

# Financial Reports

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## FINANCIAL CALENDAR

Results - 1st Quarter ended 30th June 2007	23rd July 2007
Results - 2nd Quarter ended 30th September 2007	22nd October 2007
Extraordinary General Meeting	7th November 2007
Results - 3rd Quarter ended 31st December 2007	25th January 2008
Interim Dividend Paid	27th March 2008
Annual Report - Financial Year ended 31st March 2008	9th May 2008
63rd Annual General Meeting	20th June 2008
Final Dividend Payable	27th June 2008

# ANNUAL REPORT OF THE BOARD OF DIRECTORS

## GENERAL

The Directors of Diesel & Motor Engineering PLC, a public limited liability company incorporated in Sri Lanka in 1945 under the Companies Ordinance No. 51 of 1938 and re-registered as per the Companies Act No. 7 of 2007, present their Annual Report of the Board of Directors and the Consolidated Financial Statements for the year ended 31st March 2008, which were approved at a meeting held on 9th May 2008. The Financial Statements have been prepared in accordance with the Sri Lanka Accounting Standards as required by Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 & Companies Act No. 7 of 2007.

## GROUP ACTIVITIES

The principal activities of the Group include import, sale and repair of passenger cars, commercial vehicles, material handling machinery, storage systems, construction machinery, tractors, medical equipment, telecommunication equipment, building technologies, power engineering equipment, power engines, power tools and import and sale of vehicle spares, components, accessories and lighting products.

There was no significant change in

- the nature of the business of the Company or its subsidiaries
- the classes of business in the Associate Companies

during the year, that may have a significant impact on the state of the Company's affairs.

## FINANCIAL STATEMENTS

Section 168(b) of the Companies Act require that the Annual Report of the Directors include Financial Statements of the Company and the Group in accordance with Section 151 and 152 of the Companies Act.

The requisite Financial Statements of the Company and the Group are given on pages 104 to 126 of the Annual Report.

## AUDITORS' REPORT

The Auditors' Report on the Financial Statements is given on page 103 of the Annual Report.

## SIGNIFICANT ACCOUNTING POLICIES

The Significant Accounting Policies adopted in the preparation of Financial Statements are given on pages 108 to 112 of the Annual Report. There were no changes in Accounting Policies during the year.

## DIRECTORATE

### List of Directors

Followings were the Directors of the Company as at the end of the financial year and their qualifications and experience are given in the Board of Directors section on page 11 of the Annual Report.

- A.R. Pandithage  
(Chairman/Managing Director/  
Chief Executive Officer)
- A.G. Pandithage  
(Deputy Chief Executive Officer)
- A.N. Algama (Executive Director)
- S.C. Algama (Executive Director)

- Dr. H. Cabral (Independent  
Non-Executive Director)
- R.A. Ebell (Non-Executive Director)
- B.C.S.A.P. Gooneratne  
(Executive Director)
- Dr. U. Liyanage (Independent  
Non-Executive Director)
- A.M. Pandithage  
(Non-Executive Director)
- T.G.H. Peries (Executive Director)
- R. Seevaratnam (Independent  
Non-Executive Director)
- R.C. Weerawardane  
(Executive Director)

## Resignations, New Appointments and Re-elections to the Board

There were no resignations or new appointments made to the Board, during the current financial year.

Mr. A.G. Pandithage, Mr. A.N. Algama, Mr. T.G.H. Peries & Mr. R.C. Weerawardane retire by rotation in accordance with the Articles and being eligible offer themselves for re-election at the Annual General Meeting.

## DIRECTORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Statement of Directors' Responsibilities for the Financial Statements is given on page 102.

## DIRECTORS' SHAREHOLDINGS

The Directors and their spouses held 3,383,477(2006/07 - 3,399,497) ordinary shares of the Company, which amounts to 27.96% (2006/07 - 28.10%) of the ordinary shares issued as at 31st March 2008.

# ANNUAL REPORT OF THE BOARD OF DIRECTORS

The shareholdings of Directors and their spouses as at 31st March 2008 are as follows:

	2007/08	2006/07
A.R. Pandithage	<b>1,882,095</b>	1,874,661
A.N. Algama	<b>170,755</b>	187,455
A.M. Pandithage	<b>219,778</b>	219,778
A.G. Pandithage	<b>383,545</b>	383,545
S.C. Algama	<b>399,134</b>	399,134
T.G.H. Peries	<b>328,170</b>	334,924

## INTEREST REGISTER

The Interest Register is maintained by the Company as required by the Companies Act No. 7 of 2007. The related entries were made in the interest register during the financial year under review.

The entries made in the interest register during the year are as follows:

- **Directors' Interest in Contracts**

All Directors' have made declarations on their interest in transactions or proposed transactions with the Company in accordance with Section 192 (2) of the Companies Act.

The Directors' interest in contracts are disclosed in the annexure on page 101.

- **Acquisition/Disposal of Shares by Directors**

Mr. A.N. Algama and Mr.T.G.H. Peries disposed of 16,700 and 6,754 shares of the Company respectively during the year.

There were no other acquisition or disposal of shares by any other Director during the period.

## DIRECTORS' REMUNERATION

Directors' remuneration in respect of the Group and the Company for the financial year ended 31st March 2008 are given on Note 28 to the Financial Statements on page 126 of the Annual Report.

## ENTERPRISE GOVERNANCE

The report on Enterprise Governance is given on pages 71 to 81 of the Annual Report. With a view to obtaining an independent opinion on Corporate Governance initiatives, Messrs DET NORSKE VERITAS AS (DNV) was engaged to review the Company's Corporate Governance framework and issue a Corporate Governance rating along with a review report containing shortcomings and suggestions. A summary of the rating report is available on pages 71 & 72 of the Annual Report.

## INTERNAL CONTROL SYSTEM

The Group Management Committee including the Executive Directors have taken necessary steps to overlook the implementation of an affective system of internal controls covering financial as well as operational activities of the Company. The Directors have outsourced a part of the internal audit function to review and report on the effectiveness of the internal controls.

## BOARD COMMITTEES

The Board of Directors of the Company has formed the following Sub-Committees and the Reports of such Sub Committees are given on page 11 of the Annual Report.

- Audit Committee
- Remuneration Committee
- Nomination Committee

## AUDITORS

The Auditors - Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants were paid Rs. 1.325 mn for the year ended 31st March 2008 (Rs. 0.95 mn in 2007) as audit fees by the Company. In addition to that, they were paid Rs. 0.766 mn. (Rs. 0.146 mn. in 2007) for non-audit related services including tax consultancy services.

Based on the declaration made by Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants and as far as the Directors are aware, the auditors do not have any relationship or interest in the Company or its subsidiary other than disclosed in this paragraph.

The retiring Auditors, Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants are willing to continue in their office. A resolution on reappointing them as Auditors and granting authority to the Directors to decide their remuneration will be proposed at the Annual General Meeting.

# ANNUAL REPORT OF THE BOARD OF DIRECTORS

## **BUSINESS REVIEW**

A review of operations, developments and outlook is available in the Chairman's & CEO's Review on pages 6 to 9 Financial Review on pages 37 to 44 and Business Performance Review on pages 16 to 36.

Segment turnover and other segment information are available on pages 16 to 36.

## **RISK MANAGEMENT**

A systematic ongoing process is adopted to identify and manage different types of risks which the Company faces. This Company's strategy on Risk Management is detailed in the Risk Management section on pages 84 to 88 of the Annual Report.

## **HUMAN RESOURCES**

The Group promotes to its employees the need for the highest standards of integrity and ethics in business dealings, including compliance with all relevant legislation and codes of practice. Employees are regarded as the key to being able to translate policies and strategies into commercial success.

The Group is committed to providing a working environment in which this process can succeed.

Adequate measures are taken to ensure that all employees have the opportunity to understand and appreciate the Group's objectives and policies. The employment policy of the Group embodies the principal of equal opportunity. The Group aims to create an opportunity for participation and involvement, encourage the identification and development of skills, promote the use of initiative and stimulate personal advancement. Reward systems recognise success at both the corporate and individual level. The number of persons employed by the Company and its subsidiaries at the year end was 867 (2006/07 - 862).

## **HEALTH & SAFETY**

The Group safeguards occupational health and hygiene of its employees by providing a safe working environment and complying with all relevant statutory obligations. The Group also has an employees' medical scheme and expenditure in relation to this for the year was Rs. 10,806,907/-.

## **ENVIRONMENT**

The Group is sensitive to the needs of the environment, not only in terms of compliance with relevant statutory obligations, but more generally in terms of the need to be efficient in the use of energy and water and in reducing and handling of waste material. It is the Group's policy to minimise adverse effects on the environment and to promote corporation and compliance with relevant authorities and regulations. The business activities of the Group can have an indirect impact on the environment if necessary preventive measures are not taken. The steps taken to prevent possible indirect impact are outlined in the Sustainability Report on pages 45 to 70.

## **QUALITY**

The Group is committed to maintain its long established reputation of being a symbol of quality. All employees are encouraged to regard the continuous improvement of quality standards as a key to competitive advantage.

# ANNUAL REPORT OF THE BOARD OF DIRECTORS

## OPERATIONAL RESULTS AND DIVIDENDS OF THE GROUP

	2007/08 Rs. '000	2006/07 Rs. '000
<b>Turnover</b>		
Gross Turnover	12,687,289	12,989,916
<b>Profit</b>		
After making provision for bad and doubtful debts and all known liabilities and after charging a sum of Rs. 84,244,159/- (2006/07 - Rs. 63,037,571/-) for Depreciation of property, plant & equipment the profit made by the Group before tax was	344,444	512,818
Income tax expense	(139,351)	(211,041)
Group profit after taxation	205,093	301,777
<b>Appropriations</b>		
Interim dividend paid	(18,150)	(36,300)
Retained profit brought forward	333,278	104,101
Available for appropriation	520,221	369,578

### Dividends on Ordinary Shares

The Directors recommend a final dividend of Rs. 2.50 per share (2006/07 - Rs. 3/- per share) payable on 27th June 2008 to the shareholders of the issued ordinary shares of the Company as at close of the business on 21st June 2008. This dividend together with the interim dividend of Rs. 1.50 per share (2006/07 - Rs. 3/- per share) results in a total dividend of Rs. 4/- per share (2006/07 - Rs. 6/- per share). In accordance with Section 56 of the Companies Act No. 7 of 2007, a solvency test was carried out by the Company's Auditors, prior to recommending the final dividend.

