

ANNUAL REPORT OF THE BOARD OF DIRECTORS

General

The Board of Directors of Diesel & Motor Engineering PLC has pleasure in presenting the Annual Report of the Board of Directors and audited Group Financial Statements for the year ended 31st March 2011.

Principal Activities

The principal activities of the Group include import, sale and repair of passenger cars, commercial vehicles, material handling machinery, storage systems, construction machinery, agri machinery, medical equipment, power engineering solutions, power engines, power tools and import & sale of vehicle spares, components, accessories and lighting products.

There was no significant change in the nature of business of the Company or its subsidiaries during the year that may have a significant impact on the state of the Company's affairs.

Group Structure

A diagram depicting the Group Structure is available on page 208.

Business Review and Future Developments

A review of financial and operational performance and future business developments of the Group are contained in the Chairman and CEO's Letter (pages 08 to 11), Financial Value Creations (pages 18 to 32), Management Report and in the section identified as 'This is Dimo' (inner front cover). These reports together with the Audited Financial Statements reflect the state of affairs of the Company and the Group.

Financial Statements

The Financial Statements of the Company and the Group appearing on pages 154 to 197 are prepared in conformity with the Sri Lanka Accounting Standards as required by Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and comply with the requirements of the Companies Act No. 07 of 2007.

Financial Statements of the Company and the Group for the year ended 31st March 2011 certified by the General Manager - Finance and Controlling that they conform to the requirements of the Companies Act No. 07 of 2007, and duly signed by the Chairman and the Chief Financial Officer, are given on page 155, which form an integral part of the Annual Report of the Directors.

Auditors' Report

The Financial Statements for the year ended 31st March 2011 have been audited by Messrs KPMG Ford, Rhodes, Thronton & Co. (Chartered Accountants) and their Report is given on page 153.

Significant Accounting Policies

The Significant Accounting Policies adopted in the preparation of Financial Statements are given on pages 159 to 173 of the Annual Report.

There were no material changes in the Accounting Policies adopted with that of last year.

Impairment Assessment

The Board of Directors has evaluated impairment loss in relation to property, plant & equipment, intangible assets and long-term investments. Based on the assessment, Rs. 15 mn impairment loss had been recognised in relation to investment in Dimo Industries (Pvt) Ltd. and details are given in Note 19 to the Financial Statements.

Directorate

List of Directors

As at 31st March 2011, the Board of Directors of Diesel & Motor Engineering PLC consisted of eleven members. Qualifications and experience of the Directors are given on pages 122 and 125 of this Annual Report.

Following were the Directors of the Company at the end of the financial year:

- A.R. Pandithage (Chairman, Managing Director and Chief Executive Officer)
- A.G. Pandithage (Deputy Chief Executive Officer)
- A.N. Algama (Executive Director)
- S.C. Algama (Executive Director)
- Dr. H. Cabral (Independent Non-Executive Director)
- B.C.S.A.P. Gooneratne (Executive Director)
- Prof. U.P. Liyanage (Independent Non-Executive Director)
- A.M. Pandithage (Non-Executive Director)
- T.G.H. Peries (Executive Director)
- R. Seevaratnam (Independent Non-Executive Director)
- R.C. Weerawardane (Executive Director)

Resignations, New Appointments and Re-Elections to the Board

There were no new appointments made to the Board, during the financial year ended 31st March 2011.

Mr. A.N. Algama, Mr. A.M. Pandithage, Mr. T.G.H. Peries and Mr. R. Seevaratnam retired by rotation in 2009/10 and were reappointed to the Board in accordance with the Articles by re-election at the Annual General Meeting during the year.

Dr. H. Cabral, Mr. B.C.S.A.P. Gooneratne, Mr. A.G. Pandithage and Mr. R.C. Weerawardane retire by rotation in accordance with the Articles of Association and being eligible offer themselves for re-election at the Annual General Meeting.

Directors' Responsibilities for the Financial Statements

The Directors are responsible for the preparation and presentation of Financial Statements of the Company to reflect a true and fair view of the state of its affairs. The Statement of Directors' Responsibilities for the Financial Statements is given on page 151 of this Annual Report.

Directors' Shareholdings

The Directors and their close family members held 3,563,299 (2009/10 - 3,650,719) ordinary shares of the Company, which amounts to 40.95% (2009/10 - 41.95%) of the ordinary shares issued as at 31st March 2011.

The shareholdings of Directors and their close family members as at 31st March 2011 are as follows:

<i>As at 31st March</i>	2011 Shareholding - No. of Shares			2010 Shareholding - No. of Shares		
	Director	Spouse & Children under 18	Total	Director	Spouse & Children under 18	Total
A.R. Pandithage	971,798	910,297	1,882,095	971,798	910,297	1,882,095
A.N. Algama	258,372	–	258,372	261,872	–	261,872
A.M. Pandithage	178,745	41,033	219,778	178,745	41,033	219,778
A.G. Pandithage	515,505	44,165	559,670	515,505	44,165	559,670
S.C. Algama	392,278	6,856	399,134	392,278	6,856	399,134
T.G.H. Peries	189,284	54,966	244,250	191,284	136,886	328,170
	2,505,982	1,057,317	3,563,299	2,511,482	1,139,237	3,650,719

Interest Register

The Interest Register is maintained by the Company as required by the Companies Act No. 07 of 2007. The following entries were made during the year under review:

- **Directors' Interest in Contracts**

The Directors' interest in contracts are disclosed in the Annex to the Annual Report of the Board of Directors on page 149.

