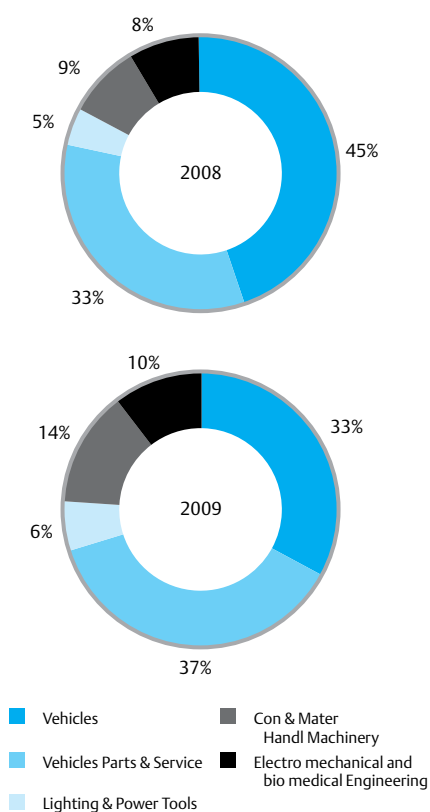


# FINANCIAL REVIEW

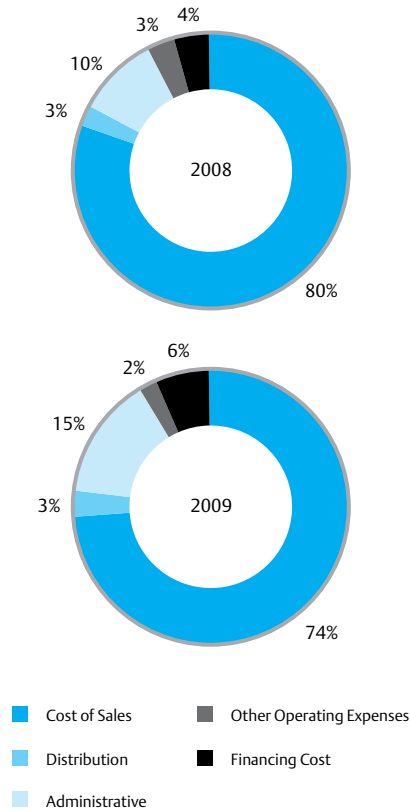
## Overview

The Group faced one of its most challenging years of the recent past where an unsupportive economic environment marked by a continuous decline in demand shrinking of the vehicles market, high interest rates, conservative approach by the financial sector supporting vehicle financing and a lack of investment in capital expenditure all exerted an adverse impact on business. The thrust to increase volumes did not receive the encouragement from an expanding market. Instead, the Group was forced to seek to a higher share of the shrinking market. The persistence of the decline in demand and the unfavourable economic environment resulted in a below expectation performance with a profit before tax of Rs. 155 mn (2007/08 - Rs. 344 mn), which was significantly less than the budget. The information tabulated below provides an insight into the economic trend that led to the current decline.

Composition of Gross Profit by Segment



Cost & Expenses



	2008	2007	2006	2005	2004
AWPLR - %	18.50	17.95	15.19	12.20	10.20
Rate of Inflation - % (CCPI Annual Average)	22.60	15.80	10.00	11.00	9.00
Exchange Rate (Rs. per USD) (End of the year)	113.14	108.72	107.71	102.12	104.61
<b>Vehicles Imports (No. of Units)</b>					
Buses	1,180	2,637	3,346	2,069	2,167
Private Cars	20,237	22,603	27,578	17,283	19,116
Goods Transport Vehicles	14,038	18,408	20,436	14,262	10,703

(Source: Central Bank Annual Report - 2008)

## Financial Environment

The Principals that we represent are largely from Germany, India and also from Japan. Consequently, the movements in the Exchange Rate of the Euro, Indian Rupee and Japanese Yen bear implications on pricing/costs of items sourced from these principals, in addition to the implications of the fluctuations in the US Dollar.