### Income Tax Expense & Deferred Taxation

It is the Group's policy to provide for deferred taxation on all known temporary differences. The income tax rate applicable to all companies in the Group is 35%. Tax on export profit is 15%.

### STATUTORY PAYMENTS

Directors confirm that all payments in respect of statutory liabilities including EPF, ETF and Taxes have been made on time during the financial year.

### DONATIONS

The Donations made during the year amounted to Rs. 628,265/- (2006/07 - Rs. 674,129/-). A sum of Rs. 35,000/- (2006/07 - Rs. 145,000/-) made to government approved charities.

### PROPERTY, PLANT & EQUIPMENT

Group expenditure on property, plant & equipment during the year amounted to Rs. 554,483,332/- (2006/07 - Rs. 305,542,358/-). Information relating to movement in property, plant & equipment is given in Note 9 to the Financial Statements.

### MARKET VALUE OF FREEHOLD LAND

A qualified independent valuer last revalued the freehold land of the Company on 20th August 2004.

## GROUP INVESTMENT

Information relating to investments other than in subsidiaries is available in Notes 12, 13 & 14 to the Financial Statements.

## STATED CAPITAL

The Stated Capital of the Company as at March 31, 2008 was Rs. 182.5 mn (2007 - Rs. 182.5 mn) consisting of 12,100,000 Ordinary Shares and Share Premium amounting to Rs. 61.5 mn.

## RESERVES

The total reserves as at 31st March 2008 stand at Rs. 1,474,649,854/- (2006/07 - Rs. 1,324,007,149/-) comprising capital reserves of Rs. 311,521,385/- (2006/07 - Rs. 311,521,385/-) and revenue reserves of Rs. 1,163,128,469/- (2006/07 - Rs. 1,012,485,765/-). The Statement of Changes in Equity on page 106 gives the movement in equity during the year.

## SHARE INFORMATION

Information relating to shareholding, earnings, and net assets per share, market value of shares, dividends and share trading are available on pages 128 to 131.

## SHAREHOLDINGS

There were 1,224 registered shareholders as at 31st March 2008. The percentage of shares held by the Public as at 31st March 2008 was 44% of the issued shares. The twenty major shareholders as at 31st March 2008 and the number of shares held and their percentage shareholding are given on page 130.

# ANNUAL REPORT OF THE BOARD OF DIRECTORS

## SHAREHOLDER

The Company has made all endeavours to ensure equitable treatment to all shareholders.

## COMPLIANCE WITH LAWS & REGULATIONS

To the best of the knowledge and belief of the Directors, the Company has not engaged in any activities contravening the laws & regulations of the country.

## OUTSTANDING LITIGATION

In the opinion of the Directors and in consultation with the Company Lawyers, litigation currently pending against the Company will not have a material impact on the reported financial results or future operations of the Company.

## EVENTS OCCURRING AFTER BALANCE SHEET DATE

There have not been any material events that occurred subsequent to the date of the Balance Sheet which require adjustments to or disclosure in the Financial Statements.

## CONTINGENCIES & COMMITMENTS

Contingent Liabilities and Capital Commitments made as at 31st March 2008 is given in Note 27 to the Financial Statements.

## GOING CONCERN

The Directors are of the opinion that the Company has adequate resources to continue in operational existence for the foreseeable future. The Financial Statements have been prepared adopting the going concern basis as stated in the Statement of Directors' Responsibilities.

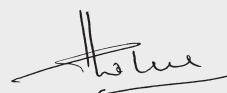
## ANNUAL GENERAL MEETING

The Annual General Meeting will be held at the Registered Office of the Company, No. 65, Jetawana Road, Colombo 14 on 20th June 2008. The Notice of Annual General Meeting is given on page 144.

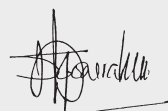
By order of the Board of Directors



**A.R. Pandithage**  
*Chairman*



**R.C. Weerawardane**  
*Director*



**B.C.S.A.P. Gooneratne**  
*Secretary*

Colombo  
09th May 2008

# ANNEXURE TO THE ANNUAL REPORT OF THE BOARD OF DIRECTORS

## DIRECTORS INTEREST IN CONTRACTS

The Directors of the Company are also Directors of the following companies:

Company Name	Relationship	Name of the Director
Dimo (Pvt) Ltd.	Subsidiary	Mr. A.R. Pandithge Mr. S.C. Algama Mr. A.G. Pandithage Mr. B.C.S.A.P. Gooneratne Mr. R.C. Weerawardena
Dimo Industries (Pvt) Ltd.	Subsidiary	Mr. A.R. Pandithage Mr. A.G. Pandithage Mr. S.C. Algama Mr. B.C.S.A.P. Gooneratne Mr. R.C. Weerawardena
Dimo Travels (Pvt) Ltd.	Subsidiary	Mr. A.R. Pandithage Mr. S.C. Algama
Dimo-KLN Industries (Pvt) Ltd.	Joint Venture	Mr. A.R. Pandithage Mr. R.C. Weerawardena
Browns Dimo Industrial Products (Pvt) Ltd.	Associate	Mr. A.R. Pandithage Mr. R.C. Weerawardena

The inter company balances and transactions are given on Note 28 on page 126.

The Company has entered into contracts in the normal course of business with the following companies in which a Director of the Company is also director of the said Company,

Company Name	Name of the Director	Nature Of Transaction	Transaction Amount
Air Global Ltd.	Mr. A.M. Pandithage	Air Passage	3,162,808
Global Holidays (Pvt) Ltd.	Mr. A.M. Pandithage	Air Passage	3,918,442
Hayleys Consumer Products (Pvt) Ltd.	Mr. A.M. Pandithage Mr. R.A. Ebell	Purchases of Electronic Items	47,150
Logiwiz Ltd.	Mr. A.M. Pandithage	Services of Storage & Delivery	10,000
Mit Cargo (Pvt) Ltd.	Mr. A.M. Pandithage Mr. R.A. Ebell	Services of Shipping & Warehouse	725,833
Toyo Cushion Lanka (Pvt) Ltd	Mr. A.M. Pandithage	Services of Forklifts	481,727
Hayleys PLC	Mr. A.M. Pandithage Mr. R.A. Ebell	Annual Maintenance Contract	48,000
Hayleys Adventis (Pvt) Ltd	Mr. A.M. Pandithage Mr. R.A. Ebell	Vehicle Servicing & Sale of Tyres.	477,970
Hayleys Industrial Solutions Ltd.	Mr. A.M. Pandithage Mr. R.A. Ebell	Sales of Power Tool & telephone System & Services Telephones	427,597
Hayleys-MGT Knitting Mills Ltd.	Mr. R.A. Ebell	Sales of Ups Batteries & Tyres	273,678
Hayleys Agro Products Ltd.	Mr. A.M. Pandithage Mr. R.A. Ebell	Sales of Spare Parts	203,369
Q & E Advertising (Pvt) Ltd.	Dr. U. Liyanage	Sale of Lighting & Annual Maintenance PABX	63,799
Q & E Advertising (Pvt) Ltd.	Dr. U. Liyanage	Press /media Advertisements & Art Work	11,405,450
Ceylon Cold Stores PLC	Dr. U. Liyanage	Sales of Spare Parts	140,949
Dipped Product PLC	Mr. A.M. Pandithage Mr. R.A. Ebell Mr. R. Seevaratnam	Sales of Tyres	54,076
Hayleys AIG Insurance Co. Ltd.	Mr. A.M. Pandithage	Insurance Premiums	13,015,347

# STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Companies Act No. 7 of 2007 required the Directors to prepare and present Financial Statements for each financial year giving a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and the profit or loss of the Company and the Group for the financial year.

The responsibilities of the Directors in relation to the Financial Statements of the Company and the Group are set out in following statement.

The responsibility of the Auditors in relation to the Financial Statements appears in the report of the Auditors on page 103.

As per the provision of the Companies Act No. 7 of 2007 the Directors are required to prepare for each financial year and place before a general meeting of shareholders the Financial Statements, which comprise:

- I. A Statement of Income, which presents a true and fair view of the profit or loss of the Group for the financial year; and
- II. A Balance Sheet, which presents a true and fair view of the state of affairs of the Company and its subsidiary as at the end of the financial year and which complies with the requirements of the Companies Act No. 7 of 2007 and Sri Lanka Accounting and Auditing Standards Act No.15 of 1995.

In addition, the Directors have to ensure that in preparing the Financial Statements:

- a) appropriate Accounting Policies have been used in consistent manner;
- b) where necessary prudent judgement and estimate have been made.

The Directors are responsible for ensuring that the companies within the Group keep sufficient accounting records to disclose with reasonable accuracy, the financial position of the Company and the Group as required by the Companies Act No. 7 of 2007 and the listing rules of the Colombo Stock Exchange.

The Directors are required to provide the Auditors with every opportunity to take what ever steps necessary and undertake any inspection deemed necessary to enable them to form their audit opinion.

Messrs KPMG Ford, Rhodes, Thornton & Company the auditors of the Company have examined the Financial Statements and the related records and information. Their opinion on Financial Statements are given on page 103.

The Directors are also responsible for taking reasonable measures to safeguard the assets of the Group, and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to prevention and detection of fraud and other irregularities.

The Directors, having reviewed the financial budget and cash flows for the year to 31st March 2009 and the bank facilities, consider that the Group has adequate resources to continue in operation, and have continued to adopt the going concern basis in preparing Financial Statements.

By Order of the Board,



**B.C.S.A.P. Gooneratne**  
*Secretary*

Colombo  
9th May 2008

# INDEPENDENT AUDITOR'S REPORT



**KPMG Ford, Rhodes, Thornton & Co.**  
(Chartered Accountants)  
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## **TO THE SHAREHOLDERS OF DIESEL & MOTOR ENGINEERING PLC**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Diesel & Motor Engineering PLC the consolidated financial statements of the Company and its subsidiaries as at that date which comprise the balance sheet as at March 31, 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 104 to 126 of the Annual Report.

#### *Management's Responsibility for the Financial Statements*

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

#### *Scope of Audit and Basis of Opinion*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

#### *Opinion*


In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended March 31, 2008 and

the financial statements give a true and fair view of the Company's state of affairs as at March 31, 2008 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at March 31, 2008 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiaries dealt with thereby, so far as concerns the members of the Company.

