

# D Brand

Dimo has created a unique Sri Lankan brand. As representative of over 50 of the world's best known brands, Dimo provides Sri Lankans from all walks of life, access to some of the world's best products. We have created a unique Sri Lankan brand, a brand like no other, one of *the* Sri Lankan brands.

D Brand

We have created a  
**unique Sri Lankan brand**



Ranjith Pandithage, Chairman of Diesel & Motor Engineering PLC puts it all into context on page 06.

We support this with a standard of after care that is also among the world's best. At Dimo we don't just sell products, but rather we sell relationships. Our relationships are forged on trust, quality and dependability and last a lifetime, staying with you every step of the way.

While we expand our core business we are also stepping into other areas to support Dimo's core business and enhance our brand value.

At Dimo, we touch lives deeply with the products we sell, we build aspirations through the care we provide afterwards. That is why we are unique. Our relationship with our clients is an enduring one, it lives, it throbs, it ebbs, it flows. It is the essence of *D* Brand.

It is the essence of

# D Brand

More information about D Brand is available at [www.dimolanka.com](http://www.dimolanka.com)



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## CORPORATE INFORMATION

- (Inner Back Cover)

**Vision** 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.

## The Values that Guide us

Customer first; Partner with the world's best; Make work enjoyable and rewarding; Never compromise on Dimo's ethics; Benefactor of society and friend of the environment.

The Annual Report is published within three months of the Balance Sheet date and the HTML version in addition to the PDF version is also published on-line on the same date as the date of issue of this Report ([www.dimolanka.com](http://www.dimolanka.com)).

## OVERVIEW

# FINANCIAL HIGHLIGHTS

	2007/08 Rs. '000	2006/07 Rs. '000	Change %	2005/06 Rs. '000
<b>Results for the year</b>				
Group turnover	<b>12,687,289</b>	12,989,916	(2)	10,512,326
Group profit before tax	<b>344,444</b>	512,895	(33)	382,235
Group profit after tax	<b>205,093</b>	301,777	(32)	265,172
Gross dividends	<b>48,400</b>	69,600	(30)	60,000
Group value added	<b>3,280,800</b>	3,460,720	(5)	2,798,856
Group revenue to government	<b>1,906,343</b>	2,206,250	(14)	1,829,615
Group net profit after tax as a % of gross turnover	<b>1.62</b>	2.32	(30)	2.52
Return on average capital employed %	<b>19.55</b>	23.33	(16)	19.55
Interest cover (Times)	<b>1.66</b>	2.11	(21)	2.44
Dividend cover (Times)	<b>4.24</b>	4.16	2	4.42
Price earnings (Times)	<b>5.24</b>	4.66	12	5.22
Dividend yield (%)	<b>4.51</b>	5.00	(10)	4.33
<b>Position at the year end</b>				
Shareholders' funds	<b>1,657,151</b>	1,506,508	10	1,216,030
Total assets	<b>5,831,158</b>	5,198,632	12	4,569,611
Group employment (No. of persons)	<b>867</b>	862	-	778
Current ratio (Times)	<b>1.26:1</b>	1.30:1	-	1.33:1
Market capitalisation	<b>1,073,875</b>	1,452,000	(26)	1,385,000
<b>Per share</b>				
Dividend (Rs.)	<b>4.00</b>	6.00	(33)	6.00
Earnings (Rs.)	<b>16.95</b>	25.76	(34)	22.96
Market value (Rs.) - at year end	<b>88.75</b>	120.00	(26)	138.50

# OPERATIONAL HIGHLIGHTS



01



02



03



04



05

01. The newly introduced TATA Xenon Double Cab
02. Making it all easy - the Logistics Centre at Weliveriya
03. The Chairman declares open the new TATA parts outlet at Jetawana Road
04. The launch of the Mercedes-Benz GL Class for the discerning customer
05. The sleek TATA Indigo Diesel, the newest one in our range of classy cars

## CHAIRMAN &amp; CEO'S REVIEW



### Changing Lives

Last year, Dimo reinforced its position as one of Sri Lanka's leading brands despite a challenging external environment and a sluggish domestic market. Sales of vehicles, big and small, and sales of components, dropped during the year under review. Vehicles sales, Dimo's main line of business, declined drastically and the details provided on page 17 demonstrate how sharply the market contracted.

Despite these adverse market conditions, the Company performed well and displayed its enduring capacity for resilience.

The Company's ability to adapt to new situations and face unexpected challenges with aplomb has not diminished in any way. It continues to change people's lives in the way it has done over these 69 years and to fuel aspirations and hopes within people from all walks of life.

Group turnover and profits before tax declined during the year. This was mainly due to a lack of growth in sales which in turn were caused by increasing costs as a result of inflation and rising interest rates. High interest rates and inflation eroded the buying power of our customers and consequently brought down our margins. In the current year's corporate planning and budgeting sessions necessary steps have been taken to foster growth and profitability. Managing working capital continues to be a matter of concern and high priority for the Company and will continue to pose a challenge this year too.

One of the Company's biggest concerns continues to be the spiralling interest rates. Interest rates began to move up sharply in

the previous year and this trend escalated during the year under review.

High interest rates had a particularly negative impact on automobile and truck sales. Leasing rates moved up consequently and the demand for all forms of vehicles fell as a result. New Government taxes on vehicles had a drastic impact on sales. Dimo is exploring the possibility of assembling vehicles locally in order to increase the local value added content, which is in line with the long-term growth strategy of the Company. If this initiative is found to be viable, we could immediately implement the project at our newly acquired facility at Weliveriya.

The Company continued with its investments in non-auto related businesses. It has attracted new businesses in process instrumentation, circuit protection systems, switches and sockets and marine business from the house of Siemens.

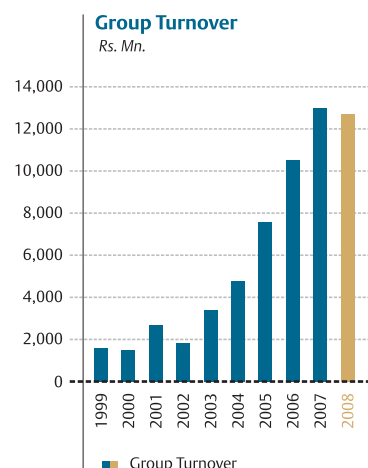
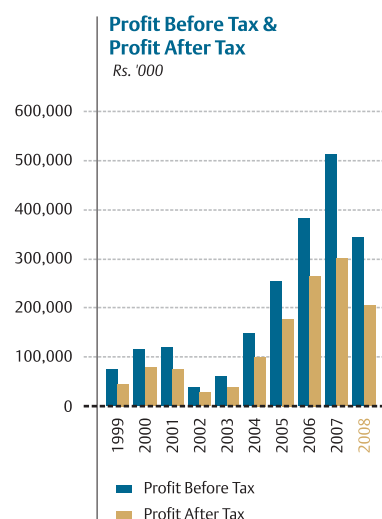
The Company recently ventured into fire protection and building management systems which show encouraging results. There has been a dramatic revival in the power engineering sector where the Company secured substantial orders for our principals. These new developments are in line with the Company's diversification strategy while providing an opportunity to Dimo engineers for enhanced value addition.

### Unsettled Economies

Recession in the United States and rising oil prices are set to make an impact on the global economy. While the Chinese and Indian economies continued to grow, inflation emerged as a major concern in these countries too. The economic slow down in the west is likely to have an effect on Sri Lankan exports and the tourist industry, two major target groups of the organisation.

Despite the escalating ethnic conflict, the Sri Lankan economy grew by 6.8% as indicated by Central Bank figures. Inflation however, increased sharply. The Government should make strong interventions to control same.

Customers have over the years developed increasing confidence in the Dimo brand which markets the highest quality products combined with equally high standards of 'after care'





# CHAIRMAN & CEO'S REVIEW

## A Challenging Year for Dimo

The Company's previous phenomenal growth slowed in the year under review. This was mainly due to a challenging external environment and negative domestic market conditions. Despite such conditions, Dimo's performance shows, if companies are creative and adaptable they can seize new opportunities and continue to deliver stakeholder value. Your Company's performance though moderate, was achieved in the context of difficult times.

The Group's pre-tax profit for 2007/08 was Rs. 344 mn, which represents a 33% decline over the previous year. Group turnover decreased marginally by 2.3% to Rs. 12.6 bn.

The Company paid an interim dividend of Rs. 1.50 per share in March 2008 and your Board has approved a final dividend of Rs. 2.50 per share.

## Zooming Costs

The spiralling interest rates continued to be the main obstacle for growth during the year under review. Over 90% of the vehicles sold are financed by our customers through leasing agreements and lease rentals have significantly escalated during the year. Prudent cash flow management becomes fundamental in the context of a high interest regime, and the Company is proud to have managed its cash flow and generated optimum results for all stakeholders.

The Indian Rupee strengthened by 7.5% against the Sri Lankan Rupee over the past 12 months and this has also contributed to increasing the costs of some of the Company's products. The Company represents several key brands from India and these products have consequently become more expensive for the Sri Lankan consumer.

## Building Relationships

The essence of the Dimo brand has been the relationships built over the years. While the Company is the proud representative

of 53 of the world's best brands, business at Dimo has never stopped with the sale of its products. On the contrary the point of sale has marked the beginning of a life long relationship with our customers. Dimo has accompanied its world class brands with superior after care which continues long after the sale of the product. The quality of both the product and the after care has generated a culture of unmatched trust and dependability.

## Seeking New Areas of Growth

Automobiles and vehicles remain Dimo's main area of business. The Company represents some of the best brands in the business and will continue to market their products in Sri Lanka. At the same time Dimo has begun to look for new areas of growth and to add new businesses to its portfolio.

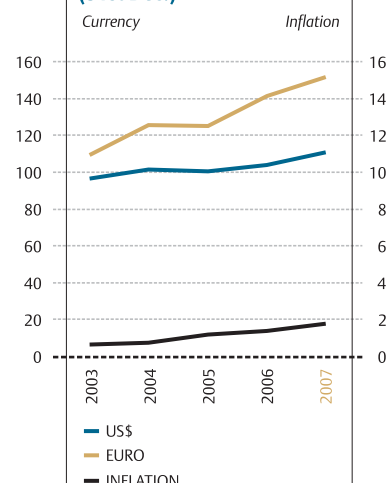
Two years ago the Company invested in a tyre re-building plant at Homagama. The plant commenced production two years ago and is likely to move into a profit making mode in the near future. The auto filter manufacturing plant started in partnership with KLN India commenced production two years ago and expects stability in the near future.

The Company also invested in a 15.8 acre property in Weliveriya costing Rs. 400 mn. It is developing a state-of-the-art logistics centre that will serve the Group in multiple ways. This new logistics centre will enable the Company to raise its standard of 'after care' to even higher levels which would attract new products to its growing portfolio.

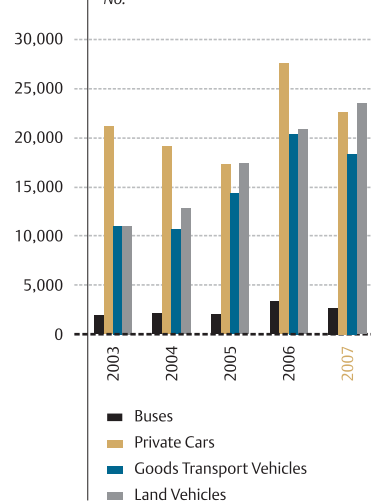
## Growing New Markets

Dimo continued to expand into the provinces. Previously the Company operated mainly from Colombo. This has changed and new centres for sales, service and spares have been established in Matara, Kurunegala and Anuradhapura with the next centre to be opened soon in Ampara.

**Currency vs Inflation (31st Dec.)**



**Registration of Motor Vehicles (31st Dec.)**



# CHAIRMAN & CEO'S REVIEW

Dimo has thus moved to the customer's doorstep with the opening of these provincial centres and has dispensed with the need for customers located in these regions to come to Colombo either to purchase a product or for 'after care'.

## Investing in People and Technology

Dimo will continue to invest in the future growth of its people. The Dimo team has been one of the important drivers of the Company's success and the Company will continue to invest in them.

Last year the Company invested Rs. 20 mn in training programmes for its staff.

The Sustainability Report on pages 45 to 70 discusses other aspects of how the Company has nurtured its employees over the past year.

The Employees' Council which was set up a few years ago makes an important contribution to the growth of the Company. The Council ensures that employees have the opportunity to participate in the management of the Company and in the framing of important resolutions. The vibrancy of the Council's interventions and the conduct of its proceedings has boosted employee confidence and provides a meaningful avenue for genuine employee participation. The Council has also helped in responding to employee grievances and finding solutions.

The Dimo training school established in 1990 continues to grow from strength to strength. This state-of-the-art training facility is given to the youth of this country to develop technical skills. The course is offered free of charge for all students and has over the years become a qualification that is much recognised and sought after. It gives greater opportunities to these students to seek employment in other lucrative countries. One unique feature is that the trainees are not bonded to

remain at DIMO after completion of the course. Recently, the school commenced conducting automotive training courses for City & Guilds programme.

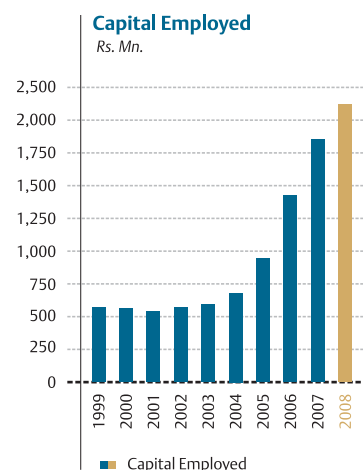
In the near future the School also hopes to commence specialised training for bulldozer and fork lift operators. This will not only help our valued customers to get their operators trained locally, but also give an opportunity to these operators to seek employment overseas.

The Company's ability to provide much sought after training and also meet an acute social need on the part of the youth of this country is something the Company is very proud of.

The Company is committed to delivering financial value to its shareholders as well as delivering larger social value to its many other stakeholders. Its philosophy has been to start 'close to home'. With this in view, some years ago the Company initiated a comprehensive medical scheme for its employees. Cliché as it may sound, 'health is wealth'. The Company is committed to ensuring that its employees enjoy a high level of mental, physical and emotional well being.

Technology has been the other main driver and with collaboration from our principals' investment in new technology, will be an on going process. The Company will continuously upgrade its equipment with a view to provide better standards of service to customers. The Principals have retained faith in the Company because of the investments made in new technology and the continuous efforts to upgrade standards of service. Up-to-date technology and equipment is also imperative to attract new principals and new products.

Along with state-of-the-art equipment, the Company will upgrade its internal processes to systems through new software and ensure that efficiencies are enhanced.



# CHAIRMAN & CEO'S REVIEW

## Confidence Grows

Customers have over the years developed increasing confidence in the Dimo brand. The brands the Company markets are of the highest quality and this quality has been combined with equally high standards of 'after care'. This continues to be the Dimo attraction. The Company's emphasis is to invest in technology and staff training to ensure that its 'after care' parallels the best in the world. It will persist in its investments in strategic new areas that complement its core business and also ensure new areas of growth for the future.

The growing confidence is also reflected in the accolades that external institutions have awarded the Company. At the Annual Report Competition organised by the Institute of Chartered Accountants in 2007, Dimo received the award for the best annual report in the category of companies up to five subsidiaries. The Company won the first overall runner up award for corporate governance disclosure and the overall second runner up for sustainability reporting in the same competition.

## A Year of Consolidation

The next financial year at Dimo is likely to be a year of consolidation. The external environment and market conditions are likely to be tough and Dimo will have to draw on all its resources to ensure that it stays competitive, retains margins while enhancing growth.

Inflation is likely to persist as will high interest rates. Managing the Company's cash flow will yet again prove a challenge. Inflation is likely to push other costs up including utility costs. Should the Indian Rupee continue to appreciate, that will affect the Company's imports from that country.

The recent decision of the Government to suspend duty concessions for various categories of public servants will also have on impact on the Company's sales.

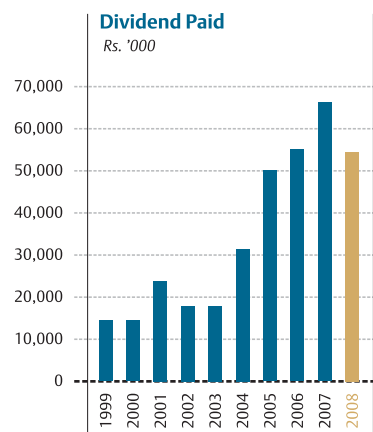
In the backdrop of these market conditions Dimo foresees a year of consolidation and stability. It will continue with its long-term plans for growth but will be necessarily subject to the constraints of the external environment. Yet the Company has faced similar challenges in the past and is confident that it can do so in the future too.

My warm thanks to every member of the Dimo team for their team work, their flair and the commitment they brought to all aspects of their work. The vibrant Employees Council has come out with important inputs for the development of the organisation. The Management Team deserves a special word of appreciation for managing in difficult times. My thanks also go out to our Principals, who have retained faith in the Company and continue to see us as a preferred brand. We are privileged to market their products in the domestic market.

Finally, to my colleagues on the Board, I would like to say a very warm thank you. Your advice and words of wisdom have been appreciated every step of the way. I look forward to a year of growth and a year of immense satisfaction.



**A.R. Pandithage**  
Chairman, Managing Director/  
Chief Executive Officer  
9th May 2008



# BOARD OF DIRECTORS



01		
02	07	11
03	08	12
04	09	
05	10	
06		

# BOARD OF DIRECTORS

## 1. A.R. Pandithage

*Chairman, Managing Director/Chief Executive Officer*

Joined the Company in June 1973. Appointed to the Board in June 1977. Appointed as Joint Managing Director in November 1984 and Managing Director in 1986. Appointed as the Chief Executive Officer in 1994. Appointed as the Chairman, Managing Director & CEO in July 2004. Holder of Dipl. Ing. from Germany. Member of the Institute of Engineers, Germany (VDI). Deputy Chairman, Browns Dima Industrial Products (Pvt) Ltd. Director, Dial Textiles Ltd. Chairman, Audit Committee of Dial Textiles Ltd.

## 2. A.G. Pandithage

*Deputy Chief Executive Officer*

Joined the Company in September 1986. Appointed to the Board in December 1995. Fellow of the Chartered Institute of Management Accountants, UK. Member of IT Strategy Team Asia of Daimler AG. Appointed as the Deputy Chief Executive Officer with effect from April 2006.

## 3. A.N. Algama

Joined the Company in June 1973. Appointed to the Board in November 1984. Past Chairman of the Ceylon Motor Traders' Association and Sri Lanka Tyre Importers, Association. Executive Committee Member of the Ceylon Chamber of Commerce - Import Section.

## 4. S.C. Algama

Appointed to the Board in November 1984. Appointed as an Executive Director in 1994. Fellow of the Institute of Incorporated Engineers (SL). Council Member of the National Chamber of Commerce, Sri Lanka.

## 5. Dr. H. Cabral\*\*

Appointed to the Board in October 2006. President's Counsel, Ph.D in Corporate Law (University of Canberra), Australia, Commissioner- Law Commission of Sri Lanka, Member - Advisory Commission on Company Law, Member (NCED - National Council for Economic Development), Legal Cluster, Member - Board of Studies - Council of Legal Education SL, Lecturer and Examiner - University of Wales, University of Colombo and Sri Lanka Law College, Vice President - BRIPASL (Business Recovery & Insolvency Practitioners Association of SL).

## 6. R.A. Ebell\*

Appointed to the Board in 1986. Executive Director of Hayleys PLC. Fellow of the Institute of Chartered Accountants, Sri Lanka. Fellow of the Chartered Institute of Management Accountants, UK. Diploma Holder and Member of the Chartered Institute of Marketing, UK. Past President of the Chartered Institute of Management Accountants - Sri Lanka Division.

## 7. B.C.S.A.P. Gooneratne

Joined the Company in January 2001. Appointed to the Board in April 2006. Fellow Member of the Institute of Chartered Accountants of Sri Lanka and holder of Master of Business Administration Degree from University of Sri Jayewardenepura.

## 8. Dr. U. Liyanage\*\*

Appointed to the Board in October 2006. Fellow Member of the Chartered Institute of Marketing of UK and holder of Master of Business Administration Degree from University of Sri Jayewardenepura. Ph.D. - University of Sri Jayewardenepura. Director of Postgraduate Institute of Management (PIM). Director of Ceylon Cold Stores PLC, Chemanex PLC, Ceylon Leather Products PLC and Q&E Advertising Ltd.

## 9. A.M. Pandithage\*

Appointed to the Board in September 1982. Deputy Chairman of Hayleys PLC. Chief Executive Officer of Hayleys Advantis since its inception. Former Director of the Sri Lanka Ports Authority and Jeya Container Terminal. Former Chairman of the Ceylon Association of Ships' Agents. Director of Sri Lanka Port Management & Consultancy Services Ltd.

## 10. T.G.H. Peries

Joined the Company in 1962 and appointed to the Board in August 1977.

## 11. R. Seevaratnam\*\*

Appointed to the Board in January 2007. Fellow Member of the Institute of the Chartered Accountants of Sri Lanka and England & Wales and holder of General Science Degree from University of London. Former senior partner of KPMG Ford, Rhodes, Thornton & Co. Director, Hatton National Bank PLC, Haycarb PLC, Dipped Products PLC, Acme Printing & Packaging PLC, Nestle Lanka PLC, Tokyo Cement PLC and Tea Smallholder Factories PLC.

## 12. R.C. Weerawardane

Joined the Company in February 1990. Appointed to the Board in June 2002. Certificate holder of the Chartered Institute of Marketing, UK.

\* Non-Executive Directors

\*\* Independent Non-Executive Directors

**Audit Committee:** R. Seevaratnam (Chairman), Dr. H. Cabral, R.A. Ebell, Dr. U. Liyanage, A.M. Pandithage

**Remuneration Committee:** Dr. U. Liyanage (Chairman), Dr. H. Cabral, R.A. Ebell, A.M. Pandithage, R. Seevaratnam

**Nomination Committee:** Dr. H. Cabral (Chairman), R.A. Ebell, Dr. U. Liyanage, A.M. Pandithage, R. Seevaratnam

**Group Management Committee:** A.R. Pandithage (Chairman), A.G. Pandithage (Deputy C.E.O.), S.C. Algama - *Executive Director*, D.S. Amarasuriya - *General Manager (Passenger Vehicle Service)*, M.V. Bandara - *General Manager (Sales & Service Commercial Vehicles)*, A.C.G. Dias - *General Manager (Tyres)*, B.C.S.A.P. Gooneratne - *Executive Director*, E.D.C. Kodituwakku - *General Manager (Finance & Controlling)*, A. Mapalagama - *General Manager (Auto Components, Power Tools & Outdoor Equipment)*, R.C. Weerawardane - *Executive Director*.

## OVERVIEW

# GROUP MANAGEMENT COMMITTEE



01	02	03	04
05	06	07	08
09	10		

- 01 A.R. Pandithage - *Chairman*
- 02 A.G. Pandithage - *Deputy Chief Executive Officer*
- 03 S.C. Algama - *Executive Director*
- 04 D.S. Amarasuriya - *General Manager - Passenger Vehicle Service*
- 05 M.V. Bandara - *General Manager - Sales & Service Commercial Vehicles*
- 06 A.C.G. Dias - *General Manager - Tyres*
- 07 B.C.S.A.P. Gooneratne - *Executive Director*
- 08 E.D.C. Kodituwakku - *General Manager - Finance & Controlling*
- 09 A. Mapalagama - *General Manager - Auto Components, Power Tools & Outdoor Equipment*
- 10 R.C. Weerawardane - *Executive Director*



# VISION & STRATEGY

## Inclusive Approach

DIMO Philosophy is to be a 'Responsible Corporate' who meets the expectations of all stake holders. The Shareholders, Employees, Customers, Suppliers, Nation and the Citizens of the country, the World at large and of course the physical environment have expectations at different measure. The corporate philosophy is based on the firm belief that consistent growth can be achieved only through delivering value to every stakeholder with whom the Company interacts and it is directed by the Vision and the Values of DIMO appearing on page 4.

## The Catalyst

The driving force for achieving the Corporate Vision is provided by the Intellectual Capital of the Company. It is also the catalyst that transforms the Group's resources into tangible results. The Corporate strategy, therefore, revolves around enhancing the quality, efficiency, effectiveness and sustainability of the elements of Intellectual Capital.

## Intellectual Capital

In order to keep the intellectual capital at its best, the Company has a wide range of strategies & plans covering each vital element, viz. Customers, Principals, People, Technology and Processes. Customers, Suppliers and Employees have a dual role of being a stakeholder and a provider of the intellectual capital/value.

Customer related strategies evolve around gaining, caring, managing and retaining customers and revenue growth. In promoting 'best in class' brands in Group's custody, every effort is made to enrich the technology through the 'Dimo Care'. From a customer point of view, the products and solutions delivered is a joint offering from a world-class Principal and Dimo, with its

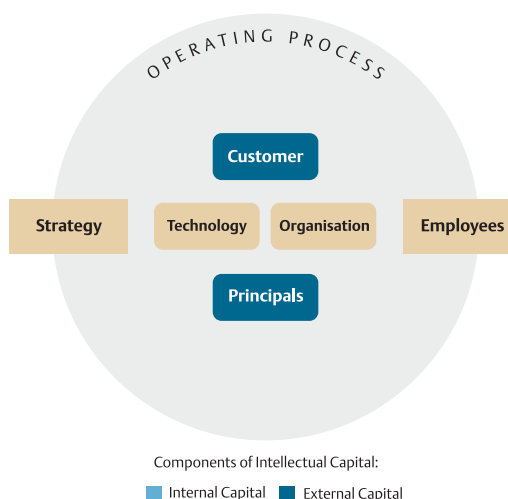
world-class care. Care is taken to ensure that an experience with Dimo by a customer will form a mental schema of a 'DIMO WEDAK' meaning a 'DIMO JOB' in his/her mind where value for money is assured.

Human Resources strategy covering recruitment, development and retention is geared to create people with a 'Vision driven Passion'. Investing in people and upgrading their skills to take care of the cutting edge technology holds the key in gaining a competitive advantage. Carefully thought strategies in marketing, finance, information systems and supply chain management seek competitive advantage and growth through the entire range of processes in place.

## Business Composition

The base for growth is presently provided by the auto sector. In the recent past, continuous efforts have been underway to expand and grow the non-auto sector. The long-term strategy is to grow the non-auto sector to contribute a formidable portion of the Group's business, having the capacity to independently grow and contribute to the profitability in equal measure.

## Intellectual Capital - The Value Generator



## The Foundation and the Pillars

Whilst the intellectual capital provides the base for growth, enterprise governance and sustainability provide the structure and strength in the march towards reaching the vision. In other words they provide the pillars on which the future of the Company is built. Therefore, the strategy in essence encompasses developing the intellectual capital on the pillars of enterprise governance and sustainability.

## Strategy Formulation & Review Process

Review and modification of existing strategies and formulation of new strategies take place during the Annual Strategy Sessions. The Forum for these sessions includes the Chairman & Executive Directors, Members of the Group Management Committee and Heads of Business Units. The information required for these sessions are obtained at all levels across the organization. Implementation of strategies is reviewed on a quarterly basis by the same forum.

trust







One of Dimo's brand strengths is trust: keeping customers in a bracelet of security providing comfortable, solid and well crafted relationships.

## BUSINESS PERFORMANCE



**Sale of Brand New Passenger Vehicles, 4WD Vehicles, Commercial Vehicles, Special Purpose Vehicles and Pre-Owned Passenger Vehicles**

## Key Figures

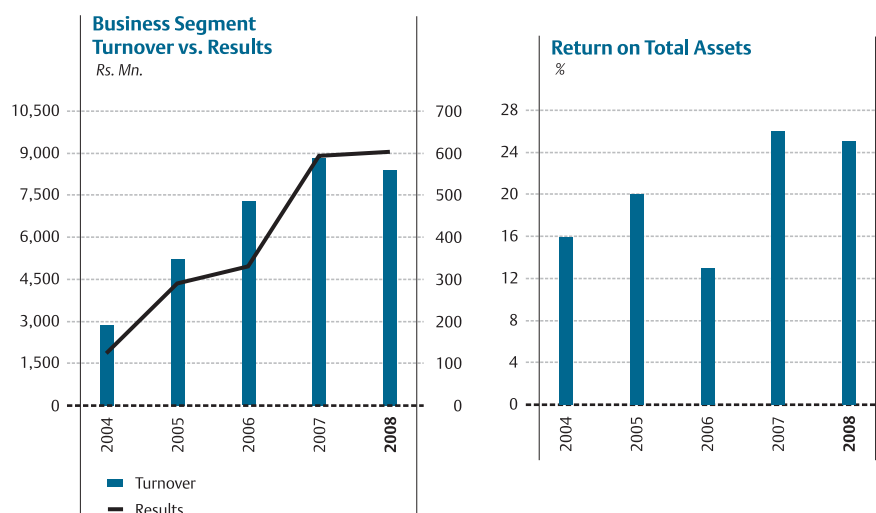
	2007/08	2006/07	Change %
Segment Turnover (Rs. mn)	8,404	8,827	(5)
Segment Result (Rs. mn)	603	594	1
% Contribution to the Group Turnover	66	68	(2)
Segment Result/Segment Net Assets (%)	25	25	-

## Key Principals

- Chrysler International Corporation
- Daimler AG
- Tata Motors Ltd.

## Customer Profile

	B2C	B2B	B2G	Total
No. of Customers (accumulated)	17,014	5,308	632	22,954
Customer Satisfaction Index (weighted average %)	-	-	-	80



# BUSINESS PERFORMANCE

## VEHICLES

### Industry Overview [Vehicles]

Although the demand for road transportation is increasing, the registration of new buses which saw an increase of 31% in 2006 has decreased by 21% in 2007. Responding to the need to re-fleet the private sector buses, approximately 35% of which are over 10 years old, a government project has been launched whereby a 'subsidy' will be provided to the private bus owners to buy newer models. (Source: Central Bank Annual Report 2007)

One of the main challenges faced by this business sector has been the high tariff regime prevalent in Sri Lanka. Presently the tariff on petrol passenger cars and SUV's over 2000 cc is a staggering 285%. The rates on other types of vehicles too are equally high and are a serious impediment to the growth of the industry.

Another dilemma the industry has to contend with is the continuously depreciating rupee against the Euro. The high tariffs, coupled with the steeply depreciated rupee, especially against the Euro since 2004, has meant that the price of many types of vehicles imported by DIMO have escalated. For instance, the price of European luxury cars has increased by over 160% over the period 2004 to 2008.

DIMO keeps a close watch on the development of the transportation system in Sri Lanka, as its development directly benefits all business sectors of the Company. The Government of Sri Lanka has aptly identified the transportation system of a country to be a crucial player in the successful implementation of all its development activities. Road transportation in Sri Lanka accounts for about 85% of the passenger miles travelled by all modes of public transportation. As such, the Government has pledged to improve the road network in the island through various new road building and reconstruction programmes.

CLASS OF VEHICLE	New Registration					Total Vehicle Population
	2003	2004	2005	2006	2007	2007
Motor cars	21,184	19,116	17,283	27,578	22,603	361,211
Motor Tricycle	36,204	43,789	41,085	64,466	43,068	361,727
Motor Cycles	86,877	124,474	130,696	156,626	182,508	1,604,648
Buses	1,949	2,167	2,069	3,346	2,637	79,870
Dual Purpose Vehicles	13,268	10,736	6,851	7,245	5,193	193,380
Lorries	11,158	10,703	14,262	20,436	18,408	262,584
Land Vehicles-Tractors	10,004	11,535	15,597	19,040	21,346	221,326
Land Vehicles-Trailers	858	1,322	1,826	1,785	2,129	41,048
TOTAL	181,502	223,842	229,669	300,522	297,892	3,125,794

(Source: Department of Motor Traffic)

The Commercial vehicles business is greatly dependent on the growth of the industrial sector in the country. Infrastructure development and growth in industrial production remain the key drivers of demand for Commercial vehicles. The growth potential in the Eastern Province therefore has been identified to be significant to the commercial vehicle business. The Company is optimistic about the Government-sponsored three year Eastern Province Development plan (*Negenahira Navodaya*) to improve and upgrade the infrastructure and supportive services in this province. Encouraged by these developments, DIMO too has plans to increase its presence in this growth area in the coming year.

Another impediment to the commercial vehicle business is the high interest rate regime that is prevalent in the country. Sales of these vehicles are largely dependant on commercial borrowing and hence indirectly on the level of interest rates. Interest rates and rates of inflation in Sri Lanka appear to be poised for further escalation, given the current upward pressures on prices in the global oil and commodity markets. Adding further upward pressure on interest rates, and concern for the growth of the industry and the economy is the escalation of the armed conflict in the North of the country.

# BUSINESS PERFORMANCE

## VEHICLES

### Operational Review [Vehicles]

#### Passenger Cars - Mercedes-Benz

Mercedes-Benz, continues to enjoy the position of the market leader in the luxury car market. This business unit dominates the market with a share of over 60% of the luxury car market (where the vehicle values is over Rs. 10 mn). This segment has succeeded in achieving 93% of its budgeted turnover for the year 2007/08, slightly lower than the 98% achieved in the year 2006/07.

The newly launched 'C' class cars were the main contributors to the sales figures. This model has contributed significantly to the top line of this business segment. The expected launch of the new facelift CLS class cars during the ensuing year is expected to make a significant contribution to the bottom line.

We continue to sponsor the Mercedes-Benz Golf tournament & the MB Pageant. Both are much looked-forward to events in the participants' calendars and usually generates great enthusiasm for the Mercedes brand.

#### Pre-owned Vehicles

The availability of duty free permits hampers the growth of this sector of the market. Price competition between the cars imported using permits with that of pre-owned cars has been high in the past few years and continues with the same trend.

One of the main objectives of this business has been to open up cross purchasing opportunities for the sale of new cars, whereby existing customers can trade in their cars for newer models sold by the Company. Retaining the top conditions of

these pre-owned vehicles is guaranteed by the comprehensive refurbishment carried out by the Company before the sale of every vehicle.

#### TATA Commercial Vehicles

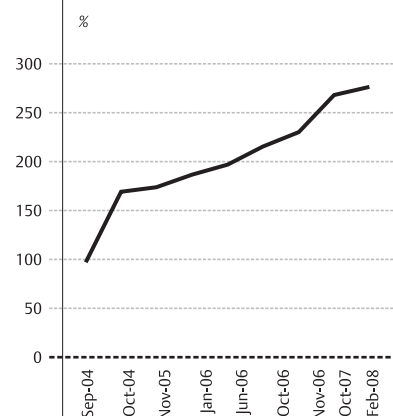
The Tata brand continues to maintain its position as the market leader in this sector with an overall market share of 34%.

This sector continues to be dominated by re-conditioned and Indian vehicles, although the customer reach and competitiveness of the Chinese brands have increased in the past year. There has been a decrease of 29% in the total industrial volume in this sector in 2007/08 compared to the 32 % increase witnessed in 2006/07.

Despite the fall in total industrial volume, the overall market share of TATA commercial vehicles has risen by 17% in the year. However, the actual turnover has decreased by 17% in the year compared to the increase of 14% in the previous year. The below budget performance of this business was mainly due to the prevailing economic conditions.

The sale of heavy commercial trucks has grown by 45% for the year 2007/08, while the sale of medium commercial trucks has decreased by 13%. However, the sale of light commercial trucks has seen an increase of 71% in the year, a result of the Company's focused marketing efforts. The number of units sold by the Company of medium commercial buses and of light commercial buses has fallen by 56% and 33% respectively in the year due to the non availability of route permits and concessions given to fleet owners.

**The Impact of Frequent Changes in Government's Duties & Levies**



[Source: Customs Tariff Guide (for Petrol Passenger cars & SUV over 2000 CC)]

# BUSINESS PERFORMANCE

## VEHICLES

The Company's position in this sector enables us to make the most of the future expected growth in demand for vehicles of Indian make. The strategy of de-centralising the distribution network by using the branch network in Kurunegala, Matara and Anuradhapura has helped the Company to consolidate its position in the commercial vehicle market in Sri Lanka. Currently, there are 23 authorised service stations, 21 authorised service facilities and the display points via the BOC branches island wide.

Plans are already underway to increase the DIMO Dealer networks in order to increase our reach and maintain our number one position in the market. Furthermore, in order to respond to customer complaints faster, a 24 hour mobile service will also be launched at branch level as well in the coming year.

The continued upward trend in both interest and inflation rates coupled with the rising global oil prices, poses a challenge in maintaining growth rates of this business sector in the near future

### Light Commercial Vehicles

The Total Industrial Market for Tata Ace grew by 15% in 2007/08, while the market for Pick Ups saw a negative growth of 3% in 2007/08. The main reasons for this decline was the increased competition from the gaining popularity of 'used Japanese petrol vehicles' that have entered the market in an aggressive manner and the low cost Chinese vehicles that feature similar features as that of the higher priced vehicles.

However, the TATA Ace mini truck (Dimo Batta) with its renowned fuel efficiency, continues to be the leader in the mini truck market while the 207 Pick up continues to enjoy the market leadership in that market. The Company introduced the Tata Ace HT during the year which contributed significantly to the turnover of the business segment. As such there has been a 34% increase in turnover in this business during the year.

The Company plans to launch the Ace Magic, targeting mainly the three-wheeler market. This vehicle will be launched as an attractive mode of school transportation while the Winger - Dual purpose vehicle is targeting the staff transportation and goods delivery markets. However, since the latter is a diesel vehicle, the high 345% import duty imposed on such will hamper its growth in sales.

In line with the Government's mandate to develop local industries, there have been several tax and duty increments imposed on the importation of motor vehicles, while concessions are offered for locally assembled motor vehicles. Being a responsible corporate, DIMO is considering investing in a production plant to assemble the more popular models in the country.

### TATA Passenger Vehicles

Traditionally this market has been dominated by re-conditioned Japanese vehicles and competition in this market sector has been intense, primarily from similar vehicles imported from India, China and Korea. Given these conditions, we have not been able to achieve the targeted sales in the year.





# BUSINESS PERFORMANCE

## VEHICLES

With a view to increase sales market share in the coming years the Company plans to launch two new cars in the Tata range equipped with Fiat technology and also the Sumo Grande MUV.

As always, in order to provide the best Dimo care service possible, the Company offered an unmatched personalised after sales service and a 24 hour contactable brake down service to its customers. Another venture to satisfy our customers' needs is making the Tata car range available in all DIMO showrooms in Colombo, Kurunegala, Matara, Ampara and Anuradhapura.

Future plans for this sector include targeting various business institutions, professionals at the stepping stone of their careers and the rent-a-car market. Furthermore, the Company is anxiously awaiting the introduction in 2009, of the People's car from Tata Motors - 'Tata Nano' which was unveiled at the Auto Expo to rave reviews. DIMO is also optimistic about the synergised benefits of the agreement that Tata Motors has entered into with Ford Motor Company, especially in terms of technological improvements it will accrue.

### Chrysler and Jeep

Both Chrysler and Jeep target the luxury car market. As a result the main challenge the Company has had to deal with during the year has been the increase in duty prices. Another factor that has contributed to the less than expected performance in this business has been the inability to cope with the requirements of the duty free permit holders. As a result this market segment has witnessed a 36% fall in turnover in the year.

The main revenue streams come from the continued sales of the two most popular products - the Jeep Commander & the Chrysler 300C. However, with a view to sustain this business into future, the Company plans to explore the market for protected and military related vehicles for the public sector.



## BUSINESS PERFORMANCE

## VEHICLE PARTS AND SERVICES



## Repair of Passenger and Commercial Vehicles, Sale of Vehicle Spare Parts, Accessories, Components &amp; Tyres

## Key Figures

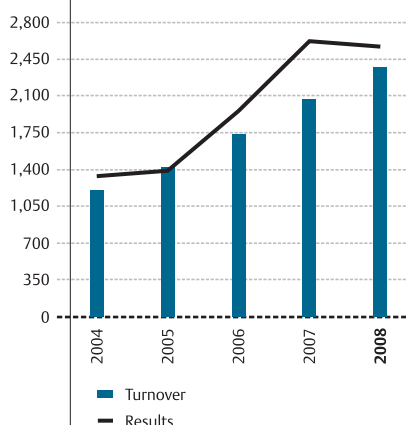
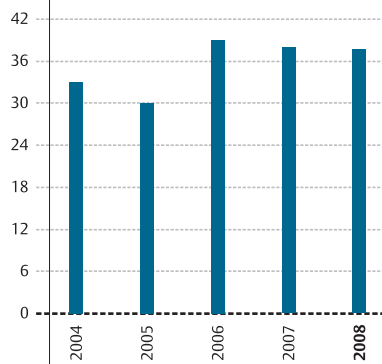
	2007/08	2006/07	Change %
Segment Turnover (Rs. mn)	2,366	2,071	14
Segment Result (Rs. mn)	369	369	-
% Contribution to the Group Turnover	19	15	4
Segment Result/Segment Net Assets (%)	38	38	-

## Customer Profile

	B2C	B2B	B2G	Total
No. of Customers (accumulated)	2,405	7151	489	10,045
Customer Satisfaction Index (weighted average %)	-	-	-	83

## Key Principals

- BF Goodrich
- Bhagat Forge Ltd.
- Bimetal Bearings Ltd.
- Blaupunkt Werke GmbH
- Bosch Automotive Systems Corporation
- Bosch Chassies Systems India Ltd.
- Bosch Ltd.
- Daimler AG
- Daimler Regional Logistic Centre
- Daimler South East Asia Ptd Ltd.
- Eicher Dem (Eicher Motors Ltd.)
- Fenner (India) Ltd.
- Gabriel India Ltd.
- India Pistons Ltd.
- KLN Engineering Products (Pvt) Ltd.
- Komatsu Forklift Asia Pte Ltd.
- Luk India Pvt Ltd.
- Michelin
- MRF
- Rane Brake Linings Ltd.
- Rane Engine Valves Ltd.
- Robert Bosch GmbH
- Shardlow India Ltd.
- Sri Bhavan Castings Ltd.
- Tata Motors Ltd.
- Victor Gaskets India Ltd.

Business Segment  
Turnover vs. Results  
Rs. Mn.Return on Total Assets  
%

BFGoodrich

BIMITE  
Engine BearingsBLAUPUNKT  
The advantage in your car.