The following extracts from the Central Bank Annual Report - 2008 provide an insight into the interest rates, exchange rates and also the price levels in the country. Although, the information covers only the first three quarters of the

financial year it provides a good insight to the backdrop against which business was carried out during the whole financial year.

“The major international currencies experienced higher volatility, especially during the last quarter of 2008, mainly due to the intensification of the financial crisis since mid-September.”

“The US dollar, which has been depreciating since 2002 against other major currencies reversed its trend towards the third quarter of 2008.”

## MANAGEMENT REPORT

### FINANCIAL REVIEW

“The US dollar, which depreciated against the euro by 8.2 per cent to its weakest level since the inception of euro, appreciated in the third and fourth quarters of 2008 by 9.0 per cent and 1.9 per cent, respectively.”

“The Indian rupee depreciated against the US dollar at a higher rate due to substantial outflows of portfolio investment with the meltdown of the global financial position and expected slowdown in the Indian economy.”

“The Central Bank’s exchange rate policy in 2008 mainly focused on stability amidst unprecedented high volatility in the global currency markets, while allowing gradual depreciation to maintain external competitiveness.”

“By end 2008 the depreciation of the rupee against the US dollar was around 3.91 per cent as compared to a depreciation of around 0.93 per cent in 2007. At the same time, the rupee appreciated significantly against the Sterling pound (32.99 per cent), Indian rupee (17.54 per cent) and moderately against the Euro (0.51 per cent), while it depreciated against the Japanese Yen (22.44 per cent).”

“Despite the significant increase in inflation as a result of the pass-through of external supply shocks to domestic prices, the stringent monetary policy stance adopted by the Central Bank enabled it to contain inflationary pressures in the economy.”

“The general price level, as measured by the Colombo Consumers’ Price Index (CCPI 2002=100), continued to increase rapidly in the first half of the year reaching a high of 28.2 per cent on an year-on-year basis in June 2008, before decelerating gradually to 14.4 per cent at the end of the year. The annual average inflation rate rose to 22.6 per cent in 2008, compared with 15.8 per cent recorded in 2007. The lagged effect of adverse monetary conditions that prevailed in the past as well as adverse developments in commodity prices contributed to the increase in the index values in the first half of 2008.”

“The Average Weighted Lending Rate (AWLR), which reflects the movement of interest rates pertaining to the entire loan portfolio of commercial banks, was on a gradual upward path in 2008. The Average Weighted Prime Lending Rate (AWPLR), which reflects the borrowing costs of prime customers, that is, the most creditworthy customers, also moved up gradually.”

### Trends

In the backdrop of an unfriendly business environment, business contracted considerably in terms of turnover and current assets.

A five-year summary of key financial data captures the growth experienced by the Group during past five years:

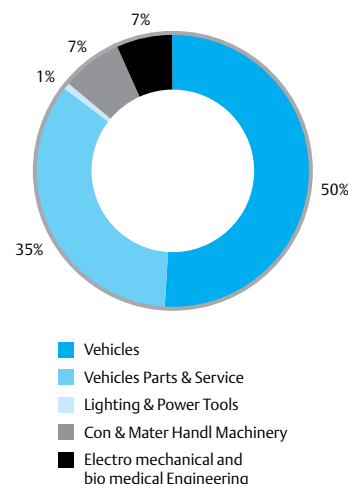
	2008/09 Rs. mn	2007/08 Rs. mn	2006/07 Rs. mn	2005/06 Rs. mn	2004/05 Rs. mn
<b>Performance</b>					
Turnover	9,274	12,687	12,989	10,512	7,565
Gross Profit	2,359	2,375	2,129	1,590	1,206
Profit after Tax	89	205	302	265	177
<b>Financial Position</b>					
Total Assets	5,263	5,831	5,199	4,570	3,195
Current Assets	3,028	4,368	4,193	3,794	2,461
Borrowings	2,701	2,785	2,840	2,795	1,609

### Segment Performance

Goods Transport Vehicles and Buses, the dominantly served markets in the vehicle sales segment, experienced a sharp decline in demand, significantly affecting this segment. The resulting impact was a 44% reduction in segment revenue and a 44% decrease in the segment result. All vehicle franchises, namely Mercedes Benz, Tata and Chrysler contributed to the decline in this segment. Due to the drop in sales and intensive working capital, management was seriously taken into consideration resulting in inventory & receivable reduction being reduced by 50% (2007/08 - 1% increase) relating to the segment.