### **Report on Other Legal and Regulatory Requirements**

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

  
Chartered Accountants  
Colombo

9th May 2008

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A.N. Fernando FCA  
M.R. Mihular FCA  
P.Y.S. Perera FCA  
T.J.S. Rajakarier FCA  
Ms. S. Joseph ACA

S. Sirikananathan FCA  
Ms. M. P. Perera FCA  
C.P. Jayatilake FCA  
W.W.J.C. Perera FCA

# INCOME STATEMENTS

For the year ended 31st March	Note	Consolidated		Company	
		2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>Gross turnover</b>	1	<b>12,687,289</b>	12,989,916	<b>12,169,146</b>	12,449,644
Turnover tax		<b>(129,439)</b>	(131,578)	<b>(125,722)</b>	(127,565)
<b>Net turnover</b>		<b>12,557,850</b>	12,858,338	<b>12,043,424</b>	12,322,079
Cost of sales		<b>(10,181,909)</b>	(10,728,925)	<b>(9,874,218)</b>	(10,365,846)
<b>Gross profit</b>		<b>2,375,941</b>	2,129,413	<b>2,169,206</b>	1,956,233
Other income	2	<b>37,900</b>	28,065	<b>35,804</b>	29,152
Distribution expenses		<b>(326,815)</b>	(226,057)	<b>(314,350)</b>	(219,147)
Administrative expenses		<b>(1,227,721)</b>	(959,084)	<b>(1,092,783)</b>	(857,736)
Net finance cost	3	<b>(518,143)</b>	(462,177)	<b>(469,899)</b>	(432,868)
Share of profit of equity accounted investee - Net of tax	4	<b>3,282</b>	2,658	-	-
<b>Profit before taxation</b>	5	<b>344,444</b>	512,818	<b>327,978</b>	475,634
Income tax expense	6	<b>(139,351)</b>	(211,041)	<b>(133,309)</b>	(193,606)
<b>Profit for the year</b>		<b>205,093</b>	301,777	<b>194,669</b>	282,028
<b>Attributable to:</b>					
Equity holders of the Company		<b>205,093</b>	301,777		
Minority interest		-	-		
<b>Profit for the year</b>		<b>205,093</b>	301,777		
Basic earning per share - (Rs.)	7	<b>16.95</b>	25.76	<b>16.09</b>	24.07
Diluted earning per share - (Rs.)	7	<b>16.95</b>	25.76	<b>16.09</b>	24.07
Dividend per share - (Rs.)	8	<b>4.00</b>	6.00	<b>4.00</b>	6.00

Figures in brackets indicate deductions.

The Significant Accounting Policies from pages 108 to 112 and Notes to the Financial Statements from pages 113 to 126 form an integral part of these Financial Statements.

The Report of the Auditors is on page 103.

# BALANCE SHEETS

As at 31st March	Note	Consolidated		Company	
		2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>ASSETS</b>					
<b>Non-Current assets</b>					
Property, plant & equipment	9	1,392,110	939,890	1,329,751	892,164
Leasehold property	10	1,520	1,600	1,520	1,600
Intangible assets	11	2,749	–	2,749	–
Investment in subsidiaries	12	–	–	350	350
Investment in joint venture	13	–	–	6,000	6,000
Investment in equity accounted investee	14	25,011	21,729	6,750	6,750
Other long-term investments	15	41,678	41,678	41,671	41,671
Deferred tax assets	21	–	473	–	–
<b>Total non-current assets</b>		<b>1,463,068</b>	<b>1,005,370</b>	<b>1,388,791</b>	<b>948,535</b>
<b>Current assets</b>					
Inventories	16	2,189,806	2,097,128	2,123,448	2,005,682
Trade & other receivables	17	2,117,315	1,919,744	1,899,155	1,641,823
Income tax recoverable	25	9,747	–	–	–
Receivables from subsidiaries & joint ventures	28	–	–	113,876	168,204
Cash & cash equivalents	18	51,222	176,390	49,454	175,521
<b>Total current assets</b>		<b>4,368,090</b>	<b>4,193,262</b>	<b>4,185,933</b>	<b>3,991,230</b>
<b>TOTAL ASSETS</b>		<b>5,831,158</b>	<b>5,198,632</b>	<b>5,574,724</b>	<b>4,939,765</b>
<b>EQUITY AND LIABILITIES</b>					
Stated capital	19	182,500	182,500	182,500	182,500
Revaluation reserves	19	311,522	311,522	311,522	311,522
Revenue reserves	19	1,163,129	1,012,486	1,021,007	880,788
<b>Total equity attributable to equity holders of the Company</b>		<b>1,657,151</b>	<b>1,506,508</b>	<b>1,515,029</b>	<b>1,374,810</b>
<b>Non-current liabilities</b>					
Long-term interest bearing loans and borrowings	20	554,176	345,546	554,176	345,546
Deferred tax liabilities	21	41,132	31,327	40,990	31,327
Deferred income	22	1,222	3,218	1,222	3,218
Retirement benefit obligations	23	115,763	93,753	108,130	86,703
<b>Total non-current liabilities</b>		<b>712,293</b>	<b>473,844</b>	<b>704,518</b>	<b>466,794</b>
<b>Current liabilities</b>					
Current portion of long-term interest-bearing loans and borrowings	20	193,539	158,532	193,539	158,532
Trade & other payables	24	1,163,544	586,137	1,108,779	552,285
Amounts payable to subsidiaries	28	–	–	392	467
Income tax payable	25	49,972	113,001	49,972	111,144
Short-term interest-bearing loans and borrowings	26	2,054,659	2,360,610	2,002,495	2,275,733
<b>Total current liabilities</b>		<b>3,461,714</b>	<b>3,218,280</b>	<b>3,355,177</b>	<b>3,098,161</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>5,831,158</b>	<b>5,198,632</b>	<b>5,574,724</b>	<b>4,939,765</b>

I certify that the Financial Statements as set out on pages 104 to 126 have been prepared in accordance with the requirements of the Companies Act No. 7 of 2007.



**E.D.C. Kodituwakku**

General Manager, Finance & Controlling/Member - Group Management Committee

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

Signed for and on behalf of the Board,



**A.R. Pandithage**

Chairman, Managing Director/Chief Executive Officer

9th May, 2008

Figures in brackets indicate deductions

The Significant Accounting Policies from pages 108 to 112 and Notes to the Financial Statements from pages 113 to 126 form an integral part of these Financial Statements.

The Report of the Auditors is on Page 103.



**B.C.S.A.P. Gooneratne**

Director

# STATEMENTS OF CHANGES IN EQUITY

Consolidated	Note	Stated Capital		Revaluation Reserve Rs.'000	General Reserve Rs.'000	Retained Earnings Rs.'000	Total Rs.'000
		Voting Shares Rs.'000	Share Premium Rs.'000				
2006/07							
Balance as at 1st April 2006		100,000	27,500	311,522	472,908	304,101	1,216,031
Transfer to/(from) general reserve		-	-	-	170,000	(170,000)	-
Dividend to shareholders							
- 2005/06 - final	8	-	-	-	-	(33,000)	(33,000)
- 2006/07 - interim	8	-	-	-	-	(33,300)	(33,300)
Bonus issue		10,000	(10,000)	-	-	-	-
Rights issue		11,000	44,000	-	-	-	55,000
Profit for the year		-	-	-	-	301,777	301,777
<b>Balance as at 31st March 2007</b>		<b>121,000</b>	<b>61,500</b>	<b>311,522</b>	<b>642,908</b>	<b>369,578</b>	<b>1,506,508</b>
2007/08							
Transfer to/(from) general reserve		-	-	-	-	-	-
Dividend to shareholders							
- 2006/07 - final	8	-	-	-	-	(36,300)	(36,300)
- 2007/08 - interim	8	-	-	-	-	(18,150)	(18,150)
Profit for the year		-	-	-	-	205,093	205,093
<b>Balance as at 31st March 2008</b>		<b>121,000</b>	<b>61,500</b>	<b>311,522</b>	<b>642,908</b>	<b>520,221</b>	<b>1,657,151</b>
Company							
Company		Stated Capital		Revaluation Reserve Rs.'000	General Reserve Rs.'000	Retained Earnings Rs.'000	Total Rs.'000
		Voting Shares Rs.'000	Share Premium Rs.'000				
2006/07							
Balance as at 1st April 2006		100,000	27,500	311,522	423,082	241,978	1,104,082
Transfer to/(from) general reserve		-	-	-	150,000	(150,000)	-
Dividend to shareholders							
- 2005/06 - final	8	-	-	-	-	(33,000)	(33,000)
- 2006/07 - interim	8	-	-	-	-	(33,300)	(33,300)
Bonus issue		10,000	(10,000)	-	-	-	-
Rights issue		11,000	44,000	-	-	-	55,000
Profit for the year		-	-	-	-	282,028	282,028
<b>Balance as at 31st March 2007</b>		<b>121,000</b>	<b>61,500</b>	<b>311,522</b>	<b>573,082</b>	<b>307,706</b>	<b>1,374,810</b>
2007/08							
Transfer to/(from) general reserve		-	-	-	-	-	-
Dividend to shareholders							
- 2006/07 - final	8	-	-	-	-	(36,300)	(36,300)
- 2007/08 - interim	8	-	-	-	-	(18,150)	(18,150)
Profit for the year		-	-	-	-	194,669	194,669
<b>Balance as at 31st March 2008</b>		<b>121,000</b>	<b>61,500</b>	<b>311,522</b>	<b>573,082</b>	<b>447,925</b>	<b>1,515,029</b>

Figures in brackets indicate deductions.

The Significant Accounting Policies from pages 108 to 112 and Notes to the Financial Statements from pages 113 to 126 form an integral part of these Financial Statements.

The Report of the Auditors is on page 103.

