

DIESEL & MOTOR ENGINEERING PLC

In 1939 four unemployed youth took the bold first step of renting a workshop and continuing with the defunct business of a German entrepreneur. Seventy years later we stand ROCK TALL as a unique Sri Lankan brand, best known for our passion, flair and after care.



ANNUAL REPORT 2008 / 09

Today DIMO represents over 50 of the world's leading brands. We started by selling and repairing automobiles, but today we sell construction equipment, agricultural machinery, lighting systems, water management solutions, health care products and building management systems. We have created a unique brand, a brand like no other.

70 years young and still growing.



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 Match must Go On



Kumar Sangakkara

Sri Lanka's new cricket captain

As a cricketer Kumar stands ROCK TALL: his skills are legendary, his class undisputed, his genius stamped across hundreds of scorecards. As an individual he shines like a beacon inspiring the young and the old and bringing a commitment and flair to the game that is unrivalled.

A stylized, handwritten signature of Kumar Sangakkara in black ink, enclosed within a circular flourish.

The gloom of the world's financial crisis cannot stamp out the 'Spirit of DIMO'. This year we are 70 and the flame of DIMO burns as strongly as it ever did.

Cricket is the modern passion of South Asia. It has brought both ecstasy and agony to the peoples of South Asia at different points of time. Cricket embodies the resilience of South Asia and its capacity to adapt and carry on even in the most trying circumstances. The 'match must go on' even though the rain clouds of the financial crisis threaten the economies and companies of Sri Lanka and the region.

Today, we have chosen Kumar Sangakkara, the Sri Lankan cricket captain, as our brand ambassador. His skill, capacity to adapt and cricketing genius are similar to the values that we have sought to build into the DIMO brand. His all round ability, commitment and world class qualities make him the No 1 choice as DIMO's brand ambassador and ambassador of its world class products and after care service.

CONTENTS

OVERVIEW

- Financial Highlights 5
- Operational Highlights 5
- Chairman & CEO's Review 6
- Board of Directors 10
- Group Management Committee 12

MANAGEMENT REPORT

- Strategic Direction 13
- Business Performance 16
- Financial Review 48

SUSTAINABILITY REPORT

- Sustainability... Our Cornerstone 54
- Economic Performance
 - The Importance of Sustainable Economic Value Creation 62
- Environmental Performance
 - A Nurtured Environment - A Must 66
- Social Performance
 - Our Place in Society 75

INDEPENDENT ASSURANCE REPORT 83

GOVERNANCE REPORT

- Enterprise Governance 86
- Chairman & CEO's and Chief Financial Officer's Responsibility Statement 93
- Enterprise Risk Management 94
- Report of the Audit Committee 97
- The Remuneration Committee Report 98
- The Nomination Committee Report 99
- Group Structure 100

FINANCIAL REPORT

- Annual Report of the Board of Directors 103
- Annexure to the Annual Report of the Board of Directors 107
- Statement of Directors' Responsibilities for Financial Statements 108
- Independent Auditors' Report 109
- Income Statements 110
- Balance Sheets 111
- Statements of Changes in Equity 112
- Cash Flow Statements 113
- Significant Accounting Policies 115
- Notes to the Financial Statements 121

OTHER INFORMATION

- Ten Year Summary 137
- Share Information 138
- Branch Network 142
- Historical Note 143
- Key Principals 145
- Country Information 147
- GRI Compliance Index 151
- Glossary of Financial Terms 154

FOR THE AGM

- Notice of Meeting 156
- Form of Proxy **Enclosed**

CORPORATE INFORMATION

- (Inner Back Cover)


FINANCIAL HIGHLIGHTS

	2008/09 Rs. '000	2007/08 Rs. '000	Change %	2006/07 Rs. '000
Results for the year				
Group turnover	9,274,103	12,687,289	(27)	12,989,916
Group profit before tax	155,021	344,444	(55)	512,895
Group profit after tax	89,444	205,093	(56)	301,777
Gross dividends	26,107	48,400	(46)	69,600
Group value added	2,257,333	3,280,800	(22)	3,460,720
Group revenue to government	1,109,006	1,906,343	(42)	2,206,250
Group net profit after tax as a % of gross turnover	0.96	1.62	(40)	2.32
Return on average capital employed %	16.45	19.55	(16)	23.33
Interest cover (Times)	1.26	1.67	(25)	2.11
Dividend cover (Times)	3.43	4.24	(19)	4.16
Price earnings (Times)	5.86	5.24	12	4.66
Dividend yield (%)	4.98	4.51	10	5.00
Position at the year end				
Shareholders' funds	2,004,845	1,657,151	21	1,506,508
Total assets	5,263,174	5,831,158	(10)	5,198,632
Group employment (No. of persons)	870	867	–	862
Current ratio (Times)	1.25:1	1.26:1	–	1.3:1
Market capitalisation	524,319	1,073,875	(51)	1,452,000
Per share				
Dividend (Rs.)	3.00	4.00	(25)	6.00
Earnings (Rs.)	9.36	16.95	(39)	25.76
Market value (Rs.) - at year end	60.25	88.75	(32)	120.00

OPERATIONAL HIGHLIGHTS



01. One of the largest motors in the sector supplied by Dima - 500 Kw motor supplied to NWDB
02. Lighting up the entire building with an Intelligent Lighting (Osram) and Building Management System (Siemens)
03. One of the 15 Locomotives supplied to SL Railway
04. New Display point - Yakkala
05. Launch of wheel type Harvester



OVERVIEW

CHAIRMAN & CEO'S REVIEW

Even in times of crisis there are opportunities to be seized. Smart entrepreneurship is not chasing what cannot be, but rather, making the most of what is. Faced with crises on two fronts, the global and local, DIMO is adapting and re-strategising to make the best of opportunities that are emerging. Although automobile sales were down last year because prospective buyers were reluctant to spend, the company's performance in other areas ensured it ended the year on a satisfactory note. [or 'was close to business as usual'] New projects will include the assembly of a 'People's Vehicle' and playing an active role in developing the social and economic infrastructure of the North East.

OVERVIEW

CHAIRMAN & CEO'S REVIEW

The Opportunities of Hard Times

These hard times have not dampened the Dimo spirit. Having been in the business for 70 years, we know that real entrepreneurship means taking the hot and the cold, the rain and the sun, the doom and the bloom.

Instead, we have decided to focus on making the best use of the opportunities that these hard times throw up. We will rethink, re-strategise and revamp, and are confident the we can manoeuvre these rough times with our customary skill and our traditional zeal.

70 Years of Growth

This year DIMO marks 70 years of entrepreneurship. In these 70 years, we have created a unique Sri Lankan brand, a brand that is diverse, constantly evolving and always on the prowl for new opportunities.

We have grown from a small company with 29 employees and 02 principals to one of the country's leading corporates with 870 employees, over 50 of the world's leading brands and a large portfolio of customers.

DIMO's hallmark over these 70 years has been the relationships it has built with its many and varied customers. We have tried to sell relationships, and not market products and have succeeded all the way through.

These 70 years have also been replete with special employee relationships, and some of these stories are captured in another part of this Report.

Profits Plunge

Local and global conditions, combined to reduce DIMO's profits from the previous year. Sales of automobiles, which is a core area for the Company, took a sharp dip. According to the Registrar of Motor Vehicles, only 265,199 vehicles were registered last year, a drop of 11% from the previous year.

The leasing industry changed its requirements by asking customers to make large down payments and this also had a negative impact on the sales of cars, trucks and other vehicles.

Some of the Company's main customers who hail from the tea, rubber and apparel industries have been badly affected by the global meltdown and as a result, postponed many of their capital expenditure purchases. These decisions had a negative impact on DIMO's bottom line. Recovery of dues, especially from the public sector, was also a challenge, and this too had an impact on the Company's performance.

DIMO's Diversification Helps

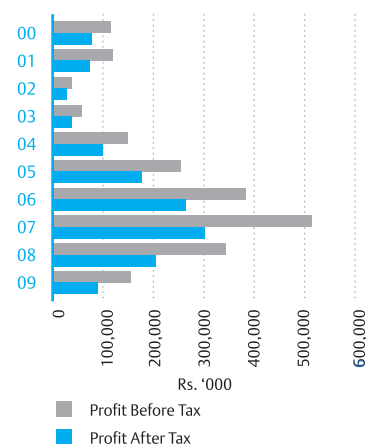
The Company's diversification into other areas such as power engineering, building technologies, power systems and agriculture and water management systems however, helped the Company to cope with the drop in automobile sales. The agricultural sector performed particularly well last year and the Company's 'Combined Harvester' made a positive contribution.

While our core business in the form of vehicle sales has taken a dip because of the global recession, the Company has been fortunate that the other sectors have done well and this enabled us to post a satisfactory year, despite the volatilities of local and global markets.

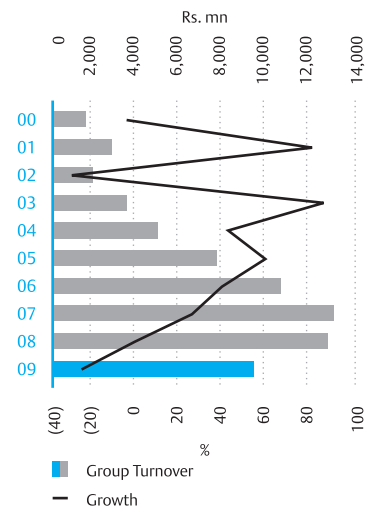
The Company is currently looking at setting up an automobile assembly facility to assemble low cost vehicles for the local market. We have developed a business model and are in the process of fine tuning the idea.

We are also optimistic about the opportunities that will unfold in the North and the East. We have already begun to develop business models to exploit these opportunities and are ready to respond to the needs of the people who are resident there. The Government has plans for the development of the social and economic infrastructure of those areas and DIMO hopes to be an active player in the implementation of those plans.

Profit Before Tax & Profit After Tax



Group Turnover



Currency Vs Inflation (31st December)



OVERVIEW

CHAIRMAN & CEO'S REVIEW

One area in which we propose to bring in our expertise is the modern fluid management systems. Access to regular and clean water is going to be one of the many challenges that the newly developed North and East will face in the near future. DIMO, with its state-of-the-art water management solutions and specialised expertise, is well placed to provide tailor-made solutions for those areas as the State invests in their regeneration and redevelopment.

Sharpening Our Technological Edge

The Company continues to maintain its technological edge in all its areas of operations. DIMO installed a linear accelerator for cancer patients at a private sector healthcare facility in Colombo. This state-of-the-art facility was the first of its kind in the country and helps treating patients with a high degree of accuracy and precision.

Last year, a modern Neuro-Trauma Unit was established at the National Hospital, and DIMO provided key equipment for this facility. Installation and commissioning was done with the expertise of the DIMO engineers.

The establishment of our after-care auto centres in strategic areas, across the island, have made our technology more easily available across the country. We will continue to market products that make the best use of modern technology and do our best to make these products accessible to people in all parts of the country.

The Company's agreement with the University of Peradeniya is one way in which we seek to enhance the technological capacity of this country. In terms of this agreement, DIMO has agreed to support the development of any commercially viable idea that academics and researchers at the University of Peradeniya may pioneer.

The objective is to unleash the research potential of our universities and to reward relevant and socially useful research. Many an idea languishes in a library for the lack of support from industry. Through this project we hope to foster a closer relationship between research institutions and the commercial sector with a view to making the innovative ideas more accessible to the broader public.

Sustainability is Fundamental

Sustainability is fundamental to all of DIMO's activities. The Company is a firm believer in preserving the environment and sustainable business activities. While we do our best for the present generation, we must ensure that the future generations will also benefit from our entrepreneurship. Sustainability and good governance are the key values that drive all our corporate activities and are very closely ingrained in our corporate culture.

While we ensure that all the products we sell are environmentally friendly, we also take care to see that the Company's after sales service does not result in a negative impact on the environment. We take special care with our vehicles to ensure that all emission systems are highly sophisticated and cause minimum impact on the environment. All vehicles we sell comply with Euro 2 and Euro 3 standards.

The ISO 14000 is an external recognition of the environmental management system we have adopted. DIMO has now emerged as a leader in its sector. Elsewhere in this Report, we report in detail, the processes and procedures we have adopted.

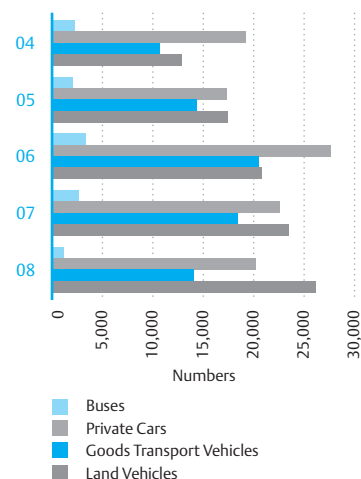
Providing a Meaningful Value Addition

The Company will continue with its central idea of creating added value to people's lives. For 70 years, we have been an important player in the corporate world, every year providing new opportunities for our multiple customers through 'Dimo Technology'.

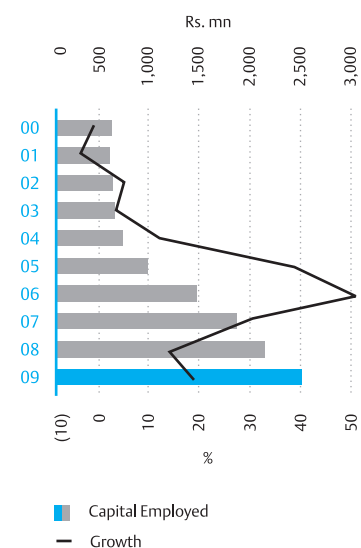
We are now exploring seriously the idea of a 'People's Vehicle' (Janarathaya). We want to develop a method of transportation that is environmentally friendly, highly functional and accessible to a broad range of social groups in this country. The Company believes that such a vehicle could make a significant difference in people's lives and open new opportunities for thousands of Sri Lankans.

We have a team working on this idea and they are on the verge of taking the idea from the drawing board to the production stage.

Registration of Motor Vehicles (31st Dec.)



Growth in Capital Employed



70 and Growing

This year is a landmark year for DIMO. We complete 70 years of commercial activity and have established a strong presence in the Sri Lankan market. The Company has evolved and changed over these 70 years, adding new products to its repertoire, on its journey.

One thing that has not changed though, is the nature of the customer relationships we have forged. Our relationships with our customers have withstood the shocks that the world has thrown at us and like the best of friends, withstood the test of time.

We know the next year will be a challenging one. The world is being washed by a sea of pessimism and we will have to strain every sinew to stay afloat. We are confident that the foundation we have built, and the innovative capacities we have unearthed at DIMO, will help us through this crisis.

The Company was born at a time of crisis and we have been through many crises before. We know that we have the skills and resilience to handle this one as well. Many of our principals also face challenging times. However, we know that the strength of the partnerships we have forged with our principals over there years will help us through these hard times.

We have to face specific obstacles in the domestic market. These include the very high Government levies and tight-fisted leasing sector. We are working with the Trade Chambers and other relevant organisations to see if we can get these changed.

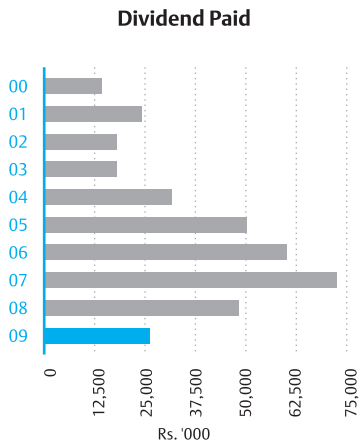
As discussed at the last Annual General Meeting, 28.3% of the shares formerly held by Hayleys PLC were bought back by the Company.

