





the Board as well as enhancing both business and governance processes. The Company Chairman/Managing Director/Chief Executive Officer (Chairman/MD/CEO), Mr. A.R. Pandithage has successfully managed the complex issues associated with the aspirations of the founding family members and those related to ensuring the long-term commercial viability of what was essentially a family owned and run business through the introduction of external professional management. In our opinion, the present ownership structure has had a positive benefit to the Company's minority shareholders.

Dimo has a sound understanding of good governance practice, is committed to open an ethical business, and is striving to improve its governance practices to further embed these into the organisation. The Chairman/MD/CEO has been pragmatic in his approach to raising governance at Board level to ensure that all parties can be successfully accommodated.

The Company needs to develop a transparent ethical policy and code of conduct that is accompanied by descriptions of how policies are communicated and what compliance monitoring instruments are in place. Equally, strong risk management policies and systems need to be put in place and embedded throughout the Company's operations.

In the rating we looked carefully at those areas where a dominant shareholder can exert undue influence. The combined role of Company Chairman and Managing Director does raise concerns in this regard. While the Company had sound reasons at the time to pursue this structure, it needed to provide a transparent justification for doing so including the provision of some time frame by which it would return to a more usual management structure. However, no evidence could be found to suggest that the Company is acting against the interests of the public minority shareholders in this matter. The overall assessment of the Board of Directors is high but additional formal, written policies, procedure would increase clarity allowing for even greater confidence in the way the Board operates.

The Company's minority shareholders are generally well catered for. The Articles of Association define basic shareholder rights and timely and sufficient information in order to attend and actively participate in the AGM is provided. The Audit Committee responsibly carries out its role of ensuring that the interests of shareholders are properly protected in relation to financial reporting and internal control. Overall financial disclosure is considered sound and governance disclosure is generally good.

Det Norske Veritas

21st May 2007

# ENTERPRISE GOVERNANCE

## Company Philosophy

Today's businesses must be flexible and at the same time be efficient and effective in their resource utilisation to survive, compete and grow. This requires an organisation to strategically align all resources with its Business Strategy and manage all decision-making and operational risks ideally within a robust Enterprise Governance framework.

The Company philosophy perceives good governance as an uncompromising pursuit that provides assurance and comfort for growth in a sustainable manner; not as a set of controls that stifles growth. A healthy balance between value creation & resource utilisation (performance) and accountability & assurance (conformance) is the guiding principle of the accountability framework of the organisation.

The Company's enterprise governance framework covers both business governance and corporate governance aspects. It encompasses a structure which is linked to strategic planning, performance management & accountability, and provides across the organisation the basis for making strategic decisions, identifying key performance indicators, assessing risk appetite and managing risk.

## Governance Policy

The Company is committed to a policy of transparent, accountable and responsible governance. The Board's overriding objective is to deliver superior returns to all stakeholders whilst maintaining high standards of corporate and business ethics. In this regard, the organisation ensures clear lines of responsibility and accountability across the entire Group.

The Company has adopted the Code of Best Practices issued by the Institute of Chartered Accountants of Sri Lanka,

adheres to the listing rules of the Colombo Stock Exchange, and has included other best practices of Corporate Governance within its own.

## Governance Strategy

Good Governance is not simply an integral part of the Company strategy, but the very basis of it. It ensures the Group's compliance with the country's legislative and regulatory requirements and promotes sustainability & growth. Performance, Conformance, Ethics, Accountability, Sustainability and Risk Management constitute some of the building blocks of the Company Strategy.

The Group follows an approach of incrementally embedding enterprise governance into its value adding process, and is making a conscious effort to continually improve the governance framework and process.

## Governance Culture

Enterprise Governance requires high levels of commitment across the organisation, hence it is essential that a conducive governance culture be created. This envisages creating awareness at all levels and aligning good governance to corporate values. All employees are expected to observe the corporate values in achieving their respective and overall Company objectives.

Performance is not encouraged at the expense of business principles and values. These values are inculcated in employees as the Group recognises the importance of good business & corporate governance towards sustainability. Appreciating the importance of good governance, respecting the governance structure transparency, good conduct, confidentiality of customer information, sustainability,

# ENTERPRISE GOVERNANCE

Conformance to laws and regulations are some key features of the Group's governance culture.

## Governance Process

The final responsibility of good governance lies with the Board of Directors. In order to achieve the Board's objectives it has in place a governance structure and process via Board Committees that execute and monitor its effectiveness.

## Enterprise Governance Framework

The Enterprise Governance framework covers the processes and systems that the Board has in place to ensure that the Company's resources are employed efficiently and prudently towards achieving the Company's business objectives. It extends to the Company's governance structure and processes that have been established to promote increased shareholder value, lower cost of capital, reduced risk and other shareholder expectations.

