

ENTERPRISE GOVERNANCE

Corporate Philosophy

Enterprise Governance forms the core of operations of the Company. The Company philosophy entails upholding principles of good governance and institutionalising the spirit it entails. It also perceives good governance as an uncompromising pursuit that provides assurance and comfort for growth in a sustainable manner; not as a set of controls that stifles growth.

A vital element in effective governance is striking a balance between accountability, control and assurance (conformance) and value creation (performance). These two components together referred to as Enterprise Governance, form the accountability framework of the organisation.

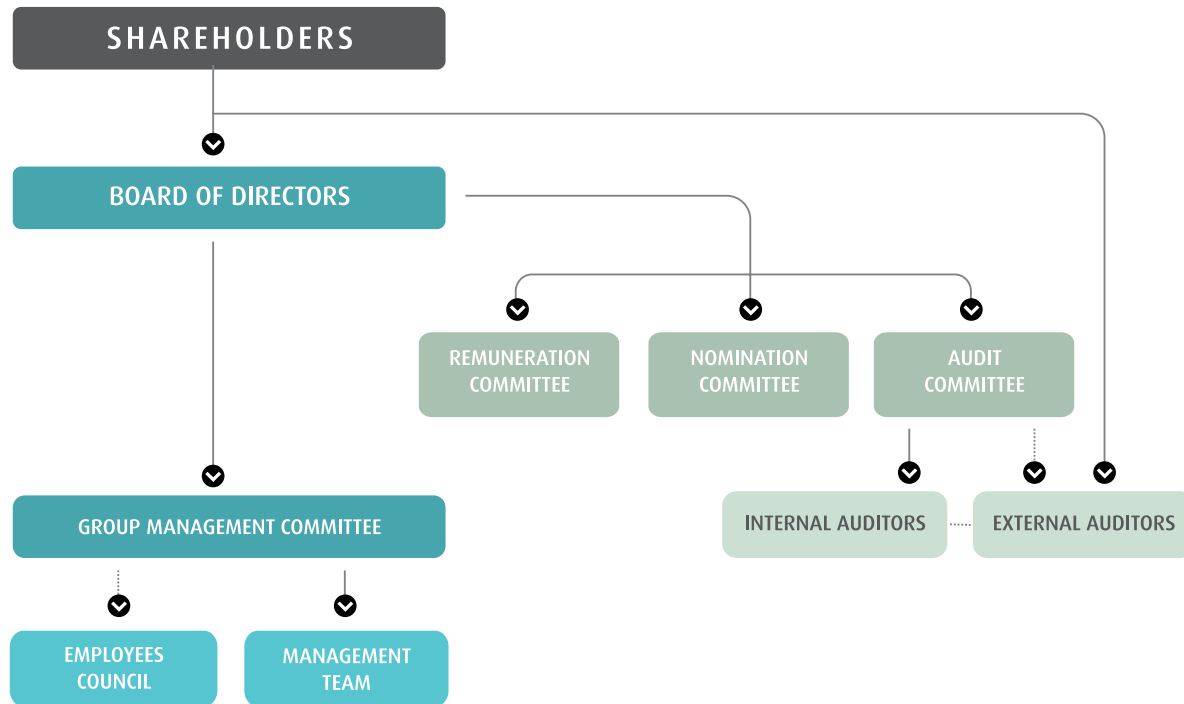
Governance Guiding Policy

The Company is committed to a policy of transparent, accountable and responsible governance. The Board's objective is to deliver superior returns to all stakeholders and it is done in accordance with the highest standards of corporate and business ethics. In this regard, the organisation has clear lines of responsibility and accountability within the entire Group.

Responsibility

The ultimate responsibility towards good governance rests with the Board of Directors. In order to achieve the Board's objectives it has placed a governance structure and a process in, and implements and monitors its effectiveness through Board Committees.

The Enterprise Governance Structure



Governance Strategy

Governance strategy is not simply an integral part of the Company strategy but the basis of it. Performance, Conformance, Ethics, Accountability, Sustainability and Risk Management provide the building blocks of Company strategy. It ensures Group's compliance with the country's legislative and regulatory requirements, promoting sustainability and growth.

The Group follows an incremental approach in embedding enterprise governance into its value addition process and is making conscious efforts to continually improve the governance framework and the process.

Governance Values

Enterprise governance requires high levels of commitment across the organisation and it is essential that, an enabling governance culture is created. This envisages creation of awareness at all levels. All employees are expected to respect corporate values in achieving their own objectives set by the management and in achieving the overall objectives of the Company.

Business principles & values are not compromised at the expense of performance. The company leadership recognises the role played by corporate governance, in sustainability. Good governance, transparency, good conduct, sustainability, conformance to laws and regulations are some key values that fall within the governance culture.

The sustenance of enterprise governance principles is facilitated by aligning, values and business ethics into its value adding process, and making a conscious effort to continually improve the governance framework and processes.

Enterprise Governance Framework

The enterprise governance framework covers the processes and systems that the Board has in place to ensure that the Company's resources are used efficiently and prudently to achieve the Company's business objectives and excellence in enterprises governance.