BOSCH

CHRYSLER  
INSPIRATION COMES STANDARDFenner  
FENNER (INDIA) LIMITED

India Pistons Ltd. (IPL)

Jeep

KBX

KLN

LUK

Mercedes-Benz

MICHELIN

MRF TYRES  
Tyres with a MissionPioneer  
Oil SealsRane  
Rane Brake Linings Ltd.

TATA

ZEXEL

# BUSINESS PERFORMANCE

## VEHICLE PARTS AND SERVICES

### Industry Overview [Vehicle Parts and Services]

Industry overview for this segment is the same as the industry overview for the vehicle segment on pages 16 to 20.

### Operational Review [Vehicle Parts and Services]

#### Franchise Parts

The Company offers a range of Commercial & Passenger vehicular aftermarket parts, under the brand names of Mercedes-Benz, TATA, Chrysler, Jeep, Bosch, Michelin, Komatsu, Mahindra & Mahindra, Bomag & Class. We also offer Engine Management Systems, Car Multimedia Systems, and Chassis Systems & Accessories.

Turnover in this business sector has increased by 18% over the period under review. TATA Commercial vehicles, Light Commercial vehicles and passenger cars, that have recently been added to the existing vehicular parts range has contributed to the growth of this sector. The opportunity for future revenue growth is in the increased sale of genuine parts. To ensure the availability of genuine parts island-wide, the distribution network of the Company was de-centralised during the year for operational efficiencies and greater customer convenience. The enhanced distribution network, together with the appointment of 29 dealers and 67 retailers is bound to contribute much to our efforts to consolidate our position in this market. The appointment of these franchise dealers at key locations in Sri Lanka will further improve the Company's market reach and will aid in providing a good service to our customers.

Among the future plans for this sector are the launching of a Call Centre, introducing the TATA Marine Engines to the market, launching of service campaigns and the upgrading of the existing service facilities to handle services on the full range of TATA vehicles. The Company is expecting a higher growth from this sector in the ensuing year, propelled by the Government's plan for the further

reconstruction of the Eastern Region of Sri Lanka and development of road transportation infrastructure; such as the Colombo Circular Highway and the Southern Expressway.

#### Non-Franchise Parts

The core business in this sector is the supply of spares & accessories to the commercial and passenger vehicular market under the brand name of 'DIMO' or co-brands of the original equipment manufacturers (OEM).

The turnover growth which was 53% in 2006/07 had fallen to 14% in the year 2007/08 mainly caused by the pruning of un-profitable product lines.

The Company conducted several events like garage campaigns and vehicle owner seminars, as well as several end-user sales promotions in the year. The successful completion of these key events is expected to accrue benefits in the form of improved brand loyalty for DIMO.

In coming years, turnover growth is expected to receive a boost from the development of the Eastern Province through the Nagenahira Navodaya programme. The Company also plans to explore the Light Commercial Vehicles and Passenger Car spare parts market segments to consolidate its position in this sector and increase turnover growth.

#### Tyres

DIMO supplies tyres to the passenger cars, commercial vehicles, construction and the agri-machinery sectors of the market. These sectors are served through the franchises held by Michelin, BF Goodrich and MRF brands.





# BUSINESS PERFORMANCE

## VEHICLE PARTS AND SERVICES

Over the years this business sector has continued to face intense competition from the availability of low priced imported and locally manufactured tyres. Recently the emergence of India and China as low cost tyre exporters and the entry of a new local manufacturer have further intensified competition in this market. This together with the low switching costs to consumers has ensured poor brand loyalty within this sector, with the exception of premium brands such as Michelin. As a result the turnover generated from the tyre sector has fallen by 10% during the year under review in comparison to the previous year.

Responding to the challenges faced by the easy availability of low cost tyres, DIMO plans to enter the market for commercial tyres for light commercial vehicles in the coming year. This will enable the Company to gain an edge on cost competitiveness and increase turnover and the bottom line.

### Tyre Retreading

This has been the first full year of operations for the 'Tyre Retreading' business. However, this business faces a similar threat of customers changing over to low cost tyres imported from China. Here, the power of suppliers is high, given the few tread-rubber suppliers in the market.

In the ensuing year the Company also plans to attract more fleet owners while focusing on increasing business from existing dealers. The Company also has plans to commence Retreading of radial tubeless truck tyres for the local market

### Vehicle Service

DIMO serves the passenger and commercial vehicles sector with state-of-the-art repair and service facilities. Turnover from this sector has grown 19% in the year due to the increase in the number of fleet owners and corporate clients. The operation of the 7 day a week workshop facility, introduction of the 24 hour customer assistance survey, the body-building service, ability to offer a 'Total Solution' to our customers and the expansion of the branch network have all contributed to the increased turnover seen this year.

Furthermore, as planned and outlined in our last Annual Report, the implementation of the fleet owners club, full maintenance contracts for fleet owners and delivery of an Express service also has contributed to top line growth.

The Company invested Rs. 45 mn in order to upgrade the workshop facilities in the year. However, we continue to face the challenge of retaining highly trained personnel and foresee this as a serious obstacle to providing a state-of-the-art service to our customers.

In terms of growing our business, we see some potential in the increased demand for protected vehicles. Other areas of focus will be the provision of the 'total solution' concept under one roof, running a mobile service unit for greater customer convenience and providing running repairs for older vehicles.

The Company has always and will always continue to adopt stringent environmental and pollution control and safety measures to ensure that operations comply with all statutory requirements and beyond.



## BUSINESS PERFORMANCE

## LIGHTING &amp; POWER TOOLS



## Sale of Power Tools and Accessories, Lamps, Lighting Fittings and Accessories

## Key Figures

	2007/08	2006/07	Change %
Segment Turnover (Rs. mn)	421	354	19
Segment Result (Rs. mn)	62	52	19
% Contribution to the Group Turnover	3	3	-
Segment Result/Segment Net Assets (%)	39	38	1

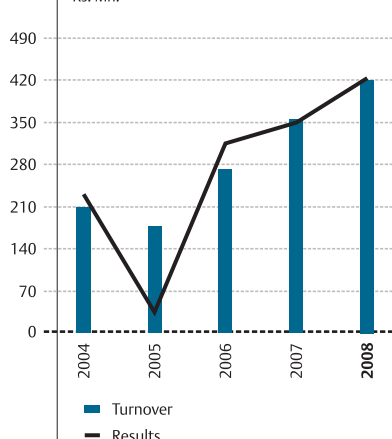
## Customer Profile

	B2C	B2B	B2G	Total
No. of Customers (accumulated)	111	1,706	216	2,033
Customer Satisfaction Index (weighted average %)	-	-	-	89

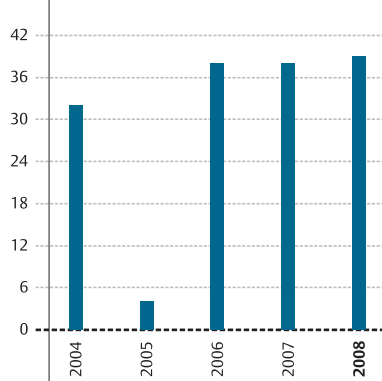
## Key Principals

- Davex Engineering (M) SDN Bhd
- Fischer Werke GmbH
- OSRAM GmbH
- Robert Bosch Ew.
- Schwing Stetter
- SiTeco Lighting (M) Sdn Bhd
- Snap-on Tools Private Limited
- Vossloh-Schwabe GmbH
- Zenoah

**Business Segment  
Turnover vs. Results**  
Rs. Mn.



**Return on Total Assets**  
%



BOSCH

"When your  
business  
depends  
on light."fischer  
FIXING SYSTEMS

OSRAM

SIEMENS

siteco

Everything you Need  
SKIL

Snap-on

VS Optoelectronic  
A New Lighting Experience

ZENOAH

# BUSINESS PERFORMANCE

## LIGHTING & POWER TOOLS

### Industry Overview [Lighting & Power Tools]

Total electricity consumption in Sri Lanka increased by 5.7% for the year, down from 8% seen in 2006. Electricity consumption in the industrial sector grew marginally in 2007 by 5.7% while the consumption for domestic and general purposes grew by 16.6%.

The growth in demand for electricity has decelerated in recent years largely as a result of the slow growth in the domestic & industrial sectors. These changes in demand have been triggered by significant upward revisions in electricity tariffs due to the ever escalating global oil prices.

The construction sector continued to expand at a relatively high rate of 9% in 2007 with positive contributions being made by both the Government and

Private sectors. The continued demand for housing and the Government's mandate on infrastructure development will continue to drive growth in this sector. *(Source: Central Bank Annual Report 2007)*

This business sector is also affected by the depreciation of the Sri Lankan Rupee against the Euro, as most of the imports are from European countries this was a serious cause for concern. Another risk faced by this business sector is the influx of inferior quality products that are sold at very low prices, from China and India.

## BUSINESS PERFORMANCE

## LIGHTING &amp; POWER TOOLS

## Operational Review [Lighting &amp; Power Tools]

**Lighting**

DIMO is a solution provider to many domestic and industrial users for their switching, protection and lighting needs. We offer lighting solutions to our customers by marketing a range of brands including Osram, Siemens, Siteco, Davis and Vossloh-Schwabe.

A special advertising campaign, '*Korale Mahaththaya*' was launched by the Company during the year in order to create greater awareness of the energy efficiency of the Company's products and thereby increase sales. Consolidation of the dealer network and the rising cost of energy have contributed to the growth in sales in the year. This has resulted in a growth in sales of 26% in the year compared to 40% in the previous year.

To further consolidate our position in the market, the Company plans to introduce new energy efficient products such as Sensor CFLs and LED products. To further augment and strengthen our presence in the business to business sector we plan to introduce Lighting Management Systems and electronic control gear for energy efficient lighting solutions to organisations in the Garments and Hospitality industries and to high end corporates. Other new products that will be introduced are switches & Sockets from Siemens - Delta Vega.

The future growth of this business sector is encouraging. The expected growth in condominium and housing projects together with the changing lifestyles of people will lead to increased demand for Architectural Solutions. The Government's concern for energy conservation which has resulted in increased tariffs for electricity open up avenues for growth in energy efficient lighting equipment. All these together with the Company's plan to further penetrate the modular switch gear, sockets and switches market is in line with Dimo's strategy of providing 'total solutions' for greater customer convenience.

**Power Tools**

The Company markets a range of products including professional power tools, accessories, outdoor power equipment, garage equipment and hand tools under this business unit. The newly introduced 'Zenoah' outdoor products and the popularity of the 'SNAP ON' range were the main contributors to the increase in turnover of 8% seen in the year. Regrettably however, the higher cost of imports as a result of the depreciation of the Rupee against the Euro resulted in an erosion of margins on these products.



# BUSINESS PERFORMANCE

## LIGHTING & POWER TOOLS

As is the norm, the Company continued its service demonstrations, hands on training programmes and service campaigns to help customers to better understand the use and care of these products.

The future of this sector depends much on the growth of the construction industry. In the year 2007, the industry which includes condominiums, warehouses and factories had grown by 9%. The implementation of Government-sponsored large infrastructure development projects in Kerawalapitiya, Upper Kotmale and the Hambantota port augurs well for the growth of sales of power tools.

Encouraged by these developments, the Company plans to offer solutions jointly with Fischer Germany, catering to the demand in the construction industry. Plans are also underway to introduce a Bosch Special System (for displays) to selected dealers.

Always keen to enhance its product range, the Company is planning to introduce Fischer products to the anchoring systems market. As the total anchor market is estimated to be Rs. 100 mn, this line is expected to contribute significantly to the revenue of the segment.





## BUSINESS PERFORMANCE

CONSTRUCTION & MATERIAL  
HANDLING MACHINERY

Sale & Service of Earth Moving Machinery, Road Construction Machinery, Forklifts, Racking Systems, Tractors, Pumps, Dock Levellers, Car Parking Systems and Harvesters

## Key Figures

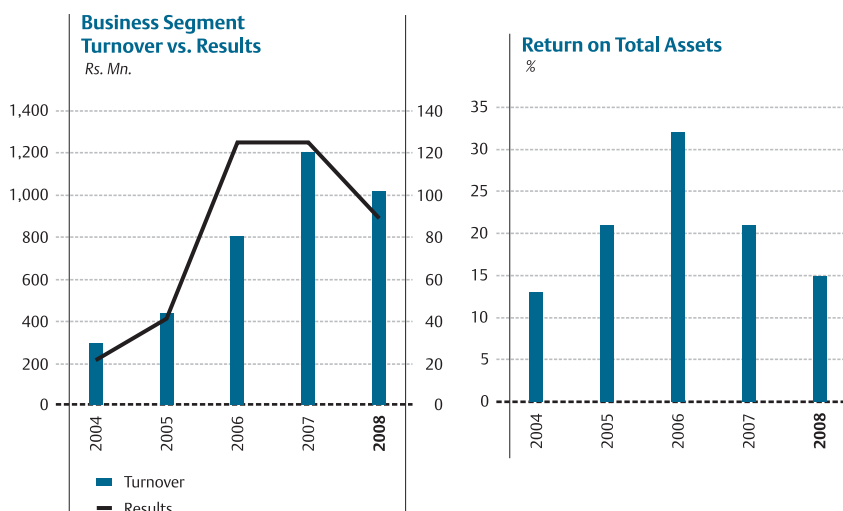
	2007/08	2006/07	Change %
Segment Turnover (Rs. mn)	1,018	1,202	(15)
Segment Result (Rs. mn)	92	110	(16)
% Contribution to the Group Turnover	8	9	(1)
Segment Result/Segment Net Assets (%)	15	21	(6)

## Customer Profile

	B2C	B2B	B2G	Total
No. of Customers (accumulated)	1,878	1,768	344	3,990
Customer Satisfaction Index (weighted average %)	–	–	–	79

## Key Principals

- Bomag GmbH
- Claas India Ltd.
- Everdigm
- Komatsu Asia & Pacific Pte Ltd.
- Komatsu Forklift Asia Pte Ltd.
- Komatsu Ltd.
- KSB AG
- Mahindra & Mahindra Ltd.
- Mannesmann Dematic AG
- Schwing Stetter
- SSI Schaefer Systems International Pte Ltd.

BOMAG  
FAVAT GROUP

CLAAS

mhe DEMAG

DONGSUNG  
PARKING & PARTS

EVERDIGM

intraco pallet™

KOMATSU

KSB

Mahindra  
Tractor World

SSI SCHAEFER

SCHWING  
Stetter

# BUSINESS PERFORMANCE

## CONSTRUCTION & MATERIAL HANDLING MACHINERY

### Industry Overview [Construction & Material Handling Machinery]

The construction sector of the economy continued to expand at a relatively high rate of 9% in the year 2007 with input from both the Government and the private sectors.

Construction activities of the Government sector were largely concentrated on infrastructure development schemes, particularly in road network expansion projects. The year also saw developments in capacity expansion projects in the power generation industry. Reconstruction activities, particularly in the Eastern province also contributed to the growth in the construction sector. Private sector interest in this sector was evident in the continued expansion of condominium, housing and shopping complex projects, which supported growth momentum in this sector.

Despite the high interest rate environment prevalent during the year, the loans and advances of the banking sector to this industry has grown considerably in 2007. Growth in this sector is further reflected by the higher usage of both domestically produced and imported building materials during the year. Although there was a shortage in cement supply for a short period of time during the latter half of the year, annual cement consumption increased by 10.7% in comparison to 2006.

The Government's future plans to focus on particular growth areas within the construction industry however, are encouraging to the businesses in this sector. Some of the identified areas include:

- Irrigation Sector: Plans are in the pipeline to rehabilitate the existing irrigation systems and develop new ones,
- Roads: Plans include the rehabilitation of existing roads, development of the rural road network and building of new roads and expressways.

- Development of the Eastern Province (Nagenahira Navodaya)
- Public and Private Partnership (PPP) in the implementation of infrastructure projects.

The Agriculture, Forestry and Fishing sector in Sri Lanka grew moderately in 2007 and registered a growth of 3.3% in value added terms. With a huge global food crisis looming, the government is expected to step up its development of the agriculture sector, which augurs well for the growth of this sector.

A major focus area for the water and sewerage sector was the importance of providing safe drinking water and adequate sanitation facilities to the population. Given due credence, a separate Government ministry for water was established in 2007. The total budgetary allocation for projects undertaken by this ministry was Rs. 27.3 bn for the year 2007. At present 85% of the total population has access to safe drinking water, of which 32% has access to pipe-borne water. The drafting of legislation to strengthen the regulatory framework for water supply and sanitation by the Public Utilities Commission of Sri Lanka (PUCSL) was commenced in 2007 with the support of the ADB. The main objective of this technical assistance was to develop regulations for the water sector within the framework of the PUCSL. Act to facilitate credible, independent, accountable and transparent legislation for the National Water Supply & Drainage Board. This development opens up growth areas in this sector.

The downside risks facing this industry come in the form of cheaper products from China. Furthermore, the availability of rental equipment for short-term projects and attractive prices offered on used equipment as a substitute to new equipment is a warning to future growth potential in the construction equipment industry.

(Source: Central Bank Annual Report 2007)

# BUSINESS PERFORMANCE

## CONSTRUCTION & MATERIAL HANDLING MACHINERY

### Operational Review [Construction & Material Handling Machinery]

#### Construction Machinery

Dimo is the one of the main suppliers of heavy machinery for construction related activities in Sri Lanka under the brands of Komatsu, Bomag, Hanwoo & Schwing Stetter and Everdigm.

Buoyed by the growth in the construction sector, the Company has succeeded in achieving 102% of its budgeted turnover in the year. Favourable sales growth from the products introduced last year have contributed to this growth in turnover. During the year, the Company introduced Schwing Stetter Pump Cars and Mixers.

The focus continues to be to offer total product support services using our branch network. Further, to increase customer convenience, we plan to use the Anuradhapura and Kurunegala branches to display products from brands like Komatsu, Bomag and Everdigm. The Company also hopes to open a Training Centre for operators of construction machinery and material handling equipment.

An identified potential development area for the Company within this sector is the machine rental business. We also plan to introduce the GEHL Skid Steer Loader; a versatile piece of equipment for utility work around job sites. Apart from this, the Government's future focus on some areas in the construction industry as discussed in the industry overview opens up new opportunities for this business.

#### Storage and Material Handling

The Company markets a range of products for storage, material handling, dock equipment and building maintenance under franchised brands of Komatsu, Schafer and Mhe-Demag. The most recent addition to our product range was the car parking solutions.

The sector has achieved 93% of budgeted turnover in the year. The Company's profitability depends on our ability to offer 'Integrated' solutions, success in bundling products and effective after sales services.

Responding to the need for modern and compact Car Parking Solutions for new buildings due to the scarcity of parking spaces in the city area, we started marketing car parking systems last year. This new product has been accepted and is doing well in the market and we anticipate good future growth due to the expected growth in that industry. In the year under review we ventured into marketing plastic pallets for a wide spectrum of customers.

Causes for concern for this sector in future will include the emergence of 3rd party logistic companies in Sri Lanka and the GSP issues of the garments industry.

However, on the positive side, we anticipate growth in the market for material handling and storage facilities, especially in the Eastern Province.

#### Agri-Machinery

Dimo markets tractors, agricultural implements and machinery for the Agricultural and transportation sectors for franchises held by Mahindra & Mahindra and Claas harvesters.

During the year, the growth in turnover of this sector decreased by 14% compared to the increase of 68% enjoyed in the previous year.

To promote and encourage better sales, this business sector has decentralised its sales operation through its island-wide dealer network of 56 main dealers and 24 sub dealers. In order to further promote our products, a sales campaign was launched with the assistance of our principal Mahindra & Mahindra.





# BUSINESS PERFORMANCE

## CONSTRUCTION & MATERIAL HANDLING MACHINERY

Among the new products we plan to introduce are the range of Mahindra & Mahindra Tractor Mounted Implements such as ploughs, cultivators, winch, post hole diggers and others. Another product we plan to launch next year is the Class wheel-type combine harvester for use in dry farmland.

The implementation of the Government's large infrastructure development projects, especially targeting the agriculture sector of the country is expected to contribute to the growth in this business sector of the Company.

However, cheaper Chinese products pose a significant threat to the growth in sales of the DIMO products. In response to this challenge and in order to diversify its product range, the Company has plans to introduce Power Tillers at a low cost to the Sri Lankan market.

### Fluid Management Systems

DIMO supplies electro mechanical equipment manufactured by the world renowned manufacturer, KSB, and offers technical expertise to the water supply and sewerage sector companies in Sri Lanka. Turnover decreased by 60% in the year as a direct result of the delays experienced in the publishing of tenders.

A continued source of concern for this business is the easy availability of cheaper Chinese products. Furthermore, competition within the sector has intensified by the entry of local manufacturers into the high-tech market which had been the domain of the imported products in the past.

We are planning to re-launch the Demag cranes and accessories, and to extend the product range by the introduction of Siemens process instrumentation equipment, electrical panel boards and electric motors. In addition, we are also planning to venture into the market for water, sewerage and waste water treatment market in the next year. The increased Government focus in this areas is bound to lead to greater growth in the future.

A key event organised by the business unit was a series of technical sessions to engineers and consultants in the building services sector to make them aware of the range of products and total solutions available by the Company.

The turnover of this business sector is expected to increase in the future as a result of the Government's mandate to ensure clean drinking water as already discussed in the industry overview.



## BUSINESS PERFORMANCE

## DIVERSIFIED ACTIVITIES



Telecommunication Solutions, UPS Equipment, Medical Engineering Solutions, Diesel Engines for Marine Propulsion & Rail Traction, Power Engineering and Building Technologies

## Key Figures

	2007/08	2006/07	Change %
Segment Turnover (Rs. mn)	479	536	(11)
Segment Result (Rs. mn)	73	69	6
% Contribution to the Group Turnover	4	5	(1)
Segment Result/Segment Net Assets (%)	27	19	8

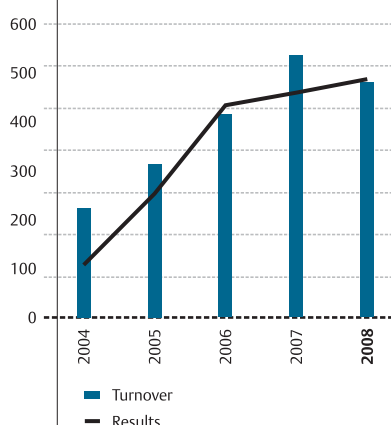
## Customer Profile

	B2C	B2B	B2G	Total
No. of Customers (accumulated)	55	1,460	213	1,728
Customer Satisfaction Index (weighted average %)	–	–	–	82

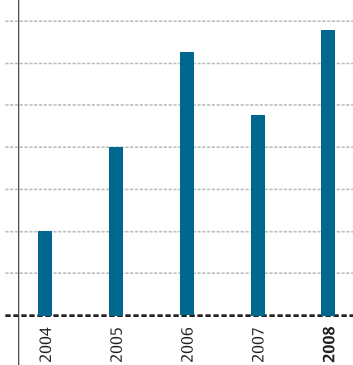
## Key Principals

- Carl Zeiss AG
- Carl Zeiss Meditec
- Challenger Electronics
- Draeger Medical
- Infinite Shanghai Communication Terminals Ltd.
- Interpower International Ltd.
- John Deere Asia (Pvt) Ltd.
- Johnson Controls
- KHD Humboldt Wedag AG
- MTU Asia Pte Ltd.
- PK Electronics
- Power Source International Pte. Ltd.
- Siemens AG
- Tognam GmbH
- VM MOTORI S.P.A.
- Wartsila Seals & Bearing UK

**Business Segment  
Turnover vs. Results**  
Rs. Mn.



**Return on Total Assets**  
%



**CLG** • **Dräger medical**  
A Dräger and Siemens Company

**EuroPower**  
TM

**HELMKE**

**JOHN DEERE**

**KHD** | **HUMBOLDT WEDAG**  
GmbH

**mtu**  
fascination of power

**DETROIT DIESEL**



**SIEMENS**

**WÄRTSILÄ**

**YORK**

**ZEISS**

# BUSINESS PERFORMANCE

## DIVERSIFIED ACTIVITIES

## Industry Overview [Diversified Activities]

### Telecommunications Sector Environment

The growth momentum in the telecommunications sector continued in the year 2007, largely supported by greater expansion in the coverage areas, the introduction of advanced technology in operations and value added services, increased competition and affordability, and higher investments. The subscriber network of the telecommunications sector grew by 47% in 2007, slightly down from the 58% growth seen in 2006. Fixed access telephone connections expanded by 46% during the year, largely due to an expansion of the wireless network with CDMA technology becoming more popular, while the mobile telephone network increased their reach by 48% in 2007.

The telecommunications sector presently consists of 4 fixed line operators, 5 mobile operators, 33 external gateway operators and 29 Internet service providers. The Telecommunications Regulatory Commission of Sri Lanka (TRC) licensed a mobile operator to provide fixed lines in 2007. TRC has also licensed a fifth mobile operator in the country in 2007.

(Source - Central Bank Annual Report - 2007)

### Power Systems Sector Environment

The Performance of the Sri Lanka Railway (SLR) has not shown a significant improvement in 2007. Although the railway network of Sri Lanka covers 1,640 km, it currently operates only 1,200 km of that, due to the on-going armed conflict in the North & East of the country. SLR is presently responsible for approximately 6% of total passenger transport and 1% of the goods transport

ECONOMIC SECTORS	2007	2006	2005	2004	2003
<b>Telecommunication Sector</b>					
Fixed access service					
Wireless in Service (No.)	931,737	909,894	919,040	860,468	817,750
Wireless Access (No.)	1,810,322	974,184	324,953	130,771	116,021
Telephone Density (telephone per 100 persons)	13.70	9.53	6.26	5.09	4.88
Other Services					
Cellular Phones (No. of subscribers)	7,983,489	5,412,496	3,361,775	2,211,158	1,393,403
Internet & Email (No. of subscribers)	202,348	130,000	115,000	93,300	85,500
<b>Power Generation (Energy Sector)</b>					
Available Capacity (MW)	2,443	2,434	2,411	2,378	2,243
CEB-Hydro (MW)	1,207	1,207	1,207	1,207	1,207
CEB-Thermal (MW)	548	548	548	573	618
CEB- Wind (MW)	3	3	3	3	3
Private - Hydro (MW)	116	107	84	73	40
Private - Thermal (MW)	567	567	567	452	355
<b>Medical Equipment Sector</b>					
Hospitals practicing Western medicine (No.)	619	604	606	598	606
No. of Doctors	11,442	10,526	9,070	8,749	8,342
Beds (No.)	66,866	62,749	61,937	60,328	61,808
Total Health Expenditure (Rs. mn)	68,702	58,038	44,850	34,419	22,073
Total Health Expenditure as a % of GDP	1.92	1.97	1.83	1.65	1.51

Source - Central Bank Annual Report - 2007

in the country. Overall, the passenger transportation increased by 4.5% and goods transportation increased by 6.3% during the year.

The Factory Industry, which is the largest sub-sector of the manufacturing sector; accounting for more than 55% of the total industrial output, grew by 6.7% in 2007, compared to the 5.7% growth recorded in 2006.

(Source - Central Bank Annual Report - 2007)

### Power Engineering Sector Environment

Electricity generation increased by 4.5% to 9,814 GWh during 2007. Hydropower generation decreased significantly in 2007 due to the low rainfall in catchment areas during the first few months of the year. The share of hydropower in the total electricity generation in the country decreased to 40% in 2007 from 49% in 2006. The sales

# BUSINESS PERFORMANCE

## DIVERSIFIED ACTIVITIES

of electricity (which excludes system loss-out of the total generation) increased by 5.7% to 8,276 GWh in 2007. Electricity consumption in the general purpose category and the domestic sector grew by 16.6% and 5.7% respectively, while electricity consumption in the industrial sector grew only marginally.

To cater to the growing demand for electricity, the Government has several capacity expansion projects in electricity generation in progress. The construction of the 150 MW Upper Kotmale hydropower project and the first phase of the 300 MW Norochcholai coal power plant have continued in 2007 and is expected to be connected to the national grid by 2011. Another thermal power plant at Kerawalapitiya is expected to be commissioned during the second half of 2008. The Government is also planning to construct 4 medium-scale hydropower plants and another potential coal power plant of 500 MW is under consideration in Trincomalee at present.

*(Source - Central Bank Annual Report - 2007)*

The served market of the Power Engineering business includes a part of the construction sector. The industry review of the construction sector is available on page 29.

### Medical Industrial Environment

Sri Lanka has in recent years achieved a relatively higher rank in the Human Development Index (HDI). However, there is still an untapped potential in the Educational & Health Services sectors. A healthy workforce has the potential to contribute to a faster economic growth of the country. The establishment of the Private Health Service Regulatory Council is an encouraging development in terms of ensuring the quality of private health care provided in the country.

In 2007, the Government's total health budget increased by 18% to Rs. 69 bn, which is about 1.9% of GDP. Over the years, the Government has facilitated the steady growth of the private healthcare sector, while increasingly focusing on improving its own facilities and services to the low income groups. However, as the Government has a broader role to play in ensuring that all patients get the proper medical care, the Private Health Services Regulatory Council was established to regulate the private sector health service providers. To ensure more medical facilities to the people, the Ministry of Healthcare and Nutrition has entered into Memorandums of Understanding with donor agencies such as the World Health Organisation (WHO), the United Nations Children's Fund (UNICEF) and the Japanese International Cooperation Agency (JICA) to implement various health projects in the country.

*(Source - Central Bank Annual Report - 2007)*

# BUSINESS PERFORMANCE

## DIVERSIFIED ACTIVITIES

### Operational Review [Diversified Activities]

#### Telecommunication System

We market a range of products including Enterprise Networks in voice communication and related applications, solutions for call centres, telephone instruments, solutions in IP telephony, wireless data solutions and uninterrupted power supply systems (UPS). We also provide solutions in after sales needs of customers.

During the year, turnover increased by 29%, while a 6% increase was seen in the installed capacity of the business. However, the profit before tax fell short of the budgeted amount for the year. The main focus of this business was the strengthening of strategic relationships formed with telecommunication service providers. Our concerted effort to improve working capital management paid dividends this year, and we were able to achieve improvements in the management of debtors and stocks.

One of the faster moving products HiPath 1100 series did well during the year. It is perceived in the market as a 'value-for-money' product, and as such generated a fair demand. Another contributor to profitability of the business was the Siemens HiPath 4000 series, which is well received by our customers.

The future holds good potential for this sector as seen in the growth of the industry. Thus, the Company has plans to introduce the HiPath 8000 series and WLAN/VoW (Voice over wireless LAN) products. We are also exploring opportunities available to market solutions to new Call Centre projects.

#### Power Systems

This business unit markets products for Rail traction, marine propulsion and industries segments. The key driver of growth in this business remains the sale of propulsion

systems. This business unit also provides refrigeration solutions for production processes & storage facilities.

During the year, the unit made heavy investments to train engineers to provide the best possible DIMO after-care for the new MTU 4000 series engines.

The business saw an increase in turnover by 20% during the year 2007/08. The main contributor to this increase was improved sales in marine propulsion systems.

This business unit performed exceptionally well during the financial year 2007/08, and is expected to achieve the budgeted results during the ensuing year as well.

#### Power Engineering

This business serves two major sub-sectors; Power engineering solutions and Building Technologies.

The Building Technologies sub-sector performed reasonably well by securing many projects and achieved recognition by securing the contract to install & commission a Building Management System to the British High Commission in Colombo.

The Power Solutions sub-sector in collaboration with Siemens, one of the largest players in the world in the power segment, succeeded in securing two major power development projects in Sri Lanka. We have also recently commenced the installation of two sub-stations for the Kerawalapitiya power plant for CEB. Dima together with Siemens is also to commission and install a state-of-the-art SCADA system for the CEB. In addition to the power development projects of the CEB, we also carry out work on Medium voltage power systems for high-rise buildings and industries.





# BUSINESS PERFORMANCE

## DIVERSIFIED ACTIVITIES

This business achieved a turnover increase of 86% in 2007/08, (198 % in 2006/07). This success is attributable to the rapid expansion into new business ventures while simultaneously strengthening and growing its existing businesses. As expected, the business has succeeded in achieving its budgeted levels of growth. Having increased its profits by commendable levels, the unit looks forward to further improvements in financial results in the ensuing year.

Plans are underway to broaden the product range offered by the business, by introducing a new range of building Surveillance security systems in the coming year.

The growth was well supported by many awareness programs that were conducted, targeting users and opinion leaders of the sector. The Company also participated in many road shows to create a greater awareness of the products marketed. Overall, the business has succeeded in building a sound reputation in the industry for the reliability of products and services offered.

### Medical Engineering

DIMO is a key provider in the Medical Solutions on Radiology, Ophthalmology, Neurology, Cardiology and Anesthesiology to the local healthcare sector. We market

products from leading suppliers including Siemens, Carl Zeiss & Drager Medical.

The year was a difficult one for this business, with some of the expected projects not materialising. Therefore, the performance of this business was below expectations.

The business however, kept its focus on providing the Sri Lankan healthcare sector with the best possible products and successfully introduced and installed the ISO centric C-Arm X-Ray System, the first such system in Sri Lanka, at the National Hospital of Sri Lanka. Furthermore, the first Linear Accelerator in the country installed by Dimo at the Ceylinco Healthcare Centre is being maintained by trained Dimo engineering staff, providing latest technological access to the Sri Lankan community.

The future for this business seems bright. The Company has received a letter of intent to supply medical equipment to a major project in the healthcare industry in Sri Lanka. This, together with the substantial new investments that are expected in the healthcare industry augurs well for the growth of this business unit in the ensuing year.



# FINANCIAL REVIEW

## Overview

The Group faced a challenging year marked by a marginal drop in vehicle sales volumes; increasing interest; escalating costs in the backdrop of higher rates of inflation. In essence it was a battle to increase market share in order to maintain or achieve higher volumes and to control costs necessitated by a shrinking market. Results that were well below expectations during the first three quarters were mitigated to some extent by an encouraging fourth quarter. A decline in profits was inevitable in an unsupportive business environment.

The rising interest rates discouraged 'capital goods' sold by the Company which are mostly financed by borrowings. The vehicle import statistics on this page show the extent to which vehicle imports into the country in the served markets have declined. The Group's strong base of intellectual capital provided the resilience for a fourth quarter recovery and end the year with a profit before tax of Rs. 344 mn (2006/07 - Rs. 513 mn), which was significantly less than the budget.

The vehicle imports for the last five years are given below:

Vehicles (No. of Units)	2007	2006	2005	2004	2003
Buses	2,637	3,346	2,069	2,167	1,949
Private Cars	22,603	27,578	17,283	19,116	21,184
Goods Transport Vehicles	18,408	20,436	14,262	10,703	11,014

(Source: Central Bank - Annual Report 2007)

## Financial Environment

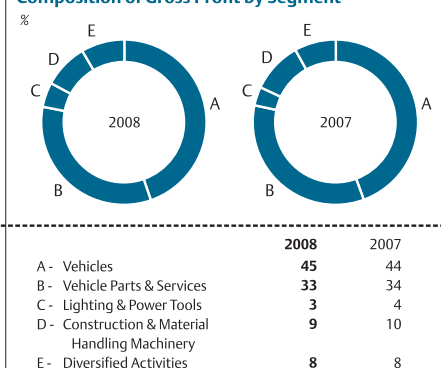
The following extracts from the Central Bank Annual Report - 2007 provides an insight into the interest rates, exchange rates and the price levels.

"The Central Bank tightened its monetary policy stance to reduce high monetary expansion and demand driven inflation. Market interest rates moved significantly thereby making credit more expensive. AWPLR increased by 276 basis points during the calendar year 2007. Yield rate on three month Treasury Bills increased by 854 basis points during the same period."

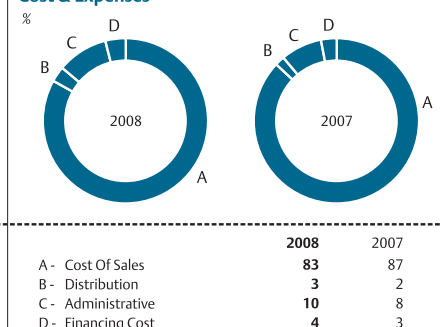
"The Sri Lankan Rupee depreciated at a relatively higher rate against the US Dollar during the first three quarters of the calendar year 2007 and appreciated in the last quarter with the inflow of proceeds from the sovereign international bond issue."

"As measured by the Colombo Consumers Price Index (CCPI (N)) the general price level moved on an upward trend; leading to an average annual increase of 15.8% in 2007 compared with an increase of 10% in 2006."

Composition of Gross Profit by Segment



Cost & Expenses



quality







Quality is another aspect of D Brand; products that are designed to dazzle not only today but for always.

# FINANCIAL REVIEW

## Segment Performance

Vehicles, Lighting & Power Tools and Diversified segments showed an improved segment result compared to the previous year while Vehicle Parts & Service and Construction & Material Handling Machinery showed a decline. Adverse results in the Tata Passenger Vehicles and Chrysler & Jeep affected the sustained results by the vehicles segment. Power Engineering and Power Systems posted encouraging results in the diversified segment whilst the results of Medical Engineering & Telecommunications Solutions offset these gains to some extent. Construction and Mining Machinery and Fluid Management systems were the contributors to the decline in the Construction & Material Handling Machinery segment.

Emergence of non-auto businesses as areas of growth was evident during the year. Power Systems and Power Engineering businesses covering diverse areas including off highway propulsion systems, Power & Energy, Building Technologies led the way. The budgets for the year 2008/09 estimates a rapid growth in the non-auto business, which is in line with the overall long-term strategy of the Company.

## Trends

The phenomenal growth momentum experienced during the past five years did not continue due to the reasons discussed earlier on. Borrowings did not increase significantly during the past two years which augurs well for the sustained efforts made in working capital management.

A five-year summary of key financial data captures the growth experienced by the Group during past five years:

	2007/08 Rs. mn	2006/07 Rs. mn	2005/06 Rs. mn	2004/05 Rs. mn	2003/04 Rs. mn
<b>Performance</b>					
Turnover	12,687	12,989	10,512	7,565	4,797
Gross Profit	2,375	2,129	1,590	1,206	846
Profit after Tax	205	302	265	177	100
<b>Financial Position</b>					
Total Assets	5,831	5,199	4,570	3,195	2,252
Current Assets	4,368	4,193	3,794	2,461	1,692
Borrowings	2,785	2,840	2,795	1,609	958

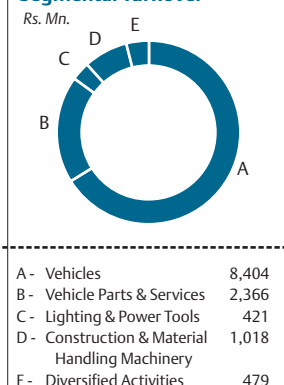
## Turnover

Turnover marginally reduced by 2% (increase of 24% in 2006/07) to Rs. 12.6 bn. However, the compounded growth rate during the past five years was 21%.

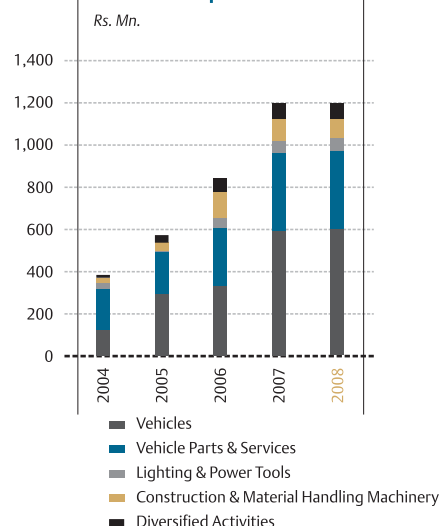
The vehicles segment contributed 66% (68% in 2006/07) to the turnover and recorded a 5% decline (growth of 21% in 2006/07) over the previous year. The key contributor to the segment turnover was the Tata commercial vehicle business led by the 'Dimo Batta'. Phenomenally high tariff on import of luxury vehicles remain a deterrent in selling luxury vehicles in Sri Lanka.

Turnover of Vehicle Parts and Service and Lighting & Power Tools increased by 14% and 19% respectively while Construction & Material Handling Machinery and Diversified Activities segment turnover declined by 15% and 11% respectively.

### Segmental Turnover



### Business Segment Profit from Operations



# FINANCIAL REVIEW

## Profitability

Intense Marketing efforts to offset the negative impacts from a shrinking market in the vehicles business propelled an 11.6% (34% - 2006/07) increase in the Gross Profit. The Gross Profit Margin increased from 16.5% to 18.9%.

The percentage increase/(decrease) in the segment result over the previous year is given below:

	% increase/(decrease)	
	2007/08	2006/07
Vehicles	01	80
Vehicle Parts & Services	00	32
Lighting & Power Tools	19	16
Construction & Material Handling Machinery	(16)	(13)
Diversified Activities	05	10

## Distribution and Administrative Expenses

The Distribution and Administrative Expenses increased by 31% (2006/07 - 22%). Containment of expenses were curtailed to an extent by the fixed nature of most of the Administrative Expenses and increase in price levels fuelled by the high rates of inflation.

## Finance Expenses

Finance cost increased by 12% (2006/07 - 73%) to Rs. 521 mn (2006/07 - Rs. 464 mn) mainly as a result of the increase in interest rates. The statistics shows that the Company's average interest rate has increased by 10% during the year. As a result of rising interest rates and reduced profits, the interest cover deteriorated from 2.1 times to 1.7 during the year under review.

## Taxation

The income tax expense was Rs. 139 mn (2006/07 - Rs. 211 mn). The corporate income tax rate applicable to the Company was 35%. A social responsibility levy of 1% of

the income tax payable was also applicable.

The disallowable expenses relating to advertising and overseas travelling pushed the effective tax rate to 40% (2006/07 - 41%). The reconciliation between accounting profit and taxable income is available on page 116.

## Earnings

Earnings before interest & tax (EBIT) for the year were Rs. 859 mn (2006/07 - Rs. 972 mn).

This is a key performance indicator that is used to measure operational efficiency of a business unit without taking into consideration the volatility of interest rates.

The net profit after tax decreased by 32% in 2007/08 (2006/07 - increase of 14%).

Return on average capital employed and return on investment were 20% (19% in 2006/07) and 13% (22% in 2006/07) respectively.

