FINANCIAL REVIEW

The Group completed another successful year in what was a very challenging financial environment. Consistency in profit growth, increase in finance cost and a substantial increase in the assets base are some notable developments that continued from the previous year.

The growth in profit in a rapidly rising interest rate scenario is an affirmation of the Group's stable growth potential.

However, profit before tax fell short of the budgeted figure and rising finance costs is the main reason for this.

Whilst the existing businesses provided the platform for growth, the addition of new products and new businesses provided the impetus for future growth. The rapid increase in the size of operations is evident by the increase of turnover from Rs. 3.4 bn to Rs. 12.9 bn during the last five years. Total assets increased from Rs. 1.7 bn to Rs. 5.2 bn during the same period. Borrowings were the main source of funding for this growth, with retained earnings and proceeds from rights issues contributing in a smaller measure.

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

	2002/03 Rs. mn	2003/04 Rs. mn	2004/05 Rs. mn	2005/06 Rs. mn	2006/07 Rs. mn.
Performance					
Turnover	3,405	4,797	7,565	10,512	12,989
Gross Profit	725	846	1,206	1,590	2,129
Profit after Tax	38	100	177	265	302
Financial Position					
Total Assets	1,727	2,252	3,195	4,570	5,199
Current Assets	1,198	1,692	2,461	3,794	4,193
Borrowings	867	958	1,609	2,795	2,840

Turnover

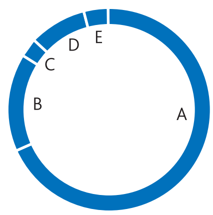
Turnover increased by 24% (39% in 2005/06) to Rs. 13 bn. This represents a compounded growth rate of 40% over a five-year period.

The vehicles segment contributed 68% (70% in 2005/06) to the turnover and recorded a 21% (40% in 2005/06) growth over the previous year. The key contributor to this was the Tata commercial vehicle business led by the 'Dimo Batta' which recorded a turnover increase of 21% (40% in 2005/06).

According to the Central Bank Annual Report, the number of vehicles registered in the country during the calendar year 2006 showed an increase of 31% (3% in 2005). Buses, goods transport vehicles and private cars were mainly responsible for the growth in the number of registrations during the year under review.

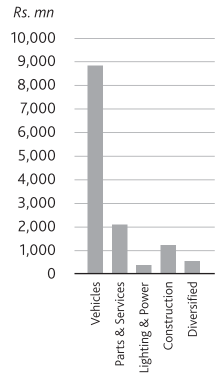
The vehicles spare parts and services, lighting and power tools, construction and material handling machinery and diversified activities segments recorded 19%, 30%, 50% and 29% increases in turnover respectively.

Segmental Turnover

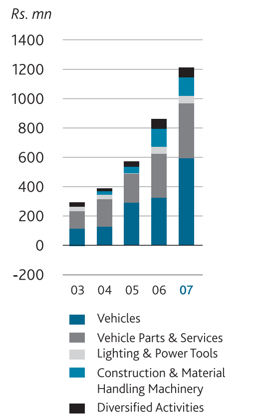


A	Vehicles	8,827
B	Parts & Services	2,071
C	Lighting & Power Tools	354
D	Construction & Material Handling Machinery	1,202
E	Diversified Activities	536

Business Segment Contribution to Turnover



Business Segment Profit from Operations



FINANCIAL REVIEW

Profitability

The gross profit increased by 34% (32% in 2005/06) to Rs. 2.1 bn (Rs 1.6 bn in 2005/06) which is higher than the increase in turnover of 24% (39% in 2005/06).

The segment results of vehicle parts and services, lighting and power tools and diversified activities, increased by 32% (40% in 2005/06), 16% (100% in 2005/06), and 9.5% (70% in 2005/06) respectively. The construction and material handling machinery segment results decreased by 13% in 2006/07 (increase of 215% in 2005/06).

Overheads

The increase of 29% (29% in 2005/06) in distribution expenses was approximately in line with the increase in turnover. A significant increase was noted in advertising, publicity and trade promotion activities.

The number of vehicles sold increased by 71% during the year under review.