- **Acquisition/Disposal of Shares by Directors**

- 3,500 shares were disposed by Mr. A.N. Algama during the year.
- 2,000 shares were disposed by Mr. T.G.H. Peries during the year.

- **Directors' Remuneration**

Directors' remuneration in respect of the Group and the Company are given on Note 11.1 to the Financial Statements on page 177.

- **Insurance**

The Directors' and Officers' Liability insurance policy was renewed during the year.

All Directors have disclosed the nature and extent of their interest in relation to transactions with the Company as per the Section 192 of the Companies Act.

During the year, there were no instances pertaining to the voting on matters on which Directors had a material interest.

Directors' Meetings

The number of Directors, meetings which comprise Board meetings, Audit Committee meetings, Nomination Committee meetings and Remuneration Committee meetings and the attendance of Directors at these meetings are given on page 113.

Internal Control System and Risk Management

The Board considers that strong internal controls are integral to the sound management of the Company and is committed to maintaining strict financial, operational and risk management controls over all its activities. The Group Management Committee has put in place an effective and comprehensive system of internal controls covering financial, operational and compliance control. The Directors have outsourced a part of the internal audit function to review and report on the effectiveness of the internal controls.

The Enterprise Risk Management Report is available on pages 128 to 137.

The Board is satisfied with the effectiveness of the system of internal controls for the year under review and up to the date of approval of the Annual Report and the Financial Statements.

Board Committees

The Board, while assuming the overall responsibility and accountability for the affairs in the management of the Company, has appointed committees with specific terms of reference. Accordingly, the following committees have been constituted by the Board:

- Audit Committee
- Remuneration Committee
- Nomination Committee

The reports of the above committees are given on pages 118 to 121 of this Annual Report.

Auditors

The Company's Auditors during the period under review were Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants.

The Auditors were paid Rs. 1.746 mn for the year ended 31st March 2011 (2009/10 - 1.753 mn) as audit fees by the Group. In addition, Auditors were paid Rs. 0.262 mn (2009/10 - Rs. 0.164 mn) for audit-related services and Rs. 2.469 mn (2009/10 - Rs. 2.990 mn) for non-audit services, by the Group.

Based on the declaration made by Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants and as far as the Directors are aware, the Auditors do not have any other relationship or interest in contracts with the Company or with any of its subsidiaries.

Appointment of Auditors

The retiring Auditors - Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants are willing to continue in office. A resolution on reappointing them as Auditors and granting authority to the Directors to decide their remuneration will be proposed at the Annual General Meeting.

Turnover

The Company recorded a turnover of Rs. 28,662 mn in 2010/11 (2009/10 - Rs. 9,557 mn). The Group turnover for 2010/11 is Rs. 29,357 mn (2009/10 - Rs. 10,531 mn).

Segment turnover and other segment information are available on pages 174 and 175.

Human Resources

The Group promotes to its employees the need for the highest standards of integrity and ethics in business dealings, including compliance with all relevant legislation and codes of practice. Employees are regarded as the key to being able to translate policies and strategies into commercial success.

The Group is committed to providing a working environment in which this process can succeed.

Adequate measures are taken to ensure that all employees have the opportunity to understand and appreciate the Group's objectives and policies. The employment policy of the Group embodies the principal of equal opportunity. The Group aims to create an opportunity for participation and involvement, identification and development of skills and promote use of initiative and personal advancement. Reward systems recognise success at both the corporate and individual level.

The number of persons employed by the Company and its subsidiaries at the year end was 1,019 (2009/10 - 864).

Health and Safety

The Group safeguards occupational health and hygiene of its employees by providing a safe working environment and complying with all relevant statutory obligations. The Group also has an employees' medical scheme and expenditure in relation to this for the year was Rs. 9.47 mn (2009/10 - Rs. 14.76 mn).

Quality

The Group is committed to maintain its long established reputation of being a symbol of quality. All employees are encouraged to regard the continuous improvement of quality standards as a key to competitive advantage.

Operational Results and Dividends of the Group

	2010/11 Rs. '000	2009/10 Rs. '000
Turnover		
Gross Turnover	29,357,271	10,530,587
Profit		
After making provision for bad and doubtful debts and all known liabilities and after charging a sum of Rs. 93.10 mn (2009/10 - Rs. 44.25 mn) for Depreciation of property, plant & equipment the profit made by the Group before tax was	3,395,980	420,095
Income tax expense	(1,274,228)	(141,842)
Group profit after taxation from continuing operations	2,121,752	278,253
Loss from discontinued operations	-	(29,956)
Group profit after taxation	2,121,752	248,297
Retained earnings brought forward	563,526	367,443
Appropriations		
Dividend paid	(121,833)	(52,214)
Transfers to general reserve	350,000	-
Available for appropriation	2,213,445	563,526

Dividends on Ordinary Shares

Two interim dividends of Rs. 5/- per share each were paid during the year 2010/11 (2009/10 interim dividend of Rs. 3 per share). Information on dividends is given in Note 15 to the Financial Statement on page 181.