Vehicle Parts & Service produced a 26% increase in the segment result despite flat revenues. Marketing and Distribution operation of spare parts yielded encouraging results whilst the workshops contributed to a lesser extent. Segment Assets of the Vehicle Parts & Service segment also increased by 23% (2007/08 - 2%). Working capital investments made in TATA spare parts business was a key contributor to this increase.

Segmental Turnover (Rs. mn)



**MANAGEMENT REPORT**  
**FINANCIAL REVIEW**

Lighting & Power Tools, Construction & Material Handling Machinery and Electro Mechanical & Bio Medical Engineering Businesses increased segment revenues by 7%, 31% and 5% (2007/08 - 19%, -15%, -10%) respectively, whilst the segment result increased by an impressive 31%, 69% and 23% (2007/08 - 19%, -17%, 4%). The improvement in the Lighting & Power Tools business is mainly due to an improved performance of the Lighting Solutions Business whilst the Power Tools Business performed below expectations. Power Engineering and Power Systems posted encouraging results in the Electro Mechanical & Bio Medical Engineering segment whilst the adverse results of Medical Engineering and Telecommunications Solutions offset these gains to a large extent.

The Budget forecasts an improved performance in all segments while the emerging Electro Mechanical and Bio Medical Engineering Segments show significant growth prospects and that augurs well with the long-term strategy of the Group.

**Turnover**

Turnover fell by 27% (reduction of 2% in 2007/08) to Rs. 9.2 bn (2007/08 - 12.6 bn), with the Vehicle Sales segment being the contributor to the reduction. A cautious and conservative approach by the vehicle leasing sector coupled with a decline in demand and higher interest rates severely affected commercial vehicle sales during the year. The sales of passenger vehicles were affected even further by the high tariff regime.

**Profitability**

The sharp fall in turnover compelled a review of business models in order to maximise the value addition components of the Group's offerings. Strong efforts made to improve profitability enabled the Group to record a gross profit similar to last year despite the drop in turnover. The gross profit margin of the Group increased from 18.9% to 25.6% with all segments contributing to the upward movement of the ratio.

**Distribution and Administrative Expenses**

The drop in turnover necessitated prudent management of expenses as a matter of priority and importance. In the backdrop of high inflation and a cost base significantly fixed in nature, the cost management efforts shaped a new culture of cost consciousness whilst limiting the increase in Distribution and Administrative Expenses to 7.5%.

**Finance Expenses**

Finance cost increased by 15.7% (2007/08 - 12%) to Rs. 599.9 mn (2007/08 - Rs. 518.1 mn) during the year. As a result of reduced profits, the interest cover deteriorated from 1.7 times to 1.3 times during the year under review.

**Taxation**

Income tax expense was Rs. 66 mn (2007/08 - Rs. 139 mn). The corporate income tax rate applicable to the Company was 35%. A social responsibility levy of 1.5% of the income tax payable was also applicable. The disallowable expenses relating to advertising and overseas travelling pushed the effective tax rate to 42% (2007/08 - 40%). The reconciliation between accounting profit and taxable income is available on page 124.

**Earnings**

Earnings before interest and tax (EBIT) for the year was Rs. 755 mn (2007/08 - Rs. 862 mn).

The net profit after tax decreased by 56% in 2008/09 (2007/08 - reduction of 32%).

Return on average capital employed was 16.5% (2007/08 - 20%).

Earnings per Share (EPS) was Rs. 9.36 (2007/08 - Rs. 16.95) constituting a 45% decrease during the year. The number of shares in issue reduced by 28.8% during the year consequent to cancellation of shares following the share buy back during the year.