# CASH FLOW STATEMENTS

For the year ended 31st March	Note	Consolidated		Company	
		2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>Operating Activities</b>					
Cash receipts from customers		<b>12,385,498</b>	13,175,265	<b>11,863,519</b>	12,665,483
Cash paid to suppliers and employees		<b>(11,145,323)</b>	(12,176,773)	<b>(10,744,103)</b>	(11,717,838)
Cash generated from operations		<b>1,240,175</b>	998,492	<b>1,119,416</b>	947,645
Interest paid		<b>(517,620)</b>	(460,172)	<b>(469,093)</b>	(430,783)
Income taxes paid		<b>(201,849)</b>	(155,186)	<b>(184,818)</b>	(137,969)
<b>Cash flows from operating activities</b>		<b>520,706</b>	383,134	<b>465,505</b>	378,893
<b>Investing Activities</b>					
Proceeds from disposal of property, plant & equipment		<b>25,424</b>	15,358	<b>24,511</b>	21,314
Investment in joint venture		–	–	–	(6,000)
Dividends received		<b>1,913</b>	1,934	<b>1,913</b>	1,934
Interest received		<b>637</b>	383	<b>354</b>	303
Acquisition and construction of property, plant & equipment		<b>(547,186)</b>	(305,311)	<b>(524,401)</b>	(263,441)
<b>Cash flows from investing activities</b>		<b>(519,212)</b>	(287,636)	<b>(497,623)</b>	(245,890)
<b>Financing Activities</b>					
Proceeds from rights issue		–	55,000	–	55,000
Proceeds from long-term loans		<b>400,000</b>	117,670	<b>400,000</b>	117,670
Repayment of long-term loans		<b>(146,863)</b>	(135,905)	<b>(146,863)</b>	(135,905)
Dividends paid		<b>(54,450)</b>	(66,363)	<b>(54,450)</b>	(66,363)
Repayment of finance lease obligations		<b>(19,398)</b>	(19,860)	<b>(19,398)</b>	(19,860)
<b>Cash flows from financing activities</b>		<b>179,289</b>	(49,458)	<b>179,289</b>	(49,458)
<b>Net increase/(decrease) in cash &amp; cash equivalents</b>		<b>180,783</b>	46,040	<b>147,171</b>	83,545
<b>Cash &amp; cash equivalents at beginning of the year</b>		<b>(2,184,220)</b>	(2,230,260)	<b>(2,100,212)</b>	(2,183,757)
<b>Cash &amp; cash equivalents at end of the year (Note A)</b>		<b>(2,003,437)</b>	(2,184,220)	<b>(1,953,041)</b>	(2,100,212)
<b>A. Analysis of Cash &amp; Cash Equivalents</b>					
Bank and cash balances (Note 18)		<b>51,222</b>	176,390	<b>49,454</b>	175,521
Bank borrowings (Note 26)		<b>(2,054,659)</b>	(2,360,610)	<b>(2,002,495)</b>	(2,275,733)
Cash & cash equivalents		<b>(2,003,437)</b>	(2,184,220)	<b>(1,953,041)</b>	(2,100,212)

Figures in brackets indicate deductions.

The Significant Accounting Policies from pages 108 to 112 and Notes to the Financial Statements from pages 113 to 126 form an integral part of these Financial Statements.

The Report of the Auditors is on page 103.

# SIGNIFICANT ACCOUNTING POLICIES

## 1. REPORTING ENTITY

Diesel & Motor Engineering PLC and its Subsidiaries are limited liability companies, incorporated and domiciled in Sri Lanka. The parent company and its subsidiaries have the registered office and principal place of business located at No. 65, Jetawana Road, Colombo 14.

The consolidated Financial Statements of Diesel & Motor Engineering PLC. as at and for the year ended 31st March 2008 comprise the Company and its fully-owned subsidiaries (together referred to as the 'Group') and the Group's interest in an associate and jointly controlled entities. The Financial Statements of all Companies in the Group are prepared to a common financial year, which ends on 31st March. The Directors authorised the Financial Statements for issue on 9th May 2008.

Diesel & Motor Engineering PLC does not have any identifiable parent of its own.

### i. Statement of Compliance

The Financial Statements have been prepared in accordance with Sri Lanka Accounting Standards (SLAS) adopted by the Institute of Chartered Accountants of Sri Lanka (ICASL), and the requirements of the Companies Act No. 7 of 2007, and Sri Lanka Accounting & Auditing Standards Act No. 15 of 1995.

### ii. Responsibility for Financial Statements

The Board of Directors is responsible for the preparation & presentation of the Financial Statements. The statement containing the Directors Responsibility for Financial Statements is given on page 102.

## iii. Basis of Measurement

The Financial Statements have been prepared on the historical cost basis, except that certain land included in property, plant & equipment is stated at a valuation as explained in Note 9 to the Financial Statements.

### Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees, which is the Company's functional currency. All financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand, unless otherwise stated.

### Use of estimates and Judgments

The preparation of Financial Statements in conformity with SLAS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period or in the period of the revision and future periods if revision affects both current and future periods.

### Going concern

The 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 either to liquidate or to cease trading.

## Basis of Consolidation

### (a) Subsidiaries

Subsidiaries are those entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable are taken into account. The Financial Statements of subsidiaries are included in the consolidated Financial Statements from the date that control commences until the date that control ceases. There is no minority interest in the consolidated Financial Statements since all subsidiary companies are wholly owned.

### (b) Associates (equity accounted investees) and jointly controlled entities

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic, financial and operating decisions. Associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Consolidated Financial Statements include the Group proportionate share of the joint venture assets/liabilities, revenue and expenses with items of a similar nature on a line by line

# SIGNIFICANT ACCOUNTING POLICIES

basis. The Consolidated Financial Statements include the Group's share of the income and expenses and equity movements of equity accounted investees, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has incurred obligations or has made payments on behalf of the investee.

## **(c) Transactions Eliminated on Consolidation**

Intra-group balances and transactions, and any income and expenses arising from intra-group transactions are eliminated in preparing the consolidated Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated to the extent of the Group's interest in the investee.

## **iv. Foreign Currency Transactions**

Transactions in foreign currencies are translated into Sri Lankan Rupees at exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into Sri Lankan rupees at the exchange rate at that date. Foreign exchange differences arising on translation are recognised in profit and loss.

## **v. Segment Reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in

providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those other segments.

The segment reporting is presented on the primary format, business segments, as per the Sri Lanka Accounting Standard No. 28 - Segment Reporting.

Inter-segment pricing is determined on an arm's length basis.

Segment information is based on the identified product segments reflecting the Group's 'core' and 'non-core' business activities. Segment information includes revenue, segment result, assets, liabilities and cash flows.

Segment assets and liabilities include those operational assets and liabilities that can be allocated to the segment on a reasonable basis.

Segment expenses consist of direct expenses pertaining to and directly attributable to the segment.

Considering activities of the operations, segment information based on geographical segments does not arise.

## **2. ASSETS AND BASES OF THEIR VALUATION**

Assets classified as current assets on the Balance Sheet are cash and bank balances and those which are expected to be realised in cash during the normal operating cycle or within one year from the Balance Sheet date, whichever is shorter.

## **i. Property, Plant & Equipment**

Items of property, plant & equipment are measured at cost (or valuation in the case of land) less accumulated depreciation and accumulated impairment losses.

### **(a) Cost**

The cost of property, plant & equipment is the cost of acquisition or construction together with any expenses incurred in bringing the assets to their working condition for their intended use.

Where parts of an item of property, plant & equipment have different useful lives, they are accounted for as separate items (major components) of property, plant & equipment.

### **(b) Revaluation**

A revaluation of land is done when there is a substantial distinction between the fair value (market value) and the carrying amount of the land and is undertaken by professionally qualified valuers. Increases in the carrying amount on revaluation are credited to the revaluation surplus reserve in shareholders equity. Decreases that offset previous increases of the same individual asset are charged against revaluation surplus reserve directly in equity; all other decreases are expensed in profit and loss.

### **(c) Subsequent Expenditure**

The cost of the day to day servicing of property, plant and equipment are recognised in profit and loss as incurred.

### **(d) Derecognition**

The carrying amount of an item of property, plant and equipment is

# SIGNIFICANT ACCOUNTING POLICIES

derecognised on disposal; or when no future economic benefits are expected from its use or disposal. Gains and losses on derecognition are recognised in profit and loss and gains are not classified as revenue.

## **(e) Depreciation**

Depreciation is recognised in profit and loss on a straight-line basis over the estimated useful lives of items of each part of an item of property, plant & equipment. Assets held under finance lease are depreciated over the shorter of the lease term and the useful lives of equivalent owned assets. Freehold land is not depreciated.

The estimated useful lives are as follows:

	Years
Buildings	36-40
Plant & Machinery	08-13
Workshop Implements	03-04
Motor Vehicles	03-04
Furniture & Fittings	09-13
Office Equipment & Electrical	06-10
Computer Hardware & Software	03-04

Depreciation of an asset begins when it is available for use and ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

## **(f) Capital Work-in-Progress**

Capital expenditure incurred during the year, which are not completed as at the Balance Sheet date are shown as capital work-in-progress.

## **ii. Intangible Assets**

An Intangible Asset is recognised if it is probable that the future economic

benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with SLAS 37 on Intangible Assets. Accordingly these assets are stated in the Balance Sheet at cost less accumulated amortisation and accumulated impairment losses.

## **Subsequent expenditure**

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

## **Amortisation**

Amortisation is recognised in profit and loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

- Computer software - 4 years.

## **iii. Investments**

### **Long-Term Investments**

Investments in quoted and unquoted shares held on long-term basis are measured at cost less impairment losses. In the parent company Financial Statements, investments in subsidiaries, associate and jointly controlled entity are carried at cost less impairment losses under the parent Company accounting policy for long term investments.

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

## **iv. Inventories**

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

The cost of inventories is based on the weighted average cost principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

A provision is made for all non-moving and obsolete items of inventory.

## **v. Trade and Other Receivables**

Trade and other receivables are stated in the accounts at their estimated realisable value. A provision has been made in respect of bad & doubtful debts. Debts that are known to be uncollectible are written off.

## **vi. Cash & Cash Equivalents**

Cash & cash equivalents comprise cash balances and demand deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash & cash equivalents for the purpose of the Statement of Cash Flows.

## **vii. Impairment**

The carrying amounts of the Group's assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at

# SIGNIFICANT ACCOUNTING POLICIES

each reporting date or more frequently, if events or changes in circumstances indicate that it might be impaired.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, 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. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of

depreciation or amortisation, if no impairment loss had been recognised.