Current profitability, sustainable future growth, protecting intellectual capital and on the other hand requisite internal controls, stakeholder expectations, corporate democracy, are some key elements that are taken into account in defining the boundaries in conformance and performance. As such, the enterprise governance framework covers both dimensions of enterprise governance, namely **Performance** and **Conformance**.

Performance

Strategic Planning

Identification and effective communication of the vision and ensuring the formulation of a sound business strategy and its implementation are two key responsibilities of the Board.

The Board, together with the Group Management Committee is tasked with converting the philosophy, policy and the Strategic Direction into strategic initiatives thereby providing the basis for the objectives, plans and operations. The Chairman/Managing Director/CEO serves as the Chairman of the Group Management Committee. The composition of the GMC is given on page from 14 to 17.

Value creation and resource utilisation are the two main pillars in the 'Performance' dimension of governance, upon which the Board of Directors set the direction of corporate strategy. Whilst the Board set broad parameters for performance, these are translated into specific actions by the business units.

Business Plans

Each business unit is required to set their specific objectives in line with the parameters set by the Board. Business units, based on the strategic direction provided by the Board, compile and present their annual business plans and forecasts for the ensuing period together with non-financial information such as market conditions, competition, challenges and opportunities, etc., to the Board.

The Board evaluates annual business plans and proposals and provides feedback as deemed necessary. After all amendments have been duly incorporated, the plans are formally approved by the Board and they partly form the basis of the key performance indicators.

Towards effective utilisation of Resources, the Board is mandated to approve all significant investment decisions. A capital expenditure approval guideline ensures that key investment decisions receive timely approval of the Board.

In addition to adoption of strategies, the Board through committees is responsible for ensuring an effective review mechanism.

Strategy Implementation and monitoring

The strategic direction of the Board is communicated to the Group Management Committee through the Executive Directors.

The Group Management Committee (GMC) is responsible to the Board of Directors for the implementation of business strategy. This supervisory role is exercised in accordance with strategic direction provided by the Board. A management team consisting of Group Management Committee, Heads of Business Units and Support Services Units meet on a monthly basis to review progress and discuss and resolve operational issues. Heads of respective business units are responsible for achieving the pre-agreed objectives. Rewards and incentives are linked to the many parameters including profitability and resource utilisation. Individual targets of employees are set out in line with the business unit's overall targets and achievements are reviewed on a biannual basis. The performance of individual executives is evaluated based on their level of achievement, and this coupled with their competency reviews forms the basis of their remuneration revisions and promotions.

The Board of Directors, apprised of progress, evaluates company's performance against the business objectives. Information generally reviewed by the Board includes key performance indicators, budgets, Financial Statements, customers, market developments, employees and relationship with principals.

Conformance

Compliance and Adherence

The Company is bound by the regulatory requirements of corporate governance issued by the Colombo Stock Exchange (CSE). In its search for continuous improvement in good governance, the Company embraces best practices in corporate governance on its own. The Company has complied with requirements of the Listing Rules of the CSE relating to corporate governance. The table on page 115 provides a summary of the listing requirements and the Company's compliance response.

The Company uses the Code of Best Practices, jointly issued by The Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities Exchange Commission (**the SEC Code**) as a guideline for best practices in corporate governance and is making every endeavor to adhere to the principles laid down therein. The corporate governance disclosures are in compliance with the requirements of the schedule F of the SEC Code.

The SEC Code is divided into two sections, namely, **company** and **shareholders**, with each section setting out the principles of best practices in corporate governance. The rest of this Report gives an account of the Company's response on compliance with each principle in the Code. Principles of the SEC Code are given with the Company's response on compliance following.



SECTION 1: THE COMPANY

DIRECTORS

A.1. The Board

Principle: Every public company should be headed by an effective board, which should direct, lead and control the Company.

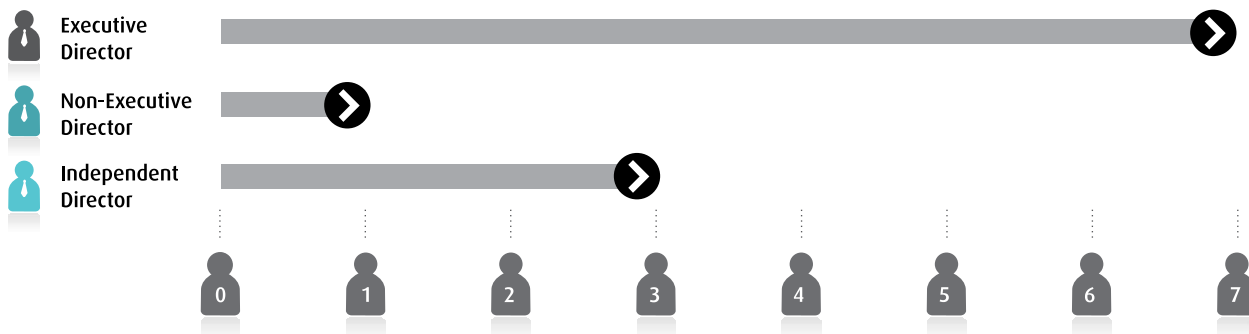
The Board is committed to a policy of 'Responsible Governance'. Through the governance framework of the Group, consisting of policies, processes, committees, meetings, reviews, reports and audits, the Board ensures that it leads, directs and controls effectively in perpetuating a successful business, including optimising long-term financial returns. The Board provides the required care, effort, thought and analysis to identify and select the right team of people to help the organisation with its current challenges and opportunities, to take the organisation forward into the future and to work in partnership with the senior management team, providing oversight.

