

OVERVIEW

FINANCIAL HIGHLIGHTS

	2007/08 Rs. '000	2006/07 Rs. '000	Change %	2005/06 Rs. '000
Results for the year				
Group turnover	12,687,289	12,989,916	(2)	10,512,326
Group profit before tax	344,444	512,895	(33)	382,235
Group profit after tax	205,093	301,777	(32)	265,172
Gross dividends	48,400	69,600	(30)	60,000
Group value added	3,280,800	3,460,720	(5)	2,798,856
Group revenue to government	1,906,343	2,206,250	(14)	1,829,615
Group net profit after tax as a % of gross turnover	1.62	2.32	(30)	2.52
Return on average capital employed %	19.55	23.33	(16)	19.55
Interest cover (Times)	1.66	2.11	(21)	2.44
Dividend cover (Times)	4.24	4.16	2	4.42
Price earnings (Times)	5.24	4.66	12	5.22
Dividend yield (%)	4.51	5.00	(10)	4.33
Position at the year end				
Shareholders' funds	1,657,151	1,506,508	10	1,216,030
Total assets	5,831,158	5,198,632	12	4,569,611
Group employment (No. of persons)	867	862	-	778
Current ratio (Times)	1.26:1	1.30:1	-	1.33:1
Market capitalisation	1,073,875	1,452,000	(26)	1,385,000
Per share				
Dividend (Rs.)	4.00	6.00	(33)	6.00
Earnings (Rs.)	16.95	25.76	(34)	22.96
Market value (Rs.) - at year end	88.75	120.00	(26)	138.50

OPERATIONAL HIGHLIGHTS



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01. The newly introduced TATA Xenon Double Cab
02. Making it all easy - the Logistics Centre at Weliveriya
03. The Chairman declares open the new TATA parts outlet at Jetawana Road
04. The launch of the Mercedes-Benz GL Class for the discerning customer
05. The sleek TATA Indigo Diesel, the newest one in our range of classy cars

CHAIRMAN & CEO'S REVIEW



Changing Lives

Last year, Dimo reinforced its position as one of Sri Lanka's leading brands despite a challenging external environment and a sluggish domestic market. Sales of vehicles, big and small, and sales of components, dropped during the year under review. Vehicles sales, Dimo's main line of business, declined drastically and the details provided on page 17 demonstrate how sharply the market contracted.

Despite these adverse market conditions, the Company performed well and displayed its enduring capacity for resilience.

The Company's ability to adapt to new situations and face unexpected challenges with aplomb has not diminished in any way. It continues to change people's lives in the way it has done over these 69 years and to fuel aspirations and hopes within people from all walks of life.

Group turnover and profits before tax declined during the year. This was mainly due to a lack of growth in sales which in turn were caused by increasing costs as a result of inflation and rising interest rates. High interest rates and inflation eroded the buying power of our customers and consequently brought down our margins. In the current year's corporate planning and budgeting sessions necessary steps have been taken to foster growth and profitability. Managing working capital continues to be a matter of concern and high priority for the Company and will continue to pose a challenge this year too.

One of the Company's biggest concerns continues to be the spiralling interest rates. Interest rates began to move up sharply in

the previous year and this trend escalated during the year under review.

High interest rates had a particularly negative impact on automobile and truck sales. Leasing rates moved up consequently and the demand for all forms of vehicles fell as a result. New Government taxes on vehicles had a drastic impact on sales. Dimo is exploring the possibility of assembling vehicles locally in order to increase the local value added content, which is in line with the long-term growth strategy of the Company. If this initiative is found to be viable, we could immediately implement the project at our newly acquired facility at Weliveriya.

The Company continued with its investments in non-auto related businesses. It has attracted new businesses in process instrumentation, circuit protection systems, switches and sockets and marine business from the house of Siemens.