My thanks to all those who constitute the DIMO family. They continue to drive the Company with their commitment, dynamism and flair. My thanks to all our principals for the encouragement and advice they have provided, and the partnerships we have forged. We look forward to more years of fruitful collaboration. To all my colleagues on the Board, I would like to say a warm “thank you”. We have established a solid and dynamic team at DIMO and I look forward to leading the Company into its next phase of growth.



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

22nd May 2009



BOARD OF DIRECTORS



OVERVIEW

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 as 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). Chairman, Browns Dimo 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. 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, PhD 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 & Examiner - University of Wales, University of Colombo and Sri Lanka Law College, Vice President - BRIPASL (Business Recovery & Insolvency Practitioners' Association of SL), Member - Academic Board of Studies - Institute of Chartered Accountants of Sri Lanka.

6. 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 Jayawardenepura.

7. Dr. U. Liyanage**

Appointed to the Board in October 2006. Fellow of the Chartered Institute of Marketing. MBA and Ph.D. from the Postgraduate Institute of Management (PIM), University of Sri Jayawardenapura. Director and Chairman of the Board of Management of PIM. Non-Executive Director of Chemenex PLC, Ceylon Cold Stores PLC, Arpico Plastics, Talawakelle Tea Estates PLC and Q&E Advertising.

8. A.M. Pandithage*

Appointed to the Board in September 1982. Deputy Chairman of Hayleys PLC. Chief Executive Officer of Hayleys Advantis since its inception. Fellow of the Chartered Institute of Logistics & Transport. Former Director of the Sri Lanka Ports Authority and Jaya Container Terminal. Former Chairman of the Ceylon Association of Ships' Agents. Director of Sri Lanka Port Management & Consultancy Services Ltd. Member of the Presidential Committee on Maritime Matters.

9. T.G.H. Peries

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

10. R. Seevaratnam**

Appointed to the Board in January 2007. Fellow Member of the Institute of Chartered Accountants of Sri Lanka and England & Wales and holder of General Science Degree from the University of London. Former senior partner of KPMG Ford, Rhodes, Thornton & Company. Director of Haycarb PLC, Dipped Products PLC, Acme Printing & Packaging PLC, Acme Packaging Solutions (Pvt) Ltd., Tea Factories Small Holders PLC, Hatton National Bank PLC, Tokyo Cement PLC, Hayleys MGT PLC, Shaw Wallace & Hedges PLC, Shaw Wallace Marketing PLC, Kelani Valley Plantations PLC, Lanka Aluminium Industries PLC, Metecno Lanka (Pvt) Ltd., Classic Teas (Pvt) Ltd., Green Farms (Pvt) Ltd.

11. 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.

12. R.A. Ebell*

(Resigned with effect from 30th June 2008)
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.

* Non-Executive Directors

** Independent Non-Executive Directors

Audit Committee:

R. Seevaratnam (Chairman), Dr. H. Cabral, Dr. U. Liyanage, A.M. Pandithage, R.A. Ebell (Resigned w.e.f. 30th June 2008)

Remuneration Committee:

Dr. U. Liyanage (Chairman), Dr. H. Cabral, A.M. Pandithage, R. Seevaratnam, R.A. Ebell (Resigned w.e.f. 30th June 2008)

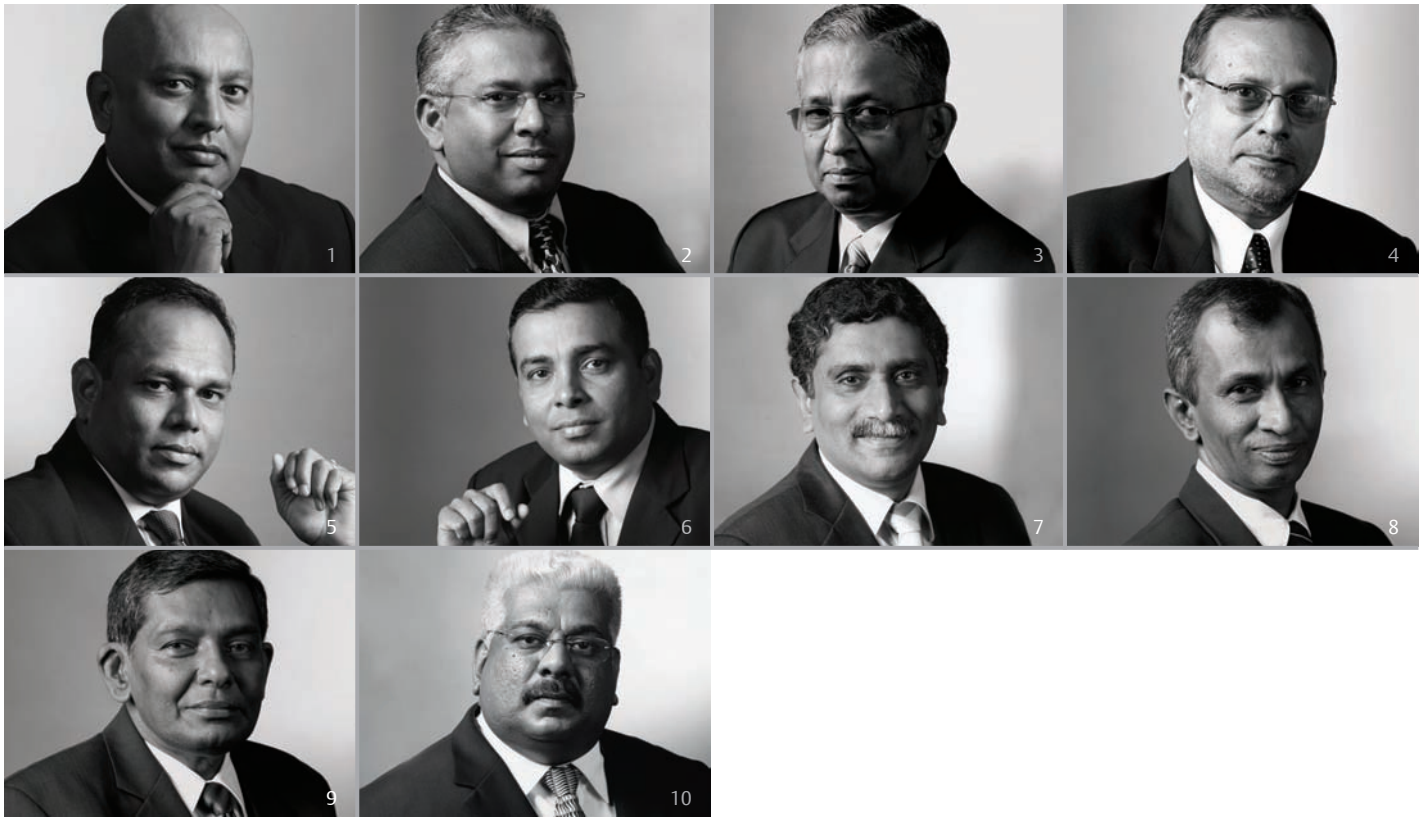
Nominations Committee:

Dr. H. Cabral (Chairman), Dr. U. Liyanage, A.M. Pandithage, R. Seevaratham, R.A. Ebell (Resigned w.e.f. 30th June 2008)

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

GROUP MANAGEMENT COMMITTEE



1. A.R. Pandithage - *Chairman*
2. A.G. Pandithage - *Deputy Chief Executive Officer*
3. S.C. Algama - *Executive Director*
4. D.S. Amarasuriya - *General Manager - Passenger Vehicle Service*
5. M.V. Bandara - *General Manager - Sales & Service Commercial Vehicles*
6. A.C.G. Dias - *General Manager - Tyres*
7. B.C.S.A.P. Gooneratne - *Executive Director*
8. E.D.C. Kodituvakku - *General Manager - Finance & Controlling*
9. A. Mapalagama - *General Manager - Auto Components, Power Tools & Outdoor Equipment*
10. R.C. Weerawardane - *Executive Director*

STRATEGIC DIRECTION

Driven by Stakeholder Expectation

“Sustainability and good Governance are key values that drive all our corporate activities and are very closely ingrained in our corporate culture.” - Chairman & CEO’s Review - Annual Report 2008/09.

The Company firmly believes that sustainability is an all inclusive approach to successful entrepreneurship. As depicted in the sustainability performance framework on page 61, sustainability for Dimo necessarily include formulating strategies that address their impact on the:

- Economic condition of all stakeholders, which necessarily includes returns to shareholders,
- Country’s economy,
- Environment,
- Entire society.

Dimo is well aware that today’s discerning customer expects products and services beyond value of what is spent. The expectations of the other stakeholders in business too stretch beyond the value distributed to them as per the Group’s Value added statement. Transacting with a “Responsible Corporate” is a pre- condition. The Shareholders, Employees, Customers, Suppliers, the Citizens of the country, the World at large and of course the physical environment have expectations and requirements from the Group in varying degree and manne. Our 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 1.

The Driving Force

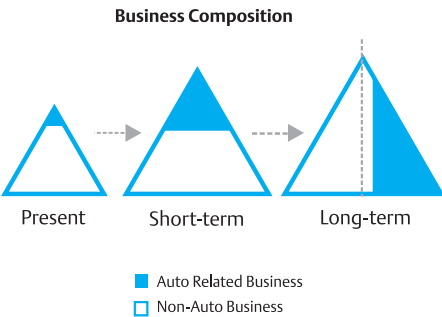
Intellectual capital is the driving force directing the Group towards its corporate vision. It is also the catalyst that transforms the Group’s resources into tangible results. The Corporate strategy, therefore, revolves around enhancing the quality, efficiency, effectiveness and sustainability of the elements of Intellectual Capital.

Intellectual Capital

In order to keep the intellectual capital at its best, the Company has a wide range of strategies and 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. Human Resources strategy covering recruitment, development and retention is geared to developing 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 crafted strategies in marketing, finance, information systems and supply chain management seek competitive advantage and growth through the entire range of processes in place.

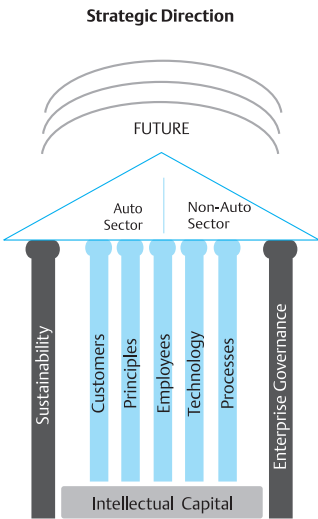
Business Composition

The base for growth is presently provided by the auto sector. Continuous efforts have been under way 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, whilst enhancing the capacity to independently grow and contribute to the Group the profitability in equal measure.



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 our vision. 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.



World Class

DIMO has come to symbolise world class quality because of the products it sells. We represent the world's leading brands, in Sri Lanka and are passionate about the quality of the products we market. We are similarly passionate about the quality of the after care service we offer. Our consistent passion and commitment has meant supreme customer satisfaction.

"We started from small beginnings and quietly moved up the corporate ladder. Our commitment to quality and 'after care' progressively drew customers from all walks of life. Today at 70, we dazzle with our wide range of products, our professional expertise and our capacity to innovate."

"Getting your eye in, acclimatising to the pitch, and sizing up the opposition and the state of play is vital, if you want to dig in and play a long and dazzling innings."





BUSINESS PERFORMANCE

VEHICLES



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

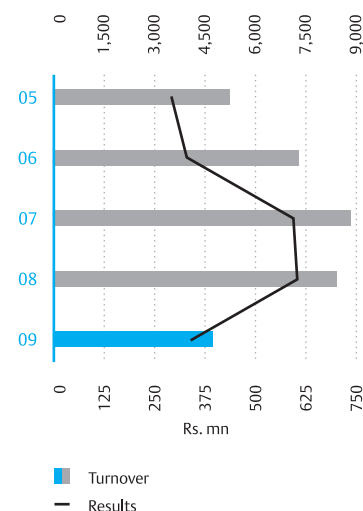
Key Figures

	2008/09	2007/08	Change %
Segment Turnover (Rs. mn)	4,744	8,403	(43)
Segment Result (Rs. mn)	340	603	(43)
% Contribution to the Group Turnover	51	66	(15)
Segment Result/Segment Net Assets (%)	26	25	1

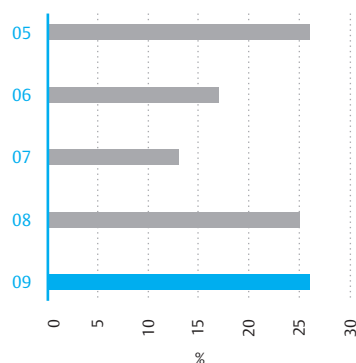
Customer Profile

	B2C	B2B	B2G	Total
No. of Customers (accumulated)	19,035	5,470	688	25,193
Customer Satisfaction Index (weighted average %)	—	—	—	81%

Business Segment Turnover Vs Results



Return on Total Assets



Key Principals

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

Industry Overview

Dimo represents some of the world's leading brands of passenger cars, SUVs and trucks. These include Mercedes Benz, Tata, Chrysler and Jeep. Dimo's core business revolves around the sale and after-care of vehicles and the Company still continues to be identified with this line of business even though we have branched into many new areas.

According to the Department of Motor Traffic, 265,199 new vehicles were registered in 2008, down from the 2006 high of 300,522 and 297,892 in 2007. Apart from three wheelers and Land vehicles, the registration of new vehicles in all vehicle categories were less than the previous year with the registration of new passenger buses showing a marked decrease of 55% in 2008.

A Priority: Developing the Road Network

The country is still grappling with the challenge of developing an effective road network. The lack of a state-of-the-art trunk road network has hindered development previously and it is heartening to note that the Government has in the pipeline several major road projects. The early and smooth completion of these road projects will be a huge boost for the entire country.

New Registrations

Class of Vehicle	New Registration						Total vehicle population 2008
	2003	2004	2005	2006	2007	2008	
Motor Cars	21,184	19,116	17,283	27,578	22,603	20,237	381,448
Three Wheelers	36,204	43,789	41,085	64,466	43,068	44,804	406,531
Motor Cycles	86,877	124,474	130,696	156,626	182,508	155,952	1,760,600
Buses	1,949	2,167	2,069	3,346	2,637	1,180	81,050
Dual Purpose Vehicles	13,268	10,736	6,851	7,245	5,193	2,856	196,236
Goods Transport Vehicles	11,158	10,703	14,262	20,436	18,408	14,038	276,622
Land Vehicles	11,006	12,857	17,423	20,825	23,475	26,132	288,506
TOTAL	181,502	223,842	229,669	300,522	297,892	265,199	3,390,993

(Source: Department of Motor Traffic)

High Interest Rates Mean Low Vehicle Sales

High interest rates continue to be another constraint to the sale of vehicles which are highly dependent on commercial borrowings. Many of the Company's customers depend on credit facilities to purchase vehicles, especially heavy vehicles, and with the rates spiralling, many potential customers decided to postpone capital expenditure of this nature.

The Depreciation of the Rupee

The Depreciation of the Rupee against the US Dollar caused the cost of vehicles to move up, exacerbating the situation further.

Global Crisis Casts a Pall of Gloom

The effects of the global financial crisis began to spillover into Sri Lanka and had an impact on the willingness of customers to invest in new vehicles. While Sri Lanka is still to experience the full impact of the crisis, 'tightening of the belt' both by individuals and institutions is already evident.

