--

Signed this day of 2017

.....
Signature/s of Shareholder/s

Notes:

- (a) In 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.

In 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 notarially certified copy thereof shall if required be deposited for inspection, at the office in each case not less than forty eight (48) 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 be 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 exclusion of the votes of 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 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 the 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

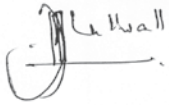
Notice is hereby given to the shareholders that the Thirty Fifth (35th) Annual General Meeting of Lanka Milk Foods (CWE) PLC will be held on Thursday, the 24th August 2017 at the Auditorium of Sri Lanka Foundation Institute at No. 100, Sri Lanka Padanama Mawatha, Independence Square, Colombo 07 at 10.00 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 of

LANKA MILK FOODS (CWE) PLC



Ms. H. K. Bulathwatte
Company Secretary

28th July 2017

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 දමිළ භාෂාවෙන් සකසනලද පිටපත් අවශ්‍ය නම්,
ඒ බව ලේකම්, සී.ස. ලංකා මිල්ස් ෆුඩ්ස් (සී.ඩබ්ලිව්.ඊ) පී.එල්.සී., වැලිසරා, රාගම
යන ලිපිනයට 2017 අගෝස්තු 17 වැනි දිනට ප්‍රථම දන්වන්න.

சிங்களம் அல்லது தமிழ் மொழி பெயர்ப்புகள் உங்களுக்குத் தேவையானால்
தயவு செய்து நிறுவனச் செயலாளர், லங்கா மில்க் புட்ஸ் (சீ டபிள்யூ ஈ) பி.எல்.சி,
வெலிசற, ராகம எனும் முகவரிக்கு கடிதமூலம் 2017 ஓகஸ்ட் 17 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 17th August 2017.

Attendance Slip

Lanka Milk Foods (CWE) PLC

PQ 142

Please bring this Attendance Slip and your National identity Card when attending the Annual General Meeting to be held at the Auditorium of Sri Lanka Foundation Institute at No. 100, Sri Lanka Padanama Road, Independence Square, Colombo 07 at 10.00 a. m. on Thursday, the 24th August 2017.

Signature of Shareholder :

Shareholder's Full Name :

Shareholder's NIC/ Passport Number :

No. of Shares held and Folio No. :

Signature of Proxy Holder :
(If applicable)

Proxy Holder's Full Name :

Proxy Holder's NIC /Passport Number :

Corporate Information

Name of the Company	Lanka Milk Foods (CWE) PLC
Legal Form	A Public Quoted Company with Limited Liability under the provisions of Companies Act No. 7 of 2007
Accounting Year End	31st March
Registered Office	Welisara, Ragama, Sri Lanka Tel : +9411 2956263-5, +9411 5222600 Fax : +9411 2956266 Email : lakspray@lmfgroup.lk
Date of Incorporation	12th November 1981
Company Registration Number	PQ 142
Company Secretary	Ms. H. K. Bulathwatte
Board of Directors	Mr. D. H. S. Jayawardena - Chairman 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 Mr. D. Hasitha. S. Jayawardena - Non-Executive Director
Auditors	Messrs. KPMG (Chartered Accountants) 32A, Sir Mohamed Macan Markar Mawatha P O Box 186 Colombo 3, Sri Lanka.
Subsidiary Companies	Lanka Dairies (Private) Limited Ambewela Livestock Company Limited Pattipola Livestock Company Limited Ambewela Products (Private) Limited Indo Lanka Exports (Private) Limited
Bankers	Bank of Ceylon Hatton National Bank PLC Hong Kong & Shanghai Banking Corporation Ltd Commercial Bank PLC DFCC Bank PLC
Website	www.lmfgroup.lk

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