

“Care A Word We Simply

Every year we raise the Standard of Care a little higher

The essence of Dimo is the standard of care we have developed over the years. Customer, employee, principal, the community and the natural environment are all recipients of this unique brand of care, honed and polished to a fresh level every year.

After-care relationships with our customers are passionate, committed and technologically appropriate for the product bought. Dimo employees are cared for with dignity and working environments harness talent, provide security and inspire our employees to new levels of excellence.

Principals benefit from a relationship that is mutually beneficial. While we enhance their market shares and apply our unique standard of care to their products, our principals provide the technology and the 'know-how' to help us constantly enhance this standard of after-care.

Caring for the community is a fundamental Dimo value. While we create financial value we do so with responsibility and a sense of caring for the community. Our systems of care are geared to reduce wastage, reuse wherever possible and nourish the natural environment for the next generation.



Passionately About

Care

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REVIEW

Sustaining Growth, Profitability and Responsibility. Reporting on yet another year of high performance.

Dear Shareholder,

I am pleased to present the Annual Report and Audited Accounts of your Company and its subsidiaries for the year ended 31st March 2007. As these have been in your hands for the required period of time, it is proposed with your permission to take them as shareholder.

The year under review was a year of considerable challenge. The challenges were of such a magnitude that they overshadowed the significant progress we achieved during the year. One of the major challenges we faced was the substantial increase in interest rates and this affected Dimeo in two important ways. First it gave rise to a sizable increase in financial costs. Secondly, it had a negative impact on our sales, since our products are capital goods, often financed by borrowings.

Despite these challenges, profit before tax and turnover grew substantially, and the Company ended the year on a very satisfactory note. The steep increase in the interest rates is a matter of great concern.

While managing growth, it was also necessary to make prudent investments in the non-auto sector, which is very much a part of our strategic plan. Such substantial achievements in a year that presented considerable challenge, gives my team and me a sense of accomplishment.

Keeping Stakeholders Informed

This report documents in as much detail as possible, the business environment, the activities, results, financial position, and our future prospects, short, medium and long term.

While conforming to legal and statutory requirements, we have gone beyond these to provide details that will enable our stakeholders to be updated on the performance and prospects of the Group.

Global Developments

During the year under review, the Euro strengthened against the Dollar by 5.3%. Steel prices and all commodities, which are directly related to the auto and machinery industry increased during the year.

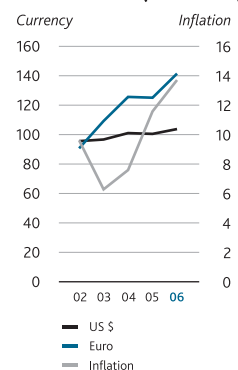
The Company's volume of imports from India has grown over the years and this has changed the geographical composition of our portfolio. Our offerings from India have improved both in quality and value over the years.

Local Developments

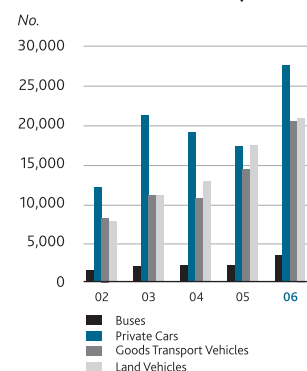
The Sri Lankan economy grew by 7.4% in 2006*, once again demonstrating its resilience. This growth rate was the highest recorded since 1978. Despite this growth, emerging inflationary threats are however, a matter of serious concern.

The government policy change with regard to tax on passenger cars and SUV's over 1000 cc has had an impact on your Company's vehicles business. Other sectors that the Company is involved saw a

Currency vs. Inflation (31st Dec.)



Registration of Motor Vehicles (31st Dec.)



*Source: Central Bank Annual Report - 2006

CHAIRMAN & CEO'S REVIEW

significant growth. More details on the industry environment of the Company's business segments can be found in the Business Review from pages 14 to 33.

The high interest environment has affected all our products, particularly the automobile market. Leasing interest rates have correspondingly snowballed and this has made vehicles more costly. Despite these conditions and increasing government levies, the Company increased market shares and took profitability to a new level confirming the confidence customers have in the products and solutions that 'Dimo Care' is able to offer.

The country is still trying to produce human resources with the skills and mindset that the private sector requires. The vocational training system does not produce people in sufficient numbers with relevant skills for the auto industry, leaving that burden to the private sector. The Dimo Automobile Training School is an initiative that the Company has taken to fill this gap.

Maintaining our High Performance

We are optimistic about Dimo's performance over the short to medium term. We are confident that we can make a quantum leap in profitability and growth during this period and take your Company to a new level of performance. The external environment and the volatile political situation continue to concern us but we are making every effort to ensure that the Company's growth stays on track despite adverse external conditions.