Board Composition

The Board consists of seven Executive Directors (including the Chairman) and four Non-Executive Directors out of whom three are Independent Directors. This composition meets the number of Non-Executive Directors and Independent Directors required by the CSE Listing Rules. The composition of the Board is achieved in a such manner that, it provides necessary technical and commercial expertise in the decision making process. There were no appointments to, or resignations from the Board of Directors during the year under review.

A list of the Directors with brief biographies appear on the pages from 14 to 15.

Board Balance



Board Responsibilities

The Board provides good stewardship, vision and strategic direction to the company and fosters a culture of integrity, transparency and accountability across the Group. The Directors are from diverse backgrounds and bring to bear a wide range of experience and competencies that facilitates the effective discharging of its responsibilities. The Board monitors and evaluates risks and performance, approves all important investment decisions and is also responsible for the installation of sound internal controls. The Board follows a policy of strict compliance with laws and regulatory requirements and ensures that stakeholder interests are considered in key corporate decisions.

One of the Board's responsibilities is to monitor the effectiveness of management policies and decisions, including the execution of its strategies. In addition to fulfilling its obligations for increased stockholder value, the Board has responsibility to DIMO's customers, employees, suppliers and to the communities where it operates - all of whom are essential to a successful business. The Board relies on the integrity and due diligence of senior management, auditors and advisors to oversee the Group's overall performance objectives, financial plans and annual budget, major investments, divestment and funding proposals, financial performance reviews, risk management and corporate governance practices.

To assist the Board in the efficient discharge of its responsibilities and providing independent oversight of management, Board committees, namely Audit Committee, Remuneration Committee and Nomination Committee have been established.

The Statement of Directors' Responsibilities for the Financial Statements is available on page 134.

The Chairman/Managing Director/CEO's and Chief Financial Officer's Responsibility statement is available on page 116.

Compliance

The Board is responsible for determining that, the Company is managed in such a way that stakeholder interests receive its due place, while adhering to the laws of the jurisdictions within, which it operates and observing high ethical standards. This is an active, not a passive responsibility.

The Directors individually and collectively are committed to conducting themselves upholding the values of fair and good business practices ensuring confidentiality, fair dealing and compliance with regulations.

Any Director may obtain independent professional advice that may be required in discharging his/her responsibilities effectively, at the Company's expense.

Board Meetings

Board meetings are conducted in an atmosphere that, that encourages healthy debate by all members of the Board. The Chairman plays a key role in ensuring views of all Directors are sought during Board meetings in order to bring each Director's independent judgment to bear upon matters relating to strategy, performance, resources and business conduct.

The Board members meet regularly in accordance with a pre-agreed schedule and additionally, as and when there are pressing corporate or commercial matters to be considered or decided upon.

The Company recognises that to focus only on a Director's attendance at formal meetings alone, may lead to a narrower view of the contribution that a Director could make. Directors' contributions may be made in many other forms, such as bringing strategic relationships to the Group and providing guidance to management team or an exchange of views with the management team which is outside the formal environment of the Board or Board Committee Meetings.

In 2009/10, a total of six Board meetings were held, with an average of 94% attendance.

Composition of Board and Board Committees for 2009/10

Board Member	Date of Appointment to the Board		Board		Committee Members					
	First	Re-Election	Position	Attendance	Audit Committee		Nomination Committee		Remuneration Committee	
					Position	Attendance	Position	Attendance	Position	Attendance
A.R. Pandithage	June 1977	-	Chairman/MD/CEO	6/6	No	-	Member	1/1*	No	-
R. Seevaratnam	January 2007	June 2007	Independent Director	6/6	Chairman	4/4	Member	1/1	Member	1/1
Dr. H. Cabral	October 2006	June 2009	Independent Director	5/6	Member	3/4	Chairman	1/1	Member	1/1
Dr. U.P. Liyanage	October 2006	June 2009	Independent Director	6/6	Member	4/4	Member	1/1	Chairman	1/1
A.N. Algama	November 1984	June 2008	Executive Director	5/6	No	-	No	-	No	-
A.M. Pandithage	September 1982	June 2007	Non-Executive Director	6/6	Member	4/4	Member	1/1	Member	1/1
A.G. Pandithage	December 1995	June 2008	Director/Deputy CEO	5/6	No	-	No	-	No	-
B.C.S.A.P. Gooneratne	April 2006	June 2009	Executive Director	6/6	No	-	No	-	No	-
R.C. Weerawardane	June 2002	June 2008	Executive Director	6/6	No	-	No	-	No	-
S.C. Algama	November 1984	June 2009	Executive Director	6/6	No	-	No	-	No	-
T.G.H. Peries	August 1977	June 2008	Executive Director	5/6	No	-	No	-	No	-

*Mr. A.R. Pandithage was appointed a member of the Nomination Committee with effect from 19th May 2009.