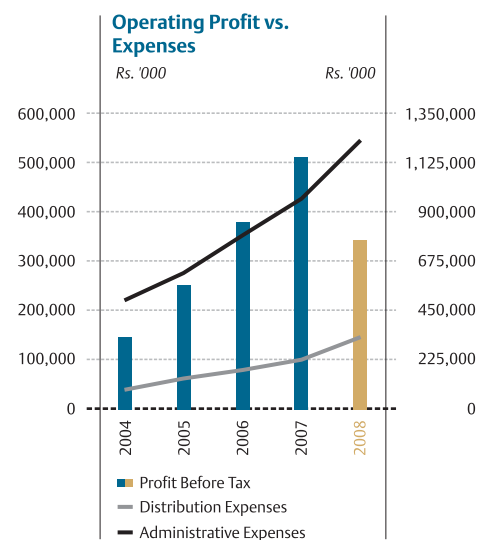
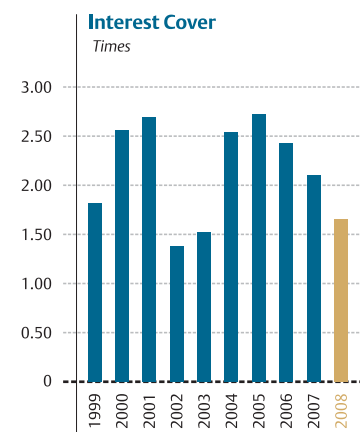
Earnings Per Share (EPS) was Rs. 16.95 (2006/07 - Rs. 25.76) constituting a 34% decrease during the year. The compounded growth of EPS over five years was 18%.

## Return on Equity (ROE)

It is noteworthy that Return on equity has grown steadily in the past from 6% in 2002/03 to 22% in 2006/07. However, the ROE in the year under review dipped to 13%. The main cause of the fall in the ROE was the reduction in the profit after tax the reasons for which were explained earlier in this review.

## Dividends

The Directors have approved a final dividend of Rs. 2.50 (2006/07 - Rs. 3.00) per share, and this will bring the total dividend to Rs. 4.00 (2006/07 - Rs. 6.00) per share for the year under review. The



# FINANCIAL REVIEW

dividend cover was 4.24 times (2006/07 - 4.16 times). The Company possesses the necessary funds in order to finance the funding requirement that will arise due to the final dividend and satisfies the solvency test requirements for payment of dividends as laid down in the Companies Act No. 7 of 2007.

## Market Value Added (MVA)

Market Value Added (MVA) is the difference between the current Market Value of the Company and the capital contributed by investors viz. shareholder equity. MVA is an indicator of shareholder wealth unlike EVA which is a performance measure. Market price of a share is a key variable in MVA, and its interpretation should take into account the impact of the Company's performance on the market price per share as well as the trends in the stock market.

The computation of the MVA of the Company is below:

	2007/08 Rs. '000	2006/07 Rs. '000
Market Capitalisation	1,073,875	1,452,000
Shareholders' Funds	1,657,151	1,506,508
Market Value Addition/(Depletion)	(583,276)	(54,508)

MVA as at year end showed a negative value of Rs. 583.3 mn (2006/07 - Rs. 54.5 mn) in the backdrop of a Rs. 150 mn (2006/07 - Rs. 290 mn) increase in equity and a 26% (2006/07 - 13%) decline in market value per share during the year.

## Property, Plant & Equipment

The year could be considered as a landmark year for investment in property, plant & equipment (PPE). The Company made the largest investment in PPE in its history when a 16.16 acre property in Weliveriya was acquired with a built area of 209,025 sq feet. The built area include 19,500 sq. feet of office space and 177,075 sq. feet of

factory/stores area. This property would serve as the platform for further expansion and provide adequate parking space to streamline vehicle sales operations. During the year under review, Rs. 554 mn was invested in property, plant & equipment (2006/07 - Rs. 306 mn). The Company spent Rs. 400 mn for the acquisition of the property at Weliveriya.

## Working Capital

The working capital as at the year end reduced from Rs. 975 mn to Rs. 906 mn. Prudent management of working capital is a key area of focus in our effort to produce a healthy Balance Sheet and to minimise finance costs. Inventories increased by 4% (2006/07 - 34% increase) to Rs. 2.2 bn (2006/07 - Rs. 2.1 bn). Trade receivables too increased by 10% (2006/07 - 11 % reduction) to Rs 2.1 bn (2006/07 - Rs. 1.9).

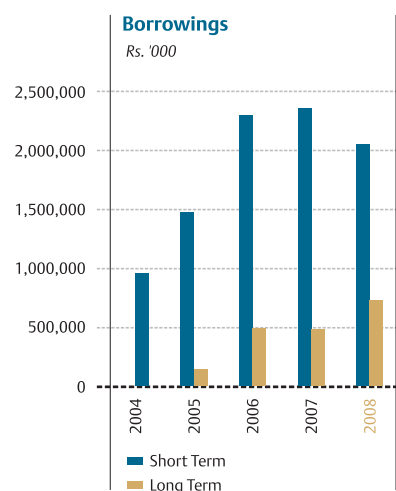
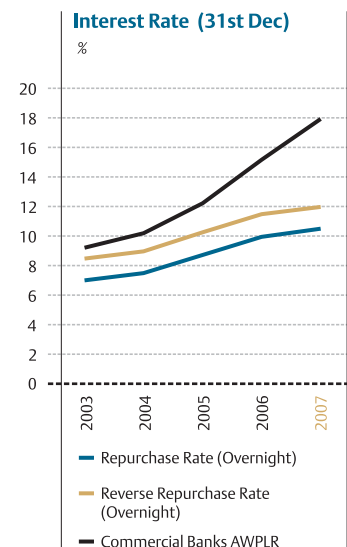
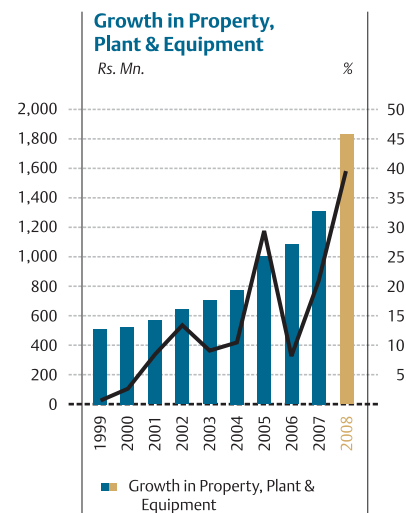
## Borrowings

Borrowings consist of term loans, import loans and bank overdrafts. A ten year term loan linked to market rates was obtained to finance the acquisition of the Weliveriya property. Whilst the interest rates of other term loans are fixed for two to three years, import loans are linked to money market rates. Interest rates on overdrafts are reviewed periodically.

Interest bearing borrowings marginally decreased despite the borrowings related to acquisition of the Weliveriya property. The total borrowings outstanding as at the end of the year was Rs. 2,792 mn (2006/07 - Rs. 2,840 mn).

## Cash Flow

Cash flow from operating activities was an inflow of Rs. 521 mn. This is compared to an inflow of Rs. 383 mn for the year 2006/07. Increase in trade payables and funds generated from operations were the main



# FINANCIAL REVIEW

contributing factor to the improvement.

The cash outflow on account of capital expenditure amounted Rs. 547 mn (2006/07 - Rs. 305 mn). The outflow on account of servicing providers of finance in the form of interest and dividends amounted to Rs. 518 mn (2006/07 - Rs. 461 mn) and Rs. 54 mn (2006/07 - Rs. 66 mn) respectively. The Group cash and cash equivalent increased by Rs. 181 mn (2006/07 - Rs. 46 mn).

The Group possesses the necessary banking facilities to support its operations. Cash generated from operations and available banking facilities are adequate to finance working capital, capital expenditure, dividends and statutory payments.

## Solvency

Section 56 of Companies Act No. 7 of 2007, requires that a solvency test be carried out prior to the payment of dividends. In order to satisfy this requirement, the Company Auditors certified that the Company meets the required solvency levels prior to payment of dividends during the year. In doing so the Auditors confirmed that the Company has the ability to pay its debts as they become due in the normal course of business and that the value of the Company's assets is greater than the value of its liabilities and the Company's stated capital.

The computation of solvency as at the year end is given below:

	2008 Rs. mn	2007 Rs. mn
Non-Current Assets	1,389	949
Current Assets	4,186	3,991
<b>Total Assets</b>	<b>5,575</b>	<b>4,940</b>
Current Liabilities	3,355	3,098
Non-Current Liabilities	705	467
<b>Total Liabilities</b>	<b>4,060</b>	<b>3,565</b>
Stated Capital	182	182
	<b>1,333</b>	<b>1,193</b>

## Financial Priorities

The financial priorities remain strongly pursued in formulating Corporate Strategy. The following are the Group's financial priorities that drive the Group's financial strategy:

- Optimising profitability through value addition and efficient utilisation of resources particularly through prudent working capital management.
- Striking a balance between growth and immediate profitability in allocating financial resources.
- Maintaining a healthy Balance Sheet.

## Treasury Management

The Group operates a central treasury function, which controls decisions in respect of cash management, utilisation of borrowing facilities, banking relationships and foreign currency exposure management. It enables effective cross utilisation of funds between business units. Policies are in place to guide the activities of the central treasury in terms of approval levels and the scope of decision making.

## Financial Market Risk

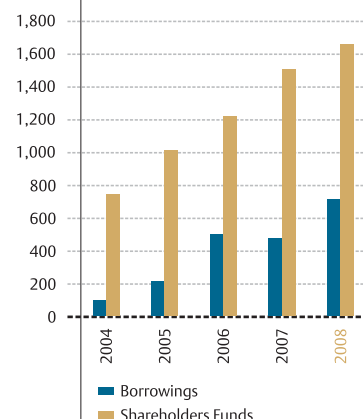
The Company is exposed to various changes in financial market conditions, including fluctuations in interest rates and foreign currency exchange rates. Forward exchange rate contracts are entered into for imports on a selective basis, where desirable.

## Retirement Benefits

The Group accrues gratuity expenditure based on salary as at the end of the year and the number of years completed in service. The provision for retirement gratuity as at 31st March 2008 amounted to Rs. 116 mn (2006/07 - Rs. 94 mn). The provision made for the year is Rs. 28 mn (2006/07 - Rs. 20 mn).

## Capital Structure

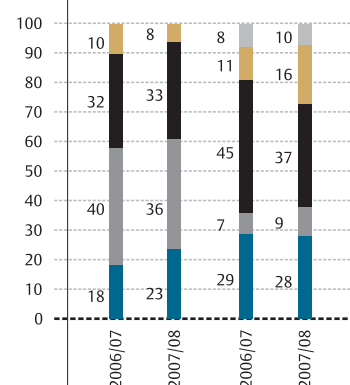
Rs. Mn.



## Balance Sheet Structure

Assets (%)

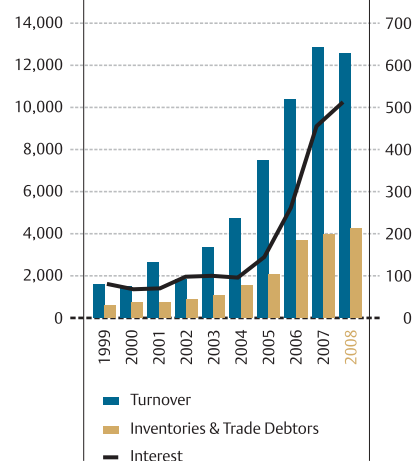
Liabilities (%)



Property Plant & Equipment  
Inventories  
Trade Debtors  
Investments & Other Current Assets  
Shareholder's Funds  
Long Term Borrowings  
Short Term Borrowings  
Trade Creditors  
Other Current Liabilities

## Inventories & Trade Debtors vs. Turnover & Interest

Rs. Mn.



## FINANCIAL REVIEW

## Contractual Obligations

Financial contractual obligations to banks as at 31.03.2008 are given below:

Obligation	Amount due 2008 Rs. mn	Amount due 2007 Rs. mn	Settlement
Long-term Borrowing	730	478	Equal monthly instalments
Short-term Borrowing	1,855	2,218	On maturity at terms ranging from one month to six months
Overdraft	200	142	On demand
Letter of Credit	1,135	1,502	As per LC condition
Bank Guarantees	211	209	As per Guarantee condition
Bid Bonds/Performance Bond	109	148	As per Bond condition

## Foreign Currency Transactions

The US Dollar and the Euro are the principal currencies in which the Group's imports are denominated. A majority of receivables from foreign principals are also denominated in the same currencies. The Sri Lankan Rupee appreciated against the US Dollar by 0.5% (2006/07 - 6% depreciation) while it depreciated against the Euro by 17% (2006/07 - 18%) during the year.

## Shareholders' Funds

Shareholders' funds increased to Rs. 1,657 mn from Rs. 1,507 mn. The increase of Rs. 150 mn in retained earnings represent the increase.

Market capitalisation as at 31.03.2008 was Rs. 1.07 bn (2006/07 - Rs. 1.45 bn).

## Accounting and Financial Reporting

The Group strives to make meaningful disclosures of material information in the Annual Report and Accounts and has consistently focused on improving the presentation of information, within the framework of the Sri Lanka Accounting Standards.

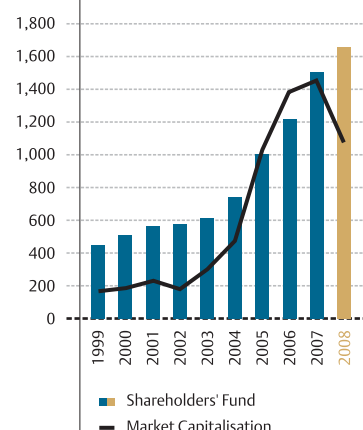
It remains committed to the adoption of best practices in its communications with shareholders and other users of financial statements, within the bounds of commercial confidentiality, to enable them to make informed judgements on the performance of the Group.

## Outlook

It is inevitable that a continuation or a deterioration of the current market and environmental factors will impact on the Company's performance. Despite competitive market conditions, a recent drop in volumes and high interest rates, the DIMO team is determined to deliver a much improved result. Its Human Resources are well placed to seize opportunities and face challenges. Historically, the Board has constantly reviewed, and will continue to review its cost base and working capital management. At the same time, the group expects to further invest in Human Resources, Technology and where the group's value addition content of the offering can be increased. Aftercare will remain an important element of the Company strategy for growth.

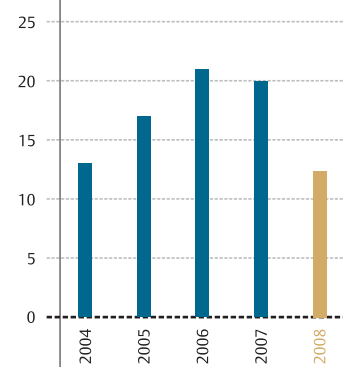
## Shareholders' Funds vs. Market Capitalisation

Rs. Mn.

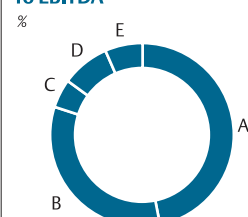


## Return on Equity

Rs. '000



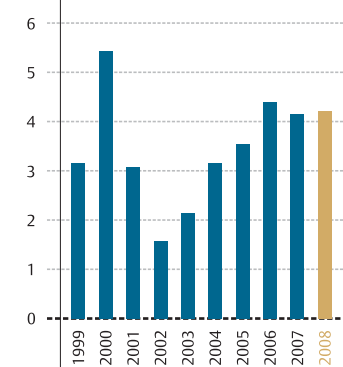
## Segmental Contribution To EBITDA



A - Vehicles	47
B - Vehicle Parts & Services	33
C - Lighting & Power Tools	5
D - Construction & Material Handling Machinery	8
E - Diversified Activities	7

## Dividend Cover

Times





# DRIVING SUSTAINABLE CHANGE

## CHAIRMAN'S STATEMENT

### Meeting Multiple Expectations through Sustainable Entrepreneurship

Welcome to the Dimo sustainability report!

It gives me great pleasure to present to you the Dimo sustainability report for the financial year 2007/08. This is the fourth sustainability report from DIMO and outlines our efforts at meeting the aspirations and expectations of our multiple stakeholders.

Dimo's stakeholders are many. They include shareholders, principals, employees, customers, lending institutions and every member of the larger community. As one of Sri Lanka's leading corporate citizens we know that we have obligations to all these stakeholders and in this report we examine how the Company is progressively putting in place systems and procedures to meet these multiple responsibilities. Our goal is to add value for all our stakeholder groups in different ways and to create sustainable and productive outcomes for all.

Dimo's sustainability strategy is an intrinsic part of its corporate strategy and is well reflected in our vision and guiding values. The sustainability report that follows looks at the impact the company has had on three key areas: the economic impact on the country & the stakeholders; the physical environment and society. It provides an insight into our philosophy on creating sustainable opportunities for all and responding to the diverse stakeholder expectations, express or implied.

Last year's sustainability report attracted the overall second runner up award for sustainability reporting at the annual awards ceremony of the Institute of Chartered Accountants of Sri Lanka.

I hope that this sustainability report will be of interest to our many stakeholders.



**A.R. Pandithage**

Chairman

9th May 2008



### DIMO QUALITY & ENVIRONMENT POLICY

We at Dimo are committed to:

- Continuously improve our systems & processes
- Total customer satisfaction
- Develop human resources
- Conservation of resources
- Reducing waste
- Compliance to Legal Statutory and the requirements of the Principals

"Sustainability reporting is the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organisational performance towards the goal of sustainable development. 'Sustainability Reporting' is a broad term considered synonymous with others used to describe reporting on economic, environmental, and social impacts (e.g. triple bottom line, corporate responsibility reporting, etc.)"

*[Source: Sustainability Reporting Guidelines - Global Reporting Initiative (GRI)]*

The Purpose of the Sustainability Report is to Communicate to the stakeholders the Company's philosophy and framework on sustainable wealth creation. This also helps stakeholders to assess the Company's role in sustainable development. It also provides an opportunity to review the adequacy of the existing framework and reflect upon improvements. The Contents of this report that follows will facilitates this process.

# DRIVING SUSTAINABLE CHANGE

## SUSTAINABILITY AT DIMO

Developments in knowledge, trade and technology are driving global and local change at a previously unimaginable pace. While much of this change is positive these developments have also raised new risks and challenges for populations all over the world.

As one of Sri Lanka's leading corporate entities we at Dimo have been proud to be both a driver and a beneficiary of this change. Our vision as a corporate entity has been to produce new opportunities and better lifestyles for all our stakeholders through our entrepreneurial activities.

We are also conscious that our operations, products and services are having new and different impacts on the economy, on society and on the physical environment. This has compelled us to re-think some of the traditional ways of doing business and influenced us to develop newer ways of entrepreneurship that add value in multiple ways to our many and constantly expanding group of stakeholders.

In this Sustainability Report we report on how our activities have been impacting on the economy, on the environment, and on society in general. It examines in some detail Dimo's philosophy and the role in generating a larger social wealth that percolates beyond our shareholders. While the other sections of this annual report capture Dimo's performance with regard to the more conventional aspects of corporate reporting, in this section we report in some detail on the less traditional aspects and on the less visible

aspects of Dimo's performance. By doing this we hope to enhance transparency in as complete a way as possible about all aspects of the Company's performance. Greater transparency can only promote better stakeholder dialogue, increase stakeholder confidence in our operations, and create better opportunities for all our stakeholders.

Reporting in detail on the processes within the Company for creating sustainable wealth also enables us to assess these processes more stringently and to constantly improve the processes we already have in place.

At the global level the Global Reporting Initiative (GRI) has developed a set of concepts, a discourse and a language to facilitate greater transparency in corporate reporting. We have modeled our report partly, though not exclusively, on the GRI Framework.

This is Dimo's fourth Sustainability Report and covers the period 1st April 2007 to 31st March 2008 and draws briefly from some of the previous reports. The Sustainability Report is prepared annually and is published as a part of the Annual Report. Any questions regarding the Sustainability Report may be directed to the Board of Directors and could be sent to [dimo@dimolanka.com](mailto:dimo@dimolanka.com).

## ORGANISATIONAL PROFILE

Details of activities the Company is involved in and the performance of all businesses of Dimo can be found on pages 16 to 36 of this Annual Report.

# DRIVING SUSTAINABLE CHANGE

## COMMITMENTS, GOVERNANCE & ENGAGEMENTS

### Creating Value for all Our Stakeholders

The Company's stakeholders are many. They consist of our customers; our employees and their friends and families; our shareholders; our business partners; our financial partners; the larger society; and generations yet unborn. Dimo's approach to value generation has been to add value for all these stakeholders. While our primary responsibility is to our shareholders since they provide the capital to run the business, we believe that shareholders in turn benefit from the other diverse ways in which the Company generates value. As a modern corporate citizen we know that our responsibilities today extend to a larger number of groups than before and we therefore strive to build value for all these groups.

### The Chain of Command

The Board of Directors is responsible for promoting sustainability within the organisation. Our report on Enterprise Governance contains the complete governance structure of the organisation. The Board has delegated the organisational oversight of sustainability to the Group Management Committee (GMC). The GMC is committed to its Quality and Environment Policy and to sustainable values and actively promotes its implementation across the organisation.

The Group Management Committee identifies and manages economic, environmental and social performance

through the Quality Management System (QMS), the Environmental Management System (EMS), Task Specific Committees and the Company's Management Information System.

The QMS has the ISO 9001 certification and the EMS has the ISO 14001 certification.

### Stakeholder Dialogue

Dialogue with Dimo's multiple and diverse stakeholders is a quintessential part of our approach to sustainable entrepreneurship. Our processes and systems have been engineered so as to enable all stakeholders to add value to decision making within the Company and their input has, over the years, been invaluable to the Company.

Participation and inclusivity are the two key values that drive our process of stakeholder dialogue. Participation at Dimo has meant not just listening to the stakeholder, but accommodating those points of view to the greatest extent possible.

Inclusivity at Dimo has meant engaging with as many stakeholders as possible. Some stakeholders naturally, such as customers and shareholders, because of the stake they have in the Company, tend to influence decision making more profoundly. Yet we have endeavoured to balance customer expectations and shareholder demands with social and environmental goals and employee aspirations. One of the challenges for us at Dimo has been to strike that fine balance amongst the demands of all stakeholder interests and ensure an equitable and sustainable outcome.

# DRIVING SUSTAINABLE CHANGE

## The Stakeholder Dialogue Process in Summary

Stakeholders	Sustainability Issues & Concerns	Process of Engagement
Shareholders <ul style="list-style-type: none"> <li>• Owners</li> <li>• Providers of capital</li> </ul>	<ul style="list-style-type: none"> <li>• Profits &amp; Growth</li> <li>• Return on Equity</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Annual General Meeting</b> provides an opportunity to review the past year's performance &amp; engage in discussions with the management</li> <li>• <b>Quarterly and half yearly reports</b> provide a contemporary review of performance during the year.</li> </ul>
Employees <ul style="list-style-type: none"> <li>• The key resource for competitive advantage &amp; sustainable growth</li> </ul>	<ul style="list-style-type: none"> <li>• Individuals future is linked to the Company's growth</li> <li>• Personal Development,</li> <li>• Health &amp; Safety,</li> <li>• Balance between professional and personal life</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Employee council meetings</b></li> <li>• <b>Employee portal</b> of the Company network accessible to every employee.</li> <li>• Company's '<b>Open Door</b>' policy encourages direct employees - management dialogue.</li> <li>• <b>Annual Employee Surveys</b> - voluntary and confidential.</li> <li>• <b>Employee Intranet</b></li> <li>• Quarterly <b>newsletter</b></li> </ul>
Customers <ul style="list-style-type: none"> <li>• Principal source of sustenance</li> </ul>	<ul style="list-style-type: none"> <li>• Product quality</li> <li>• Availability</li> <li>• Standard of after care</li> <li>• Availability of after care</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Customer Relationship Management</b> process (CRM) enables keeping in touch with the customer on a daily basis. It helps to respond to queries and problems from the customer. 'Problem solving' for challenges the customer faces is also done through the CRM process.</li> <li>• A <b>Customer Satisfaction Index</b> maintained by each department provides an assessment of satisfaction levels and helps to improve problem solving capacities within the Company.</li> </ul>
Business Partners <ul style="list-style-type: none"> <li>• Critical part of the value chain</li> </ul>	<ul style="list-style-type: none"> <li>• Market share</li> <li>• Profitability</li> <li>• After care</li> </ul>	<ul style="list-style-type: none"> <li>• A <b>high speed 24 x 7 on line</b> link enables constant dialogue with principals. Issues discussed include product quality, marketing, customer satisfaction, 'problem solving' and employee motivation.</li> <li>• <b>On site visits</b> from principals and on site visits to principals' location facilitate engagement.</li> </ul>
Community <ul style="list-style-type: none"> <li>• Civil safety</li> <li>• Stakeholders in Sustainable development</li> </ul>	<ul style="list-style-type: none"> <li>• Social &amp; environmental impact</li> </ul>	<ul style="list-style-type: none"> <li>• Dialog with <b>Religious Dignitaries</b></li> <li>• <b>Written &amp; oral communications</b> initiated by stakeholders</li> <li>• Company <b>website</b></li> </ul>

# DRIVING SUSTAINABLE CHANGE

## Shareholders

The AGM provides the principal forum for shareholders to discuss performance, Financial Statements, returns, appointments and other relevant matters. The Annual Report is distributed well in advance so that the shareholders can review its contents and engage in a constructive dialogue at the AGM. Quarterly Financial Statements provide an opportunity for the shareholders to monitor progress during the year.

Price Sensitive and other Corporate Announcements are made at the Colombo Stock Exchange and are available at the CSE website. The Company secretary is available for regular consultations with shareholders.

## Employees

The Employee Council meets every month. This forum provides an opportunity for a frank and constructive dialogue on all aspects of the Company's operations between management and employee. The Council draws its representation from diverse sectors within the organisation and seeks to ensure that all views are given adequate representation.

Employee grievances, suggestions for improvements in business operations, communications to employees, explanation of new initiatives by the management, are among the matters discussed at these meetings. Minutes are posted on the employee portal and this enables all employees to follow proceedings of these meetings.

Dimo's employee portal is used as a regular means of communication with each and every employee. Every employee has a portal which carries his or her personal details, shared knowledge, company events

and other information. Logging on to the portal enables employees to keep abreast of events and developments within the organisation.

The 'open door' policy of the organisation enables any employee to meet the Chairman/CEO or any other team leader. The Company encourages open dialogue at all levels and the open door policy provides employees the opportunity to have a frank dialogue or provide constructive criticism without fear of consequences.

Employee Surveys are regularly undertaken by the Company to gauge employee opinion. Employees have the option of remaining anonymous or revealing their identity during the course of these surveys. A summary of the survey is prepared and the results are discussed at the regular Employees' Council Meeting and the Business Unit managers meeting where action plans are prepared. The Human Resource Department follows up on the results of surveys.

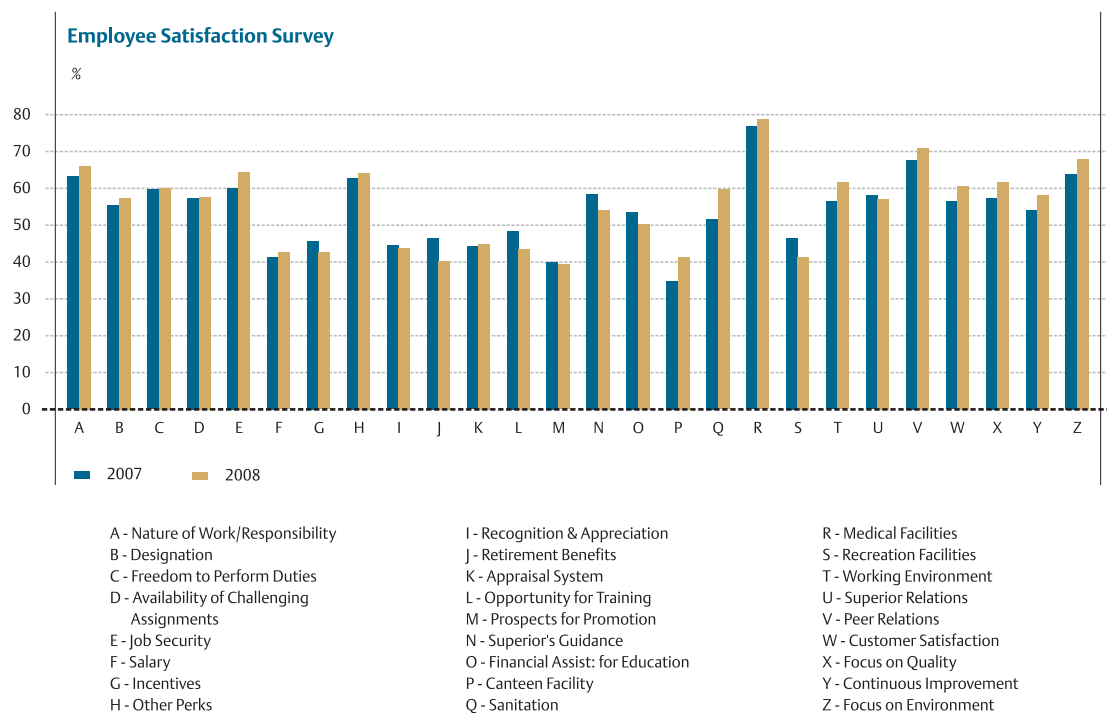
For the year under review the overall satisfaction index was 55.03% which was slightly more than the previous year's figure of 52.23%. Dimo's staff strength is 867, of which 657 or 76% participated in this year's survey. The previous year 664 (or 78%) of the 862 employees participated.

At the commencement of every financial year the Chairman/CEO shares his vision and plans with all employees. This is usually done at the annual strategy presentation, which all employees have to compulsorily attend. Also at this presentation, each business unit manager shares his business unit budget for the forthcoming year with all employees. The previous year's performance is also analysed and employee

*Our Monthly newsletters to keep our employees informed*



# DRIVING SUSTAINABLE CHANGE



feedback is requested on the past year's performance. This gathering ends with a lunch for all attendees.

The quarterly newsletter provides an additional way for the Company to communicate with employees and shares information on news and events within the organisation and other relevant material.

Every business unit meets at least once a month where performance is reviewed, grievances discussed and future plans assessed.

## Principals

Principals visit the Company on a regular basis for review meetings where performance, market trends, competition issues, targets, training, resource utilisation, and other processes are discussed. Representatives of the Company also make regular visits to the principals in their home countries for a similar performance review. Both types of visits

develop relationships between Dimo and our principals and explore how we could further strengthen the existing win-win situations for both.

Reports from principals are shared with the management on a regular basis. The business unit managers also provide regular feedback to principals in order to keep them abreast of all activities by Dimo. The Company has been provided access to the intranet of some principals to enable regular and easy communication with them as they are located in different parts of the world.

## Customers

Maintaining strong and productive relationships with customers is an important aspect of Dimo's operations. Our products and services are driven strongly by customer needs and a healthy and efficient process of engagement with customers is vital if the Company is to grow in synergy with its customers.



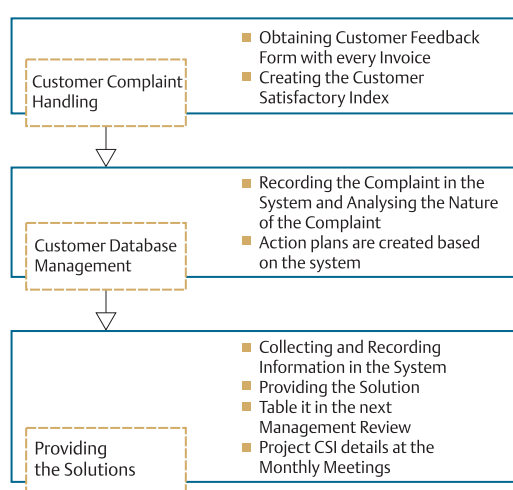
# DRIVING SUSTAINABLE CHANGE

Dimo's Customer Relationship Management process (CRM) is the main instrument through which the Company engages with its customers. Through CRM, Dimo maintains a constant interaction with our customers and solicits opinions and new ideas and responds to queries and problems. Problem solving in respect of particular challenges the customer may have to face is also done through the CRM process.

Our CRM process ensures that we respond instantly to customer problems. Once the problem is referred by the customer to Dimo, the Company will acknowledge the complaint on the day of referral. We then strive to provide a solution within a targeted date. In the process, the CRM department will analyse the issue from both perspectives - that of the customer and the Company - and co-ordinate the entire process until we provide a satisfactory solution to the customer.

The CRM department maintains a Customer Satisfaction Index for the business units of Dimo. This department forwards weekly reports to the Heads of the business units. These reports contain an analysis of customer responses and enable the Company to keep improving its problem solving capacity

## CRM Framework



## Total Number of Complaints Recorded at CRM

	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	Total
2006/07	13	32	25	28	37	49	54	57	32	48	29	54	458
2007/08	24	32	24	41	43	25	24	13	14	24	24	17	305

## Analysis of time taken to provide solutions during year 2007/08

### Solutions Provided

Days	less	6	more	2007/08 Total	2006/07 Total
April	17	0	6	23	13
May	15	1	21	37	32
June	17	1	9	27	25
July	11	14	14	39	28
August	23	0	15	38	37
September	10	6	16	32	49
October	12	6	12	30	54
November	05	3	5	13	57
December	06	5	–	11	32
January	10	5	4	19	48
February	12	5	8	25	29
March	11	0	6	17	54
	149	46	116	311*	458

### Pending at Year End

Sales Issues	Registration Issues	Product Issues	Parts Issues	Service Issues	Total Issues	2006/07
4	–	10	8	1	23	2
1	1	2	7	7	18	7
2	–	3	3	7	15	3
1	–	4	6	3	14	16
2	2	5	9	1	19	22
2	–	2	5	3	12	34
–	–	2	3	1	6	25
2	–	–	2	2	6	23
1	–	3	3	2	9	19
1	–	3	9	1	14	29
1	–	3	8	1	13	20
–	–	6	7	–	13	22
17	3	43	70	29	162	222

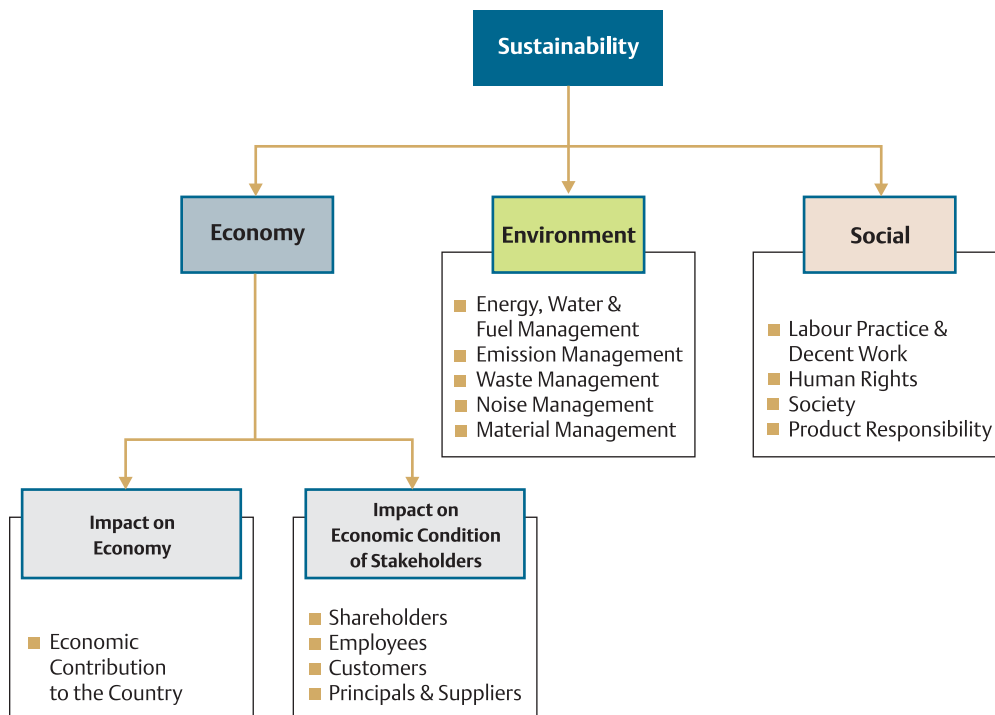
\* Total complaints included 6 complaints brought forward from the previous year. All complaints were provided with a satisfactory solution eventually.

# DRIVING SUSTAINABLE CHANGE

Thus far this report has considered the factors which drive sustainable change within the Company. We will now begin to focus on the ways in which Dimo has created and put into practice sustainable economic, environmental, and social systems.

The diagram below gives an overview of the different areas covered.

## Sustainability Performance Framework



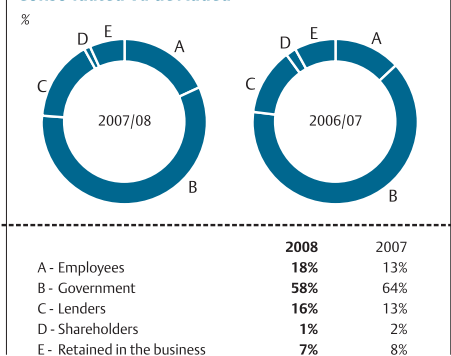
## ECONOMIC PERFORMANCE

## CREATING SUSTAINABLE ECONOMIC SYSTEMS

## Statement of Value Added

Value Created					
	Consolidated 2007/08 Rs. '000	Consolidated 2006/07 Rs. '000	Company 2007/08 Rs. '000	Company 2006/07 Rs. '000	
Gross turnover	12,687,289	12,989,916	12,169,146	12,449,644	
Other income	37,900	28,380	35,804	29,221	
Less: Cost of material and services bought in	(9,444,389)	(9,557,576)	(9,080,891)	(9,164,286)	
	3,280,800	3,460,720	3,124,059	3,314,579	
Value Shared with					
	Consolidated 2007/08 Rs. '000	Consolidated 2006/07 Rs. '000	Company 2007/08 Rs. '000	Company 2006/07 Rs. '000	
	%	%	%	%	
Employees	18 573,208	13 432,159	16 512,136	13 385,090	
Government	58 1,906,343	64 2,206,250	60 1,882,218	65 2,163,764	
Lenders	16 517,823	13 450,926	15 463,926	12 418,698	
Shareholders	1 48,400	2 72,600	2 48,400	2 72,600	
Retained in the business	7 235,026	8 298,785	7 217,379	8 274,427	
Depreciation set aside	2 84,383	2 63,308	2 77,160	2 58,699	
Profit retained	5 150,643	6 235,477	5 140,219	8 215,728	
	100 3,280,800	100 3,460,720	100 3,124,059	100 3,314,579	

## Consolidated Value Added



## Management Approach

Through its activities Dimo seeks to enhance the economic conditions of all its stakeholders and of society in general. While a good bottom line is a company priority, Dimo also seeks to contribute to a large 'social bottom line' where the fruits of entrepreneurship percolate to all social segments and to all geographical areas.

Job creation, educating the young and empowering disadvantaged communities is all part of the Company's process of value generation. Value generation within the organisation embraces both monetary and non-monetary aspects. In this section we examine the Company's economic impact on investors, suppliers, customers, employees and the country/Government.

## Economic Performance

The 'Statement of Value Added' and the 'Statement of Economic Value' added are main tools that the Company uses to monitor its economic performance. This is supported by the use of other indices and information.

The Statement of Value Added shows the value added to the economy by the Company and the value distribution across stakeholders. Total value created for the financial year was Rs. 3.28 bn (as against Rs. 3.46 bn the previous year) which was distributed among Government, Employees, Lenders and Shareholders in the manner set out in the Statement of Value Added. Rs. 573 mn or 18% of the value created was shared with employees in comparison with the Rs. 432 mn or 13% the previous year.

## ECONOMIC PERFORMANCE

## CREATING SUSTAINABLE ECONOMIC SYSTEMS

The statement of economic value added measures the economic profit earned by the Company. Economic profit means the excess/(shortfall) of adjusted earnings over the economic charge on the capital consumed. The Company experienced a negative EVA during the year because of a reduction in its profitability. The EVA for the year under review was negative at Rs. 122 mn (2006/07 - Rs. 120 mn).

## Shareholders

Earnings per Share dropped to Rs. 16.95 per share (2006/07 - Rs. 25.76) and the Total Shareholder Return (TSR) fell further by 22.70 % [2006/07 (9.03%)] because of a reduction in earnings. The drop in the Market Value per Share too contributed to the reducing in the TSR. The reasons for the reduction in profits are discussed in the Financial Review on page 37. The fall in profit after tax necessitated a reduction in the dividends.

The value that accrues to a shareholder is a combination of the dividends per share and the appreciation/depreciation of the share over the medium to long-term. The Total Shareholder Return Chart captures the value addition to shareholders over the medium to long-term.

Shareholders' funds stood at Rs. 1,657 mn compared to Rs. 1,506 mn as the end of the previous financial year.

## Economic Value Added (EVA)

Economic Value Added (EVA) is a performance measure developed by Stern Stewart & Co. Ltd. that attempts to measure the true economic profit produced by a Company. It is frequently also referred to as 'economic profit' and provides a measurement of a company's economic success (or failure) over a period of time.

		2007/08 Rs. '000	2006/07 Rs. '000
<b>Total Capital Supplied</b>			
Shareholders' fund		1,657,151	1,506,508
Long-term interest bearing loans and borrowings		730,702	477,565
		2,387,853	1,984,073
<b>Earnings</b>			
Profit after tax		205,093	301,777
Add: Interest on long-term borrowings		67,915	58,925
Adjusted earnings		273,008	360,702
Weighted average cost of capital (WACC)		16.54%	12.12%
Economic charge		394,951	240,470
Economic Value Added (EVA)		(121,943)	120,232
Source		2007/08	2006/07
Average Risk Free Rate (Average Treasury Bill Rate)	Central Bank	17.81%	11.88%
Beta Factor - DIMO	CSE	0.17	0.37
Risk Premium	Assumed	2%	2%
All Share Price Index (ASPI)	CSE	2,550.5	2,789.8
Average Weighted Prime Lending Rate (AWPLR)	Central Bank	17.95%	15.19%
Rate of Income Tax	Applicable Rate	35%	35%
Cost of Equity (based on CAPM)	Computed	18.15%	12.62%
Cost of Debt (After Tax)	Computed	11.67%	9.90%

## ECONOMIC PERFORMANCE

## CREATING SUSTAINABLE ECONOMIC SYSTEMS

## Total Shareholders Return (TSR)

	2008	2007	2006	2005	2004
Market Price per Share (Rs.)	<b>88.75</b>	120.00	138.50	103.00	53.00
Dividend per Share (Rs.)	<b>4.00</b>	6.00	6.00	5.00	3.50
Total Shareholders Return (%)	<b>(22.70)</b>	(9.03)	40.29	103.77	13.00
Earning per Share (Rs.)	<b>16.95</b>	25.76	22.96	17.72	10.03

## Employees

The Company strictly follows all statutory requirements with regard to employee remuneration and has a market based rewards structure. The salaries are usually adjusted to reflect employee performance. In addition, the staff is entitled to a comprehensive medical insurance cover and a performance based incentive pay which is linked to a pre determined scheme.