The past financial year was a year of high performance for Dimo. Your Company has grown phenomenally over the previous three years and last year was no different. Our pre-tax profit for 2006/07 was Rs. 512 mn, an impressive 34% increase over the previous year. Group turnover was Rs. 13 bn, a growth of 23.6%, but profit after tax grew only by 13.8% during the year under review. This was because of higher tax payments.

Rewarding our Shareholders

Your Board has paid an interim dividend of Rs. 3/- per share and a final dividend of Rs. 3/- per share is proposed for the financial year 2006/07. The dividend outflow will be enhanced by the increase in share capital.

Business Priorities

Funding Investments

The Company has built a strong reputation with our principals and customers with regard to Dimo's unique post-sales care. This has placed the Company in a position of strength to attract more world-class brands and businesses. The Company carefully selects the businesses it should invest in, maintaining a fine balance between investments in resources and long-term sustainable growth opportunities.

Business Spread:

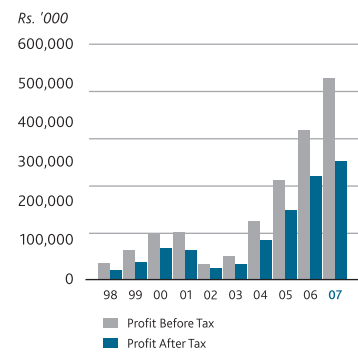
Building a Stronger Base for Growth

We will continue with our strategy of remoulding our product mix. While we were initially an automobile oriented company, Dimo has over the years progressively moved into other industries.

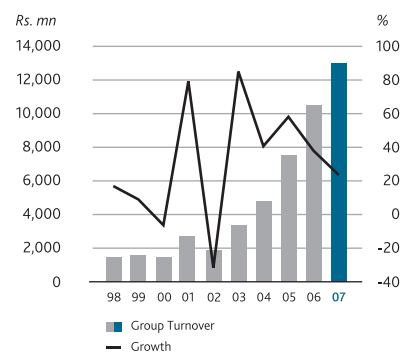
We will expand our non-auto businesses that have growth potential, for example in power engineering and building technology. We are also venturing into new business areas such as car park management systems, consultancy services with regard to warehousing and material handling, and the supply of health-care consumables. The Group has also recently gone into manufacturing and this will provide a stronger base for growth.

The broad spectrum of products we now have within the Dimo brand has enhanced our competitiveness and our potential for growth. We will continue to refashion our product-mix to ensure that we retain our competitive edge and are not dependent on any single industry for growth.

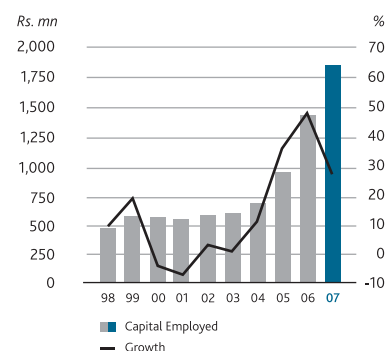
Profit Before Tax & Profit After Tax



Group Turnover



Capital Employed



CHAIRMAN & CEO'S REVIEW

We have made two strategic investments in the past two years. The first was in a tyre rebuilding plant at Homagama - a fully-owned subsidiary. This plant commenced operations in April 2006 and has already shown good results. The other is in an auto filter manufacturing plant at Kandana, in partnership with KLN India, which will commence commercial production on the 1st of June 2007. These new investments will also contribute to fuel our growth in the short to medium term.

Sustaining Relationships

The strength of the Company over the years has been the Dimo brand. Although we represent 56 of the world's leading brands, our mindset has not been one of just selling a product. Our goal has been to add value to our customers by giving them globally renowned products fortified by the nationally celebrated 'Dimo Care'.

The purchase of a product from Dimo does not conclude a deal with the customer. Rather it marks the beginning of a long-term relationship where we endeavour to provide continuous solutions to the customer. Through the Dimo branded after sales service, we attempt to provide constant assurance to customers that we are 'there' whenever they need us.

Over the years the Company has invested in human resources and necessary tools and equipment to provide customers with continuing solutions for their products after purchase. We have taken the Dimo standard of care to higher levels over the years and attempt to ensure that we delight the customer at every stage beyond the point of sale.

Keeping up with Technology

Most of the principals that we represent possess state-of-the-art technology and many of them are technology leaders. They in turn, impose stringent requirements on us. Maintaining these standards is a high priority in our business strategy.

Agility

Mergers have become common in the global business environment. Such acquisitions and diversifications can have an impact on our principals' business patterns and it is of paramount importance that we keep sufficiently agile. Towards this end, we constantly gear our resources and our technological know-how to an extent that our principals consider Dimo as their most preferred partner to do business in Sri Lanka.