### 3. LIABILITIES AND PROVISIONS

Liabilities classified as current liabilities on the Balance Sheet are those, which fall due for payment on demand or within one year from the Balance Sheet date. Non-current liabilities are those balances that fall due for payment after one year from the Balance Sheet date.

All known liabilities have been accounted for in preparing the Financial Statements.

#### i. Employee Benefits

##### (a) Defined Contribution Plans

Obligations for contributions to defined contribution plans, EPF & ETF, are recognised as an expense in profit and loss when incurred.

##### (b) Defined Benefits Plans - Retiring Gratuity

Provision has been made for retiring gratuity from the first year of service for all employees in conformity with Sri Lanka Accounting Standard (SLAS 16) - Retirement Benefit Costs. However, under the Payment of Gratuity Act No. 12 of 1983, liability to an employee arises only on completion of five years service.

The liability has not been actuarially valued and is not externally funded.

The liability is calculated on the basis of half a month's salary for each completed year of service.

#### ii. Deferred Income

The excess of sales proceeds over the carrying amount of an asset in a sale and lease back transaction is classified as Deferred Income. Deferred Income

is systematically amortised to profit and loss over the lease period.

#### iii. Trade and Other Payables

Trade and other payables are stated at their cost.

#### iv. Provisions

A provision is recognised, if as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

#### v. Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighing of all possible outcomes against their associated probabilities.

### 4. INCOME & EXPENSES

For the purpose of presentation of the Income Statement, the function of expenses method is adopted, as it represents fairly the elements of the Company performance.

#### i. Turnover

The net Group turnover excludes turnover taxes and trade discounts. The gross turnover represents the invoiced value of goods & services to customers outside the Group.

#### ii. Revenue

##### (a) Goods Sold & Services Rendered

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

# SIGNIFICANT ACCOUNTING POLICIES

the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be measured reliably, there is no continuing managerial involvement with the goods and the amount of revenue can be measured reliably.

Revenue from services rendered is recognised in profit and loss on the invoicing of the job after completion. In instances where the revenue from services spreads over a period of time, revenue is recognised in profit and loss in proportion to the stage of completion of the transaction at the reporting date.

#### **(b) Service Support Income**

Service support commission income from foreign principals is accounted for on an accrual basis once the shipment is effected.

#### **(c) Other Operating Income**

Other operating income comprises mainly of gain on disposal of property, plant & equipment, bad debt recoveries, sale of scrapped items and motor vehicle valuation fees, etc.

### **iii. Expenses**

#### **(a) Operating Leases**

Leases where the lessor effectively retains substantially all the risks and rewards of ownership over the lease term are classified as operating leases. Payments made under operating leases are recognised in profit and loss on a straight-line basis over the term of the lease.

#### **IV. Borrowing Costs**

Borrowing Costs are recognised as an expense in the period in which they are incurred, except to the extent

where borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset that take a substantial period of time to get ready for its intended use or sale, is capitalised as part of that asset.

#### **(a) Finance income and finance expenses**

Finance income comprise interest income on funds invested, dividend income and gains on translation of foreign currency. Interest income is recognised in profit and loss as it accrues, taking into account the effective yield on the asset.

Finance expenses comprises interest cost on borrowings and losses on translation of foreign currency. The interest expense component of finance lease payments is recognised in profit and loss using the effective interest method.

Dividend income is recognised in profit and loss on the date the entity's right to receive payment is established.

#### **V. Income Tax**

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between

the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date.

#### **5. CASH FLOW STATEMENT**

The Cash Flow Statement has been prepared using the 'direct method'.

Interest paid is classified as operating cash flows; interest and dividend received are classified as investing cash flows, while dividends paid are classified as financing cash flows for the purpose of presenting the Cash Flow Statement.

#### **6. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE**

All material post Balance Sheet events have been considered and where appropriate adjustment or disclosure has been made according to SLAS 12 (Revised) - Events after the Balance Sheet date in the respective Notes to the Financial Statements.

#### **7. CAPITAL COMMITMENTS AND CONTINGENCIES**

Capital commitments and contingent liabilities of the Group are disclosed in respective Notes to the Financial Statements. Refer Note 27.

#### **8. COMPARATIVE INFORMATION**

Where necessary comparative information has been reclassified to conform to the current year's presentation.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. SEGMENT INFORMATION

The Group comprises the following main business segments:

Segment	Products & Services
<b>Vehicles</b>	- Sale of brand new Passenger Vehicles, 4WD Vehicles, Commercial Vehicles, Special Purpose Vehicles and Pre-owned Passenger Vehicles.
<b>Vehicle Parts &amp; Services</b>	- Repair of Passenger & Commercial Vehicles, Sale of Vehicle Spare Parts, Accessories, Components and Tyres.
<b>Lighting &amp; Power Tools</b>	- Sale of Power Tools & Accessories, Lamps, Lighting Fittings and Lighting Accessories.
<b>Construction &amp; Material Handling Machinery</b>	- Sale & Service of Earth Moving Machinery, Road Construction Machinery, Fork-Lifts, Racking Systems, Tractors Pumps and Dock Levellers.
<b>Diversified Activities</b>	- Sale & Service of Telecommunication Equipment, Medical Equipment, Generating Sets, Turbines, UPS Equipment, Diesel Engines for Marine Propulsion, Rail Traction, Building Technologies, Industrial Refrigeration, Power Generation & Transmission and the Business of Travel Agents.

As at 31st March	Vehicles		Vehicle Parts & Services		Lighting & Power Tools		Construction & Material Handling Machinery		Diversified Activities		Total	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>Business Segment Turnover &amp; Results</b>												
Total segment revenue	8,838,398	9,041,292	2,430,439	2,104,363	421,211	355,125	1,069,614	1,258,905	532,577	573,845	13,292,239	13,333,530
Inter-segment revenue	434,402	214,446	64,757	32,808	458	948	51,906	57,173	53,427	38,239	604,950	343,614
<b>Total external revenue</b>	<b>8,403,996</b>	<b>8,826,846</b>	<b>2,365,682</b>	<b>2,071,555</b>	<b>420,753</b>	<b>354,177</b>	<b>1,017,708</b>	<b>1,201,732</b>	<b>479,150</b>	<b>535,606</b>	<b>12,687,289</b>	<b>12,989,916</b>
Segment results	602,847	594,895	368,775	368,938	61,805	51,727	91,869	109,693	73,119	69,872	1,198,415	1,195,125
Unallocated income	-	-	-	-	-	-	-	-	-	-	37,900	28,380
Unallocated expenses	-	-	-	-	-	-	-	-	-	-	(377,010)	(251,168)
Finance cost - net	-	-	-	-	-	-	-	-	-	-	(518,143)	(462,177)
Income from equity accounted investee	-	-	-	-	-	-	-	-	-	-	3,282	2,658
Income tax expense	-	-	-	-	-	-	-	-	-	-	(139,351)	(211,041)
<b>Profit for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>205,093</b>	<b>301,777</b>
<b>Business Segment Assets &amp; Liabilities</b>												
Segment assets	2,411,710	2,331,953	975,269	959,235	158,403	134,528	612,617	522,338	269,308	372,262	4,427,307	4,320,316
Investment in equity accounted investee	-	-	-	-	-	-	-	-	-	-	25,011	21,729
Unallocated assets	-	-	-	-	-	-	-	-	-	-	1,378,840	856,587
<b>Total assets</b>	<b>2,411,710</b>	<b>2,331,953</b>	<b>975,269</b>	<b>959,235</b>	<b>158,403</b>	<b>134,528</b>	<b>612,617</b>	<b>522,338</b>	<b>269,308</b>	<b>372,262</b>	<b>5,831,158</b>	<b>5,198,632</b>
Segment liabilities	2,061,305	2,015,164	661,636	479,536	399	2,470	26,277	168,377	290,722	122,288	3,040,339	2,787,835
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	1,133,668	904,289
<b>Total liabilities</b>	<b>2,061,305</b>	<b>2,015,164</b>	<b>661,636</b>	<b>479,536</b>	<b>399</b>	<b>2,470</b>	<b>26,277</b>	<b>168,377</b>	<b>290,722</b>	<b>122,288</b>	<b>4,174,007</b>	<b>3,692,124</b>
<b>Other Business Segment Information</b>												
Capital expenditure	227,342	20,513	219,638	94,357	335	818	1,960	12,194	55,326	19,072	504,601	146,954
Depreciation	12,231	8,364	32,936	22,921	603	373	7,799	6,953	5,340	3,777	58,909	42,388
<b>Non-cash expenses other than depreciation</b>	<b>3,909</b>	<b>5,532</b>	<b>17,067</b>	<b>9,220</b>	<b>1,808</b>	<b>(2,937)</b>	<b>9,704</b>	<b>4,432</b>	<b>5,716</b>	<b>1,161</b>	<b>38,204</b>	<b>17,408</b>

# NOTES TO THE FINANCIAL STATEMENTS

As at 31st March	Vehicles		Vehicle Parts & Service		Lighting & Power Tools		Construction & Material Handling Machinery		Diversified Activities		Consolidated	
	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>Business Segment Cash Flow</b>												
<b>Operating activities</b>	<b>520,340</b>	785,497	<b>477,815</b>	83,345	<b>135,600</b>	15,173	<b>106,374</b>	(14,357)	<b>(12,527)</b>	(44,359)	<b>1,227,602</b>	825,299
<b>Investing activities</b>	<b>(227,342)</b>	(20,513)	<b>(219,638)</b>	(88,918)	<b>(335)</b>	(818)	<b>(1,960)</b>	(12,194)	<b>(55,326)</b>	(12,655)	<b>(504,601)</b>	(135,098)
<b>Unallocated Cash Flows</b>												
Common expenses											<b>(517,620)</b>	(309,381)
Income taxes paid											<b>(201,849)</b>	(155,186)
Proceeds from disposal of property, plant & equipment											<b>25,424</b>	9,403
Investment in joint venture											-	(6,000)
Dividends received											<b>1,913</b>	1,934
Interest received											<b>637</b>	383
Acquisition of construction of property, plant & equipment											<b>(49,410)</b>	(155,716)
Proceeds from issue of shares												55,000
Proceeds from long-term loan											<b>400,000</b>	117,670
Repayment of long-term loan											<b>(146,863)</b>	(135,905)
Dividends paid											<b>(54,450)</b>	(66,363)
Net increase/(decrease) in cash & cash equivalents											<b>180,783</b>	46,040

Figures in brackets indicate outflows.