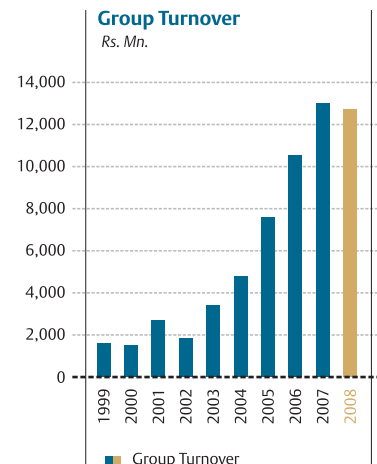
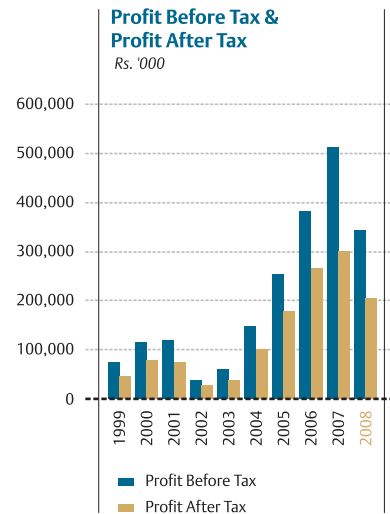
The Company recently ventured into fire protection and building management systems which show encouraging results. There has been a dramatic revival in the power engineering sector where the Company secured substantial orders for our principals. These new developments are in line with the Company's diversification strategy while providing an opportunity to Dimo engineers for enhanced value addition.

Unsettled Economies

Recession in the United States and rising oil prices are set to make an impact on the global economy. While the Chinese and Indian economies continued to grow, inflation emerged as a major concern in these countries too. The economic slow down in the west is likely to have an effect on Sri Lankan exports and the tourist industry, two major target groups of the organisation.

Despite the escalating ethnic conflict, the Sri Lankan economy grew by 6.8% as indicated by Central Bank figures. Inflation however, increased sharply. The Government should make strong interventions to control same.

Customers have over the years developed increasing confidence in the Dimo brand which markets the highest quality products combined with equally high standards of 'after care'



CHAIRMAN & CEO'S REVIEW

A Challenging Year for Dimo

The Company's previous phenomenal growth slowed in the year under review. This was mainly due to a challenging external environment and negative domestic market conditions. Despite such conditions, Dimo's performance shows, if companies are creative and adaptable they can seize new opportunities and continue to deliver stakeholder value. Your Company's performance though moderate, was achieved in the context of difficult times.

The Group's pre-tax profit for 2007/08 was Rs. 344 mn, which represents a 33% decline over the previous year. Group turnover decreased marginally by 2.3% to Rs. 12.6 bn.

The Company paid an interim dividend of Rs. 1.50 per share in March 2008 and your Board has approved a final dividend of Rs. 2.50 per share.

Zooming Costs

The spiralling interest rates continued to be the main obstacle for growth during the year under review. Over 90% of the vehicles sold are financed by our customers through leasing agreements and lease rentals have significantly escalated during the year. Prudent cash flow management becomes fundamental in the context of a high interest regime, and the Company is proud to have managed its cash flow and generated optimum results for all stakeholders.

The Indian Rupee strengthened by 7.5% against the Sri Lankan Rupee over the past 12 months and this has also contributed to increasing the costs of some of the Company's products. The Company represents several key brands from India and these products have consequently become more expensive for the Sri Lankan consumer.

Building Relationships

The essence of the Dimo brand has been the relationships built over the years. While the Company is the proud representative

of 53 of the world's best brands, business at Dimo has never stopped with the sale of its products. On the contrary the point of sale has marked the beginning of a life long relationship with our customers. Dimo has accompanied its world class brands with superior after care which continues long after the sale of the product. The quality of both the product and the after care has generated a culture of unmatched trust and dependability.

Seeking New Areas of Growth

Automobiles and vehicles remain Dimo's main area of business. The Company represents some of the best brands in the business and will continue to market their products in Sri Lanka. At the same time Dimo has begun to look for new areas of growth and to add new businesses to its portfolio.

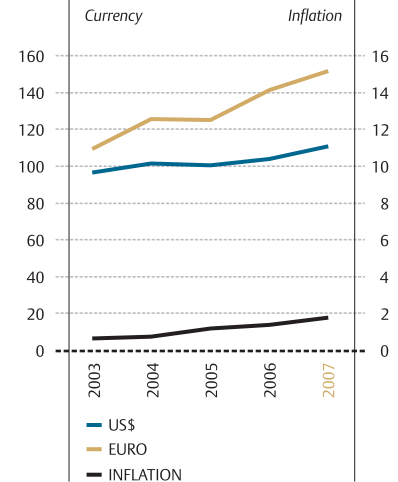
Two years ago the Company invested in a tyre re-building plant at Homagama. The plant commenced production two years ago and is likely to move into a profit making mode in the near future. The auto filter manufacturing plant started in partnership with KLN India commenced production two years ago and expects stability in the near future.