Solving the Problem of Space

The Group has grown exponentially during the last five years. This has created a huge demand on our physical space. There is a need to accommodate higher levels of inventories and a need to accommodate employees recruited for the expanding business. Our inventories have increased from Rs. 483 mn to Rs. 2,097mn and our employees have increased from 595 to 862 over the past five years.

Challenges

There are two main challenges the Company faces in the short term: responding to changes in the external environment and managing its working capital.

The high tariffs and taxes and high interest rates that are now part of the external regulatory regime makes maintaining market shares and selling our products a considerable challenge.

Managing our working capital in the midst of a volatile interest regime is another challenge. For some years now this subject has received our close attention and has become a key component of the Dimo culture. In the past year, the increase in working capital has been 11%. The increase in revenue has been 24%. We are confident that we can rise to the occasion and manage our working capital in an effective way.

CHAIRMAN & CEO'S REVIEW

In the longer term, there are several challenges that we have to surmount and these remain important areas of focus receiving considerable management time and effort.

Remaining the No. 1 Choice

One of the challenges we will face over the next few years will be to sustain the growth in market share for our world-class brands.

While seeking to expand our market shares in the next few years, we will continue to invest in the requisite training and technology to ensure that the care we provide after sales is on par with the world's best. Our objective is to make Dimo invaluable to our principals and to create win-win solutions for us both.

In this respect we will continue to invest in state-of-the-art technology and in state-of-the-art training for our human resource team to power this technology. The highly sophisticated products that our principals now manufacture require the same level of sophistication in after-sales service. We are striving to ensure the same degree of sophistication in our 'after-care'.

With the increase in business activities, a separate logistics centre has been conceived. The infrastructure for the logistics centre will be considered in the forthcoming year.

The Dimo Ethic of Responsibility

We are proud that our growth has been built on a foundation of unyielding ethics and strong company values. Integrity, transparency, legality and strong governance have been core Dimo values which have driven the Company and will continue to drive the Company in the years ahead.

While we continue to focus on profitability, we know that this can only be achieved in the context of a society that is also being constantly enriched by our corporate activities. Our ISO certified Environmental

Management System provides a rigorous framework for managing the environmental impact of the Company's activities. In all our activities we make every attempt to reduce, reuse and recycle and endeavour to nourish the environment rather than deplete it.

Our CSR activities continue to empower communities and seek to provide new and sustainable opportunities for these groups. One of our key responsibilities is our employees and their families. We firmly believe that Dimo's responsibility as a corporate citizen should 'start at home' and with its own family. In this respect, I am proud to note the comprehensive medical cover we provide to all our employees, without discrimination, in every business unit. Often we have gone beyond this medical cover and provided support where employees and their families have had to undergo critical surgery or treatment for life threatening illnesses.

While we continue to empower communities outside Dimo, we will simultaneously empower our employees and their families as part of our obligations as a responsible corporate citizen.

How Dimo empowers communities and supports the environment is covered more comprehensively in the Company's Sustainability Report on pages 40 to 57.

Recently, as part of our corporate social responsibility, we organised a technology symposium on 'vehicles with hydrogen and fuel cell technology'. The symposium provided a unique opportunity for professionals from outside the Dimo team to get acquainted with the latest developments. This technology will enable a 'zero emissions future' making it environmentally friendly. We are looking at integrating other products into the Dimo portfolio that will provide the requisite level of luxury while being environmentally friendly and doubly safe.

CHAIRMAN & CEO'S REVIEW

Building the Dimo Team

Part of our growth strategy is to invest in developing the skills, capabilities and dynamism of the Dimo team. If we are to stay competitive and make the quantum leap, then we need a team that can take the Company to new heights.

One aspect of our human resource strategy is to build team spirit and camaraderie. Beyond that we attempt to provide opportunities for every team member to develop their skills and capacities in line with their own career plan. Last year we invested over Rs. 20 mn in training programmes for our staff and will make a similar or even greater investment this year too.

Our training school has provided new opportunities to people outside the Dimo team and to our customers. Young Sri Lankans have been exposed to state-of-the-art engineering practices with some of them even having the opportunity to 'learn the trade' at our principals' workshops in Germany, India and Singapore.

Our training school has now received global recognition and the 'Dimo Certificate' is a much sought after qualification. We are proud of the contribution made by us in this respect not just to the Dimo team but to the youth of Sri Lanka in general.