High Tariffs Choke Sales

The high tariff structure continues to be one of the main impediments for growth in this sector. PAL and CESS rates increased during the year under review imposing additional burdens on the tariff regime.

New requirements governing letters of credit which imposed an additional 100% margin created an additional obstacle for Passenger Vehicles although these requirements have now been relaxed.

New Opportunities

The end of the war in the North East is likely to open new opportunities and the Company is well placed to make optimum use of them.

The State has plans for developing the social and economic infrastructure of the North and the East and the Company hopes to participate in the implementation of several of these projects. Planned projects include the construction of roads and bridges, railroads, transport services, electricity transmission lines, water supply schemes, housing complexes, telecommunication facilities and irrigation facilities. All these development activities could trigger an increased demand for vehicles.

Dimo as representative of some of the world's leading brands in many of these areas, is well placed to exploit the opportunities that these developments bring. The optimism generated by the end of the war, though has to be balanced by the pessimism of the global crisis. Steering through these both will be a challenge for the Company as it will be for most of the corporate sector.

Enhancing the Network

We continued with our endeavours to enhance our customer reach. Display points were set up in Yakkala and Puttalam, dealer display points in Polannaruwa and a branch in Kandy. The Company now has 23 service points of which five include a repair centre.

Operational Review

Passenger Cars - Mercedes Benz

Mercedes Benz passenger cars target the high end luxury car market. Mercedes Benz has dominated the luxury market for many years holding over 33% of the market share.

The total market for this business decreased considerably due to unfavorable conditions. The brand new car sales decreased, in spite of retaining higher market share.

The new E class will be introduced soon and the Company expects this model to perform well. Even though the 100% margin on LCs has now been removed, the high tariff regime will act as an obstacle for strong growth in the short term.

Pre-Owned Vehicles

The Company's trade in pre-owned vehicles enables customers to trade in old vehicles for new and other customers to purchase well maintained used vehicles. The Company ensures a comprehensive refurbishment of the used vehicle and provides a warranty and after-care service. This business performed moderately well last year.

TATA Passenger Cars

TATA passenger vehicles continued to have a difficult year in the backdrop of tough market conditions. The turnover increased by a marginal 7% over the previous year, which was well below expectations. The dominance of reconditioned Japanese vehicles is reducing and an increase in the importation of brand new vehicles from India, China, Korea and Malaysia is a recent trend that is changing the face of the passenger car market.



Last year, we conducted several service campaigns for customers out of Colombo in partnership with our service dealers in those areas. This year, the Company will introduce the new TATA Vista, the latest from Tata motors to arrive in Sri Lanka. Discussions are under way to introduce the Tata Nano to Sri Lanka, though a time frame cannot be set for its arrival.

TATA Commercial Vehicles

The change in lending policies of financial institutions has significantly dampened the demand for TATA vehicles. Many of those who purchase commercial vehicles do so through a leasing or other finance facility. The requirement of a very high initial down payment by the financial institutions has, resulted in many customers not being able to obtain the required financing. In addition, the Institutional sales too dropped presumably due to capital expenditure restrictions by them.

However, Tata maintained its place as the market leader with a 28% hold on the commercial vehicle market.

Turnover of TATA vehicles was down by 40% over the previous year.

Industrial growth is a strong driver of this brand and sluggish growth last year had a negative impact on the overall market.

If anticipated infrastructural projects materialise and industrial growth improves, then the Company can expect a better performance this year. This also has to be complemented by a change in financial institutions lending policies.

The recent measures taken by the Central Bank to ease interest rates by reducing the policy rates, have resulted in a marginal reduction in the money market rates, though not up to desired levels . We are optimistic that this reduction in interest rates will filter down to the customers sooner than later and in turn benefit this business sector.

This year, the Company is hoping to introduce the LCV 1-3 ton truck for the Sri Lankan market.

Light Commercial Vehicles

The Company’s TATA Ace Mini Truck, commonly known as the Dimo ‘Batta’ continues to dominate the mini truck market with a market share of 56%. The 207 ‘Pick Up’ and the ‘Xenon’ have also sold well over the years.

Sales of the TATA Ace decreased by 45% and sales of the ‘Pick Up’ decreased by 23% in the year under review. This was mainly due to the total industry volume drop.

Last year, the Company launched the Xenon Single Cab and is currently exploring the possibility of assembling the TATA Ace in Sri Lanka.

Chrysler and Jeep

Chrysler and Jeep target the luxury car and jeep market. The performance overall showed a decline in turnover by 42% over the previous year. The Chrysler 300C and the Jeep Grand Cherokee continue to be the leaders in this business. This year, the Company is looking at introducing the Jeep Patriot 2.4 litre 4x4.

There is no reason for the Company to believe that the recent announcements of Chrysler regarding bankruptcy protection to have any direct impact on our Chrysler business in Sri Lanka.



Leading the Field

DIMO leads the field in 'state-of-the-art' automobile training. The DIMO Automobile Training School (DATS) was started in 1990 and continues to gather new momentum each year.

Every year, 16 students are enrolled, at no cost to them, and provided with a two-year world class training diploma, that covers all aspects of the automobile industry. During training, each student receives a stipend and uniforms. Soon after the course, the trainees have an opportunity to spend a period of time at our workshops in Colombo. Trainees may then opt to join DIMO or pursue other career options.



Bandara, Buddhika, Madushani, Praveen, Sahindu, Vihan with Sanga



BUSINESS PERFORMANCE

VEHICLE PARTS AND SERVICES



Repair of Passenger and Commercial Vehicles, Sale of Vehicle Spare Parts, Accessories, Components and Tyres.

Key Figures

	2008/09	2007/08	Change %
Segment Turnover (Rs. mn)	2,235	2,366	(6)
Segment Result (Rs. mn)	464	369	25
% Contribution to the Group Turnover	24	19	5
Segment Result/Segment Net Assets (%)	39	38	1

Customer Profile

	B2C	B2B	B2G	Total
No. of Customers (accumulated)	2,784	7,788	520	11,092
Customer Satisfaction Index (weighted average %)	—	—	—	82%

BFGoodrich
Tires

BIMTE
Engine Bearings

BLAUPUNKT
The advantage in your car.

 **BOSCH**
CHRYSLER
INSPIRATION COMES STANDARD

Fenner
FENNER (INDIA) LIMITED

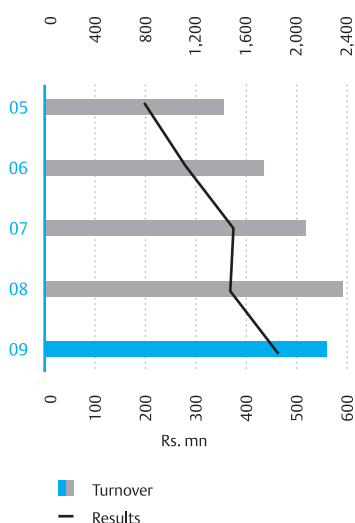
India Pistons Ltd. 
ZEXEL
GABRIEL
BEARINGS


TURBO
BEARINGS

SBP
AUTO PARTS



Business Segment Turnover Vs Results



Industry Overview

Industry overview for this segment is the same as the industry overview for the vehicles segment on pages 16 to 19.

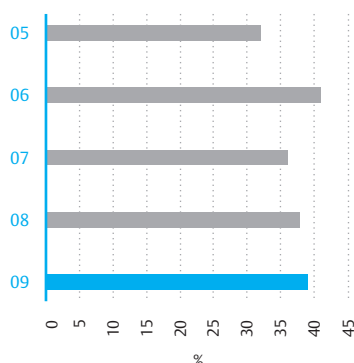
Operational Review

Franchise Parts

Dimo markets commercial and passenger vehicle parts for the after-care market from a number of reputed suppliers such as Mercedes Benz, TATA, Chrysler, Jeep, Bosch, Michelin, Komatsu, Mahindra & Mahindra, Bomag and Class. We also offer engine management systems, car multimedia systems and accessories.

The use of reconditioned vehicles increased significantly and this caused an increase in the sale of vehicle parts.

Return on Total Assets



The unit showed an increase of 19% in sales during the year under review compared to the 18% increase the previous year. This is a significant accomplishment given the overall economic climate.

The new vehicle emission regulations have resulted in an increased demand for diesel fuel injection parts. As a result, there has been an enhanced demand for genuine vehicle parts and Dimo has been able to capitalise on this demand.

We continue to expand our dealer network and this improvement has brought favourable results in the distribution business for the Company. It has also helped to strengthen our position in the market against competition. The Company shall continue to expand the dealer network specially in the growing market such as the Eastern and the Northern Provinces to improve results in the ensuing years.

Key Principals

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



Mercedes-Benz



Rane Brake Linings Ltd.



Non-Franchise Parts

The Company added new Original Equipment (OEM) parts including suspension items, engine mounts, crown wheels and break drums for Indian commercial vehicles during the period under review and the market response for these products have been encouraging. The revenue from these products contributed 12% to the total turnover of this segment.

The Company will be launching radiators shortly and this will fill the gap that has been identified in the product portfolio.

Tyres

Dimo is the distributor for Michelin, BF Goodrich and MRF truck tyres in Sri Lanka and supplies the passenger car, commercial, construction and agri-machinery markets.

Competition in this sector is intense with many cheap quality tyres being sold in the market. During the year under review, this sector performed well and achieved the budgeted results.

The Company holds for Michelin & BF Goodrich tyres a 13% share of the premium radial tyre market and a 22% share for the premium quality tyres from MRF for the medium and heavy commercial vehicle tyre market.

The dealer network was expanded with the addition of ten new dealers in key areas of the country for the Michelin brand. The main objectives of appointing such dealers were to make available Michelin and BF Goodrich tyres in areas where the product was not available earlier.

In the short term the Company will focus on introducing a cost effective tyre for the light commercial vehicle market and also improving the management of its distribution network is another priority item on the agenda.

Tyre Retreading

Tyre re-treading is a relatively new business activity for Dimo and this is the third year of its operations. The turnover of this business improved by 87% over the previous year.

The Company has recently ventured into retreading of radial tubeless tyres, which is expected to attract new customer segments.

Vehicle Services

Dimo offers a state-of-the-art repair facility for passenger and commercial vehicles at its workshops. Limited service facilities are offered at forty locations out of Colombo as well.

Turnover decreased by 5% over the previous year compared to a 19% growth the previous year. The Company invested Rs. 28 mn to upgrade its workshop facilities during the year.



The Company is looking at going into the engine-rebuilding business and expanding its accident repair workshops to increase throughput. As mentioned elsewhere in this Report, the Company will also look at marketing vehicle diagnostic equipment as the demand for this type of equipment is growing.

Two new workshops in Kurunegala and Matara were opened last year. A new mobile workshop was launched last year especially for TATA vehicles. Ten service campaigns were conducted last year and attracted a record number of vehicles.



Driving With Satisfaction

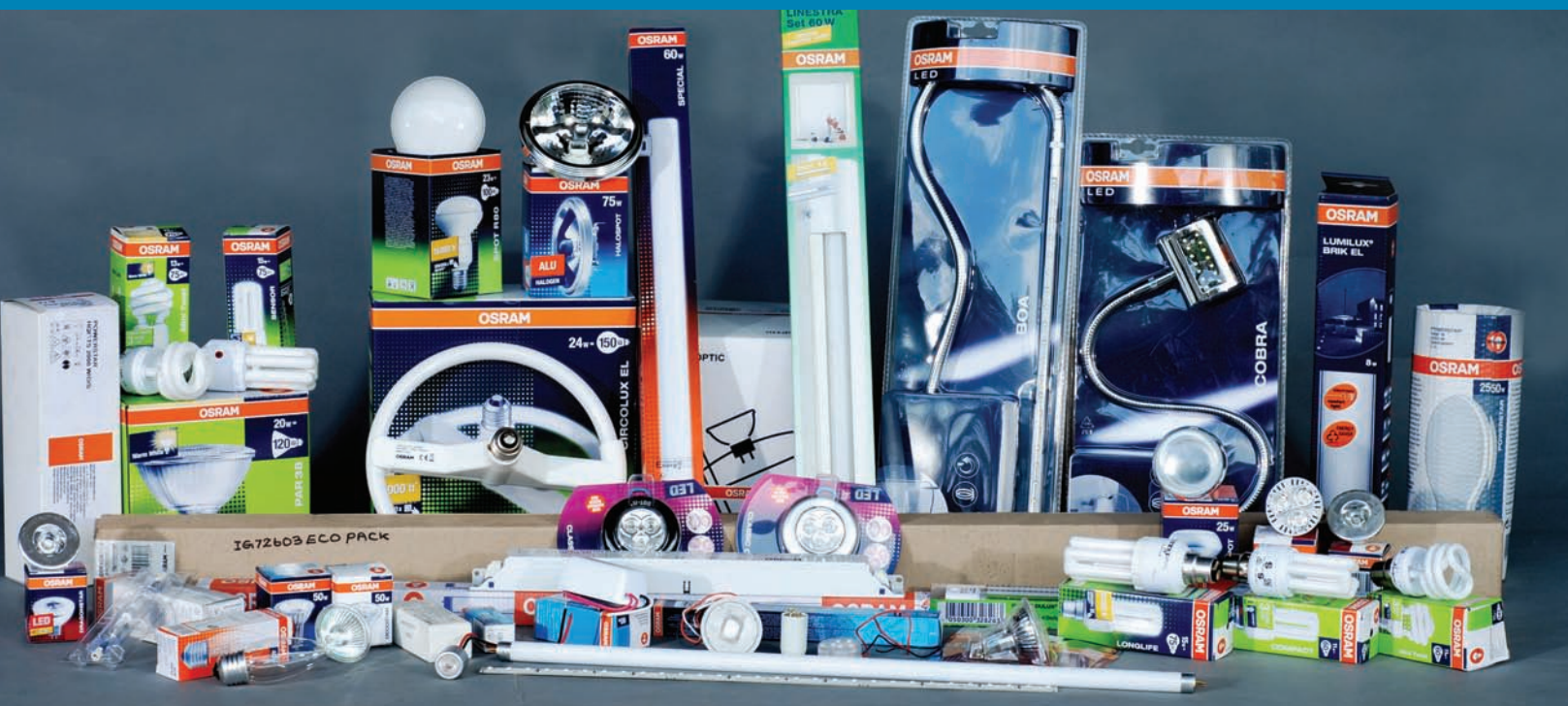
DIMO's Star Diagnosis system ensures that our customers constantly drive with satisfaction. The 'Star Diagnosis' system that DIMO has consists of sophisticated diagnosis software, that enables a computer to detect with precision technical hiccups and engine faults. Through simple 'plug and play' technology performance, faults are identified and then fixed by the DIMO technical team. It's another value addition to the continuing after care that the Company provides, a barometer of the passion we have brought to our industry.