Segment information is presented in respect of the Group's business segments. The primary format, business segment, is based on the Group's management and internal reporting structure. Segment results, assets and liabilities include those items directly attributable to a segment as well as those that can be allocated to the segment on a reasonable basis. Considering activities of the operations, segment information based on geographical segments does not arise.

The presentation of segmentation is based on the nature of product line in the context of its domain.

## 2. OTHER INCOME

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
Gain on disposal of property, plant & equipment	<b>10,685</b>	6,293	<b>10,709</b>	6,256
Sundry income	<b>27,215</b>	13,575	<b>25,095</b>	14,453
Reversal of provision for slow moving inventories	-	8,197	-	8,443
	<b>37,900</b>	28,065	<b>35,804</b>	29,152

# NOTES TO THE FINANCIAL STATEMENTS

## 3. NET FINANCE COST

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
<b>Finance Income</b>				
Dividend income	1,913	1,934	1,913	1,934
Interest income	637	383	354	303
	<b>2,550</b>	<b>2,317</b>	<b>2,267</b>	<b>2,237</b>
<b>Finance Costs</b>				
Interest on long-term borrowings	(67,915)	(58,925)	(67,915)	(58,925)
Interest on short-term borrowings	(446,835)	(389,613)	(392,938)	(357,385)
Interest on finance lease	(3,073)	(2,388)	(3,073)	(2,388)
Net loss on translation of foreign currency	(2,870)	(13,568)	(8,240)	(16,407)
	<b>(520,693)</b>	<b>(464,494)</b>	<b>(472,166)</b>	<b>(435,105)</b>
<b>Net finance cost</b>	<b>(518,143)</b>	<b>(462,177)</b>	<b>(469,899)</b>	<b>(432,868)</b>

## 4. SHARE OF PROFIT OF EQUITY ACCOUNTED INVESTEE - NET OF TAX

	Consolidated	
	2007/08 Rs. '000	2006/07 Rs. '000
<b>Browns Dimo Industrial Products (Pvt) Ltd.</b>		
Net profit before tax	3,682	2,735
Less: Taxation	(400)	(77)
<b>Share of Profit - Net of Tax</b>	<b>3,282</b>	<b>2,658</b>

## 5. PROFIT BEFORE TAXATION

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
<b>5.1 Profit before tax is stated after charging/(crediting) all expenses/income including the following:</b>				
Directors' emoluments	39,123	31,926	36,611	30,403
Auditor's Remuneration				
- Audit fee	1,180	950	950	780
- Audit related services	145	-	145	-
- Non-Audit service	766	146	537	101
Depreciation on property, plant & equipment	84,244	62,957	77,029	58,619
Amortisation of leasehold property & intangible assets	139	80	139	80
Amortisation of deferred income	(1,996)	(2,284)	(1,996)	(2,284)
Legal fees	13,251	16,659	12,625	12,874
Provision/(reversal) of bad & doubtful debts	6,194	1,630	2,466	1,897
Provision/(reversal) of slow moving inventories	9,548	(8,197)	7,365	(8,443)
Donations	628	674	628	674
Staff expenses (Note 5.2)	573,195	432,159	512,136	385,090

# NOTES TO THE FINANCIAL STATEMENTS

## 5.2 Staff Expenses

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
Defined contribution plan costs (EPF & ETF)	53,222	43,453	46,769	38,614
Defined benefit plan costs (Retiring gratuity)	27,996	20,008	27,168	19,349
Other staff costs	491,977	368,698	438,199	327,127
	<b>573,195</b>	<b>432,159</b>	<b>512,136</b>	<b>385,090</b>
Average number of employees for the year	865	820	761	728

The average number of employees is calculated by averaging the number of employees as at the year end, in the current and in the previous year.

## 6. INCOME TAX EXPENSE

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
<b>Current Tax Expense</b>				
Current year				
- Company	123,646	189,780	123,646	189,780
- Subsidiaries	5,427	16,530	-	-
	<b>129,073</b>	<b>206,310</b>	<b>123,646</b>	<b>189,780</b>
Under provision in respect of previous year	-	8,706	-	7,115
	<b>129,073</b>	<b>215,016</b>	<b>123,646</b>	<b>196,895</b>
<b>Deferred Tax Expense</b>				
Origination/(Reversal) of temporary difference	10,278	(3,975)	9,663	(3,289)
<b>Income tax expense in Income Statement</b>	<b>139,351</b>	<b>211,041</b>	<b>133,309</b>	<b>193,606</b>

### 6.1 Reconciliation of Accounting Profit to Income Tax Expense

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
Profit before taxation	344,444	512,818	327,978	475,634
Share of profit of equity accounted investee	(3,282)	(2,658)	-	-
Tax loss for the year	3,476	5,911	-	-
Disallowable expenses	149,277	159,871	142,251	148,534
Capital allowances	(112,431)	(68,288)	(104,175)	(60,685)
Allowable expenses	(8,989)	(17,619)	(8,909)	(15,346)
Income not liable to tax	(3,908)	(2,825)	(3,908)	(2,745)
<b>Statutory Income</b>	<b>368,587</b>	<b>587,210</b>	<b>353,237</b>	<b>545,392</b>
Tax losses utilised during the period	-	-	-	-
<b>Taxable profit</b>	<b>368,587</b>	<b>587,210</b>	<b>353,237</b>	<b>545,392</b>
Statutory tax rate				
Tax at 15%	908	830	908	830
Tax at 35%	126,887	203,417	121,514	187,052
Social Responsibility Levy (SRL)	1,278	2,063	1,224	1,898
<b>Current tax expense</b>	<b>129,073</b>	<b>206,310</b>	<b>123,646</b>	<b>189,780</b>
<b>Tax Losses</b>				
At the beginning of the year	5,967	56	-	-
For the year	3,476	5,911	-	-
Utilised during the year	-	-	-	-
At the end of the year	<b>9,443</b>	<b>5,967</b>	<b>-</b>	<b>-</b>

The income tax has been computed in accordance with the Inland Revenue Act No. 10 of 2006.

The Companies within the Group are liable to income tax at 35%. The tax on export profit is 15%.

Social responsibility levy is 1% of the income tax charge for the year.

# NOTES TO THE FINANCIAL STATEMENTS

## 7. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to the ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

	Consolidated		Company	
	2007/08	2006/07	2007/08	2006/07
Profit attributable to ordinary shareholders (Rs. '000)	<b>205,093</b>	301,777	<b>194,669</b>	282,028
Weighted average number of ordinary shares (i)	<b>12,100,000</b>	11,715,000	<b>12,100,000</b>	11,715,000
<b>Basic earnings per ordinary share (Rs.)</b>	<b>16.95</b>	25.76	<b>16.09</b>	24.07
<b>Diluted earnings per ordinary share (Rs.)</b>	<b>16.95</b>	25.76	<b>16.09</b>	24.07
(i) Qualifying ordinary shares at the beginning of the year	<b>12,100,000</b>	10,000,000	<b>12,100,000</b>	10,000,000
Effect of shares issued during the year				
Scrip issue	–	1,000,000	–	1,000,000
Rights issue	–	715,000	–	715,000
Weighted average number of ordinary shares at the year end	<b>12,100,000</b>	11,715,000	<b>12,100,000</b>	11,715,000

There were no potentially dilutive ordinary shares outstanding at any time during the year/previous year.

## 8. DIVIDENDS

	Company	
	2007/08 Rs. '000	2006/07 Rs. '000
Interim - Rs. 1.50/- per share (2006/2007 - Rs. 3/-)	<b>18,150</b>	33,300
Final - Rs. 2.50/- per share (2006/2007 - Rs. 3/-)	<b>30,250</b>	36,300
	<b>48,400</b>	69,600
Dividends per share (Rs.)	<b>4.00</b>	6.00

Directors have approved the payment of a final dividend of Rs. 2.50/- per share for the year ended 31st March 2008, (2006/2007 - Rs. 3/- per share), at a meeting of the Board of Directors held on 9th May 2008. The Articles of the Company does not require that shareholders approve payment of the final dividend. In accordance with the SLAS 12 (Revised 2005), on Events after the Balance Sheet date, the approved dividend is not recognised as a liability in the Financial Statements as at the reporting date.

# NOTES TO THE FINANCIAL STATEMENTS

## 9. PROPERTY, PLANT & EQUIPMENT

	Freehold Land	Buildings & Premises	Plant & Machinery	Tools & Implements	Freehold Motor Vehicles	Leased Motor Vehicles	Computer Hardware & Software	Electrical Fixtures, Fittings, & Office Equipment	Total 31.03.08	Total 31.03.07
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>a) CONSOLIDATED</b>										
<b>Cost or Valuation</b>										
Balance at the beginning	460,241	232,508	152,812	91,918	159,294	–	92,901	122,365	<b>1,312,039</b>	1,080,039
Additions	89,958	340,628	25,215	24,340	38,393	6,825	7,825	21,299	<b>554,483</b>	305,542
Disposals	–	–	(2,069)	(73)	(28,861)	–	(2,654)	(1,832)	<b>(35,489)</b>	(73,542)
<b>Balance at year end</b>	<b>550,199</b>	<b>573,136</b>	<b>175,958</b>	<b>116,185</b>	<b>168,826</b>	<b>6,825</b>	<b>98,072</b>	<b>141,832</b>	<b>1,831,033</b>	1,312,039
<b>Depreciation</b>										
Balance at the beginning	–	41,889	59,092	71,454	71,957	–	59,159	72,116	<b>375,667</b>	370,894
Charge for the year	–	9,413	11,922	10,388	30,294	2,116	12,830	7,281	<b>84,244</b>	62,957
On disposals	–	–	(1,473)	(26)	(16,074)	–	(2,384)	(793)	<b>(20,750)</b>	(58,184)
<b>Balance at year end</b>	<b>–</b>	<b>51,302</b>	<b>69,541</b>	<b>81,816</b>	<b>86,177</b>	<b>2,116</b>	<b>69,605</b>	<b>78,604</b>	<b>439,161</b>	375,667
Carrying amount at year end	550,199	521,834	106,417	34,369	82,649	4,709	28,467	63,228	<b>1,391,872</b>	936,372
<b>Capital work-in-progress</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>238</b>	3,518
<b>Carrying amount</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,392,110</b>	939,890
<b>b) COMPANY</b>										
<b>Cost or Valuation</b>										
Balance at the beginning	460,241	210,886	133,397	84,490	155,087	–	84,226	113,825	<b>1,242,152</b>	1,051,240
Additions	89,958	335,524	18,067	19,859	38,327	6,825	6,468	16,670	<b>531,698</b>	263,672
Disposals	–	–	(2,069)	(73)	(28,795)	–	(2,654)	(283)	<b>(33,874)</b>	(72,760)
<b>Balance at year end</b>	<b>550,199</b>	<b>546,410</b>	<b>149,395</b>	<b>104,276</b>	<b>164,619</b>	<b>6,825</b>	<b>88,040</b>	<b>130,212</b>	<b>1,739,976</b>	1,242,152
<b>Depreciation</b>										
Balance at the beginning	–	40,116	56,248	65,994	69,147	–	54,172	67,829	<b>353,506</b>	352,589
Charge for the year	–	8,762	10,259	8,546	29,838	2,116	10,987	6,521	<b>77,029</b>	58,619
On disposals	–	–	(1,473)	(26)	(16,008)	–	(2,384)	(181)	<b>(20,072)</b>	(57,702)
<b>Balance at year end</b>	<b>–</b>	<b>48,878</b>	<b>65,034</b>	<b>74,514</b>	<b>82,977</b>	<b>2,116</b>	<b>62,775</b>	<b>74,169</b>	<b>410,463</b>	353,506
Carrying amount at year end	550,199	497,532	84,361	29,762	81,642	4,709	25,265	56,043	<b>1,329,513</b>	888,646
<b>Capital work-in-progress</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>238</b>	3,518
<b>Carrying amount</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,329,751</b>	892,164