Staff costs increased from Rs. 432 mn to Rs. 573 mn reflecting both an upward movement in salaries and an increase in the average number of employees.

## Customers

Dimo provides total solutions to its customers. The sale of a product marks the commencement of a relationship with the customer and the Company continues to provide a high level of after care beyond the point of sale. Dimo's highly trained staff provide excellent technical support which adds value to the investment made in the products and services.

## Suppliers

Suppliers come in two main forms: principals and other suppliers. The Company's aim is to build long lasting and sustainable relationships

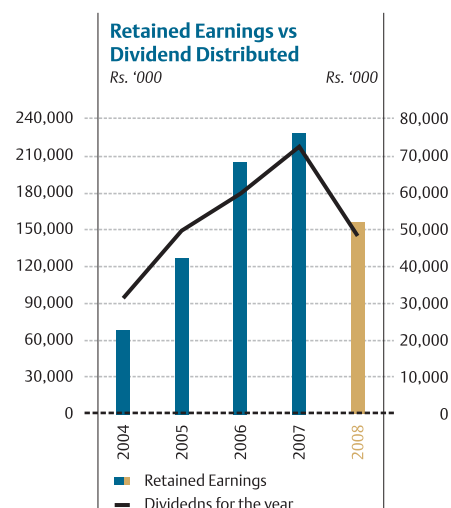
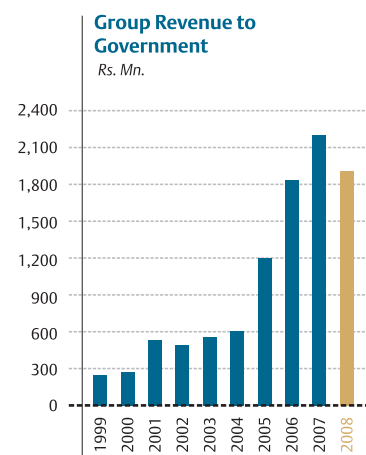
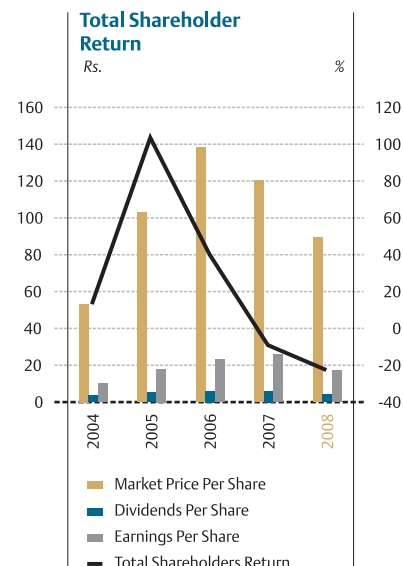
with our principals and to foster stronger relationships with principals who share our philosophy of sustainability.

Principals provide the foundation for the Dimo brand. They are the base on which the Company builds its value. Without their participation we are not able to offer our customers a world class product.

All our contractual obligations with our principals are honoured by the Company. We also invest substantially both in financial terms and in our human resources to enhance the value of the world class products that we offer. The economic value transferred to our principals is shown in the statement of value added as 'cost of goods and services bought'.

## Government

The Company ensures that all obligations to the Government of Sri Lanka is met as per legislation. During the financial year, the Company paid out Rs. 1,906 mn by way of taxes and other levies compared to the Rs. 2,206 mn in the previous year. This represents a total value added of 58% compared to the 64% previous year. The main reason for this decrease in taxes paid was due to the reduction in vehicle imports during the year.



# ENVIRONMENTAL PERFORMANCE

## REJUVENATING THE ENVIRONMENT

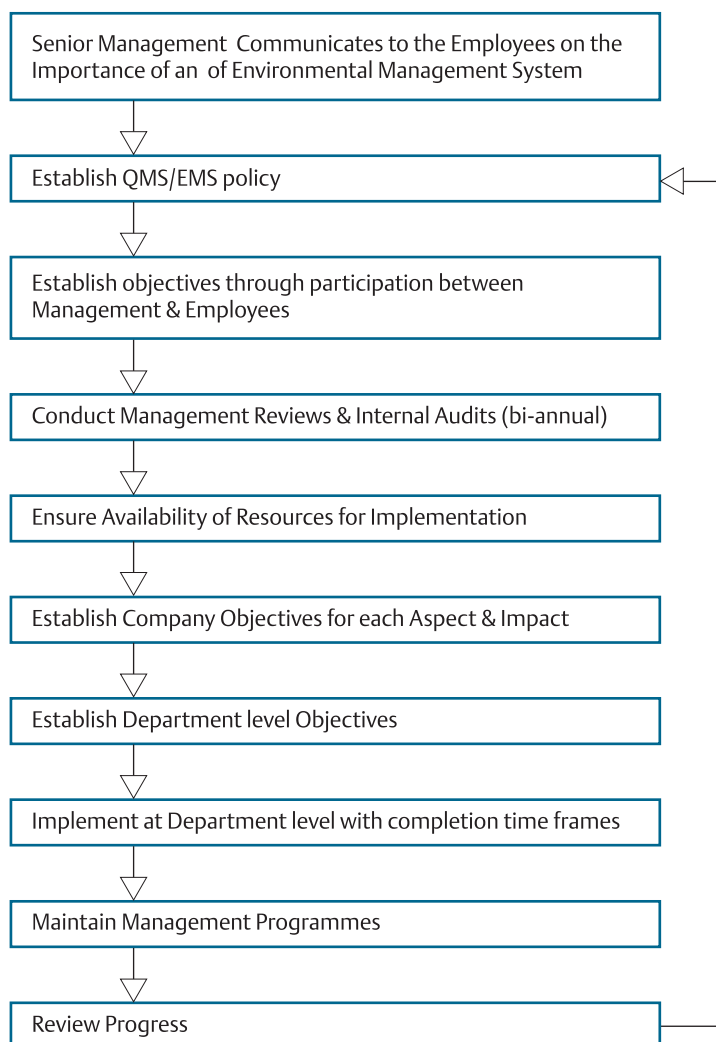
### Management Approach

This section looks at how the Company has adapted its practices and processes so as to rejuvenate the physical environment and ensure its sustainability for generations yet unborn.

The Environmental Management System (EMS) that is in place enables the Company to measure the impact its operations have on the environment and enables us to identify the steps we should take to minimise any adverse consequences. The EMS helps in integrating energy saving processes and technologies within the Company and the reduction of wastage. The EMS is guided by the Triple R concept: reduce, reuse and recycle. In 2005 the EMS received ISO 14001 certification.

In rejuvenating and replenishing the physical environment the Company has focused on six strategic areas - Energy and fuel management, Water management, Noise Emissions, Air Emissions, Waste management and Paper management. These initiative are well documented and monitored under the EMS which carries the ISO 14001 certification. These are discussed in detail below.

### QMS/EMS Process



*ISO Certifications giving testimony to our  
uncompromising standards of quality and safety*





## ENVIRONMENTAL PERFORMANCE

## REJUVENATING THE ENVIRONMENT

**Managing Energy Use**

The Company's main source of energy comes from the national grid. Alternative and renewable sources are being explored and progressively integrated but yet at this point of time conventional electricity provides the primary source. Energy use is constantly monitored with a view to reducing costs and making maximum use of the energy consumed.

Throughout the Company incandescent lamps are being replaced by energy saving bulbs. At present we have replaced more than 80% of bulbs to energy saving.

Computers in all locations are programmed to revert to the standby mode within five minutes of idling. All new units ordered by the Company come with low radiation levels.

Air conditioning units are regularly serviced and are set at a constant minimum of 24 degrees C. Natural sunlight is used wherever possible and new facilities are being designed to make maximum use of natural light. All machinery at all locations are operated at optimum energy levels.

**Managing Water**

Here too the national supply provides the main source of water for the Company's operations. Ground water sources will be explored as part of the Company's next phase of sustainability.

The Company's policy on water management is driven by efforts to both reduce the use of water and to treat and re-use the resource wherever this is possible. The Company is exploring the use of advanced water treatment techniques in an effort to make maximum utilisation of this resource.

At the Company's Siyambalape facility, a pH testing system has been installed to check the acidity levels of the water discharged into the sewage system. This system periodically checks to see that the water released to the sewage system conforms to legal limits.

An active oil separator has also been installed at Siyambalape. This separator ensures that the water is not contaminated with oil residue when it is released into the physical environment.

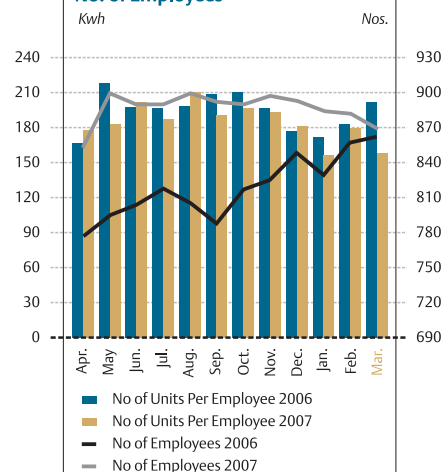
**Noise Emissions**

Noise emissions from all of the Company's facilities are strictly controlled to ensure that all those within the vicinity of these locations are not subjected to uncomfortable noise levels. The Company complies scrupulously with the legal requirements with regard to noise emissions and is taking steps to ensure that its noise emissions are substantially below the legal requirements.

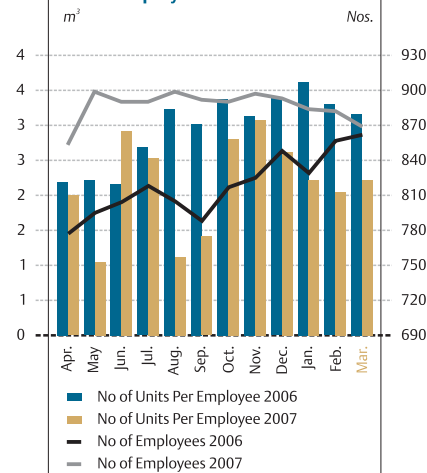
**Emissions to Air**

Dimo is committed to reducing ambient air emissions in all aspects of its operations. The Company ensures that exhaust extractors at all locations capture Carbon Dioxide (CO<sub>2</sub>) and diesel fumes that are emitted. These fumes are excreted into a machine, which is carried upward to legally permissible limits before they are released to the air. All Company vehicles are subjected to regular and stringent emission testing to ensure that they comply with the emission regulations under the National Environment Act. Ozone depleting emissions such as gas from Air Conditioning units are recycled in special machines to avoid leakage into the environment.

**Electricity Consumption per Employee vs No. of Employees**



**Water Consumption per Employee vs No. of Employees**



## ENVIRONMENTAL PERFORMANCE

## REJUVENATING THE ENVIRONMENT

Our passenger car workshop in Colombo is fitted with exhaust gas and dust extractors, the former to deal with harmful gas emissions and the latter to absorb dust that emanates when air filters and brake components are cleaned. All our paint booths are fitted with filters to prevent the release of paint fumes and particles into the environment.

### Waste Management

The Company's policy is to reduce waste as much as possible. Where waste does arise, we make every effort to reuse and recycle as much as is technically and economically feasible. In keeping with the Company's objective of conserving scarce resources Dima has introduced numerous procedures to adhere to this philosophy. One such initiative is the 'Go Green Project Team 3'.

Last year the Company introduced a system to segregate its waste into plastics, solid waste, paper, glass and other materials. Unfortunately the Municipal Council is not geared to responding to such a system for managing waste. The Company instead has put in place a task team referred to as the 'GO Green Project Team 3' as a solution to this problem. Dima developed this concept to further encourage all employees to make

greater contribution towards conservation of scarce resources by the proper discharge and disposal of waste. Under the initiatives taken by this team, waste is now collected at our Colombo premises in a manner that will facilitate recycling. The solid waste is handed over to third parties for recycling, while waste food is given to a farm for use as animal feed.

This system for waste management will soon be introduced at the Company's workshop in Siyambalape, the Weliweriya Logistics Centre and all other branches.

All used toner cartridges are recycled. Toners are collected by our supplier, who in turn resends the used toner cartridges to the manufacturer.

Colour coded containers have been placed in dining areas to segregate food from wrapping materials.

The Company also has a 'take back' scheme which enables customers to return used tyres: which are then provided to a company which recycles the tyres and uses it as raw material.



The promotional methods for our 'Go Green Project Team 3' - posters, vehicles and much more



# ENVIRONMENTAL PERFORMANCE

## REJUVENATING THE ENVIRONMENT

### Handling of Chemicals

Chemical spillages at the workshops are virtually non-existent and if any such incidents occur there are properly documented rules and guidelines in place to respond to the impact of such a spillage. Employees have been briefed on the proper procedures that must be followed and the training that is given to employees is in line with global safety practices.

Oil suckers are used to minimise oil spillage on the shop floor and oil waste is disposed off to the furnaces of authorised parties.

### Paper Management

Dimo's objective in this area is to move towards a substantial reduction in the amount of paper used within the organisation. Wherever possible the Company has introduced procedures for recycling used paper and at the same time uses recycled paper where this is possible.

The Company's EMS has the following specific measures with regard to paper:

- Awareness campaigns within the organisation with a view to creating a paperless office
- Awareness campaigns around the excessive printing of e-mails and other documents
- All e-mails within are created with a message 'Please consider your environmental responsibility before printing this e-mail'
- Initiatives to foster re-use of 'one sided' paper
- The use of recyclable paper bags when selling products to customers at our sales outlets
- Colour coded containers in offices to segregate paper from plastics
- Segregated paper is disposed of to an authorised paper recycler

*Ensuring a clean environment - the water treatment plant at our Siyambalape facility*



*Recycling Kerosene Oil to conserve a scarce resource*



dependability





While we may sell and customers may buy, Dima relationships are built on mutual dependence and respect, customer and company linking together effortlessly and smoothly.

# SOCIAL PERFORMANCE

## EMPOWERING PEOPLE

## Management Approach

Investing in people is very much a part of the Dimo sustainability policy. This includes investments in the people who work for the organisation and investments in the people who form part of the larger community.

Our intellectual capital in the form of our people and processes is one of the Company's most significant assets.

Our goal is to nourish and nurture this intellectual capital to produce sustainable and durable outcomes for all stakeholders including the people themselves.

Dimo's policy is to produce sustainable and life rewarding outcomes both for the people within the organisation and for those in the community around us. In this section we look at how we build durable value for our employees and for those outside the organisation.

## Building a Dynamic Workforce through Good Practices

The Dimo team has been one of the main drivers of sustainable change and the Company makes consistent and substantial investments in their welfare, in their skills and in their future. The Company's goal is to make work enjoyable, rewarding and productive and to create work spaces that are rich in innovation and new ideas.

Dimo is an equal opportunity provider and the Company ensures that all employees are treated with respect and equality. There were no reported cases of discrimination or unfair dismissal and no court cases were pending, during the year, against the Company.

The right to freedom of religion of all employees is respected and company practices have been adapted so as to allow

## Service Group Analysis (No. of years in Service vs No. of Employees)

Service Group	Non-Executive			Executive			Total
	Male	Female	Total	Male	Female	Total	
Above 31	2	1	3	8	0	8	11
26 - 30	14	0	14	22	5	27	41
21 - 25	8	0	8	12	5	17	25
16 - 20	17	0	17	42	5	47	64
11 - 15	58	1	59	45	5	50	109
05 - 10	44	2	46	69	12	81	127
Below 4	314	24	338	138	14	152	490
Total	457	28	485	336	46	382	867

(Source: Human Resources Department Records)

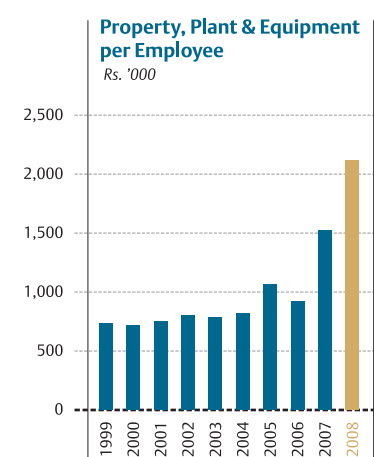
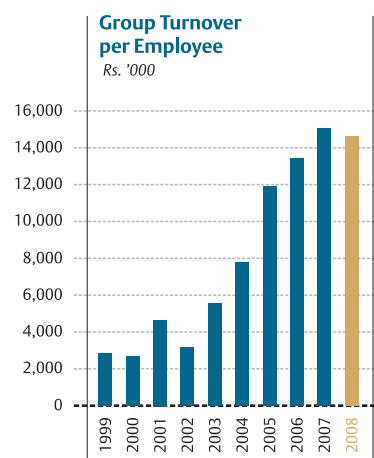
all employees to practice their religion without any hindrance.

In recent years the Company has noticed an increased number of females enrolling in the training school to qualify as automobile mechanics and service advisors, where previously those professions were dominated by males.

Employees' Personnel Development Plans are discussed each year with their line managers during the time of the performance appraisals and then evaluated at the year end.

The Company is committed to the right to freedom of association and collective bargaining and encourages employees to organise so as to better negotiate their rights. Regular employee meetings are held on a monthly basis to discuss and clarify any problems the staff may be facing in their daily functions. All departments have an 'open door' policy where any employee can directly address their superiors.

The Company offers a comprehensive corporate medical service that covers most situations of ill health both for the employees and their families.





## SOCIAL PERFORMANCE

## EMPOWERING PEOPLE

Reimbursements of up to Rs 100,000 are provided under this scheme. In some cases the Company covers expenses beyond that sum. Critical illness surgery expenses, including cardiac bypass procedures, are also reimbursed by the Company.

Job related educational expenses and subscriptions for membership of professional bodies are also reimbursed by the Company.

Our remuneration packages are on par with the best in the industry with annual adjustments to take account of inflation and other variables. Performance related incentives are offered by the Company and 'super performers' duly rewarded. Longevity of service is given special recognition and treated as a milestone for the employee concerned. Every employee receives comprehensive life assurance and is covered 24 hours a day.

**Child Labour**

We at Dima are strictly against the use of child labour. It is our philosophy that all children under the age of 18 should remain in school and not at work. We have extended the same view towards all our suppliers and to any party we deal with.

**Health and Safety**

Health and safety of our employees is a core concern and the Company provides all the necessary safety equipment to our employees who need them. Every year the Company conducts a health and safety audit which identifies potential hazards and the programmes to put in place to address these. In spite of every measure taken to avoid accidents, last year there was one major accident on the Company premises.

We have taken the following specific measures to ensure employee safety:

- Safety gear in the workshops was replaced this year with the better quality and upgraded versions
- Seven people from our employees took part in the certificate programme on Occupational Safety and Health which was conducted by the Employers' Federation of Ceylon
- The Company conducted safety audits and took action in accordance with the recommendations of the safety auditors.
- The Company has taken the initiative to organise a safety committee
- Thirty employees successfully completed the certificate programme on first aid which was conducted by St. John's Ambulance.

*Employees participating in the First Aid programme conducted by St. John's Ambulance*



*Ensuring employees safety - a safety audit in progress*



## SOCIAL PERFORMANCE

## EMPOWERING PEOPLE

- Regular fire drills are conducted at all branches and all employees are educated on how to act in the case of an emergency.
- Special protective clothing along with eyewear is provided for the employees who need them. The Company is constantly improving the design and the comfort levels of the wearer.
- The equipment in the Company's workshops is state-of-the-art and they are all equipped with modern safety mechanisms.

**Employee Welfare**

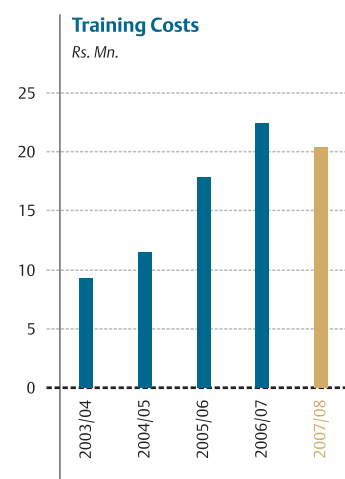
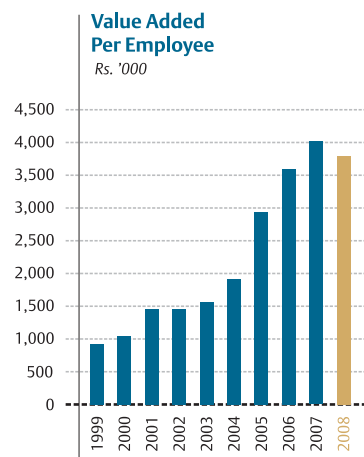
The Company currently provides numerous welfare benefits to its employees which include:

- Subsidised gym membership
- Free school books to children of employees
- Uniforms and footwear for drivers and workshop staff
- Meals at subsidised prices
- An annual Christmas party for children of employees
- Annual excursion allowance for all employees
- Free transport four times a day between Colombo and Siyambalape
- A Mercedes-Benz for employee weddings

- A death donation fund where company and employees contribute in equal measure. On the death of an employee or an immediate family member the fund releases Rs. 50,000/- in the case of an employee and Rs. 40,000/- in the case of a family member
- Special awards to recognise the educational achievements of employees' children
- Medical expenses
- A special programme for school children to enable them to develop a vision for themselves.
- A doctor visits the premises everyday and the employees can consult him free of charge
- In house nursing facilities are provided at both the head office and Siyambalape
- A mobile laboratory visits all our locations twice a week and medical tests are done at no cost to the employees.
- Training and Education

**Training**

All employees are given the opportunity of participating in training programmes, both local and overseas. Outward Bound Training, training on attitude development, and motivation training are among the programmes that employees were exposed to last year.



The Chairman and the participants at the annual strategy presentation



The annual pirith ceremony held for employees and families



# SOCIAL PERFORMANCE

## EMPOWERING PEOPLE

Last year the Company invested Rs. 20 mn on employee training. 26 employees participated in training programmes conducted overseas and 829 employees participated in a variety of programmes locally and internationally.

The Company implements a knowledge sharing scheme where those employees who have undergone training are then required to share this training with co-workers in order to cascade the training to all levels of the organisation.

Job related educational expenses and subscriptions for memberships of professional examination bodies are reimbursed by the Company in a bid to promote greater levels of knowledge acquisition.

## Promoting and Protecting Human Rights

Dimo is committed to all those rights contained in the international covenants on human rights and those rights contained in the Constitution of Sri Lanka. The Company is deeply committed to advancing the rights of all those working within the organisation and all those other stakeholders it engages with. The Company attempts at all times to ensure that our suppliers, dealers and other business partners also respect human rights as part of their business practices.

## Ensuring Equal Opportunity

The Company follows a policy of non-discrimination and facilitates equality of opportunity for all its employees. Equal opportunities are provided to all within the Company irrespective of sex, social background, caste, old school tie or other distinction. Promotions are strictly on merit and potential. Dimo's employment

## Training Programmes Analysis (2007/08)

Month	No. of External Training Programmes	No. of Employees Participated	No. of Internal Training Programmes	No. of Employees Participated
April	1	3	–	–
May	11	43	–	–
June	7	15	1	55
July	5	13	2	130
August	11	24	3	111
September	2	2	2	61
October	8	24	3	98
November	9	9	4	104
December	1	2	4	67
January	6	17	3	67
February	6	9	2	66
March	3	4	–	–
Total	70	165	24	759

## Age Group Analysis (Age vs No. of Employees)

Age Group	Non-Executive			Executive			Total
	Male	Female	Total	Male	Female	Total	
Above 61	4	0	4	7	0	7	11
51 - 60	43	1	44	43	5	48	92
46 - 50	24		24	36	7	43	67
41 - 45	22	0	22	43	5	48	70
36 - 40	45	1	46	51	3	54	100
31 - 35	48	1	49	74	8	82	131
26 - 30	156	6	162	68	11	79	241
21 - 25	112	19	131	14	7	21	152
Below 20	3	0	3	0	0	0	3
Total	457	28	485	336	46	382	867

(Source: Human Resources Department Records)

practices have generated a high degree of loyalty: 377 of our employees have been in service for over five years and 250 for over 10 years.

Eliminating gender based discrimination and gender stereotypes at the workplace is very much a part of the Company's policy on advancing human rights. Women are recruited as automobile mechanics and service advisors, traditionally perceived as male dominated professions.

## SOCIAL PERFORMANCE

## EMPOWERING PEOPLE

**Empowering the Broader Community**

The Company's policy is to invest in the welfare of the broader community and to facilitate sustainable futures for them. The following are some of the specific community initiatives the Company has been involved in over the years.

**Dimo Automobile Training School (DATS)**

Every year the Company enrolls two batches of 16 students each in the Dimo Automobile Training School (DATS). DATS provide the students with a two year world class comprehensive diploma that covers all aspects of the automobile industry.

During the training period the trainees receive a monthly allowance, subsidised meals, uniforms and footwear at the Company's cost. They are also entitled to medical facilities and insurance cover at the Company's cost.

The two year course is followed by a competitive examination and exposes them to Mercedes, TATA, Bosch and Japanese vehicle maintenance and the latest developments in automobile technology. The Dimo certificate is well recognised by the Sri Lankan engineering community.

The DATS programme offers the additional advantage of giving trainees the opportunity of spending time with our principals in Germany and being exposed to first-hand training experiences in a high-tech environment.

Depending on the availability of vacancies, on completion of their two year course, DATS trainees are offered a position at Dimo. These trainees are under no obligation to accept such employment and are free to make their career choices if they so wish.

**Rebuilding of Dikyaya Vidyalaya**

Dikyaya Vidyalaya is located in the Uva Province in the Badulla District. In August 2007 Dimo took up the challenge of developing the school so as to provide children in the adjoining villages, access to a superior education. In a matter of a few weeks the school has been transformed into a modern and attractive facility with many new additions to its infrastructure.

**Donations to Maw Sewana**

Company employees donated commodities to the Maw Sewana child care centre and spent a day entertaining them. They also donated some items to the staff members as well.

*Students in the midst of their training at our state-of-the-art Dimo Automobile Training School*



*Educating our nations children - school children at the Dikyaya Vidyalaya which is supported by Dimo*



# SOCIAL PERFORMANCE

## EMPOWERING PEOPLE

### Career Guidance

The Company sponsored a career guidance programme for students at the Sri Jayewardenepura University. The programme was organised by the Marketing Management Association of the University of Sri Jayewardenepura mainly as a fund raiser and as a soft skill development programme for the students. On a special request from the students, the Company participated as a sponsor for the programme.

Dimo displayed the range of Bosch Automotive/Osram Auto/Blaupunkt Car stereo products, and demonstrated Blaupunkt sound effects during the course of the programme.

The Company sponsored a similar career guidance programme at the University of Peradeniya and was also a platinum sponsor at the career guidance day at the University of Moratuwa.

### 5 S Practices

The Company has previously won several awards for the practice of 5 S principles. During the year under review, Dimo extended this idea to three external garages where 5 S practices were introduced by the Dimo team and training provided to help the staff implement the

principles. The system is in full operation in these garages now, and has helped to improve productivity in those locations.

### Dimo Gimanhala

Last year the Company invested resources to construct a resting area on the Colombo Kurunegala road. Dimo customers can use this as a 'pit stop' when they travel and enjoy the services provide by the Dimo Gimanhala.

### Blood Donation Campaigns

Two blood donation campaigns were carried out at the Head office and the Siyambalape branch last year. Dimo staff members participated and it was considered a success. The Company hopes to make this an annual event.

### Corruption

The Company has a zero policy on corruption. Similarly Dimo does not tolerate ethically unsound or corrupt practices on the part of our business partners either.

### Anti-Competitive Behaviour

Dimo does not engage in anti-competitive behaviour and does not support other organisations engaging in such practices. There have never been any legal actions on this basis against the Company in its 69 years of activity.

*Dimo Gimanhala - the 'pit stop' and resting place for all our customers on the move*



# SOCIAL PERFORMANCE

## EMPOWERING PEOPLE

## Ensuring Customer Privacy

Dimo considers the privacy of its customers as sacrosanct. Thus we do our utmost to ensure customer privacy is respected fully and customer data and information fully protected as far as it does not undermine the prevalent laws in the country.

## Product Responsibility

The Company has modified its practices and takes every possible measure to ensure that its products and services do not cause any harm or injury to the health, safety and well being of its customers and the environment. The Company shares as much information as possible about products with its customers and ensures that customers are well informed should there be any potential risks with regard to use of the Company's products. The Company's principals and suppliers also follow similar practices and the Company ensures that its suppliers are highly reputed brands who comply with the highest standards of product responsibility.

The following are some of the specific measures that the Company and our principals have initiated to promote sustainable entrepreneurship:

- Daimler Chrysler does extensive research on their products and each year registers more than 2000 patents. This has ensured that Daimler Chrysler remains the market leader at the international level in the fields of technology and innovation.
- Osram operates within the context of a 'global care' philosophy. This 'global care' philosophy represents their commitment to social and environmental responsibility worldwide. As a leader in innovative lighting

solutions, Osram is dedicated to products and processes that contribute to solving global sustainability challenges, addressing economic needs and protecting the environment for today and for the future.

- All Mercedes-Benz, jeep, and Chrysler vehicles conform to Euro IV standards.
- All TATA vehicles are fitted with 'Cummins' engines known for their low operating cost both with regard to fuel and oil. These engines have a unique emission control mechanism which reduces the emissions coming from the vehicles.
- Osram lighting appliances have an energy efficiency rating of over 80%. This helps to reduce energy consumption by as much as 80%. All Osram lamps can be recycled.
- Siteco lighting solutions make maximum use of natural light and minimise light pollution.
- After years of use, customers can return a Mercedes-Benz to the factory for environmentally friendly disposal in accordance with the 'end of life' vehicle law. All Mercedes-Benz vehicles meet the statutory regulations governing the suitability of the vehicle design for reuse and recycling.
- The Komatsu forklifts refurbishment scheme fits electric and LPG engines to their reconditioned machines, eliminating internal combustion. These LPG cars produce 90% fewer particulate emissions and 90% less Nitrogen Oxides than diesel engines.

# SOCIAL PERFORMANCE

## EMPOWERING PEOPLE

- The Michelin 'Green tyres', which are ISO 14001 certified, make it possible to cut fuel consumption by 3%, reinforce users' safety (by a stronger grip) and last as long as normal tyres.
- The Bosch power tools recycling system enables dealers to pay for and take back old batteries for recycling. Plastics are also recyclable while the package is also fully recyclable cardboard.
- Dima was one of the first to introduce non-asbestos clutch plates in Sri Lanka.
- Siemens medical equipments' radiation levels are on average less than our competitors.
- The KSB pumps we market have energy conservation features.
- The Mahindra & Mahindra tractors are among the most economic in their category.
- YORK refrigeration systems use environmentally friendly refrigerators and are CFC free.
- MTU engines conform to Euro II and III standards.
- Komatsu heavy machinery conforms to Euro II standards.

- Siemens power generation solutions offer renewable power solutions such as wind mills and Biomass generation.
- Siemens building management systems have the ability to reduce power consumption of high rise buildings and industrial applications by significant proportions.

### Product Labelling

As is the customers right, nearly all product labels and packaging provide relevant information on the use of products and make mention of any dangers and risks. Icons are also used for those who cannot read. There have been no cases of non-compliance against the Company.

### Marketing Communications

All marketing campaigns at Dima are thoroughly screened to ensure that Dima does not engage in unethical marketing campaigns.

### Compliance

Dima complies with the standards and regulations laid down by the Government of Sri Lanka.

All products that bear the stamp of Dima contains a message of quality. During the year, Dima has not been taken to courts on any count for non-compliance with the laws and regulations concerning the provision and use of products and services.



## ASSURANCE REPORT



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Chartered Accountants  
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### REPORT OF FACTUAL FINDINGS TO THE BOARD OF DIRECTORS OF DIESEL AND MOTOR ENGINEERING PLC

The Sustainability Report 2007/2008 has been prepared by the Management of Diesel & Motor Engineering PLC (DIMO) who are responsible for the collection and presentation of information within it. Our engagement was undertaken in accordance with Sri Lanka Auditing Practice Statement applicable to agreed upon procedures engagements. The procedures performed solely to assist you in evaluating the validity of the contents in the Sustainability Report 2007/2008 is summarised below:

1. Obtaining details pertaining to matters in the report from the management of DIMO.
2. Discussing with management activities undertaken during the period under review.
3. Reviewing third party reports and internal documents relating to sustainability performance of DIMO.
4. Discussing with relevant officers the existence of the systems and procedures currently adopted as stated in the report.
5. Dimo Automobile Training School (DATS) and the water treatment plant at Siyambalape were visited to obtain an understanding of the projects undertaken.

6. Verifying the financial information stated in the report have been correctly derived from the audited financial statements into the report.
7. Verifying the non-financial information stated in the report have been correctly transferred from relevant clusters of the company into the report.

We report our findings below:

- a) With respect to item 1 we were able to obtain relevant information and details from the management of DIMO and are in agreement with the report.
- b) With respect to item 2 we were able to conduct discussions with the management and found that the activities undertaken during the period under review are in agreement with the contents of the report.
- c) With respect to item 3 we were able to review third party reports and internal documents and were satisfied with the conclusions given thereof.
- d) With respect to item 4 we were able to interview relevant officers and were able to verify the existence of the systems and procedures adopted as stated in the report.
- e) With respect to item 5 we found that these projects are in operation.

- f) With respect to item 6 the financial information in the report are in agreement with the audited financial statements.
- g) With respect to item 7 the non-financial information in the report, are in agreement with the information obtained from the relevant clusters of the company.

Because the above procedures do not constitute either an audit or a review made in accordance with Sri Lanka Auditing Standards, we do not express any assurance on the contents of the Sustainability Report of DIMO for 2007/2008.

Had we performed additional procedures or had we performed an audit or review of the above mentioned report in accordance with Sri Lanka Auditing Standards, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose.

**SJMS Associates**  
Chartered Accountants  
9th May 2008



DET NORSKE VERITAS AS  
CoreRatings

Palace House  
3 Cathedral Street  
London SE1 9DE  
United Kingdom  
www.dnv.com

## Corporate Governance Rating

### Diesel & Motor Engineering PLC

Rating:

**6** (CG)

CG = Corporate Governance

Rating scale:  
10 (highest) - 1 (lowest)

#### Rating Summary

##### Governance Policy and Business Ethics



##### Risk Management



##### Board and Management Organisation



##### Board and Executive Composition



##### Ownership Structure and Control



##### Investor Rights and Relations



##### Financial Disclosure and Audit



0 5 10

May 2007

#### Rating Summary

The rating of Diesel & Motor Engineering PLC (Dimo or 'the Company') reflects the thinking of the Sri Lankan markets as they strive to implement formal governance requirements for companies. As such, the methodology takes into account both international best practice and the direction of Sri Lankan governance regulations. This is evidenced by the consultation that occurred between The Institute of Chartered Accountants of Sri Lanka (ICASL) and the Securities and Exchange Commission in consultation with the Colombo Stock Exchange (CSE). This spearheaded the joint initiative to formulate standards on corporate governance for mandatory compliance by companies listed on the Colombo Stock Exchange. These standards have been incorporated into the listing Rules of the Colombo Stock Exchange.

Dimo has earned an overall rating of 6, which reflects its proactive approach to implementing sound corporate governance practices within the Company. There is a well balanced board with a good mix of internal professionals, non-executive and independent Directors to drive the Company forward and efficient management processes to ensure internal control.

Dimo has two significant shareholders, the Pandithage family which own approximately 27% of the Company and the Hayleys Group who have a similar shareholding. In Dimo's case, the two major shareholders have provided stability, strength and depth to



the Board as well as enhancing both business and governance processes. The Company Chairman/Managing Director/Chief Executive Officer (Chairman/MD/CEO), Mr. A.R. Pandithage has successfully managed the complex issues associated with the aspirations of the founding family members and those related to ensuring the long-term commercial viability of what was essentially a family owned and run business through the introduction of external professional management. In our opinion, the present ownership structure has had a positive benefit to the Company's minority shareholders.

Dimo has a sound understanding of good governance practice, is committed to open an ethical business, and is striving to improve its governance practices to further embed these into the organisation. The Chairman/MD/CEO has been pragmatic in his approach to raising governance at Board level to ensure that all parties can be successfully accommodated.

The Company needs to develop a transparent ethical policy and code of conduct that is accompanied by descriptions of how policies are communicated and what compliance monitoring instruments are in place. Equally, strong risk management policies and systems need to be put in place and embedded throughout the Company's operations.

In the rating we looked carefully at those areas where a dominant shareholder can exert undue influence. The combined role of Company Chairman and Managing Director does raise concerns in this regard. While the Company had sound reasons at the time to pursue this structure, it needed to provide a transparent justification for doing so including the provision of some time frame by which it would return to a more usual management structure. However, no evidence could be found to suggest that the Company is acting against the interests of the public minority shareholders in this matter. The overall assessment of the Board of Directors is high but additional formal, written policies, procedure would increase clarity allowing for even greater confidence in the way the Board operates.

The Company's minority shareholders are generally well catered for. The Articles of Association define basic shareholder rights and timely and sufficient information in order to attend and actively participate in the AGM is provided. The Audit Committee responsibly carries out its role of ensuring that the interests of shareholders are properly protected in relation to financial reporting and internal control. Overall financial disclosure is considered sound and governance disclosure is generally good.

Det Norske Veritas  
21st May 2007

# ENTERPRISE GOVERNANCE

## Company Philosophy

Today's businesses must be flexible and at the same time be efficient and effective in their resource utilisation to survive, compete and grow. This requires an organisation to strategically align all resources with its Business Strategy and manage all decision-making and operational risks ideally within a robust Enterprise Governance framework.

The Company philosophy perceives good governance as an uncompromising pursuit that provides assurance and comfort for growth in a sustainable manner; not as a set of controls that stifles growth. A healthy balance between value creation & resource utilisation (performance) and accountability & assurance (conformance) is the guiding principle of the accountability framework of the organisation.

The Company's enterprise governance framework covers both business governance and corporate governance aspects. It encompasses a structure which is linked to strategic planning, performance management & accountability, and provides across the organisation the basis for making strategic decisions, identifying key performance indicators, assessing risk appetite and managing risk.

## Governance Policy

The Company is committed to a policy of transparent, accountable and responsible governance. The Board's overriding objective is to deliver superior returns to all stakeholders whilst maintaining high standards of corporate and business ethics. In this regard, the organisation ensures clear lines of responsibility and accountability across the entire Group.

The Company has adopted the Code of Best Practices issued by the Institute of Chartered Accountants of Sri Lanka,

adheres to the listing rules of the Colombo Stock Exchange, and has included other best practices of Corporate Governance within its own.

## Governance Strategy

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

The Group follows an approach of incrementally embedding enterprise governance into its value adding process, and is making a conscious effort to continually improve the governance framework and process.

## Governance Culture

Enterprise Governance requires high levels of commitment across the organisation, hence it is essential that a conducive governance culture be created. This envisages creating awareness at all levels and aligning good governance to corporate values. All employees are expected to observe the corporate values in achieving their respective and overall Company objectives.

Performance is not encouraged at the expense of business principles and values. These values are inculcated in employees as the Group recognises the importance of good business & corporate governance towards sustainability. Appreciating the importance of good governance, respecting the governance structure transparency, good conduct, confidentiality of customer information, sustainability,

# ENTERPRISE GOVERNANCE

Conformance to laws and regulations are some key features of the Group's governance culture.

## Governance Process

The final responsibility of good governance lies with the Board of Directors. In order to achieve the Board's objectives it has in place a governance structure and process via Board Committees that execute and monitor its effectiveness.

## Enterprise Governance Framework

The Enterprise Governance framework covers the processes and systems that the Board has in place to ensure that the Company's resources are employed efficiently and prudently towards achieving the Company's business objectives. It extends to the Company's governance structure and processes that have been established to promote increased shareholder value, lower cost of capital, reduced risk and other shareholder expectations.

## Performance

### Strategic Planning

Value Creation and Resource Utilisation are the two main pillars in the 'Performance' dimension of Governance, upon which the Board of Directors set the direction of Corporate Strategy. In addition to formulating strategy, the Board through committees, is responsible for ensuring an effective review mechanism. Towards the effective utilisation of Resources the Board is mandated to approve all significant investment decisions. A Capital Expenditure approval guideline ensures that key investment decisions receive timely approval of the Board. The Board sets the broad parameters for the business and these parameters are translated into specific objectives by the business units.

The business units develop their respective plans based on the direction of the Corporate Strategy set by the Board. Business units present their annual budgets and forecast for the ensuing period together with non-financial information such as market conditions, competition, challenges and opportunities etc. to the Board. The Annual Budget also includes the Capital Expenditure plan of the business unit and its resource requirements in terms of Working Capital and Human Resources. The Board evaluates these plans and proposals and provides feedback as deemed necessary. After all amendments have been duly incorporated, the plans are formally approved by the Board and they then partly form the basis of the key performance indicators.

### Implementing the Strategic Plan

The Group Management Committee (GMC) is responsible to the Board of Directors for the implementation of business strategy. The GMC exercises direct supervision over every Business Unit including support services. This supervisory role is exercised in accordance with guidelines laid by the Board. A management team consisting of GMC members meet with corporate service unit heads on a monthly basis to review progress and discuss and resolve operational issues.

Managers of respective business units are responsible for achieving the pre-agreed results. Rewards and incentives are linked to the many parameters including profitability and resource utilisation. Business Unit Managers report their views and concerns to the respective GMC members and these views and concerns are discussed at the GMC meetings. While the business units have substantial autonomy in the conduct of their day-to-day operations, each business unit falls under the purview of a GMC member.

# ENTERPRISE GOVERNANCE

The Board of Directors, regularly apprised of progress, evaluate performance in line with the overall business objectives. Information generally reviewed by the Board includes key performance indicators, budgets, financial statements, customers, market developments, employees and principals. The operational results of each business unit is reviewed quarterly by the Board of Directors and projected results are compared with budgets and key performance targets.

Individual targets of employees' are set out in line with the business unit's overall targets and are reviewed on a biannual basis. The performance of individual executives is evaluated based on their level of achievement, and this forms the basis of their remuneration revisions and promotions.