The Company Secretary

The Company Secretary assists the Chairman in all aspects pertaining to the function of Board of Directors. He helps in arranging Board meetings and in making available all necessary information to the Board for their deliberations. Mr. B.C.S.A.P. Gooneratne, who is also an Executive Director, functions as the Company Secretary.

Members of the Board have unrestricted accesses to the advice and services of the Company Secretary. The appointment and removal of the Company Secretary rests with the Board.

Board Members' Understanding of the Company's Business

Following the appointment to the Board, new Directors are given the opportunity to familiarise with and obtain an in-depth understanding of the Company's business, its strategy, risks and processes, at their discretion.

Training is provided to Executive Directors to equip themselves to discharge their responsibilities effectively. This includes training provided by Principals, external and in-house training, etc.

Directors are briefed on changes to regulations and accounting standards from time to time either, during Board meetings or at specially convened sessions.

Senior Independent Director

Mr. R. Seevaratnam, an Independent Non-Executive Director, functions as the Senior Independent Director to whom concerns relating to governance of the Company can be conveyed, should the need arise. The Lead Director presides at Board meetings in the absence of the Chairman of the Board of Directors.

Board Committees

These Committees are primarily made up of Independent or Non-Executive Directors. The committees' respective roles and responsibilities are further explained in this report. Special purpose committees are also established as and when the need arises.

The composition of the Board Committees is structured to ensure an equitable distribution of responsibilities among Board members to maximise the effectiveness of the Board and foster active participation and contribution. Diversity of experience and appropriate skills are considered along with the need to maintain appropriate checks and balances between the different committees. All Board committees have the services of a Secretary for each Committee.

A.2. Chairman and Chief Executive Officer (CEO)

Principle: There are two key tasks at the top of every public company - conducting of the business of the Board, and facilitating executive responsibility for management of the Company's business. There should be a clear division of responsibilities at the head of the Company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision.

The functions of the Chairman and Chief Executive Officer (CEO), are vested in the same person, who is also designated the Managing Director (MD). The Board of Directors is of the firm belief that the existing arrangement has worked out to be economically beneficial to shareholders so as to not

warrant any change and that the dual role performed by the Chairman and CEO does not compromise the principles of good Corporate Governance. This is further ensured by the significant presence of Non-Executive and Independent Directors including a Senior Independent Director on the Board.

The presence and involvement of the Senior Independent Director and other Independent Directors ensure that no single individual has unfettered powers of decision-making and provides the basis for prevalence of independent judgment over issues of strategy, performance, risk, resources and standards of business conduct. The presence of a Senior Independent Director adds more emphasis to transparency in governance affairs.

The Chairman/Managing Director/CEO also serves as a bridge between management and the Board, ensuring that both act with a common purpose.

The Chairman/Managing Director/CEO's performance is reviewed by the Nomination Committee and the Remuneration Committee.

A.3. Chairman's Role

Principle: The Chairman's role in preserving good corporate governance is crucial. As the person responsible for running the Board, Chairman should preserve order and facilitate the effective discharge of Board functions.

Board Participation

The Chairman ensures that good governance is practiced through the entirety of the organisation; that there is a balance of power on the Board and both Executive and Non-Executive Directors have opportunities for effective participation; that the Board has full knowledge of the Company's affairs and is in complete control; that Directors' views are obtained on matters under consideration; and facilitates effective communication with all of the Company's stakeholders. The Chairman holds meetings with Non-Executive Directors, as and when required.

Effectiveness of the Board

Each Director brings on Board a wide range of skills, knowledge and experience. Expertise in Finance, Engineering, Law and Marketing is available in the present Board. The Board ensures that the Chairman/Managing Director/CEO and the management team possess the skills to implement the overall strategy.

The presence of Independent Directors who hold other office in diverse positions possessing skills and experience in spheres of activity related to various facets of business, provide a mechanism for critically reviewing all aspects of the Company's operations.

The effectiveness of the individual Independent Directors are reviewed and assessed by the Board on an ongoing basis.

A.4. Financial Acumen

Principle: The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.

The Board enjoys services of three qualified Accountants who provide the requisite financial acumen and knowledge on matters of finance. In addition, the Audit Committee has the services of another qualified Accountant who serves as an Independent Consultant.

A.5. Board Balance

Principle: It is preferable for the Board to have a balance of Executive and Non-Executive Directors such that no individual or small group of individuals can dominate the Board's decision-taking.

Board Independence

The composition of the Board of Directors meets the level of independence required by the Listing Rules of the CSE. There was no change in the number of Directors or in their status as Non-Executive or Independent Directors during the period under review.

Board members are free to suggest the inclusion of items on the agenda of Board Meetings and carry out their duties in the interest of the Company without any undue influence from other parties.

The Company maintains the 'Interest Register' required by the Companies Act No. 07 of 2007, which also shows details of Directors, interests in the Company, as required by the Act.

Related party transactions given on page 163 shows the transactions relating to Directors and/or parties related to them.

Shareholding of Directors is available in the Annual Report of Directors from Pages 166 to 167.