## Performance

### Strategic Planning

Value Creation and Resource Utilisation are the two main pillars in the 'Performance' dimension of Governance, upon which the Board of Directors set the direction of Corporate Strategy. In addition to formulating strategy, the Board through committees, is responsible for ensuring an effective review mechanism. Towards the effective utilisation of Resources the Board is mandated to approve all significant investment decisions. A Capital Expenditure approval guideline ensures that key investment decisions receive timely approval of the Board. The Board sets the broad parameters for the business and these parameters are translated into specific objectives by the business units.

The business units develop their respective plans based on the direction of the Corporate Strategy set by the Board. Business units present their annual budgets and forecast for the ensuing period together with non-financial information such as market conditions, competition, challenges and opportunities etc. to the Board. The Annual Budget also includes the Capital Expenditure plan of the business unit and its resource requirements in terms of Working Capital and Human Resources. The Board evaluates these plans and proposals and provides feedback as deemed necessary. After all amendments have been duly incorporated, the plans are formally approved by the Board and they then partly form the basis of the key performance indicators.

### Implementing the Strategic Plan

The Group Management Committee (GMC) is responsible to the Board of Directors for the implementation of business strategy. The GMC exercises direct supervision over every Business Unit including support services. This supervisory role is exercised in accordance with guidelines laid by the Board. A management team consisting of GMC members meet with corporate service unit heads on a monthly basis to review progress and discuss and resolve operational issues.

Managers of respective business units are responsible for achieving the pre-agreed results. Rewards and incentives are linked to the many parameters including profitability and resource utilisation. Business Unit Managers report their views and concerns to the respective GMC members and these views and concerns are discussed at the GMC meetings. While the business units have substantial autonomy in the conduct of their day-to-day operations, each business unit falls under the purview of a GMC member.

# ENTERPRISE GOVERNANCE

The Board of Directors, regularly apprised of progress, evaluate performance in line with the overall business objectives. Information generally reviewed by the Board includes key performance indicators, budgets, financial statements, customers, market developments, employees and principals. The operational results of each business unit is reviewed quarterly by the Board of Directors and projected results are compared with budgets and key performance targets.

Individual targets of employees' are set out in line with the business unit's overall targets and are reviewed on a biannual basis. The performance of individual executives is evaluated based on their level of achievement, and this forms the basis of their remuneration revisions and promotions.

## **Conformance Board of Directors**

The Board consists of seven executive Directors (including the Chairman), two Non-Executive Directors and three Independent Non-Executive Directors. This balance ensures that Board functions are separate from other aspects of the Company's operations such as governance and management.

The Board acts within the provisions of the Companies Act No. 7 of 2007, Articles of Association and the relevant regulations and statutes.

A list of Directors with brief biographies appears on page 10.

## **Chairman & Chief Executive Officer**

The functions of the Chairman and Chief Executive Officer (CEO) are vested in the same person. The Company believes that the dual role performed by the

Chairman and CEO does not compromise the principles of good corporate governance. This is further ensured by the significant presence of Non-Executive and Independent Directors including a Lead Director on the Board.

These Directors provide a mechanism for critically reviewing all aspects of the Company's operations. They ensure that no single individual has unfettered powers of decision-making and ensures that independent judgement prevails over issues of strategy, performance and risk. The presence of a Lead Director adds more emphasis to transparency in governance affairs.

The Chairman ensures that good governance is practiced through the entirety of the organisation; that there is a balance of power on the Board and both Executive and Non-Executive Directors have opportunities for effective participation; that the Board has full knowledge of the Company's affairs and is in complete control; and facilitates effective communication with all of the Company's stakeholders.

The Chairman and CEO's performance is reviewed by the Nomination Committee and the Remuneration Committee. Each committee consists of three Independent Non-Executive Directors including the Lead Director and two Non-Executive Directors.

## **Board Responsibilities**

The Board provides good stewardship, vision and strategic direction to the institution and fosters a culture of integrity, transparency and accountability across the Group. The Directors are from diverse backgrounds and bring to bear a wide range of experience and competencies that facilitates the effective discharging of its responsibilities. The Board monitors and

# ENTERPRISE GOVERNANCE

evaluates risks and performance, approves all important investment decisions and is also responsible for the installation of sound internal financial controls.

The Directors' Responsibilities for the Financial Statements are described on page 102.

## Board Independence

The composition of the Board of Directors meets the level of independence required by the rules of the Colombo Stock Exchange.

Board members are free to suggest the inclusion of items on the agenda of Board Meetings and carry out their duties in the interest of the Company without any undue influence from other parties.

Shareholding of Directors is available in the Annual Report of Directors from Pages 96 to 101.

Related party transactions given on page 126 shows the transactions relating to Directors and/or parties related to them.

The Company maintains the 'Interest Register' required by the Companies Act No. 7 of 2007, which also shows details of Directors, interests in the Company, as required by the Act.