Sudesh, Uditha, Darshana, Anil with Sanga



LIGHTING & POWER TOOLS



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

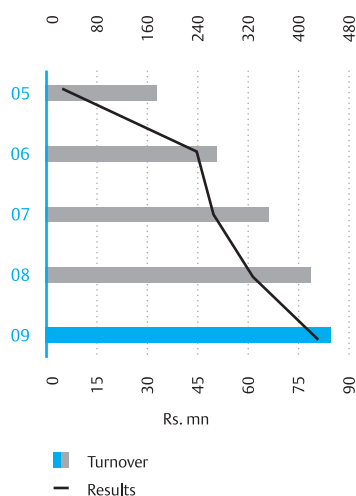
Key Figures

	2008/09	2007/08	Change %
Segment Turnover (Rs. mn)	454	421	8
Segment Result (Rs. mn)	81	62	30
% Contribution to the Group Turnover	5	3	2
Segment Result/Segment Net Assets (%)	39	39	–

Customer Profile

	B2C	B2B	B2G	Total
No. of Customers (accumulated)	115	1,925	232	2,272
Customer Satisfaction Index (weighted average %)	–	–	–	88%

Business Segment Turnover Vs Results



Industry Overview

According to the Central Bank, electricity consumption increased by 1.7% compared to an increase of 5.7% in the previous year. Electricity consumption in the industrial sector grew by 1.9% in 2008, while in the domestic and general purpose category grew by 1% and 4.7% respectively. Higher tariffs have had an impact on the consumption rates and forced consumers to conserve power and shift to alternative sources.

The construction sector grew by 7.8% last year against a growth rate of 9% the previous year. Both building material imports and domestic building material production declined.

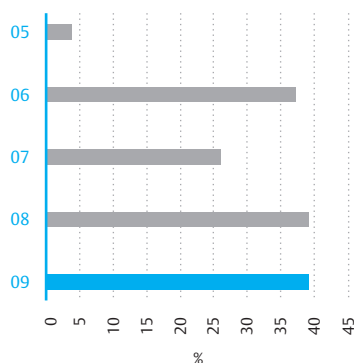
Operational Overview

Lighting

Dimo provides lighting solutions for domestic, commercial and industrial users from a range of international brands which include Osram, Siemens, Siteco, Davis and Vossloh-Schwabe.

'Lighting' business performed well during the year under review showing a turnover growth of 16% over the previous year.

Return on Total Assets



The turnover from the distribution business was 68% of the total turnover whilst the balance was derived from project business. It was encouraging to note the success in securing business in providing energy efficient lighting solutions to the commercial and industrial sector which has witnessed a growth of 35% from the previous year.

This year the Company is planning to introduce state-of-the-art LED s for commercial applications which is expected to complement the product offering.

Power Tools

Dimo sells Bosch and Skill power tools which include professional power tools, accessories, outdoor power equipment, garage equipment and hand tools. This market is dominated by Chinese products at very low prices. However, when considering the reputed 'Branded' products, Bosch power tools enjoy a market share of approximately 30%.

Although the turnover decreased by 1%, in an overall sluggish market, the Company was successful in improving its market share for branded products by 72%

Key Principals

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

MANAGEMENT REPORT

BUSINESS PERFORMANCE | LIGHTING AND POWER TOOLS

The Company launched a new auto brake and suspension analyser for light commercial vehicles for the purpose of testing the efficiency of the brake and suspension system.

The products offering is further enhanced by the introduction of the world renowned anchoring and fixing system from 'Fischer' Germany. These products cater to many applications in building and other infrastructure projects.

Whilst the anchoring business consists of two products categories, mechanical anchoring and chemical anchoring, it also complements the power tools business specially power driven hammers.

The Company also plans to introduce new products under the brand 'Skil' and is engaged in setting up its dealer network particularly in the North & East.





Ready to Respond

DIMO's 24-hour customer care service is a reflection of the commitment and passion we have towards our customers. We are always 'ready to take the crease' and respond to an emergency. We are totally committed to seeing that nothing 'slips between bat and pad' and that our clients are always protected at a time of crisis.

Mercedes Benz, Chrysler, Jeep and TATA customers can pick up a phone in any part of the country 24 x 7 to call for help should they require it. Customers have access to professional, committed and competent roadside assistance at any time of the day, at any moment.



Senaka, Lalith, Harsha, Tissa with Sanga



BUSINESS PERFORMANCE

CONSTRUCTION, AGRICULTURAL & MATERIAL HANDLING MACHINERY



Sale and Service of Earth Moving Machinery, Road Construction Machinery, Forklifts, Racking Systems, Agri Machinery, Pumps, Dock Levellers and Car Parking Systems.

Key Figures

	2008/09	2007/08	Change %
Segment Turnover (Rs. mn)	1,337	1,017	31
Segment Result (Rs. mn)	155	92	68
% Contribution to the Group Turnover	14	8	6
Segment Result/Segment Net Assets (%)	43	15	28

Customer Profile

	B2C	B2B	B2G	Total
No. of Customers (accumulated)	2,121	1,816	352	4,289
Customer Satisfaction Index (weighted average %)	—	—	—	81%

BOMAG
FAVAT GROUP

LIHAS

mhc DEMAG

DONGSUNG
PARKING & PARTS

EVERDIGM

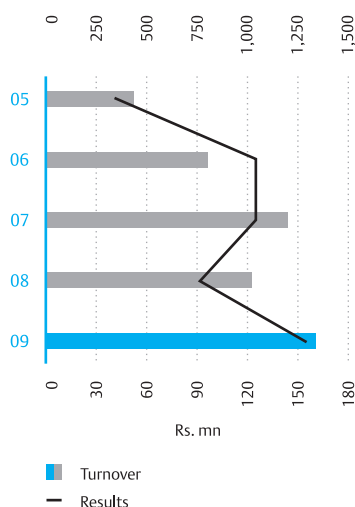
intraco palletTM

SIEMENS

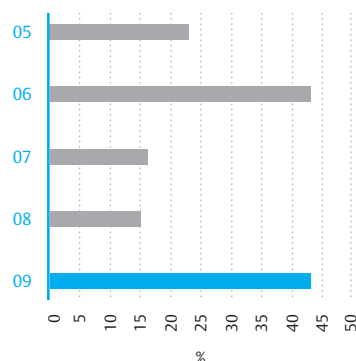
DEMAG.....
Cranes & Components

WOMA

Business Segment Turnover Vs Results



Return on Total Assets



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.
- Schwing Stetter
- SSI Schaefer Systems International Pte Ltd.

Industry Overview

The construction industry was sluggish in the year under review. The sector grew by 7.8% last year compared to a growth of 9% in the previous year. Building material imports grew by 0.1% and domestic building material production declined by 5.5%. The volume of cement available for construction activities decreased by 4.8%.

Despite fiscal constraints, the Government has set its sights on implementing several major infrastructure projects over the next ten years. If these go ahead as planned, then the construction industry is likely to experience a boom once again. However, in the light of the global crisis, the industry is likely to stagnate in the short term. Housing credit has also shrunk by 1.4% last year compared to a growth of 24.7% in the previous year. In the medium to long term it would be prudent on the part of the State to put

in place a policy regime that encourages effective Public-Private partnerships in the construction industry. Consistent public policy, transparency of decision making, independent institutions and an effective regulatory regime are crucial to promote private sector investment in economic and Social infrastructure projects.

(Source: Central Bank Annual Report-2008)

Operational Review

Construction Machinery

Dimo represents some of the leading global brands in the construction industry which include Komatsu construction and mining machines, Bomag Compactors and paving machines, Schwing Stetter cement batching plants and concrete mixer trucks and Everdigm hydraulic breakers.

MANAGEMENT REPORT

BUSINESS PERFORMANCE

CONSTRUCTION, AGRICULTURAL & MATERIAL HANDLING MACHINERY

The Company's offering consists in providing total solutions for the requirements of construction machinery which include providing fleet recommendations, supply of appropriate machinery and after sales services.

With the increase in the number of infrastructure projects that got under way during the recent past, a significant growth in the industry was evident during the year under review.

The Company's turnover for the sales of construction machinery increased by 46% over the last year. This trend is expected to grow in the ensuing year with the reconstructions and infrastructure development programmes expected to commence in the North and the East.

With the anticipated increase in infrastructural projects expected to materialise in the near future, the Company together with the principals have taken pro-active steps to extensively train our engineers on application engineering to boost pre sales and after sales service.

Material Handling and Storage

Dimo markets a range of Storage, Material Handling Equipment including Racking Systems, Forklift trucks, Dock equipment, Building Maintenance and Car Parking Solutions. These equipment are from SSI Schaefer, Komatsu, Mhe-Demag, Dongsung respectively.

Although overall turnover was down by 5% over the previous year the Company maintained its position as the market leader in several of the sub-categories.

Komatsu forklifts command over 40% of the market and Schafer racking and storage systems hold 48% of the served market.

Last year, the Company launched state-of-the-art building maintenance systems and car parking solutions. Plastic pellets, roller shutters and warehouse management systems were among the other new products launched during the period under review.

Agri-Machinery

Agri-Machinery had a good year with turnover registering a 40% increase over the previous year. The performance of the Company was linked to the good performance that the agricultural industry had in the past year.

In Sri Lanka, Dimo represents Mahindra & Mahindra and Claas Harvesters and markets a wide range of tractors, agricultural machinery and harvesters.

The Company continued with its strategy of decentralising the dealership network which now consists of 63 main dealers and 23 sub-dealers.

The Company introduced Claas wheel type Combine Harvesters which can be used effectively on dry land. This year the Company plans to introduce a new range of advanced Mahindra & Mahindra tractors.

The Government's plans to implement several infrastructure projects will add momentum to the Company's performance in this sector although cheap products from China are likely to pose a challenge in the short term.



Fluid Management Systems

This sector had a good year with an increase of 186% in turnover over the previous year. The Company was successful in securing a few key projects which helped to boost turnover.

Dimo markets electro mechanical equipment from KSB and a range of water and sewerage management systems. The Company’s principal customer is the National Water Supply & Drainage Board which is the main supplier of water in the country.

Several water supply projects are at different stages of implementation and some new projects are planned for the North and East.

Restoring effective water supply systems in the North and the East will be a huge challenge for the Government and in this regard Private-Public partnerships would play an important role in the implementation of such projects.

The Company also markets industrial cranes, and process instrumentation to industries and manufacturing companies respectively. This year the Company plans to launch new products which include gas chlorinators and to reintroduce the ‘WOMA’ high pressure pumps.



All Round Excellence

Automobiles are just one facet of DIMO's operations. Beyond the sale of high class automobiles, DIMO also offers state-of-the-art electrical installation systems, lighting solutions, fire detection and protection systems, building management & security systems and fluid management systems.

Over the years, we have generated an all round capacity that provides a variety of integrated solutions and systems for a broad range of everyday problems and needs. This is supported by a trained and highly committed team of technicians and engineers who ensure faultless installation and superb after care service.



Neomal, Rajeeve, Sarani, Harsha, Gayan with Sanga



BUSINESS PERFORMANCE

ELECTRO - MECHANICAL AND BIO MEDICAL ENGINEERING



Sale and Service of Telecommunication Solutions, UPS Equipment, Medical Engineering Solutions, Diesel Engines for Marine Propulsion and Rail Traction, Power Engineering and Building Technologies.

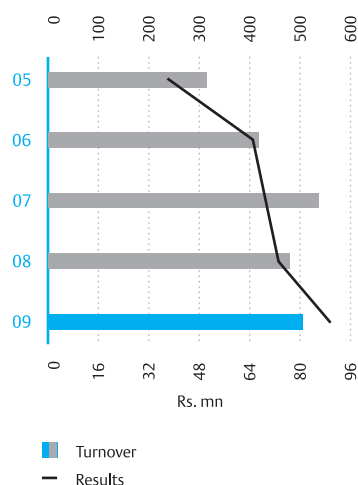
Key Figures

	2008/09	2007/08	Change %
Segment Turnover (Rs. mn)	504	479	5
Segment Result (Rs. mn)	90	73	23
% Contribution to the Group Turnover	6	4	50
Segment Result/Segment Net Assets (%)	30	27	11

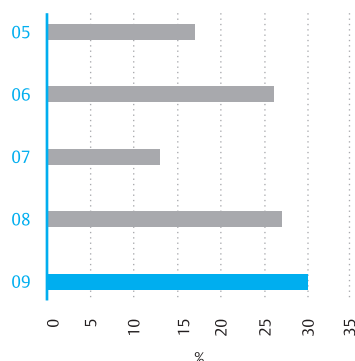
Customer Profile

	B2C	B2B	B2G	Total
No. of Customers (accumulated)	93	1,851	340	2,284
Customer Satisfaction Index (weighted average %)	–	–	–	84%

Business Segment Turnover Vs Results



Return on Total Assets



Key Principals

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

POWER ENGINEERING BUSINESS

Industry Overview

	2008	2007	2006	2005	2004
Available Capacity (MW)	2,644	2,444	2,434	2,411	2,378
CEB-Hydro	1,207	1,207	1,207	1,207	1,207
CEB- Thermal	548	548	548	548	573
Private - Hydro	137	117	107	84	73
Private - Thermal	737	567	567	567	452

Several power projects were at various stages of implementation in 2008. The first phase (200 MW) of the Kerawalapitiya combined cycle power plant with a capacity of 300 MW was completed in November, 2008 and added to the national grid, while the remaining 100 MW is expected to be added to the national grid in 2009. The Norochcholai coal power plant (900 MW) which was started in 2007 is expected to add 300 MW to the national grid in the first stage by 2011 and 600 MW in the second and third stages. The cost of power generation from coal fired power plants is relatively low compared to oil fired power plants which may result in reducing the overall cost of power generation.

Meanwhile, the construction work of the Upper Kotmale hydropower plant was in progress in 2008 and is expected to add 150 MW to the national grid by 2011. Negotiations were also in progress with foreign investors to set up a coal power plant with a capacity of 1,000 MW in Trincomalee. In addition, four medium scale hydro power plants namely, Uma Oya (120 MW), Ginganga (49 MW), Broadland (35 MW) and Morogolla (27 MW) have been identified for implementation. These power plants, once completed, would provide a space for the country to rationalise its power generation mix, thereby helping the country to cope with internal and external shocks and maintain the stability in the power system.

The Government has identified the importance of rural electrification which helps many villagers generating self-employment activities, thereby helping to alleviate poverty in rural areas. The CEB has been able to provide grid connected electricity to the level of 83% of households and the future rural electrification projects are expected to enhance the electrification level to 86 per cent by end 2010.

The Sri Lanka Electricity Bill was passed by the Parliament in March 2009. The Sri Lanka Electricity Act provides the basic legal framework for separation of policy, regulatory and operational aspects allowing the Public Utilities Commission of Sri Lanka (PUCSL) to regulate the electricity sector. Further, under the provision of the Act, the CEB will continue to function as a vertically integrated utility with powers to hold generation, transmission and distribution licences simultaneously.

(Source: Central Bank Annual Report - 2008)

The served market of the Power Engineering Business included a part of the Construction sector. The industrial review of this sector appears on page 35.

Operational Review

The Power Engineering unit consists of two core businesses, namely power generation, transmission & distribution and building technologies.

This business unit has fast developed a reputation for its competence and reliability in its area. The Company represents one of the leading brands in this area: Siemens.

In the year under review, the Company entered into several new contracts to supply Siemens state-of-the-art Fire Detection Systems, Building Management Systems and also Surveillance & Security Systems. The Building technologies offered by the unit, not only provides state-of-the-art technology to its customers but also energy saving solutions, which can bring significant savings in power costs. This business unit grew from strength to strength to achieve its budgeted profit for the year and is identified as a business that has potential to contribute to the overall performance of the Group in a significant way.

One of the projects worth mentioning is the building management system installed at Aitken Spence Towers, Colombo. This building is equipped with a intelligent lighting system and a building management system that automates several mechanical and engineering functions. This latest technology is expected to produce significant saving in power consumption too.

Dimo secured contracts for the supply of power solutions for key projects last year. In collaboration with Siemens, we have commissioned and installed a 220 kV GIS grid sub-station at Kerawalapitiya and a 220 kV AIS grid sub-station at Kotugoda for the CEB.