The Company also invested in a 15.8 acre property in Weliveriya costing Rs. 400 mn. It is developing a state-of-the-art logistics centre that will serve the Group in multiple ways. This new logistics centre will enable the Company to raise its standard of 'after care' to even higher levels which would attract new products to its growing portfolio.

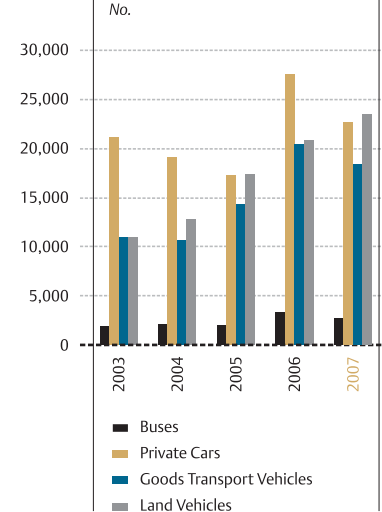
Growing New Markets

Dimo continued to expand into the provinces. Previously the Company operated mainly from Colombo. This has changed and new centres for sales, service and spares have been established in Matara, Kurunegala and Anuradhapura with the next centre to be opened soon in Ampara.

Currency vs Inflation (31st Dec.)



Registration of Motor Vehicles (31st Dec.)



CHAIRMAN & CEO'S REVIEW

Dimo has thus moved to the customer's doorstep with the opening of these provincial centres and has dispensed with the need for customers located in these regions to come to Colombo either to purchase a product or for 'after care'.

Investing in People and Technology

Dimo will continue to invest in the future growth of its people. The Dimo team has been one of the important drivers of the Company's success and the Company will continue to invest in them.

Last year the Company invested Rs. 20 mn in training programmes for its staff.

The Sustainability Report on pages 45 to 70 discusses other aspects of how the Company has nurtured its employees over the past year.

The Employees' Council which was set up a few years ago makes an important contribution to the growth of the Company. The Council ensures that employees have the opportunity to participate in the management of the Company and in the framing of important resolutions. The vibrancy of the Council's interventions and the conduct of its proceedings has boosted employee confidence and provides a meaningful avenue for genuine employee participation. The Council has also helped in responding to employee grievances and finding solutions.

The Dimo training school established in 1990 continues to grow from strength to strength. This state-of-the-art training facility is given to the youth of this country to develop technical skills. The course is offered free of charge for all students and has over the years become a qualification that is much recognised and sought after. It gives greater opportunities to these students to seek employment in other lucrative countries. One unique feature is that the trainees are not bonded to

remain at DIMO after completion of the course. Recently, the school commenced conducting automotive training courses for City & Guilds programme.

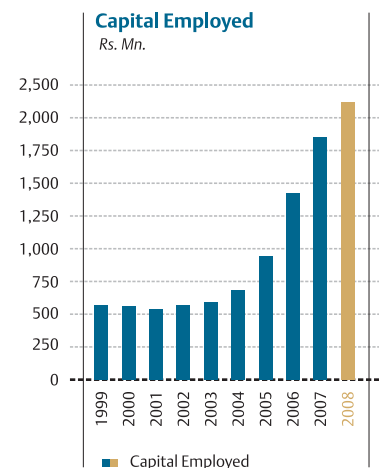
In the near future the School also hopes to commence specialised training for bulldozer and fork lift operators. This will not only help our valued customers to get their operators trained locally, but also give an opportunity to these operators to seek employment overseas.

The Company's ability to provide much sought after training and also meet an acute social need on the part of the youth of this country is something the Company is very proud of.

The Company is committed to delivering financial value to its shareholders as well as delivering larger social value to its many other stakeholders. Its philosophy has been to start 'close to home'. With this in view, some years ago the Company initiated a comprehensive medical scheme for its employees. Cliché as it may sound, 'health is wealth'. The Company is committed to ensuring that its employees enjoy a high level of mental, physical and emotional well being.

Technology has been the other main driver and with collaboration from our principals' investment in new technology, will be an on going process. The Company will continuously upgrade its equipment with a view to provide better standards of service to customers. The Principals have retained faith in the Company because of the investments made in new technology and the continuous efforts to upgrade standards of service. Up-to-date technology and equipment is also imperative to attract new principals and new products.

Along with state-of-the-art equipment, the Company will upgrade its internal processes to systems through new software and ensure that efficiencies are enhanced.