## Lead Director

Mr. R. Seevaratnam, an independent non-executive Director, functions as the Lead Director to whom concerns relating to governance of the Company can be conveyed should the need arises. The Lead Director presides at Board Meetings in the absence of the Chairman of the Board of

Directors. The Board assess the role of the Lead Director on a regular basis.

## Appointment, Retirement & Re-Election of Directors

The Board appoints the Directors based on the recommendations of the Nominations Committee. The Company's Articles of Association provides that any Director appointed by the Board to hold office until the next Annual General Meeting (AGM), may seek re-appointment by the Shareholders at the said AGM. Non-Executive Directors are appointed to the Board after evaluation of their level of expertise in the relevant field. In terms of the Articles of Association, **one third of the Directors** retire in rotation and may offer themselves for re-appointment at the AGM.

New appointments are made known to the public through the Colombo Stock Exchange and the media.

## Board's understanding of the Company's Business

Following appointment to the Board, new Directors are given the opportunity to familiarise and obtain an in-depth understanding of the Company's business, its strategy, risks and processes, at their discretion.

Training is provided to Executive Directors to equip themselves to discharge their responsibilities effectively. This includes training provided by principals, external and in-house training etc.

The expenses of individual Directors in obtaining independent professional advice are borne by the Company subject to Board approval.

# ENTERPRISE GOVERNANCE

## Effectiveness of the Board

Each Director brings on Board a wide range of skills, knowledge and experience. Expertise in Finance, Engineering, Law and Marketing is available in the present Board.

A sophisticated management information system is in place and provides relevant and current information. All Board Members including Non-Executive Directors receive information on the operations and performance of the Company on a monthly basis. This routine helps eliminate information asymmetry between executive Directors and Non-Executive Directors. The Directors are provided with comprehensive data on financial and non-financial information prior to Board meetings. Additional information may be requested by any member of the Board as and when required.

## Evaluation of Board Performance

The performances of all Executive Directors are evaluated by the Nomination Committee and the Remuneration Committee. Achievement of budgeted results and key performance indicators are important measuring tools in performance evaluation.

The effectiveness of the individual Independent Directors are reviewed and assessed by the Board on a regular basis.

## Meetings and Attendance

Every member dedicates sufficient time for the Board's affairs by attending Board meetings, Committee meetings, performance and strategy review meetings. In addition, the Board Members communicate with each other through circulars, e-mails, telephone conversations and letters.

The number of meetings held and their attendance is given in the table appearing on page 79.

## The Company Secretary

The Company Secretary assists the Chairman in all aspects pertaining to the functions of the Board of Directors. He helps in arranging Board meetings and in making available all the necessary information to the Board for their deliberations.

Members of the Board have unrestricted access to the advice and services of the Company Secretary. The appointment and removal of the Company Secretary rests with the Board.

## The Board Committees

The Board has several committees to assist in the discharge of its responsibilities more effectively.

### Audit Committee

The Audit Committee is a sub-committee of the Board and its main purpose is to assist the Board in the effective discharge of its responsibilities on financial reporting, risk management and corporate control. It assists the Board in monitoring compliance with applicable laws and other regulatory requirements. The Committee is responsible for reviewing the financial reporting system and Financial Statements, including compliance with relevant accounting standards and Company policies.

The Audit Committee determines the appointment, evaluation, terms of engagement and fees of the auditors. The Committee also ensures that the objectivity and independence of the auditors are

# ENTERPRISE GOVERNANCE

not impaired in any way as a result of the additional professional services performed by them.

The Board of Directors appoints members to the Audit Committee. The committee consists of three Independent Non-Executive Directors and two Non-Executive Directors. The Chairman of the Committee is Mr. R. Seevaratnam, an experienced Chartered Accountant.

Mr. H.M.A. Jayasinghe, who has previously served on the Board and as the Chairman of the Audit Committee functions as an Independent Consultant to the Committee offering valuable insight.

Any member of the Board including the Chairman/Chief Executive Officer and Deputy Chief Executive Officer may attend the Committee meetings by invitation.

Terms of Reference of the Committee clearly sets out its responsibilities and authority.

The report of the Audit Committee is available on pages 89 to 90.

Committee meetings and the attendance of members is given in the table appearing on page 79.

## Remuneration Committee

The Remuneration Committee is responsible for determining the framework and policy on remuneration of the Chairman/Chief Executive Officer, Deputy Chief Executive Officer, Executive Directors and Senior Management.

The Company aims to attract and retain high calibre executives by ensuring that their rewards are competitive and linked to both individual and business performance.

Whilst recognising the market demands and the contribution of the executives to the overall performance, the Company believes that the remuneration policy should at the same time be in sync with shareholder interests.

The Board of Directors appoints members to the Remuneration Committee.

