

NOTES TO THE FINANCIAL STATEMENTS

1. Corporate Information

Reporting Entity

Diesel & Motor Engineering PLC (the Company) is a public limited liability Company listed on the Colombo Stock Exchange, incorporated and domiciled in Sri Lanka. The Parent Company and its Subsidiaries have the registered office at No. 65, Jetawana Road, Colombo 14. The ordinary shares of the Company, are being traded in the Colombo Stock Exchange.

The staff strength of the Company as at 31st March 2011 is 920 (2009/10 - 734).

Group Financial Statements

The Group Financial Statements of Diesel & Motor Engineering PLC as at and for the year ended 31st March 2011 comprise the Company and its fully-owned Subsidiaries (together referred to as the 'Group' and individually as 'Group Entities').

Diesel & Motor Engineering PLC does not have any identifiable parent of its own.

The Financial Statements of all companies in the Group are prepared to a common financial year, which ends on 31st March.

1.1 Principal Activities and Nature of Operations

1.1.1 The Company

The principal activities of the Company are import, sale and repair of passenger cars, commercial vehicles, material handling machinery, construction machinery, agri machinery, power tools and import and sale of vehicle spares, components, accessories, providing lighting solutions and storage systems.

1.1.2 Subsidiaries

The principal activities of the Company's subsidiaries, namely, Dimo (Pvt) Ltd., are sale and after sales services of biomedical equipment, power engineering solutions, building technologies, generator sets, diesel engines for marine propulsion and rail traction and fluid management systems. Dimo Travels (Pvt) Ltd., whose principal business activities are travel agency including provision of transportation facilities. Dimo Industries (Pvt) Ltd., whose principal business activities was retreading of tyres.

All subsidiaries of the Company have been incorporated in Sri Lanka.

The Directors have made an assessment of the Group's ability to continue as a going concern in the foreseeable future, and they do not intend to liquidate or to cease trading of any Group entities. However, business activities of Dimo Industries (Pvt) Ltd. has been transferred to Diesel & Motor Engineering PLC.

1.2 Approval of Financial Statements by the Board of Directors

The Financial Statement for the year ended 31st March 2011, were authorised for issue by the Board of Directors in accordance with the resolution passed at the meeting held on 3rd June 2011.

1.3 Responsibilities for the Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Company and its subsidiaries as per provisions of Companies Act No. 07 of 2007 and the Sri Lanka Accounting Standards.

The Board of Directors acknowledges this responsibility as set out in the 'Statement of Directors' Responsibilities for Financial Statements', 'Annual Report of the Board of Directors' and in the statement following the Balance Sheet on page 155 respectively, of this Annual Report.

The Financial Statements include the following components:

- **Income Statement** providing the information on the financial performance of the Company and the Group for the year ended.
- **The Balance Sheet** providing the information on the financial position of the Company and the Group as at the year end.
- **The Statement Changes in Equity** providing the information on the movements of stated capital and reserves of the Company and the Group during the period under review.
- **The Cash Flow Statement** providing the information to the users, on the ability of the Company and Group to generate cash and cash equivalents and the needs to utilise those cash flows.
- **Notes to the Financial Statements** comprising accounting policies and other notes.

2. Basis of Preparation

2.1 Statement of Compliance

The Consolidated Financial Statements of the Group and the separate Financial Statements of the Company, which comprise the components mentioned above have been prepared and presented in accordance with the Sri Lanka Accounting Standards (SLAS) issued by The Institute of Chartered Accountants of Sri Lanka (ICASL), and comply with the requirements of the Companies Act No. 07 of 2007.

The Company and the Group did not adopt any inappropriate accounting treatment which did not comply with the requirements of the Sri Lanka Accounting Standards and Companies Act No. 07 of 2007 governing the preparation and presentation of the Financial Statements.

2.2 Basis of Measurement

The Consolidated Financial Statements have been prepared on the historical cost basis, except for the following:

- Land included under property, plant & equipment is measured at cost at the time of acquisition and subsequently at revalued amounts, which are the fair values at the date of revaluation, less accumulated impairment loss, if any. Further details are explained in Note 16 to these Financial Statements
- Assets held for sale are measured at lower of its carrying amount and fair value less cost to sell.

Assets are grouped by nature and listed in an order that reflects their relative liquidity. Liabilities are grouped by amount, nature and timing of its operating cycles. Where appropriate the significant accounting policies are disclosed in the succeeding Notes. No adjustments have been made for inflationary factors affecting the Financial Statements.

2.3 Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees, which is the Group's functional currency.

2.4 Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Financial Statements in conformity with SLAS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Judgments and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Hence, actual experience and results may differ from these judgments and estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if revision affects both current and future periods.

Information about critical judgments in applying accounting policies that have most significant effect on the amounts recognised in the Financial Statements is included in the following Notes:

- Note 3.3.8 - Classification of asset held for sale
- Note 3.3.1.7 - Economic useful lives of property, plant & equipment
- Note - 3.7.6 (b) - Deferred taxation
- Note 3.4.1.2 - Measurement of defined benefit obligations
- Note 3.3.10 - Assessment of impairment
- Note 3.4 & 3.4.3 - Provisions and contingencies

2.5 Materiality and Aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by Sri Lanka Accounting Standard No. 3 (Revised 2005) - 'Presentation of Financial Statements'.

2.6 Offsetting

Assets and liabilities and income and expenses are not set off unless permitted by Sri Lanka Accounting Standards.

2.7 Rounding

The amounts in the Financial Statements have been rounded off to the nearest Rupees thousand, except where otherwise indicated, as permitted by Sri Lanka Accounting Standard No. 3 (Revised 2005) - 'Presentation of Financial Statements'.

2.8 Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period for all amounts reported in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability.

The accounting policies adopted by the Group are consistent with those of the previous financial year.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements.

3.1 Basis of Consolidation

3.1.1 Subsidiaries

Subsidiaries are those entities controlled by the Company. Control is existed where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable are also taken into account. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

A listing of the Group's subsidiaries is set out in Note 19 to the Financial Statements.

The Consolidated Financial Statements incorporating all subsidiaries in the Group are prepared to a common financial year ending 31st March, using uniform accounting policies. Transactions and events in similar circumstances are applied with said accounting policies on consistently basis.

There are no restrictions on the ability of subsidiaries to transfer funds to the Company (The Parent) in the form of cash dividend or repayment of loans and advances.

3.1.2 Transactions Eliminated on Consolidation

Intra-group balances and transactions, income and expenses and any unrealised gains arising from intra-group transactions are eliminated in preparing the Consolidated Financial Statements. Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.1.3 Loss of Control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interest and other components of equity related to the subsidiary. Any surplus or deficit on loss of control is recognised in the Income Statement. If the Group retains any interest in the previous subsidiary, then such interest is subsequently accounted for as an available for sale asset or long-term investment depending on the level of influence.

3.2 Foreign Currency Transactions and Balances

Foreign currency transactions are translated into the functional currency, which is Sri Lankan Rupees, using the exchange rates prevailing at the date of the transaction. In this regards, the Company practice is to use the middle rate of exchange ruling at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the Sri Lankan Rupees at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Income Statement.

Non-monetary assets and liabilities which are carried in terms of historical cost in a foreign currency are translated at the exchange rate that prevailed at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated at the exchange rate at the date that the fair value was determined. Foreign exchange differences arising on translation are recognised in Income Statement.

3.3 Assets and Bases of their Valuation

3.3.1 Property, Plant & Equipment

3.3.1.1 Recognition and Measurement

Items of property, plant & equipment are measured at cost (or at fair value in the case of land) less accumulated depreciation and accumulated impairment loss.

3.3.1.2 Cost Model

The cost of property, plant & equipment (excluding land) includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use.

Purchased software that is integral to the functionality of the related equipment is capitalised as a part of that equipment.

3.3.1.3 Revaluation Model

Initially freehold lands are recognised at cost and subsequently such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated impairment loss.

Revaluation of entire class of land of the Company is carried out in every three years or when there is a substantial difference between the fair value and the carrying amount to ensure that the carrying amounts do not differ from materially from the fair values at the Balance Sheet date. Revaluation is undertaken by professionally qualified valuers.

Increases in the carrying amount on revaluation are credited to the revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same individual asset are charged against revaluation reserve directly in equity. All other decreases are expensed in the Income Statement.

NOTES TO THE FINANCIAL STATEMENTS

3.3.1.4 Leased Assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

3.3.1.5 Subsequent Costs

The cost of replacing a part of an item of property, plant & equipment is recognised in carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably.

The cost of the day-to-day servicing of property, plant & equipment are recognised in the Income Statement as incurred.

