

STRATEGY

* We Exist Because We

1. Create financial value
2. Refine the portfolio mix of our business continuously
3. Earn the trust of customers and they keep coming back
4. Nurture people and they find it enjoyable and rewarding to work with us
5. Have great relationships with best-of-breed business partners
6. Play by the rules
7. Serve the community
8. Are friendly towards the environment

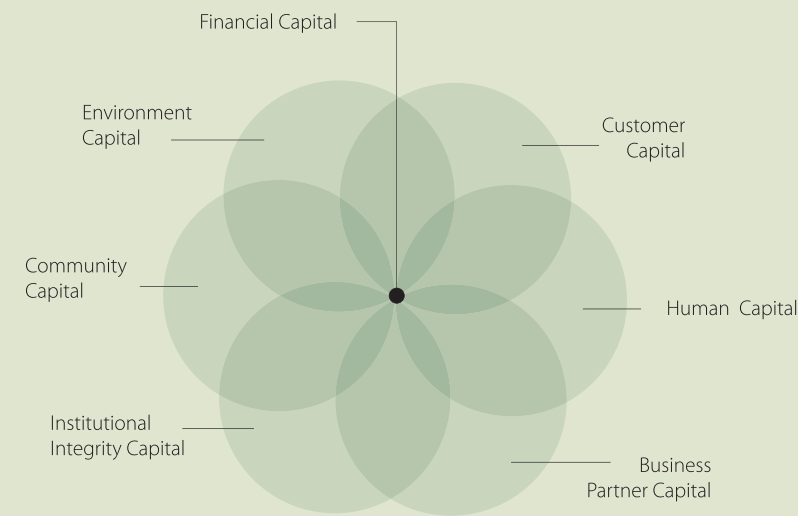
And these constitute our eight strategic imperatives.

* Our Overarching Strategy is Quite Simple

We always and repeatedly ask ourselves what is next, and what do we have to do next, to hold true to our eight strategic imperatives.

* The Other Side of the Coin - Building Capital

Holding true to our eight strategic imperatives builds capital; Financial Capital as well as non-financial capital. The latter is referred to by many terms but we like to refer to it as intellectual capital. Unfortunately, our intellectual capital is not reflected in our Balance Sheet. However, it is the dynamic interaction of our six forms of intellectual capital that creates financial capital as shown in the diagram below:





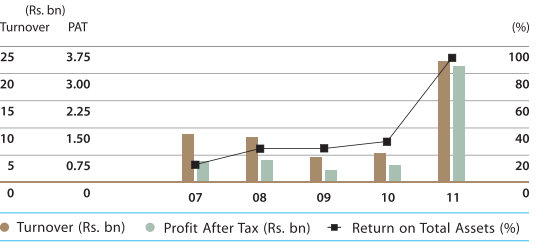


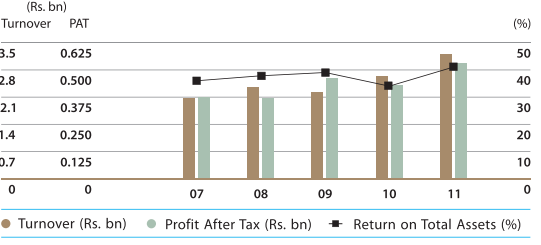


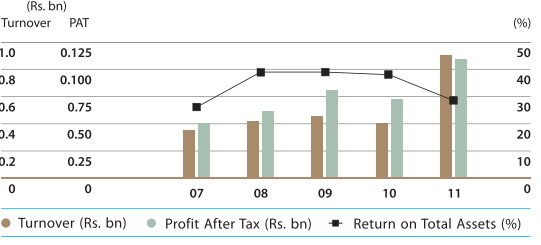


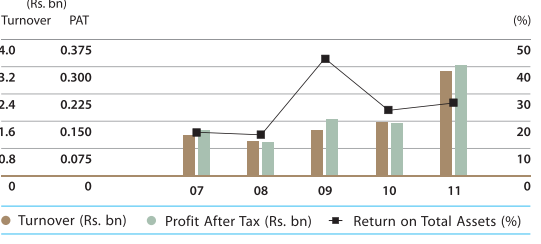


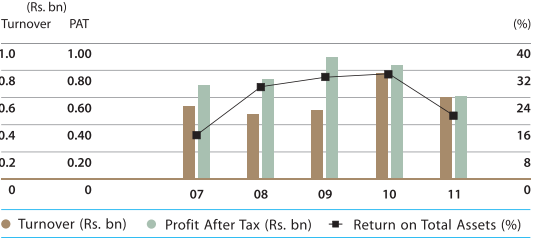
* Our first Integrated Annual Report

This year, we decided to present an integrated annual report. In the past our Sustainability Report and the rest of our Annual Report were sharply demarcated. We have structured this Annual Report based on our eight strategic imperatives in an attempt to make ourselves better understood. As much as it is a report about Dimo's duties of responsible trusteeship, faithful stewardship and uncompromising accountability, it is also a report of Dimo's drivers of value; or as we call it, a report of Dimo's financial capital and intellectual capital.