Administrative expenses increased by Rs. 168 mn (Rs. 171 mn in 2005/06). The increase is largely attributable to the increase in staff costs. The number of employees increased by 11% during the year (23% in 2005/06).

Finance Expenses

Interest costs increased by 77% (73% in 2005/06) to Rs. 451 mn (Rs. 255 mn in 2005/06) mainly as a result of the increase in interest rates. The statistics shows that the Company's average interest rate has increased by 67% during the year. As a result of rising interest rates, the interest cover deteriorated from 2.4 times to 2.1 during the year under review.

Taxation

The income tax expense was Rs. 211 mn (Rs. 117 mn in 2005/06). The corporate income tax rate increased from 30% to 35%. This increase coupled with disallowable expenses relating to advertising and overseas travelling pushed the effective tax rate to 41% (31% in 2005/06). The reconciliation between accounting profit and taxable income is available on page 95.

Earnings

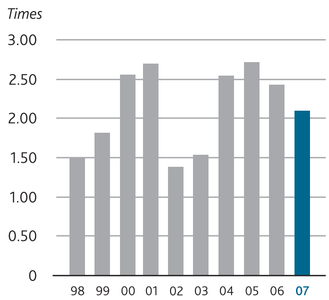
Profit from operations increased by 51% (63% in 2005/06) to Rs. 972 mn (Rs. 646 mn in 2005/06). This is a key performance indicator that is used to measure operational efficiency of a business unit without taking into consideration the volatility of interest rates.

The net profit after tax increased by 14% in 2006/07 (50% in 2005/06). This is in spite of a 51% increase in profit from operations during the year under review. Substantial increases in finance costs and tax expenses have had a negative impact on profit after tax.

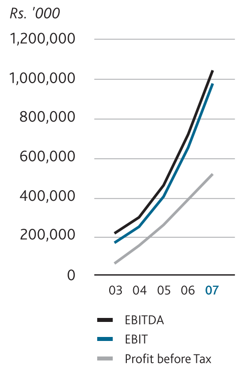
Property, Plant & Equipment

During the year under review, Rs. 306 mn was invested in property, plant & equipment (Rs. 120 mn in 2005/06). The Company spent Rs. 120 mn for the acquisition of a prime property situated opposite its Head Office. This property is to be developed to accommodate a workshop, service centre and offices to support the growth of the Company.

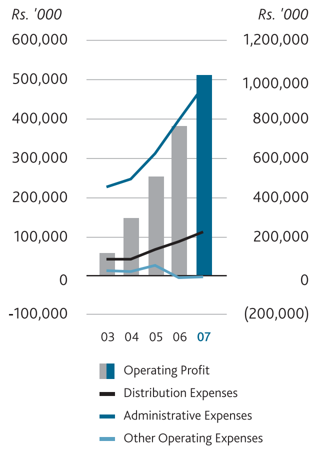
Interest Cover



Earnings



Operating Profit vs. Expenses



FINANCIAL REVIEW

Other key investments included expansion of commercial vehicles workshop; Upgrading of the light commercial vehicles workshop at Siyambalape; Relocation of the Kurunegala branch and the opening of a new showroom for Tata passenger cars. A substantial investment was made in acquiring four courtesy vehicles to provide a superior level of service to the Company's loyal customers.

Borrowings

Borrowings consist of term loans, import loans and bank overdrafts. Whilst the interest rates of term loans are fixed for two to three years, import loans are linked to money market rates.

Interest rates on overdrafts are reviewed periodically. A five-year term loan amounting to Rs. 117 mn (Rs. 415 mn in 2005/06) was obtained during the year. There is a marginal increase in the total borrowings as at the year end. The total borrowings outstanding as at the end of the year was Rs. 2,839 mn (Rs. 2,796 mn in 2005/06).

Cash Flow

Cash flow from operating activities was an inflow of Rs. 383 mn. This is compared to an outflow of Rs. 990 mn for the year 2005/06. The main contributing factor were reduction in trade receivables, a significant increase in payables and funds generated from operations.