3.3.1.6 Derecognition

The carrying amount of an item of property, plant & equipment is derecognised on disposal; or when no future economic benefits are expected from its use or disposal. Gains and losses on derecognition are recognised in the Income Statement and gains are not classified as revenue.

3.3.1.7 Depreciation

Depreciation is recognised in the Income Statement on a straight-line basis over the estimated useful lives of items of each part of an item of property, plant & equipment. Assets held under finance leases are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will have ownership by the end of the lease term. Freehold land is not depreciated.

Depreciation of an asset begins when it is available for use and ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

Economic useful lives of assets are estimated as follows:

	Years
Buildings	36-40
Plant & machinery	08-13
Workshop implements	03-04
Motor vehicles	03-04
Furniture & fittings	09-13
Office equipment & electrical	06-10
Computer hardware & software	03-04

3.3.1.8 Capital Work-in-Progress

Capital expenditure incurred during the year, which is not completed as at the Balance Sheet date stated as capital work-in-progress.

3.3.2 Intangible Assets

An intangible asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with SLAS 37 - 'Intangible Assets'. Accordingly, these assets are stated in the Balance Sheet at cost less accumulated amortisation and accumulated impairment loss.

3.3.2.1 Derecognition of Intangible Assets

Intangible assets are derecognised on disposal or no future economic benefits are expected from its use. Gains or loss arising from derecognition of an intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the assets and are recognised in the Income Statement.

The Group's intangible assets, with the reconciliation of carrying amount, accumulated amortisation at the beginning and the end of the year is given in Note 18 to the Financial Statements on Page 184 of this Annual Report.

Amortisation expenses which are connected with intangible assets are included in administrative expenses in the Income Statement.

3.3.2.2 Subsequent Expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the Income Statement when incurred.

3.3.2.3 Amortisation of Intangible Assets

Amortisation is recognised in the Income Statement on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use. The estimated useful life of computer software is four years.

3.3.3 Investments

3.3.3.1 Long-Term Investments

Quoted and unquoted investments in shares held on long-term basis are measured at cost.

In the parent Company's Financial Statements, investments in subsidiaries are carried at cost under the Parent Company accounting policy for long-term investments.

Provision for fall in value is made when in the opinion of the Directors there has been a decline other than temporary in the value of the investment.

3.3.4 Inventories

Inventories are measured at the lower of cost and net realisable value. The general basis on which cost is determined is:

All inventory items and work-in-progress are measured at weighted average of the directly attributable cost and includes expenditure incurred in acquiring the inventories and bringing them to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of selling expenses.

3.3.5 Trade and Other Receivables

Trade receivables are stated at their estimated realisable value net of provisions.

Bad debts are written-off when those are known to be uncollectable.

3.3.6 Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances, investments in Government Treasury Bills and demand deposits. Bank overdrafts and short-term borrowings that are repayable on demand and form an integral part of the Group's cash management, are included as a component of cash and cash equivalents for the purpose of the Statement of Cash Flows.

3.3.7 Investments Treasury Bills

Investments in Treasury Bills are recorded under cash and cash equivalent in the Financial Statements at cost. The difference between the purchase price and discount price represents interest income and is recorded in the Income Statement over the period of resale agreement.

3.3.8 Assets Held for Sale

Assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are measured in accordance with the Group's accounting policies. Thereafter, generally the assets (or disposal group) are measured at the lower of carrying amount and fair value less costs to sell.

An impairment loss on initial recognition as held for sale and subsequent gains and losses on remeasurement are recognised in the Income Statement. Gains are not recognised in excess of any cumulative impairment loss.

3.3.9 Leasehold Property

Leasehold property is stated at cost less accumulated amortisation. Such carrying amounts are amortised over the remaining leased period or useful life of the leasehold property whichever is shorter. Details of the leasehold property are given in Note 17 to the Financial Statements.

3.3.10 Impairment of Assets

The carrying amounts of the Group's assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value, less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the Income Statement.

Impairment loss is recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.4 Liabilities and Provisions

Liabilities classified as current liabilities in the Balance Sheet are those which fall due for payment on demand or within one year from the reporting date. Non-current liabilities are those balances that fall due for payment later than one year from the reporting date.

The Group recognises provisions in the Balance Sheet when the Group has a legal or constructive obligations as a result of past event and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the provision can be measured reliably in accordance with SLAS 36 - 'Provisions, Contingent Liabilities and Contingent Assets'. The amount recognised is the best estimation of the consideration required to settle the present obligation at the Balance Sheet date, taking to account the risk and uncertainties surrounding the obligations at that date. Where a provision is measured using the cash flows estimated to settle the present obligations, its carrying amount is determined based on the present value of those cash flows.

All known liabilities and provisions have been accounted for in preparing the Financial Statements.

3.4.1 Employee Retirement Benefits

3.4.1.1 Defined Contribution Plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Employees are eligible for Employees' Provident Fund (EPF) contributions and Employees' Trust Fund (ETF) contributions in line with respective statutes and regulations.

The Company and employee contribute to approved provident fund at 12% & 8% on the salaries of each employee respectively. Said provident fund is being managed by the Central Bank of Sri Lanka.

The Group contributes to the Employees' Trust Fund at 3% in the salaries of each employee.

3.4.1.2 Defined Benefits Plans - Retiring Gratuity

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

The liability recognised in the Financial Statements in respect of defined benefit plans is the present value of the defined benefit obligation as at the reporting date. The defined benefit obligation is calculated by a qualified actuary as at the reporting date using the Projected Unit Credit (PUC) method as recommended by Sri Lanka Accounting Standard No. 16 - 'Employee Benefits'. The actuarial valuation involves making assumptions about discount rate, salary increment rate and balance service period of employees. Due to the long-term nature of the plans such estimates are subject to significant uncertainty.

Under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

The liability is not externally funded.

NOTES TO THE FINANCIAL STATEMENTS

Actuarial Gains and Losses

Actuarial gains or losses are recognised immediately in the Income Statement.

3.4.1.3 Short-Term Benefits

Short-term employees benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

3.4.2 Trade and Other Payables

Trade and other payables are stated at their costs.

3.4.3 Capital Commitments and Contingencies

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events to present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the Balance Sheet but are disclosed unless they are remote.

Capital commitments and contingent liabilities of the Group are disclosed in Note 36 to the Financial Statements.

3.5 Deferred Income

The excess of sales proceeds over the carrying amount of an asset in a sale and lease back transaction is classified as deferred income. Deferred income is systematically amortised to the Income Statement over the lease period.

Value of an asset received free of charge is also classified as deferred income. This will be amortised over the contract period.

3.6 Dividend on Ordinary Shares

Dividend on ordinary shares are recognised as liability and deducted from equity when they are approved by the Board of Directors. Interim dividends are deducted from equity when they are declared. Final dividends on ordinary shares for the year ended that are approved by the Directors after the Balance Sheet date are disclosed as an event after the Balance Sheet date.

3.7 Income Statement

For the purpose of presentation of the Income Statement, the function of expenses method is adopted, as it represents fairly the elements of the Company performance.

3.7.1 Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue and associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable net of trade discounts and sales taxes. The following specific criteria are used for the purpose of recognition of revenue.

(a) Sale of Goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances and trade discounts. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return estimated goods can be reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

(b) Rendering of Services

Revenue from services rendered is recognised in the Income Statement on the invoicing of the job after completion. In instances where the revenue from services spreads over a period of time, revenue is recognised in the Income Statement in proportion to the stage of completion of the transaction at the reporting date.

(c) Service Support Income

Service support commission which included in revenue represents commission received from foreign principals on indent sales. Such commission is recognised on an accrual basis once the shipment is effected.

(d) Rent Income

Rent income is recognised in the Income Statement as it accrues.

(e) Dividend Income

Dividend income is recognised in the Income Statement on the date the entity's right to receive dividends.

(f) Gains/(Loss) Disposal of Investments

Gains and losses on the disposal of investments held by the Group are recognised in the Income Statement.

Gains and losses on disposal of an item of property, plant & equipment are determined by comparing the net sales proceeds with the carrying amounts of property, plant & equipment and are recognised net within 'other operating income' in the Income Statement. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

3.7.2 Expenses

All expenditure incurred in the running of the business has been charged to income in arriving at the profit for the year.

Repairs and renewals are charged to profit and loss in the year in which the expenditure is incurred.

3.7.3 Operating Leases

Leases where the lessor effectively retains substantially all the risks and rewards of ownership over the lease term are classified as operating leases. Payments made under operating leases are recognised in the Income Statement on a straight-line basis over the term of the lease.

3.7.4 Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred, except to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset, in which case they are capitalised as part of the cost of that asset.