## Conformance

### Board of Directors

The Board consists of seven executive Directors (including the Chairman), two Non-Executive Directors and three Independent Non-Executive Directors. This balance ensures that Board functions are separate from other aspects of the Company's operations such as governance and management.

The Board acts within the provisions of the Companies Act No. 7 of 2007, Articles of Association and the relevant regulations and statutes.

A list of Directors with brief biographies appears on page 10.

### Chairman & Chief Executive Officer

The functions of the Chairman and Chief Executive Officer (CEO) are vested in the same person. The Company believes that the dual role performed by the

Chairman and CEO does not compromise the principles of good corporate governance. This is further ensured by the significant presence of Non-Executive and Independent Directors including a Lead Director on the Board.

These Directors provide a mechanism for critically reviewing all aspects of the Company's operations. They ensure that no single individual has unfettered powers of decision-making and ensures that independent judgement prevails over issues of strategy, performance and risk. The presence of a Lead Director adds more emphasis to transparency in governance affairs.

The Chairman ensures that good governance is practiced through the entirety of the organisation; that there is a balance of power on the Board and both Executive and Non-Executive Directors have opportunities for effective participation; that the Board has full knowledge of the Company's affairs and is in complete control; and facilitates effective communication with all of the Company's stakeholders.

The Chairman and CEO's performance is reviewed by the Nomination Committee and the Remuneration Committee. Each committee consists of three Independent Non-Executive Directors including the Lead Director and two Non-Executive Directors.

### Board Responsibilities

The Board provides good stewardship, vision and strategic direction to the institution and fosters a culture of integrity, transparency and accountability across the Group. The Directors are from diverse backgrounds and bring to bear a wide range of experience and competencies that facilitates the effective discharging of its responsibilities. The Board monitors and

# ENTERPRISE GOVERNANCE

evaluates risks and performance, approves all important investment decisions and is also responsible for the installation of sound internal financial controls.

The Directors' Responsibilities for the Financial Statements are described on page 102.

## Board Independence

The composition of the Board of Directors meets the level of independence required by the rules of the Colombo Stock Exchange.

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

Shareholding of Directors is available in the Annual Report of Directors from Pages 96 to 101.

Related party transactions given on page 126 shows the transactions relating to Directors and/or parties related to them.

The Company maintains the 'Interest Register' required by the Companies Act No. 7 of 2007, which also shows details of Directors, interests in the Company, as required by the Act.

## Lead Director

Mr. R. Seevaratnam, an independent non-executive Director, functions as the Lead Director to whom concerns relating to governance of the Company can be conveyed should the need arises. The Lead Director presides at Board Meetings in the absence of the Chairman of the Board of

Directors. The Board assess the role of the Lead Director on a regular basis.

## Appointment, Retirement & Re-Election of Directors

The Board appoints the Directors based on the recommendations of the Nominations Committee. The Company's Articles of Association provides that any Director appointed by the Board to hold office until the next Annual General Meeting (AGM), may seek re-appointment by the Shareholders at the said AGM. Non-Executive Directors are appointed to the Board after evaluation of their level of expertise in the relevant field. In terms of the Articles of Association, **one third of the Directors** retire in rotation and may offer themselves for re-appointment at the AGM.

New appointments are made known to the public through the Colombo Stock Exchange and the media.

## Board's understanding of the Company's Business

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

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

The expenses of individual Directors in obtaining independent professional advice are borne by the Company subject to Board approval.



# ENTERPRISE GOVERNANCE

## Effectiveness of the Board

Each Director brings on Board a wide range of skills, knowledge and experience. Expertise in Finance, Engineering, Law and Marketing is available in the present Board.

A sophisticated management information system is in place and provides relevant and current information. All Board Members including Non-Executive Directors receive information on the operations and performance of the Company on a monthly basis. This routine helps eliminate information asymmetry between executive Directors and Non-Executive Directors. The Directors are provided with comprehensive data on financial and non-financial information prior to Board meetings. Additional information may be requested by any member of the Board as and when required.

## Evaluation of Board Performance

The performances of all Executive Directors are evaluated by the Nomination Committee and the Remuneration Committee. Achievement of budgeted results and key performance indicators are important measuring tools in performance evaluation.

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

## Meetings and Attendance

Every member dedicates sufficient time for the Board's affairs by attending Board meetings, Committee meetings, performance and strategy review meetings. In addition, the Board Members communicate with each other through circulars, e-mails, telephone conversations and letters.

The number of meetings held and their attendance is given in the table appearing on page 79.

## The Company Secretary

The Company Secretary assists the Chairman in all aspects pertaining to the functions of the Board of Directors. He helps in arranging Board meetings and in making available all the necessary information to the Board for their deliberations.

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

## The Board Committees

The Board has several committees to assist in the discharge of its responsibilities more effectively.

### Audit Committee

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

The Audit Committee determines the appointment, evaluation, terms of engagement and fees of the auditors. The Committee also ensures that the objectivity and independence of the auditors are

# ENTERPRISE GOVERNANCE

not impaired in any way as a result of the additional professional services performed by them.

The Board of Directors appoints members to the Audit Committee. The committee consists of three Independent Non-Executive Directors and two Non-Executive Directors. The Chairman of the Committee is Mr. R. Seevaratnam, an experienced Chartered Accountant.

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

Any member of the Board including the Chairman/Chief Executive Officer and Deputy Chief Executive Officer may attend the Committee meetings by invitation.

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

The report of the Audit Committee is available on pages 89 to 90.

Committee meetings and the attendance of members is given in the table appearing on page 79.

## Remuneration Committee

The Remuneration Committee is responsible for determining the framework and policy on remuneration of the Chairman/Chief Executive Officer, Deputy Chief Executive Officer, Executive Directors and Senior Management.

The Company aims to attract and retain high calibre executives by ensuring that their rewards are competitive and linked to both individual and business performance.

Whilst recognising the market demands and the contribution of the executives to the overall performance, the Company believes that the remuneration policy should at the same time be in sync with shareholder interests.

The Board of Directors appoints members to the Remuneration Committee.

The Committee consists of three Independent Non-Executive Directors and two Non-Executive Directors. The Chairman is Dr. U. Liyanage, an independent Non-Executive Director. The Committee is entitled to obtain professional advice at the Company's expense.

Total Directors' emoluments are disclosed in Note 28 on page 126.

Committee meetings and attendance of members is disclosed in the table.

The report of the Remuneration Committee is available on page 91.

## Nomination Committee

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

Appointments to the Board are made further to careful scrutiny of the required level and range of skills, knowledge, expertise and desired independence. Succession planning at Board and Senior

# ENTERPRISE GOVERNANCE

Management level is a subject that is under the purview of the Nominations Committee. The Committee consults the views of the Chairman/CEO on matters of succession at senior management level.

The Committee consists of three Independent Non-Executive Directors and two Non-Executive Directors. Its chair is Dr. H. Cabral, an Independent Director.

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

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

The report of the Nomination Committee is available on page 92.

## Risk Management

The Audit Committee is assigned the task of developing and implementing a sound and transparent risk management system through the Executive Management. The Audit Committee uses Internal Audit, Financial Information and Management Information & Feedback to evaluate risks.

A review of the risk management strategy is provided on pages 84 to 88.

## Internal Controls

The main responsibility for establishing a suitable and effective system of Internal Controls lies with the Board of Directors. A sound system of internal control helps establish better levels of operational efficiency, provides more reliable financial data, and enables early detection of non-compliance with laws and regulations.

## Board and Committee Meetings and the attendance of members

Name	Board	Audit Committee	Nominations Committee	Remuneration Committee
A.R. Pandithage	8/8	–	–	–
R. Seevaratnam **	8/8	6/6	1/1	1/1
Dr. H. Cabral **	7/8	6/6	1/1	1/1
Dr. U. Liyanage**	7/8	6/6	1/1	1/1
A.N. Algama	8/8	–	–	–
A.M. Pandithage *	6/8	5/6	1/1	1/1
A.G. Pandithage	7/8	–	–	–
B.C.S.A.P. Gooneratne	8/8	–	–	–
R.A. Ebell*	6/8	4/6	1/1	1/1
R.C. Weerawardane	6/8	–	–	–
S.C. Algama	8/8	–	–	–
T.G.H. Peries	8/8	–	–	–

\* Non-Executive Director

\*\* Independent Non-Executive Director

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

## Financial Reporting

Financial Statements of the Company are prepared in accordance with Sri Lanka Accounting Standards. The Board endeavours to present a balanced and objective assessment of the Company's position, performance and prospects. These are discussed in detail in the following reports:

- Directors' Report - pages 96 to 101.
- Chairman's & CEO's Review - pages 6 to 9.
- Financial Review - pages 40 to 45.
- Business Performance Review - pages 17 to 36.

# ENTERPRISE GOVERNANCE

The Board has the necessary expertise in financial reporting and has the services of four qualified accountants.

## Investor Rights and Relations

The Company communicates regularly with its shareholders updating them on the Company's position, performance and prospects. The Annual Report provides the most comprehensive review of the Company's performance and prospects. This is supplemented by quarterly reports and other circulars, where necessary.

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

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

## Employees

The monthly Employees Council meetings provide a forum for employees to communicate with the management on a regular basis. The Company's 'Open Door' policy encourages employees to raise any matter of concern with any member of the management including the Chairman.

This process is detailed in the Sustainability Report appearing from pages 45 to 70.

## Sustainability Reporting

The Board ensures that the Company's growth is aligned with its contribution to the general economy, environment and society. The Group prepares its sustainability report annually using Global Compact Reporting Initiative guidelines. More details on this is available in the Sustainability Report from page 45 to 70.

## Independent Review

In order to carry out a critical independent review of the Corporate Governance, the Company engaged Ms. Det Norske Veritas in May 2007. This review highlighted several areas for improvement, which is currently receiving attention. The rating report is available on page 71.

## Compliance with Corporate Governance Regulations

The Company has implemented the regulations of the Section 6 of the listing rules of Colombo Stock Exchange on Corporate Governance.

Mr. R. Seevaratnam, Dr. H. Cabral and Dr. U. Liyanage satisfy the criteria of an independent director and have submitted the requisite declaration on their independence.

## ENTERPRISE GOVERNANCE

## Corporate Governance Compliance Table (Colombo Stock Exchange Circular No. 02/2007)

Rule No.	Subject	Applicable requirement	Compliance Status	Details
6.1	Non-Executive Directors	At least one third of the total number of Directors should be Non-Executive Directors	Compliant	Five out of Twelve Directors are Non-Executive Directors
6.2 (a)	Independent Directors	Two or one third of Non-Executive Directors, whichever is higher should be Independent	Compliant	Three of the Five Non-Executive Directors are independent
6.2 (b)	Independent Directors	Each Non-Executive Director should submit a declaration of independence/non-independence in the prescribed format.	Compliant	Non-Executive Directors have submitted the declaration.
6.3 (a)	Disclosure relating to Directors	Names of Independent Directors should be disclosed in the Annual Report	Compliant	Please refer page 11
6.3 (c)	Disclosure relating to Directors	A brief resume of each Director should be included in the Annual Report including the area of Expertise	Compliant	Please refer page 11
6.5	Remuneration Committee	A listed company shall have a Remuneration Committee	Compliant	Names of the members of the Remuneration Committee is available on page 11
6.5 (a)	Composition of Remuneration Committee	Shall comprise of Non-Executive Directors a majority of whom can be independent.	Compliant	Remuneration Committee consists of five Non-Executive Directors of which three are Independent. Chairman of Remuneration Committee is a Non-Executive Independent Director
6.5 (b)	Functions of Remunerations Committee	The Remuneration Committee shall recommend the remuneration of Chief Executive Officer and Executive Directors	Compliant	Please refer the Remuneration Committee Report on Page 91
6.5 (c)	Disclosure in the Annual Report relating to Remuneration Committee	The Annual Report should set out;		
		a) Names of Directors comprising the Remuneration Committee	Compliant	Please refer page 11
		b) Statement of Remuneration Policy	Compliant	Please refer the Remuneration Committee Report on Page 91 for a brief statement of policy.
		c) Aggregate remuneration paid to Executive & Non-Executive Directors	Compliant	Please refer page 126
6.6	Audit Committee	The Company shall have an Audit Committee	Compliant	Names of the members of the Audit Committee is available on page 11
6.6 (a)	Composition of Audit Committee	Shall comprise of Non-Executive Directors a majority of whom can be independent.	Compliant	Audit Committee consists of five Non-Executive Directors of which three are Independent. Chairman of Audit Committee is a Non-Executive Independent Director
		Chief Executive Officer and the Chief Financial Officer should attend Audit Committee Meetings	Compliant	Chief Executive Officer & Chief Financial Officer attend by invitation
		The Chairman of the Audit Committee or one member should be a member of a professional accounting Body	Compliant	Chairman of Audit Committee and one member are members of a Professional accounting body.
6.6 (b)	Audit Committee Functions	Should be as outlined in the Section 6 of the listing rules	Compliant	The terms of reference of the Audit Committee adopted by the Board on 20th June 2007 cover the areas outlined
		a) Names of Directors comprising the Audit Committee	Compliant	Please refer page 11
		b) The Audit Committee shall make a determination of the independence of the Auditors and disclose the for such determination	Compliant	Please refer Audit Committee Report on page 89
	Disclosure in the Annual Report relating to Audit Committee	c) The Annual Report shall contain a Report of the Audit Committee setting out the manner of Compliance of the functions	Compliant	Please refer the Audit Committee Report on Page 89

lifetime





Dimo brand relationships last a lifetime accompanying customers every step of the way: partners in an enduring alliance evoking and discovering the best in each other.



# ENTERPRISE RISK MANAGEMENT

## Overview

All entities face uncertainty. The challenge for management is to determine how much uncertainty to accept. Uncertainty provides both risk and opportunity with a potential to erode or enhance value. Enterprise risk management helps the entity to effectively deal with uncertainty. Enterprise Risk management is an integral part of Dima's business strategy. Risk management reconciles the two dimensions of Enterprise Governance namely, conformance and performance.

## Risk Appetite & Strategy

Risk appetite is the amount of risk exposure or the potential adverse impact that an entity is willing to accept, accompanied by the organisational risk capacity. The Company's strategy reflects the risk appetite of the Company. The guiding principle is that the Company takes well calculated risks in order to enhance value while protecting the integrity and well-being of the Company.

## Risk Management Model

Risk mapping is carried out in order to assess the likelihood of occurrence and the impact on the business in the event of occurrence. It is based on the following:

- Likelihood of occurrence is measured on the basis of past experience and the preventive measures in place. A ranking of high, medium and low in terms of the probability of occurrence is assigned for each risk.
- The impact of the event is assessed by ascertaining the loss it would inflict (financially, operationally or both) and the extent of the impact. By considering these two factors the impact is categorised as low, medium & high.

IMPACT	RISK MANAGEMENT ACTIONS		
Significant	Considerable management required	Must manage and monitor risks	Extensive management essential
Moderate	Risks may be worth accepting with monitoring	Management effort worthwhile	Management effort required
Minor	Accept risks	Accept, but monitor risks	Manage and monitor risks
	Low	Medium	High
	LIKELIHOOD		

## Risk Exposure

Risks are listed according to the above model and some of the important ones are discussed and analysed below:

	Likelihood	Impact
1. Economic Risk	H	M
2. Industry Risk	L	H
3. Market Portfolio Risk	L	H
4. Relationship with Principals	L	H
5. Liquidity	L	H
6. Human Resources	L	H
7. Disaster Related Risk	H	L/M
8. Compliance with Laws & Regulations	M	M
9. Loss of Data	M	M
10. Information Security	M	M
11. Fraud & Error	M	M
12. Customers	M	H
13. Investment Risk	M	L/M
14. Foreign Exchange Rate	H	M
15. Credit	H	L
16. Technological Obsolescence	L	M
17. Labour Relations	L	M

# ENTERPRISE RISK MANAGEMENT

## Economic Risk

Economic risks are those changes in the economic environment that have the potential to affect the Company adversely. Rising interest rates was one of the issues the Company had to manage. Rising interest rates impacted on the Company's activities in two ways. Firstly, it diminished the Company's profit through an increase in finance cost.

Secondly, it affected vehicle sales due to the fact that most of the vehicle purchases by our customers are financed by borrowings and leases.

Effective management of working capital is seen as the key measure against rising interest rates.

## Industry Risk

Industry risks arise from sudden changes within each industry. These could be driven by new customer trends such as the demand for fuel efficient and environmentally friendly cars or it could result from the entry of new/alternative products into the market. With a view to minimising these risks, the Company closely monitors development in the international market and also competitor strategies and promptly develops counter strategies that may be necessary. An effort is made to strongly position the Dimo brand and explore every available opportunity for the introduction of new and innovative products. The Company represents global leaders and is in a position of advantage due to constant technological innovations by them.

## Market/Portfolio Risk

The Vehicles and Vehicle Parts/Service segments that form the Group's core business, accounts for 85% of its turnover. Although the Company has taken steps to diversify its product portfolio in recent years it is still heavily dependant on the automobile industry and a downward trend in this sector will again have negative implications.

The Groups' strategy is firmly directed towards reducing the imbalance in the product portfolio. The Group is developing its competencies in the areas of marketing and distribution and in providing engineering solutions to commerce and industry.

## Relationships with Principals

Our relationships with principals are one of the mainstays of our business and a disruption of this can have negative consequences.

The Company has focused on developing a mutually beneficial relationship with principals in an effort to minimise the risk. Targets are met and the after care conforms to the rigorous standards set down by the principals. We are constantly looking for new opportunities to develop relationships with new principals and to reduce our dependence on any single sector or principal.

# ENTERPRISE RISK MANAGEMENT

## Liquidity

Unavailability of sufficient funds may disturb the smooth functioning of the Company's day-to-day operations. The Group seeks to ensure that banking facilities are in place to cover its forecasted cash needs for a period of at least twelve months. Cash requirements of the Group are regularly and closely monitored and matched with banking facilities available; to ensure that requisite funds are available for operations and investment. The unutilised bank facilities/overdraft facilities as at 31st March 2008 were Rs. 3,321 mn (Rs. 1,693 mn as at 31st March 2007).

## Human Resources

Risks stemming from the Company's human resource base have also to be managed. The Company's human resources are its most important asset and recruitment and retention of committed and capable employees are a constant challenge. A succession plan minimises the impact that the exit of employees has on the performance of the Company.

## Disaster Related Risks

Damages from Fire and floods have been identified as key disaster related risks that the Company carries. Indemnity from insurance is the risk management measure taken to mitigate losses from such disasters. Preventive measures of safety are taken to minimise damages and specific attention is given to situations where such risks can not be adequately covered.

## Compliance with Laws & Regulations

Laws, regulations and accepted principles have a considerable impact on any business. Regular review of compliance is done by the Management, Audit Committee and Internal Auditors. The Group Management Committee is placed with the responsibility of identifying any changes to legislations and educating relevant personnel promptly.

## Loss of Data

The Company operates in a fully computerised environment and the loss of important data arising from technological failure is another risk we have to guard against. The Company makes daily back-ups to guard against the risk of losing vital data. Regular maintenance of our equipment ensures that the risk of system failure is minimised. Off-site storage of data back-ups is another measure taken to minimise risks.

## Information Security

Employees are made aware of the importance of the security of information and maintaining confidentiality. Some information is accessible only to selected employees so as to ensure that leakage of vital information does not affect the Company adversely. The ethical values that we propagate also stress the need to maintain confidentiality.

# ENTERPRISE RISK MANAGEMENT

## Frauds & Errors

The management has put in place a system of internal controls, to minimise the risk of fraud and irregularities and safeguard the Group's assets. Internal controls include continuous internal audit, the findings of which are reviewed by the management as well as the Audit Committee.

## Customers

The Company's Customer Relationship Management process helps it respond effectively and efficiently to customer complaints and develop relevant solutions. The Company is constantly upgrading its level of after care and employees are periodically trained in this regard. We promote customer loyalty through a number of innovative schemes and have developed a diverse customer base.

## Investment Risk

A common concern associated with investment risk is that it may not provide the desired returns. The Company invests substantial amounts in Capital Expenditure. In order to minimise risks associated with such investments the Company closely monitors its investments and periodically evaluates the returns/benefits derived.

## Foreign Exchange Rates

Foreign currency exposure arising out of trading activities are hedged through forward contracts, when appropriate. An impact on profits arises when translating foreign currency assets and liabilities into local currency at the Balance Sheet date. A hedging of this impact is available to the extent that trade receivables and foreign currency bank account balances cover the exposure on foreign currency payables.

## Credit Risk

Strict control measures are in place to mitigate the Credit Risk. Credit facilities are extended to customers in accordance with Group Credit Policy. Customers are evaluated prior to extending credit facilities to them. Processes employed for credit extension include approvals prior to granting credit facilities, periodic review of receivables by senior management, credit suspension on overdue accounts and legal procedures for recovery of long overdue receivables.

## Technological Obsolescence

The non-availability of state-of-the-art technology can have an impact on performance. The Company makes regular investments in cutting edge technology. Staff are constantly exposed to new technologies and trained for the better application of existing technologies.

## Labour Relations

The regular meetings of the Employee's Council provides a forum to discuss employee concerns and help the management to then respond to them. The Company's remuneration package is in line with market rates. Regular training is provided to our employees both to motivate them and also to expose them to state-of-the-art technology. The Employee Satisfaction Index appears on page 50.

## Risk Management Process

Risk identification, assessment and management are part of the annual business planning process. Risk management options are considered in determining the suitable risk strategy. The options available are avoiding risk, transferring the risk, managing the risk and accepting the risk.

# ENTERPRISE RISK MANAGEMENT

There are two key activities that enable the organisation to identify risks. They are strategic planning & review of business units and internal audit.

The identification, development, implementation and review of an effective risk management strategy are some of the key objectives of the Audit Committee. The identification of risks calls for a sound enterprise-wide reporting system. An early warning system to track emerging risks is built into this reporting structure.

Once the risks are identified and prioritised the most appropriate counter strategy to manage, minimise or eliminate these risks will be implemented. The Board of Directors and the Audit Committee continuously review the implementation of the selected risk managing strategy and if necessary, take steps to modify or change it.

The Group Management Committee (GMC) which consists of Executive Directors and Senior Managers of the Company is responsible for directing business units on risk management. The heads of business units convey their views on aspects of risks and their management to the respective GMC member which in turn, will be discussed at the GMC meetings.

An effective system of Internal Controls is in place to minimise the risk of irregularities and fraud taking place within the Company. However, a sound internal control system can only provide a reasonable assurance that it will bring to light within a reasonable time any irregularity or non-compliance.

A Firm of Chartered Accountants, which acts in the capacity of Internal Auditors of the Company, communicates their findings to the Audit Committee by way of periodic reports and presentations to the Audit Committee every quarter.

The finance function assists GMC in identifying operational risks. The findings of the finance department are communicated to the GMC for their consideration.

Monthly management reports, special investigation reports and internal audit reports presented to the Audit Committee are some of the key tools used in risk identification.

## Monthly Operational Results

Monthly operational results which are a key reporting tool is used as a risk review mechanism by identifying significant deviations from original objectives. This in turn, enables the management to take corrective steps at an early stage.

## Internal Audit Reports

Internal audit reports may include any non-compliance with policy, laws or processes. Non-compliance with laws and regulations have financial and non-financial implications. They also recommend improvements to the existing systems and procedures to strengthen the internal controls within the organisation. In order to ensure previously reported irregularities are not repeated; follow up actions are also regularly monitored.

# AUDIT COMMITTEE REPORT

The Audit Committee is established for the purpose of assisting the Board in fulfilling their oversight responsibilities regarding the integrity of the Financial Statements, risk management, internal control and compliance with legal & regulatory requirements, review of external auditor's performances & independence and internal audit function.

The Audit committee is formally constituted as a Sub-Committee of the Main Board, to which it is accountable.

The followings are the principal activities carried out by the Audit Committee during the year ended 31st March 2008.

## Compliance with Financial Reporting

The Committee considered the quarterly and annual Financial Statements and reviewed the Annual Report including the Financial Statements prior to publication.

The review included:

- Any changes in accounting policies.
- Compliance with Accounting Standards.
- Adequacy of provisions against possible losses.
- Material changes arising from the audit.

## Meetings of Audit Committee

Six meetings were held during the year 31st March 2008. The meeting dates and attendance details are given in page 79. The Internal Auditors attend meeting quarterly.

## Risk Management

The Audit Committee regularly reviews the Company's risk management procedures and continuously monitors the effectiveness of risk strategy employed to mitigate the risk. The areas covered include

- regular review of country situations
- setting of suitable exposure limit
- having a contingency plan in place

## Compliance with Laws & Statutory Payments

The Audit Committee was submitted reports by the management and internal auditors on the states of compliance with laws, filing of statutory returns and making of statutory payments.

## Internal Controls

The Committee is satisfied that an effective system of internal control is in place to provide reasonable assurance on the safeguarding of the Company's Assets and reliability of Financial Statement produced. Effectiveness of Company's system of internal controls is evaluated through reports furnished by Internal Auditors, External Auditors and the management.

## Internal Auditors

The internal audit function is outsourced to Messrs. SJMS Associates, a firm of Chartered Accountants which represents Messrs Deloitte Touche Tohmatsu in Sri Lanka. Internal Auditors directly submitted their findings to Audit Committee quarterly and their reports are made available to External Auditors.

# AUDIT COMMITTEE REPORT

The Audit Committee monitors and reviews:

- the follow-up action taken on the recommendation of the Internal Auditors
- the Internal Audit programmes and results of the internal audit process
- effectiveness of the internal audit function

## External Auditors

The Audit Committee reviews the independence and objectivity of the External Auditors and conduct a formal review of the effectiveness of external audit process. The Audit Committee has met with the External Auditors to review the Financial Statements during the annual audit.

The committee revived the non-audit services and its impact on the independence of the External Auditors.

The Audit Committee has approved the extension of current External Auditors, by one year, and recommended to the Board the re-appointment.

## Audit Committee Performance

The annual performance of Audit Committee was evaluated by other members of the Board of Directors and was deemed to be satisfactory.

## Conclusion

The Audit Committee is satisfied that the effectiveness of the organisational structure of the Group and of the implementation of the Group's accounting policies and operational controls provide reasonable assurance that the affairs of the Group are managed in accordance with Group policies and that Group assets are properly accounted for and adequately safeguarded.



**R. Seevaratnam**

*Chairman, Audit Committee*

Colombo  
9th May 2008



## REMUNERATION COMMITTEE REPORT

The Remuneration Committee is a sub-committee of the Board. The members of the Committee comprise of three Independent Directors and two Non-Executive Directors. The Chairperson who is an Independent Director is appointed by the Board.

The Committee was established for the purpose of recommending the Remuneration of the Board of Directors including Chairman/Chief Executive Officer and Senior Management.

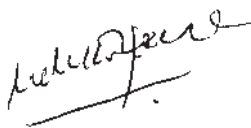
The Committee has acted within the parameters set by its terms of reference.

The Chairman of the Board attends the Committee meetings by invitation. However, he does not participate in any discussion pertaining to his remuneration.

The remuneration packages linked to the individual performances are aligned with the Company's long-term strategy.

The Directors' emoluments are disclosed on page 126.

The Committee meets as and when a need arises. The Remuneration Committee meetings and members attendance is given on page 79.



**Dr. U. Liyanage**

*Chairman - Remuneration Committee*

Colombo  
9th May 2008

# NOMINATION COMMITTEE REPORT

The Nomination Committee is established for the purpose of advising the Board in relation to nominations, retirement, succession and training of the Board and Members of Senior Management. It also advises the Board on issues relating to Directors' conflict of interest and independence. The Members and the Chairman to the Committee are appointed by the Board of Directors.

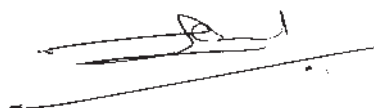
The composition of the Committee is given on Page 11.

The Committee has acted within the parameters set by its terms of reference.

The Committee meets as and when a need arises.

The key activities carried out during the year by the Committee are as follows:

- Review the structure, size and composition of the Board.
- Evaluate the independence and effectiveness of the Non-Executive Directors.
- Review the process of identifying and developing senior managers throughout the Group who have potential to succeed members of the Group Senior Management.
- Carry out evaluation of Executive Directors and their performance.

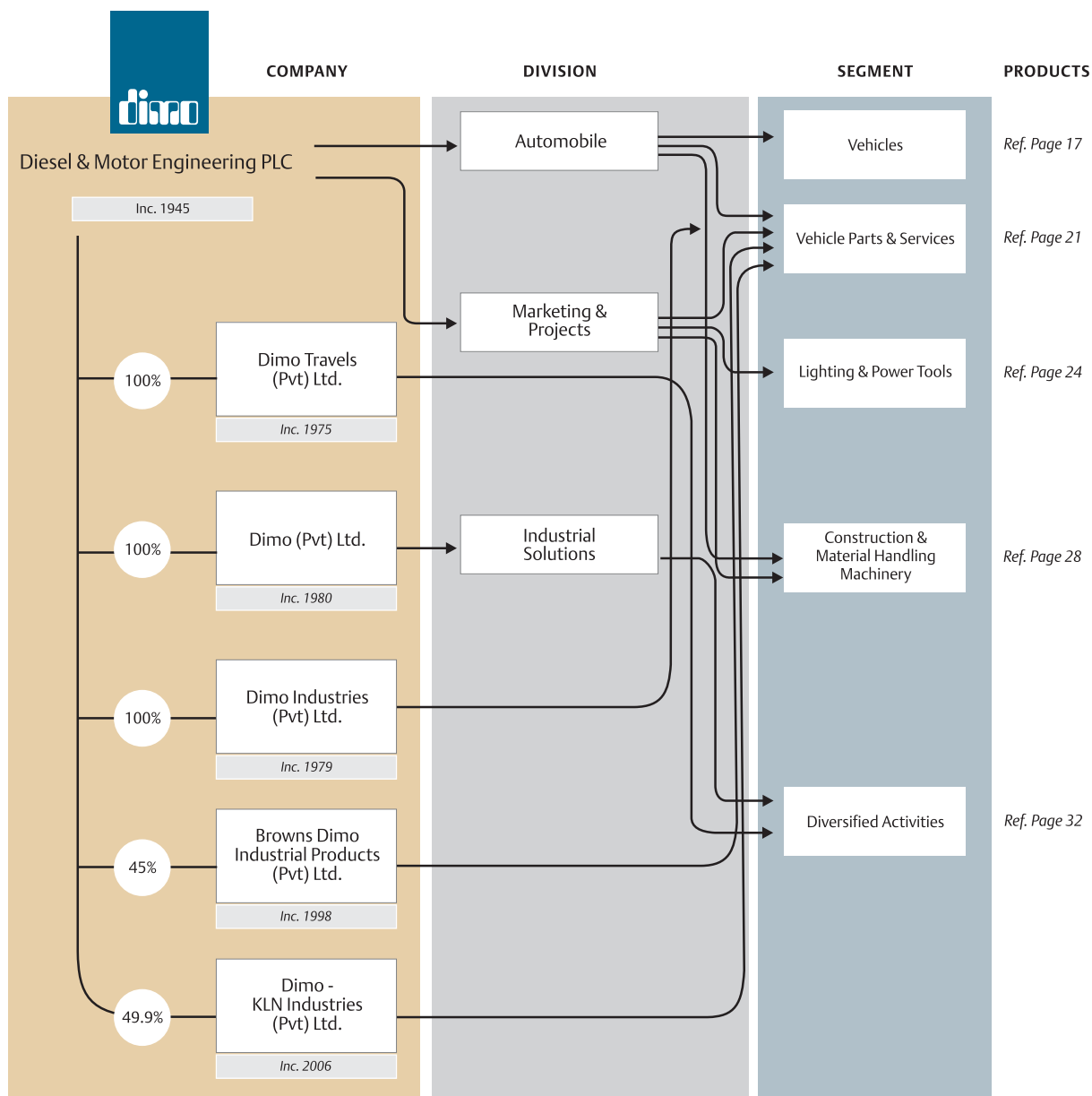


**Dr. H. Cabral**

*Chairman - Nomination Committee*

Colombo  
9th May 2008

# GROUP STRUCTURE



## Directors:

Diesel & Motor Engineering PLC	- Shown on Page 11
Dimo Travels (Pvt) Ltd.	- A.R. Pandithage (Chairman), S.C. Algama
Dimo (Pvt) Ltd.	- A.R. Pandithage (Chairman), S.C. Algama, R.H. Fernando, B.C.S.A.P. Gooneratne, A.G. Pandithage, R.C. Weerawardane
Dimo Industries (Pvt) Ltd.	- A.R. Pandithage (Chairman), S.C. Algama, A.C.G. Dias, B.C.S.A.P. Gooneratne, A.G. Pandithage, R.C. Weerawardane
Browns Dimo Industrial Products (Pvt) Ltd.	- M.V. Theagarajah (Chairman), A.R. Pandithage (Deputy Chairman), Mrs. K.C.S. Abeyesundere, J.M.G. Candappa, K.D.P. Fernando, A. Mapalagama, A. Munidasa, R.C. Weerawardane
Dimo - KLN Industries (Pvt) Ltd.	- A.R. Pandithage (Chairman), Prasanna Kumar Shetty, A.A.D. Perera, Gita Shetty, Nakul Shetty, R.C. Weerawardane



# Financial Reports

Annual Report of the Board of Directors **96**   Annexure to the Annual Report of the Board of Directors **101**  
Statement of Directors' Responsibilities for Financial Statements **102**   Independent Auditor's Report **103**  
Income Statements **104**   Balance Sheets **105**   Statements of Changes in Equity **106**  
Cash Flow Statements **107**   Significant Accounting Policies **108**   Notes to the Financial Statements **113**

## FINANCIAL CALENDAR

Results - 1st Quarter ended 30th June 2007	23rd July 2007
Results - 2nd Quarter ended 30th September 2007	22nd October 2007
Extraordinary General Meeting	7th November 2007
Results - 3rd Quarter ended 31st December 2007	25th January 2008
Interim Dividend Paid	27th March 2008
Annual Report - Financial Year ended 31st March 2008	9th May 2008
63rd Annual General Meeting	20th June 2008
Final Dividend Payable	27th June 2008

# ANNUAL REPORT OF THE BOARD OF DIRECTORS

## GENERAL

The Directors of Diesel & Motor Engineering PLC, a public limited liability company incorporated in Sri Lanka in 1945 under the Companies Ordinance No. 51 of 1938 and re-registered as per the Companies Act No. 7 of 2007, present their Annual Report of the Board of Directors and the Consolidated Financial Statements for the year ended 31st March 2008, which were approved at a meeting held on 9th May 2008. The Financial Statements have been prepared in accordance with the Sri Lanka Accounting Standards as required by Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 & Companies Act No. 7 of 2007.

## GROUP ACTIVITIES

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

There was no significant change in

- the nature of the business of the Company or its subsidiaries
- the classes of business in the Associate Companies

during the year, that may have a significant impact on the state of the Company's affairs.

## FINANCIAL STATEMENTS

Section 168(b) of the Companies Act require that the Annual Report of the Directors include Financial Statements of the Company and the Group in accordance with Section 151 and 152 of the Companies Act.

The requisite Financial Statements of the Company and the Group are given on pages 104 to 126 of the Annual Report.

## AUDITORS' REPORT

The Auditors' Report on the Financial Statements is given on page 103 of the Annual Report.

## SIGNIFICANT ACCOUNTING POLICIES

The Significant Accounting Policies adopted in the preparation of Financial Statements are given on pages 108 to 112 of the Annual Report. There were no changes in Accounting Policies during the year.

## DIRECTORATE

### List of Directors

Followings were the Directors of the Company as at the end of the financial year and their qualifications and experience are given in the Board of Directors section on page 11 of the Annual Report.

- A.R. Pandithage  
(Chairman/Managing Director/  
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)
- R.A. Ebell (Non-Executive Director)
- B.C.S.A.P. Gooneratne  
(Executive Director)
- Dr. U. 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 resignations or new appointments made to the Board, during the current financial year.

Mr. A.G. Pandithage, Mr. A.N. Algama, Mr. T.G.H. Peries & Mr. R.C. Weerawardane retire by rotation in accordance with the Articles and being eligible offer themselves for re-election at the Annual General Meeting.

## DIRECTORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Statement of Directors' Responsibilities for the Financial Statements is given on page 102.

## DIRECTORS' SHAREHOLDINGS

The Directors and their spouses held 3,383,477(2006/07 - 3,399,497) ordinary shares of the Company, which amounts to 27.96% (2006/07 - 28.10%) of the ordinary shares issued as at 31st March 2008.

# ANNUAL REPORT OF THE BOARD OF DIRECTORS

The shareholdings of Directors and their spouses as at 31st March 2008 are as follows:

	2007/08	2006/07
A.R. Pandithage	<b>1,882,095</b>	1,874,661
A.N. Algama	<b>170,755</b>	187,455
A.M. Pandithage	<b>219,778</b>	219,778
A.G. Pandithage	<b>383,545</b>	383,545
S.C. Algama	<b>399,134</b>	399,134
T.G.H. Peries	<b>328,170</b>	334,924

## INTEREST REGISTER

The Interest Register is maintained by the Company as required by the Companies Act No. 7 of 2007. The related entries were made in the interest register during the financial year under review.

The entries made in the interest register during the year are as follows:

- **Directors' Interest in Contracts**

All Directors' have made declarations on their interest in transactions or proposed transactions with the Company in accordance with Section 192 (2) of the Companies Act.

The Directors' interest in contracts are disclosed in the annexure on page 101.

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

Mr. A.N. Algama and Mr.T.G.H. Peries disposed of 16,700 and 6,754 shares of the Company respectively during the year.

There were no other acquisition or disposal of shares by any other Director during the period.

## DIRECTORS' REMUNERATION

Directors' remuneration in respect of the Group and the Company for the financial year ended 31st March 2008 are given on Note 28 to the Financial Statements on page 126 of the Annual Report.

## ENTERPRISE GOVERNANCE

The report on Enterprise Governance is given on pages 71 to 81 of the Annual Report. With a view to obtaining an independent opinion on Corporate Governance initiatives, Messrs DET NORSKE VERITAS AS (DNV) was engaged to review the Company's Corporate Governance framework and issue a Corporate Governance rating along with a review report containing shortcomings and suggestions. A summary of the rating report is available on pages 71 & 72 of the Annual Report.

## INTERNAL CONTROL SYSTEM

The Group Management Committee including the Executive Directors have taken necessary steps to overlook the implementation of an effective system of internal controls covering financial as well as operational activities of the Company. The Directors have outsourced a part of the internal audit function to review and report on the effectiveness of the internal controls.

## BOARD COMMITTEES

The Board of Directors of the Company has formed the following Sub-Committees and the Reports of such Sub Committees are given on page 11 of the Annual Report.

- Audit Committee
- Remuneration Committee
- Nomination Committee

## AUDITORS

The Auditors - Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants were paid Rs. 1.325 mn for the year ended 31st March 2008 (Rs. 0.95 mn in 2007) as audit fees by the Company. In addition to that, they were paid Rs. 0.766 mn. (Rs. 0.146 mn. in 2007) for non-audit related services including tax consultancy services.

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 relationship or interest in the Company or its subsidiary other than disclosed in this paragraph.

The retiring Auditors, Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants are willing to continue in their 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.



# ANNUAL REPORT OF THE BOARD OF DIRECTORS

## **BUSINESS REVIEW**

A review of operations, developments and outlook is available in the Chairman's & CEO's Review on pages 6 to 9 Financial Review on pages 37 to 44 and Business Performance Review on pages 16 to 36.

Segment turnover and other segment information are available on pages 16 to 36.

## **RISK MANAGEMENT**

A systematic ongoing process is adopted to identify and manage different types of risks which the Company faces. This Company's strategy on Risk Management is detailed in the Risk Management section on pages 84 to 88 of the Annual Report.

## **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, encourage the identification and development of skills, promote the use of initiative and stimulate 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 867 (2006/07 - 862).

## **HEALTH & 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. 10,806,907/-.

## **ENVIRONMENT**

The Group is sensitive to the needs of the environment, not only in terms of compliance with relevant statutory obligations, but more generally in terms of the need to be efficient in the use of energy and water and in reducing and handling of waste material. It is the Group's policy to minimise adverse effects on the environment and to promote corporation and compliance with relevant authorities and regulations. The business activities of the Group can have an indirect impact on the environment if necessary preventive measures are not taken. The steps taken to prevent possible indirect impact are outlined in the Sustainability Report on pages 45 to 70.

## **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.

# ANNUAL REPORT OF THE BOARD OF DIRECTORS

## OPERATIONAL RESULTS AND DIVIDENDS OF THE GROUP

	2007/08 Rs. '000	2006/07 Rs. '000
<b>Turnover</b>		
Gross Turnover	12,687,289	12,989,916
<b>Profit</b>		
After making provision for bad and doubtful debts and all known liabilities and after charging a sum of Rs. 84,244,159/- (2006/07 - Rs. 63,037,571/-) for Depreciation of property, plant & equipment the profit made by the Group before tax was	344,444	512,818
Income tax expense	(139,351)	(211,041)
Group profit after taxation	205,093	301,777
<b>Appropriations</b>		
Interim dividend paid	(18,150)	(36,300)
Retained profit brought forward	333,278	104,101
Available for appropriation	520,221	369,578

### Dividends on Ordinary Shares

The Directors recommend a final dividend of Rs. 2.50 per share (2006/07 - Rs. 3/- per share) payable on 27th June 2008 to the shareholders of the issued ordinary shares of the Company as at close of the business on 21st June 2008. This dividend together with the interim dividend of Rs. 1.50 per share (2006/07 - Rs. 3/- per share) results in a total dividend of Rs. 4/- per share (2006/07 - Rs. 6/- per share). In accordance with Section 56 of the Companies Act No. 7 of 2007, a solvency test was carried out by the Company's Auditors, prior to recommending the final dividend.

### Income Tax Expense & Deferred Taxation

It is the Group's policy to provide for deferred taxation on all known temporary differences. The income tax rate applicable to all companies in the Group is 35%. Tax on export profit is 15%.

### STATUTORY PAYMENTS

Directors confirm that all payments in respect of 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. 628,265/- (2006/07 - Rs. 674,129/-). A sum of Rs. 35,000/- (2006/07 - Rs. 145,000/-) made to government approved charities.

### PROPERTY, PLANT & EQUIPMENT

Group expenditure on property, plant & equipment during the year amounted to Rs. 554,483,332/- (2006/07 - Rs. 305,542,358/-). Information relating to movement in property, plant & equipment is given in Note 9 to the Financial Statements.