The Directors approved a final dividend of Rs. 51/- per share (of which Rs. 23.10 per share is in the form of cash and Rs. 27.90 per share is in the form of scrip dividend) payable to the shareholders of the Company for the year ended 31st March 2011 (2009/10 Final cash dividend of Rs. 4/- per share).

The number of shares to be issued is 174,048 at a price of Rs. 1,395/- per share.

As required by Section 56 (2) of the Companies Act No. 07 of 2007, the Board of Directors determined that the Company has satisfied the solvency test in accordance with Section 57 of the Companies Act and obtained a certificate from the External Auditors for the same.

Income Tax

The income tax rate that was applicable to all companies in the Group for the financial year was 35%. Tax on export profit was 15%. The Government has announced a reduction in income tax rate to 28% with effect from 1st April 2011. It is the Group's policy to provide for deferred taxation on all known temporary differences.

Statutory Payments

The Directors, to the best of their knowledge and belief, confirm that all statutory liabilities including EPF, ETF and taxes have been made on time during the financial year.

Donations

The Donations made during the year amounted to Rs. 22.42 mn (2009/10 - Rs. 1.17 mn).

Property, Plant & Equipment

Group expenditure on property, plant & equipment during the year amounted to Rs. 1,082 mn (2009/10 - Rs. 37 mn). Information relating to movement in property, plant & equipment is given in Note 16 to the Financial Statements.

Market Value of Freehold Land

A qualified independent valuer last revalued the freehold land of the Company on 30th September 2008 and the carrying value of the freehold land has been adjusted accordingly. The details of the freehold land are given in Note 16.a to the Financial Statements on page 183.

Group Investment/Divestment

There were no new equity investments made during the year.

During the accounting year under review, the Company has disposed the investments in Browns Dimo Industrial Products (Pvt) Ltd. and Dimo KLN Industries (Pvt) Ltd.

Changes to Business Operation

During the year, tire retreading business of the Dimo Industries (Pvt) Ltd. was transferred to the Diesel & Motor Engineering PLC.

Stated Capital

The stated capital of the Company as at 31st March 2011 was Rs. 182.5 mn (2009/10 - Rs. 182.5 mn). The number of shares in issue as at 31st March 2011 was Rs. 8,702,389 (2009/10 - 8,702,389).

Reserves

The total reserves as at 31st March 2011 stand at Rs. 4,018. mn (2009/10 - Rs. 2,018 mn), comprising capital reserves of Rs. 1,135.6 mn (2009/10 - Rs. 1,135.6 mn) and revenue reserves of Rs. 2,882.7 mn (2009/10 - Rs. 882.8 mn). The movement in reserves during the year is set out in the Statement of Changes in Equity on page 156.

Share Information

Information relating to shareholding, earnings and net assets per share, market value of shares, dividends and share trading are available on pages 201 to 205.

Shareholdings

There were 1,555 registered shareholders as at 31st March 2011. The percentage of shares held by the public as at 31st March 2011 was 49.72% of the issued shares. The twenty major shareholders as at 31st March 2011 and the number of shares held and their percentage shareholdings are given on page 203.

Equitable Treatment to Shareholders

The Company at all times ensure that all shareholders are treated equitably.

Compliance with Laws and Regulations

To the best of the knowledge and belief of the Directors, the Company has not engaged in any activities contravening the laws and regulations of the country.

Outstanding Litigation

In the opinion of the Directors and in consultation with the Company Lawyers and legal counsel, litigations currently pending against the Company will not have a material impact on the reported financial results or future operations of the Company. The details of the litigations against the Company are given on page 197 Note 36.3 to the Financial Statements.

Events Occurring after the Balance Sheet Date

There were no material events that occurred subsequent to the date of the Balance Sheet, which require adjustments to or disclosure in the Financial Statements, except event is stated in Note 37 to the Financial Statements.

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Contingencies and Commitments

Information on contingent liabilities and capital commitments as at 31st March 2011 is given in Note 36 to the Financial Statements.

Going Concern

The Board of Directors has reviewed Group's Budget, availability of banking facilities and other necessary information and is satisfied that the Group has adequate resources to continue in business for the foreseeable future. Accordingly, going concern basis has been adopted in preparation of the Financial Statements.

Annual General Meeting

The Annual General Meeting will be held at the Registered Office of the Company, No. 65, Jetawana Road, Colombo 14 on 30th June 2011. The Notice of Annual General Meeting is given on page 234.

By order of the Board of Directors,



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



R.C. Weerawardane
Director



B.C.S.A.P. Gooneratne
Secretary

Colombo
3rd June 2011