3.7.5 Finance Income and Expenses

Finance income comprises interest income on funds invested, and gains on translation of foreign currency. Interest income is recognised in the profit and loss as it accrues.

Finance expenses comprise interest payable on borrowings and losses on translation of foreign currency. The interest expense component of finance lease payments is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

3.7.6 Income Tax Expense

3.7.6. (a) Income Tax

The Group recognises liabilities for anticipated tax, based on estimates of taxable income. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will be adjusted in the current year's income tax charge and/or in the deferred assets/liabilities as appropriate in the period in which such determination is made.

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit and loss except to the extent that it relates to items recognised directly in equity, when it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date and any adjustments to tax payable in respect of previous years.

3.7.6 (b) Deferred Taxation

Deferred tax is provided using liability method on temporary difference at the Balance Sheet date between the tax bases of assets and liability and their carrying amounts for financial reporting purpose for all Group entities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

The carrying amount of deferred tax assets is reviewed at each Balance Sheet date and reduced to the extent that is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are reassessed at each Balance Sheet date and are recognised to the extent that it is probable that future taxable profits will allow the deferred tax assets to be recovered.

Details of deferred tax assets and liability as at the Balance Sheet date are given in Note 29 to the Financial Statement on page 189.

3.7.6 (c) Withholding Tax on Dividend, Distributed by the Company and Group

With-Holding Tax (WHT) on dividend arises from the distribution of dividend by the Company is recognised at the time, the liability to pay the related dividend is recognised.

Tax withheld on dividend income from subsidiaries is recognised as an expense in the Group Income Statement at the time as the liability to pay the related dividend is recognised.

3.7.6 (d) Value Added Tax (VAT)

As per provision of the Act No. 14 of 2002 (and amendment thereto), VAT is charged on supply of goods and services at the rate of 12% (up to 23rd November 2010 luxury goods were liable at 20%). Disallowed value added tax is charged to the Income Statement in determining the profits for the period.

3.7.6 (e) Social Responsibility Levy (SRL)

As per provision of the Finance Act No. 5 of 2005 (and amendments thereto), the SRL was introduced with effect from 1st January 2005. Presently SRL is payable at the rate of 1.5% upon the corporate tax liability.

3.7.6 (f) Nation Building Tax (NBT)

NBT tax has been calculated at the rate of 2% (up to 31st December 2010, rate applicable was 3%) on the liable turnover in terms of the Nation Building Tax Act No. 09 of 2009 and subsequent amendment Act No. 10 of 2011.

3.7.6 (g) Turnover Tax (TT)

As per provision of the Turnover Tax Act No. 69 of 1981 (and amendments thereto), 1% turnover tax was charged on sales of any articles. However, TT had been abolished with effect from 1st January 2011.

3.8 Discontinued Operations

A discontinued operation is a component of the Group's business that represents a separate major line of business that has been disposed of or held for sale. Classification as discontinued operations occurs upon disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as discontinued operation, the comparative Income Statement is represented as if the operation had been discontinued from the start of the comparative period.

3.9 Events Occurring after the Balance Sheet Date

Events after the Balance Sheet date are those events, occurs between the Balance Sheet date and the date when the Financial Statements are authorised to issue. All material post Balance Sheet events have been considered and where appropriate adjustments or disclosures have been made in the respective Notes to the Financial Statements.

3.10 Earnings Per Share

The Group presents basic and diluted earnings per share (EPS) for its ordinary shares.

3.10.1 Basic EPS

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

The Group also calculates adjusted EPS from the adjusted profits which is defined as profits from operations before the effects of discontinued operations. The Group believes that this is the most appropriate measurement since it better reflects the business's underlying cash earnings.

3.10.2 Diluted Earnings Per Share

The diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all potential dilutive ordinary shares. Potential dilutive shares arise from share options. For these, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's share) based on the monetary value of the subscription rights attached to outstanding share options.

4. Cash Flow Statement

The cash flow statement has been prepared using the 'indirect method' in accordance with the Sri Lanka Accounting Standard 9 - 'Cash Flow Statements'. Cash and cash equivalents comprise cash in hand and cash at bank that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Interest paid is classified as an operating cash flow. Dividend and interest income are classified as cash flows from investing activities. Dividends paid are classified as financing cash flows. The cash flow information is given on pages 157 and 158.

5. Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The segment reporting is presented on the primary format, business segments, as per the Sri Lanka Accounting Standard 28 - 'Segment Reporting'. Inter-segment pricing is determined on an arm's length basis. Segment information is based on the identified product segments reflecting the Groups' 'core' and 'non-core' business activities. Segment information includes revenue, segment result, assets, liabilities and cash flows.

Segment assets and liabilities include those operational assets and liabilities that can be allocated to the segment on a reasonable basis. Segment expenses consist of direct expenses pertaining to and directly attributable to the segment. Considering activities of the operations, segment information based on geographical segments does not arise.

Inter-segment transfers are based on fair market prices. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments and related revenue, loans and borrowings and related expenses, and income tax assets and liabilities.

Segmental capital expenditure is the total cost incurred during the period to acquire property, plant & equipment and intangible assets other than goodwill. The Segments information is given on Page 174.

6. Changes to the Accounting Policies

There were no changes to the accounting policies adopted by the Group during the year under review.

7. New Accounting Standards Issued but Not Effective as at Balance Sheet Date

The Institute of Chartered Accountants of Sri Lanka has issued a new volume of Sri Lanka Accounting Standards which will become applicable for financial periods beginning on or after 1st January 2012. Accordingly, these Standards have not been applied in preparing these Financial Statements as they were not effective for the year ended 31st March 2011.

These Sri Lanka Accounting Standards comprise Accounting Standards prefixed both SLFRS (corresponding to IFRS) and LKAS (corresponding to IAS). Application of Sri Lanka Accounting Standards prefixed SLFRS and LKAS for the first time shall be deemed to be an adoption of SLFRSs.

The Company/Group is currently in the process of evaluating the potential effects of these Standards on its Financial Statements and the impact on the adoption of these Standards have not been quantified as at Balance Sheet date.

NOTES TO THE FINANCIAL STATEMENTS

8. Segment Information

The Group comprises the following main business segments:

Segment	Products and Services
Vehicles	- Sale of brand new Passenger Vehicles, 4WD Vehicles, Commercial Vehicles, Special Purpose Vehicles and Pre-owned Passenger Vehicles.
Vehicle Parts and Services	- Repair of Passenger and Commercial Vehicles, Sale of Vehicle Spare Parts, Accessories, Components, Tyres and Retreaded Tyres.
Lighting and Power Tools	- Sale of Power Tools and Accessories, Lamps, Lighting Fittings and Lighting Accessories.
Construction, Agricultural and Material Handling Machinery	- Sales and Services of Earth Moving Machinery, Road Construction Machinery, Fork-Lifts, Material Handling Machinery, Racking Systems, Agri Machinery, Pumps and Dock Levellers.
Electro Mechanical and Biomedical Engineering	- Medical Equipment, Generating Sets, Turbines, Diesel Engines for Marine Propulsion, Sale of Rail Traction, Building Technologies, Industrial Refrigeration and Power Engineering.

For the year ended 31st March	Vehicles		Vehicle Parts & Services		Lighting & Power Tools		Construction, Agricultural & Material Handling Machinery		Electro Mechanical & Bio Medical Engineering		Total	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Business Segment Turnover and Results												
Total segment revenue	22,213,122	5,362,244	3,202,570	2,626,758	905,103	402,283	3,060,699	1,582,584	602,448	781,899	29,983,942	10,755,768
Inter-segment revenue	(114,011)	(85,037)	(380,828)	(73,202)	(6,970)	(1,586)	(66,757)	(65,279)	(58,105)	(77)	(626,671)	(225,181)
Total external revenue	22,099,111	5,277,207	2,821,742	2,553,556	898,133	400,697	2,993,942	1,517,305	544,343	781,822	29,357,271	10,530,587
Segment results	3,219,030	465,299	529,747	432,335	108,785	71,497	304,009	144,889	61,000	83,594	4,222,571	1,197,614
Unallocated income	-	-	-	-	-	-	-	-	-	-	48,881	44,345
Unallocated expenses	-	-	-	-	-	-	-	-	-	-	(667,798)	(464,253)
Finance cost - net	-	-	-	-	-	-	-	-	-	-	(207,674)	(365,847)
Income from equity accounted investee	-	-	-	-	-	-	-	-	-	-	-	8,236
Income tax expense	-	-	-	-	-	-	-	-	-	-	(1,274,228)	(141,842)
Discontinued operations	-	-	-	-	-	-	-	-	-	-	-	(29,956)
Profit for the year	-	-	-	-	-	-	-	-	-	-	2,121,752	248,297
Business Segment Assets and Liabilities												
Segment assets	3,512,544	1,545,673	1,293,490	1,285,993	379,888	187,496	1,135,332	595,287	323,946	268,313	6,645,200	3,882,762
Assets classified as held for sale	-	-	-	-	-	-	-	-	-	-	-	38,795
Unallocated assets	-	-	-	-	-	-	-	-	-	-	4,302,264	1,616,871
Total assets	3,512,544	1,545,673	1,293,490	1,285,993	379,888	187,496	1,135,332	595,287	323,946	268,313	10,947,464	5,538,428
Segment liabilities	1,320,460	549,889	140,842	142,107	44,068	21,503	181,221	116,042	72,421	36,731	1,759,012	866,272
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	9,188,452	4,672,156
Total liabilities	1,320,460	549,889	140,842	142,107	44,068	21,503	181,221	116,042	72,421	36,731	10,947,464	5,538,428
Other Business Segment Information												
Capital expenditure	65,590	5,009	150,562	7,879	2,658	697	21,395	4,619	7,376	2,327	247,581	20,531
Depreciation	9,560	9,915	34,723	37,507	675	553	3,673	4,035	5,615	5,724	54,246	57,734
Non-cash expenses other than depreciation	37,940	36,461	74,651	30,222	18,023	273	36,646	17,642	(9,202)	43,301	158,058	127,899