The Board has made an annual determination as to the independence or non-independence of each Non-Executive Director based on a declaration made as per criteria set out by the CSE Listing Rules. Based on the criteria Mr. R. Seevaratnam, Dr. H. Cabral and Dr. U.P. Liyanage are considered to be Independent Non-Executive Directors.

A.6. Supply of Information

Principle: The Board should be provided with timely information in a form and of a quality appropriate to enable it to discharge its duties.

A sophisticated management information system is in place and provides relevant and current information. All Board members including Non-Executive Directors, receive information on the operations and performance of the Company on a monthly basis. This routine helps eliminate information asymmetry between executive Directors and Non-Executive Directors. The Directors are provided with comprehensive data on financial and non-financial information prior to Board meetings, in addition to the agenda of the Meeting and the minutes of the previous meeting. Additional information may be requested by any member of the Board as and when required. Directors may also seek any information from the management team on matters discussed at Board meetings that requires follow up.

A.7. Appointments to the Board

Principle: There should be a formal and transparent procedure for the appointment of new Directors to the Board.

Appointment of Directors

The Board appoints the Directors based on the recommendations of the Nomination Committee. The Company's Articles of Association provides that any Director appointed by the Board to hold office until the next Annual General Meeting (AGM), may seek reappointment by the shareholders at the said AGM. Non-Executive Directors are appointed to the Board after evaluation of their level of expertise in the relevant field.

New appointments are made known to the public through the CSE and the media.

Nomination Committee

The Committee's main role is to nominate suitable candidates as and when vacancies occur on the Board. The Committee is responsible for succession planning at Board and Senior Management level and in ensuring smooth management transitions. It reviews the size and structure of the Board on a continuing basis and constantly reviews the balance of skills, knowledge and experience of the Board of Directors. The Committee also reviews the independence of Directors including actual, potential or perceived conflicts of interest.

Appointments to the Board are made further to careful scrutiny of the required level and range of skills, knowledge, expertise and desired independence. The Committee consults the views of the Chairman/MD/CEO, who is also a member of the Nomination Committee, on matters of succession at senior management level.

The Committee consists of three Independent Non-Executive Directors, one Non-Executive Director and the Chairman of the Board. The Chairman of the Committee is Dr. H. Cabral, an Independent Director. Mr. A.R. Pandithage, who is also the Chairman, Managing Director and Chief Executive Officer, was appointed to the Nomination Committee w.e.f. 19th May 2009.

The composition of the Nomination Committee is available on the table appearing on page 107.

The Committee is entitled to obtain professional advice at the Company's expense.

The Committee has specific terms of references defining its scope and authority.

The report of the Nomination Committee is available on page 123.

A.8. Re-election

Principle: All Directors should be required to submit themselves for re-election at regular intervals and at least once in every three years.

Retirement & Re-Election of Directors

In terms of the Articles of Association, one-third of the Directors, except for the Managing Director who is also the Chairman/CEO, retire in rotation and may offer themselves for reappointment at the AGM. Based on the current composition of the Board, Directors are re-elected every three years. A brief resumé of Directors, including the Directors who offer themselves for re-election is available on page 129.

A.9. Appraisal of Board Performance

Principle: Boards should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.

The effectiveness of the Board is vital to the success of the Group. The Board undertakes a process that appraises its performance in discharging its key responsibilities set out earlier in this Report. The appraisal covers areas such as their contribution towards developing, implementing and monitoring of strategy, communication with stakeholders, processes involving the Board, review of its own performance evaluation process and other areas related to the conduct of its business. The methodology of evaluation involves each Board member completing a checklist and assigning a rating on each item covered in the checklist involving areas of appraisal.

A.10. Disclosure of Information in Respect of Directors

Principle: Shareholders should be kept advised of relevant details in respect of Directors.

The Code requires that the following information about the Directors be given in the Annual Report.

Requirement	Response
Name, qualifications and brief profile	Available on page 14 Board of Directors - Overview
The nature of his expertise in relevant functional areas	Available on page 14 Board of Directors - Overview
Immediate family and/or material business relationships with other Directors of the Company	Mr.A.R.Pandithage, Mr.A.G.Pandithage and Mr.A.M.Pandithage fall within the definition of 'close family members' of the Code.
Names of listed companies in Sri Lanka in which the Director concerned serves as a Director	Available on page 14 Board of Directors - Overview
Names of other companies in which the Director concerned serves as a Director, provided that where he holds directorships in companies within a Group of which the Company is a part, their names need not be disclosed; it is sufficient to state that he holds other directorships in such companies	Available on page 14 Board of Directors - Overview
Number of Board meetings of the Company attended during the year	Available on page 107
Names of Board committees in which the Director serves as Chairman or a member	Available on page 107
Number of committee meetings attended during the year.	Available on page 107

A.11. Appraisal of Chief Executive Officer

Principle: The Board should be required, at least annually, to assess the performance of the CEO.

At the commencement of every financial year, the Board in consultation with the Chairman/Managing Director/CEO and Executive Directors agree on the financial and non-financial targets, based on which the performance of Chairman/Managing Director/CEO and Executive Directors are evaluated.