In addition, we have also secured orders for the supply of 11 kV panels (AIS & GIS) to CEB and have become a major supplier to them.

All these contracts secured points to the growth that the Business Unit has enjoyed and its future potential.

Turnover of this business increased by 54% during the year under review (86% in 2007/08)



POWER SYSTEMS BUSINESS

Industry Overview

The railway sector of the country showed mixed performance in 2008. Passenger transportation and goods transportation decreased by 2.1% and 9.4%, respectively, in 2008 mainly due to cancellation of train operations between several areas due to security reasons and curtailment of unproductive train operations as well as increase in railway fares and freight charges.

With the liberation of the North and the East and reconstruction of the destroyed rail track, the SLR will be able to start railway operations to those areas.

Operational Review

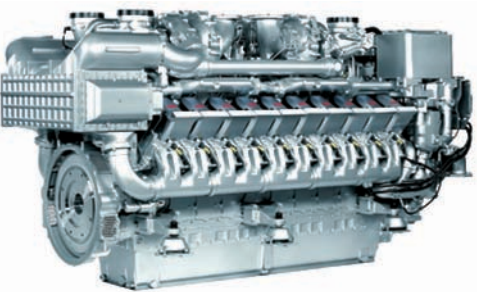
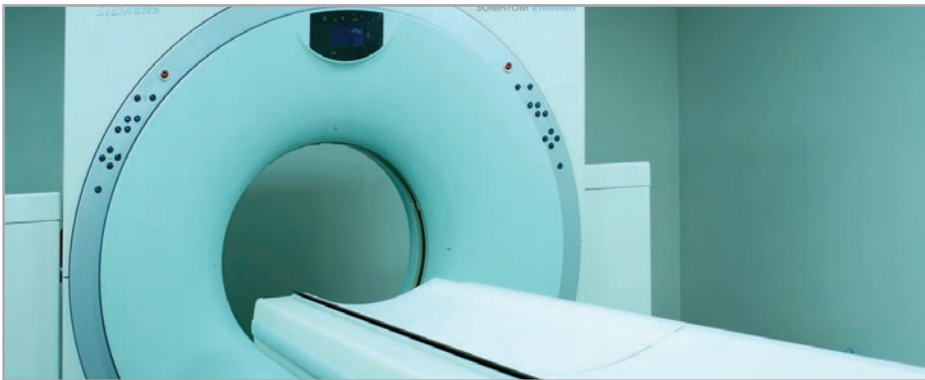
Dimo represents some of the leading global brands locally which include MTU; John Deer and York Johnsons. This business unit provides state-of-the-art solutions for power systems; off road transportation such as marine propulsion and rail traction. Industrial refrigeration business also comes under the purview of this business unit.

The Marine-Fishery sector witnessed a downturn during the year under review due to market saturation.

The sale of MTU Marine Propulsion Systems and the after sales revenues was the main contributor to growth in this Business Unit which recorded a 85% growth in turnover during the year under review.

This Business Unit performed exceptionally well during the financial year 2008/09 and is expected to perform well during the coming year too.

This year the Company plans to introduce the marine propulsion engine suitable for fishing craft, with an engine of a horse power that is well suited for the domestic fishing industry.



MEDICAL ENGINEERING BUSINESS

Industry Overview - Healthcare

	2008	2007	2006	2005	2004
Hospitals (practising Western medicine) - No	619	619	604	606	598
No. of Doctors	13,026	11,442	10,526	9,070	8,749
Total Health Expenditure (Rs. mn)	74,578	68,702	58,038	44,850	34,419

The Government continues to support its long-standing policy of providing universal health services free of charge to its people at all Government health institutions. In 2008, the total health budget increased by 8.5% to Rs. 75 bn which was about 1.7% of GDP.

The private sector also plays an important role in providing health services to the country which provides services to around 10-15% of in-patients and around 60% of out-patients annually. By end 2008, 220 private health institutions with 8,850 beds have been registered with the Private Health Service Regulatory Council. Sri Lanka has always been cited as a high performer among developing countries in terms of health indicators such as life expectancy, infant and maternal mortality.

Though, the Government has allocated Rs. 16.6 bn to the capital budget of the Ministry of Healthcare and Nutrition, the utilisation was only Rs. 7.6 bn in 2008. Delays in procurement procedures and administrative difficulties were the main reasons for the under-utilisation of the capital budget. However, financing healthcare infrastructure should be prioritised to achieve the goals as stated in the Health Master Plan.

(Source: Central Bank Annual Report - 2008)

Operational Review

The Company supplies the local healthcare industry with radiology, ophthalmology, neurology, cardiology, surgery, critical care and anaesthesiology solutions from a range of global suppliers which include Siemens, Carl Zeiss and Drager Medical.

The Intra-Ocular lenses from Zeiss used for cataract surgery was introduced by this sector and currently has a market share of 7 %. This is expected to increase to 10% during 2009/10.

During the year under review this, Business Unit supplied and installed for the Neuro trauma Treatment Unit of the National Hospital of Sri Lanka, key equipment which included a Siemens MRI Scanner (Magnetom Avento) which is reputed to be the best in the world for that category.

Also included in the equipment supplied to the Neuro Trauma Unit were a MRI compatible ventilator from Drager medical, a Siemens CT Scanner and 2 Nos. C'Arms.

During the year under review, the performance of this sector was not up to expectations, due to a decline in sales, which was a direct result of a dip in procurements. However, with new opportunities emerging in the North and East of the country, with the private sector expected to play a key role in the development of the health care industry in Sri Lanka this Business Unit is likely to be served with fresh opportunities.

Further, having secured two large orders to supply medical equipment during the ensuing year, this sector is confident of achieving the budgeted results during the ensuing year.

TELECOMMUNICATIONS BUSINESS

Industry overview

	2008	2007	2006	2005	2004
Telephone Density (Telephone per 100 persons including Cellular phones)	71.87	53.60	36.69	23.42	16.45

Telecommunications sector has shown a remarkable progress during the last few years in terms of improvement in technology, capacity and coverage, which have led to a higher subscriber network and a higher service quality.

The growth in the telecommunications sector was facilitated by intensified competition in the industry with the arrival of new service providers, expansion of coverage, reduction of initial cost to an affordable level and the adoption of new technology. The subscriber network of the telecommunications sector grew by 35.5% in 2008, following the 47% growth in 2007.

(Source: Central Bank Annual Report - 2008)

Operational Review

Dimo markets a number of products for the telecommunications industry which include small and medium business Enterprise Networks in voice communications; call centre solutions; telephone instruments; IP telephony solutions, wireless data solutions, video conferencing, and UPS systems.

The telecommunication business did not perform up to expectations. The unsupportive economic environment is a key contributor for the below par performance of this business. Formation of strategic alliances with telecommunication service providers is identified as a key strategy in improving the performance of this business. Stringent measures adopted in working capital management enabled the Business Unit to reduce working capital by 18%.

Total Reliability

Total reliability is what our repair service offers for all automobiles. At the final control station, an exhaustive inspection of the repair is carried out by our team of highly trained and dedicated technicians. A general inspection of the vehicle is done by our team to ensure that the vehicle is roadworthy. Nothing slips past us.



Mario, Zia with Sanga

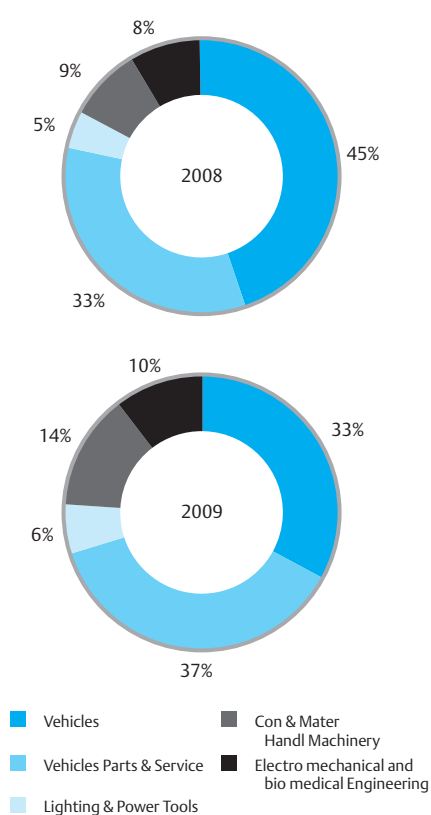


FINANCIAL REVIEW

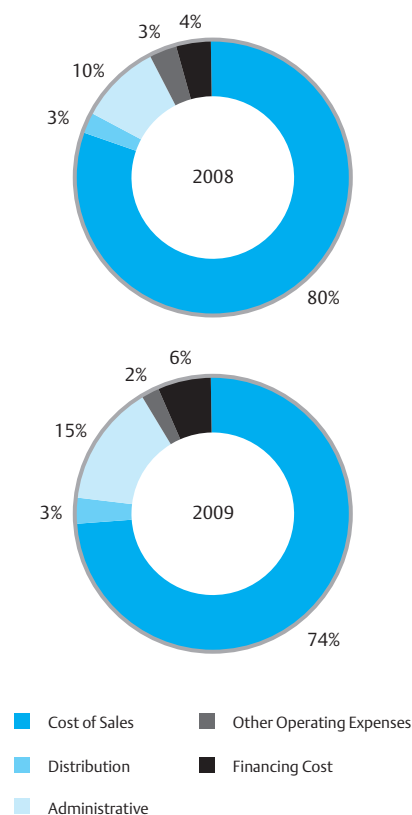
Overview

The Group faced one of its most challenging years of the recent past where an unsupportive economic environment marked by a continuous decline in demand shrinking of the vehicles market, high interest rates, conservative approach by the financial sector supporting vehicle financing and a lack of investment in capital expenditure all exerted an adverse impact on business. The thrust to increase volumes did not receive the encouragement from an expanding market. Instead, the Group was forced to seek to a higher share of the shrinking market. The persistence of the decline in demand and the unfavourable economic environment resulted in a below expectation performance with a profit before tax of Rs. 155 mn (2007/08 - Rs. 344 mn), which was significantly less than the budget. The information tabulated below provides an insight into the economic trend that led to the current decline.

Composition of Gross Profit by Segment



Cost & Expenses



	2008	2007	2006	2005	2004
AWPLR - %	18.50	17.95	15.19	12.20	10.20
Rate of Inflation - % (CCPI Annual Average)	22.60	15.80	10.00	11.00	9.00
Exchange Rate (Rs. per USD) (End of the year)	113.14	108.72	107.71	102.12	104.61
Vehicles Imports (No. of Units)					
Buses	1,180	2,637	3,346	2,069	2,167
Private Cars	20,237	22,603	27,578	17,283	19,116
Goods Transport Vehicles	14,038	18,408	20,436	14,262	10,703

(Source: Central Bank Annual Report - 2008)

Financial Environment

The Principals that we represent are largely from Germany, India and also from Japan. Consequently, the movements in the Exchange Rate of the Euro, Indian Rupee and Japanese Yen bear implications on pricing/costs of items sourced from these principals, in addition to the implications of the fluctuations in the US Dollar.

The following extracts from the Central Bank Annual Report - 2008 provide an insight into the interest rates, exchange rates and also the price levels in the country. Although, the information covers only the first three quarters of the

financial year it provides a good insight to the backdrop against which business was carried out during the whole financial year.

"The major international currencies experienced higher volatility, especially during the last quarter of 2008, mainly due to the intensification of the financial crisis since mid-September."

"The US dollar, which has been depreciating since 2002 against other major currencies reversed its trend towards the third quarter of 2008."

MANAGEMENT REPORT

FINANCIAL REVIEW

“The US dollar, which depreciated against the euro by 8.2 per cent to its weakest level since the inception of euro, appreciated in the third and fourth quarters of 2008 by 9.0 per cent and 1.9 per cent, respectively.”

“The Indian rupee depreciated against the US dollar at a higher rate due to substantial outflows of portfolio investment with the meltdown of the global financial position and expected slowdown in the Indian economy.”

“The Central Bank’s exchange rate policy in 2008 mainly focused on stability amidst unprecedented high volatility in the global currency markets, while allowing gradual depreciation to maintain external competitiveness.”

“By end 2008 the depreciation of the rupee against the US dollar was around 3.91 per cent as compared to a depreciation of around 0.93 per cent in 2007. At the same time, the rupee appreciated significantly against the Sterling pound (32.99 per cent), Indian rupee (17.54 per cent) and moderately against the Euro (0.51 per cent), while it depreciated against the Japanese Yen (22.44 per cent).”

“Despite the significant increase in inflation as a result of the pass-through of external supply shocks to domestic prices, the stringent monetary policy stance adopted by the Central Bank enabled it to contain inflationary pressures in the economy.”

“The general price level, as measured by the Colombo Consumers’ Price Index (CCPI 2002=100), continued to increase rapidly in the first half of the year reaching a high of 28.2 per cent on an year-on-year basis in June 2008, before decelerating gradually to 14.4 per cent at the end of the year. The annual average inflation rate rose to 22.6 per cent in 2008, compared with 15.8 per cent recorded in 2007. The lagged effect of adverse monetary conditions that prevailed in the past as well as adverse developments in commodity prices contributed to the increase in the index values in the first half of 2008.”

“The Average Weighted Lending Rate (AWLR), which reflects the movement of interest rates pertaining to the entire loan portfolio of commercial banks, was on a gradual upward path in 2008. The Average Weighted Prime Lending Rate (AWPLR), which reflects the borrowing costs of prime customers, that is, the most creditworthy customers, also moved up gradually.”

Trends

In the backdrop of an unfriendly business environment, business contracted considerably in terms of turnover and current assets.

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

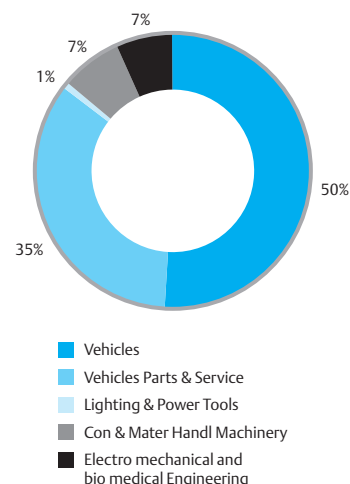
	2008/09 Rs. mn	2007/08 Rs. mn	2006/07 Rs. mn	2005/06 Rs. mn	2004/05 Rs. mn
Performance					
Turnover	9,274	12,687	12,989	10,512	7,565
Gross Profit	2,359	2,375	2,129	1,590	1,206
Profit after Tax	89	205	302	265	177
Financial Position					
Total Assets	5,263	5,831	5,199	4,570	3,195
Current Assets	3,028	4,368	4,193	3,794	2,461
Borrowings	2,701	2,785	2,840	2,795	1,609

Segment Performance

Goods Transport Vehicles and Buses, the dominantly served markets in the vehicle sales segment, experienced a sharp decline in demand, significantly affecting this segment. The resulting impact was a 44% reduction in segment revenue and a 44% decrease in the segment result. All vehicle franchises, namely Mercedes Benz, Tata and Chrysler contributed to the decline in this segment. Due to the drop in sales and intensive working capital, management was seriously taken into consideration resulting in inventory & receivable reduction being reduced by 50% (2007/08 - 1% increase) relating to the segment.

Vehicle Parts & Service produced a 26% increase in the segment result despite flat revenues. Marketing and Distribution operation of spare parts yielded encouraging results whilst the workshops contributed to a lesser extent. Segment Assets of the Vehicle Parts & Service segment also increased by 23% (2007/08 - 2%). Working capital investments made in TATA spare parts business was a key contributor to this increase.