The Committee consists of three Independent Non-Executive Directors and two Non-Executive Directors. The Chairman is Dr. U. Liyanage, an independent Non-Executive Director. The Committee is entitled to obtain professional advice at the Company's expense.

Total Directors' emoluments are disclosed in Note 28 on page 126.

Committee meetings and attendance of members is disclosed in the table.

The report of the Remuneration Committee is available on page 91.

## Nomination Committee

The Committee's main role is to nominate suitable candidates as and when vacancies occur on the Board. The Committee is responsible for succession planning and in ensuring smooth management transitions. It reviews the size and structure of the Board on a continuing basis and constantly reviews the balance of skills, knowledge and experience of the Board of Directors. The Committee also reviews the independence of Directors including actual, potential or perceived conflicts of interest.

Appointments to the Board are made further to careful scrutiny of the required level and range of skills, knowledge, expertise and desired independence. Succession planning at Board and Senior

# ENTERPRISE GOVERNANCE

Management level is a subject that is under the purview of the Nominations Committee. The Committee consults the views of the Chairman/CEO on matters of succession at senior management level.

The Committee consists of three Independent Non-Executive Directors and two Non-Executive Directors. Its chair is Dr. H. Cabral, an Independent Director.

The Committee is entitled to obtain professional advice at the Company's expense.

The Committee has specific terms of references defining its scope and authority.

The report of the Nomination Committee is available on page 92.

## Risk Management

The Audit Committee is assigned the task of developing and implementing a sound and transparent risk management system through the Executive Management. The Audit Committee uses Internal Audit, Financial Information and Management Information & Feedback to evaluate risks.

A review of the risk management strategy is provided on pages 84 to 88.

## Internal Controls

The main responsibility for establishing a suitable and effective system of Internal Controls lies with the Board of Directors. A sound system of internal control helps establish better levels of operational efficiency, provides more reliable financial data, and enables early detection of non-compliance with laws and regulations.

Board and Committee Meetings and the attendance of members

Name	Board	Audit Committee	Nominations Committee	Remuneration Committee
A.R. Pandithage	8/8	-	-	-
R. Seevaratnam**	8/8	6/6	1/1	1/1
Dr. H. Cabral**	7/8	6/6	1/1	1/1
Dr. U. Liyanage**	7/8	6/6	1/1	1/1
A.N. Algama	8/8	-	-	-
A.M. Pandithage*	6/8	5/6	1/1	1/1
A.G. Pandithage	7/8	-	-	-
B.C.S.A.P. Gooneratne	8/8	-	-	-
R.A. Ebell*	6/8	4/6	1/1	1/1
R.C. Weerawardane	6/8	-	-	-
S.C. Algama	8/8	-	-	-
T.G.H. Peries	8/8	-	-	-

\* Non-Executive Director

\*\* Independent Non-Executive Director

Outsourcing of the internal audit function has enhanced independence. The internal audit plan is agreed with the internal auditors at the beginning of each financial year by the Audit Committee, however, the internal auditors are allowed the freedom to carryout any additional tasks they consider necessary.

## Financial Reporting

Financial Statements of the Company are prepared in accordance with Sri Lanka Accounting Standards. The Board endeavours to present a balanced and objective assessment of the Company's position, performance and prospects. These are discussed in detail in the following reports:

- Directors' Report - pages 96 to 101.
- Chairman's & CEO's Review - pages 6 to 9.
- Financial Review - pages 40 to 45.
- Business Performance Review - pages 17 to 36.

# ENTERPRISE GOVERNANCE

The Board has the necessary expertise in financial reporting and has the services of four qualified accountants.

## Investor Rights and Relations

The Company communicates regularly with its shareholders updating them on the Company's position, performance and prospects. The Annual Report provides the most comprehensive review of the Company's performance and prospects. This is supplemented by quarterly reports and other circulars, where necessary.

The Annual General Meeting provides a forum for shareholders to raise any queries. The Chairmen of the Audit, Remuneration and Nomination Committees are present at the Annual General Meeting. All Directors were present at the last AGM of the Company.

Every shareholder is entitled to one vote per share at a poll.

## Employees

The monthly Employees Council meetings provide a forum for employees to communicate with the management on a regular basis. The Company's 'Open Door' policy encourages employees to raise any matter of concern with any member of the management including the Chairman.

This process is detailed in the Sustainability Report appearing from pages 45 to 70.

## Sustainability Reporting

The Board ensures that the Company's growth is aligned with its contribution to the general economy, environment and society. The Group prepares its sustainability report annually using Global Compact Reporting Initiative guidelines. More details on this is available in the Sustainability Report from page 45 to 70.

## Independent Review

In order to carry out a critical independent review of the Corporate Governance, the Company engaged Ms. Det Norske Veritas in May 2007. This review highlighted several areas for improvement, which is currently receiving attention. The rating report is available on page 71.