8.1 Segment Cash Flow

For the year ended 31st March	Vehicles		Vehicle Parts & Services		Lighting & Power Tools		Construction, Agricultural & Material Handling Machinery		Electro Mechanical & Bio Medical Engineering		Total	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Business Segment Cash Flow												
Operating activities	1,585,652	531,318	613,014	264,478	(120,853)	67,452	(549,983)	(91,720)	(122,414)	(720)	1,405,416	770,808
Investing activities	(9,560)	(4,355)	(34,723)	(10,462)	(675)	(697)	(3,674)	(4,799)	(5,615)	(720)	(54,247)	(21,033)
Unallocated Cash Flows												
Common cash flows											731,204	209,118
Income Taxes paid											(250,025)	(112,060)
Proceeds from disposal of property, plant & equipment											31,723	10,919
Dividends received											139	101
Interest received											74,094	1,163
Acquisition and construction of property, plant & equipment											(1,082,166)	(36,458)
Repayment of long-term loan											(254,126)	(235,993)
Repayment of finance lease obligations											(1,699)	(7,678)
Dividends paid											(121,833)	(52,214)
Net Increase in cash and cash equivalents											478,480	526,673

Segment information is presented in respect of the Group's business segments. The primary format, business segment, is based on the Group's management and internal reporting structure. Segment results, assets and liabilities include those items directly attributable to a segment as well as those that can be allocated to the segment on a reasonable basis. Considering activities of the operations, segment information based on geographical segments, does not arise.

The presentation of segmentation is based on the nature of product line in the context of its domain.

9. Other Income/(Expenses)

For the year ended 31st March	Group		Company	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Profit/(Loss) on disposal of property, plant & equipment	2,627	(2,366)	3,312	(4,211)
Incentives received from principals	–	3,727	–	3,727
Rent income	10,541	8,777	–	5,717
Hiring income	3,939	3,402	3,939	3,402
Amortisation of deferred income	4,004	5,261	3,469	5,261
Gain on disposal of investment (Note 9.1)	5,431	–	31,750	–
Sundry income	22,200	25,443	8,775	16,238
Impairment of investment in jointly controlled entity	–	–	–	(1,323)
Dividend income	139	101	13,638	3,475
	48,881	44,345	64,883	32,286

NOTES TO THE FINANCIAL STATEMENTS

9.1 During the year, the Company divested its 45% holding in Browns Dimo Industrial Products (Pvt) Ltd. which was classified as assets held for sale in 2009/10.

<i>For the year ended 31st March</i>	Group		Company	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Sales proceeds	38,500	–	38,500	–
Less: Net assets (Note 24)	(33,069)	–	(6,750)	–
Profit from disposals	5,431	–	31,750	–

10. Net Finance Costs

<i>For the year ended 31st March</i>	Group		Company	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Finance Income				
Interest income	74,094	1,163	73,671	538
Gain on translation of foreign currency	21,313	44	20,195	–
Total finance income	95,407	1,207	93,866	538
Finance Costs				
Interest on long-term borrowings	(60,658)	(129,291)	(60,658)	(129,291)
Interest on short-term borrowings	(240,571)	(224,162)	(238,540)	(213,241)
Interest on finance lease	(1,852)	(1,509)	(1,852)	(1,509)
Loss on translation of foreign currency	–	(12,092)	–	(3,973)
Total finance cost	(303,081)	(367,054)	(301,050)	(348,014)
Net finance cost	(207,674)	(365,847)	(207,184)	(347,476)

11. Profit Before Income Tax

11.1 Profit before income tax is stated after charging/(reversing) the following:

<i>For the year ended 31st March</i>	Group		Company	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Directors' emoluments	82,039	54,628	67,036	35,743
Auditors' remuneration				
- Statutory Audit	1,746	1,753	1,421	1,225
- Audit related services	262	164	214	164
- Non-Audit services	2,469	2,999	1,344	2,335
Depreciation on property, plant & equipment	93,100	94,252	85,853	86,459
Amortisation of intangible assets and leasehold land	1,785	782	1,785	782
Provision/(reversal) for bad and doubtful debts and write-off	1,413	115,662	(8,537)	90,826
Provision/(reversal) for slow moving inventories	(6,738)	46,704	7,782	30,979
Donations	22,422	1,166	22,158	806
Legal fees	9,764	9,760	9,435	9,354
Staff expenses (Note 11.2)	962,260	596,437	884,783	528,137

11.2 Staff Expenses

<i>For the year ended 31st March</i>	Group		Company	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Defined contribution plan costs (EPF & ETF)	88,488	62,475	78,515	53,630
Retirement benefit plan costs (Retiring gratuity)	57,667	28,224	55,951	25,108
Training expenses	16,385	11,935	12,185	7,293
Salaries & wages	799,720	493,803	738,132	442,106
	962,260	596,437	884,783	528,137
Average number of employees for the year	942	867	827	747

The average number of employees is calculated by averaging the number of employees as at the year end, in the current and in the previous year.

NOTES TO THE FINANCIAL STATEMENTS

12. Income Tax Expense

<i>For the year ended 31st March</i>	Group		Company	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Current Tax Expense:				
Current tax on profit for the year (Note 12.1)	1,207,796	149,186	1,201,613	118,460
Under provision in respect of previous year	36,412	4,367	42,090	3,890
	1,244,208	153,553	1,243,703	122,350
Deferred Tax Expense:				
Origination/(reversal) of temporary differences (Note 29.1)	30,020	(14,182)	21,077	(5,237)
	1,274,228	139,371	1,264,780	117,113
Tax release*	–	2,471	–	–
Total income tax expense	1,274,228	141,842	1,264,780	117,113

*Tax release represents the tax saving on loss of discontinued operations.

12.1 Reconciliation of Accounting Profit to Income Tax Expense

<i>For the year ended 31st March</i>	Group		Company	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Profit before Taxation				
Continuing operations	3,395,980	420,095	3,368,685	306,315
Discontinued operations	–	(32,427)	–	–
	3,395,980	387,668	3,368,685	306,315
Disallowable expenses	287,752	175,982	262,460	142,059
Allowable expenses	(196,448)	(111,713)	(187,022)	(103,878)
Tax losses utilised during the year	(3,226)	(118)	–	–
Share of (profit)/loss of equity accounted investee	–	(8,236)	–	–
Income not liable to tax	(105,065)	(4,638)	(56,075)	(4,013)
Taxable income	3,378,993	438,945	3,388,048	340,483
Income tax				
Tax at 15%	1,525	866	1,471	590
Tax at 35%	1,188,422	146,115	1,182,384	116,120
Social Responsibility Levy (SRL) at 1.5%	17,849	2,205	17,758	1,750
Current tax on profits for the year	1,207,796	149,186	1,201,613	118,460
Effective tax rate (%)	35.57	38.48	35.67	38.67

12.2 Tax Losses Brought Forward and Utilised during the Year

<i>For the year ended 31st March</i>	Group		Company	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Tax Losses at the beginning of the year	12,805	19,861	-	-
Loss incurred during the year	1	-	-	-
Utilised during the year	(3,226)	(118)	-	-
Adjustment on asset held for sale	-	(7,035)	-	-
Adjustment to tax loss brought forward	-	97	-	-
At the end of the year	9,580	12,805	-	-

The income tax has been computed in accordance with the Inland Revenue Act No. 10 of 2006 and amendments thereto. The companies within the Group are liable to income tax at 35%. The tax on export profit is 15%. The Social Responsibility Levy is 1.5% of the income tax.