Segmental Turnover (Rs. mn)



MANAGEMENT REPORT

FINANCIAL REVIEW

Lighting & Power Tools, Construction & Material Handling Machinery and Electro Mechanical & Bio Medical Engineering Businesses increased segment revenues by 7%, 31% and 5% (2007/08 - 19%, -15%, -10%) respectively, whilst the segment result increased by an impressive 31%, 69% and 23% (2007/08 - 19%, -17%, 4%). The improvement in the Lighting & Power Tools business is mainly due to an improved performance of the Lighting Solutions Business whilst the Power Tools Business performed below expectations. Power Engineering and Power Systems posted encouraging results in the Electro Mechanical & Bio Medical Engineering segment whilst the adverse results of Medical Engineering and Telecommunications Solutions offset these gains to a large extent.

The Budget forecasts an improved performance in all segments while the emerging Electro Mechanical and Bio Medical Engineering Segments show significant growth prospects and that augurs well with the long-term strategy of the Group.

Turnover

Turnover fell by 27% (reduction of 2% in 2007/08) to Rs. 9.2 bn (2007/08 - 12.6 bn), with the Vehicle Sales segment being the contributor to the reduction. A cautious and conservative approach by the vehicle leasing sector coupled with a decline in demand and higher interest rates severely affected commercial vehicle sales during the year. The sales of passenger vehicles were affected even further by the high tariff regime.

Profitability

The sharp fall in turnover compelled a review of business models in order to maximise the value addition components of the Group's offerings. Strong efforts made to improve profitability enabled the Group to record a gross profit similar to last year despite the drop in turnover. The gross profit margin of the Group increased from 18.9% to 25.6% with all segments contributing to the upward movement of the ratio.

Distribution and Administrative Expenses

The drop in turnover necessitated prudent management of expenses as a matter of priority and importance. In the backdrop of high inflation and a cost base significantly fixed in nature, the cost management efforts shaped a new culture of cost consciousness whilst limiting the increase in Distribution and Administrative Expenses to 7.5%.

Finance Expenses

Finance cost increased by 15.7% (2007/08 - 12%) to Rs. 599.9 mn (2007/08 - Rs. 518.1 mn) during the year. As a result of reduced profits, the interest cover deteriorated from 1.7 times to 1.3 times during the year under review.

Taxation

Income tax expense was Rs. 66 mn (2007/08 - Rs. 139 mn). The corporate income tax rate applicable to the Company was 35%. A social responsibility levy of 1.5% of the income tax payable was also applicable. The disallowable expenses relating to advertising and overseas travelling pushed the effective tax rate to 42% (2007/08 - 40%). The reconciliation between accounting profit and taxable income is available on page 124.

Earnings

Earnings before interest and tax (EBIT) for the year was Rs. 755 mn (2007/08 - Rs. 862 mn).

The net profit after tax decreased by 56% in 2008/09 (2007/08 - reduction of 32%).

Return on average capital employed was 16.5% (2007/08 - 20%).

Earnings per Share (EPS) was Rs. 9.36 (2007/08 - Rs. 16.95) constituting a 45% decrease during the year. The number of shares in issue reduced by 28.8% during the year consequent to cancellation of shares following the share buy back during the year.

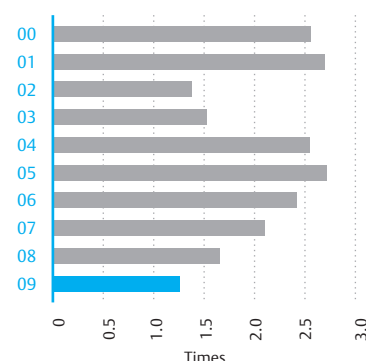
Return on Equity (ROE)

Return on Equity dipped to 5% (2007/08 - 13%) consequent to the lower Profit after Tax.

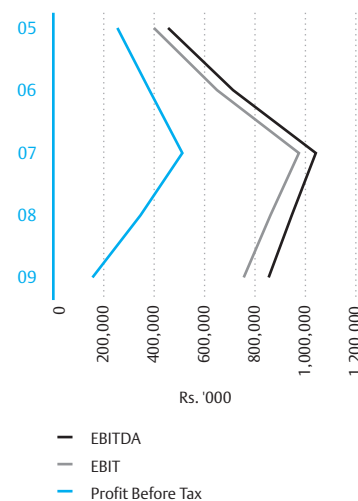
Dividends

The Directors have approved a first and final dividend of Rs. 3/- per share (2007/08 - interim Rs. 1.50 and final Rs. 2.50). The dividend cover was 3.43 times (2007/08 - 4.24 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.

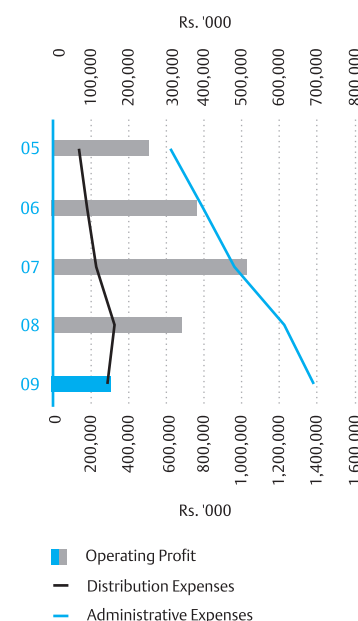
Interest Cover



Earnings



Operating Profit Vs Expenses



MANAGEMENT REPORT

FINANCIAL REVIEW

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 whilst the number of shares in issue too has a bearing on the Market Value. 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 shown below:

	2008/09 Rs. '000	2007/08 Rs. '000
Market Capitalisation	524,319	1,073,875
Shareholders' Funds	2,004,845	1,657,151
Market Value		
Addition/(Depletion)	(1,480,526)	(583,276)

MVA as at year end showed a negative value of Rs. 1,480 mn (2007/08 - Rs. 583.3 mn - negative) in the backdrop of a Rs. 348 mn (2007/08 - Rs. 150 mn) increase in equity, a 32% (2007/08 - 26% - decline) decline in market value per share during the year and a 28.86% reduction in the number of shares in issue.

Property, Plant & Equipment

The investment made in property, plant & equipment during the year was Rs. 118 mn (2007/08 - Rs. 554 mn) and the Disposals (at original cost) amounted to Rs. 43 mn (2007/08 - Rs. 35 mn). Freehold land of the Group was revalued during the year, which resulted in a surplus of Rs. 824 mn.

Working Capital

Concerted efforts on controlling receivables and reducing inventory caused the working capital to drop from Rs. 906 mn to Rs. 601 mn. Prudent management of working capital continues to be

a key area of focus and receives priority attention always. Inventories decreased by 39% (2007/08 - 4% increase) to Rs. 1.33 bn (2007/08 - Rs. 2.19 bn). Trade and other receivables too reduced by 22% (2007/08 - 10 % increase) to Rs 1.65 bn (2007/08 - Rs. 2.11).

Borrowings

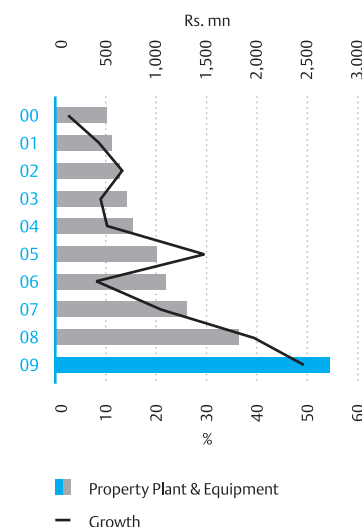
Borrowings consist of term loans, import loans and bank overdrafts. Term loans outstanding as at the year end amounted to Rs. 907 mn (2007/08 - Rs. 730 mn). The term loans have been obtained for a five-year repayment period except for the loan obtained the previous year to finance the acquisition of the Weliveriya property which has a repayment period of ten years. More details of term loans including their interest rates are available in Note 20 to the Financial Statements. Whilst interest rates of overdrafts are reviewed periodically, rates charged on import loans are determined based on money market rates. Group's interest bearing borrowings marginally decreased during the year from Rs. 2,802 mn to Rs. 2,710 mn.

Cash Flow

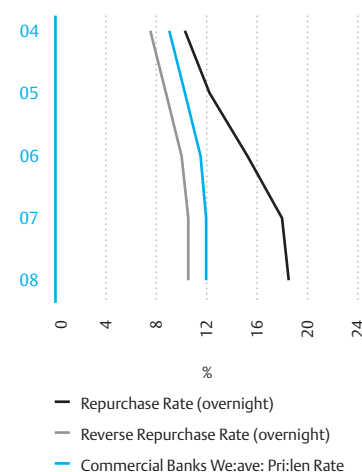
Operating activities during the year under review generated an inflow of Rs. 626 mn. This is compared to an inflow of Rs. 521 mn for the year 2007/08. Significant reductions in inventory levels and receivables contributed to this inflow. The cash outflow on account of capital expenditure and acquisition of own shares amounted to Rs. 118 mn and Rs. 543 mn respectively. The outflow on account of servicing providers of finance in the form of interest and dividends amounted to Rs. 601 mn (2007/08 - Rs. 518 mn) and Rs. 30 mn (2007/08 - Rs. 54 mn) respectively. The Group cash and cash equivalents increased by Rs. 211 mn (2007/08 - Rs. 181 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.

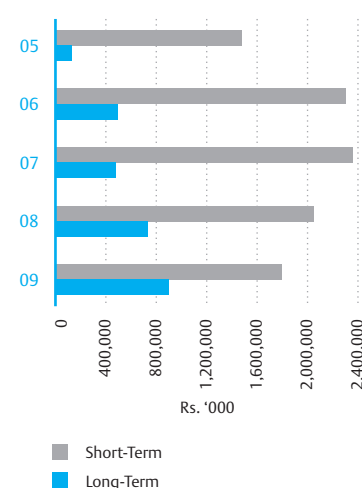
Growth in Property, Plant & Equipment



Interest Rates



Borrowings



MANAGEMENT REPORT

FINANCIAL REVIEW

Solvency

Section 56 of the 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 for 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 for the Company as at the year end is given below:

	2008/09 Rs. '000	2007/08 Rs. '000
Non-Current Assets	2,173	1,389
Current Assets	2,800	4,186
Total Assets	4,973	5,575
Current Liabilities	2,317	3,355
Non-Current Liabilities	822	705
Total Liabilities	3,139	4,060
Assets Less Liabilities	1,834	1,515
Stated Capital	182	182
	1,652	1,333

Financial Priorities

The economic landscape and the resulting business impact compelled the Group to identify the following measures for special attention:

- Stringent management of working capital.
- Identify businesses that perform below expectations and closely monitor their progress.
- Prudent management of costs.

The above measures are strongly entwined with the identified long-term financial priorities that are 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.

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 actuarial valuation of the gratuity liability carried out as at the year end places the Group's liability at Rs. 125.1 mn (2007/08 - Rs. 115.7 mn), and the liability has been recorded in the Financial Statements accordingly. Details of the assumptions made in carrying out the actuarial valuation are set out in Note 25 to the Financial Statements.

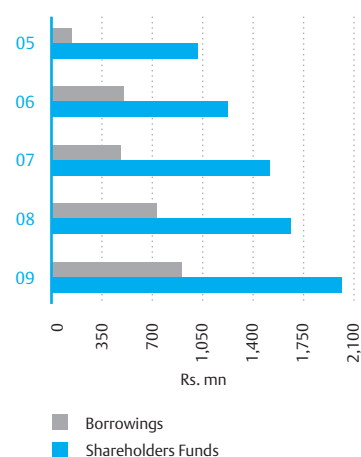
The charge to the Income Statement for the year on account of the gratuity liability is Rs. 29 mn (2007/08 - Rs. 28 mn).

Contractual Obligations

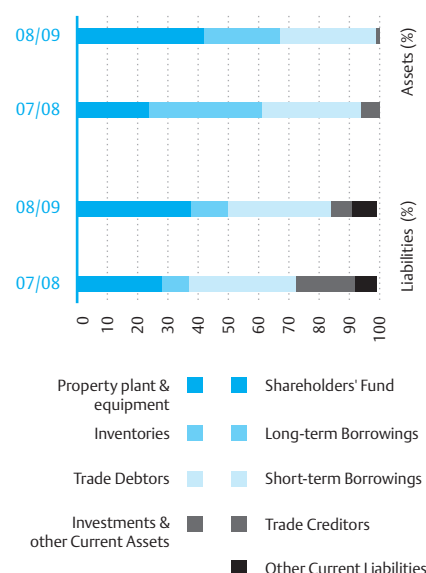
Financial contractual obligations to banks as at 31st March 2009 are given below:

Obligation	31st March 2009 Rs. mn	31st March 2008 Rs. Mn	Settlement
Long-term Borrowing	907	730	Equal monthly instalments
Short-term Borrowing	1,596	1,855	On maturity at terms ranging from one month to six months
Overdraft	207	200	On demand
Letter of Credit	495	1,135	As per LC condition
Bank Guarantees	192	211	As per Guarantee condition
Bid Bonds/Performance Bond	273	109	As per Bond condition

Capital Structure



Balance Sheet Structure



MANAGEMENT REPORT

FINANCIAL REVIEW

Shareholders' Funds

Shareholders' funds increased to Rs. 2,005 mn from Rs. 1,657 mn. The details of the movement in shareholders' funds are given in the Statement of Changes in Equity on page 112.

Market capitalisation as at 31st March 2008 was Rs. 524 mn (2007/08 - Rs. 1.07 bn).

Accounting and Financial Reporting

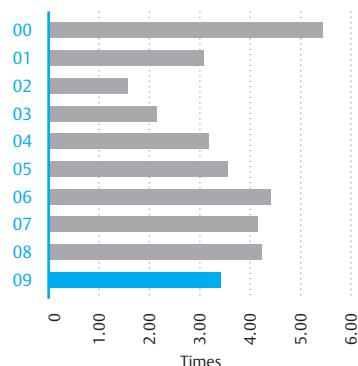
The Group strives to make meaningful disclosures of material information in the Annual Report and Accounts and has consistently focused on improving the presentation of information, within the framework of the Sri Lanka Accounting Standards.

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 judgments on the performance of the Group.

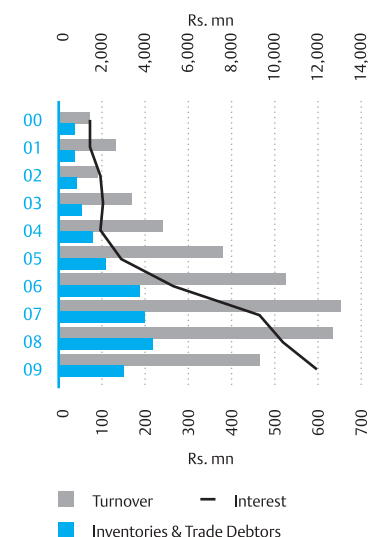
Outlook

The recent downward trend in the Treasury Bill rates suggests a possible fall in interest rates. The prospect of foreign currency inflows to support development activities particularly in the North and East and a sustained decline in inflation rates as the recent past suggests, points to a turnaround in the business environment. In a phase of severe competition and tough market conditions, the Dimeo team is equipped to face the challenges and seize the opportunities and deliver a much improved result as indicated by the Budgets for the ensuing year.