Whilst the performance evaluation of the Chairman/Managing Director/CEO is done by the Non- Executive Directors led by the Senior Independent Director, the performance appraisal of Executive Directors will be carried out by the Chairman/Managing Director/CEO in consultation with the Non-Executive Directors.

B

DIRECTORS' REMUNERATION

B.1. Remuneration Procedure

Principle: Companies should establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his/her own remuneration.

Remuneration Committee

The Remuneration Committee is responsible for determining the framework and policy on remuneration of the Chairman/Managing Director/CEO, Deputy Chief Executive Officer, Executive Directors and Senior Management. The remuneration of the Executive Directors is decided by the Remuneration Committee in consultation with the Chairman/Managing Director/CEO.

The Board of Directors appoints members to the Remuneration Committee.

The present Committee consists of three Independent Non-Executive Directors and one Non-Executive Director. The Chairman of the Remuneration Committee is Dr. U.P. Liyanage, an Independent Non-Executive Director. The composition of the Remuneration Committee meets the requirements of the CSE listing rules and is available in the table appearing on page 107.

The Board of Directors has set the terms of reference of the Remuneration Committee.

The Committee is entitled to obtain professional advice at the Company's expense.

No Director is involved in deciding his own remuneration.

The Remuneration of the Non-Executive Directors is decided by the Board. Time commitments and responsibilities of their role are taken into consideration when remuneration levels of Non-Executive Directors are determined.

Committee meetings and attendance of members is disclosed in the table appearing on page 107.

The report of the Remuneration Committee available on page 122 provides more details of the functioning of the Remuneration Committee.

B.2. The level and make up of Remuneration

Principle: Levels of remuneration of both Executive and Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully. A proportion of Executive Directors' remuneration should be structured to link rewards to corporate and individual performance.

The Company's remuneration policy aims to attract and retain high caliber executives by ensuring that their rewards are competitive and linked to both individual and business performance. Whilst recognising the market demands and the contribution of the executives to the overall performance, the Company believes that the remuneration policy should at the same time be in congruence with shareholder interests.

When required, the Remuneration Committee uses remuneration surveys to ascertain market levels of remuneration.

B.3. Disclosure of Remuneration

Principle: The Company's Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole.

Remuneration Policy & Disclosures

The remuneration policy is available in the Report of the Remuneration Committee appearing on page 122.

Total Directors' emoluments are disclosed in Note 8 on page 149.



RELATIONS WITH SHAREHOLDERS

C.1. Constructive use of Annual General Meeting (AGM) and Conduct of General Meetings

Principle: Boards should use the AGM to communicate with shareholders and should encourage their participation.

Shareholder Information, Communications and Participation

The Company fulfils all requirements laid down by the Listing Rules of the CSE with regard to convening general meetings and communicating with shareholders. The Annual Report provides the most comprehensive review of the Company's performance and prospects. This is supplemented by quarterly reports and other circulars, where necessary. Transparency through effective and ongoing communication is considered essential in discharging the fundamental responsibility of creating shareholder value.

The AGM provides a forum for shareholders to raise any queries. The Chairmen of the Audit, Remuneration and Nomination Committees are usually present at the Annual General Meeting. All Directors were present at the last AGM of the Company.

Every shareholder is entitled to one vote per share at a poll.

C.2. Major Transactions

Principle: Further to compliance with the requirements under the Companies Act, Directors should disclose to shareholders all proposed corporate transactions, which if entered into, would materially alter/vary the Company's net assets base or in the case of a company with subsidiaries, the consolidated group net asset base.

There was no transaction during the year that fell within the definition of a major transaction in the Companies Act No. 07 of 2007.



ACCOUNTABILITY and AUDIT

D.1. Financial Reporting

Principle: The Board should present a balanced and understandable assessment of the Company's financial position, performance and prospects.

The Statement of Directors' Responsibilities for Financial Statements is available from page 134. The Report of the Auditors outlines their reporting responsibilities.

The Board strives to present a balanced and objective assessment of the Company's position, performance and prospects. These aspects are covered in detail in the following Reports:

Name of the Report	Page No's.
Directors' Report	From 129 to 133
Chairman and CEO's Review	From 10 to 13
Financial Review	From 48 to 55
Business Performance Review	From 20 to 47
Sustainability Report	From 58 to 101
Enterprise Risk Management Report	From 117 to 120

Annual Report of Directors

Section D.1.2. of the SEC Code requires that certain declarations be made by the Directors, in the Annual Report of Directors regarding compliance with laws, interests in contracts, equitable treatment of shareholders, going concern assumption and internal controls. These declarations have been made in their appropriate places in the Annual Report of Directors appearing from pages 129 to 133.

Going Concern

Information on the Board's determination of the entity as a going concern is included in the Annual Report of Directors appearing from pages 129 to 133.

D.2. Internal Control

Principle: The Board should maintain a sound system of internal control to safeguard shareholders’ investments and the Company’s assets.

The main responsibility for establishing a suitable and effective system of Internal Controls lies with the Board of Directors.