Withholding tax on proposed final dividend is Rs. 20.10 mn. The actual liability arises in year, in which the dividend is paid hence no liability is recognised in these Financial Statements.

13. Discontinued Operations

The Group had decided to discontinue operations of Telecommunication Equipment sales and services as at 31st March 2010. Accordingly it has been recorded separately from continuing operations.

Results of Discontinued Operations

<i>For the year ended 31st March</i>	Group	
	2011 Rs. '000	2010 Rs. '000
Revenue	-	40,305
Expenses	-	(72,732)
Loss before income tax	-	(32,427)
Income tax release	-	2,471
Loss for the year	-	(29,956)
Basic Loss per share (Rs.)	-	(3.44)
Diluted Loss per share (Rs.)	-	(3.44)
Cash Flows from Discontinued Operations		
Net cash flows from operating activities	-	11,779

NOTES TO THE FINANCIAL STATEMENTS

14. Earnings per Share

14.1 Basic earnings per share has been calculated by dividing the net profit for the year attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the year. The weighted average number of ordinary shares outstanding during the year and the previous year are adjusted for events that have changed the number of ordinary shares outstanding during the year, as per the requirements of the Sri Lanka Accounting Standard 34 - 'Earnings per Share'.

<i>For the year ended 31st March</i>	Group		Company	
	2011	2010	2011	2010
14.2 a. Basic Earnings Per Share				
Profit attributable to ordinary shareholders (Rs. '000)	2,121,752	248,297	2,103,905	189,202
Weighted average number of ordinary shares	8,876,437	8,876,437	8,876,437	8,876,437
Basic earnings per ordinary share (Rs.)	239.03	27.97	237.02	21.31
Diluted earnings per ordinary share (Rs.)	239.03	27.97	237.02	21.31
14.2 b. Continuing Operations				
Profit attributable to ordinary shareholders (Rs. '000)	2,121,752	278,253	2,103,905	189,202
Weighted average number of ordinary shares	8,876,437	8,876,437	8,876,437	8,876,437
Basic earnings per ordinary share (Rs.)	239.03	31.34	237.02	21.31
Diluted earnings per ordinary share (Rs.)	239.03	31.34	237.02	21.31

As explained in Note 15 to the Financial Statements, the Board has approved payment of scrip dividends which will result in an increase of 174,048 ordinary shares of the Company. The increased ordinary shares of 8,876,437 has been considered for the computation of earnings per share. As required by Sri Lanka Accounting Standard 34 - 'Earnings Per Share', the EPS for the prior year has already been adjusted to reflect the said increase in number of ordinary shares.

15. Dividends

Calculation of Dividend Per Share

<i>For the year ended 31st March</i>	Company	
	2011 Rs. '000	2010 Rs. '000
Interim paid	87,024	26,107
Final proposed	443,822	34,809
	530,846	60,916
Dividend per share (Rs.)	61	7

Two interim dividends of Rs. 5/- per share each, totalling to Rs. 10/- per share were paid in November 2010 and March 2011 to shareholders of the Company (Total interim dividends paid for the year 2009/10 was Rs. 3/- per share).

The Board of Directors of the Company has approved the payment of final dividend of Rs. 51/- per share which consist of a cash dividend of Rs. 23.10 per share and scrip dividend of Rs. 27.90 per share to shareholders for the year ended 31st March 2011 (a final cash dividend of Rs. 4/- for each share was paid for 2009/10). Final dividend payable for the year 2010/11 amounts to Rs. 443.82 mn (Rs. 34.80 mn in 2009/10).

Final dividend will be paid by 174,048 ordinary shares in the form of scrip dividend. This move will create 174,048 fully-paid new shares, which will be allotted to the shareholders as their final dividend for the year 2010/11. The entire cost of scrip dividend will be funded by the current year profits of the Company. Accordingly, the stated capital of the Company will increase by Rs. 242.8 mn being value of the new ordinary shares to be created. As a result, number of shares in issue will increase from the existing 8,702,389 to 8,876,437 shares.

Under the Inland Revenue Act No. 10 of 2006, a withholding tax of 10% has been imposed on cash dividend declared.

In accordance with the provision of the Sri Lanka Accounting Standard 12 (Revised 2005) on 'Events After the Balance Sheet Date', this proposed final dividend has not been recognised in the Financial Statements as a liability as at the year end.

15.1 Compliance with Section 56 and 57 of Companies Act No. 07 of 2007

As required by Section 56 of the Companies Act No. 07 of 2007, the Board of Directors of the Company satisfied the solvency test in accordance with the Section 57, prior to approving final dividend.

A statement of solvency completed and duly signed by the Directors and the same has been audited by Messrs KPMG Ford, Rhodes, Thornton & Co.

NOTES TO THE FINANCIAL STATEMENTS

16. Property, Plant & Equipment

	Freehold Land	Buildings & Premises	Plant & Machinery	Tools & Implements	Motor Vehicles	Leased Motor Vehicles	Computer Hardware & Software	Electrical Fixtures, Fittings, & Office Equipment	Total as at 31st March 2011 Rs. '000	2010 Rs. '000
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
a. Group										
Cost or Valuation										
Balance at the beginning of the year	1,374,289	590,885	203,765	126,211	166,028	6,825	108,668	163,796	2,740,467	2,730,145
Additions	641,519	74,799	111,725	23,376	117,804	–	44,722	30,683	1,044,628	36,887
Disposals	–	(26,002)	(17,170)	(5,605)	(12,466)	(1,075)	(9,020)	(10,000)	(81,338)	(23,343)
Transfer to assets classified as held for sale	–	–	–	–	–	–	–	–	–	(3,222)
Balance at the end of the year	2,015,808	639,682	298,320	143,982	271,366	5,750	144,370	184,479	3,703,757	2,740,467
Depreciation										
Balance at the beginning of the year	–	89,644	89,296	107,061	123,566	4,909	91,614	96,630	602,720	524,995
Charge for the year	–	19,595	13,574	10,641	27,213	1,121	11,440	9,516	93,100	94,252
On disposals	–	(4,553)	(10,459)	(5,878)	(12,017)	(1,075)	(8,992)	(9,128)	(52,102)	(10,058)
Transfer to assets classified as held for sale	–	–	–	–	–	–	–	–	–	(510)
Balance at the end of the year	–	104,686	92,411	111,824	138,762	4,955	94,062	97,018	643,718	608,679
Impairment										
Reversals of impairment loss	–	–	–	–	–	–	–	–	–	(6,594)
Impairment loss	–	–	–	–	–	–	–	–	–	635
Accumulated depreciation and impairment	–	104,686	92,411	111,824	138,762	4,955	94,062	97,018	643,718	602,720
Carrying amount as at the end of the year	2,015,808	534,996	205,909	32,158	132,604	795	50,308	87,461	3,060,039	2,137,747
b. Company										
Cost or Valuation										
Balance at the beginning of the year	1,374,289	565,600	172,266	111,863	163,941	6,825	96,997	147,656	2,639,437	2,623,350
Additions	641,519	74,799	107,129	22,716	115,468	–	42,802	30,308	1,034,741	32,919
Revaluation	–	–	–	–	–	–	–	–	–	–
Disposals	–	(4,005)	(8,410)	(4,984)	(11,765)	(1,075)	(8,216)	(7,651)	(46,106)	(16,832)
Balance at the end of the year	2,015,808	636,394	270,985	129,595	267,644	5,750	131,583	170,313	3,628,072	2,639,437
Depreciation										
Balance at the beginning of the year	–	86,064	80,742	95,497	121,748	4,909	81,975	88,879	559,814	486,676
Charge for the year	–	19,130	10,779	8,889	26,930	1,121	10,278	8,726	85,853	86,459
On disposals	–	(2,441)	(7,806)	(5,388)	(11,279)	(1,075)	(8,198)	(7,435)	(43,622)	(6,727)
Balance at the end of the year	–	102,753	83,715	98,998	137,399	4,955	84,055	90,170	602,045	566,408
Impairment										
Reversal of impairment loss	–	–	–	–	–	–	–	–	–	(6,594)
Accumulated depreciation and impairment	–	102,753	83,715	98,998	137,399	4,955	84,055	90,170	602,045	559,814
Carrying amount as at the end of the year	2,015,808	533,641	187,270	30,597	130,245	795	47,528	80,143	3,026,027	2,079,623

Notes

16.a Revaluation of Freehold Land and Building

Company had revalued its freehold land as at 30th September 2008 by a professionally qualified independent valuer. The revaluation was carried out by taking into account the observable prices in active market or recent market transactions on arm's length terms. The revaluation surplus, amounting to Rs. 1,135.6 mn had been credited to the revaluation reserve account.