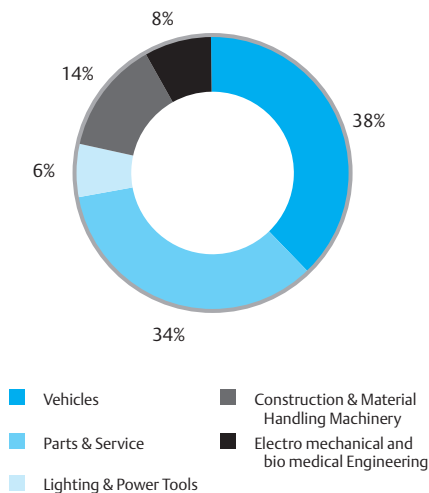
Dividend Cover



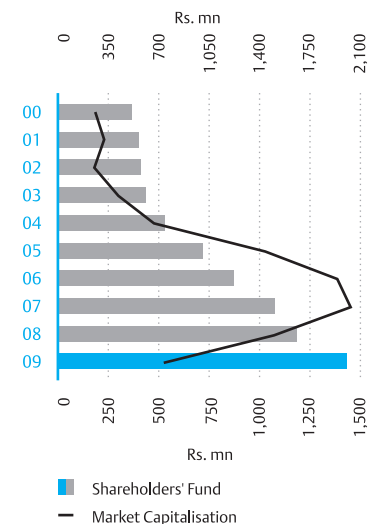
Inventories & Trade Debtors vs. Turnover & Interest



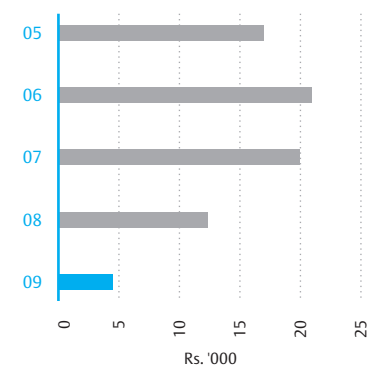
Segmental Contribution To EBITDA



Shareholders' Funds Vs Market Capitalisation



Return on Equity



SUSTAINABILITY... OUR CORNERSTONE



Chairman's Statement

Dear Reader,

I have much pleasure in placing before you, Dimo's Sustainability Report for the financial year 2008/09.

The value of sustainable principles of conduct in business has never been more fully vindicated than in the case of the current global economic crisis. Sustainability observed in the breach, plus other undesirable human traits that killed prudence along the way to seeking an ever larger 'pot of gold' have placed our world in an untenable situation.

Dimo places sustainable wealth creation at the core of our corporate strategy. You could say our business is founded on this principle. This is reflected in the manner in which sustainability is enshrined in our vision and guiding values.

Within this Report, you will find a comprehensive and detailed presentation of initiative and precept that seeks to deliver sustainable well-being for diverse stakeholders across economic, social and environmental parameters.

It is an account of impact and interaction that Dimo experiences with its stakeholders across these parameters; the philosophy that guides us and the business practices enacted that provide true sustainability for all.

Dimo has taken care to report as fully and as transparently as possible, upon every aspect that would give you dear reader, a true and fair picture of our enterprise within the context of Sustainability.

A stylized, handwritten signature in dark ink, consisting of a large, sweeping loop followed by a smaller, more intricate mark.

A.R. Pandithage

Chairman

22nd May 2009

Preamble...

If the global economic crisis currently prevailing teaches us anything, it would be the horrendous repercussions of poor governance, lax risk management and greed.

If facets of modern business such as 'sustainability', 'corporate social responsibility' and 'triple bottom line accounting' seemed to be 'mantras' employed by wily businessmen to embellish annual reports, more people than ever, from more walks of life now realise the vital importance of such fundamentals of enterprise.

We've grown up believing that 'only the strong survive' ... and until less than a year ago, that was true. Now, we are called to re-phrase the saying...' only the strong and prudent survive'.

The enterprise of Dimeo, which began 70 years ago was founded on delivering value to customers and shareholders whilst conducting our affairs with the greatest propriety and a complete awareness that we are not an isolated entity from the community and the environment.

It only remained for Dimeo to strengthen and develop this solid foundation over the years, evolving its business into a truly sustainable entity.

An Overview of this Report

The creation of sustainable value lies at the core of our corporate strategy.

Thus, our purpose in producing a Sustainability Report is to place before all stakeholders a comprehensive account of the economic, social and environmental impacts that are generated by the Company's activities.

We have sought to be balanced and fair, detailing both the positive and the negative aspects that present themselves.

Our efforts to build yearly improvement into sustainable value creation are also described within this Report.

It is also our desire that through the material contained herein, the warmth and closeness Dimeo feels towards stakeholder communities and the environment will be aptly and clearly reflected.

Within these pages, we hope to clearly enunciate Dimeo's philosophy and the framework developed to generate sustainable wealth.

At the end of the day, this Report needs to help the stakeholder to properly assess the Company's achievements in sustainable development whilst indicating areas of adequacy and others that need improvement.

Organisational Profile

The activities and enterprise of Dimeo and its subsidiaries, including joint venture entities, are included in this Annual Report.

A comprehensive account of our portfolio of products and services, and their performance during the year under review appears in the 'Business Performance' segment of the Annual Report from pages 16 to 45.

The 'Financial Review' appearing on pages 48 to 53 captures all salient financial data and information.

Organisational Impact

In years gone by, many organisations tended to lay emphasis on the economic impacts of their businesses and their profitability. Relatively less importance was attached to social and environmental factors in their sustainability framework.

The importance and validity of a holistic approach to sustainability and the three broad parameters of economic, social and environmental impacts on business have been duly recognised today.

Ever increasingly, people expect business entities to espouse sustainable business practices yielding sustainable development across all parameters, not just shareholder well-being.

SUSTAINABILITY REPORT

SUSTAINABILITY... OUR CORNERSTONE

Dimo, with a portfolio of world class Principals and Suppliers, who themselves espouse the highest standards of sustainability uses its sustainability framework to drive value creation and competitive advantage.

Reporting Parameters

The period covered by this, Dimo's fifth Sustainability Report, is 1st April 2008 to 31st March 2009. Some information pertaining to previous reporting periods is also included.

The Sustainability Report is prepared annually and is published as part of the Annual Report.

It draws on the provisions of the Global Reporting Initiative (GRI).

Any questions or queries regarding the Sustainability Report may be directed to - Corporate Communication Division, and could be sent via e-mail to dimo@dimolanka.com

Governance & Commitment

The responsibility of laying down the framework for sustainability within the organisation rests with the Board of Directors.

The Board delegates responsibility for enactment of sustainability measures to the Group Management Committee (GMC). The Group Management Committee is responsible for identifying and managing the Group's economic, social and environmental impact and performance, through processes such as the Quality Management System, the Environmental Management System, Task specific Committees and the Management Information System.

The GMC is also tasked with implementing improvements to procedures, processes, evaluation mechanisms.

The Company has complied with the listing rules of the Colombo Stock Exchange pertaining to Corporate Governance and uses Best Practices and guidelines issued by various institutions that propagate good governance in order to improve the Corporate Governance framework and its implementation. The Enterprise Governance Report is available on page 86.

Dimo has qualified to receive ISO 14001 certification for its Environmental Management System and ISO 9001-2000 certification for its Quality Management System.

The Company received the following accolades at the Annual Report Competition - Awards Ceremony, conducted by the Institute of Chartered Accountants of Sri Lanka, held in November 2008.

1. Overall Winner (Gold) - Sustainability Reporting
2. Overall Winner (Gold) - Corporate Governance Reporting
3. Overall 2nd Runner-Up (Bronze) - Management Commentary
4. Category Winner (Gold) - Best Annual Report
(Category: Group companies up to five subsidiaries)

Stakeholder Dialogue Process - In Summary

STAKEHOLDERS	SUSTAINABILITY ISSUES & CONCERNS	PROCESS OF ENGAGEMENT
Shareholders <ul style="list-style-type: none"> Owners Providers of Capital 	<ul style="list-style-type: none"> Profits & Growth Return on Investment 	<ul style="list-style-type: none"> Annual General Meeting provides an opportunity to review the past year's performance and engage in discussions with the management Annual Report Quarterly reports provide a quarterly review of performance.
Employees <ul style="list-style-type: none"> The key resource for competitive advantage and sustainable growth 	<ul style="list-style-type: none"> Individual's future growth is linked to Company achieving its objectives Personal Development Health & Safety Balance between professional and personal life 	<ul style="list-style-type: none"> Employee Council meetings Employee Portal of the Company network accessible to every employee. Annual strategic planning meeting Company's 'Open Door' policy encourages direct employee - management dialogue. Annual Employee Surveys - voluntary and confidential. Employee newsletter (Dimo News) H.R. Clinics Individual performance reviews
Customers <ul style="list-style-type: none"> Principal source of sustenance 	<ul style="list-style-type: none"> Product quality Availability (islandwide cover) Standard of After Care After Sales Care Standard of Services Reliability Technology 	<p>Customer Relationship Management 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. Customer get-together events are also held frequently and they are also included in our Product Launch events</p> <ul style="list-style-type: none"> A Customer Satisfaction Index maintained by each department provides an assessment of satisfaction levels and helps to improve problem solving capacities within the Company.
Business Partners <ul style="list-style-type: none"> Critical part of the Value chain 	<ul style="list-style-type: none"> Market Share Profitability Quality Standard 	<ul style="list-style-type: none"> A high speed 24 x 7 online link enables constant dialogue with principals. Issues discussed include product quality, marketing, customer satisfaction, 'problem solving' and employee motivation. On site visits from principals and on site visits to principals' location facilitate engagement.
Community <ul style="list-style-type: none"> Civil Safety Stakeholders in Sustainable development 	<ul style="list-style-type: none"> Social and Environmental impact 	<ul style="list-style-type: none"> Dialogue with Religious Dignitaries Written and oral communications initiated by stakeholders Company website

Stakeholder Dialogue

Engaging with and listening to the stakeholder community is a vital step in the progress towards building a sustainable and responsible business.

Dimo has in place systems and processes that are as diverse and comprehensive as necessary, to capture feedback from the stakeholder community, which we use in turn to add value to decision making.

In this whole process, Dimo places great emphasis on achieving high levels of inclusivity; it puts our finger on the pulse of the public, which is a vital requirement in carrying our enterprise forward.

Dimo works diligently each year to cull comment, process ideas, evaluate impact and attain that fine balance that seeks to deliver customer preference and shareholder requirements whilst maintaining the values and equity of true sustainable entrepreneurship.

Shareholders

The Annual General Meeting (AGM) is the principal forum at which shareholders can discuss the performance of the Group, its financial statements, returns, appointments and many other relevant matters.

The Annual Report is distributed to shareholders in advance of the AGM, to allow them to review its contents and prepare themselves to engage in constructive dialogue at the AGM.

Quarterly financial statements provide opportunity for shareholders to monitor the progress of the Group during the year.

Price-sensitive and other corporate announcements are made to the Colombo Stock Exchange (CSE) and are available at the CSE website.

The Company Secretary is available for consultation by shareholders.

Employees

The Employee Council meets each month and is a forum which provides an opportunity for employee and Company to engage in frank discussion on matters pertaining to the Company's operations.

The employees nominate their representatives to the Council, whilst the management of Business Units also attends.

The ensuing dialogue at Council meetings cover employee grievances, suggestions for improvement of business operations, new initiatives and other matters that could benefit from two-way communication.

Minutes of these meetings are maintained and posted on our employee portal.

The Business Units meet at least once a month to review performance, discuss areas of challenge and assess future plans.

Each year, the Business Units also meet and discuss their budgets with their employee members. At this meeting, the past year's performance is analysed and employee feedback sought on such performance as well as for suggestions for the year ahead.

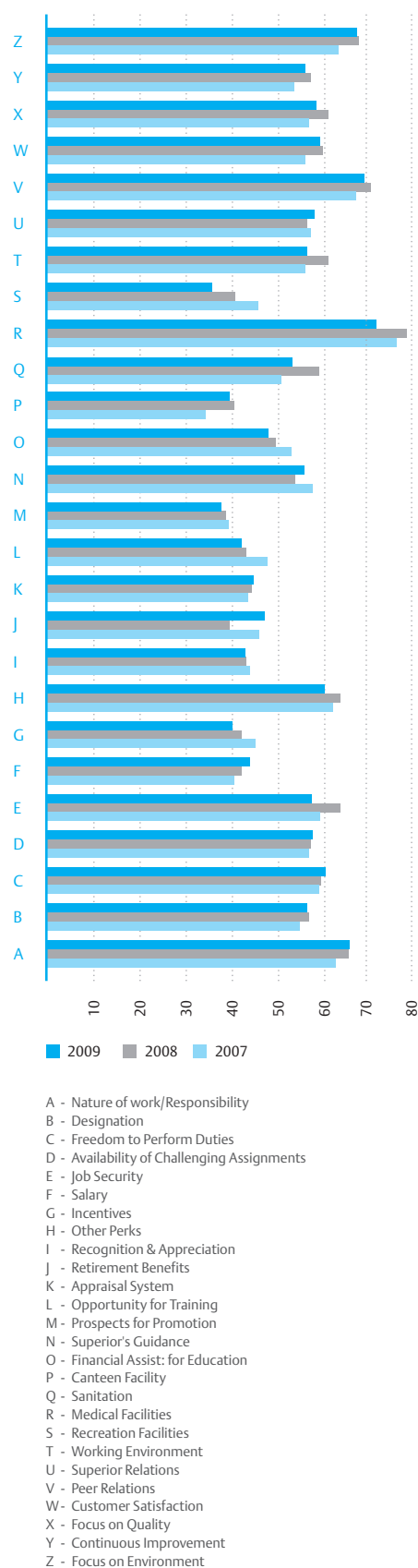
At the commencement of every financial year the Chairman/CEO reveals his vision and plans for the ensuing year.

Employee Portal

The Company's employee portal is an excellent communication medium. Every employee has his/her own portal which carries personal details, items of shared knowledge and intimation of Company events as well as other relevant information.

The portal also allows e-mail communication across peer, subordinate and supervisory groups.

Employee Satisfaction Survey (%)



Our "Open Door" Policy

At Dimo, our open door policy allows any employee the facility of meeting any person from senior management, including the Chairman/CEO as it is our aim to foster open dialogue and contribution from employees, irrespective of grade or position.

HR Clinics

A new initiative this year is the programme conducted as a HR Clinic for every Business Unit employee, right at their location of operation.

Two such sessions were conducted during the year under review.

The process involves HR personnel visiting the employee in situ, and initiating a free and frank discussion on any issue, clarification, grievance and/or suggestion the employee may have.

Every endeavour is made to provide immediate solutions - where these aren't possible, such matters are referred for further discussion with the senior management.

News Letter - 'Dimo News'

The Company newsletter 'Dimo News' is published thrice a year. It is an important conduit for sharing knowledge and information on Company matters and as a means of communicating with employees.

Employee Satisfaction Survey

The Human Resource Department conducts an employees' survey to gauge employee satisfaction levels amongst our workforce.

Anonymity is an option offered to the employee in completing the survey. Results and findings are summarised and presented for discussion at Employee's Council meetings and the Business Unit Managers' meeting.

The HR Department then institutes follow up action to track progress and implementation of selected and approved outcomes.

For the year under review, the overall satisfaction index was 53.87% which was slightly less than the previous year's figure of 55.03%. Dimo's

staff strength is 870, of which 503 or 58.2% participated in this year's survey. The previous year 657 (or 76%) of the 867 employees participated.