The systems are designed to -

Safeguard assets
Maintain proper accounting records
Provide reliable financial information
Identify and manage business risk
Maintain compliance with appropriate legislation and regulation
Early detection of instances of non-compliance
Identify and adopt best practices

Outsourcing of the internal audit function has enhanced the independence of the internal audit function. The internal audit plan is agreed with the Internal Auditors at the beginning of each financial year by the Audit Committee. However, the Internal Auditors are allowed the freedom to carry out any additional tasks they consider necessary.

The Board has the overall responsibility for maintaining the systems of internal control of the Company and for monitoring their effectiveness; while the implementation of internal control system is the responsibility of management. The Group’s systems of internal control are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material financial misstatement or loss.

D.3. Audit Committee

Principle: The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Company’s Auditors.

Responsibilities of the Audit Committee

The Audit Committee is a subcommittee of the Board and its main purpose is to assist the Board in the effective discharge of its responsibilities on financial reporting, risk management and corporate control. It assists the Board in monitoring compliance with applicable laws and other regulatory requirements. The Committee is responsible for reviewing the financial reporting system and publish financial Statements, including compliance with relevant accounting standards & laws and Company policies, and also for review of effectiveness of the audit.

The Audit Committee plays a key role in reviewing the effectiveness of the internal control system. The methods by which the Audit Committee satisfies itself, that it is operating effectively are given below:

- a. Board Committees with terms of reference
- b. Clear organisational structures with assigned responsibilities and set objectives
- c. Representations from Executive Management
- d. Budgetary control
- e. Approval procedures for capital expenditure and investments
- f. Review of information called for Board meetings
- g. Discussions with External and Internal Auditors
- h. Review of Internal Audit Programs and Reports
- i. Code of Ethics
- j. Assessment of situations of potential conflict of interest, if any.

The report of the Audit Committee available on page 121 provides more details of the functioning of the Audit Committee.

Terms of reference of the Committee clearly sets out its responsibilities and authority.

Auditors

The Audit Committee determines the appointment/reappointment, evaluation, terms of engagement and fees of the Auditors. The Audit committee may, if so required, recommend to the Board, removal of Auditors. Based on the provisions of Section 3 of the Guideline for Appointment of Auditors of Listed Companies, issued by the Securities Exchange Commission, the Audit Committee determined that the External Auditors possess the required independence to be the Auditors of the Company.

The Committee met the External Auditors prior to recommendation of Financial Statements to the Board.

The Audit Committee encourages the External Auditors to communicate with the Internal Auditors.

The Audit Committee met the Internal Auditors at regular intervals during the financial year to discuss the findings and to identify the levels of risk carried by the areas reviewed by the Internal Auditors.

Composition of the Audit Committee

The Board of Directors appoints members to the Audit Committee. The present Committee consists of three Independent Non-Executive Directors and one Non-Executive Director. The Chairman of the Audit Committee is Mr. R. Seevaratnam, an experienced Chartered Accountant who is also the Senior Independent Director. The composition of the Audit Committee meets the requirements of the CSE Listing Rules.

The composition of the Audit Committee is available in the table appearing on page 107.

Mr. H.M.A. Jayesinghe, who has previously served on the Board and as the Chairman of the Audit Committee functions as an Independent Consultant to the Committee offering valuable insight.

The Chairman/Managing Director/CEO, Deputy Chief Executive Officer and the Director-in-charge of the finance function attend Audit Committee meetings, unless otherwise determined by the Audit Committee. Any member of the Board may attend the Committee meetings by invitation.

Committee meetings and the attendance of members is given in the table appearing on page 107.

The report of the Audit Committee is available on page 121.

D.4. Code of Business Conduct and Ethics

Principle: Companies must adopt a Code of Business Conduct and Ethics for Directors and members of the senior management team and must promptly disclose any waivers of the Code for Directors or others.

The Company has a Code of Ethics applicable to all employees of the Company. The areas covered in the Code of Ethics include proprietary information, conflict of interest, benefits from third parties, accurate books of account, usage of Company property for personal use, illegal acquisition of competitor information, insider trading, protection of environment and natural resources and gender equity.

D.5. Corporate Governance Disclosures

Principle: Directors should be required to disclose the extent to which the Company adheres to established principles and practices of good Corporate Governance.

This report contains the extent to which established principals of good Corporate Governance has been adhered to and the requirements of Code of Best Practices on Corporate Governance issued by the SEC and ICASL has been complied with. The Company has implemented the regulations of the Section 7.10 of the Listing Rules of CSE on Corporate Governance. Mr. R. Seevaratnam, Dr. H. Cabral and Dr. U.P. Liyanage satisfy the criteria of an Independent Director as prescribed by the aforesaid section and have submitted the requisite declaration based on which the Board has determined that they are Independent Directors.



SECTION 2: THE SHAREHOLDERS INSTITUTIONAL INVESTORS

E.1. Shareholder Voting

Principle: Institutional shareholders have a responsibility to make considered use of their votes and should be encouraged to ensure their voting intentions are translated into practice.

The Annual General Meeting provides a forum for shareholders to raise any queries. The Chairmen of the Audit, Remuneration and Nomination Committees are usually present at the Annual General Meeting. All Directors were present at the last AGM of the Company.