The valuation of the freehold land has been written up to correspond with the market value and the details are as follows:

Location	Extent	Cost Rs. '000	Revalued Rs. '000	Pledged
No. 65 & 56, Jetawana Road, Colombo 14	2A-0R-33.29P	414	821,660	-
No. 61, Jetawana Road, Colombo 14	0A-1R-04.00P	18,014	132,000	-
No. 74, Jetawana Road, Colombo 14	0A-1R-14.56P	113,808	172,313	√
No. 800, Sirimawo Bandaranaike Mawatha, Colombo 14	3A-3R-14.00P	641,519	641,519	-
No. 135, Mahena Road, Siyambalape	7A-3R-05.90P	16,483	94,290	√
Kirindiwela Road, Weliveriya	16A-0R-36.31P	89,958	154,026	√
Total		880,196	2,015,808	

16.b Fully Depreciated but still in Use

Property, plant & equipment with cost of Rs. 370 mn (2010 - Rs. 317 mn) have been fully depreciated and continue to be used by the Group. The cost of fully depreciated assets of the Company amounts to Rs. 344 mn (2010 - 296 mn)

16.c Property, Plant & Equipment Pledged as Security for Long-Term Bank Loan

Group land and building with a carrying value of Rs. 421 mn (2010 - Rs. 821 mn) have been pledged as security for term loans obtained.

16.d Permanent Fall in Value of Property, Plant & Equipment

There has been no permanent fall in the value of property, plant & equipment which require a provision other than disclosed above.

16.e Title Restriction on Property, Plant & Equipment

There were no restrictions that existed on the title of the property, plant & equipment of the Group as at Balance Sheet date.

16.f Assessment of Impairment

The Board of Directors has assessed potential impairment loss as at 31st March 2011. Based on the assessment, no provision was required to be made into the Financial Statements as at Balance Sheet date, other than mentioned above.

NOTES TO THE FINANCIAL STATEMENTS

17. Leasehold Property

<i>As at 31st March</i>	Group		Company	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Cost				
Balance at the beginning of the year	2,400	2,400	2,400	2,400
Additions during the year	37,538	–	37,538	–
Balance at the end of the year	39,938	2,400	39,938	2,400
Accumulated amortisation				
Balance at the beginning of the year	1,040	960	1,040	960
Amortisation for the year	1,142	80	1,142	80
Balance at the end of the year	2,182	1,040	2,182	1,040
Carrying amount at the end of the year	37,756	1,360	37,756	1,360

17.1 Details of Leasehold Property

Location	Lease Amount Rs. '000	Duration
i. No. 562/126, D.S. Senanayake Mawatha, Anuradhapura	2,400	Commencing from April 1997 to August 2021
ii. No. 562/100, Jayanthi Mawatha, Anuradhapura	37,538	Commencing from October 2010 to May 2028

18. Intangible Assets

<i>As at 31st March</i>	Group		Company	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Cost				
Balance at the beginning of the year	2,808	2,808	2,808	2,808
Balance at the end of the year	2,808	2,808	2,808	2,808
Accumulated Amortisation				
Balance at the beginning of the year	1,463	761	1,463	761
Amortisation for the year	643	702	643	702
Balance at the end of the year	2,106	1,463	2,106	1,463
Carrying amount at the end of the year	702	1,345	702	1,345

18.1 Assessment of Impairment

System software purchase cost has been classified as an intangible asset. Based on the assessment of potential impairment that has been internally carried out by the management as at 31st March 2011, no provision was made in the Financial Statements as at Balance Sheet date.

There were no restrictions on the title of the intangible assets as at 31st March 2011.

19. Investment in Subsidiaries

<i>As at 31st March</i>	Percentage of Holding	Company	
		2011 Rs. '000	2010 Rs. '000
Unquoted investment-ordinary shares			
Dimo (Pvt) Ltd. - 25,000 ordinary shares	100	250	250
Dimo Industries (Pvt) Ltd. - 2,305,000 ordinary shares	100	23,050	23,050
Dimo Travels (Pvt) Ltd. - 500 ordinary shares	100	50	50
		23,350	23,350
Impairment loss		(15,000)	-
		8,350	23,350

Impairment assessment had been carried out as at 31st March 2011 and it was concluded that all the investments included under unquoted investments exceed net realisable value over its carrying value except Dimo Industries (Pvt) Ltd. In the opinion of the Directors, impairment loss of Rs. 15 mn had been recorded in the Financial Statements in relation to investment in Dimo Industries (Pvt) Ltd. Board of Directors had decided to transfer the operation of Dimo Industries (Pvt) Ltd. to Diesel & Motor Engineering PLC, with effect from 31st December 2010.

20. Other Long-Term Investments

<i>As at 31st March</i>	No. of Shares	Market Value (per share)	Market Value Rs. '000	Group		Company	
				2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Quoted investments							
Ordinary shares							
Hunas Falls Hotels PLC	900	85.00	77	14	14	7	7
Hatton National Bank PLC (Non-voting)	33,000	213.30	11,732	700	700	700	700
Ceylinco Insurance PLC (Non-voting)	1,700	288.90	491	298	298	298	298
				1,012	1,012	1,005	1,005

The number of ordinary shares invested in Messrs Hatton National Bank PLC (Non-voting) has increased due to the sub-division of shares.

NOTES TO THE FINANCIAL STATEMENTS

21. Inventories

<i>As at 31st March</i>	Group		Company	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Stock in trade and work-in-progress	2,313,864	1,126,287	2,093,212	1,024,274
Provision for slow moving inventories	(108,979)	(115,717)	(100,690)	(92,908)
	2,204,885	1,010,570	1,992,522	931,366
Goods-in-transit	435,613	305,804	426,993	305,391
	2,640,498	1,316,374	2,419,515	1,236,757

22. Trade and Other Receivables

<i>As at 31st March</i>	Group		Company	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Trade receivables	3,375,558	2,127,344	3,266,457	1,891,120
Provision for bad and doubtful debts	(213,747)	(212,334)	(156,501)	(165,038)
	3,161,811	1,915,010	3,109,956	1,726,082
Deposits and prepayments	137,033	55,260	121,705	44,290
Other trade receivables	15,378	14,384	9,955	13,786
Loans to employees	14,206	3,488	14,073	3,275
	3,328,428	1,988,142	3,255,689	1,787,433

22.1 Inventories and book debts amounting to Rs. 95 mn have been pledged as securities for short-term interest bearing loans and borrowings as shown in Note 34.

23. Cash and Cash Equivalents

<i>As at 31st March</i>	Group		Company	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Bank balances & investments in Treasury Bills	1,859,914	28,684	1,790,839	21,314
Cash in hand	11,132	6,777	10,531	6,451
	1,871,046	35,461	1,801,370	27,765

24. Assets Classified as Held for Sale

The management of Diesel & Motor Engineering PLC has divested its 49% holding in Dimo KLN Industries (Pvt) Ltd., to its joint venture partner. The share of assets and liabilities of Dimo KLN Industries (Pvt) Ltd. is given below:

<i>As at 31st March</i>	Group		Company	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Assets classified as held for sale				
Non-current assets	–	2,712	–	6,750
Current assets	–	3,014	–	–
Investment in equity accounted investee	–	33,069	–	–
Total assets	–	38,795	–	6,750
Liabilities directly associated with assets classified as held for sale				
Non-current liabilities	–	6	–	–
Current liabilities	–	5,720	–	–
Total liabilities	–	5,726	–	–
Net assets	–	33,069	–	6,750

Accordingly, Company has classified its investments in Dimo KLN Industries (Pvt) Ltd. as 'assets held for sale' in the Balance Sheet as at 31st March 2010.

The management of Diesel & Motor Engineering PLC divested all the assets and liabilities of Browns Dimo Industrial Products (Pvt) Ltd. (BDIPL) which was presented as non-current assets & liabilities classified as held for sale as at 31st March 2010. The gain on disposal of Rs. 5.4 mn is included under 'Other Income' in the Income Statement.

25. Stated Capital

<i>As at 31st March</i>	Group/Company			
	2011 No. of shares	2011 Rs. '000	2010 No. of Shares	2010 Rs. '000
Ordinary Shares				
Issued and fully paid ordinary shares				
Balance at the beginning of the year	8,702,389	182,500	8,702,389	182,500
Balance at the end of the year	8,702,389	182,500	8,702,389	182,500

In accordance with Section 58 of Companies Act No. 07 of 2007, which became effective from 3rd May 2007, Share Capital and Share Premium have been classified as Stated Capital.