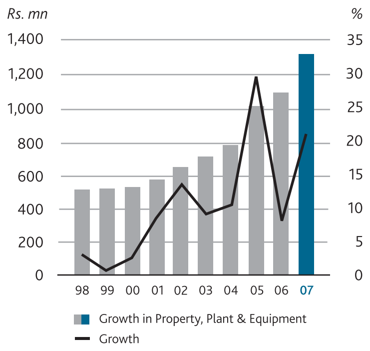
Despite a 24% increase in turnover a reduction was observed with regard to trade receivables. Cash received from customers during the year exceeded the turnover for the year. The cash outflow on account of capital expenditure amounted Rs. 305 mn (Rs . 123 mn in 2005/06).

During the year under review, the Company raised Rs. 55 mn through a rights issue. The outflow on account of servicing providers of finance in the form of interest and dividends amounted to Rs. 462 mn and Rs. 66 mn respectively. The Group cash and cash equivalent increased by Rs. 46 mn (Rs. 776 mn decrease in 2005/06).

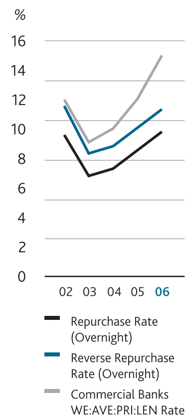
The Group possesses the necessary banking facilities to support its operations. Cash generated from operations and available banking facilities are adequate to finance working capital, capital expenditure, dividends and statutory payments.

Section 56 of 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. 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.

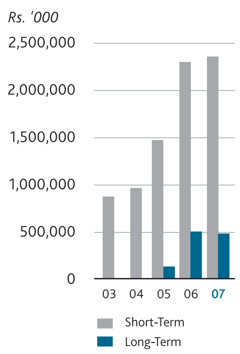
Growth in Property, Plant & Equipment



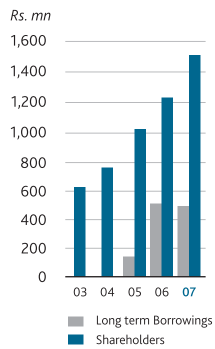
Interest Rates
(31st Dec.)



Borrowings



Capital Structure



FINANCIAL REVIEW

The certification was obtained on 21st May 2007 based on the financial statements as at 31st March 2007. A computation carried out to establish the solvency is given below:

	Rs. mn.
Non-Current Assets	1,005
Current Assets	4,193
Total Assets	5,198
Current Liabilities	3,218
Non-Current Liabilities	474
Total Liabilities	3,692
Stated Capital	182
	1,324

Financial Priorities

The following are the Group's financial priorities that drive the Group's financial strategy:

i. 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.

Working Capital

The working capital as at the year end increased from 938 to 975. Prudent management of working capital is a key area of focus in our effort to produce a healthy Balance Sheet and to minimise finance costs. Inventories increased by 34% to Rs. 2.1 bn (Rs. 1.6 bn in 2005/06) due mainly to the high level of activity. However, strict control and monitoring enabled the Group to reduce trade receivables from Rs. 2.2 bn to Rs. 1.9 bn.

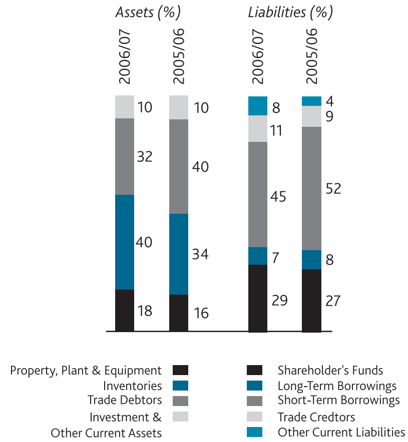
Treasury Management

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. Policies are in place to guide the activities of the central treasury in terms of approval levels and the scope of decision making.

Retirement Benefits

The Group accrues gratuity expenditure based on salary as at the end of the year. The provision for retirement gratuity as at 31st March 2007 amounted to Rs. 94 mn (Rs. 77 mn in 2005/06).The provision made for the year is Rs. 20 mn (Rs. 13 mn in 2005/06).