THIS IS DIMO

Diesel & Motor Engineering PLC, better known as Dimo is a publicly held company listed on the Colombo Bourse. Founded in 1939, Dimo operates across the five business segments shown below through representing several best-in-class Principals. Headquartered in the commercial capital of Colombo in Sri Lanka, Dimo has an extensive network of sales and after-sales facilities spread throughout the Island and a team of just over 1,000 employees. 2010/11 has been a year of exceptional all round performance across all business segments. These highlights as well as the outlook for the ensuing year are also summarised below:

Our vision is to be the leader in all the businesses we are engaged in, by building a world-class team and partnering with the best in the world, to deliver, lasting and outstanding value to all our stakeholders.

Business Segment	Principals Represented	Performance Highlights of the Year	Outlook for 2011/12
 <p>Vehicles Passenger cars, SUVs, and a range of commercial vehicles from small 750kg trucks to large 40 Ton+ trucks to tippers and buses.</p>		<p>Number of vehicles sold increased by 207% while turnover increased by 319%. Dimo recorded a 90% market share in the high-end passenger sedan segment. TATA commercial vehicles increased its market share to 43% of the brand new market from 35% in the previous year. Light and small commercial vehicles performed exceptionally well. However, TATA passenger cars did not meet budgets. Similarly sale of buses underperformed. Sales of Chrysler and Jeep passenger vehicles too did not meet sales budgets.</p>	 <p>Political stability and consistent macroeconomic policies and the launch of several infrastructure development projects should drive commercial activity and economic growth. Coupled with the low interest rates and stable exchange rates that prevail, demand for our vehicles across the board should remain strong.</p> <p>The introduction of the TATA Nano is very likely to open up a worthwhile new market segment for Dimo.</p>
 <p>Vehicle Parts & Service Parts for the after-care markets of passenger vehicles, commercial vehicles and construction machinery including a range of Original Equipment Manufacturers (OEM) parts. Engine management systems, vehicle accessories, tyres and services.</p>		<p>Mercedes-Benz parts section did particularly well. Commercial vehicle repair section performed below budget. The unit repairs section was upgraded with a Rs. 52 mn investment. Construction of a new Bosch Centre is underway.</p>	 <p>The strengthening of our distribution network and a greater focus on the retail market should have a positive impact on sales of vehicle parts. The bottleneck for growth in vehicle service as well as repairs has been cleared with additional capacity already installed. The increase in the number of vehicles on the road plus the increased usage of vehicles along with our increased capacity augurs well for the outlook of both vehicle parts and services.</p>
 <p>Lighting & Power Tools A wide range of lamps, lighting fittings, lighting equipment and systems. Tailor-made lighting design service and energy audits. Industrial and domestic Power Tools.</p>		<p>Sales increased by 183%. CFL lamps sales in particular did well boosting our market share to 9%. The lighting of the Pallakelle International Cricket Stadium and the rehabilitation of the lighting system at the R. Premadasa International Cricket Stadium were designed and installed by Dimo. Bosch Power Tools acquired market leadership with a share of 38% of the branded power tools market.</p>	 <p>Opening up of markets in the North and the East, growth in the hotels sector and construction sector augurs well for the outlook of both lighting and power tools.</p>
 <p>Construction, Agricultural & Material Handling Machinery Construction and mining equipment, compaction and road building machinery, concrete machinery, fluid management systems, tractors, agri implements, forklifts, storage and racking systems, building cleaning and maintenance systems, aerial work platforms, parking systems and CLASS harvesters.</p>		<p>Sales increased by 82%. Komatsu established as market leader in heavy machinery and equipment. Several other brands were established as the preferred choice in their respective niches. However, our fluid management systems sales were below budget.</p>	 <p>Many new products catering to the specialised requirements of the growing infrastructure development projects sector are being introduced. These should augment our market leading position to drive growth in this sector.</p>
 <p>Electromechanical & Biomedical Engineering Power solutions, building automation systems, fire detection, protection and suppression systems, CCTV and access control systems, public address systems, power systems for marine propulsion and rail traction, industrial refrigeration, and medical equipment.</p>		<p>New projects included new grid substations and installation of large fire detection and protection systems. Sri Lanka Customs bought for its new headquarters building an integrated system covering automation, CCTV, access control, car park management and fire detection. Similarly we sold the country's most advanced Eye microscope from Carl Zeiss and the most advanced CT and MRI scanners from Siemens.</p>	 <p>With all sectors that this segment caters to being poised for growth, we expect sales to improve.</p>