## Compliance with Corporate Governance Regulations

The Company has implemented the regulations of the Section 6 of the listing rules of Colombo Stock Exchange on Corporate Governance.

Mr. R. Seevaratnam, Dr. H. Cabral and Dr. U. Liyanage satisfy the criteria of an independent director and have submitted the requisite declaration on their independence.

## ENTERPRISE GOVERNANCE

## Corporate Governance Compliance Table (Colombo Stock Exchange Circular No. 02/2007)

Rule No.	Subject	Applicable requirement	Compliance Status	Details
6.1	Non-Executive Directors	At least one third of the total number of Directors should be Non-Executive Directors	Compliant	Five out of Twelve Directors are Non-Executive Directors
6.2 (a)	Independent Directors	Two or one third of Non-Executive Directors, whichever is higher should be Independent	Compliant	Three of the Five Non-Executive Directors are independent
6.2 (b)	Independent Directors	Each Non-Executive Director should submit a declaration of independence/non-independence in the prescribed format.	Compliant	Non-Executive Directors have submitted the declaration.
6.3 (a)	Disclosure relating to Directors	Names of Independent Directors should be disclosed in the Annual Report	Compliant	Please refer page 11
6.3 (c)	Disclosure relating to Directors	A brief resume of each Director should be included in the Annual Report including the area of Expertise	Compliant	Please refer page 11
6.5	Remuneration Committee	A listed company shall have a Remuneration Committee	Compliant	Names of the members of the Remuneration Committee is available on page 11
6.5 (a)	Composition of Remuneration Committee	Shall comprise of Non-Executive Directors a majority of whom can be independent.	Compliant	Remuneration Committee consists of five Non-Executive Directors of which three are Independent. Chairman of Remuneration Committee is a Non-Executive Independent Director
6.5 (b)	Functions of Remunerations Committee	The Remuneration Committee shall recommend the remuneration of Chief Executive Officer and Executive Directors	Compliant	Please refer the Remuneration Committee Report on Page 91
6.5 (c)	Disclosure in the Annual Report relating to Remuneration Committee	The Annual Report should set out; a) Names of Directors comprising the Remuneration Committee b) Statement of Remuneration Policy c) Aggregate remuneration paid to Executive & Non-Executive Directors	Compliant Compliant Compliant	Please refer page 11 Please refer the Remuneration Committee Report on Page 91 for a brief statement of policy. Please refer page 126
6.6	Audit Committee	The Company shall have an Audit Committee	Compliant	Names of the members of the Audit Committee is available on page 11
6.6 (a)	Composition of Audit Committee	Shall comprise of Non-Executive Directors a majority of whom can be independent.  Chief Executive Officer and the Chief Financial Officer should attend Audit Committee Meetings  The Chairman of the Audit Committee or one member should be a member of a professional accounting Body	Compliant Compliant Compliant	Audit Committee consists of five Non-Executive Directors of which three are Independent. Chairman of Audit Committee is a Non-Executive Independent Director  Chief Executive Officer & Chief Financial Officer attend by invitation  Chairman of Audit Committee and one member are members of a Professional accounting body.
6.6 (b)	Audit Committee Functions	Should be as outlined in the Section 6 of the listing rules	Compliant	The terms of reference of the Audit Committee adopted by the Board on 20th June 2007 cover the areas outlined
	Disclosure in the Annual Report relating to Audit Committee	a) Names of Directors comprising the Audit Committee b) The Audit Committee shall make a determination of the independence of the Auditors and disclose the for such determination c) The Annual Report shall contain a Report of the Audit Committee setting out the manner of Compliance of the functions	Compliant Compliant Compliant	Please refer page 11 Please refer Audit Committee Report on page 89 Please refer the Audit Committee Report on Page 89

lifetime





Dimo brand relationships last a lifetime accompanying customers every step of the way: partners in an enduring alliance evoking and discovering the best in each other.

# ENTERPRISE RISK MANAGEMENT

## Overview

All entities face uncertainty. The challenge for management is to determine how much uncertainty to accept. Uncertainty provides both risk and opportunity with a potential to erode or enhance value. Enterprise risk management helps the entity to effectively deal with uncertainty. Enterprise Risk management is an integral part of Dimo's business strategy. Risk management reconciles the two dimensions of Enterprise Governance namely, conformance and performance.

## Risk Appetite & Strategy

Risk appetite is the amount of risk exposure or the potential adverse impact that an entity is willing to accept, accompanied by the organisational risk capacity. The Company's strategy reflects the risk appetite of the Company. The guiding principle is that the Company takes well calculated risks in order to enhance value while protecting the integrity and well-being of the Company.

