

ECONOMIC PERFORMANCE

A VITAL ASPECT OF SUSTAINABLE VALUE CREATION

Management Approach

Through its enterprise, Dimo seeks to enhance the economic well-being of all its stakeholders and of society in general.

There is no gainsaying the need for a healthy bottom-line from the Company's viewpoint, yet we are concerned with a contribution of much greater scope and width which is to be found in the well-being and advancement of society at large.

Empowering the wider community, which we can undertake precisely because of our own financial well-being, is an integral part of the Company's process of value generation.

This value generation embraces both monetary and non-monetary aspects.

In this segment of the Report, we review the economic impact our enterprise has, on investors, suppliers, customers, employees and the Nation/Government.

Dimo's Financial Policy, Goals and Performance are dealt with at length within the Financial Review appearing on pages 48 to 55.

Economic Performance

The 'Statement of Value Added' is the main tool that the Company uses to monitor its economic performance. It is supported by the use of other indices and information.

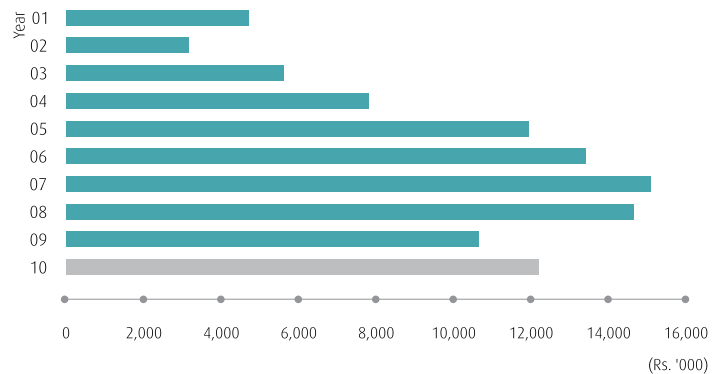
This statement indicates the value added to the economy by the Company and the value distribution to stakeholders.

The total value created for the financial year was Rs. 2.99 bn (as against Rs. 2.58 bn of the previous year) which was distributed among Government, Employees, Lenders and shareholders in the manner set out in the Statement of Value Added. Rs. 717 mn or 24% of the value created was shared with employees in comparison with the Rs. 621 mn or 24% of the previous year.

Rs. 1.52 bn (Rs. 1.14 bn in 2008/09) was paid to the Government by way of taxes. This represents 51% (44% in 2008/09) of value added by the Company.

The comparatively high proportion paid to the Government illustrates the relatively high taxes applicable to vehicle imports.

Group Turnover Per Employee



Statement of Value Added

For the period of	Consolidated 2009/10		Consolidated 2008/09		Company 2009/10		Company 2008/09	
	%	Rs. '000	%	Rs. '000	%	Rs. '000	%	Rs. '000
Gross Turnover		10,570,892		9,274,103*		9,556,752		8,666,943
Other Income		44,244		68,023		28,811		68,654
Less: Cost of Materials and Services brought in		(7,615,946)		(6,759,265)		(6,859,852)		(6,361,897)
		2,999,190		2,582,861		2,725,711		2,373,700
Value Shared With								
Employees	24	717,616	24	621,868	23	626,952	23	543,087
Government	51	1,520,283	44	1,143,422	52	1,427,101	46	1,103,234
Lenders	12	365,746	23	599,902	13	344,001	23	547,027
Shareholders	2	52,214	1	30,250	2	52,214	1	30,250
Retained in Business	11	343,331	7	187,419	10	275,443	6	150,102
Depreciation Set Aside	3	95,034	2	97,975	3	87,241	2	88,981
Profit Retained	6	248,297	5	89,444	7	189,202	5	61,121
	100	2,999,190	100	2,582,861	100	2,725,711	100	2,373,700

* Turnover includes turnover from continuing and discontinuing operations.

Earnings per Share increased to Rs. 28.53 per share (Rs. 9.36 - 2008/09) and 205% (drop of 44% - 2008/09) leading to an overall increase in earnings. The reasons for this are discussed in detail in the Financial Review appearing on pages 48 to 55.