I must acknowledge here the efforts of the vibrant Employee Council at Dimo. The Employee Council was set up to respond to staff grievances and to harness new ideas among the workforce. The Council has worked astonishingly well for over seven years and has had a significant impact on the growth of the Company. Together we have been able to take collective responsibility for the well-being of the Company and have 'problem-solved' and strategised jointly for the future security of the Company, its employees and society in general.

Responding to Flooding

I must take this opportunity to apprise you of a concern that has troubled us greatly for some years now. This has to do with the flooding of Colombo city and particularly the properties on which many of your Company's operations are located.

We are now exploring a variety of options, to see how your Company can minimise the losses caused, not through the inefficiencies of the Company, but through the ineffectiveness of local and other authorities.

The New Legal Regime

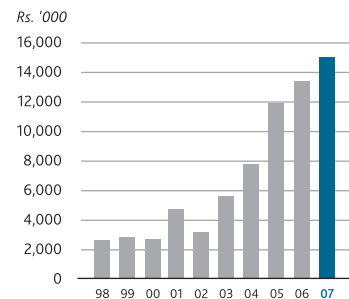
We welcome the new Companies Act No. 7 of 2007, which came into effect on the 3rd of May 2007. The Company is taking steps to respond to the new requirements of the Act and will soon apply to the Registrar of Companies to be formally registered as Diesel & Motor Engineering PLC.

Accolades

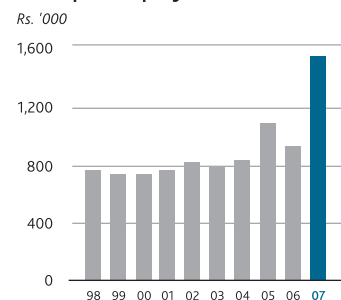
Last year our Annual Report won a number of awards at some of the major competitions. At the Institute of Chartered Accountants Awards we were placed first in the category of companies with up to five subsidiaries. At the ACCA Sustainability Reporting Awards we were the winner in the medium scale category. At the Business Excellence Awards organised by the National Chamber of Commerce, we were the winner in the trading category and first runner-up in the large category.

Recognition was also received from some of our business partners. The Company was placed third in the platinum category for the Bosch Automotive after-markets competition organised by Bosch Southeast Asia for the Asian region. We also received the 'Challenger Award' we received from Komatsu Fork Lift Asia Pte for being one of the leading distributors in the region.

Group Turnover per Employee



Property, Plant & Equipment per Employee



CHAIRMAN & CEO'S REVIEW

A New Trajectory of Growth

I am upbeat about the prospects of the Company in the short to medium term. Dimo has grown remarkably in the recent past and we are well placed to enhance this growth rate over the next few years. Your Board has taken three strategic decisions that we are convinced will power Dimo over the next few years:

- To add more world-class brands to our blue-chip product portfolio. These world-class brands come from a variety of sectors and industries and will give security to our product base by not making our brand dependent on any single sector.
- To invest substantially in human resource development and state-of-the-art technology. These investments will strengthen our after-care capacities and ensure that the standard of Dimo Care continues to rise.
- To invest in infrastructure expansion and the development of logistics facilities. While ensuring that our existing principals remain with us, these investments will enable us to attract new products to our portfolio and will ensure that the Dimo product quality and after-care service do not drop.

We think this strategy will provide more strength and security to the Dimo brand and help us deliver progressively increasing value to all our stakeholders over the next few years. Our business strategy is covered in more detail in the 'strategy & vision' overview on page 13.

A Warm Welcome and Thank You

I warmly welcome Dr. Harsha Cabraal, Dr. Uditha Liyanage and Mr. Ranjan Seevaratnam who joined the Board during the year as independent Non-Executive Directors. All three of them bring with them vast experience and expertise to the Board. I am confident that all shareholders will join me in wishing them well in their new appointments.

In accordance with the Company Articles, they will retire from the Board and shareholders will be requested to re-elect them at the Annual General Meeting.

I also take this opportunity to convey my heartfelt thanks to Mr. H.M.A. Jayasinghe who retired from the Board during the year. He will continue to act as an advisor to the Audit Committee. He contributed immensely to the growth of the Company.

We could not have achieved this performance if not for the Dimo team. I would like to take this opportunity to thank everyone in the Dimo family for the dynamism and commitment they have shown over the past year. It is their flair and hard work that has made the Company what it is. My thanks also go out to our Management Team that has provided inspiration and direction to the Company. My thanks also go out to our principals, who have retained their faith in us as the Number 1 choice. We are proud to look after their interests in Sri Lanka.

Finally, to my colleagues on the Board, I would like to offer a warm word of appreciation. I have valued your counsel and advice at all times. I look forward to another rewarding and productive year at Dimo.



A.R. Pandithage
*Chairman, Managing Director/
Chief Executive Officer*

21st May 2007

Dividend Paid