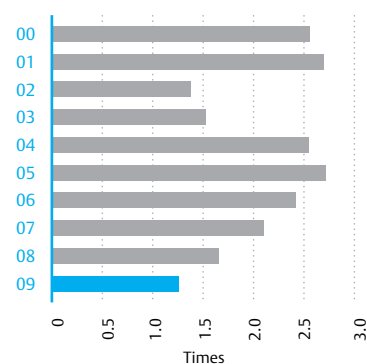
**Return on Equity (ROE)**

Return on Equity dipped to 5% (2007/08 - 13%) consequent to the lower Profit after Tax.

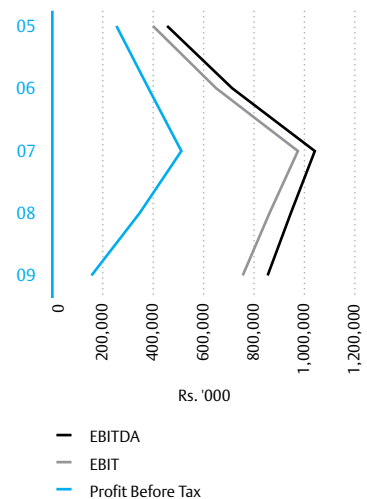
**Dividends**

The Directors have approved a first and final dividend of Rs. 3/- per share (2007/08 - interim Rs. 1.50 and final Rs. 2.50). The dividend cover was 3.43 times (2007/08 - 4.24 times). The Company possesses the necessary funds in order to finance the funding requirement that will arise due to the final dividend and satisfies the solvency test requirements for payment of dividends as laid down in the Companies Act No. 7 of 2007.

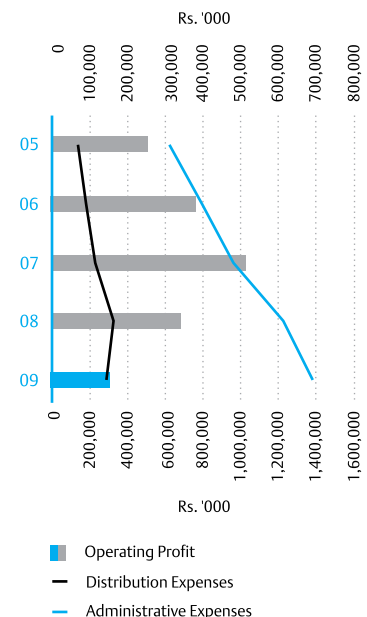
**Interest Cover**



**Earnings**



**Operating Profit Vs Expenses**



**Market Value Added (MVA)**

Market Value Added (MVA) is the difference between the current Market Value of the Company and the Capital contributed by investors, viz, shareholder equity. MVA is an indicator of shareholder wealth unlike EVA which is a performance measure. Market price of a share is a key variable in MVA whilst the number of shares in issue too has a bearing on the Market Value. Its interpretation should take into account the impact of the Company's performance on the market price per share as well as the trends in the stock market.

The computation of the MVA of the Company is shown below:

	2008/09 Rs. '000	2007/08 Rs. '000
Market Capitalisation	524,319	1,073,875
Shareholders' Funds	2,004,845	1,657,151
Market Value		
Addition/(Depletion)	(1,480,526)	(583,276)

MVA as at year end showed a negative value of Rs. 1,480 mn (2007/08 - Rs. 583.3 mn - negative) in the backdrop of a Rs. 348 mn (2007/08 - Rs. 150 mn) increase in equity, a 32% (2007/08 - 26% - decline) decline in market value per share during the year and a 28.86% reduction in the number of shares in issue.

**Property, Plant & Equipment**

The investment made in property, plant & equipment during the year was Rs. 118 mn (2007/08 - Rs. 554 mn) and the Disposals (at original cost) amounted to Rs. 43 mn (2007/08 - Rs. 35 mn ). Freehold land of the Group was revalued during the year, which resulted in a surplus of Rs. 824 mn.

**Working Capital**

Concerted efforts on controlling receivables and reducing inventory caused the working capital to drop from Rs. 906 mn to Rs. 601 mn. Prudent management of working capital continues to be

a key area of focus and receives priority attention always. Inventories decreased by 39% (2007/08 - 4% increase) to Rs. 1.33 bn (2007/08 - Rs. 2.19 bn). Trade and other receivables too reduced by 22% (2007/08 - 10 % increase) to Rs 1.65 bn (2007/08 - Rs. 2.11).