### Notes

- The value of the land owned by Diesel & Motor Engineering PLC at No. 65, Jetawana Road, Colombo 14, was assessed by a qualified valuer as at 20th August 2004. The valuation of land has been written up to correspond with the market value on the respective date. The purchase cost of the land stated as Rs. 346,432,000/- is Rs. 34,910,616/-.
- There are no tax implications or tax liabilities pertaining to revaluation of land stated in Note i above.
- The property acquired at Kirindiwela Road, Weliveriya for Rs. 400 mn was financed through a long-term loan and was pledged as security for same.
- Group property, plant & equipment with cost of Rs. 241 mn (2006/07- Rs. 227 mn) have been fully depreciated and continue to be use by the Group. The cost of fully depreciated assets of the Company amounts to Rs. 227 mn (2006/07 Rs. 215 mn).
- There has been no permanent fall in the value of property, plant & equipment which require a provision.

# NOTES TO THE FINANCIAL STATEMENTS

## 10. LEASEHOLD PROPERTY

	Consolidated		Company	
	2007/08	2006/07	2007/08	2006/07
<b>Cost</b>				
Balance at the beginning	2,400	2,400	2,400	2,400
Additions	-	-	-	-
Balance at year end	2,400	2,400	2,400	2,400
<b>Amortisation</b>				
Balance at the beginning	800	720	800	720
Amortisation for the year	80	80	80	80
Balance at year end	880	800	880	800
Carrying amount at year end	1,520	1,600	1,520	1,600

The leasehold land situated at Anuradhapura is on a 30 year lease and expires in 2026.

## 11. INTANGIBLE ASSETS

	Consolidated		Company	
	2007/08	2006/07	2007/08	2006/07
<b>Cost</b>				
Balance at the beginning	-	-	-	-
Additions	2,808	-	2,808	-
Disposals	-	-	-	-
Balance at the year end	2,808	-	2,808	-
<b>Amortisation</b>				
Balance at the beginning	-	-	-	-
Amortisation for the year	59	-	59	-
On disposals	-	-	-	-
Balance at the year end	59	-	59	-
Carrying amount at year end	2,749	-	2,749	-

## 12. INVESTMENTS IN SUBSIDIARIES

	Group Interest %	Company	
		2007/08 Rs. '000	2006/07 Rs. '000
<b>Unquoted</b>			
Dimo (Pvt) Ltd. - 25,000 ordinary shares	100	250	250
Dimo Industries (Pvt) Ltd. - 500 ordinary shares	100	50	50
Dimo Travels (Pvt) Ltd. - 500 ordinary shares	100	50	50
		350	350

In the opinion of the Directors, the net realisable value of the unquoted investments are higher than their cost.

The principal activities of the subsidiaries are given on page 96.

# NOTES TO THE FINANCIAL STATEMENTS

## 13. INVESTMENTS IN JOINT VENTURE

	Group Interest %	2007/08 Rs. '000	Company 2006/07 Rs. '000
DIMO-KLN Industries (Pvt) Ltd.	50	6,000	6,000
		<b>6,000</b>	6,000

The Company formed a joint venture in collaboration with KLN Engineering Products (Pvt) Ltd. to manufacture filters for automobiles. The Company commenced its commercial operation in August 2007.

## 14. INVESTMENT IN EQUITY ACCOUNTED INVESTEE

	Group Interest %	Consolidated 2007/08 Rs. '000	2006/07 Rs. '000	Company 2007/08 Rs. '000	2006/07 Rs. '000
<b>Unquoted</b>					
Browns Dimo Industrial Products (Pvt) Ltd.					
675,000 ordinary shares	45	6,750	6,750	6,750	6,750
Group share of net assets		18,261	14,979	-	-
<b>Group investment in associate (equity basis)</b>		<b>25,011</b>	21,729	<b>6,750</b>	6,750

The principal activity of the Company is given on page 96.

Summarised financial information of equity accounted investee and jointly controlled entity is as follows:

	Equity Accounted Investee		Jointly Controlled Entity	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
Revenue	78,666	65,156	1,882	-
Profit before tax	8,182	6,078	(5,616)	(3,322)
Profit after tax	7,293	5,907	(5,616)	(3,322)
Non-current assets	7,601	7,705	6,035	3,157
Current assets	70,704	49,756	5,666	3,733
	<b>78,305</b>	57,461	<b>11,701</b>	6,890
Equity	55,580	48,287	3,061	6,291
Non-current liabilities	13,661	1,464	-	-
Current liabilities	9,064	7,710	8,640	599
	<b>78,305</b>	57,461	<b>11,701</b>	6,890

## 15. OTHER LONG-TERM INVESTMENTS

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
<b>Quoted</b>				
Hunas Falls Hotels PLC - 900 ordinary shares (31.03.07 - 900) (Market value as at 31.03.08 - Rs. 24,750/-)	14	14	7	7
Hatton National Bank PLC - 10,000 non-voting ordinary shares (31.03.07 - 10,000) (Market value as at 31.03.08 - Rs. 512,500/-)	700	700	700	700
Hayleys PLC - Rs. 539,599 ordinary shares (31.03.07 - 539,599) (Market value as at 31.03.08 - Rs. 52,745,802/-)	40,964	40,964	40,964	40,964
	<b>41,678</b>	41,678	<b>41,671</b>	41,671

# NOTES TO THE FINANCIAL STATEMENTS

## 16. INVENTORIES

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
Stock in trade & work-in-progress	1,772,770	2,126,870	1,699,851	2,038,586
Provision for slow moving inventories	(49,998)	(40,450)	(43,437)	(36,072)
	1,722,772	2,086,420	1,656,414	2,002,514
Goods-in-transit	467,034	10,708	467,034	3,168
	2,189,806	2,097,128	2,123,448	2,005,682

## 17. TRADE AND OTHER RECEIVABLES

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
Trade receivables	2,114,613	1,668,726	1,888,605	1,388,775
Provision for bad debts	(82,051)	(75,857)	(53,419)	(50,953)
	2,032,562	1,592,869	1,835,186	1,337,822
Deposits against imports	667	215,750	667	214,260
Deposits and pre-payments	51,129	72,322	33,598	59,870
National Security Levy recoverable	11,930	11,930	11,294	11,294
Other-trade receivables	17,100	24,279	14,690	16,233
Loans to employees	3,927	2,594	3,720	2,344
	2,117,315	1,919,744	1,899,155	1,641,823

## 18. CASH & CASH EQUIVALENTS

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
Bank balances	45,808	171,331	44,215	170,512
Cash in hand	5,414	5,059	5,239	5,009
Cash & cash equivalents	51,222	176,390	49,454	175,521

## 19. STATED CAPITAL

In accordance with Section 58 of the Companies Act No. 07 of 2007, which became effective from 3rd May 2007 share capital and share premium have been re-classified as stated capital.

Voting Ordinary Shares	Consolidated/Company		2006/07	
	No. of Shares	2007/08 Rs. '000	No. of Shares	Rs. '000
<b>Issued and fully paid ordinary shares</b>				
Balance at the beginning of the year	12,100,000	121,000	10,000,000	100,000
Bonus Issue during the year	-	-	1,000,000	10,000
Right Issue during the year	-	-	1,100,000	11,000
<b>Balance at the end of the year</b>	<b>12,100,000</b>	<b>121,000</b>	<b>12,100,000</b>	<b>121,000</b>
<b>Share Premium</b>		<b>2007/08 Rs. '000</b>		<b>2006/07 Rs. '000</b>
Balance at the beginning of the year		61,500		27,500
Utilised for bonus issue during the year		-		(10,000)
Increase due to right issue during the year		-		44,000
<b>Balance at the end of the year</b>		<b>61,500</b>		<b>61,500</b>
Stated Capital at the end of the year	12,100,000	182,500		-

# NOTES TO THE FINANCIAL STATEMENTS

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at Annual General Meetings of the Company.

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
<b>19.1 Revaluation Reserve</b>				
Reserve on revaluation of land	<b>311,522</b>	311,522	<b>311,522</b>	311,522

This represents the increase in fair value of the property situated at 65, Jetawana Road, Colombo - 14. This property was last revalued in August 2004.

<b>19.2 General Reserves</b>	<b>1,163,129</b>	1,012,486	<b>1,021,007</b>	880,788
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The General Reserves represents reserves available for distribution.