### MARKET VALUE OF FREEHOLD LAND

A qualified independent valuer last revalued the freehold land of the Company on 20th August 2004.

## GROUP INVESTMENT

Information relating to investments other than in subsidiaries is available in Notes 12, 13 & 14 to the Financial Statements.

## STATED CAPITAL

The Stated Capital of the Company as at March 31, 2008 was Rs. 182.5 mn (2007 - Rs. 182.5 mn) consisting of 12,100,000 Ordinary Shares and Share Premium amounting to Rs. 61.5 mn.

## RESERVES

The total reserves as at 31st March 2008 stand at Rs. 1,474,649,854/- (2006/07 - Rs. 1,324,007,149/-) comprising capital reserves of Rs. 311,521,385/- (2006/07 - Rs. 311,521,385/-) and revenue reserves of Rs. 1,163,128,469/- (2006/07 - Rs. 1,012,485,765/-). The Statement of Changes in Equity on page 106 gives the movement in equity during the year.

## SHARE INFORMATION

Information relating to shareholding, earnings, and net assets per share, market value of shares, dividends and share trading are available on pages 128 to 131.

## SHAREHOLDINGS

There were 1,224 registered shareholders as at 31st March 2008. The percentage of shares held by the Public as at 31st March 2008 was 44% of the issued shares. The twenty major shareholders as at 31st March 2008 and the number of shares held and their percentage shareholding are given on page 130.

# ANNUAL REPORT OF THE BOARD OF DIRECTORS

## SHAREHOLDER

The Company has made all endeavours to ensure equitable treatment to all shareholders.

## COMPLIANCE WITH LAWS & REGULATIONS

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

## OUTSTANDING LITIGATION

In the opinion of the Directors and in consultation with the Company Lawyers, litigation currently pending against the Company will not have a material impact on the reported financial results or future operations of the Company.

## EVENTS OCCURRING AFTER BALANCE SHEET DATE

There have not been any material events that occurred subsequent to the date of the Balance Sheet which require adjustments to or disclosure in the Financial Statements.

## CONTINGENCIES & COMMITMENTS

Contingent Liabilities and Capital Commitments made as at 31st March 2008 is given in Note 27 to the Financial Statements.

## GOING CONCERN

The Directors are of the opinion that the Company has adequate resources to continue in operational existence for the foreseeable future. The Financial Statements have been prepared adopting the going concern basis as stated in the Statement of Directors' Responsibilities.

## ANNUAL GENERAL MEETING

The Annual General Meeting will be held at the Registered Office of the Company, No. 65, Jetawana Road, Colombo 14 on 20th June 2008. The Notice of Annual General Meeting is given on page 144.

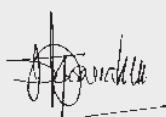
By order of the Board of Directors



**A.R. Pandithage**  
*Chairman*



**R.C. Weerawardane**  
*Director*



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

Colombo  
09th May 2008

# ANNEXURE TO THE ANNUAL REPORT OF THE BOARD OF DIRECTORS

## DIRECTORS INTEREST IN CONTRACTS

The Directors of the Company are also Directors of the following companies:

Company Name	Relationship	Name of the Director
Dimo (Pvt) Ltd.	Subsidiary	Mr. A.R. Pandithge Mr. S.C. Algama Mr. A.G. Pandithage Mr. B.C.S.A.P. Gooneratne Mr. R.C. Weerawardena
Dimo Industries (Pvt) Ltd.	Subsidiary	Mr. A.R. Pandithage Mr. A.G. Pandithage Mr. S.C. Algama Mr. B.C.S.A.P. Gooneratne Mr. R.C. Weerawardena
Dimo Travels (Pvt) Ltd.	Subsidiary	Mr. A.R. Pandithage Mr. S.C. Algama
Dimo-KLN Industries (Pvt) Ltd.	Joint Venture	Mr. A.R. Pandithage Mr. R.C. Weerawardena
Browns Dimo Industrial Products (Pvt) Ltd.	Associate	Mr. A.R. Pandithage Mr. R.C. Weerawardena

The inter company balances and transactions are given on Note 28 on page 126.

The Company has entered into contracts in the normal course of business with the following companies in which a Director of the Company is also director of the said Company,

Company Name	Name of the Director	Nature Of Transaction	Transaction Amount
Air Global Ltd.	Mr. A.M. Pandithage	Air Passage	3,162,808
Global Holidays (Pvt) Ltd.	Mr. A.M. Pandithage	Air Passage	3,918,442
Hayleys Consumer Products (Pvt) Ltd.	Mr. A.M. Pandithage Mr. R.A. Ebell	Purchases of Electronic Items	47,150
Logiwiz Ltd.	Mr. A.M. Pandithage	Services of Storage & Delivery	10,000
Mit Cargo (Pvt) Ltd.	Mr. A.M. Pandithage Mr. R.A. Ebell	Services of Shipping & Warehouse	725,833
Toyo Cushion Lanka (Pvt) Ltd	Mr. A.M. Pandithage	Services of Forklifts	481,727
Hayleys PLC	Mr. A.M. Pandithage Mr. R.A. Ebell	Annual Maintenance Contract	48,000
Hayleys Adventis (Pvt) Ltd	Mr. A.M. Pandithage Mr. R.A. Ebell	Vehicle Servicing & Sale of Tyres.	477,970
Hayleys Industrial Solutions Ltd.	Mr. A.M. Pandithage Mr. R.A. Ebell	Sales of Power Tool & telephone System & Services Telephones	427,597
Hayleys-MGT Knitting Mills Ltd.	Mr. R.A. Ebell	Sales of Ups Batteries & Tyres	273,678
Hayleys Agro Products Ltd.	Mr. A.M. Pandithage Mr. R.A. Ebell	Sales of Spare Parts	203,369
Q & E Advertising (Pvt) Ltd.	Dr. U. Liyanage	Sale of Lighting & Annual Maintenance PABX	63,799
Q & E Advertising (Pvt) Ltd.	Dr. U. Liyanage	Press /media Advertisements & Art Work	11,405,450
Ceylon Cold Stores PLC	Dr. U. Liyanage	Sales of Spare Parts	140,949
Dipped Product PLC	Mr. A.M. Pandithage Mr. R.A. Ebell Mr. R. Seevaratnam	Sales of Tyres	54,076
Hayleys AIG Insurance Co. Ltd.	Mr. A.M. Pandithage	Insurance Premiums	13,015,347

# STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Companies Act No. 7 of 2007 required the Directors to prepare and present Financial Statements for each financial year giving a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and the profit or loss of the Company and the Group for the financial year.

The responsibilities of the Directors in relation to the Financial Statements of the Company and the Group are set out in following statement.

The responsibility of the Auditors in relation to the Financial Statements appears in the report of the Auditors on page 103.

As per the provision of the Companies Act No. 7 of 2007 the Directors are required to prepare for each financial year and place before a general meeting of shareholders the Financial Statements, which comprise:

- I. A Statement of Income, which presents a true and fair view of the profit or loss of the Group for the financial year; and
- II. A Balance Sheet, which presents a true and fair view of the state of affairs of the Company and its subsidiary as at the end of the financial year and which complies with the requirements of the Companies Act No. 7 of 2007 and Sri Lanka Accounting and Auditing Standards Act No.15 of 1995.

In addition, the Directors have to ensure that in preparing the Financial Statements:

- a) appropriate Accounting Policies have been used in consistent manner;
- b) where necessary prudent judgement and estimate have been made.

The Directors are responsible for ensuring that the companies within the Group keep sufficient accounting records to disclose with reasonable accuracy, the financial position of the Company and the Group as required by the Companies Act No. 7 of 2007 and the listing rules of the Colombo Stock Exchange.

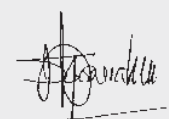
The Directors are required to provide the Auditors with every opportunity to take what ever steps necessary and undertake any inspection deemed necessary to enable them to form their audit opinion.

Messrs KPMG Ford, Rhodes, Thornton & Company the auditors of the Company have examined the Financial Statements and the related records and information. Their opinion on Financial Statements are given on page 103.

The Directors are also responsible for taking reasonable measures to safeguard the assets of the Group, and in that context to have proper regard to the establishment of appropriate systems of internal control with a view to prevention and detection of fraud and other irregularities.

The Directors, having reviewed the financial budget and cash flows for the year to 31st March 2009 and the bank facilities, consider that the Group has adequate resources to continue in operation, and have continued to adopt the going concern basis in preparing Financial Statements.

By Order of the Board,



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

Colombo  
9th May 2008

# INDEPENDENT AUDITOR'S REPORT



**KPMG Ford, Rhodes, Thornton & Co.**  
(Chartered Accountants)  
32A, Sir Mohamed Macan Markar Mawatha,  
P. O. Box 186,  
Colombo 00300,  
Sri Lanka.

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## **TO THE SHAREHOLDERS OF DIESEL & MOTOR ENGINEERING PLC**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Diesel & Motor Engineering PLC the consolidated financial statements of the Company and its subsidiaries as at that date which comprise the balance sheet as at March 31, 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 104 to 126 of the Annual Report.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Scope of Audit and Basis of Opinion*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

### *Opinion*

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended March 31, 2008 and

the financial statements give a true and fair view of the Company's state of affairs as at March 31, 2008 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at March 31, 2008 and the profit and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the Company and its subsidiaries dealt with thereby, so far as concerns the members of the Company.

### **Report on Other Legal and Regulatory Requirements**

These financial statements also comply with the requirements of Sections 153(2) to 153(7) of the Companies Act No. 07 of 2007.

Chartered Accountants  
Colombo

9th May 2008

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A.N. Fernando FCA  
M.R. Mihular FCA  
P.Y.S. Perera FCA  
T.J.S. Rajakarier FCA  
Ms. S. Joseph ACA

S. Srikananathan FCA  
Ms. M. P. Perera FCA  
C.P. Jayatilake FCA  
W.W.J.C. Perera FCA

# INCOME STATEMENTS

For the year ended 31st March	Note	Consolidated		Company	
		2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>Gross turnover</b>	1	<b>12,687,289</b>	12,989,916	<b>12,169,146</b>	12,449,644
Turnover tax		<b>(129,439)</b>	(131,578)	<b>(125,722)</b>	(127,565)
<b>Net turnover</b>		<b>12,557,850</b>	12,858,338	<b>12,043,424</b>	12,322,079
Cost of sales		<b>(10,181,909)</b>	(10,728,925)	<b>(9,874,218)</b>	(10,365,846)
<b>Gross profit</b>		<b>2,375,941</b>	2,129,413	<b>2,169,206</b>	1,956,233
Other income	2	<b>37,900</b>	28,065	<b>35,804</b>	29,152
Distribution expenses		<b>(326,815)</b>	(226,057)	<b>(314,350)</b>	(219,147)
Administrative expenses		<b>(1,227,721)</b>	(959,084)	<b>(1,092,783)</b>	(857,736)
Net finance cost	3	<b>(518,143)</b>	(462,177)	<b>(469,899)</b>	(432,868)
Share of profit of equity accounted investee - Net of tax	4	<b>3,282</b>	2,658	—	—
<b>Profit before taxation</b>	5	<b>344,444</b>	512,818	<b>327,978</b>	475,634
Income tax expense	6	<b>(139,351)</b>	(211,041)	<b>(133,309)</b>	(193,606)
<b>Profit for the year</b>		<b>205,093</b>	301,777	<b>194,669</b>	282,028
<b>Attributable to:</b>					
Equity holders of the Company		<b>205,093</b>	301,777		
Minority interest		—	—		
<b>Profit for the year</b>		<b>205,093</b>	301,777		
Basic earning per share - (Rs.)	7	<b>16.95</b>	25.76	<b>16.09</b>	24.07
Diluted earning per share - (Rs.)	7	<b>16.95</b>	25.76	<b>16.09</b>	24.07
Dividend per share - (Rs.)	8	<b>4.00</b>	6.00	<b>4.00</b>	6.00

Figures in brackets indicate deductions.

The Significant Accounting Policies from pages 108 to 112 and Notes to the Financial Statements from pages 113 to 126 form an integral part of these Financial Statements.

The Report of the Auditors is on page 103.



# BALANCE SHEETS

As at 31st March	Note	Consolidated		Company	
		2008 Rs. '000	2007 Rs. '000	2008 Rs. '000	2007 Rs. '000
<b>ASSETS</b>					
<b>Non-Current assets</b>					
Property, plant & equipment	9	1,392,110	939,890	1,329,751	892,164
Leasehold property	10	1,520	1,600	1,520	1,600
Intangible assets	11	2,749	—	2,749	—
Investment in subsidiaries	12	—	—	350	350
Investment in joint venture	13	—	—	6,000	6,000
Investment in equity accounted investee	14	25,011	21,729	6,750	6,750
Other long-term investments	15	41,678	41,678	41,671	41,671
Deferred tax assets	21	—	473	—	—
<b>Total non-current assets</b>		<b>1,463,068</b>	1,005,370	<b>1,388,791</b>	948,535
<b>Current assets</b>					
Inventories	16	2,189,806	2,097,128	2,123,448	2,005,682
Trade & other receivables	17	2,117,315	1,919,744	1,899,155	1,641,823
Income tax recoverable	25	9,747	—	—	—
Receivables from subsidiaries & joint ventures	28	—	—	113,876	168,204
Cash & cash equivalents	18	51,222	176,390	49,454	175,521
<b>Total current assets</b>		<b>4,368,090</b>	4,193,262	<b>4,185,933</b>	3,991,230
<b>TOTAL ASSETS</b>		<b>5,831,158</b>	5,198,632	<b>5,574,724</b>	4,939,765
<b>EQUITY AND LIABILITIES</b>					
Stated capital	19	182,500	182,500	182,500	182,500
Revaluation reserves	19	311,522	311,522	311,522	311,522
Revenue reserves	19	1,163,129	1,012,486	1,021,007	880,788
<b>Total equity attributable to equity holders of the Company</b>		<b>1,657,151</b>	1,506,508	<b>1,515,029</b>	1,374,810
<b>Non-current liabilities</b>					
Long-term interest bearing loans and borrowings	20	554,176	345,546	554,176	345,546
Deferred tax liabilities	21	41,132	31,327	40,990	31,327
Deferred income	22	1,222	3,218	1,222	3,218
Retirement benefit obligations	23	115,763	93,753	108,130	86,703
<b>Total non-current liabilities</b>		<b>712,293</b>	473,844	<b>704,518</b>	466,794
<b>Current liabilities</b>					
Current portion of long-term interest-bearing loans and borrowings	20	193,539	158,532	193,539	158,532
Trade & other payables	24	1,163,544	586,137	1,108,779	552,285
Amounts payable to subsidiaries	28	—	—	392	467
Income tax payable	25	49,972	113,001	49,972	111,144
Short-term interest-bearing loans and borrowings	26	2,054,659	2,360,610	2,002,495	2,275,733
<b>Total current liabilities</b>		<b>3,461,714</b>	3,218,280	<b>3,355,177</b>	3,098,161
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>5,831,158</b>	5,198,632	<b>5,574,724</b>	4,939,765

I certify that the Financial Statements as set out on pages 104 to 126 have been prepared in accordance with the requirements of the Companies Act No. 7 of 2007.



**E.D.C. Kodituwakku**

General Manager, Finance & Controlling/Member - Group Management Committee

The Directors are responsible for the preparation and presentation of these Financial Statements.

Signed for and on behalf of the Board,



**A.R. Pandithage**

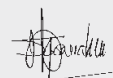
Chairman, Managing Director/Chief Executive Officer

9th May, 2008

Figures in brackets indicate deductions

The Significant Accounting Policies from pages 108 to 112 and Notes to the Financial Statements from pages 113 to 126 form an integral part of these Financial Statements.

The Report of the Auditors is on Page 103.



**B.C.S.A.P. Gooneratne**

Director

# STATEMENTS OF CHANGES IN EQUITY

		Stated Capital					
		Voting Shares	Share Premium	Revaluation Reserve	General Reserve	Retained Earnings	Total
Consolidated	Note	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
2006/07							
Balance as at 1st April 2006		100,000	27,500	311,522	472,908	304,101	1,216,031
Transfer to/(from) general reserve		—	—	—	170,000	(170,000)	—
Dividend to shareholders							
- 2005/06 - final	8	—	—	—	—	(33,000)	(33,000)
- 2006/07 - interim	8	—	—	—	—	(33,300)	(33,300)
Bonus issue		10,000	(10,000)	—	—	—	—
Rights issue		11,000	44,000	—	—	—	55,000
Profit for the year		—	—	—	—	301,777	301,777
<b>Balance as at 31st March 2007</b>		<b>121,000</b>	<b>61,500</b>	<b>311,522</b>	<b>642,908</b>	<b>369,578</b>	<b>1,506,508</b>
2007/08							
Transfer to/(from) general reserve		—	—	—	—	—	—
Dividend to shareholders							
- 2006/07 - final	8	—	—	—	—	(36,300)	(36,300)
- 2007/08 - interim	8	—	—	—	—	(18,150)	(18,150)
Profit for the year		—	—	—	—	205,093	205,093
<b>Balance as at 31st March 2008</b>		<b>121,000</b>	<b>61,500</b>	<b>311,522</b>	<b>642,908</b>	<b>520,221</b>	<b>1,657,151</b>

		Stated Capital					
		Voting Shares	Share Premium	Revaluation Reserve	General Reserve	Retained Earnings	Total
Company		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
2006/07							
Balance as at 1st April 2006		100,000	27,500	311,522	423,082	241,978	1,104,082
Transfer to/(from) general reserve		—	—	—	150,000	(150,000)	—
Dividend to shareholders							
- 2005/06 - final	8	—	—	—	—	(33,000)	(33,000)
- 2006/07 - interim	8	—	—	—	—	(33,300)	(33,300)
Bonus issue		10,000	(10,000)	—	—	—	—
Rights issue		11,000	44,000	—	—	—	55,000
Profit for the year		—	—	—	—	282,028	282,028
<b>Balance as at 31st March 2007</b>		<b>121,000</b>	<b>61,500</b>	<b>311,522</b>	<b>573,082</b>	<b>307,706</b>	<b>1,374,810</b>
2007/08							
Transfer to/(from) general reserve		—	—	—	—	—	—
Dividend to shareholders							
- 2006/07 - final	8	—	—	—	—	(36,300)	(36,300)
- 2007/08 - interim	8	—	—	—	—	(18,150)	(18,150)
Profit for the year		—	—	—	—	194,669	194,669
<b>Balance as at 31st March 2008</b>		<b>121,000</b>	<b>61,500</b>	<b>311,522</b>	<b>573,082</b>	<b>447,925</b>	<b>1,515,029</b>

Figures in brackets indicate deductions.

The Significant Accounting Policies from pages 108 to 112 and Notes to the Financial Statements from pages 113 to 126 form an integral part of these Financial Statements.

The Report of the Auditors is on page 103.

# CASH FLOW STATEMENTS

For the year ended 31st March	Note	Consolidated		Company	
		2008 Rs.'000	2007 Rs.'000	2008 Rs.'000	2007 Rs.'000
<b>Operating Activities</b>					
Cash receipts from customers		12,385,498	13,175,265	11,863,519	12,665,483
Cash paid to suppliers and employees		(11,145,323)	(12,176,773)	(10,744,103)	(11,717,838)
Cash generated from operations		1,240,175	998,492	1,119,416	947,645
Interest paid		(517,620)	(460,172)	(469,093)	(430,783)
Income taxes paid		(201,849)	(155,186)	(184,818)	(137,969)
<b>Cash flows from operating activities</b>		<b>520,706</b>	<b>383,134</b>	<b>465,505</b>	<b>378,893</b>
<b>Investing Activities</b>					
Proceeds from disposal of property, plant & equipment		25,424	15,358	24,511	21,314
Investment in joint venture		—	—	—	(6,000)
Dividends received		1,913	1,934	1,913	1,934
Interest received		637	383	354	303
Acquisition and construction of property, plant & equipment		(547,186)	(305,311)	(524,401)	(263,441)
<b>Cash flows from investing activities</b>		<b>(519,212)</b>	<b>(287,636)</b>	<b>(497,623)</b>	<b>(245,890)</b>
<b>Financing Activities</b>					
Proceeds from rights issue		—	55,000	—	55,000
Proceeds from long-term loans		400,000	117,670	400,000	117,670
Repayment of long-term loans		(146,863)	(135,905)	(146,863)	(135,905)
Dividends paid		(54,450)	(66,363)	(54,450)	(66,363)
Repayment of finance lease obligations		(19,398)	(19,860)	(19,398)	(19,860)
<b>Cash flows from financing activities</b>		<b>179,289</b>	<b>(49,458)</b>	<b>179,289</b>	<b>(49,458)</b>
<b>Net increase/(decrease) in cash &amp; cash equivalents</b>		<b>180,783</b>	<b>46,040</b>	<b>147,171</b>	<b>83,545</b>
<b>Cash &amp; cash equivalents at beginning of the year</b>		<b>(2,184,220)</b>	<b>(2,230,260)</b>	<b>(2,100,212)</b>	<b>(2,183,757)</b>
<b>Cash &amp; cash equivalents at end of the year (Note A)</b>		<b>(2,003,437)</b>	<b>(2,184,220)</b>	<b>(1,953,041)</b>	<b>(2,100,212)</b>
<b>A. Analysis of Cash &amp; Cash Equivalents</b>					
Bank and cash balances (Note 18)		51,222	176,390	49,454	175,521
Bank borrowings (Note 26)		(2,054,659)	(2,360,610)	(2,002,495)	(2,275,733)
Cash & cash equivalents		(2,003,437)	(2,184,220)	(1,953,041)	(2,100,212)

Figures in brackets indicate deductions.

The Significant Accounting Policies from pages 108 to 112 and Notes to the Financial Statements from pages 113 to 126 form an integral part of these Financial Statements.

The Report of the Auditors is on page 103.

# SIGNIFICANT ACCOUNTING POLICIES

## 1. REPORTING ENTITY

Diesel & Motor Engineering PLC and its Subsidiaries are limited liability companies, incorporated and domiciled in Sri Lanka. The parent company and its subsidiaries have the registered office and principal place of business located at No. 65, Jetawana Road, Colombo 14.

The consolidated Financial Statements of Diesel & Motor Engineering PLC. as at and for the year ended 31st March 2008 comprise the Company and its fully-owned subsidiaries (together referred to as the 'Group') and the Group's interest in an associate and jointly controlled entities. The Financial Statements of all Companies in the Group are prepared to a common financial year, which ends on 31st March. The Directors authorised the Financial Statements for issue on 9th May 2008.

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

### i. Statement of Compliance

The Financial Statements have been prepared in accordance with Sri Lanka Accounting Standards (SLAS) adopted by the Institute of Chartered Accountants of Sri Lanka (ICASL), and the requirements of the Companies Act No. 7 of 2007, and Sri Lanka Accounting & Auditing Standards Act No. 15 of 1995.

### ii. Responsibility for Financial Statements

The Board of Directors is responsible for the preparation & presentation of the Financial Statements. The statement containing the Directors Responsibility for Financial Statements is given on page 102.

## iii. Basis of Measurement

The Financial Statements have been prepared on the historical cost basis, except that certain land included in property, plant & equipment is stated at a valuation as explained in Note 9 to the Financial Statements.

### Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees, which is the Company's functional currency. All financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand, unless otherwise stated.

### Use of estimates and Judgments

The preparation of 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. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an on going basis. Revisions to accounting estimates are recognised in the period in which the estimates are 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.

### Going concern

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 either to liquidate or to cease trading.

## Basis of Consolidation

### (a) Subsidiaries

Subsidiaries are those entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, 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 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. There is no minority interest in the consolidated Financial Statements since all subsidiary companies are wholly owned.

### (b) Associates (equity accounted investees) and jointly controlled entities

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic, financial and operating decisions. Associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Consolidated Financial Statements include the Group proportionate share of the joint venture assets/liabilities, revenue and expenses with items of a similar nature on a line by line

# SIGNIFICANT ACCOUNTING POLICIES

basis. The Consolidated Financial Statements include the Group's share of the income and expenses and equity movements of equity accounted investees, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has incurred obligations or has made payments on behalf of the investee.

## **(c) Transactions Eliminated on Consolidation**

Intra-group balances and transactions, and any income and expenses arising from intra-group transactions are eliminated in preparing the consolidated Financial Statements. Unrealised gains arising from transactions with equity accounted investees are eliminated to the extent of the Group's interest in the investee.

## **iv. Foreign Currency Transactions**

Transactions in foreign currencies are translated into Sri Lankan Rupees at exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into Sri Lankan rupees at the exchange rate at that date. Foreign exchange differences arising on translation are recognised in profit and loss.

## **v. Segment Reporting**

A segment is a distinguishable component of the Group that is engaged either in providing 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 other segments.

The segment reporting is presented on the primary format, business segments, as per the Sri Lanka Accounting Standard No. 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 Group's '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.

## **2. ASSETS AND BASES OF THEIR VALUATION**

Assets classified as current assets on the Balance Sheet are cash and bank balances and those which are expected to be realised in cash during the normal operating cycle or within one year from the Balance Sheet date, whichever is shorter.

## **i. Property, Plant & Equipment**

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

### **(a) Cost**

The cost of property, plant & equipment is the cost of acquisition or construction together with any expenses incurred in bringing the assets to their working condition for their intended use.

Where parts of an item of property, plant & equipment have different useful lives, they are accounted for as separate items (major components) of property, plant & equipment.

### **(b) Revaluation**

A revaluation of land is done when there is a substantial distinction between the fair value (market value) and the carrying amount of the land and is undertaken by professionally qualified valuers. Increases in the carrying amount on revaluation are credited to the revaluation surplus reserve in shareholders equity. Decreases that offset previous increases of the same individual asset are charged against revaluation surplus reserve directly in equity; all other decreases are expensed in profit and loss.

### **(c) Subsequent Expenditure**

The cost of the day to day servicing of property, plant and equipment are recognised in profit and loss as incurred.

### **(d) Derecognition**

The carrying amount of an item of property, plant and equipment is

# SIGNIFICANT ACCOUNTING POLICIES

derecognised on disposal; or when no future economic benefits are expected from its use or disposal. Gains and losses on derecognition are recognised in profit and loss and gains are not classified as revenue.

## **(e) Depreciation**

Depreciation is recognised in profit and loss 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 lease are depreciated over the shorter of the lease term and the useful lives of equivalent owned assets. Freehold land is not depreciated.

The estimated useful lives are 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

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.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

## **(f) Capital Work-in-Progress**

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

## **ii. Intangible Assets**

An Intangible Asset is recognised if it is probable that the 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 on Intangible Assets. Accordingly these assets are stated in the Balance Sheet at cost less accumulated amortisation and accumulated impairment losses.

## **Subsequent expenditure**

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

## **Amortisation**

Amortisation is recognised in profit and loss 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 lives for the current and comparative periods are as follows:

- Computer software - 4 years.

## **iii. Investments**

### **Long-Term Investments**

Investments in quoted and unquoted shares held on long-term basis are measured at cost less impairment losses. In the parent company Financial Statements, investments in subsidiaries, associate and jointly controlled entity are carried at cost less impairment losses under the parent Company accounting policy for long term investments.

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

## **iv. Inventories**

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average cost principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

A provision is made for all non-moving and obsolete items of inventory.

## **v. Trade and Other Receivables**

Trade and other receivables are stated in the accounts at their estimated realisable value. A provision has been made in respect of bad & doubtful debts. Debts that are known to be uncollectible are written off.

## **vi. Cash & Cash Equivalents**

Cash & cash equivalents comprise cash balances and demand deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash & cash equivalents for the purpose of the Statement of Cash Flows.

## **vii. Impairment**

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. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at

# SIGNIFICANT ACCOUNTING POLICIES

each reporting date or more frequently, if events or changes in circumstances indicate that it might be impaired.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs 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 profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses 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. LIABILITIES AND PROVISIONS

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

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

### i. Employee Benefits

#### (a) Defined Contribution Plans

Obligations for contributions to defined contribution plans, EPF & ETF, are recognised as an expense in profit and loss when incurred.

#### (b) Defined Benefits Plans - Retiring Gratuity

Provision has been made for retiring gratuity from the first year of service for all employees in conformity with Sri Lanka Accounting Standard (SLAS 16) - Retirement Benefit Costs. However, under the Payment of Gratuity Act No. 12 of 1983, liability to an employee arises only on completion of five years service.

The liability has not been actuarially valued and is not externally funded.

The liability is calculated on the basis of half a month's salary for each completed year of service.

### ii. 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 profit and loss over the lease period.

### iii. Trade and Other Payables

Trade and other payables are stated at their cost.

### iv. Provisions

A provision is recognised, if as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

### v. Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighing of all possible outcomes against their associated probabilities.

## 4. INCOME & EXPENSES

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.

### i. Turnover

The net Group turnover excludes turnover taxes and trade discounts. The gross turnover represents the invoiced value of goods & services to customers outside the Group.

### ii. Revenue

#### (a) Goods Sold & Services Rendered

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



# SIGNIFICANT ACCOUNTING POLICIES

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 of goods can be measured reliably, there is no continuing managerial involvement with the goods and the amount of revenue can be measured reliably.

Revenue from services rendered is recognised in profit and loss 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 profit and loss in proportion to the stage of completion of the transaction at the reporting date.

## **(b) Service Support Income**

Service support commission income from foreign principals is accounted for on an accrual basis once the shipment is effected.

## **(c) Other Operating Income**

Other operating income comprises mainly of gain on disposal of property, plant & equipment, bad debt recoveries, sale of scrapped items and motor vehicle valuation fees, etc.

## **iii. Expenses**

### **(a) 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 profit and loss on a straight-line basis over the term of the lease.

## **IV. Borrowing Costs**

Borrowing Costs are recognised as an expense in the period in which they are incurred, except to the extent

where borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset that take a substantial period of time to get ready for its intended use or sale, is capitalised as part of that asset.

### **(a) Finance income and finance expenses**

Finance income comprise interest income on funds invested, dividend income and gains on translation of foreign currency. Interest income is recognised in profit and loss as it accrues, taking into account the effective yield on the asset.

Finance expenses comprises interest cost on borrowings and losses on translation of foreign currency. The interest expense component of finance lease payments is recognised in profit and loss using the effective interest method.

Dividend income is recognised in profit and loss on the date the entity's right to receive payment is established.

## **V. Income Tax**

Income tax expense comprises current and deferred tax. Income tax is recognised in profit and loss except to the extent that it relates to items directly recognised in equity, in which case 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 adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between

the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. 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 substantially enacted by the reporting date.

## **5. CASH FLOW STATEMENT**

The Cash Flow Statement has been prepared using the 'direct method'.

Interest paid is classified as operating cash flows; interest and dividend received are classified as investing cash flows, while dividends paid are classified as financing cash flows for the purpose of presenting the Cash Flow Statement.

## **6. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE**

All material post Balance Sheet events have been considered and where appropriate adjustment or disclosure has been made according to SLAS 12 (Revised) - Events after the Balance Sheet date in the respective Notes to the Financial Statements.

## **7. CAPITAL COMMITMENTS AND CONTINGENCIES**

Capital commitments and contingent liabilities of the Group are disclosed in respective Notes to the Financial Statements. Refer Note 27.

## **8. COMPARATIVE INFORMATION**

Where necessary comparative information has been reclassified to conform to the current year's presentation.

# NOTES TO THE FINANCIAL STATEMENTS

## 1. SEGMENT INFORMATION

The Group comprises the following main business segments:

Segment	Products & Services
<b>Vehicles</b>	- Sale of brand new Passenger Vehicles, 4WD Vehicles, Commercial Vehicles, Special Purpose Vehicles and Pre-owned Passenger Vehicles.
<b>Vehicle Parts &amp; Services</b>	- Repair of Passenger & Commercial Vehicles, Sale of Vehicle Spare Parts, Accessories, Components and Tyres.
<b>Lighting &amp; Power Tools</b>	- Sale of Power Tools & Accessories, Lamps, Lighting Fittings and Lighting Accessories.
<b>Construction &amp; Material Handling Machinery</b>	- Sale & Service of Earth Moving Machinery, Road Construction Machinery, Fork-Lifts, Racking Systems, Tractors Pumps and Dock Levellers.
<b>Diversified Activities</b>	- Sale & Service of Telecommunication Equipment, Medical Equipment, Generating Sets, Turbines, UPS Equipment, Diesel Engines for Marine Propulsion, Rail Traction, Building Technologies, Industrial Refrigeration, Power Generation & Transmission and the Business of Travel Agents.

	Vehicles		Vehicle Parts & Services		Lighting & Power Tools		Construction & Material Handling Machinery		Diversified Activities		Total	
As at 31st March	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Business Segment Turnover &amp; Results</b>												
Total segment revenue	8,838,398	9,041,292	2,430,439	2,104,363	421,211	355,125	1,069,614	1,258,905	532,577	573,845	13,292,239	13,333,530
Inter-segment revenue	434,402	214,446	64,757	32,808	458	948	51,906	57,173	53,427	38,239	604,950	343,614
<b>Total external revenue</b>	<b>8,403,996</b>	<b>8,826,846</b>	<b>2,365,682</b>	<b>2,071,555</b>	<b>420,753</b>	<b>354,177</b>	<b>1,017,708</b>	<b>1,201,732</b>	<b>479,150</b>	<b>535,606</b>	<b>12,687,289</b>	<b>12,989,916</b>
Segment results	602,847	594,895	368,775	368,938	61,805	51,727	91,869	109,693	73,119	69,872	1,198,415	1,195,125
Unallocated income	-	-	-	-	-	-	-	-	-	-	37,900	28,380
Unallocated expenses	-	-	-	-	-	-	-	-	-	-	(377,010)	(251,168)
Finance cost - net	-	-	-	-	-	-	-	-	-	-	(518,143)	(462,177)
Income from equity accounted investee	-	-	-	-	-	-	-	-	-	-	3,282	2,658
Income tax expense	-	-	-	-	-	-	-	-	-	-	(139,351)	(211,041)
<b>Profit for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>205,093</b>	<b>301,777</b>
<b>Business Segment Assets &amp; Liabilities</b>												
Segment assets	2,411,710	2,331,953	975,269	959,235	158,403	134,528	612,617	522,338	269,308	372,262	4,427,307	4,320,316
Investment in equity accounted investee	-	-	-	-	-	-	-	-	-	-	25,011	21,729
Unallocated assets	-	-	-	-	-	-	-	-	-	-	1,378,840	856,587
<b>Total assets</b>	<b>2,411,710</b>	<b>2,331,953</b>	<b>975,269</b>	<b>959,235</b>	<b>158,403</b>	<b>134,528</b>	<b>612,617</b>	<b>522,338</b>	<b>269,308</b>	<b>372,262</b>	<b>5,831,158</b>	<b>5,198,632</b>
Segment liabilities	2,061,305	2,015,164	661,636	479,536	399	2,470	26,277	168,377	290,722	122,288	3,040,339	2,787,835
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	1,133,668	904,289
<b>Total liabilities</b>	<b>2,061,305</b>	<b>2,015,164</b>	<b>661,636</b>	<b>479,536</b>	<b>399</b>	<b>2,470</b>	<b>26,277</b>	<b>168,377</b>	<b>290,722</b>	<b>122,288</b>	<b>4,174,007</b>	<b>3,692,124</b>
<b>Other Business Segment Information</b>												
Capital expenditure	227,342	20,513	219,638	94,357	335	818	1,960	12,194	55,326	19,072	504,601	146,954
Depreciation	12,231	8,364	32,936	22,921	603	373	7,799	6,953	5,340	3,777	58,909	42,388
<b>Non-cash expenses other than depreciation</b>	<b>3,909</b>	<b>5,532</b>	<b>17,067</b>	<b>9,220</b>	<b>1,808</b>	<b>(2,937)</b>	<b>9,704</b>	<b>4,432</b>	<b>5,716</b>	<b>1,161</b>	<b>38,204</b>	<b>17,408</b>

# NOTES TO THE FINANCIAL STATEMENTS

	Vehicles		Vehicle Parts & Service		Lighting & Power Tools		Construction & Material Handling Machinery		Diversified Activities		Consolidated	
As at 31st March	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
<b>Business Segment Cash Flow</b>												
<b>Operating activities</b>	<b>520,340</b>	785,497	<b>477,815</b>	83,345	<b>135,600</b>	15,173	<b>106,374</b>	(14,357)	<b>(12,527)</b>	(44,359)	<b>1,227,602</b>	825,299
<b>Investing activities</b>	<b>(227,342)</b>	(20,513)	<b>(219,638)</b>	(88,918)	<b>(335)</b>	(818)	<b>(1,960)</b>	(12,194)	<b>(55,326)</b>	(12,655)	<b>(504,601)</b>	(135,098)
<b>Unallocated Cash Flows</b>												
Common expenses											<b>(517,620)</b>	(309,381)
Income taxes paid											<b>(201,849)</b>	(155,186)
Proceeds from disposal of property, plant & equipment											<b>25,424</b>	9,403
Investment in joint venture											<b>–</b>	(6,000)
Dividends received											<b>1,913</b>	1,934
Interest received											<b>637</b>	383
Acquisition of construction of property, plant & equipment											<b>(49,410)</b>	(155,716)
Proceeds from issue of shares												55,000
Proceeds from long-term loan											<b>400,000</b>	117,670
Repayment of long-term loan											<b>(146,863)</b>	(135,905)
Dividends paid											<b>(54,450)</b>	(66,363)
Net increase/(decrease) in cash & cash equivalents											<b>180,783</b>	46,040

Figures in brackets indicate outflows.

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.

## 2. OTHER INCOME

	Consolidated		Company	
	2007/08	2006/07	2007/08	2006/07
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Gain on disposal of property, plant & equipment	<b>10,685</b>	6,293	<b>10,709</b>	6,256
Sundry income	<b>27,215</b>	13,575	<b>25,095</b>	14,453
Reversal of provision for slow moving inventories	<b>–</b>	8,197	<b>–</b>	8,443
	<b>37,900</b>	28,065	<b>35,804</b>	29,152

# NOTES TO THE FINANCIAL STATEMENTS

## 3. NET FINANCE COST

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
<b>Finance Income</b>				
Dividend income	1,913	1,934	1,913	1,934
Interest income	637	383	354	303
	2,550	2,317	2,267	2,237
<b>Finance Costs</b>				
Interest on long-term borrowings	(67,915)	(58,925)	(67,915)	(58,925)
Interest on short-term borrowings	(446,835)	(389,613)	(392,938)	(357,385)
Interest on finance lease	(3,073)	(2,388)	(3,073)	(2,388)
Net loss on translation of foreign currency	(2,870)	(13,568)	(8,240)	(16,407)
	(520,693)	(464,494)	(472,166)	(435,105)
<b>Net finance cost</b>	<b>(518,143)</b>	<b>(462,177)</b>	<b>(469,899)</b>	<b>(432,868)</b>

## 4. SHARE OF PROFIT OF EQUITY ACCOUNTED INVESTEE - NET OF TAX

	Consolidated	
	2007/08 Rs. '000	2006/07 Rs. '000
<b>Browns Dimo Industrial Products (Pvt) Ltd.</b>		
Net profit before tax	3,682	2,735
Less: Taxation	(400)	(77)
<b>Share of Profit - Net of Tax</b>	<b>3,282</b>	<b>2,658</b>

## 5. PROFIT BEFORE TAXATION

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
<b>5.1 Profit before tax is stated after charging/(crediting) all expenses/income including the following:</b>				
Directors' emoluments	39,123	31,926	36,611	30,403
Auditor's Remuneration				
- Audit fee	1,180	950	950	780
- Audit related services	145	—	145	—
- Non-Audit service	766	146	537	101
Depreciation on property, plant & equipment	84,244	62,957	77,029	58,619
Amortisation of leasehold property & intangible assets	139	80	139	80
Amortisation of deferred income	(1,996)	(2,284)	(1,996)	(2,284)
Legal fees	13,251	16,659	12,625	12,874
Provision/(reversal) of bad & doubtful debts	6,194	1,630	2,466	1,897
Provision/(reversal) of slow moving inventories	9,548	(8,197)	7,365	(8,443)
Donations	628	674	628	674
Staff expenses (Note 5.2)	573,195	432,159	512,136	385,090

# NOTES TO THE FINANCIAL STATEMENTS

## 5.2 Staff Expenses

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
Defined contribution plan costs (EPF & ETF)	53,222	43,453	46,769	38,614
Defined benefit plan costs (Retiring gratuity)	27,996	20,008	27,168	19,349
Other staff costs	491,977	368,698	438,199	327,127
	<b>573,195</b>	<b>432,159</b>	<b>512,136</b>	<b>385,090</b>
Average number of employees for the year	865	820	761	728

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.

## 6. INCOME TAX EXPENSE

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
<b>Current Tax Expense</b>				
Current year				
- Company	123,646	189,780	123,646	189,780
- Subsidiaries	5,427	16,530	–	–
	<b>129,073</b>	<b>206,310</b>	<b>123,646</b>	<b>189,780</b>
Under provision in respect of previous year	–	8,706	–	7,115
	<b>129,073</b>	<b>215,016</b>	<b>123,646</b>	<b>196,895</b>
<b>Deferred Tax Expense</b>				
Origination/(Reversal) of temporary difference	10,278	(3,975)	9,663	(3,289)
<b>Income tax expense in Income Statement</b>	<b>139,351</b>	<b>211,041</b>	<b>133,309</b>	<b>193,606</b>

### 6.1 Reconciliation of Accounting Profit to Income Tax Expense

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
Profit before taxation	344,444	512,818	327,978	475,634
Share of profit of equity accounted investee	(3,282)	(2,658)	–	–
Tax loss for the year	3,476	5,911	–	–
Disallowable expenses	149,277	159,871	142,251	148,534
Capital allowances	(112,431)	(68,288)	(104,175)	(60,685)
Allowable expenses	(8,989)	(17,619)	(8,909)	(15,346)
Income not liable to tax	(3,908)	(2,825)	(3,908)	(2,745)
<b>Statutory Income</b>	<b>368,587</b>	<b>587,210</b>	<b>353,237</b>	<b>545,392</b>
Tax losses utilised during the period	–	–	–	–
<b>Taxable profit</b>	<b>368,587</b>	<b>587,210</b>	<b>353,237</b>	<b>545,392</b>
Statutory tax rate				
Tax at 15%	908	830	908	830
Tax at 35%	126,887	203,417	121,514	187,052
Social Responsibility Levy (SRL)	1,278	2,063	1,224	1,898
<b>Current tax expense</b>	<b>129,073</b>	<b>206,310</b>	<b>123,646</b>	<b>189,780</b>
<b>Tax Losses</b>				
At the beginning of the year	5,967	56	–	–
For the year	3,476	5,911	–	–
Utilised during the year	–	–	–	–
At the end of the year	<b>9,443</b>	<b>5,967</b>	<b>–</b>	<b>–</b>

The income tax has been computed in accordance with the Inland Revenue Act No. 10 of 2006.