Balance Sheet Structure

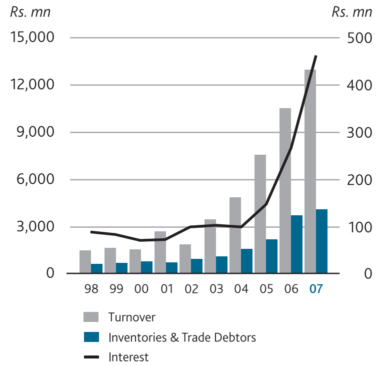


Contractual Obligations

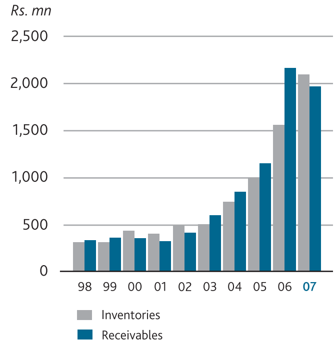
Financial contractual obligations to banks as at 31.03.2007 are given below:

Obligation	Amount due 2007 Rs. mn	Amount due 2006 Rs. mn	Due date
Long-term Borrowing	478	496	Equal monthly instalment for 5 years
Short-term Borrowing	2,218	2,282	On maturity at terms ranging from one month to six months
Overdraft	144	18	On demand
Letter of Credit	1,502	1,190	As per LC condition
Bank Guarantees	209	38	As per Guarantee condition
Bid Bonds/Performance Bond	148	41	As per Bond condition

Inventories & Trade Debtors vs. Turnover & Interest



Inventories & Receivables



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Foreign Currency Transactions

The US Dollar and the Euro are the principal currencies in which the Group's imports are denominated. A majority of receivables from foreign principals are also denominated in the same currencies. The Sri Lankan Rupee depreciated against the Dollar and Euro by 6% (3% in 2005/06) and 18% (2% in 2005/06) respectively.

Shareholders' Funds

Shareholders' funds increased to Rs. 1,507 mn from Rs. 1,216 mn. The increase of Rs. 302 mn in retained earnings and proceeds from the rights issue represent the increase.

Market capitalisation as at 31.03.2007 was Rs. 1.45 bn (Rs. 1.38 bn in 2005/06).

Earnings and Returns

Earnings Per Share (EPS) was Rs. 25.76 (Rs. 22.96 in 2005/06) representing a 12% increase during the year. The profit before tax recorded an impressive growth from Rs. 59 million in 2002/03 to Rs. 513 million in 2006/07. This contributed to a 67% compounded growth in EPS over five years.

Return on average capital employed and return on investment were 19% (22% in 2005/06) and 22% (24% in 2005/06) respectively.

The Directors have recommended a final dividend of Rs. 3/- per share, and this will bring the total dividend to Rs. 6/- per share for the year under review. The dividend cover was 4.16 times.

The Group possesses the necessary funds in order to finance the funding requirement that will arise due to the proposed final dividend.

The Group satisfies the solvency test requirements for payment of dividends as laid down in the Companies Act No. 7 of 2007.

Accounting and Financial Reporting

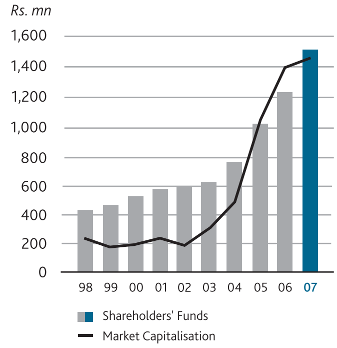
The Group strives to make meaningful disclosures of material information in the Annual Report and Accounts and has consistently focused on improving the presentation of information, within the framework of the Sri Lanka Accounting Standards.

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.

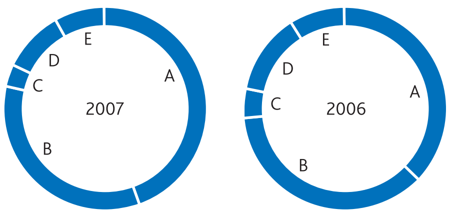
Return on Equity (ROE)

Return on equity has grown steadily in the last 3 years from 6% in 2002/03 to 20% in 2005/06. The ROE in the current financial year has however, shown a marginal decrease to 21%. The main cause of the fall in the ROE was the fall in the profit after tax which was affected by the increase in income tax charges in the year.