CHAIRMAN & CEO'S REVIEW

Confidence Grows

Customers have over the years developed increasing confidence in the Dimo brand. The brands the Company markets are of the highest quality and this quality has been combined with equally high standards of 'after care'. This continues to be the Dimo attraction. The Company's emphasis is to invest in technology and staff training to ensure that its 'after care' parallels the best in the world. It will persist in its investments in strategic new areas that complement its core business and also ensure new areas of growth for the future.

The growing confidence is also reflected in the accolades that external institutions have awarded the Company. At the Annual Report Competition organised by the Institute of Chartered Accountants in 2007, Dimo received the award for the best annual report in the category of companies up to five subsidiaries. The Company won the first overall runner up award for corporate governance disclosure and the overall second runner up for sustainability reporting in the same competition.

A Year of Consolidation

The next financial year at Dimo is likely to be a year of consolidation. The external environment and market conditions are likely to be tough and Dimo will have to draw on all its resources to ensure that it stays competitive, retains margins while enhancing growth.

Inflation is likely to persist as will high interest rates. Managing the Company's cash flow will yet again prove a challenge. Inflation is likely to push other costs up including utility costs. Should the Indian Rupee continue to appreciate, that will affect the Company's imports from that country.

The recent decision of the Government to suspend duty concessions for various categories of public servants will also have on impact on the Company's sales.

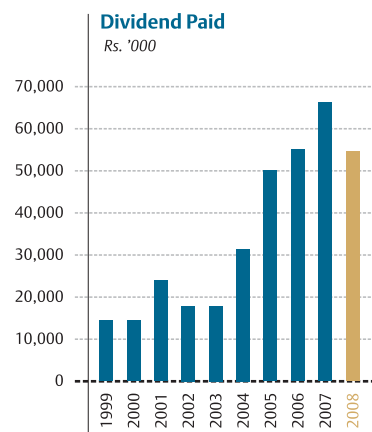
In the backdrop of these market conditions Dimo foresees a year of consolidation and stability. It will continue with its long-term plans for growth but will be necessarily subject to the constraints of the external environment. Yet the Company has faced similar challenges in the past and is confident that it can do so in the future too.

My warm thanks to every member of the Dimo team for their team work, their flair and the commitment they brought to all aspects of their work. The vibrant Employees Council has come out with important inputs for the development of the organisation. The Management Team deserves a special word of appreciation for managing in difficult times. My thanks also go out to our Principals, who have retained faith in the Company and continue to see us as a preferred brand. We are privileged to market their products in the domestic market.

Finally, to my colleagues on the Board, I would like to say a very warm thank you. Your advice and words of wisdom have been appreciated every step of the way. I look forward to a year of growth and a year of immense satisfaction.



A.R. Pandithage
 Chairman, Managing Director/
 Chief Executive Officer
 9th May 2008



BOARD OF DIRECTORS



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OVERVIEW

BOARD OF DIRECTORS

1. A.R. Pandithage

Chairman, Managing Director/Chief Executive Officer

Joined the Company in June 1973. Appointed to the Board in June 1977. Appointed as Joint Managing Director in November 1984 and Managing Director in 1986. Appointed as the Chief Executive Officer in 1994. Appointed as the Chairman, Managing Director & CEO in July 2004. Holder of Dipl. Ing. from Germany. Member of the Institute of Engineers, Germany (VDI). Deputy Chairman, Browns Dimo Industrial Products (Pvt) Ltd. Director, Dial Textiles Ltd. Chairman, Audit Committee of Dial Textiles Ltd.

2. A.G. Pandithage

Deputy Chief Executive Officer

Joined the Company in September 1986. Appointed to the Board in December 1995. Fellow of the Chartered Institute of Management Accountants, UK. Member of IT Strategy Team Asia of Daimler AG. Appointed as the Deputy Chief Executive Officer with effect from April 2006.

3. A.N. Algama

Joined the Company in June 1973. Appointed to the Board in November 1984. Past Chairman of the Ceylon Motor Traders' Association and Sri Lanka Tyre Importers, Association. Executive Committee Member of the Ceylon Chamber of Commerce - Import Section.

4. S.C. Algama

Appointed to the Board in November 1984. Appointed as an Executive Director in 1994. Fellow of the Institute of Incorporated Engineers (SL). Council Member of the National Chamber of Commerce, Sri Lanka.

5. Dr. H. Cabral**

Appointed to the Board in October 2006. President's Counsel, Ph.D in Corporate Law (University of Canberra), Australia, Commissioner- Law Commission of Sri Lanka, Member - Advisory Commission on Company Law, Member (NCED - National Council for Economic Development), Legal Cluster, Member - Board of Studies - Council of Legal Education SL, Lecturer and Examiner - University of Wales, University of Colombo and Sri Lanka Law College, Vice President - BRIPASL (Business Recovery & Insolvency Practitioners Association of SL).