The Companies within the Group are liable to income tax at 35%. The tax on export profit is 15%.

Social responsibility levy is 1% of the income tax charge for the year.

# NOTES TO THE FINANCIAL STATEMENTS

## 7. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to the ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

	Consolidated		Company	
	2007/08	2006/07	2007/08	2006/07
Profit attributable to ordinary shareholders (Rs. '000)	<b>205,093</b>	301,777	<b>194,669</b>	282,028
Weighted average number of ordinary shares (i)	<b>12,100,000</b>	11,715,000	<b>12,100,000</b>	11,715,000
<b>Basic earnings per ordinary share (Rs.)</b>	<b>16.95</b>	25.76	<b>16.09</b>	24.07
<b>Diluted earnings per ordinary share (Rs.)</b>	<b>16.95</b>	25.76	<b>16.09</b>	24.07
(i) Qualifying ordinary shares at the beginning of the year	<b>12,100,000</b>	10,000,000	<b>12,100,000</b>	10,000,000
Effect of shares issued during the year				
Scrip issue	–	1,000,000	–	1,000,000
Rights issue	–	715,000	–	715,000
Weighted average number of ordinary shares at the year end	<b>12,100,000</b>	11,715,000	<b>12,100,000</b>	11,715,000

There were no potentially dilutive ordinary shares outstanding at any time during the year/previous year.

## 8. DIVIDENDS

	2007/08 Rs. '000	Company 2006/07 Rs. '000
Interim - Rs. 1.50/- per share (2006/2007 - Rs. 3/-)	<b>18,150</b>	33,300
Final - Rs. 2.50/- per share (2006/2007 - Rs. 3/-)	<b>30,250</b>	36,300
	<b>48,400</b>	69,600
Dividends per share (Rs.)	<b>4.00</b>	6.00

Directors have approved the payment of a final dividend of Rs. 2.50/- per share for the year ended 31st March 2008, (2006/2007 - Rs. 3/- per share), at a meeting of the Board of Directors held on 9th May 2008. The Articles of the Company does not require that shareholders approve payment of the final dividend. In accordance with the SLAS 12 (Revised 2005), on Events after the Balance Sheet date, the approved dividend is not recognised as a liability in the Financial Statements as at the reporting date.

# NOTES TO THE FINANCIAL STATEMENTS

## 9. PROPERTY, PLANT & EQUIPMENT

	Freehold Land	Buildings & Premises	Plant & Machinery	Tools & Implements	Freehold Motor Vehicles	Leased Motor Vehicles	Computer Hardware & Software	Electrical Fixtures, Fittings, & Office Equipment	<b>Total</b> <b>31.03.08</b>	Total 31.03.07
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	<b>Rs. '000</b>	Rs. '000
<b>a) CONSOLIDATED</b>										
<b>Cost or Valuation</b>										
Balance at the beginning	460,241	232,508	152,812	91,918	159,294	–	92,901	122,365	<b>1,312,039</b>	1,080,039
Additions	89,958	340,628	25,215	24,340	38,393	6,825	7,825	21,299	<b>554,483</b>	305,542
Disposals	–	–	(2,069)	(73)	(28,861)	–	(2,654)	(1,832)	<b>(35,489)</b>	(73,542)
<b>Balance at year end</b>	<b>550,199</b>	<b>573,136</b>	<b>175,958</b>	<b>116,185</b>	<b>168,826</b>	<b>6,825</b>	<b>98,072</b>	<b>141,832</b>	<b>1,831,033</b>	1,312,039
<b>Depreciation</b>										
Balance at the beginning	–	41,889	59,092	71,454	71,957	–	59,159	72,116	<b>375,667</b>	370,894
Charge for the year	–	9,413	11,922	10,388	30,294	2,116	12,830	7,281	<b>84,244</b>	62,957
On disposals	–	–	(1,473)	(26)	(16,074)	–	(2,384)	(793)	<b>(20,750)</b>	(58,184)
<b>Balance at year end</b>	<b>–</b>	<b>51,302</b>	<b>69,541</b>	<b>81,816</b>	<b>86,177</b>	<b>2,116</b>	<b>69,605</b>	<b>78,604</b>	<b>439,161</b>	375,667
Carrying amount at year end	550,199	521,834	106,417	34,369	82,649	4,709	28,467	63,228	<b>1,391,872</b>	936,372
<b>Capital work-in-progress</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>238</b>	3,518
<b>Carrying amount</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,392,110</b>	939,890
<b>b) COMPANY</b>										
<b>Cost or Valuation</b>										
Balance at the beginning	460,241	210,886	133,397	84,490	155,087	–	84,226	113,825	<b>1,242,152</b>	1,051,240
Additions	89,958	335,524	18,067	19,859	38,327	6,825	6,468	16,670	<b>531,698</b>	263,672
Disposals	–	–	(2,069)	(73)	(28,795)	–	(2,654)	(283)	<b>(33,874)</b>	(72,760)
<b>Balance at year end</b>	<b>550,199</b>	<b>546,410</b>	<b>149,395</b>	<b>104,276</b>	<b>164,619</b>	<b>6,825</b>	<b>88,040</b>	<b>130,212</b>	<b>1,739,976</b>	1,242,152
<b>Depreciation</b>										
Balance at the beginning	–	40,116	56,248	65,994	69,147	–	54,172	67,829	<b>353,506</b>	352,589
Charge for the year	–	8,762	10,259	8,546	29,838	2,116	10,987	6,521	<b>77,029</b>	58,619
On disposals	–	–	(1,473)	(26)	(16,008)	–	(2,384)	(181)	<b>(20,072)</b>	(57,702)
<b>Balance at year end</b>	<b>–</b>	<b>48,878</b>	<b>65,034</b>	<b>74,514</b>	<b>82,977</b>	<b>2,116</b>	<b>62,775</b>	<b>74,169</b>	<b>410,463</b>	353,506
Carrying amount at year end	550,199	497,532	84,361	29,762	81,642	4,709	25,265	56,043	<b>1,329,513</b>	888,646
<b>Capital work-in-progress</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>238</b>	3,518
<b>Carrying amount</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,329,751</b>	892,164

### Notes

- The value of the land owned by Diesel & Motor Engineering PLC at No. 65, Jetawana Road, Colombo 14, was assessed by a qualified valuer as at 20th August 2004. The valuation of land has been written up to correspond with the market value on the respective date. The purchase cost of the land stated as Rs. 346,432,000/- is Rs. 34,910,616/-.
- There are no tax implications or tax liabilities pertaining to revaluation of land stated in Note i above.
- The property acquired at Kirindiwela Road, Weliweriya for Rs. 400 mn was financed through a long-term loan and was pledged as security for same.
- Group property, plant & equipment with cost of Rs. 241 mn (2006/07- Rs. 227 mn) have been fully depreciated and continue to be use by the Group. The cost of fully depreciated assets of the Company amounts to Rs. 227 mn (2006/07 Rs. 215 mn).
- There has been no permanent fall in the value of property, plant & equipment which require a provision.



# NOTES TO THE FINANCIAL STATEMENTS

## 10. LEASEHOLD PROPERTY

	Consolidated		Company	
	2007/08	2006/07	2007/08	2006/07
<b>Cost</b>				
Balance at the beginning	2,400	2,400	2,400	2,400
Additions	–	–	–	–
Balance at year end	2,400	2,400	2,400	2,400
<b>Amortisation</b>				
Balance at the beginning	800	720	800	720
Amortisation for the year	80	80	80	80
Balance at year end	880	800	880	800
Carrying amount at year end	1,520	1,600	1,520	1,600

The leasehold land situated at Anuradhapura is on a 30 year lease and expires in 2026.

## 11. INTANGIBLE ASSETS

	Consolidated		Company	
	2007/08	2006/07	2007/08	2006/07
<b>Cost</b>				
Balance at the beginning	–	–	–	–
Additions	2,808	–	2,808	–
Disposals	–	–	–	–
Balance at the year end	2,808	–	2,808	–
<b>Amortisation</b>				
Balance at the beginning	–	–	–	–
Amortisation for the year	59	–	59	–
On disposals	–	–	–	–
Balance at the year end	59	–	59	–
Carrying amount at year end	2,749	–	2,749	–

## 12. INVESTMENTS IN SUBSIDIARIES

	Group Interest %	2007/08 Rs. '000	Company 2006/07 Rs. '000
<b>Unquoted</b>			
Dimo (Pvt) Ltd. - 25,000 ordinary shares	100	250	250
Dimo Industries (Pvt) Ltd. - 500 ordinary shares	100	50	50
Dimo Travels (Pvt) Ltd. - 500 ordinary shares	100	50	50
		350	350

In the opinion of the Directors, the net realisable value of the unquoted investments are higher than their cost.

The principal activities of the subsidiaries are given on page 96.

# NOTES TO THE FINANCIAL STATEMENTS

## 13. INVESTMENTS IN JOINT VENTURE

	Group Interest %	2007/08 Rs. '000	Company 2006/07 Rs. '000
DIMO-KLN Industries (Pvt) Ltd.	50	6,000	6,000
		6,000	6,000

The Company formed a joint venture in collaboration with KLN Engineering Products (Pvt) Ltd. to manufacture filters for automobiles. The Company commenced its commercial operation in August 2007.

## 14. INVESTMENT IN EQUITY ACCOUNTED INVESTEE

	Group Interest %	Consolidated 2007/08 Rs. '000	2006/07 Rs. '000	Company 2007/08 Rs. '000	2006/07 Rs. '000
<b>Unquoted</b>					
Browns Dimo Industrial Products (Pvt) Ltd.					
675,000 ordinary shares	45	6,750	6,750	6,750	6,750
Group share of net assets		18,261	14,979	–	–
<b>Group investment in associate (equity basis)</b>		<b>25,011</b>	<b>21,729</b>	<b>6,750</b>	<b>6,750</b>

The principal activity of the Company is given on page 96.

Summarised financial information of equity accounted investee and jointly controlled entity is as follows:

	Equity Accounted Investee 2007/08 Rs. '000	2006/07 Rs. '000	Jointly Controlled Entity 2007/08 Rs. '000	2006/07 Rs. '000
Revenue	78,666	65,156	1,882	–
Profit before tax	8,182	6,078	(5,616)	(3,322)
Profit after tax	7,293	5,907	(5,616)	(3,322)
Non-current assets	7,601	7,705	6,035	3,157
Current assets	70,704	49,756	5,666	3,733
	<b>78,305</b>	<b>57,461</b>	<b>11,701</b>	<b>6,890</b>
Equity	55,580	48,287	3,061	6,291
Non-current liabilities	13,661	1,464	–	–
Current liabilities	9,064	7,710	8,640	599
	<b>78,305</b>	<b>57,461</b>	<b>11,701</b>	<b>6,890</b>

## 15. OTHER LONG-TERM INVESTMENTS

	Consolidated 2007/08 Rs. '000	2006/07 Rs. '000	Company 2007/08 Rs. '000	2006/07 Rs. '000
<b>Quoted</b>				
Hunas Falls Hotels PLC - 900 ordinary shares (31.03.07 - 900) (Market value as at 31.03.08 - Rs. 24,750/-)	14	14	7	7
Hatton National Bank PLC - 10,000 non-voting ordinary shares (31.03.07 - 10,000) (Market value as at 31.03.08 - Rs. 512,500/-)	700	700	700	700
Hayleys PLC - Rs. 539,599 ordinary shares (31.03.07 - 539,599) (Market value as at 31.03.08 - Rs. 52,745,802/-)	40,964	40,964	40,964	40,964
	<b>41,678</b>	<b>41,678</b>	<b>41,671</b>	<b>41,671</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 16. INVENTORIES

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
Stock in trade & work-in-progress	1,772,770	2,126,870	1,699,851	2,038,586
Provision for slow moving inventories	(49,998)	(40,450)	(43,437)	(36,072)
	1,722,772	2,086,420	1,656,414	2,002,514
Goods-in-transit	467,034	10,708	467,034	3,168
	2,189,806	2,097,128	2,123,448	2,005,682

## 17. TRADE AND OTHER RECEIVABLES

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
Trade receivables	2,114,613	1,668,726	1,888,605	1,388,775
Provision for bad debts	(82,051)	(75,857)	(53,419)	(50,953)
	2,032,562	1,592,869	1,835,186	1,337,822
Deposits against imports	667	215,750	667	214,260
Deposits and pre-payments	51,129	72,322	33,598	59,870
National Security Levy recoverable	11,930	11,930	11,294	11,294
Other-trade receivables	17,100	24,279	14,690	16,233
Loans to employees	3,927	2,594	3,720	2,344
	2,117,315	1,919,744	1,899,155	1,641,823

## 18. CASH & CASH EQUIVALENTS

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
Bank balances	45,808	171,331	44,215	170,512
Cash in hand	5,414	5,059	5,239	5,009
Cash & cash equivalents	51,222	176,390	49,454	175,521

## 19. STATED CAPITAL

In accordance with Section 58 of the Companies Act No. 07 of 2007, which became effective from 3rd May 2007 share capital and share premium have been re-classified as stated capital.

Voting Ordinary Shares	Consolidated/Company		2006/07	
	No. of Shares	2007/08 Rs. '000	No. of Shares	Rs. '000
<b>Issued and fully paid ordinary shares</b>				
Balance at the beginning of the year	12,100,000	121,000	10,000,000	100,000
Bonus Issue during the year	—	—	1,000,000	10,000
Right Issue during the year	—	—	1,100,000	11,000
<b>Balance at the end of the year</b>	<b>12,100,000</b>	<b>121,000</b>	<b>12,100,000</b>	<b>121,000</b>
<b>Share Premium</b>				
		2007/08 Rs. '000		2006/07 Rs. '000
Balance at the beginning of the year		61,500		27,500
Utilised for bonus issue during the year		—		(10,000)
Increase due to right issue during the year		—		44,000
<b>Balance at the end of the year</b>		<b>61,500</b>		<b>61,500</b>
<b>Stated Capital at the end of the year</b>	<b>12,100,000</b>	<b>182,500</b>		<b>—</b>

# NOTES TO THE FINANCIAL STATEMENTS

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at Annual General Meetings of the Company.

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
<b>19.1 Revaluation Reserve</b>				
Reserve on revaluation of land	311,522	311,522	311,522	311,522

This represents the increase in fair value of the property situated at 65, Jetawana Road, Colombo - 14. This property was last revalued in August 2004.

<b>19.2 General Reserves</b>	<b>1,163,129</b>	1,012,486	<b>1,021,007</b>	880,788
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The General Reserves represents reserves available for distribution.

## 20. LONG-TERM INTEREST-BEARING LOANS AND BORROWINGS

Non-current portion of the interest bearing loans and borrowings:

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
<b>Term Loan (20.1)</b>	<b>547,210</b>	334,032	<b>547,210</b>	334,032
<b>Finance lease obligations (20.2)</b>	<b>6,966</b>	11,514	<b>6,966</b>	11,514
	<b>554,176</b>	345,546	<b>554,176</b>	345,546

Current portion of the interest bearing loans and borrowings:

<b>Term Loan (20.1)</b>	<b>183,492</b>	143,533	<b>183,492</b>	143,533
<b>Finance lease obligations (20.2)</b>	<b>10,047</b>	14,999	<b>10,047</b>	14,999
	<b>193,539</b>	158,532	<b>193,539</b>	158,532

### 20.1 Term Loan

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
<b>Non-Current</b>				
At the beginning of the year	477,565	495,800	477,565	495,800
Loans obtained				
Unsecured	–	117,670	–	117,670
Secured	400,000	–	400,000	–
	877,565	613,470	877,565	613,470
Repayments during the year	(146,863)	(135,905)	(146,863)	(135,905)
At the end of the year	730,702	477,565	730,702	477,565
Transferred to current liabilities (repayable within one year)	183,492	143,533	183,492	143,533
<b>Long-term portion of long-term loan</b>	<b>547,210</b>	334,032	<b>547,210</b>	334,032

# NOTES TO THE FINANCIAL STATEMENTS

Analysis of loans is as follows:

	Interest Rate	Amount granted Rs. '000	Within 1 year Rs. '000	2-5 years Rs. '000	Over 5 years Rs. '000	31.03.08 Rs. '000	31.03.07 Rs. '000
<b>LENDER</b>							
Sampath Bank PLC	AWPLR	150,000	30,000	15,000	–	<b>45,000</b>	75,000
Commercial Bank PLC	AWPLR	350,000	69,600	89,000	–	<b>158,600</b>	228,200
	AWPLR+2%	400,000	39,960	160,030	196,680	<b>396,670</b>	–
Hatton National Bank PLC	AWPLR	217,670	43,932	86,500	–	<b>130,432</b>	174,365
		<b>1,117,670</b>	<b>183,492</b>	<b>350,530</b>	<b>196,680</b>	<b>730,702</b>	<b>477,565</b>

The property at Weliveriya was pledged against the loan of Rs. 400 mn obtained during the year.

## 20.2 Finance Lease Obligations

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
Gross liability - at the beginning of the year	<b>31,414</b>	–	<b>31,414</b>	–
Obtained during the year	<b>10,052</b>	51,274	<b>10,052</b>	51,274
Repayments during the year	<b>(19,398)</b>	(19,860)	<b>(19,398)</b>	(19,860)
Gross liability - at the end of the year	<b>22,068</b>	31,414	<b>22,068</b>	31,414
Finance charges unamortised	<b>(5,055)</b>	(4,901)	<b>(5,055)</b>	(4,901)
Net liability - at the end of the year	<b>17,013</b>	26,513	<b>17,013</b>	26,513
Transferred to current liabilities (repayable within one year)	<b>10,047</b>	14,999	<b>10,047</b>	14,999
Non-current portion of finance lease obligations	<b>6,966</b>	11,514	<b>6,966</b>	11,514

Analysis of finance lease obligations are as follows:

	Leased Amount Rs. '000	Within 1 year Rs. '000	1-2 years Rs. '000	2-5 years Rs. '000	31.03.08 Rs. '000	31.03.07 Rs. '000
<b>LESSOR</b>						
Central Finance						
Company PLC	1,523	381	317	–	<b>698</b>	–
Hatton National Bank PLC	8,493	1,699	1,699	3,291	<b>6,689</b>	–
People's Leasing						
Company Ltd.	16,271	3,438	2,025	–	<b>5,463</b>	17,499
Sampath Bank PLC	15,373	5,124	4,094	–	<b>9,218</b>	13,915
<b>Total</b>	<b>41,660</b>	<b>10,642</b>	<b>8,135</b>	<b>3,291</b>	<b>22,068</b>	<b>31,414</b>

## 21. DEFERRED TAX ASSETS & LIABILITIES

### 21.1 Deferred Tax Liabilities

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
Balance at the beginning of the year	<b>31,327</b>	34,616	<b>31,327</b>	34,616
Origination/(reversal) of deferred tax	<b>9,805</b>	(3,289)	<b>9,663</b>	(3,289)
Balance at the end of the year	<b>41,132</b>	31,327	<b>40,990</b>	31,327

# NOTES TO THE FINANCIAL STATEMENTS

## 21.2 Deferred Tax Assets

	Consolidated	
	2007/08 Rs. '000	2006/07 Rs. '000
Balance at the beginning of the year	473	(213)
Origination/reversal of deferred tax	(615)	686
Transfer to deferred tax liabilities	142	–
Balance at the end of the year	–	473

Unrecognised deferred tax asset resulting from tax losses carried forward amount to Rs. 3,305,147.

Deferred tax assets have not been recognised in respect of these items since it is not probable that future taxable profit will be available against which the Group can utilise the benefit therefrom.

## 22. DEFERRED INCOME

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
At the beginning of the year	3,218	932	3,218	932
Income deferred during the year	–	4,570	–	4,570
Amortised during the year	(1,996)	(2,284)	(1,996)	(2,284)
Balance at the end of the year	1,222	3,218	1,222	3,218

## 23. RETIREMENT BENEFIT OBLIGATIONS

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
<b>Provision for Retiring Gratuity</b>				
Balance at the beginning of the year	93,753	76,981	86,703	70,445
Charge for the year	27,996	20,008	27,168	19,349
Payments during the year	(5,986)	(3,236)	(5,741)	(3,091)
Balance at end of the year	115,763	93,753	108,130	86,703

## 24. TRADE AND OTHER PAYABLES

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
Trade payables	726,024	380,725	714,430	364,006
Advances received	85,375	33,258	85,375	33,258
Interest payable	8,738	1,070	8,738	1,070
Unclaimed dividend	1,980	2,284	1,980	2,284
VAT/Turnover tax payable	121,849	67,704	119,169	64,269
Other payables and accrued expenses	219,578	101,096	179,087	87,398
	1,163,544	586,137	1,108,779	552,285

# NOTES TO THE FINANCIAL STATEMENTS

## 25. INCOME TAX PAYABLE

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
At the beginning of the year	113,001	53,171	111,144	52,218
Current tax expense for the year - Note 6	129,073	215,016	123,646	196,895
	242,074	268,187	234,790	249,113
Tax paid during the year				
Economic Service Charge	62,987	46,202	60,000	44,609
Income Tax & SRL	138,862	108,984	124,818	93,360
	201,849	155,186	184,818	137,969
Income tax recoverable	9,747	—	—	—
Balance at end of the year	49,972	113,001	49,972	111,144

## 26. SHORT-TERM INTEREST BEARING BORROWINGS

	Consolidated		Company	
	2007/08 Rs. '000	2006/07 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000
Short-term bank loans	1,854,733	2,218,243	1,815,101	2,145,342
Bank overdrafts	199,926	142,367	187,394	130,391
	2,054,659	2,360,610	2,002,495	2,275,733

Unutilised bank facilities as at 31st March 2008 amounted to Rs. 3,321,103,197/- (2006/07 - Rs. 1,692,888,545/-).

Inventories & book debts amounting to Rs. 95,000,000/- are pledged as securities for short-term interest-bearing loans and borrowings.

## 27. COMMITMENTS & CONTINGENCIES

### 27.1 Capital Expenditure Commitments

Capital expenditure commitments as at 31st March 2008 amounted to Rs. 176,915/-.

### 27.2 Contingent Liabilities

#### Legal Claims

The claims for lawsuits filed against the Company as at 31st March 2008 amounts to Rs. 36.4 mn. Although there can be no assurance, the Directors believe, based on the information currently available, that the ultimate resolution of such legal procedures would not likely to have a material adverse effect on the results of operations, financial positions or liquidity. Accordingly, no provision for any liability has been made in these Financial Statements.

#### Guarantees

The contingent liability as at 31st March 2008 on guarantees given by Diesel & Motor Engineering PLC, in respect of bid bonds and performance bonds amounted to Rs. 320,522,967/- (2006/07 - Rs. 278,232,395/-).

## 28. RELATED PARTY DISCLOSURES

### Identity of the Related Parties

The Company has related party relationship with its subsidiaries, associates, joint venture, key management personnel and Hayleys PLC who hold 28% of the Company voting shares.

Transaction with related parties were made on the basis of the price in force with the non related parties.

The Company does not have any parent on its own.



# NOTES TO THE FINANCIAL STATEMENTS

## 28.1 Transactions with Subsidiaries, Associates & Joint Ventures

	Nature of Relationship	% of Share Holding	Nature of Transactions	Value of the Transactions Rs. '000	Balance as at 31st March <b>2008</b> Rs. '000	2007 Rs. '000
Dimo (Pvt) Ltd.	Subsidiary	100%	Sales Purchases Recovery of expenses	1,059 17,682 16,673	<b>62,259</b>	127,903
Dimo Industries (Pvt) Ltd.	Subsidiary	100%	Recovery of expenses	2,508	<b>47,738</b>	39,714
Dimo-KLN Industries (Pvt) Ltd.	Joint Venture	50%	Recovery of expenses	1,021	<b>3,879</b>	587
Receivables from subsidiaries and Joint Ventures					<b>113,876</b>	168,204
Dimo Travels (Pvt) Ltd.	Subsidiary	100%	Recovery of expenses	76	<b>392</b>	467
Amount payable to subsidiaries					392	467

Outstanding balances with Related Parties at balance sheet date are not secured .

The guarantees & letter of credit taken on behalf of Dimo (Pvt) Ltd. amounted to Rs. 72,249,201/-.

No provisions were made for bad and doubtful debts or write-off against any related parties.

## 28.2 Transactions with Key Management Personnel

Key management personnel comprise the members of the Board of Directors of the Company.

### (a) The compensation of Key Management Personnel are as follows:

For the year ending

	31.03.2008		31.03.2007	
	Executive Directors Rs. '000	Non-Executive Directors Rs. '000	Executive Directors Rs. '000	Non-Executive Directors Rs. '000
Short-term Employment benefit	<b>36,573</b>	<b>2,550</b>	30,164	1,762
Post Employment Benefit - provision for retiring gratuity	<b>4,313</b>	—	3,067	—

There are no long-term employment benefit, terminal benefit or share based payments made to the Directors during the year.

Executive directors are entitled for a structured incentive scheme which is linked to performance.

### (b) Loans to Key Management Personnel

No loans were given to key management personnel during the year.

### (c) Key Management Personnel Share holding of the Company

The shareholding of the key management personnel together with their close family members are disclosed on page 97 - Annual Report of the Board of Directors.

## 28.3 Transactions with Close Family Members

There were no transactions with the Close Family Members during the year.

## 29. EVENTS OCCURRING AFTER BALANCE SHEET DATE

No events have arisen since the Balance Sheet date which would require adjustment to or disclosure in the Financial Statements.

# TEN YEAR SUMMARY

Year ended 31st March	1999 Rs. '000	2000 Rs. '000	2001 Rs. '000	2002 Rs. '000	2003 Rs. '000	2004 Rs. '000	2005 Rs. '000	2006 Rs. '000	2007 Rs. '000	2008 Rs. '000
<b>Results</b>										
Group turnover	1,592,399	1,494,939	2,686,939	1,843,662	3,404,734	4,796,905	7,565,327	10,512,326	12,989,916	<b>12,687,289</b>
Profit before taxation	73,961	115,140	119,992	38,753	58,912	148,396	253,633	382,235	512,895	<b>344,444</b>
Taxation	(28,122)	(36,762)	(46,102)	(10,523)	(20,119)	(48,131)	(76,431)	(117,062)	(211,118)	<b>(139,351)</b>
Profit after taxation	45,839	78,378	73,890	28,230	38,793	100,265	177,202	265,173	301,777	<b>205,093</b>
<b>Capital Employed</b>										
Stated capital	—	—	—	—	—	—	—	—	—	<b>182,500</b>
Share capital	48,000	48,000	48,000	48,000	48,000	90,000	90,000	90,000	121,000	—
Share premium	19,500	19,500	19,500	19,500	19,500	37,500	37,500	37,500	61,500	—
Revaluation reserves	182,301	182,301	182,301	182,301	182,301	182,301	311,522	311,522	311,522	<b>311,522</b>
Revenue reserves	200,978	264,956	314,846	325,076	363,869	432,634	566,836	777,009	1,012,486	<b>1,163,129</b>
Shareholders' Funds	450,779	514,757	564,647	574,877	613,670	742,435	1,005,858	1,216,031	1,506,508	<b>1,657,151</b>
Total borrowings	368,851	407,561	458,146	596,514	866,946	958,049	1,608,915	2,796,158	2,864,688	<b>2,802,374</b>
<b>Net Capital Employed</b>	<b>819,630</b>	<b>922,318</b>	<b>1,022,793</b>	<b>1,171,391</b>	<b>1,480,616</b>	<b>1,700,484</b>	<b>2,614,773</b>	<b>4,012,189</b>	<b>4,371,196</b>	<b>4,459,525</b>
<b>Assets Employed</b>										
Non-current assets	454,933	454,940	480,468	517,030	528,826	559,752	734,720	775,323	1,005,370	<b>1,463,068</b>
Current assets	739,792	786,502	803,832	952,905	1,197,756	1,692,349	2,460,687	3,794,288	4,193,262	<b>4,368,090</b>
Deferred income	—	—	—	—	—	(1,995)	(1,441)	(932)	(3,218)	<b>(1,222)</b>
Total liabilities (excluding borrowings)	(375,095)	(319,124)	(261,507)	(298,544)	(245,966)	(549,622)	(579,193)	(556,490)	(824,218)	<b>(1,370,411)</b>
<b>Net Assets Employed</b>	<b>819,630</b>	<b>922,318</b>	<b>1,022,793</b>	<b>1,171,391</b>	<b>1,480,616</b>	<b>1,700,484</b>	<b>2,614,773</b>	<b>4,012,189</b>	<b>4,371,196</b>	<b>4,459,525</b>
<b>Net Cash Flow</b>										
from operating activities	20,714	87,912	88,131	(102,684)	(153,014)	(39,915)	(587,299)	(990,433)	383,134	<b>520,706</b>
from Investing activities	(11,542)	(15,746)	(53,658)	(56,104)	(57,827)	(75,584)	(97,584)	(91,474)	(287,636)	<b>(519,212)</b>
from Financing activities	(56,729)	(108,476)	(201,671)	(12,640)	(17,488)	26,434	92,125	305,800	(49,458)	<b>179,289</b>
<b>Net Cash Inflow/(Outflow)</b>	<b>(47,557)</b>	<b>(36,310)</b>	<b>(167,198)</b>	<b>(171,428)</b>	<b>(228,329)</b>	<b>(89,065)</b>	<b>(592,758)</b>	<b>(776,107)</b>	<b>46,040</b>	<b>180,783</b>
<b>Key Indicators</b>										
Earnings per share (Rs.)(*)(**)	3.97	6.79	6.40	2.44	3.36	8.68	15.34	22.96	25.76	<b>16.95</b>
Net assets per share (Rs.)	93.91	107.24	94.11	95.81	102.28	82.49	100.59	101.60	124.50	<b>136.95</b>
Market value per share (Rs.)	35.00	39.00	38.00	30.00	50.00	53.00	103.00	138.50	120.00	<b>88.75</b>
Return on average shareholders' equity (%)	11	16	14	5	7	15	20	24	22	<b>13</b>
Dividends (Rs.)	14,400	14,400	24,000	18,000	18,000	31,500	50,000	60,000	72,600	<b>48,400</b>
Dividends cover (time cover)	3	5	3	2	2	3	4	4	4	<b>4</b>
Price earnings ratio (times)	9	6	6	12	15	6	7	6	5	<b>5</b>
Dividend per share	3.00	3.00	4.00	3.00	3.00	3.50	5.00	6.00	6.00	<b>4.00</b>
Annual sales growth (%)	9	(6)	80	(31)	85	41	58	39	24	<b>(2)</b>
Current ratio (time)	1.39	1.18	1.24	1.16	1.16	1.20	1.24	1.33	1.30	<b>1.26</b>
Turnover to capital employed (times)	1.94	1.62	2.63	1.57	2.30	2.82	2.89	2.62	2.97	<b>2.84</b>

\* \*Scrip issue of one for every four shares held was made during the year 2000/01. Scrip issue of one for every nine shares held was made during the year 2004/05.  
Scrip issue of one for every ten shares was made during the year 2006/07.

\*\* Rights issue of one ordinary share for every two ordinary shares held was made in August 2003. Earning per share has been adjusted accordingly.

# SHARE INFORMATION

## 1. STOCK EXCHANGE LISTING

The issued ordinary shares of Diesel & Motor Engineering PLC, are listed with the Colombo Stock Exchange of Sri Lanka. The audited Consolidated Income Statements for the year ended 31st March 2008 and the audited Balance Sheets at that date have been submitted to the Colombo Stock Exchange within three months of the Balance Sheet date.

## 2. SHAREHOLDERS

The number of Shareholders as at 31st March 2008 was 1,224 (1,137 as at 31st March 2007).

Number of Shares held	Residents			Non-Residents			Total		
	No. of Share-holders	No. of Shares	%	No. of Share-holders	No. of Shares	%	No. of Share-holders	No. of Shares	%
0 - 500	846	96,064	0.79	12	2,307	0.02	858	98,371	0.81
501 - 1,000	110	79,902	0.66	4	3,029	0.03	114	82,931	0.69
1,001 - 5,000	157	319,427	2.64	7	13,012	0.11	164	332,439	2.75
5,001 - 10,000	22	159,738	1.32	1	5,500	0.05	23	165,238	1.37
10,001 - 20,000	12	162,074	1.34	1	12,222	0.1	13	174,296	1.44
20,001 - 30,000	6	140,131	1.16	—	—	—	6	140,131	1.16
30,001 - 40,000	7	244,551	2.02	1	31,649	0.26	8	276,200	2.28
40,001 - 50,000	9	348,448	2.88	—	—	—	9	348,448	2.88
50,001 - 100,000	9	668,356	5.52	—	—	—	9	668,356	5.52
100,001 - 1,000,000	17	5,105,553	42.19	1	114,759	0.95	18	5,220,312	43.14
1,000,001 & Over	2	4,593,278	37.96	—	—	—	2	4,593,278	37.96
<b>Total</b>	<b>1,197</b>	<b>11,917,522</b>	<b>98.48</b>	<b>27</b>	<b>182,478</b>	<b>1.52</b>	<b>1,224</b>	<b>12,100,000</b>	<b>100.00</b>

Over 98% of the shares issued is held by residents of Sri Lanka.

Categories of Shareholders	31st March 2008			31st March 2007		
	No. of Share-holders	No. of Shares	%	No. of Share-holders	No. of Shares	%
Individuals	<b>1,138</b>	<b>6,890,686</b>	<b>56.95</b>	818	5,746,734	57.47
Institutions	<b>86</b>	<b>5,209,314</b>	<b>43.05</b>	69	4,253,266	42.53
<b>Total</b>	<b>1,224</b>	<b>12,100,000</b>	<b>100.00</b>	887	10,000,000	100.00

## 3. MARKET VALUE OF SHARES

The market value of an ordinary share of Diesel & Motor Engineering PLC, as at 31st March 2008 was Rs. 88.75 (Rs. 120.00 as at 31st March 2007).

## 4. DIVIDEND PAYMENTS

	<b>2008</b> Rs. mn	2007 Rs. mn
Interim dividend - Rs. 1.50 per share (Rs. 3.00 per share 2007)	<b>18.15</b>	36
Final dividend - Rs. 2.50 per share (Rs. 3.00 per share 2007)	<b>30.25</b>	36
Final dividend was approved by the Directors on 9th May 2008		
Final dividend payable on 27th June 2008		

# SHARE INFORMATION

## 5. SHARE TRADING INFORMATION FROM 1ST APRIL TO 31ST MARCH

	2008	2007	2006	2005
Highest (Rs.)	<b>125.00</b> (April 16,2007) (April 19,2007) (April 21,2007)	155.00 (Jun. 20, 2006)	153.00 (Feb. 6, 2006)	150.00 (Jan. 4, 2005)
Lowest (Rs.)	<b>78.00</b> (Dec. 28,2007)	100.00 (Dec. 29, 2006)	102.25 (Jan. 5, 2006)	50.00 (Apr. 6, 2004)
No. of transactions	<b>602</b>	902	2,241	1,536
No. of shares traded (Rs.)	<b>319,000</b>	400,000	1,249,300	728,000
Value of shares traded (Rs.)	<b>30,051,050</b>	50,471,950	163,854,550	66,423,875
No. of days traded	<b>162</b>	197	213	174
No. of market days	<b>239</b>	240	241	234
Liquidity (%)	<b>2.64</b>	3.31	12.49	7.28
CSE All Share Price Index	<b>2,550.5</b>	2,789.8	2,264.40	1,751.88
Milanka Price Index	<b>3,181.3</b>	3,837.6	2,877.70	2,392.19
Motor Sector	<b>2,873.2</b>	3,360.9	2,067.30	1,153.75

## 6. PUBLIC SHAREHOLDING

Number of Shares	<b>5,318,912</b>	5,302,892	3,388,464	3,373,364
%	<b>43.96</b>	43.83	33.88	33.73

## 7. HISTORY OF SHARE ISSUES

Year	Issue	No. of Shares	Price
2006/07	Rights (one share per every ten shares held)	1,100,000	Rs. 55.00
2006/07	Scrip (one share per every ten shares held)	1,000,000	Nil
2004/05	Scrip (one share per every nine shares held)	1,000,000	Nil
2003/04	Rights (one share per every two shares held)	3,000,000	Rs. 20.00
2000/01	Scrip (one share per every four shares held)	1,200,000	Nil
1995/96	Scrip (one share per every three shares held)	1,200,000	Nil
1994/95	Scrip (one share per every five shares held)	600,000	Nil
1992/93	Rights (one share per every five shares held)	500,000	Rs. 75.00
1991/92	Rights (one share per every three shares held)	500,000	Rs. 30.00
1991/92	Scrip (one share per every four shares held)	500,000	Nil
1989/90	Rights (one share per every two shares held)	500,000	Rs. 10.00
1987/88	Scrip (one share per every share held)	500,000	Nil
1980/81	Scrip (one share per every share held)	250,000	Nil

## 8. CHANGES IN SHAREHOLDINGS OF DIRECTORS AND THEIR SPOUSES DURING 2007/08

Name	As at 31.03.07	Movement	As at 31.03.08	%
A.R. Pandithage	1,874,661	7,434	<b>1,882,095</b>	15.55
A.N. Algama	187,455	(16,700)	<b>170,755</b>	1.41
S.C. Algama	399,134	–	<b>399,134</b>	3.30
A.G. Pandithage	383,545	–	<b>383,545</b>	3.17
A.M. Pandithage	219,778	–	<b>219,778</b>	1.82
T.G.H. Peries	334,924	(6,754)	<b>328,170</b>	2.71
	<b>3,399,497</b>	<b>(16,020)</b>	<b>3,383,477</b>	<b>27.96</b>

# SHARE INFORMATION

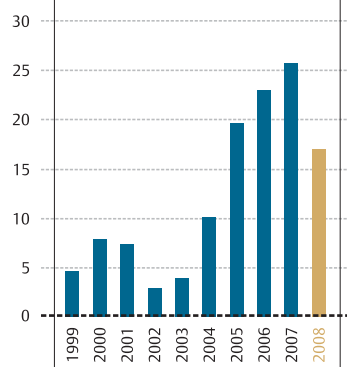
## 9. MAJOR SHAREHOLDERS AS AT

31st March 2008			31st March 2007		
Name of Shareholder	Total Shares	%	Name of Shareholder	Total Shares	%
Hayleys PLC	<b>3,397,611</b>	<b>28.08</b>	Hayleys PLC	3,397,611	28.08
Thurston Investments Ltd.	<b>1,195,667</b>	<b>9.88</b>	Thurston Investments Ltd.	1,136,867	9.40
Mr. A.R. Pandithage	<b>971,798</b>	<b>8.03</b>	Mr. A.R. Pandithage	971,798	8.03
Mrs. J.C. Pandithage	<b>910,297</b>	<b>7.52</b>	Mrs. J.C. Pandithage	902,863	7.46
Mr. A.K. Pandithage	<b>417,640</b>	<b>3.45</b>	Mr. A.K. Pandithage	417,640	3.45
Mr. S.C. Algama	<b>392,278</b>	<b>3.24</b>	Mr. S.C. Algama	392,276	3.24
The Estate of the Late			The Estate of the Late		
Mrs. D.G. Pandithage	<b>352,249</b>	<b>2.91</b>	Mrs. D.G. Pandithage	352,249	2.91
Mr. A.G. Pandithage	<b>339,380</b>	<b>2.80</b>	Mr. A.G. Pandithage	339,380	2.80
Mr. K. Aloysius	<b>327,476</b>	<b>2.71</b>	Mr. K. Aloysius	327,476	2.71
Mr. T.G.H. Peries	<b>191,284</b>	<b>1.58</b>	Mr. T.G.H. Peries	198,038	1.64
Mr. A.M. Pandithage	<b>178,745</b>	<b>1.48</b>	Mr. A.N. Algama	187,455	1.55
Mr. A.N. Algama	<b>170,755</b>	<b>1.41</b>	Mr. A.M. Pandithage	178,745	1.48
The Estate of the Late			The Estate of the Late		
Mr. A.A.C.A. Algama	<b>164,376</b>	<b>1.36</b>	Mr. A.A.C.A. Algama	164,376	1.36
Dr. D. Jayantha	<b>154,100</b>	<b>1.27</b>	Dr. D. Jayantha	154,100	1.27
Mrs. M.S. Peries	<b>136,886</b>	<b>1.13</b>	Mrs. M.S. Peries	136,886	1.13
Mr. L.P. Algama	<b>131,931</b>	<b>1.09</b>	Mr. L.P. Algama	131,931	1.09
Mr. A.C. Pandithage	<b>109,632</b>	<b>0.91</b>	Mr. A.C. Pandithage	126,332	1.04
The Estate of the Late			The Estate of the Late		
Mr. N.U. Algama	<b>116,515</b>	<b>0.96</b>	Mr. N.U. Algama	116,515	0.96
Elgin Investments Ltd.	<b>114,759</b>	<b>0.95</b>	Elgin Investments Ltd.	114,759	0.95
JB Cocoshell (Pvt) Ltd.	<b>103,500</b>	<b>0.86</b>	JB Cocoshell (Pvt) Ltd.	103,500	0.86
	<b>9,876,879</b>	<b>81.62</b>		<b>9,850,797</b>	<b>81.41</b>

# SHARE INFORMATION

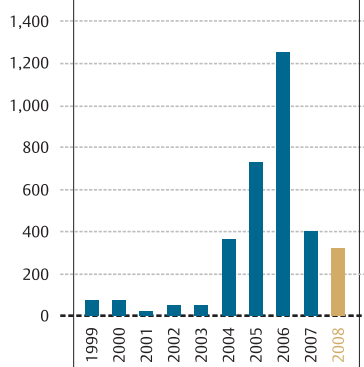
**Earnings per Share**

Rs.