Shareholders' Funds vs. Market Capitalisation

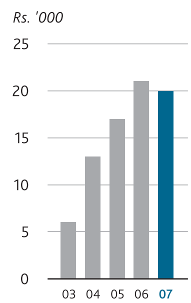


Composition of Gross Profit by Segment



		2007	2006
A	Vehicles	44%	37%
B	Vehicles Parts & Services	34%	36%
C	Lighting & Power Tools	4%	5%
D	Construction & Material Handling Machinery	10%	13%
E	Diversified Activities	8%	9%

Return on Equity



FINANCIAL REVIEW

Economic Value Added (EVA)

Economic Value Added (EVA) is a performance measure developed by Stern Stewart & Co. Ltd. that attempts to measure the true economic profit produced by a Company. It is frequently also referred to as 'economic profit' and provides a measurement of a company's economic success (or failure) over a period of time.

	2006/07 Rs. '000	2005/06 Rs. '000
Total Capital Supplied		
Shareholders' fund	1,506,508	1,216,031
Long-term interest bearing loans and borrowings	477,565	495,800
	1,984,073	1,711,831
Earnings		
Profit after tax	301,777	265,173
Add: Interest on long-term borrowings	58,925	48,297
Adjusted earnings	360,702	313,470
Weighted average cost of capital (WACC)	14.38%	14.44%
Economic charge	285,310	247,188
Economic Value Added (EVA)	75,392	66,282

	Source	2006/07	2005/06
Average Risk Free Rate (Average Treasury Bill Rate)	Central Bank	11.88%	9.70%
Beta Factor - DIMO	CSE	0.37	0.89
Market Rate of Return (based on ASPI)	CSE	23.00%	18.97%
All Share Price Index (ASPI)	CSE	2,789.8	2,264.4
Average Weighted Prime Lending Rate (AWPLR)	Central Bank	14.13%	11.35%
Rate of Income Tax	Applicable Rate	35%	30%
Cost of Equity (based on CAPM)	Computed	15.99%	17.95%
Cost of Debt (After Tax)	Computed	9.18%	7.95%

Market Value Added (MVA)

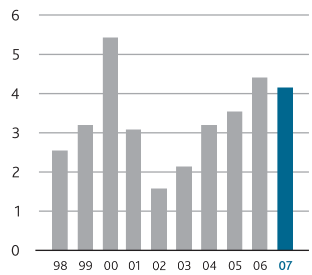
Market Value Added (MVA) is the difference between the current Market Value of the Company and the capital contributed by investors viz. shareholder equity. MVA is an indicator of shareholder wealth unlike EVA which is a performance measure. Market price of a share is a key variable in MVA, and its interpretation 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 below:

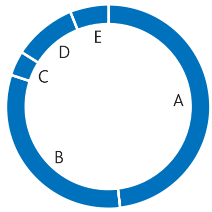
	2006/07 Rs. '000	2005/06 Rs. '000
Market Capitalisation	1,452,000	1,385,000
Shareholders' Funds	1,506,508	1,216,031
Market Value Addition	(54,508)	168,969

MVA as at year end showed a negative value of Rs. 54.5 mn in the backdrop of a Rs. 290.4 mn increase in equity and a 13% decline in market value per share during the year.

Dividend Cover (Times)

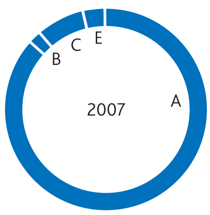


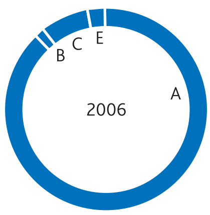
Segmental Contribution to EBITDA



A	Vehicles	48%
B	Vehicles Parts & Services	32%
C	Lighting & Power Tools	4%
D	Construction & Material Handling Machinery	10%
E	Diversified Activities	6%

Cost and Expenses





		2007	2006
A	Cost of Sales	86%	87%
B	Distribution	2%	2%
C	Administrative	8%	8%
D	Other Operating Expenses	0%	0%
E	Finance Cost	4%	3%