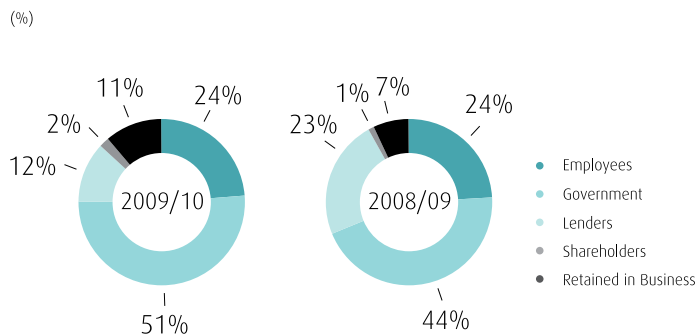
This increase in profit after tax has led to an increase in the dividends and also led to an increase in the market price per share.

The value that accrues to a shareholder is a combination of the dividends per share and the appreciation/depreciation of the share over the medium to long-term.

The Total Shareholder Return Chart captures the value addition to shareholders over the medium to long-term.

Shareholders' funds stood at Rs. 2,201 mn compared to Rs. 2,004 mn at the end of the previous financial year.

Consolidated Value Added



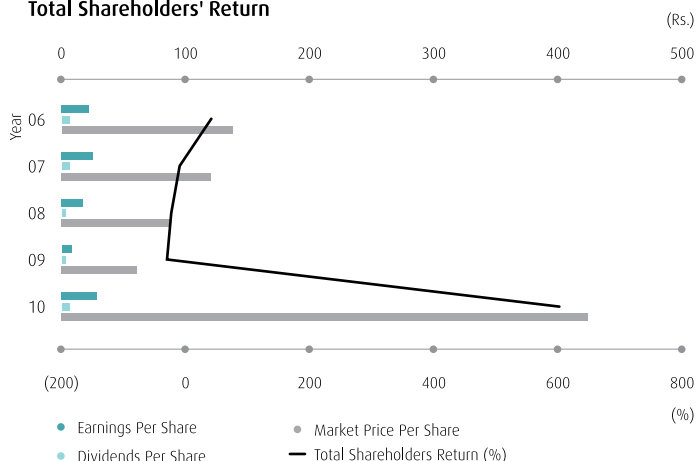
Total Shareholder Return (TSR)

Total Shareholders Return	2010	2009	2008	2007
Market Price per Share (Rs.)	424.75	61.00	88.75	120.00
Dividend Per Share (Rs.)	7.00	3.00	4.00	6.00
Shareholders Total Return (%)	607.78	(27.88)	(22.7)	(9.03)
Earnings Per Share (Rs.)	28.53	9.36	16.95	25.76

The total shareholder return (TSR) increase by 607.78% (drop of (27.88)% - 2008/09).

The increase in the market value per share also contributed to the increase in the TSR.

Total Shareholders' Return



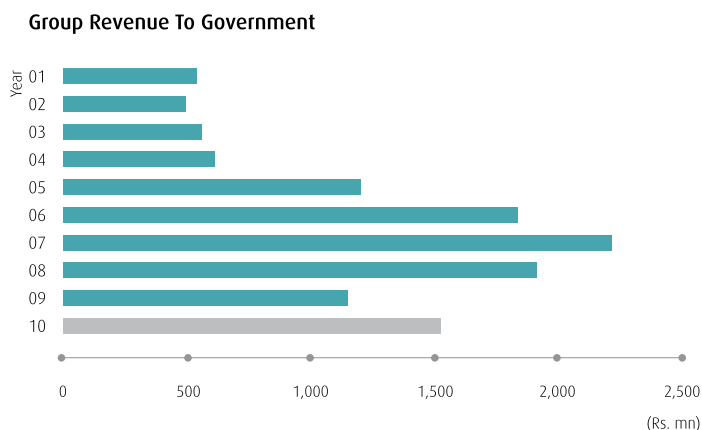
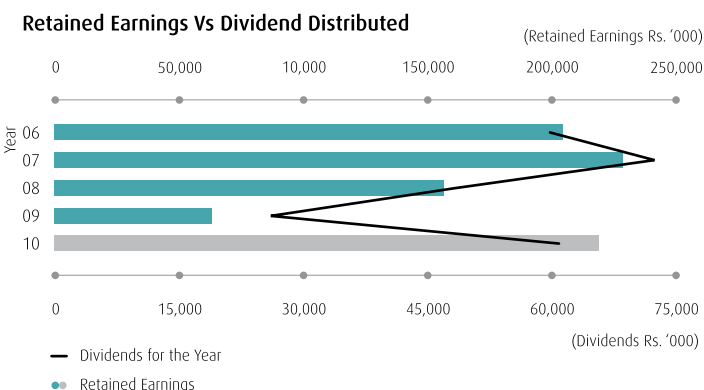
Economic Value Added