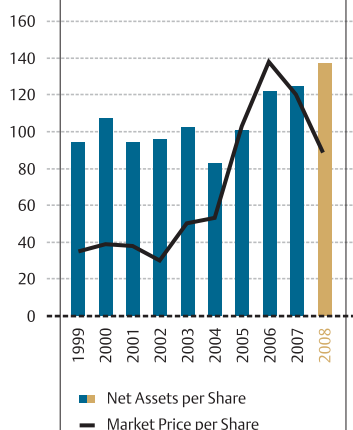
**Number of Shares Traded**

Nos. '000



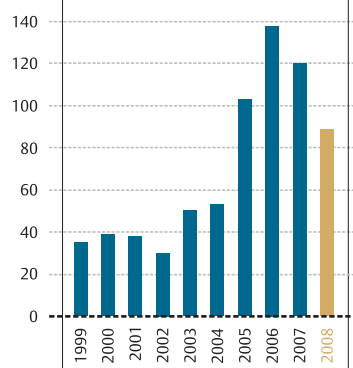
**Net Assets per Share vs. Market Price per Share**

Rs.



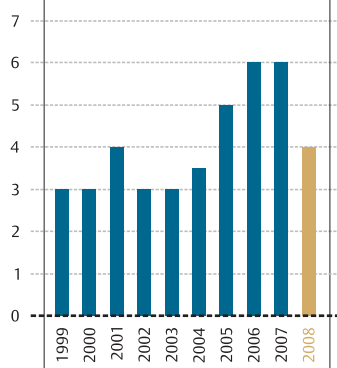
**Market Price per Share**

Rs.



**Dividend per Share**

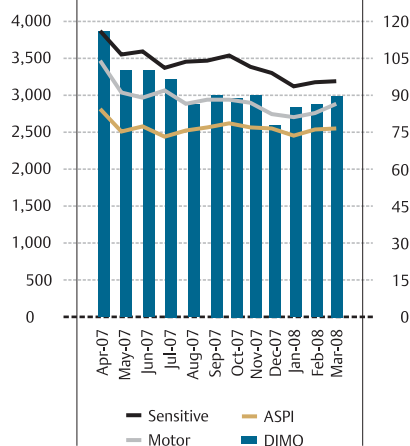
Rs.



**All Share, Sensitive Price & Motor Sector Index vs. DIMO Share Price**

Index

Rs.





# BRANCH NETWORK



Dimo continues to expand and enhance the branch network to ensure convenience to our customers.

1. Head Office -  
65, Jetawana Road, Colombo 14
2. TATA Light, Commercial Vehicle Showroom -  
61, Jetawana Road, Colombo 14
3. TATA Passenger Car Showroom and Workshop -  
467, Sirimavo Bandaranaike Mawatha, Colombo 14

4. Mercedes-Benz & Chrysler Showroom -  
378 - 385, R.A. De Mel Mawatha, Colombo 3
5. TATA Passenger Car Showroom -  
385 A, R.A. De Mel Mawatha, Colombo 3
6. Siyambalape Complex -  
135, Mahena Road, Siyambalape, Biyagama
7. Kurunegala Branch -  
27 A, Colombo Road, Malpitiya, Boyagane, Kurunegala

8. Dimeo Mart -  
50, 51, Jetawana Road, Colombo 14
9. Matara Branch -  
401, Kumaratunga Munidasa Mawatha, Pamburana, Matara
10. Commercial & Heavy Machinery Workshop -  
562/126, D.S. Senanayake Mawatha, Anuradhapura.
11. Dimeo Logistics Centre -  
Kirindaiwela Road, Weliweriya.
12. TATA Spare Parts Showroom -  
74, 74/1, Jetawana Road, Colombo 14



# HISTORICAL NOTE



Diesel & Motor Engineering PLC is probably the oldest sole distributor for Mercedes-Benz Passenger and Commercial Vehicles, in the Asian Region. In Sri Lanka, DIMO is colloquially known as the 'Benz Company'.

The Company was established in 1939 as a partnership by the late Messrs T.S. Peries, P.D. Alexander, C.A. Algama and H.A. Algama who were entrepreneurs in their own right, along with the late Mr. F.K. Heller.

Initially, the Company commenced operations with the staff of 29 and was only confined to automobile sales and servicing. In 1945, DIMO was incorporated as a Private Limited Liability Company.

In 1964, DIMO was converted into a Public Quoted Company by obtaining a listing at the Colombo Brokers' Association, as it was then known. Since its modest beginning, the Company has grown in size as well as in scope, and presently has a workforce of over 800. With almost seven decades of experience in the automobile and engineering industry the Company over the years has made a significant contribution towards the development of the transportation sector in Sri Lanka.

Dimo Industries Pvt Ltd. and Dimo Pvt Ltd., were incorporated as wholly owned subsidiaries in the early 70s. Dimo Industries Pvt Ltd., was established to

manufacture automobile parts, while Dimo Pvt Ltd., was for the sale and service of Telecommunications, Power Engineering and Medical Equipment.

In 1986, Hayleys Group acquired a stake in the equality capital making DIMO an Associate Company of it. Hayleys Group current holding is 28% of the equity. The present divisional organisational structure was introduced in 1987 to support and nurture the development of the Company and to institutionalise the corporate management process.

The Dimo automobile training school, which is the only one of its kind in the private sector was established in 1990 and sets a two-year course designed by the Mercedes-Benz, to international standards.

Dimo's portfolio consist of 'best in class' brands such as Daimler Chrysler, TATA, MTU, Bosch, Komatsu, Siemens, Michelin, Osram and Mahindra & Mahindra to name but a few.

In 1996, the Company relocated its after sales and service activities of commercial vehicles, construction machinery and power systems at Siyambalape, Biyagama which is about ten kilo metres away from Colombo city limits. The workshop complex is equipped with state-of-the-art machinery and equipment.

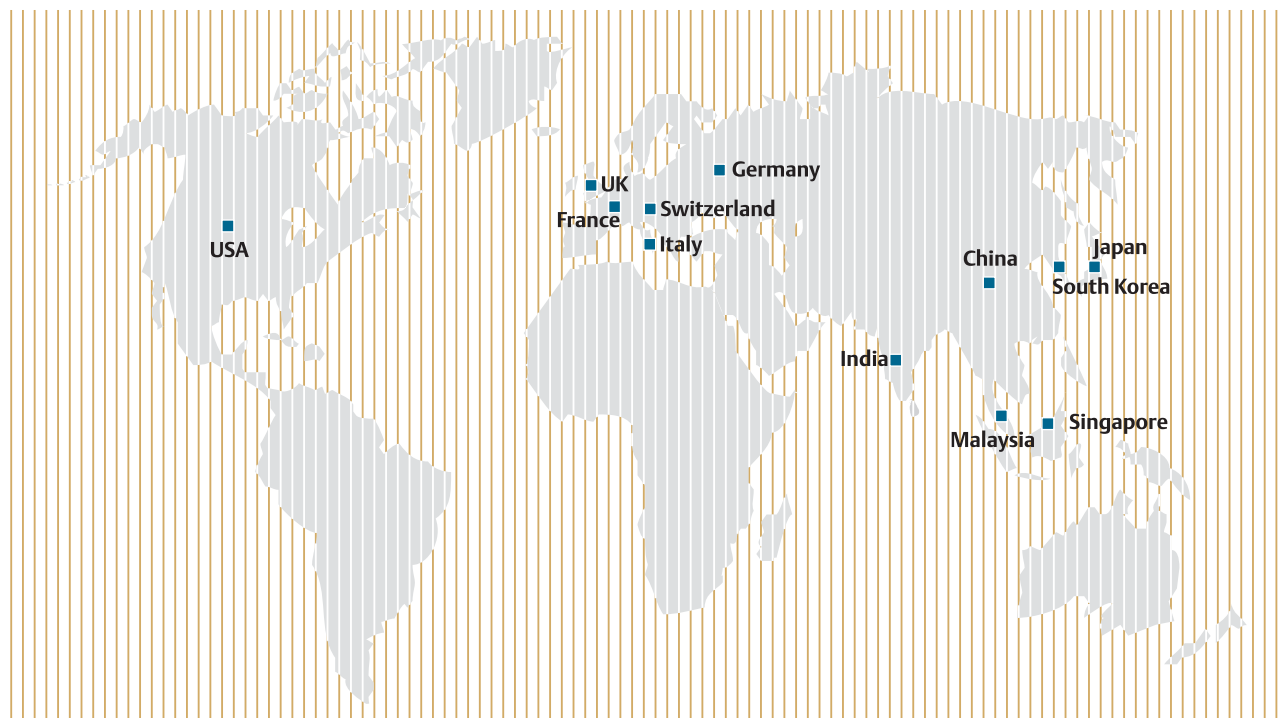
The Company continues to expand its branch network and presently has five showrooms within Colombo city limits and three outstation branches located at Anuradhapura, Kurunegala and Matara.

The Head office is conveniently and spaciouly remains located in an area of approximately 10,000 sq. metres in a central commercial sector in Colombo. The complex houses the Company's administrative and sales offices, passenger car and automotive workshops with its showrooms.

In 1998, Browns Dimo Industrial Products (Pvt) Ltd., was formed with Brown Group and DFCC Bank to undertake the activities of fabricating heat exchanges. During 2006, Company invested in Tyre rethreading and filter manufacturing ventures namely Dimo Industries Pvt Ltd. and Dimo KLN Industries Pvt Ltd. respectively. These factories were located in Homagama and Kandana.

The Company's logistic operation is being carried out from the property acquired at Weliveriya in Gampaha district in February 2008.

# KEY PRINCIPALS



## CHINA

Challenger Electronics  
Infinite Shanghai Communication  
Terminals Ltd.

## FRANCE

Carl Zeiss Meditec  
Michelin

## GERMANY

Blaupunkt Werke GmbH  
Bomag GmbH  
Carl Zeiss AG  
Daimler AG  
Draeger Medical  
Fischer Werke GmbH  
KHD Humboldt Wedag AG  
KSB AG  
Mannesmann Dematic AG  
OSRAM GmbH  
Robert Bosch Ew.  
Robert Bosch GmbH  
Siemens AG  
SiTeco Lighting (M) Sdn Bhd  
Tognam GmbH  
Vossloh-Schwabe GmbH

## INDIA

Bhagat Forge Ltd.  
Bimetal Bearings Ltd.  
Bosch Chassies Systems India Ltd.  
Bosch Ltd.  
Claas India Ltd.  
Eicher Dem (Eicher Motors Ltd.)  
Fenner (India) Ltd.  
Gabriel India Ltd.  
India Pistons Ltd.  
KLN Engineering Products (Pvt) Ltd.  
Luk India Pvt Ltd.  
Mahindra & Mahindra Ltd.  
MRF Ltd.  
Rane Brake Linings Ltd.  
Rane Engine Valves Ltd.  
Schwing Stetter  
Shardlow India Ltd.  
Sri Bhavan Castings Ltd.  
Tata Motors Ltd.  
Victor Gaskets India Ltd.

## ITALY

VM MOTORI S.P.A.

## JAPAN

Bosch Automotive Systems Corporation  
Komatsu Ltd.  
Zenoah

## MALAYSIA

Davex Engineering (M) SDN Bhd.  
PK Electronics  
SSI Schaefer Systems International Pte Ltd.

## SINGAPORE

Chrysler South East Asia Pte. Ltd  
Daimler Regional Logistic Centre  
Daimler South East Asia Ptd Ltd.  
John Deere Asia (Pvt) Ltd  
Johnson Controls  
Komatsu Asia & Pacific Pte Ltd  
Komatsu Forklift Asia Pte Ltd  
MTU Asia Pte Ltd  
Power Source International Pte. Ltd.

## SOUTH KOREA

Everdigm

## UK

Interpower International Ltd.  
Wartsila Seals & Bearing UK

## USA

BF Goodrich  
Snap-on Tools Private Limited

# KEY PRINCIPALS

## PRINCIPALS REPRESENTED AND DURATION OF RELATIONSHIP

Name	Country	Brands	No. of Years
Daimler AG	Germany	Mercedes-Benz	69
Robert Bosch GmbH	Germany	Bosch	54
KHD Humboldt Wedag AG	Germany	KHD	48
Siemens AG	Germany	Siemens	48
Tata Motors Ltd.	India	Tata	47
Komatsu Forklift Asia Pte Ltd.	Singapore	Komatsu	39
Komatsu Asia & Pacific Pte Ltd.	Singapore	Komatsu	39
KSB AG	Germany	KSB	39
Bosch Ltd.	India	Mico	39
Komatsu Ltd.	Japan	Komatsu	39
Johnson Controls	Singapore	York/Sabro/Stal/Frick/Gram	32
Bomag GmbH	Germany	Bomag	29
Mannesmann Dematic AG	Germany	Mannesmann	29
Bosch Automotive Systems Corporation	Japan	Zexel	24
Robert Bosch Ew.	Germany	Bosch	24
Carl Zeiss AG	Germany	Zeiss	23
MTU Asia Pte Ltd.	Singapore	Mtu/DDC	21
Tognum GmbH	Germany	Mtu/DDC	21
Mahindra & Mahindra Ltd.	India	Mahindra	18
Michelin	France	Michelin	15
OSRAM GmbH	Germany	OSRAM	14
Rane Brake Linings Ltd.	India	Rane	14
Blaupunkt Werke GmbH	Germany	Blaupunkt	13
Daimler South East Asia Ptd Ltd.	Singapore	Mercedes-Benz/Chrysler/Jeep	13
India Pistons Ltd.	India	IPL	13
Luk India Pvt Ltd.	India	LUK	13
KLN Engineering Products (Pvt) Ltd.	India	KLN	12
Shardlow India Ltd.	India	Shardlow	12
Fenner (India) Ltd.	India	Fenner/Pioneer	11
PK Electronics	Malaysia	PK	11
Rane Engine Valves Ltd.	India	EVL	11
Vossloh-Schwabe GmbH	Germany	VS	11
Bimetal Bearings Ltd.	India	Bimite	10
SiTeco Lighting (M) Sdn Bhd	Germany	SiTeco	9
BF Goodrich	USA	BF Goodrich	8
Infinite Shanghai Communication Terminals Ltd.	China	Siemens/Infinite	7
John Deere Asia (Pvt) Ltd.	Singapore	John Deere	7
MRF	India	MRF	7
Davex Engineering (M) SDN Bhd	Malaysia	Davis	6
Draeger Medical	Germany	Draeger	6
Interpower International Ltd.	UK	Interpower	6
Power Source International Pte. Ltd.	Singapore	Europower	6
SSI Schaefer Systems International Pte Ltd.	Malaysia	Schaefer	6
Claas India Ltd.	India	CLAAS	5
Daimler Regional Logistic Centre	Singapore	Mercedes-Benz/Chrysler/Jeep	5
Chrysler South East Asia Pte. Ltd	Singapore	Chrysler/Jeep	4
Everdigm	South Korea	Rhino	4
Zenoah	Japan	Zenoah	3
Schwing Stetter	India	Stetter	3
Gabriel India Ltd.	India	Gabriel	2
Carl Zeiss Meditec	France	Zeiss	2
Snap-on Tools Private Limited	USA	Hoffmann/JBC	2
Watsila Seals & Bearing UK	UK	Wartsila	2
Bhagat Forge Ltd.	India	Bhagat Forge	2
Bosch Chassies Systems India Ltd.	India	KBX	2
Eicher Dem (Eicher Motors Ltd.)	India	Eicher Dem	2
Sri Bhavan Castings Ltd.	India	SBP	2
Victor Gaskets India Ltd.	India	Victor	2
VM MOTORI S.P.A.	Italy	VM MOTORI	2
Fischer Werke GmbH	Germany	Fischer	2
Challenger Electronics	China	Challenger ( CLG )	Just commenced

# COUNTRY INFORMATION

## PHYSICAL FEATURES

Total area	65,610 Sq. K.M.
Land area	62,705 Sq. K.M.

Capital	Sri Jayawardenapura
Commercial Capital	Colombo

	2007	2006	2005	2004	2003
<b>DEMOGRAPHICS</b>					
Mid-year population (mn persons)	20	19.8	19.7	19.5	19.3
Labour force (mn persons)	7.4	7.5	8.1	8.0	7.6
Labour force participation rate (%)	49.8	51.2	48.3	48.6	48.9
Unemployment rate (% of labour force)	6	6.5	7.7	8.3	8.4

## KEY ECONOMIC INDICATORS

GDP at market prices (Rs. bn)	3,540	2,898	2,423	2,070	1,806
GDP per capita (US \$)	1,617	1,421	1,241	1,062	981
GDP growth (%)	6.8	7.7	6.2	5.4	5.9
Inflation rate (%)	17.5	13.7	11.6	7.6	6.33
Fiscal deficit (% of GDP)	(7.7)	(8)	(8.4)	(7.9)	(7.7)
Current account balance (% of GDP)	(4.2)	(5.3)	(2.7)	(3.1)	(0.4)
External assets (months of same year imports)	5.3	4.7	5.7	5.2	5.8
Overall debt service ratio (% of export of goods & services)	13	12.7	7.9	11.6	11.6
Total external debt & liabilities (% of GDP)	51.8	50.3	53.3	61.8	62.4

## INTEREST RATES

(percentage per annum at end-year)

Treasury bill rate					
91 days	21.3	12.76	10.10	7.25	7.35
364 days	19.96	12.96	10.37	7.65	7.24
Repurchase rate (overnight)	10.5	10	8.75	7.5	7
Reverse repurchase rate (overnight)	12	11.5	10.25	9	8.5

## Commercial Banks

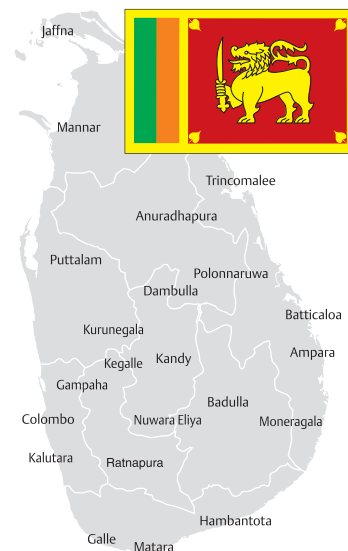
Weighted average - prime lending rate	17.95	15.19	12.2	10.2	9.3
Weighted average - deposit rate	10.31	7.6	6.2	5.3	5.3

## EXCHANGE RATES

Annual average Rs./US\$	110.62	103.96	100.5	101.19	96.52
End-year Rs./US\$	108.72	107.71	102.12	104.61	96.74

## CAPITAL MARKETS

All share price index	2,541	2,722.4	1,922.2	1,506.9	1,062.1
Sensitive price index	3,291.9	3,711.8	2,451.1	2,073.7	1,897.8
Value of shares traded (Rs. mn)	104,985	105,154	114,599	59,052	73,6577
Market capitalisation (Rs. bn)	820.7	834.8	584.0	382.1	262.8
Market capitalisation (% GDP)	29	30	25	19	15



## KEY SOCIAL INDICATORS

### Population & Vital Statistics

Age distribution (%) (2007)	
0-14 years	26.6%
15-64 years	67.0%
65 years & over	6.4%
Population density (2007)	319 persons per sq. km.
Crude birth rate (2007)	19.0 per 1000
Crude death rate (2007)	5.8 per 1000
Rate of natural increase (2006)	12.9 per 1000
Infant mortality rate (2004)	12.0 per 1000 live births
Dependency ratio (2003)	49.3%
Average household size (2006/07)	4.1

### EXPECTATION OF LIFE AT BIRTH (2004)

Male	71.7 years
Female	77.0 years

### LITERACY RATE (2003/04)

Overall	92.50%
Male	94.50%
Female	90.60%

### HUMAN DEVELOPMENT INDEX (2005)

Ranking among 177 countries	99
-----------------------------	----

### EMPLOYMENT (2007)

Agriculture	33.3%
Industry	26.6%
Service	41.1%

### POVERTY

Population below US \$ 1 a day (1990 - 2005)	5.6%
Population below US \$ 2 a day (1990 - 2005)	41.6%

# COUNTRY INFORMATION

## SECTORIAL COMPOSITION AND INCREASE IN GROSS DOMESTIC PRODUCT (GDP)

	As a Share of GDP (%)			Rate of Change (%)	
	2007	2006	2005	2007	2006
Agriculture Sector	6.00	10.30	17.20	3.30	6.30
Industrial Sector	31.60	29.70	27.00	7.60	8.10
Services Sector	62.40	60.00	55.80	7.70	7.70
Gross Domestic Product (GDP)	100.00	100.00	100.00	6.8	7.7

## PHYSICAL & SOCIAL INFRASTRUCTURE FACILITIES

	Unit	2005
<b>Water Supply &amp; Sanitation</b>		
Access to safe drinking water	per cent	84.8
Access to pipe borne water	per cent	32
<b>Electricity</b>		
Households with electricity	per cent	80
Per capita electricity consumption	kWh/person	414
<b>Communications</b>		
<b>Telephone Density</b>		
Fixed lines	per 100 persons	13.7
Including cellular phones	per 100 persons	53.6
Internet and e-mail	per 1,000 persons	10.1
<b>Public Health</b>		
Hospital beds	per 1,000 persons	3.3
Persons per doctor	Number	1,749
Nurses	per 10,000 persons	11
Government expenditure on health	per cent of GDP	1.9
<b>General Education</b>		
School density ( <i>area covered by a school</i> )	sq. km.	6
Pupil/teacher ratio ( <i>Government schools</i> )	Number	19
Age specific enrolment ratio ( <i>Age 5-19 years</i> )	per cent	71.5
<b>University Education</b>		
Pupil/teacher ratio	Number	15
Age specific enrolment ratio ( <i>Age 20-24 years</i> )	per cent	3.5
<b>Progression to University from GCE (A/L)</b>		
Eligibility for university admission	per cent	59.5
Admission as a percentage of eligibility	per cent	14.3
Government expenditure on education	per cent of GDP	2.6
<b>Banking</b>		
Total number of commercial banks	Number	23
Domestic banks	Number	11
Foreign banks	Number	12
ATMs	per 100,000 persons	7.1
Credit card issued	per 100,000 persons	4,447
<b>Banking Density</b>		
No. of bank branches	per 100,000 persons	9.7

Source: Central Bank Annual Report 2007 of Sri Lanka.

# COUNTRY INFORMATION

## KEY EXTERNAL

- Foreign Country Funds, Regional Funds and Mutual Funds approved by the Securities and Exchange Commission of Sri Lanka, Corporate bodies incorporated outside Sri Lanka and citizens of foreign states were permitted to purchase and hold rupee denominated Treasury Bonds up to a level of 10% of the total value of Treasury Bonds outstanding at any given point of time.
- Directions on Corporate Governance for Licensed banks were issued with a view to making Board of Directors responsible and accountable for the business of banks and to promote a robust risk management framework was introduced.
- The Government successfully launches its debut international bond issue for US dollars 500 mn which was oversubscribed by over three times.
- The Sovereign rating of Sri Lanka was for 2007 maintained at the same level as in the previous year. Fitch Rating assigned a long-term foreign and local currency rating of 'BB-' (BB minus), while Standard and Poor's (S&P) assigned a rating of 'B+' (B plus).

## The following proposals were made during the Government's Budget presented on 8th December 2007:

- Exempting new investment undertaking in the Eastern Province from income tax for a period of 5 years, if the investment is over Rs. 50 mn and providing employment opportunities to more than 50 persons
- Increasing ESC rate applicable on the sale of liquor and motor vehicles to 1% from 0.50%
- Before granting a tax holiday available under any of the Acts, approval from the Ministry of Finance and Planning has to be obtained
- SRL to be increased from 1% to 1.5%
- Excise Duty on Motor Vehicles to be amended by increasing Import Duty License Fees
- Excise duty on Petrol to be removed
- Regional Infrastructure Development Levy (RIDL) was revised to apply different rates based on cylinder capacity of the vehicles
- The 10% Cellular Phone Subscriber Levy to be extended to mobile wireless phones
- An Environmental Conservation Levy of Rs. 20/- per month is to be introduced for permanent household and businesses.

Sources: Central Bank of Sri Lanka Annual Reports/KMPG Budget Highlights

# GRI COMPLIANCE INDEX

	Section/Details	Page(s)
<b>1. STRATEGY AND ANALYSIS</b>		
CEO Statement	Chairman & CEO's Review Sustainability Report	6-9/45-70
<b>2. ORGANISATIONAL PROFILE</b>		
Name of the Organisation	Corporate Information	Inner back cover
Primary brands, products and/or services	Business Performance	16-36
Location of organisation's headquarters	Corporate Information	Inner back cover
Countries where the organisation operates	Not applicable	
Nature of ownership; legal form	Corporate Information	Inner back cover
Markets served	Business Performance	16-36
Scale of organisation	Group Structure	93
Significant changes during the reporting period	Business Performance	16-36
Awards received	Chairman's & CEO's Review	6-9
<b>3. REPORT PARAMETERS</b>		
Reporting period	31st March 2008	N/A
Date of most recent previous report	31st March 2007	N/A
Reporting cycle	Twelve Months	N/A
Point(s) of contact for the report	Sustainability Report	45-70
Report Scope and Boundary	Sustainability Report	45-70
Defining Report Content	Sustainability Report	45-70
External Assurance	Assurance Report on Sustainability Report	70
<b>4. GOVERNANCE, COMMITMENTS AND ENGAGEMENT</b>		
<b>Governance</b>		
Governance structure of the organisation	Enterprise Governance	71-81
Indicate whether Supervisory Board member is also an Executive Officer	Enterprise Governance	71-81
Independence of Board	Enterprise Governance	71-81
Mechanisms for shareholders to provide recommendations	Enterprise Governance	71-81
Performance-linked executive compensation	Remuneration Committee Report	91
Processes in place to ensure conflicts of interest are avoided	Enterprise Governance	71-81
Determination of expertise of board members	Enterprise Governance	71-81
Statements and implementation of mission or values, codes of conduct	Vision & Strategy/Sustainability Report	13
Risk management and internal controls for		
Supervisory Board (Management of Performance)	Enterprise Risk Management	84-88
Processes in place to evaluate the Supervisory Board (Evaluating the Performance)	Enterprise Governance	71-81



# GRI COMPLIANCE INDEX

	Section/Details	Page(s)
<b>Commitments to External Initiatives</b>		
Memberships in industry/business associations	<i>Not Reported</i>	
List of stakeholder groups engaged by the organisation	<i>Sustainability Report</i>	45-70
Approaches to stakeholder engagement	<i>Sustainability Report</i>	45-70
Key topics and concerns that have been raised	<i>Sustainability Report</i>	45-70
<b>5. ECONOMIC PERFORMANCE INDICATORS</b>		
Direct economic value generated and distributed	<i>Sustainability Report</i>	45-70
Financial implications due to climate change	<i>Not Applicable</i>	
Coverage of defined benefit plan obligations	<i>Notes to the Accounts</i>	124
Significant financial assistance received from government	<i>None</i>	
Infrastructure investments and services provided primarily for public benefit	<i>Sustainability Report</i>	45-70
Indirect Economic impacts	<i>Sustainability Report</i>	45-70
<b>6. ENVIRONMENTAL PERFORMANCE INDICATORS</b>		
Direct energy use by primary energy source	<i>Sustainability Report</i>	45-70
Energy saved due to conservation and efficiency improvements	<i>Sustainability Report</i>	
Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives	<i>Sustainability Report</i>	45-70
Total water withdrawal by source	<i>Sustainability Report</i>	45-70
Water sources significantly affected by withdrawal of water	<i>Sustainability Report</i>	45-70
Total water discharge by quality and destination	<i>Sustainability Report</i>	45-70
Total weight of waste by type and disposal method	<i>Sustainability Report</i>	45-70
Total number and volume of significant spills	<i>Sustainability Report</i>	45-70
Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	<i>Sustainability Report</i>	45-70
Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	<i>Not Applicable</i>	
Total environmental protection expenditures and investments by type	<i>Not Reported</i>	
<b>7. SOCIAL PERFORMANCE INDICATORS</b>		
<b>a) Labour Practices and Decent Work</b>		
Total workforce by employment type and employment contract	<i>Sustainability Report</i>	45-70
Minimum benefits	<i>Sustainability Report</i>	45-70
Occupational Health & Safety rates of injury, occupational diseases and number of work-related fatalities by region	<i>Sustainability Report</i>	45-70
Average hours of training per year	<i>Sustainability Report</i>	45-70
Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	<i>Sustainability Report</i>	45-70
Percentage of employees receiving regular performance and career development reviews	<i>Not Reported</i>	

# GRI COMPLIANCE INDEX

	Section/Details	Page(s)
<b>b) Human Rights</b>		
<b>Investment and Procurement Practices</b>		
Significant investment agreements that include human right clauses	<i>Not Reported</i>	
Total number of incidents of discrimination and action taken	<i>Nil</i>	
<b>Non-Discrimination</b>		
Number of incidents of discrimination	<i>Not Reported</i>	
Freedom of Association and Collective Bargaining	<i>Not Reported</i>	
<b>Child Labour</b>		
Operation identified as having a significant risk for accidents of child labour and measure taken to contribute to the elimination of child labour	<i>Sustainability Report</i>	45-70
Forced and Compulsory Labour	<i>Not Reported</i>	
Security Practices	<i>Not Reported</i>	
Indigenous Rights	<i>Nil</i>	
<b>c) Society</b>		
<b>Community</b>		
Programmes and policies to assess and manage the impact on communities	<i>Sustainability Report</i>	45-70
Corruption	<i>Not Reported</i>	
<b>Public Policy</b>		
Total value of financial and in-kind contributions to political parties, politicians and related institutions by country	<i>Not Applicable</i>	
<b>d) Product Responsibility</b>		
<b>Product and Service Labelling</b>		
Type of product and service information (labelling)	<i>Sustainability Report</i>	45-70
Non-compliance with the regulations and voluntary codes concerning products and services labelling	<i>None</i>	
<b>Marketing Communications</b>		
Programmes for compliance with market communication laws	<i>Sustainability Report</i>	45-70
Non-compliance with regulations and voluntary codes concerning marketing communications	<i>None</i>	
<b>Customer Privacy</b>		
Number of complaints regarding breaches of customer privacy	<i>None</i>	
Monetary value of significant fines for non-compliance with laws and regulations	<i>Nil</i>	

# GLOSSARY OF FINANCIAL TERMS

**Accounting Policies**

Specific principles, bases, conventions, rules and practices adopted by an enterprise in preparing and presenting Financial Statements.

**Accrual Basis**

The principle that revenues and costs are matched with one another, irrespective of the period of receipt or payment.

**Basic Earnings per Share**

Profit attributable to ordinary shareholders divided by the weighted average number of shares in issue.

**Borrowings**

All interest bearing liabilities.

**Capital Employed**

Total assets less interest free liabilities, deferred income and provisions.

**Capital Reserves**

Reserves identified for a specific purpose. These reserves cannot be distributed to shareholders in the form of dividends. It consist of Revaluation Reserve arising from the revaluation of properties owned by the Company.

**Cash Equivalents**

Liquid investments with original maturity periods of three months or less.

**Contingent Liabilities**

A condition or situation at the Balance Sheet date of which the financial effect will be determined only on the occurrence, or non-occurrence of one or more uncertain future events.

**Current Ratio**

Current assets divided by current liabilities.

**Deferred Taxation**

The net effect on items which have been included in the Income Statements, which would only qualify for inclusion on a tax return at a further date.

**Dividends**

is a distribution out of profits of the Company, other than an acquisition by the Company of its own shares or a redemption of shares by the Company.

**Dividend Cover**

Profit after taxation divided by gross dividend. This ratio is a measure of the number of times gross dividend is covered by profit after taxation.

**Dividend Yield**

Gross dividend per share as a percentage of the market price. A measure of return on investment.

**Effective Rate of Tax**

Provision for tax excluding deferred tax, divided by net profit before tax.

**Equity**

Shareholders' funds.

**Exchange Gain/Loss**

The increase/decrease in value of foreign currency denominated assets and liabilities when converted to or realised in local currency during the year.

**Gearing**

Borrowings to capital employed.

**General Reserve**

Reserves available for distributions and investment.

**Gross Dividend**

The portion of profit including tax withheld distributed to shareholders.

**Gross Profit Ratio**

The percentage of gross profit to net turnover.

**Interest Cover**

Profit before taxation plus financing cost divided by financing cost.

**Key Management Personnel**

Those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

**Key Performance Indicators (KPI)**

Are quantifiable measurements, agreed to before hand that reflect the critical success factors of a company.

**Market Capitalisation**

The number of ordinary shares issued multiplied by the market price of each share at a given date. This is also known as the Market Value of a Company.

**Materiality**

The principle that Financial Statements should separately disclose items which are significant enough to affect evaluation or decisions of users.

# GLOSSARY OF FINANCIAL TERMS

## **Net Assets per Share**

Shareholders' funds divided by the number of ordinary shares in issue.

## **Price Earnings Ratio**

Market price of a share divided by earnings per share as reported at that date. Generally companies with a high rate of growth tend to have high PERs, while those with low rates of growth have low PERs.

## **Price to Book Value (PBV)**

Is the current market price of a share divided by the book value. The PBV indicates how high the share's current price is compared to the company's book value. A high PBV ratio generally will indicate that investors expect the Company to have high growth prospects.

## **Related Parties**

Parties who could control or significantly influence the financial and operating policies of the business.

## **Return on Average Capital Employed**

Profit before tax plus net interest cost divided by average capital employed.

## **Return on Average Shareholders' Funds**

Profit after taxation divided by average shareholders' funds.

## **Revenue Reserves**

Reserves available for distribution to shareholders and investments.

## **Rights Issue**

The raising of new capital by granting existing shareholders the right to subscribe to new shares in proportion to their current holdings. These shares are normally issued at a discount on their market price.

## **Segment**

A Business unit that is a distinguishable component of the Group and engaged in similar operations.

## **Solvency Test**

The Company is deemed to have satisfied the solvency test if

- (a) it is able to pay its debts as they fall due in the normal course of business; and
- (b) the value of its assets is greater than the sum of the value of its liabilities and its stated capital.

## **Stated Capital**

Stated capital in relation to a company means the total of all amounts received by the Company or due and payable to the Company

- (a) in respect of the issue of shares; and
- (b) in respect of calls on shares.

## **Substance Over Form**

Whether the accounting treatment in the Financial Statements of transactions reflect the financial reality and substance, rather than the legal form of the transaction and events which underlies them.

## **Strategy**

A course of action, including the specification of resources required, to achieve a specified objective.

## **Total Shareholder Return**

Represents the change in share value of a listed Company over a period of time (typically 1 year), plus dividends, expressed as a percentage of the opening share value.

## **Treasurership**

The function concerned with the provision and use of finance. It also includes provision of capital, short-term borrowings, foreign currency management, banking, collections and money market investments.

## **Triple Bottom Line Reporting**

Is a framework for measuring and reporting corporate performance against Economic, Social and Environmental parameters.

## **Turnover per Employee**

Consolidated turnover of the Company for the year divided by the number of employees at the year end.

## **Value Added**

Value added is the wealth created by the operations of the Group. The value is distributed among the employees, shareholders, as financing cost, to the Government by way of taxes and the balance retained within the business.

## **Working Capital**

Capital required to finance the day-to-day operations computed as the excess of current assets over current liabilities.

# NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Sixty-Third Annual General Meeting of DIESEL & MOTOR ENGINEERING PLC will be held at the Registered Office of the Company, No. 65, Jetawana Road, Colombo 14, on Friday, 20th June 2008 at 3.00 p.m. and the business to be brought before the meeting will be:

## AGENDA

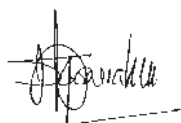
1. To receive, consider and adopt the Annual Report of the Directors and the Statement of Accounts for the year ended 31st March 2008, with the Report of the Auditors thereon.
2. To re-elect Mr. A.G. Pandithage, who retires by rotation in terms of Article 66 of the Articles of Association as a Director of the Company.\*
3. To re-elect Mr. A.N. Algama, who retires by rotation in terms of Article 66 of the Articles of Association as a Director of the Company.\*
4. To re-elect Mr. T.G.H. Peries, who retires by rotation in terms of Article 66 of the Articles of Association as a Director of the Company.\*
5. To re-elect Mr. R.C. Weerawardane, who retires by rotation in terms of Article 66 of the Articles of Association as a Director of the Company.\*
6. (a) To reappoint KPMG Ford, Rhodes, Thornton & Co., as Auditors to the Company for the ensuing year.  
(b) To authorise the Board of Directors to determine their remuneration.
7. To authorise the Directors to determine contributions to charities

*\* The profiles of the Directors proposed for re-election are given on page 11 of the Annual Report.*

## NOTE

- (i) **A member is entitled to appoint a proxy to attend and vote instead of himself and a proxy need not be a member of the Company.**  
A Form of Proxy is enclosed for this purpose. The instrument appointing a proxy must be deposited at the Registered Office, No. 65, Jetawana Road, Colombo 14, not less than forty-eight hours before the time fixed for the Meeting.
- (ii) It is proposed to post ordinary dividend warrants on 27th June 2008 and in accordance with the rules of the Colombo Stock Exchange, the shares of the Company will be quoted ex-dividend with effect from 16th June 2008.

By Order of the Board,  
**Diesel & Motor Engineering PLC**  
Company Registration No. PQ-146



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

Colombo  
9th May 2008

# FORM OF PROXY

I/We, .....

of .....

being a member/members of DIESEL & MOTOR ENGINEERING PLC hereby appoint:

1. .... of .....  
 .....Holder of NIC No. ....  
 ..... or failing him/them.

2. ASOKA RANJITH PANDITHAGE (Chairman of the Company) of Colombo or, failing him, one of the Directors of the Company as my/our proxy to vote as indicated hereunder for me/us and on my/our behalf at the Sixty-Third Annual General Meeting of the Company to be held on Friday, 20th June 2008 and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof.

	For	Against
1. To receive, consider and adopt the Annual Report of the Directors and the Statement of Accounts for the year ended 31st March 2008, with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect Mr. A.G. Pandithage, who retires by rotation in terms of the Article 66 of the Articles of Association as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr. A.N. Algama, who retires by rotation in terms of the Article 66 of the Articles of Association as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Mr. T.G.H. Peries, who retires by rotation in terms of the Article 66 of the Articles of Association as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect Mr. R.C. Weerawardane, who retires by rotation in terms of the Article 66 of the Articles of Association as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
6. (a) To reappoint KPMG Ford, Rhodes, Thornton & Co. as Auditors to the Company for the ensuing year.	<input type="checkbox"/>	<input type="checkbox"/>
(b) To authorise the Board of Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
7. To authorise the Directors to determine contributions to charities.	<input type="checkbox"/>	<input type="checkbox"/>

The proxy may vote as he thinks fit on any other resolution brought before the meeting.

Dated this ..... day of ..... 2008.

Witness:

.....  
 .....

.....  
 Signature of Shareholder

1. A proxy need not be a member of the Company.
2. Instructions to fill the proxy (please see overleaf).

# FORM OF PROXY

## INSTRUCTIONS AS TO COMPLETION

1. To be valid this Form of Proxy must be deposited at the Registered Office, No. 65, Jetawana Road, Colombo 14, by 3.00 p.m. on Wednesday, 18th June 2008.
2. In perfecting the Form of Proxy please ensure that all details are legible.
3. If you wish to appoint a person as your proxy, please insert the relevant details overleaf and initial against this entry.
4. Please indicate with a X in the spaces provided how your proxy is to vote on each resolution. If no indication is given the proxy in his discretion will vote as he thinks fit.
5. In the case of a Company/Corporation, the proxy must be under its common seal which should be affixed and attested in the manner prescribed by its Articles of Association.
6. In the case of a proxy signed by an Attorney, the Power of Attorney must be deposited at the registered office for registration.

# D Brand

**NAME OF THE COMPANY**

Diesel & Motor Engineering PLC

**LEGAL FORM**

A Quoted Public Company with Limited Liability, Incorporated in Sri Lanka in 1945.

**COMPANY REGISTRATION NUMBER**

PQ 146

**FOUNDED**

1939

**ACCOUNTING YEAR END**

31st March

**STOCK EXCHANGE LISTING**

The ordinary shares of the Company are listed with the Colombo Stock Exchange of Sri Lanka.

**AUDITORS**

KPMG Ford, Rhodes, Thornton & Co.  
Chartered Accountants,  
P.O. Box 186,  
Colombo, Sri Lanka.

**INTERNAL AUDITORS**

SJMS Associates  
Chartered Accountants  
2, Castle Street,  
Colombo 4, Sri Lanka.

**LAWYERS**

F J & G De Saram & Company  
Attorneys-at-Law  
No. 216, De Saram Place,  
Colombo 10, Sri Lanka.

**BANKERS**

Hatton National Bank PLC  
Commercial Bank of Ceylon PLC  
NDB Bank PLC  
Citibank N.A.  
Nations Trust Bank PLC  
People's Bank  
Hongkong & Shanghai  
Banking Corporation Ltd.  
Sampath Bank PLC  
Bank of Ceylon

**COMPANY SECRETARY**

B.C.S.A.P. Gooneratne, F.C.A., M.B.A. (Sri J.)

**REGISTRARS**

Corporate Services Ltd.  
No. 216, De Saram Place,  
Colombo 10, Sri Lanka

**HEAD AND REGISTERED OFFICE**

P.O. Box 339, No. 65, Jetawana Road,  
Colombo 14, Sri Lanka.  
Telephone: 0094-11-2449797,  
0094-11-2338883  
<http://www.dimolanka.com>  
E-mail: [dimo@dimolanka.com](mailto:dimo@dimolanka.com)  
Facsimile: 0094-11-2449080

**CORPORATE GOVERNANCE RATING**

The Company received a rating of 6 (CG) from Det Norske Veritas (DNV).  
(in 2007)





## **A Brand with a Future**

Dimo represents over 50 of the world's leading brands in Sri Lanka. We offer customers access to the world's leading brands of passenger vehicles, commercial vehicles, material handling machinery, medical equipment, building technologies, telecommunication solutions, electrical engineering solutions, power engines, power generation equipment, power tools, lighting equipment and other accessories. We support this with a standard of after care that is on par with the world's best. We are now moving into other areas of entrepreneurship to support our core business and enhance our brand value.

### **Drivers of the DIMO Brand**

Dimo's brand of entrepreneurship is driven by five core values:

- Creating sustainable value at the economic, social and community levels and empowering our diverse and multiple stakeholders
- Developing products and services driven by customer needs and aspirations
- Thinking out of the box and pushing innovation to the hilt
- Making work enjoyable and rewarding
- An unyielding commitment to the highest business ethics

This business framework, a unique type of Dimo flair, and an insatiable will to succeed, have helped us establish a new level of excellence for corporate activity in this country. Today we push that bar a little higher...

Dimo Brand