## 20. LONG-TERM INTEREST-BEARING LOANS AND BORROWINGS

Non-current portion of the interest bearing loans and borrowings:

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
<b>Term Loan (20.1)</b>	<b>547,210</b>	334,032	<b>547,210</b>	334,032
<b>Finance lease obligations (20.2)</b>	<b>6,966</b>	11,514	<b>6,966</b>	11,514
	<b>554,176</b>	345,546	<b>554,176</b>	345,546

Current portion of the interest bearing loans and borrowings:

<b>Term Loan (20.1)</b>	<b>183,492</b>	143,533	<b>183,492</b>	143,533
<b>Finance lease obligations (20.2)</b>	<b>10,047</b>	14,999	<b>10,047</b>	14,999
	<b>193,539</b>	158,532	<b>193,539</b>	158,532

### 20.1 Term Loan

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
<b>Non-Current</b>				
At the beginning of the year	<b>477,565</b>	495,800	<b>477,565</b>	495,800
Loans obtained				
Unsecured	-	117,670	-	117,670
Secured	<b>400,000</b>	-	<b>400,000</b>	-
	<b>877,565</b>	613,470	<b>877,565</b>	613,470
Repayments during the year	<b>(146,863)</b>	(135,905)	<b>(146,863)</b>	(135,905)
At the end of the year	<b>730,702</b>	477,565	<b>730,702</b>	477,565
Transferred to current liabilities (repayable within one year)	<b>183,492</b>	143,533	<b>183,492</b>	143,533
<b>Long-term portion of long-term loan</b>	<b>547,210</b>	334,032	<b>547,210</b>	334,032

# NOTES TO THE FINANCIAL STATEMENTS

Analysis of loans is as follows:

	Interest Rate	Amount granted Rs. '000	Within 1 year Rs. '000	2-5 years Rs. '000	Over 5 years Rs. '000	31.03.08 Rs. '000	31.03.07 Rs. '000
<b>LENDER</b>							
Sampath Bank PLC	AWPLR	150,000	30,000	15,000	–	45,000	75,000
Commercial Bank PLC	AWPLR	350,000	69,600	89,000	–	158,600	228,200
	AWPLR+2%	400,000	39,960	160,030	196,680	396,670	–
Hatton National Bank PLC	AWPLR	217,670	43,932	86,500	–	130,432	174,365
		1,117,670	183,492	350,530	196,680	730,702	477,565

The property at Weliveriya was pledged against the loan of Rs. 400 mn obtained during the year.

## 20.2 Finance Lease Obligations

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
Gross liability - at the beginning of the year	31,414	–	31,414	–
Obtained during the year	10,052	51,274	10,052	51,274
Repayments during the year	(19,398)	(19,860)	(19,398)	(19,860)
Gross liability - at the end of the year	22,068	31,414	22,068	31,414
Finance charges unamortised	(5,055)	(4,901)	(5,055)	(4,901)
Net liability - at the end of the year	17,013	26,513	17,013	26,513
Transferred to current liabilities (repayable within one year)	10,047	14,999	10,047	14,999
Non-current portion of finance lease obligations	6,966	11,514	6,966	11,514

Analysis of finance lease obligations are as follows:

	Leased Amount Rs. '000	Within 1 year Rs. '000	1-2 years Rs. '000	2-5 years Rs. '000	31.03.08 Rs. '000	31.03.07 Rs. '000
<b>LESSOR</b>						
Central Finance						
Company PLC	1,523	381	317	–	698	–
Hatton National Bank PLC	8,493	1,699	1,699	3,291	6,689	–
People's Leasing						
Company Ltd.	16,271	3,438	2,025	–	5,463	17,499
Sampath Bank PLC	15,373	5,124	4,094	–	9,218	13,915
<b>Total</b>	41,660	10,642	8,135	3,291	22,068	31,414

## 21. DEFERRED TAX ASSETS & LIABILITIES

### 21.1 Deferred Tax Liabilities

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
Balance at the beginning of the year	31,327	34,616	31,327	34,616
Origination/(reversal) of deferred tax	9,805	(3,289)	9,663	(3,289)
Balance at the end of the year	41,132	31,327	40,990	31,327

# NOTES TO THE FINANCIAL STATEMENTS

## 21.2 Deferred Tax Assets

	Consolidated	
	2007/08 Rs. '000	2006/07 Rs. '000
Balance at the beginning of the year	473	(213)
Origination/reversal of deferred tax	(615)	686
Transfer to deferred tax liabilities	142	–
Balance at the end of the year	–	473

Unrecognised deferred tax asset resulting from tax losses carried forward amount to Rs. 3,305,147.

Deferred tax assets have not been recognised in respect of these items since it is not probable that future taxable profit will be available against which the Group can utilise the benefit therefrom.

## 22. DEFERRED INCOME

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
At the beginning of the year	3,218	932	3,218	932
Income deferred during the year	–	4,570	–	4,570
Amortised during the year	(1,996)	(2,284)	(1,996)	(2,284)
Balance at the end of the year	1,222	3,218	1,222	3,218

## 23. RETIREMENT BENEFIT OBLIGATIONS

Provision for Retiring Gratuity	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
Balance at the beginning of the year	93,753	76,981	86,703	70,445
Charge for the year	27,996	20,008	27,168	19,349
Payments during the year	(5,986)	(3,236)	(5,741)	(3,091)
Balance at end of the year	115,763	93,753	108,130	86,703

## 24. TRADE AND OTHER PAYABLES

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
Trade payables	726,024	380,725	714,430	364,006
Advances received	85,375	33,258	85,375	33,258
Interest payable	8,738	1,070	8,738	1,070
Unclaimed dividend	1,980	2,284	1,980	2,284
VAT/Turnover tax payable	121,849	67,704	119,169	64,269
Other payables and accrued expenses	219,578	101,096	179,087	87,398
	1,163,544	586,137	1,108,779	552,285

# NOTES TO THE FINANCIAL STATEMENTS

## 25. INCOME TAX PAYABLE

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
At the beginning of the year	113,001	53,171	111,144	52,218
Current tax expense for the year - Note 6	129,073	215,016	123,646	196,895
	242,074	268,187	234,790	249,113
Tax paid during the year				
Economic Service Charge	62,987	46,202	60,000	44,609
Income Tax & SRL	138,862	108,984	124,818	93,360
	201,849	155,186	184,818	137,969
Income tax recoverable	9,747	–	–	–
Balance at end of the year	49,972	113,001	49,972	111,144

## 26. SHORT-TERM INTEREST BEARING BORROWINGS

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
Short-term bank loans	1,854,733	2,218,243	1,815,101	2,145,342
Bank overdrafts	199,926	142,367	187,394	130,391
	2,054,659	2,360,610	2,002,495	2,275,733

Unutilised bank facilities as at 31st March 2008 amounted to Rs. 3,321,103,197/- (2006/07 - Rs. 1,692,888,545/-).

Inventories & book debts amounting to Rs. 95,000,000/- are pledged as securities for short-term interest-bearing loans and borrowings.

## 27. COMMITMENTS & CONTINGENCIES

### 27.1 Capital Expenditure Commitments

Capital expenditure commitments as at 31st March 2008 amounted to Rs. 176,915/-.

### 27.2 Contingent Liabilities

#### Legal Claims

The claims for lawsuits filed against the Company as at 31st March 2008 amounts to Rs. 36.4 mn. Although there can be no assurance, the Directors believe, based on the information currently available, that the ultimate resolution of such legal procedures would not likely to have a material adverse effect on the results of operations, financial positions or liquidity. Accordingly, no provision for any liability has been made in these Financial Statements.

#### Guarantees

The contingent liability as at 31st March 2008 on guarantees given by Diesel & Motor Engineering PLC, in respect of bid bonds and performance bonds amounted to Rs. 320,522,967/- (2006/07 - Rs. 278,232,395/-).

## 28 RELATED PARTY DISCLOSURES

### Identity of the Related Parties

The Company has related party relationship with its subsidiaries, associates, joint venture, key management personnel and Hayleys PLC who hold 28% of the Company voting shares.

Transaction with related parties were made on the basis of the price in force with the non related parties.

The Company does not have any parent on its own.

# NOTES TO THE FINANCIAL STATEMENTS

## 28.1 Transactions with Subsidiaries, Associates & Joint Ventures

	Nature of Relationship	% of Share Holding	Nature of Transactions	Value of the Transactions Rs. '000	Balance as at 31st March	
					2008 Rs. '000	2007 Rs. '000
Dimo (Pvt) Ltd.	Subsidiary	100%	Sales	1,059	<b>62,259</b>	127,903
			Purchases	17,682		
			Recovery of expenses	16,673		
Dimo Industries (Pvt) Ltd.	Subsidiary	100%	Recovery of expenses	2,508	<b>47,738</b>	39,714
Dimo-KLN Industries (Pvt) Ltd.	Joint Venture	50%	Recovery of expenses	1,021	<b>3,879</b>	587
Receivables from subsidiaries and Joint Ventures					<b>113,876</b>	168,204
Dimo Travels (Pvt) Ltd.	Subsidiary	100%	Recovery of expenses	76	<b>392</b>	467
Amount payable to subsidiaries					392	467

Outstanding balances with Related Parties at balance sheet date are not secured .

The guarantees & letter of credit taken on behalf of Dimo (Pvt) Ltd. amounted to Rs. 72,249,201/-.

No provisions were made for bad and doubtful debts or write-off against any related parties.

## 28.2 Transactions with Key Management Personnel

Key management personnel comprise the members of the Board of Directors of the Company.

### (a) The compensation of Key Management Personnel are as follows:

For the year ending

	31.03.2008		31.03.2007	
	Executive Directors Rs. '000	Non-Executive Directors Rs. '000	Executive Directors Rs. '000	Non-Executive Directors Rs. '000
Short-term Employment benefit	<b>36,573</b>	<b>2,550</b>	30,164	1,762
Post Employment Benefit - provision for retiring gratuity	<b>4,313</b>	–	3,067	–

There are no long-term employment benefit, terminal benefit or share based payments made to the Directors during the year.

Executive directors are entitled for a structured incentive scheme which is linked to performance.

### (b) Loans to Key Management Personnel

No loans were given to key management personnel during the year.

### (c) Key Management Personnel Share holding of the Company

The shareholding of the key management personnel together with their close family members are disclosed on page 97 - Annual Report of the Board of Directors.

## 28.3 Transactions with Close Family Members

There were no transactions with the Close Family Members during the year.

## 29. EVENTS OCCURRING AFTER BALANCE SHEET DATE

No events have arisen since the Balance Sheet date which would require adjustment to or disclosure in the Financial Statements.