## Risk Management Model

Risk mapping is carried out in order to assess the likelihood of occurrence and the impact on the business in the event of occurrence. It is based on the following:

- Likelihood of occurrence is measured on the basis of past experience and the preventive measures in place. A ranking of high, medium and low in terms of the probability of occurrence is assigned for each risk.
- The impact of the event is assessed by ascertaining the loss it would inflict (financially, operationally or both) and the extent of the impact. By considering these two factors the impact is categorised as low, medium & high.

IMPACT	RISK MANAGEMENT ACTIONS		
<b>Significant</b>	Considerable management required	Must manage and monitor risks	Extensive management essential
	Risks may be worth accepting with monitoring	Management effort worthwhile	Management effort required
	Accept risks	Accept, but monitor risks	Manage and monitor risks
	<b>Low</b>	<b>Medium</b>	<b>High</b>
		<b>LIKELIHOOD</b>	

## Risk Exposure

Risks are listed according to the above model and some of the important ones are discussed and analysed below:

	Likelihood	Impact
1. Economic Risk	H	M
2. Industry Risk	L	H
3. Market Portfolio Risk	L	H
4. Relationship with Principals	L	H
5. Liquidity	L	H
6. Human Resources	L	H
7. Disaster Related Risk	H	L/M
8. Compliance with Laws & Regulations	M	M
9. Loss of Data	M	M
10. Information Security	M	M
11. Fraud & Error	M	M
12. Customers	M	H
13. Investment Risk	M	L/M
14. Foreign Exchange Rate	H	M
15. Credit	H	L
16. Technological Obsolescence	L	M
17. Labour Relations	L	M

# ENTERPRISE RISK MANAGEMENT

## Economic Risk

Economic risks are those changes in the economic environment that have the potential to affect the Company adversely. Rising interest rates was one of the issues the Company had to manage. Rising interest rates impacted on the Company's activities in two ways. Firstly, it diminished the Company's profit through an increase in finance cost.

Secondly, it affected vehicle sales due to the fact that most of the vehicle purchases by our customers are financed by borrowings and leases.

Effective management of working capital is seen as the key measure against rising interest rates.

## Industry Risk

Industry risks arise from sudden changes within each industry. These could be driven by new customer trends such as the demand for fuel efficient and environmentally friendly cars or it could result from the entry of new/alternative products into the market. With a view to minimising these risks, the Company closely monitors development in the international market and also competitor strategies and promptly develops counter strategies that may be necessary. An effort is made to strongly position the Dimo brand and explore every available opportunity for the introduction of new and innovative products. The Company represents global leaders and is in a position of advantage due to constant technological innovations by them.

## Market/Portfolio Risk

The Vehicles and Vehicle Parts/Service segments that form the Group's core business, accounts for 85% of its turnover. Although the Company has taken steps to diversify its product portfolio in recent years it is still heavily dependant on the automobile industry and a downward trend in this sector will again have negative implications.

The Groups' strategy is firmly directed towards reducing the imbalance in the product portfolio. The Group is developing its competencies in the areas of marketing and distribution and in providing engineering solutions to commerce and industry.

## Relationships with Principals

Our relationships with principals are one of the mainstays of our business and a disruption of this can have negative consequences.

The Company has focused on developing a mutually beneficial relationship with principals in an effort to minimise the risk. Targets are met and the after care conforms to the rigorous standards set down by the principals. We are constantly looking for new opportunities to develop relationships with new principals and to reduce our dependence on any single sector or principal.

# ENTERPRISE RISK MANAGEMENT

## Liquidity

Unavailability of sufficient funds may disturb the smooth functioning of the Company's day-to-day operations. The Group seeks to ensure that banking facilities are in place to cover its forecasted cash needs for a period of at least twelve months. Cash requirements of the Group are regularly and closely monitored and matched with banking facilities available; to ensure that requisite funds are available for operations and investment. The unutilised bank facilities/overdraft facilities as at 31st March 2008 were Rs. 3,321 mn (Rs. 1,693 mn as at 31st March 2007).

## Human Resources

Risks stemming from the Company's human resource base have also to be managed. The Company's human resources are its most important asset and recruitment and retention of committed and capable employees are a constant challenge. A succession plan minimises the impact that the exit of employees has on the performance of the Company.

## Disaster Related Risks

Damages from Fire and floods have been identified as key disaster related risks that the Company carries. Indemnity from insurance is the risk management measure taken to mitigate losses from such disasters. Preventive measures of safety are taken to minimise damages and specific attention is given to situations where such risks can not be adequately covered.

## Compliance with Laws & Regulations

Laws, regulations and accepted principles have a considerable impact on any business. Regular review of compliance is done by the Management, Audit Committee and Internal Auditors. The Group Management Committee is placed with the responsibility of identifying any changes to legislations and educating relevant personnel promptly.

## Loss of Data

The Company operates in a fully computerised environment and the loss of important data arising from technological failure is another risk we have to guard against. The Company makes daily back-ups to guard against the risk of losing vital data. Regular maintenance of our equipment ensures that the risk of system failure is minimised. Off-site storage of data back-ups is another measure taken to minimise risks.