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

	2009/10 Rs.'000	2008/09 Rs.'000	
Total Capital Supplied			
Equity	2,200,928	2,004,845	
Long-Term Interest Bearing Loans and Borrowings	662,383	898,876	
	2,863,311	2,903,721	
Earnings			
Profit after Tax	248,297	89,444	
Add: Interest on Long-Term Borrowings	129,291	124,182	
Adjusted Earnings	377,588	213,626	
Weighted Average Cost of Capital	11.24%	16.90%	
Economic Charge	321,836	490,729	
Economic Value Added	55,752	(277,103)	
	Source		
Average Risk Free Rate (Avg. Treasury Bill Rate)	Central Bank	9.91%	18.45%
Beta Factor - Dimo	CSE	0.87	0.32
Risk Premium	Assumed	2%	2%
All Share Price Index (ASPI)	CSE	3,724.60	1,638.06
Average Weighted Prime Lending Rate (AWPR)	Central Bank	13.82%	18.50%
Rate of Income Tax	Applicable Rate	35%	35%
Cost of Equity (Based on CAPM)	Computed	11.65%	19.09%
Cost of Debt (After Tax)	Computed	8.98%	12.03%

Implications of Climate Change

In the short-term, climate change poses no immediate risks to the Company's business. However, this scenario could change over the long-term.



Possible areas of impact may be found in the pressure exerted by future carbon tax implications on vehicle pricing. Conversely, opportunities may lie in the marketing of fuel efficient/hybrid vehicles.

Opportunity for the Company also exists through the growing demand for energy efficient equipment such as CFL/LED lighting and water pumps.

Financial Assistance from the Government

Dimo received no financial assistance from the Government of Sri Lanka during the reporting period.

Employees

The Company strictly adheres to all statutory requirements with regard to employee remuneration and has a performance-based reward structure.

Salaries are usually adjusted to reflect the Company's performance. The performance-based incentive payment is linked to a pre-determined scheme. Staff costs increased from Rs. 621 mn to Rs 717 mn reflecting an upward movement in salaries.

Dimo's salary regime provides for levels of pay that exceed those prescribed by law.

They also enable the Group to attract and retain talent.

Staff are also entitled to a comprehensive medical insurance cover.

The end-of-service benefit liability payable is included on page 161 under Financial Statements Note 30.

Suppliers

Our suppliers consist of Principals and other local suppliers

The Company's endeavour is to build long lasting and sustainable relationships with our Principals whilst fostering even stronger affiliations with Principals who share our philosophy of sustainability.

Our Principals underpin the Dimo brand.

The fact that Dimo is able to offer world class products of real value, which in turn add value to the lives of consumers, is only possible because of the support and participation of our Principals.

Dimo honours all contractual obligations with its Principals, to the letter.

We also invest significantly by way of human resources to add value to the world class products we offer.

The economic value transferred to our Principals is shown in the Statement of Value Added as 'cost of goods and services bought'. The Statement appears on page 72.

The Group's expenditure in respect to Suppliers (Materials and Services bought) is recorded in our Statement of Value Added and amounts to Rs. 7,460 mn.

This consists of only locally-based suppliers since the Company operates only in Sri Lanka. For the year under review, Rs. 1,893 mn was spent on local suppliers during the reporting period.

Profiling Recruitment

Dimo's business is enacted only within Sri Lanka.

All employees, across all grades are recruited locally.

The Group operates a wide network of branches and display points located around Sri Lanka and when recruiting staff for these units, priority is afforded to candidates from the relevant localities, as a practice.

Indirect Economic Impacts

In terms of infrastructural investments in services primarily benefiting the general public, Dimo runs two showcase establishments - the Dimo Automobile Training School (DATS) at Siyambalape and the Dimo Innovation and Research Centre at University of Peradeniya.

These projects are described in detail on pages 91 and 92 in the section on Society.