6. R.A. Ebell*

Appointed to the Board in 1986. Executive Director of Hayleys PLC. Fellow of the Institute of Chartered Accountants, Sri Lanka. Fellow of the Chartered Institute of Management Accountants, UK. Diploma Holder and Member of the Chartered Institute of Marketing, UK. Past President of the Chartered Institute of Management Accountants - Sri Lanka Division.

7. B.C.S.A.P. Gooneratne

Joined the Company in January 2001. Appointed to the Board in April 2006. Fellow Member of the Institute of Chartered Accountants of Sri Lanka and holder of Master of Business Administration Degree from University of Sri Jayewardenepura.

8. Dr. U. Liyanage**

Appointed to the Board in October 2006. Fellow Member of the Chartered Institute of Marketing of UK and holder of Master of Business Administration Degree from University of Sri Jayewardenepura. Ph.D. - University of Sri Jayewardenepura. Director of Postgraduate Institute of Management (PIM). Director of Ceylon Cold Stores PLC, Chemanex PLC, Ceylon Leather Products PLC and Q&E Advertising Ltd.

9. A.M. Pandithage*

Appointed to the Board in September 1982. Deputy Chairman of Hayleys PLC. Chief Executive Officer of Hayleys Advantis since its inception. Former Director of the Sri Lanka Ports Authority and Jeya Container Terminal. Former Chairman of the Ceylon Association of Ships' Agents. Director of Sri Lanka Port Management & Consultancy Services Ltd.

10. T.G.H. Peries

Joined the Company in 1962 and appointed to the Board in August 1977.

11. R. Seevaratnam**

Appointed to the Board in January 2007. Fellow Member of the Institute of the Chartered Accountants of Sri Lanka and England & Wales and holder of General Science Degree from University of London. Former senior partner of KPMG Ford, Rhodes, Thornton & Co. Director, Hatton National Bank PLC, Haycarb PLC, Dipped Products PLC, Acme Printing & Packaging PLC, Nestle Lanka PLC, Tokyo Cement PLC and Tea Smallholder Factories PLC.

12. R.C. Weerawardane

Joined the Company in February 1990. Appointed to the Board in June 2002. Certificate holder of the Chartered Institute of Marketing, UK.

* *Non-Executive Directors*

** *Independent Non-Executive Directors*

Audit Committee: R. Seevaratnam (Chairman), Dr. H. Cabral, R.A. Ebell, Dr. U. Liyanage, A.M. Pandithage

Remuneration Committee: Dr. U. Liyanage (Chairman), Dr. H. Cabral, R.A. Ebell, A.M. Pandithage, R. Seevaratnam

Nomination Committee: Dr. H. Cabral (Chairman), R.A. Ebell, Dr. U. Liyanage, A.M. Pandithage, R. Seevaratnam

Group Management Committee: A.R. Pandithage (Chairman), A.G. Pandithage (Deputy C.E.O.), S.C. Algama - *Executive Director*, D.S. Amarasuriya - *General Manager (Passenger Vehicle Service)*, M.V. Bandara - *General Manager (Sales & Service Commercial Vehicles)*, A.C.G. Dias - *General Manager (Tyres)*, B.C.S.A.P. Gooneratne - *Executive Director*, E.D.C. Kodituwakku - *General Manager (Finance & Controlling)*, A. Mapalagama - *General Manager (Auto Components, Power Tools & Outdoor Equipment)*, R.C. Weerawardane - *Executive Director*.

OVERVIEW

GROUP MANAGEMENT COMMITTEE



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- 01 A.R. Pandithage - *Chairman*
- 02 A.G. Pandithage - *Deputy Chief Executive Officer*
- 03 S.C. Algama - *Executive Director*
- 04 D.S. Amarasuriya - *General Manager - Passenger Vehicle Service*
- 05 M.V. Bandara - *General Manager - Sales & Service Commercial Vehicles*
- 06 A.C.G. Dias - *General Manager - Tyres*
- 07 B.C.S.A.P. Gooneratne - *Executive Director*
- 08 E.D.C. Kodituwakku - *General Manager - Finance & Controlling*
- 09 A. Mapalagama - *General Manager - Auto Components, Power Tools & Outdoor Equipment*
- 10 R.C. Weerawardane - *Executive Director*