## Information Security

Employees are made aware of the importance of the security of information and maintaining confidentiality. Some information is accessible only to selected employees so as to ensure that leakage of vital information does not affect the Company adversely. The ethical values that we propagate also stress the need to maintain confidentiality.

# ENTERPRISE RISK MANAGEMENT

## Frauds & Errors

The management has put in place a system of internal controls, to minimise the risk of fraud and irregularities and safeguard the Group's assets. Internal controls include continuous internal audit, the findings of which are reviewed by the management as well as the Audit Committee.

## Customers

The Company's Customer Relationship Management process helps it respond effectively and efficiently to customer complaints and develop relevant solutions.

The Company is constantly upgrading its level of after care and employees are periodically trained in this regard. We promote customer loyalty through a number of innovative schemes and have developed a diverse customer base.

## Investment Risk

A common concern associated with investment risk is that it may not provide the desired returns. The Company invests substantial amounts in Capital Expenditure. In order to minimise risks associated with such investments the Company closely monitors its investments and periodically evaluates the returns/benefits derived.

## Foreign Exchange Rates

Foreign currency exposure arising out of trading activities are hedged through forward contracts, when appropriate. An impact on profits arises when translating foreign currency assets and liabilities into local currency at the Balance Sheet date. A hedging of this impact is available to the extent that trade receivables and foreign currency bank account balances cover the exposure on foreign currency payables.

## Credit Risk

Strict control measures are in place to mitigate the Credit Risk. Credit facilities are extended to customers in accordance with Group Credit Policy. Customers are evaluated prior to extending credit facilities to them. Processes employed for credit extension include approvals prior to granting credit facilities, periodic review of receivables by senior management, credit suspension on overdue accounts and legal procedures for recovery of long overdue receivables.

## Technological Obsolescence

The non-availability of state-of-the-art technology can have an impact on performance. The Company makes regular investments in cutting edge technology. Staff are constantly exposed to new technologies and trained for the better application of existing technologies.

## Labour Relations

The regular meetings of the Employee's Council provides a forum to discuss employee concerns and help the management to then respond to them. The Company's remuneration package is in line with market rates. Regular training is provided to our employees both to motivate them and also to expose them to state-of-the-art technology. The Employee Satisfaction Index appears on page 50.

## Risk Management Process

Risk identification, assessment and management are part of the annual business planning process. Risk management options are considered in determining the suitable risk strategy. The options available are avoiding risk, transferring the risk, managing the risk and accepting the risk.

# ENTERPRISE RISK MANAGEMENT

There are two key activities that enable the organisation to identify risks. They are strategic planning & review of business units and internal audit.

The identification, development, implementation and review of an effective risk management strategy are some of the key objectives of the Audit Committee. The identification of risks calls for a sound enterprise-wide reporting system. An early warning system to track emerging risks is built into this reporting structure.

Once the risks are identified and prioritised the most appropriate counter strategy to manage, minimise or eliminate these risks will be implemented. The Board of Directors and the Audit Committee continuously review the implementation of the selected risk managing strategy and if necessary, take steps to modify or change it.

The Group Management Committee (GMC) which consists of Executive Directors and Senior Managers of the Company is responsible for directing business units on risk management. The heads of business units convey their views on aspects of risks and their management to the respective GMC member which in turn, will be discussed at the GMC meetings.

An effective system of Internal Controls is in place to minimise the risk of irregularities and fraud taking place within the Company. However, a sound internal control system can only provide a reasonable assurance that it will bring to light within a reasonable time any irregularity or non-compliance.

A Firm of Chartered Accountants, which acts in the capacity of Internal Auditors of the Company, communicates their findings to the Audit Committee by way of periodic reports and presentations to the Audit Committee every quarter.

The finance function assists GMC in identifying operational risks. The findings of the finance department are communicated to the GMC for their consideration.

Monthly management reports, special investigation reports and internal audit reports presented to the Audit Committee are some of the key tools used in risk identification.

## Monthly Operational Results

Monthly operational results which are a key reporting tool is used as a risk review mechanism by identifying significant deviations from original objectives. This in turn, enables the management to take corrective steps at an early stage.

## Internal Audit Reports

Internal audit reports may include any non-compliance with policy, laws or processes. Non-compliance with laws and regulations have financial and non-financial implications. They also recommend improvements to the existing systems and procedures to strengthen the internal controls within the organisation. In order to ensure previously reported irregularities are not repeated; follow up actions are also regularly monitored.

# AUDIT COMMITTEE REPORT

The Audit Committee is established for the purpose of assisting the Board in fulfilling their oversight responsibilities regarding the integrity of the Financial Statements, risk management, internal control and compliance with legal & regulatory requirements, review of external auditor's performances & independence and internal audit function.