**Borrowings**

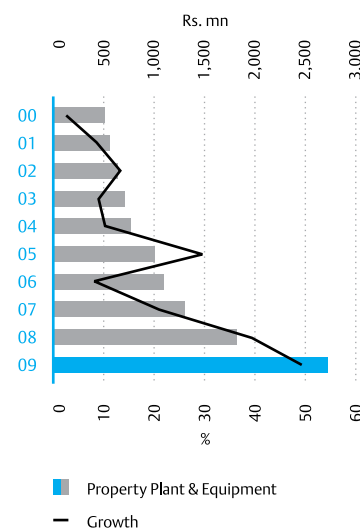
Borrowings consist of term loans, import loans and bank overdrafts. Term loans outstanding as at the year end amounted to Rs. 907 mn (2007/08 - Rs. 730 mn). The term loans have been obtained for a five-year repayment period except for the loan obtained the previous year to finance the acquisition of the Weliveriya property which has a repayment period of ten years. More details of term loans including their interest rates are available in Note 20 to the Financial Statements. Whilst interest rates of overdrafts are reviewed periodically, rates charged on import loans are determined based on money market rates. Group's interest bearing borrowings marginally decreased during the year from Rs. 2,802 mn to Rs. 2,710 mn.

**Cash Flow**

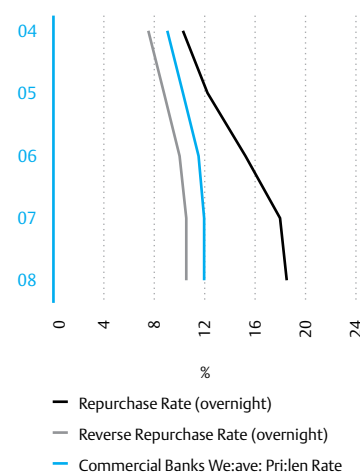
Operating activities during the year under review generated an inflow of Rs. 626 mn. This is compared to an inflow of Rs. 521 mn for the year 2007/08. Significant reductions in inventory levels and receivables contributed to this inflow. The cash outflow on account of capital expenditure and acquisition of own shares amounted to Rs. 118 mn and Rs. 543 mn respectively. The outflow on account of servicing providers of finance in the form of interest and dividends amounted to Rs. 601 mn (2007/08 - Rs. 518 mn) and Rs. 30 mn (2007/08 - Rs. 54 mn) respectively. The Group cash and cash equivalents increased by Rs. 211 mn (2007/08 - Rs. 181 mn).

The Group possesses the necessary banking facilities to support its operations. Cash generated from operations and available banking facilities are adequate to finance working capital, capital expenditure, dividends and statutory payments.

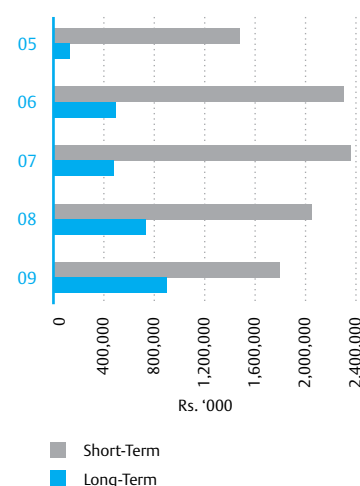
**Growth in Property, Plant & Equipment**



**Interest Rates**



**Borrowings**



## MANAGEMENT REPORT

### FINANCIAL REVIEW

#### Solvency

Section 56 of the Companies Act No. 7 of 2007, requires that a solvency test be carried out prior to the payment of dividends. In order to satisfy this requirement, the Company Auditors certified that the Company meets the required solvency levels prior to payment of dividends for the year. In doing so, the Auditors confirmed that the Company has the ability to pay its debts as they become due in the normal course of business and that the value of the Company's assets is greater than the value of its liabilities and the Company's stated capital.