NOTES TO THE FINANCIAL STATEMENTS

26. Capital Reserve

<i>As at 31st March</i>	Group		Company	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Reserve on revaluation of land	1,135,612	1,135,612	1,135,612	1,135,612

26.1 Revaluation Reserves

Cost and revalued amounts relating to revaluation of land are depicted in Note 16 (a) to the Financial Statements.

27. Revenue Reserves

<i>As at 31st March</i>	Group		Company	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Balance at the beginning of the year	882,816	686,733	652,679	515,691
Dividends to shareholders				
- Final 2009/10	(34,809)	(26,107)	(34,809)	(26,107)
- 01st interim - 2010/11	(43,512)	(26,107)	(43,512)	(26,107)
- 02nd interim - 2010/11	(43,512)		(43,512)	
Profit for the year	2,121,752	248,297	2,103,905	189,202
Balance at the end of the year	2,882,735	882,816	2,634,751	652,679

The Revenue Reserves represent reserves available for distribution.

28. Retirement Benefit Obligations

<i>As at 31st March</i>	Group		Company	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Present value of unfunded obligation	182,327	142,138	173,713	132,607
Balance at the beginning of the year	142,138	125,167	132,607	117,137
Current service cost	13,058	10,344	11,674	9,210
Interest cost	15,626	18,774	14,586	17,571
Actuarial losses/(Gain)	28,983	(894)	29,691	(1,673)
Total charge for the year	57,667	28,224	55,951	25,108
Benefits paid by the plan	(17,478)	(11,247)	(14,845)	(9,638)
	182,327	142,144	173,713	132,607
Transfer to assets classified as held for sale	-	(6)	-	-
Balance at the end of the year	182,327	142,138	173,713	132,607

An actuarial valuation of the Gratuity fund was carried out as at 31st March 2011 by Mr. M. Poopalanathan, AIA, Messrs Actuarial and Management Consultants (Pvt) Ltd., a firm of professional actuaries. The valuation method used by the actuaries to value the fund is the 'Projected Unit Credit Method', the method recommended by the Sri Lanka Accounting Standard 16 (Revised 2006) 'Employee Benefits'.

The following assumptions and data were used in valuing the defined benefit obligation by the actuarial valuer.

Rate of discount	-	10.5%
Salary increase	-	9.5%

Assumptions regarding future mortality are based on a 67/70 mortality table, issued by the Institute of Actuaries, London.

Normal retirement age of an individual is assumed to be 60 years and employees over 60 years are assumed to retire on their next birthdays.

The current service cost, interest cost and actuarial losses for the year under review are included under Administration Expenses.

However, according to the Payment of Gratuity Act No. 12 of 1983, the liability for gratuity to an employee arises only on completion of five years of continuous service. The liability as required by the Payment of Gratuity Act for the Group and the Company as at 31st March 2011 amounted to Rs. 178 mn and Rs. 173 mn respectively.

29. Deferred Tax Assets/(Liabilities)

The amount of deferred tax assets and liabilities recognised in the Balance Sheet for each year is presented as follows:

<i>As at 31st March</i>	Group		Company	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Deferred tax assets	-	(7,941)	-	-
Deferred tax liabilities	58,157	36,078	57,155	36,078
Unrecognised deferred tax assets				
Deferred tax assets have not been recognised in respect of following items				
Tax losses as at 31st March 2010 (Note 12.2)	9,580	12,805	-	-
Unrecognised deferred tax assets	9,580	4,482	-	-

NOTES TO THE FINANCIAL STATEMENTS

29.1 Deferred Tax Assets/(Liabilities) - Reconciliation

<i>As at 31st March</i>	Group		Company	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Balance at the beginning of the year	28,137	42,319	36,078	41,315
Origination/(reversal) of temporary differences	30,020	(14,182)	21,077	(5,237)
Balance at the end of the year	58,157	28,137	57,155	36,078
Recognised deferred tax assets and liabilities				
Property, plant & equipment	390,030	246,922	377,839	235,687
Defined benefit obligations	(182,326)	(142,048)	(173,713)	(132,607)
Provisions	-	(24,482)	-	-
Net temporary differences	207,704	80,392	204,126	103,080
Deferred tax liability (net) at the rate of 28% (2009/10 - 35%)	58,157	28,137	57,155	36,078

29.2 Movement in Temporary Differences during the Year

	Group		Company			
	Balance as at 01.04.2010 Rs. '000	Recognised in Income Statement Rs. '000	Balance as at 31.03.2011 Rs. '000	Balance as at 01.04.2010 Rs. '000	Recognised in Income Statement Rs. '000	Balance as at 31.03.2011 Rs. '000
Property, plant & equipment	86,422	50,089	136,511	82,490	49,753	132,243
Retirement benefit obligation	(49,717)	(14,098)	(63,815)	(46,412)	(14,387)	(60,799)
Other provisions	(8,568)	8,568	-	-	-	-
Impact from the Income Tax rate change - Note 29.1	-	(14,539)	(14,539)	-	(14,289)	(14,289)
	28,137	30,020	58,157	36,078	21,077	57,155

29.3 Impact Due to Corporate Income Tax Rate Change

The corporate income tax rate is reduced to 28% commencing from year of assessment 2011/12. Accordingly, deferred tax asset and liability have been computed based on corporate tax rate of 28% and Rs. 14.5 mn in the Group have been reversed to the Income Statement as disclosed in Note No. 12 - Deferred Tax Expenses.

30. Long-Term Interest-Bearing Borrowings

<i>As at 31st March</i>	Group		Company	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
a. Non-current portion of the interest-bearing borrowings				
Term loans (Note 30.1)	316,830	501,257	316,830	501,257
Finance lease obligations (Note 30.4)	–	1,472	–	1,472
Total non-current interest-bearing borrowings	316,830	502,729	316,830	502,729
b. Current portion of the interest-bearing borrowings:				
Term loans (Note 30.1)	91,927	161,626	91,927	161,626
Finance lease obligations (Note 30.4)	1,088	728	1,088	728
Total current portion of the interest-bearing borrowings	93,015	162,354	93,015	162,354

30.1 Term Loans

<i>As at 31st March</i>	Group		Company	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Non-Current				
At the beginning of the year	662,883	898,876	662,883	898,876
Repayments during the year	(254,126)	(235,993)	(254,126)	(235,993)
At the end of the year	408,757	662,883	408,757	662,883
Transferred to current liabilities (repayable within one year)	91,927	161,626	91,927	161,626
Long-term portion of long-term loan (repayable after one year)	316,830	501,257	316,830	501,257

NOTES TO THE FINANCIAL STATEMENTS

30.2 Principal Amounts of Long-Term Borrowings

Lender	Company		Securities	Repayments
	2011 Rs. '000	2010 Rs. '000		
Commercial Bank of Ceylon PLC				
Loan - 1	350,000	350,000		Fully settled during the year.
Loan - 2	400,000	400,000	√	Repayable in 120 Instalments commencing from February 2008
Total	750,000	750,000		
Hatton National Bank PLC				
Loan - 1	120,000	120,000		Repayable in 60 Instalments commencing from September 2006
Loan - 2	100,000	100,000		Fully settled during the year.
Loan - 3	200,000	200,000	√	Repayable in 60 Instalments commencing from March 2009
Total	420,000	420,000		
People's Bank				
Loan - 1	150,000	150,000	√	Fully settled during the year.
Total	150,000	150,000		
Total	1,320,000	1,320,000		

Details of lands which were pledged against above bank loan facilities are disclosed in Note 16 (a).

30.3 Analysis of Long-Term Interest Bearing Borrowings by the year of Repayment

	Commercial Bank of Ceylon PLC Rs. '000	Hatton National Bank PLC Rs. '000	People's Bank Rs. '000	Total 2011 Rs. '000	Total 2010 Rs. '000
Movement of Loans					
Balance at the beginning of the year	336,150	204,233	122,500	662,883	898,876
Loans obtained during the year	-	-	-	-	-
Repayments during the year	(59,360)	(72,266)	(122,500)	(254,126)	(235,993)
Balance at the end of the year	276,790	131,967	-	408,757	662,883
Analysis of long-term borrowings by year of repayment					
Long-term loan repayable within 1 year from year end	39,960	51,967	-	91,927	161,626
Long-term loan repayable between 2 and 5 year from year end	199,800	80,000	-	279,800	424,267
Long-term loan repayable later than 5 years from year end	37,030	-	-	37,030	76,990
	276,790	131,967	-	408,757	662,883

30.4 Finance Lease Obligations

<i>As at 31st March</i>	Group		Company	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Finance lease liability at the beginning of the year	3,223	10,901	3,223	10,901
Repayment during the year	(1,699)	(7,678)	(1,699)	(7,678)
Gross lease obligation at the end of the year	1,524	3,223	1,524	3,223
Finance charges unamortised	(436)	(1,023)	(436)	(1,023)
Net liability at the end of the year	1,088	2,200	1,088	2,200
Analysis of finance lease obligation by year of payments				
Net lease obligation repayable within 01 year from year end	1,088	728	1,088	728
Net lease obligation repayable later than 01 year from year end	–	1,472	–	1,472
	1,088	2,200	1,088	2,200

31. Deferred Income

<i>As at 31st March</i>	Group		Company	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
At the beginning of the year	11,775	363	11,239	363
Income deferred during the year	206	16,673	206	16,137
Amortised during the year	(4,004)	(5,261)	(3,469)	(5,261)
Balance at the end of the year	7,977	11,775	7,976	11,239

Deferred income represents the value of telephone system received free of charge. This would be amortised on a systematic basis over the contract period with the supplier of equipment.