The Audit committee is formally constituted as a Sub-Committee of the Main Board, to which it is accountable.

The followings are the principal activities carried out by the Audit Committee during the year ended 31st March 2008.

## Compliance with Financial Reporting

The Committee considered the quarterly and annual Financial Statements and reviewed the Annual Report including the Financial Statements prior to publication.

The review included:

- Any changes in accounting policies.
- Compliance with Accounting Standards.
- Adequacy of provisions against possible losses.
- Material changes arising from the audit.

## Meetings of Audit Committee

Six meetings were held during the year 31st March 2008. The meeting dates and attendance details are given in page 79. The Internal Auditors attend meeting quarterly.

## Risk Management

The Audit Committee regularly reviews the Company's risk management procedures and continuously monitors the effectiveness of risk strategy employed to mitigate the risk. The areas covered include

- regular review of country situations
- setting of suitable exposure limit
- having a contingency plan in place

## Compliance with Laws & Statutory Payments

The Audit Committee was submitted reports by the management and internal auditors on the states of compliance with laws, filing of statutory returns and making of statutory payments.

## Internal Controls

The Committee is satisfied that an effective system of internal control is in place to provide reasonable assurance on the safeguarding of the Company's Assets and reliability of Financial Statement produced. Effectiveness of Company's system of internal controls is evaluated through reports furnished by Internal Auditors, External Auditors and the management.

## Internal Auditors

The internal audit function is outsourced to Messrs. SJMS Associates, a firm of Chartered Accountants which represents Messrs Deloitte Touche Tohmatsu in Sri Lanka. Internal Auditors directly submitted their findings to Audit Committee quarterly and their reports are made available to External Auditors.

# AUDIT COMMITTEE REPORT

The Audit Committee monitors and reviews:

- the follow-up action taken on the recommendation of the Internal Auditors
- the Internal Audit programmes and results of the internal audit process
- effectiveness of the internal audit function

## External Auditors

The Audit Committee reviews the independence and objectivity of the External Auditors and conduct a formal review of the effectiveness of external audit process. The Audit Committee has met with the External Auditors to review the Financial Statements during the annual audit.

The committee reviewed the non-audit services and its impact on the independence of the External Auditors.

The Audit Committee has approved the extension of current External Auditors, by one year, and recommended to the Board the re-appointment.

## Audit Committee Performance

The annual performance of Audit Committee was evaluated by other members of the Board of Directors and was deemed to be satisfactory.

## Conclusion

The Audit Committee is satisfied that the effectiveness of the organisational structure of the Group and of the implementation of the Group's accounting policies and operational controls provide reasonable assurance that the affairs of the Group are managed in accordance with Group policies and that Group assets are properly accounted for and adequately safeguarded.



**R. Seevaratnam**

*Chairman, Audit Committee*

Colombo  
9th May 2008

# REMUNERATION COMMITTEE REPORT

The Remuneration Committee is a sub-committee of the Board. The members of the Committee comprise of three Independent Directors and two Non-Executive Directors. The Chairperson who is an Independent Director is appointed by the Board.

The Committee was established for the purpose of recommending the Remuneration of the Board of Directors including Chairman/Chief Executive Officer and Senior Management.

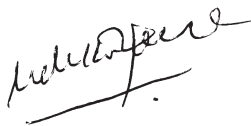
The Committee has acted within the parameters set by its terms of reference.

The Chairman of the Board attends the Committee meetings by invitation. However, he does not participate in any discussion pertaining to his remuneration.

The remuneration packages linked to the individual performances are aligned with the Company's long-term strategy.

The Directors' emoluments are disclosed on page 126.

The Committee meets as and when a need arises. The Remuneration Committee meetings and members attendance is given on page 79.



**Dr. U. Liyanage**

*Chairman - Remuneration Committee*

Colombo  
9th May 2008

# NOMINATION COMMITTEE REPORT

The Nomination Committee is established for the purpose of advising the Board in relation to nominations, retirement, succession and training of the Board and Members of Senior Management. It also advises the Board on issues relating to Directors' conflict of interest and independence. The Members and the Chairman to the Committee are appointed by the Board of Directors.

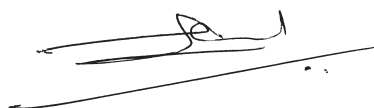
The composition of the Committee is given on Page 11.

The Committee has acted within the parameters set by its terms of reference.

The Committee meets as and when a need arises.

The key activities carried out during the year by the Committee are as follows:

- Review the structure, size and composition of the Board.
- Evaluate the independence and effectiveness of the Non-Executive Directors.
- Review the process of identifying and developing senior managers throughout the Group who have potential to succeed members of the Group Senior Management.
- Carry out evaluation of Executive Directors and their performance.



**Dr. H. Cabral**

*Chairman - Nomination Committee*

Colombo  
9th May 2008