The computation of solvency for the Company as at the year end is given below:

	2008/09 Rs. '000	2007/08 Rs. '000
Non-Current Assets	2,173	1,389
Current Assets	2,800	4,186
<b>Total Assets</b>	<b>4,973</b>	<b>5,575</b>
Current Liabilities	2,317	3,355
Non-Current Liabilities	822	705
<b>Total Liabilities</b>	<b>3,139</b>	<b>4,060</b>
Assets Less Liabilities	1,834	1,515
Stated Capital	182	182
	<b>1,652</b>	<b>1,333</b>

#### Financial Priorities

The economic landscape and the resulting business impact compelled the Group to identify the following measures for special attention:

- Stringent management of working capital.
- Identify businesses that perform below expectations and closely monitor their progress.
- Prudent management of costs.

The above measures are strongly entwined with the identified long-term financial priorities that are strongly pursued in formulating Corporate Strategy. The following are the Group's financial priorities that drive the Group's financial strategy:

- Optimising profitability through value addition and efficient utilisation of resources particularly through prudent working capital management.

ii. Striking a balance between growth and immediate profitability in allocating financial resources.

iii. Maintaining a healthy Balance Sheet.

#### Treasury Management

The Group operates a central treasury function, which controls decisions in respect of cash management, utilisation of borrowing facilities, banking relationships and foreign currency exposure management. It enables effective cross utilisation of funds between Business Units.

#### Financial Market Risk

The Company is exposed to various changes in financial market conditions, including fluctuations in interest rates and foreign currency exchange rates. Forward exchange rate contracts are entered into for imports on a selective basis, where desirable.

#### Retirement Benefits

The actuarial valuation of the gratuity liability carried out as at the year end places the Group's liability at Rs. 125.1 mn (2007/08 - Rs. 115.7 mn), and the liability has been recorded in the Financial Statements accordingly. Details of the assumptions made in carrying out the actuarial valuation are set out in Note 25 to the Financial Statements.

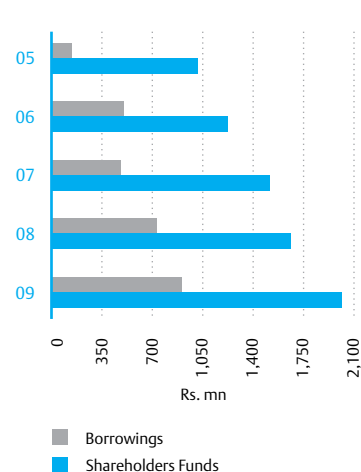
The charge to the Income Statement for the year on account of the gratuity liability is Rs. 29 mn (2007/08 - Rs. 28 mn).

#### Contractual Obligations

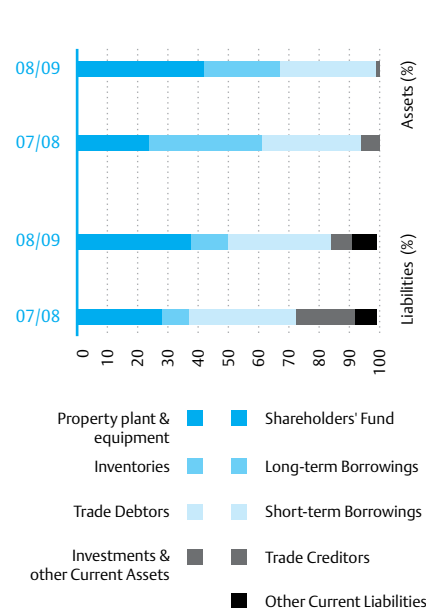
Financial contractual obligations to banks as at 31st March 2009 are given below:

Obligation	31st March 2009 Rs. mn	31st March 2008 Rs. Mn	Settlement
Long-term Borrowing	907	730	Equal monthly instalments
Short-term Borrowing	1,596	1,855	On maturity at terms ranging from one month to six months
Overdraft	207	200	On demand
Letter of Credit	495	1,135	As per LC condition
Bank Guarantees	192	211	As per Guarantee condition
Bid Bonds/Performance Bond	273	109	As per Bond condition

#### Capital Structure



#### Balance Sheet Structure



**MANAGEMENT REPORT**  
**FINANCIAL REVIEW**

**Shareholders' Funds**

Shareholders' funds increased to Rs. 2,005 mn from Rs. 1,657 mn. The details of the movement in shareholders' funds are given in the Statement of Changes in Equity on page 112.