The Chairman ensures that any views expressed by investors to him personally or at General Meetings are discussed with the Board. The Directors consider it important to understand the views of shareholders and, in particular, any issues which concern them. The shareholders are encouraged to participate at General Meetings and cast their votes.

E.2. Evaluation of Governance Disclosures

Principle: When evaluating Companies' governance arrangements, particularly those relating to Board structure and composition, institutional investors should be encouraged to give due weight to all relevant factors drawn to their attention.

The Annual Report contains an Enterprise Governance Report that covers the Company's Governance arrangements. The Annual Report provides a comprehensive review of the Company's performance and prospects. This is supplemented by quarterly reports and other circulars, where necessary.



OTHER INVESTORS

F.1. Investing/Divesting Decision

Principle: Individual shareholders, investing directly in shares of companies should be encouraged to carry out adequate analysis or seek independent advice in investing or divesting decisions.

The Company's communications with the shareholders, including the Annual Report provides information that enables shareholders to make informed judgments or to seek advice on their investment decisions. The extensive nature of the information given would facilitate the shareholders in carrying out adequate analysis when making their decisions.

F.2. Shareholder Voting

Principle: Individual shareholder should be encouraged to participate in General Meetings of companies and exercise their voting rights.

The shareholders are encouraged to participate at General Meetings and cast their votes. Instructions with regard to appointing a proxy and the manner in which a Proxy Form should be completed are available in the proxy form circulated with the Annual Report.

Corporate Governance Compliance Table

CSE Listing Rule No.	Subject	Applicable Requirement	Compliance Status	Details
7.10.1	Non-Executive Directors	At least two or one third of the Directors, whichever is higher, should be Non-Executive Directors	Compliant	Four out of Eleven Directors are Non-Executive Directors.
7.10.2 (a)	Independent Directors	Two or one-third of Non-Executive Directors, whichever is higher should be independent.	Compliant	Three of the Four Non-Executive Directors are independent.
7.10.2 (b)	Independent Directors	Each Non-Executive Directors should submit a declaration of independence/non-independence.	Compliant	Non-Executive Directors have submitted the declaration in the prescribed format.
7.10.3 (a)	Disclosures relating to Directors	Names of independent Directors should be disclosed in the Annual Report.	Compliant	Please refer page 14
7.10.3 (b)	Independent Directors	The Board shall make a determination annually as to the independent or compliant non-independence of each Non-Executive Director.	Compliant	The Board has carried out the determination as stated in the enterprise governance report. Please refer page 109. (Board independence)
7.10.3 (c)	Disclosures relating to Directors	A brief resumé of each Director should be included in the Annual Report including the area of Expertise.	Compliant	Please refer page 14
7.10.3 (d)	Appointment of new Directors	Provide brief resumé of any new Director appointed to the Board.	N/A	N/A
7.10.5	Remuneration Committee	A listed company shall have a Remuneration Committee.	Compliant	Name of members of the Remuneration Committee is available on page 107.
7.10.5 (a)	Composition Remuneration Committee	Shall comprise Non-Executive Directors, a majority of whom shall be independent.	Compliant	Remuneration Committee consists of four Non-Executive Directors of which three are independent. Chairman of Remuneration Committee is a Non-Executive Independent Director.
7.10.5 (b)	Function of Remunerations Committee	The Remuneration Committee shall recommend the remuneration of the Chief Executive Officer and the Executive Directors.	Compliant	Please refer the Remuneration Committee Report on page 122.
7.10.5 (c)	Disclosure in the Annual Report relating to Remuneration Committee	The Annual Report should set out;		
		a. Names of Directors comprising the Remuneration Committee.	Compliant	Please refer on page 107
		b. Statement of Remuneration Policy	Compliant	Please refer the Remuneration Committee report on page 122 For a brief statement of policy.
		c. Aggregate Remuneration paid to Executive and Non-Executive Directors.	Compliant	Please refer on page 149
7.10.6	Audit Committee	A listed company shall have an Audit Committee.	Compliant	Names of the members of the Audit Committee are available on page 107.
7.10.6 (a)	Composition of Audit Committee	Shall comprise Non-Executive Directors, a majority of whom can be independent.	Compliant	Audit Committee consists of four Non-Executive Directors of which three are independent. Chairman of Audit Committee is a Non-Executive Independent Director.
		Chief Executive Officer and the Chief Financial Officer should attend Audit Committee meetings.	Compliant	Chief Executive Officer and Chief Financial Officer attend by invitation.
		The Chairman of the Audit Committee or one member should be a member of a professional accounting body.	Compliant	Chairman of Audit Committee is a member of a professional accounting body.
7.10.6 (b)	Function of Audit Committee	Should be outlined in the Section 7.10 of the Listing Rules.	Compliant	The terms of reference of the Audit Committee adopted by the Board on 20th June 2007 cover the areas outlined.
7.10.6 (c)	Disclosure in the Annual Report relating to Audit Committee	a. Names of Directors comprising the Audit Committee	Compliant	Please refer on pages 107
		b. The Audit Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination.	Compliant	Please refer Audit Committee report on pages 121
		c. The Annual Report shall contain a report of the Audit Committee setting out the manner of compliance of functions.	Compliant	Please refer Audit Committee report on pages 121