NOTES TO THE FINANCIAL STATEMENTS

32. Trade and Other Payables

<i>As at 31st March</i>	Group		Company	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Trade payables	1,655,702	835,692	1,597,466	826,593
Advances received	–	8,610	–	–
Interest payable	9,914	8,008	9,914	8,008
Unclaimed dividend	2,289	2,669	2,289	2,669
Value Added Tax (VAT)/Turnover tax payable	64,818	52,385	64,889	48,860
Other payables and accrued expenses	689,497	252,265	507,170	188,747
	2,422,220	1,159,629	2,181,728	1,074,877

33. Current Tax Asset/Liability

<i>As at 31st March</i>	Group		Company	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
At the beginning of the year	5,304	(36,189)	(10,183)	(34,367)
Income tax for the year - net of deferred tax (Note 12)	1,244,208	153,553	1,243,703	122,350
	1,249,512	117,364	1,233,520	87,983
Tax paid during the year:				
Economic service charge	126,707	52,471	121,227	44,996
Income tax, Social Responsibility Levy (SRL) & WHT	123,318	43,013	106,088	38,137
Payments/adjustments pertaining to previous year	–	16,576	–	15,033
	250,025	112,060	227,315	98,166
Net tax payable/(recoverable)	999,487	5,304	1,006,205	(10,183)
Made up as follows:				
Current tax asset	(7,983)	(10,251)	–	(10,183)
Current tax liability	1,007,470	15,555	1,006,205	–
	999,487	5,304	1,006,205	(10,183)

34. Short-Term Interest-Bearing Borrowings

<i>As at 31st March</i>	Group		Company	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Short-term bank loans	2,588,594	1,211,132	2,588,594	1,188,610
Bank overdrafts	70,027	90,384	58,630	82,300
	2,658,621	1,301,516	2,647,224	1,270,910

Unutilised bank facilities as at 31st March 2011 amounted to Rs. 2,087.8 mn (2010 - Rs. 2,606.4 mn).

Details of inventories and book debts which were pledged against above short-term loan facilities are disclosed in Note 22.1.

35. Related Party Disclosures

The Company carried out transactions in ordinary course of its business on an arm's length basis with parties who are defined as related parties in Sri Lanka Accounting Standard 30 - (Revised 2005) 'Related Party Disclosures', the details of which are reported below.

35.1(a) Transactions with Key Management Personnel (KMPs)

According to Sri Lanka Accounting Standards 30 (Revised 2005) - 'Related Party Disclosures', Key Management Personnel, are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Directors of the Company (including Executive and Non-Executive Directors) and their immediate family members have been classified as KMPs of the Company.

As the Diesel & Motor Engineering PLC is the Ultimate Parent of its subsidiaries listed out in Note 19 and the Board of Directors of the Company has the authority and responsibility for planning, directing and controlling the activities of the Group. Directors of the Company and their immediate family members have been classified as KMPs of the Company.

Therefore, officers who are only Directors of the subsidiaries and not of the Company have been classified as KMP of the subsidiary only.

Details of the Directors and their spouses' shareholdings are given in the Annual Report of the Board of Directors on page 143.

NOTES TO THE FINANCIAL STATEMENTS

35.1 (b) The Compensation of Key Management Personnel - (KMPs)

Compensation to Key Management Personnel of the Company are disclosed in Note 11.1 to the Financial Statements.

The Executive Directors are entitled to a structured incentive scheme which is linked to performance.

The Company contributes towards post employment benefits of the Executive Directors in addition to their salaries, the Company provides non-cash benefits to KMPs.

There are no share-based payments made to the Directors during the year.

No Loans have been given to the KMPs of the Company.

35.1 (c) Transactions with Close Family Members

Immediate family members are defined as spouse or dependant. Dependant is defined as any one who depends on the respective Director for more than 50% of his/her financial needs.

There were no transactions with the close family members during the year.

35.2 Transactions with Subsidiaries

Name of the Company	Dimo (Pvt) Ltd.	Dimo Industries (Pvt) Ltd.	Dimo Travels (Pvt) Ltd.	
Relationship	Subsidiary	Subsidiary	Subsidiary	Total
Shareholding	100%	100%	100%	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Opening balance as at 1st April 2010	(36,900)	23,265	(353)	(13,988)
Sale of goods and services	(93,402)	(653)	-	(94,055)
Purchases of goods and services	3,171	-	-	3,171
Expense incurred - net	34,624	1,265	26	35,915
Fund transfers - net	(12,333)	(32,415)	-	(44,748)
Balance at the end of the year	(104,840)	(8,538)	(327)	(113,705)

Diesel & Motor Engineering PLC and Dimo (Pvt) Ltd. are enjoying joint banking facilities. The Company has issued guarantees and letters of credit amounting to Rs. 230 mn on behalf of Dimo (Pvt) Ltd. as at the Balance Sheet date.

35.3 Transactions with Other Related Entities

Name of the Company	Name of the Director	Nature of the Transactions	Value Rs.
1. Dipped Products PLC	Mr. A.M. Pandithage	Repairing of forklifts	432,351
2. Hayleys Advantis Ltd.	Mr. A.M. Pandithage	Repairing & service of vehicles	783,639
3. Chartis Insurance Company	Mr. A.M. Pandithage	Insurance premium paid	25,781,477
4. Hayleys Industrial Solutions (Pvt) Ltd.	Mr. A.M. Pandithage	Purchasing of oil & fuel filters	323,456
5. Hayleys PLC	Mr. A.M. Pandithage	Sale of vehicle tyres, invoicing of vehicle hiring	2,814,703
6. MIT Cargo (Pvt) Ltd.	Mr. A.M. Pandithage	Repair & service of forklifts, Obtaining services of shipping & warehouse	428,599 2,771,654
7. Toyo Cushion Lanka (Pvt) Ltd.	Mr. A.M. Pandithage	Repair & service of forklifts	145,440
8. Global Holidays (Pvt) Ltd.	Mr. A.M. Pandithage	Purchase of Traveller's Cheques	16,490,364
9. NYK Line Lanka (Pvt) Ltd.	Mr. A.M. Pandithage	Obtaining services of freight	1,262,202
10. Hayleys Consumer Products Ltd.	Mr. A.M. Pandithage	Purchase of consumables	50,175

36. Commitments and Contingencies

36.1 Capital Expenditure Commitments

Capital expenditure contracted by the Board of Directors for which provision has not been made in the accounts amounts to approximately Rs. 123.4 mn (2009/10 - Rs. Nil).

36.2 Contingent Liabilities

Guarantees

The contingent liability as at 31st March 2011 on guarantees given by Diesel & Motor Engineering PLC, in respect of bid bonds and performance bonds amounted to Rs. 672.3 mn (2009/10 - Rs. 588.6 mn).

36.3 Litigation Against the Company

The claims for lawsuits filed against the Company as at 31st March 2011 amounts to Rs. 27.5 mn. Although there can be no assurance, the Directors believe, based on the information currently available that the ultimate resolution of such lawsuits are not likely to have a material effect on the results of operations, financial position or liquidity. Accordingly, no provision for any liability has been made in the Financial Statements.

37. Events Occurring After the Balance Sheet Date

Subsequent to the Balance Sheet date the Board of Directors of the Company approved the final dividend of Rs. 51/- per share for the year ended 31st March 2011. Details of the above dividend are disclosed in Note 15 to the Financial Statements.

There were no other material events that occurred after the Balance Sheet date that require adjustments to or disclosure in the Financial Statements.

38. Directors' Responsibility to the Financial Statements

The Board of Directors of the Company is responsible for the preparation and presentation of the Financial Statements. Please refer page No. 151 to the Financial Statements.