Market capitalisation as at 31st March 2008 was Rs. 524 mn (2007/08 - Rs. 1.07 bn).

**Accounting and Financial Reporting**

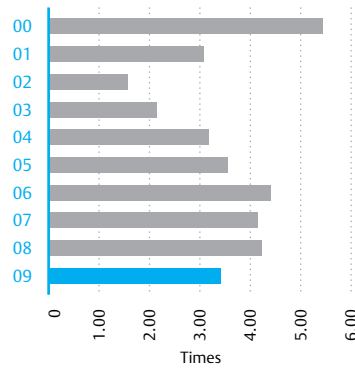
The Group strives to make meaningful disclosures of material information in the Annual Report and Accounts and has consistently focused on improving the presentation of information, within the framework of the Sri Lanka Accounting Standards.

It remains committed to the adoption of best practices in its communications with shareholders and other users of Financial Statements, within the bounds of commercial confidentiality, to enable them to make informed judgments on the performance of the Group.

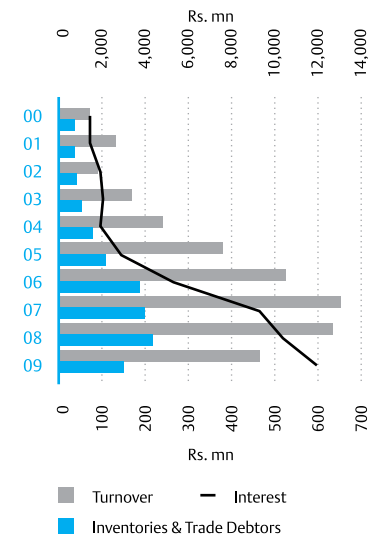
**Outlook**

The recent downward trend in the Treasury Bill rates suggests a possible fall in interest rates. The prospect of foreign currency inflows to support development activities particularly in the North and East and a sustained decline in inflation rates as the recent past suggests, points to a turnaround in the business environment. In a phase of severe competition and tough market conditions, the Dimo team is equipped to face the challenges and seize the opportunities and deliver a much improved result as indicated by the Budgets for the ensuing year.

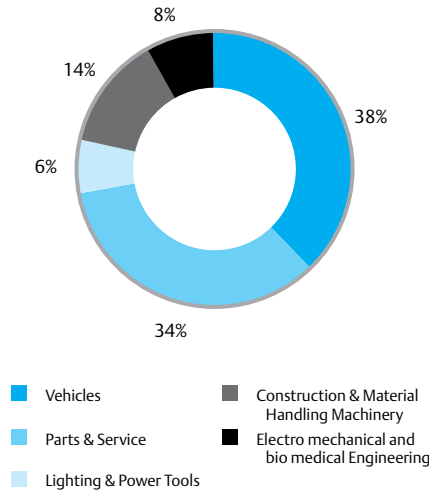
**Dividend Cover**



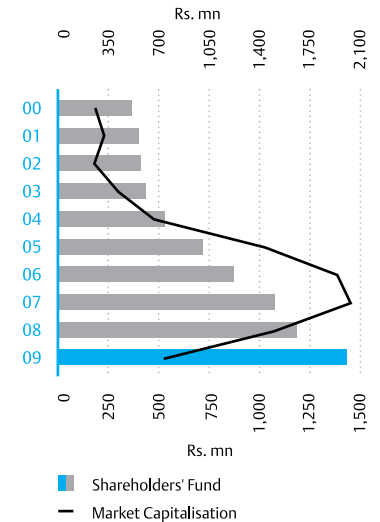
**Inventories & Trade Debtors vs. Turnover & Interest**



**Segmental Contribution To EBITDA**



**Shareholders' Funds Vs Market Capitalisation**



**Return on Equity**