Principals - Our Business Partners

We maintain healthy and regular contact with our Principals, who visit us frequently to participate in review meetings. These meetings evaluate performance, market and economic trends, competitor issues, targets, training, resource utilisation among other issues.

The reverse process too takes place, with Dimo personnel visiting Principals in their home countries for similar performance reviews.

Such frequent and close interaction not only helps develop relationships but also optimally positions the Group to respond quickly to challenges that may arise, keeps us on the cutting edge of development and change and reinforces the mutually beneficial win-win situation for all parties concerned.

Arising from such interaction, reports from Principals are shared with management on a regular basis. In turn, our Business Unit managers send a regular flow of information and data to our Principals in order to apprise them of our activities.

Dimo also enjoys the facility of being linked to the Intranet of a few of our Principals, which allows for easy and regular communication with these companies located in many other countries.

The Chairman/CEO of Dimo sends a Report to the senior management of our Principals, with a commentary on the performance of the



✱ Our newsletter to keep our employees informed

Principal’s business as progressed by Dimo, which also includes details of investments made in the business.

Additionally, our Business Units submit annual reports to their respective Principals, whilst also sending other information in accordance with a pre-determined time frame.

Customers

Dimo values very highly, the strong and enduring relationships it maintains with customers. It is an integral aspect of our operations and is a vital factor in the long-term success of the Company.

For its part, the Company ensures that the products and services we offer adequately target and meet customer expectations and requirements.

As has been our ethos from inception, Dimo offers the customer a portfolio of premium products and services from the world’s best brands.

Customer Relationship Management (CRM)

The Dimo Customer Relationship Management initiative is our main point of engagement with the customer.

The function is vested in the Customer Relationship Management Team and through its activities this unit maintains constant interaction with the customer eliciting their opinions on many factors.

The CRM Team also spearheads problem solving processes in respect of any aspects of our products and/or services that adversely affect the customer.

Dimo CRM Framework

Many features distinguish the Dimo CRM process. We ensure that we respond instantly to the customer.

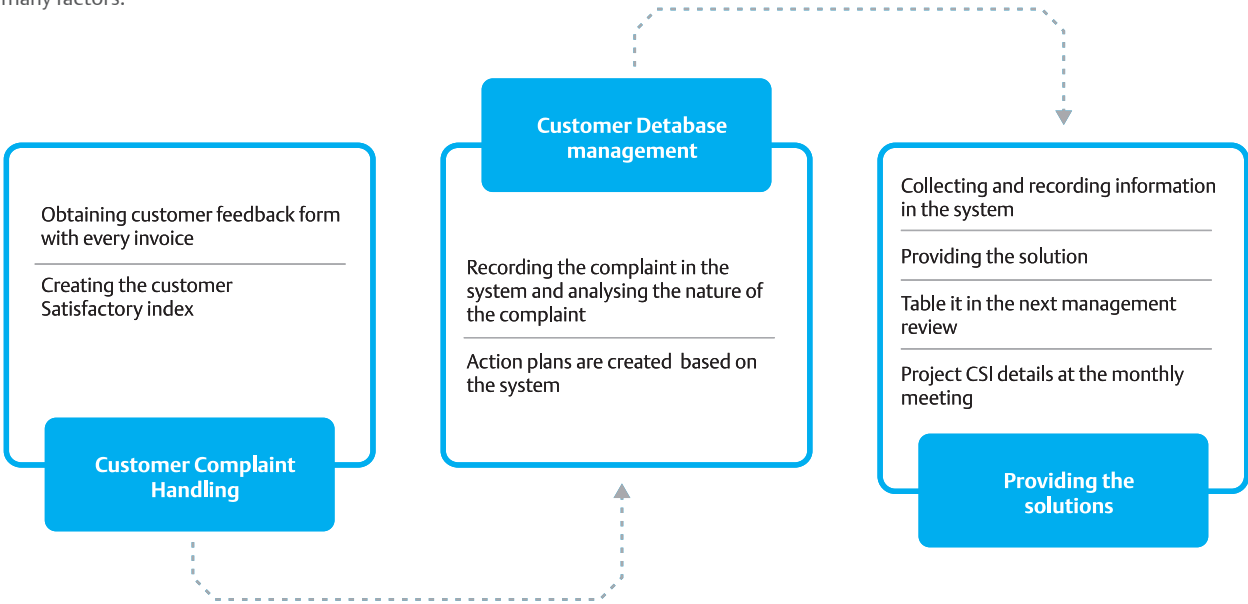
We acknowledge any customer complaint on the day of referral and make every endeavour to provide a solution within 3 days.

In this process, the CRM department analyses the issue raised from both the customer’s and Company’s perspective, evolving the best and quickest solution.

Customer Complaint Management

From the data appearing in the chart below, it is evident that customer complaints are on a downward spiral. There has been a 6% drop in complaints this year, compared with the previous year.

	2008/09	2007/08	2006/07
Customer complaints	289	305	458



Analysis of time taken to provide solutions during year 2008/09

Solutions Provided

	Days		2008/09 Total	2007/08 Total
	< 5	> 5		
April	15	7	22	23
May	23	5	28	37
June	11	6	17	27
July	15	8	23	39
August	18	5	23	38
September	18	8	26	32
October	17	5	22	30
November	10	6	16	13
December	10	4	14	11
January	18	12	30	19
February	20	12	32	25
March	22	8	30	17
	197	86	283	311

Note

All the complaints were provided with a satisfactory solution eventually.

Total complaints include 6 complaints brought forward from the previous period.

As the chart appearing above shows, 283 customer complaints were received by the CRM Department during 2008/09 of which solutions for 197 complaints were found in a period of less than 5 days each, whilst the rest were eventually solved satisfactorily.

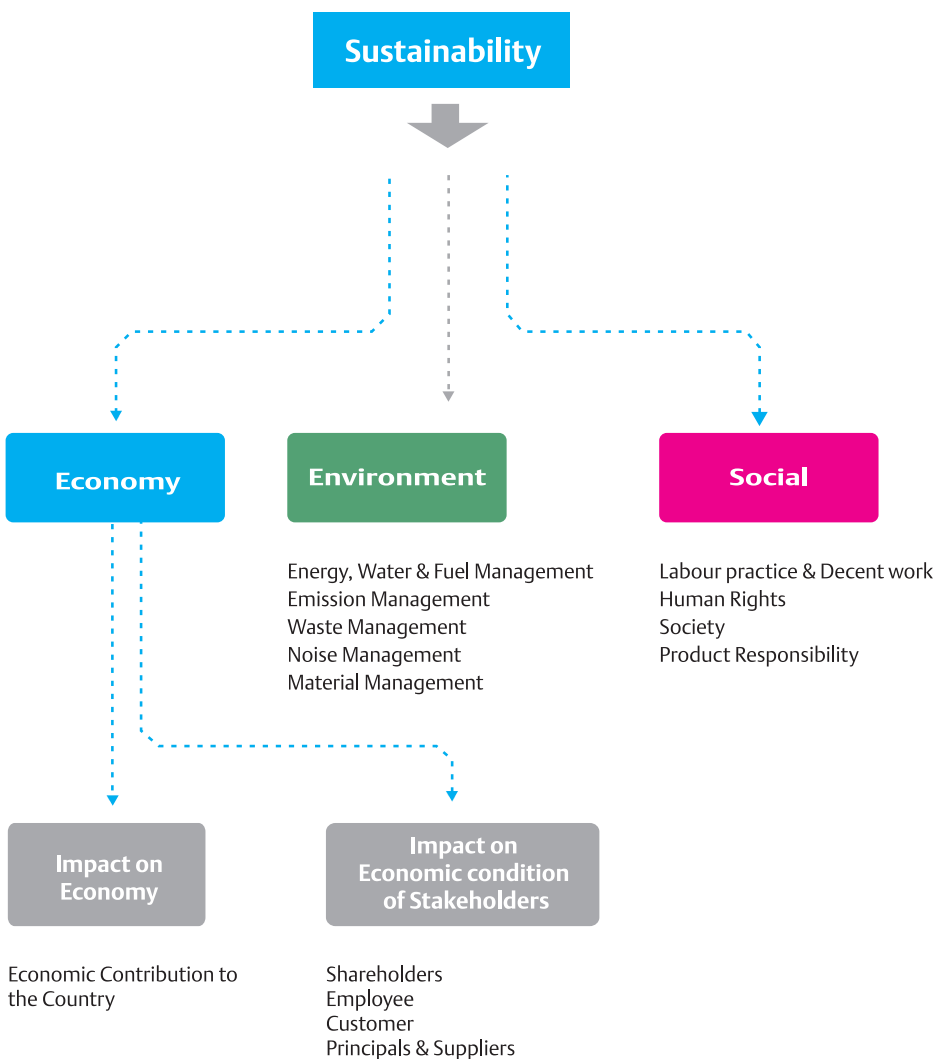
Customer Satisfaction Survey Index

Each Business Unit collects data necessary to carry out a Customer Satisfaction Survey.

The CRM Department has the responsibility of analysing information pertaining to the vehicle division, whilst in the case of other Business Units, the analysis of data is carried out in consultation with senior management on a quarterly basis.

The CRM Department maintains a Customer Satisfaction Survey Index for the Vehicle division and these details are forwarded to Business Units heads, monthly.

Both these quarterly and monthly Reports contain an analysis of customer responses and will enable the Company to continuously improve its problem-solving capacity.



ECONOMIC PERFORMANCE

Management Approach

Through its enterprise, Dimo seeks to enhance the economic well-being of all its stakeholders, that includes the society in general.

There is no gainsaying the need for a healthy bottom line from the Company's viewpoint, yet we are concerned with a contribution of much greater scope and width which is to be found in the well-being and advancement of society at large and the contribution to country's economy.

Empowering the wider community, which we can undertake precisely because of our own financial well-being, is an integral part of the Company's process of value generation.

This value generation embraces both monetary and non-monetary aspects.

In this segment of the Report, we review the economic impact our enterprise has, on investors, suppliers, customers, employees and the Nation/Government.

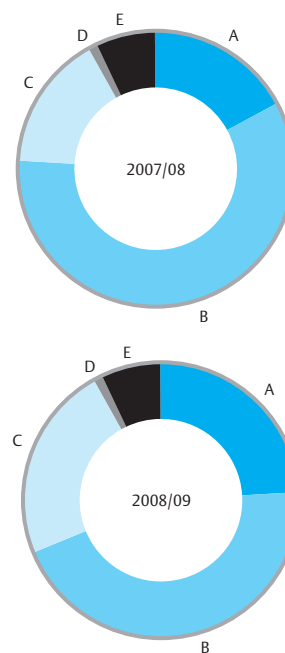
Economic Performance

The 'Statement of Value Added' is the main tool that the Company uses to monitor its economic performance. It is supported by the use of other indices and information.

This statement indicates the value added to the economy by the Company and the value distribution to stakeholders.

The total value created for the financial year was Rs. 2.5 bn (as against Rs. 3.2 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. 621 mn or 24% of the value created was shared with employees in comparison with the Rs. 573 Mn or 18% the previous year.

Consolidated Value Added (%)



	2008/09	2007/08
A Employees	24%	17%
B Government	44%	58%
C Lenders	23%	16%
D Shareholders	1%	1%
E Retained in Business	7%	7%

Statement of Value Added

	%	Consolidated 2008/09 Rs. '000	%	Consolidated 2007/08 Rs. '000	%	Company 2008/09 Rs. '000	%	Company 2007/08 Rs. '000
Value Added								
Gross turnover		9,274,103		12,687,289		8,666,943		12,169,146
Other Income		68,023		37,900		68,654		35,804
Less: Cost of Materials and Services brought in		(6,759,265)		(9,444,389)		(6,361,897)		(9,080,891)
		2,582,861		3,280,800		2,373,700		3,124,059
Value Shared With								
Employees	24	621,868	17	573,208	23	543,087	16	512,136
Government	44	1,143,422	58	1,906,343	46	1,103,234	60	1,882,218
Lenders	24	599,902	17	517,823	24	547,027	15	463,926
Shareholders	1	30,250	1	48,400	1	30,250	2	48,400
Retained in Business	7	187,419	7	235,026	6	150,102	7	217,379
Depreciation Set Aside	4	97,975	2	84,383	4	88,981	2	77,160
Profit Retained	3	89,444	5	150,643	2	61,121	5	140,219
	100	2,582,861	100	3,280,800	100	2,373,700	100	3,124,059

Investors

Earnings per share dropped from Rs. 16.95 to Rs. 9.36, this due to reasons set out in the Financial Review on page 48.

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.

Shareholders' funds stood at Rs. 1,833 mn compared to Rs. 1,515 mn as at 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.

		2008/09 Rs. '000	2007/08 Rs. '000
Total Capital Supplied			
Shareholders' Fund		2,004,845	1,657,151
Long-term interest bearing loans and borrowings		898,867	730,702
		2,903,712	2,387,853
Earnings			
Profit After Tax		89,444	205,093
Add : Interest on long-term borrowings		124,182	67,915
Adjusted earnings		213,626	273,008
Weighted Average Cost of Capital		16.90%	16.54%
Economic charge		490,727	394,951
Economic Value Added		(277,101)	(121,943)
	Source	2008/09	2007/08
Average Risk Free Rate (AVG Treasury Bill Rate)	Central Bank	18.45%	17.81%
Beta Factor - DIMO	CSE	0.32	0.17
Risk premium	Assumed	2%	2%
All Share Price Index (ASPI)	CSE	1,638.06	2,550.5
Average Weighted Prime Lending Rate (AWPLR)	Central Bank	18.50%	17.95%
Rate of Income Tax	Applicable Rate	35%	35%
Cost of Equity (Based on CAPM)	Computed	19.09%	18.15%
Cost of Debt (After Tax)	Computed	12.03%	11.67%

Employees

The Company strictly adheres to all statutory requirements with regard to employee remuneration and has a performance-based reward structure.

Salaries are usually adjusted to reflect employee performance. The performance based incentive payment is linked to a pre-determined scheme. Staff costs increased from Rs. 573.2 mn to Rs. 621.8 mn reflecting both an upward movement in remuneration.

Dimo's salary regime provides for levels of pay that enables the Group to attract and retain talent.

Staff are also entitled to a comprehensive medical insurance cover and further medical facilities.

Dimo's present recruitment practice for senior management positions within the Company allows for first preference from the internal employee cadre, based on their potential, past performance and experience.

Under the Payment of Gratuity Act No. 12 of 1983, the Company has a defined benefit plan for all employees. Under the provisions of this Act, an employee whose period of service exceeds 5 years is entitled to receive a gratuity of half the monthly salary for every year served.

The liability payable is included on page 133 under Financial Statements Note 24.

Customers

The Dimo ethos provides for a complete solution for every customer. It is a 360° model we employ, that looks beyond basic product and after-sales offers to customers.

A sale made begins a relationship with the customer that we seek to grow to longevity. Throughout the period of post-sale. The Company continues to provide a high level of after care.

Dimo's highly trained staff provides excellent technical support which adds value to the investment made in the products.

Improving Our Customer Service

Over the year, Dimo took a critical look at ways and means of enhancing the customer service experience it offers.

We recognised that, apart from actual problem solving we needed to enhance visibility and presence in more areas across the country. We needed to ensure that Dimo's goods and services, and as many of our top brands as was relevant, were available and visible, in more areas than before.

Thus we opened new showrooms for the TATA product line in Kandy, as well as display points in Yakkala and Puttalam.

We also widened our dealer network in respect of Mahindra & Mahindra Tractors, Class Harvesters, TATA Parts and Services.

DIMO "Fleet Owners Clubs" for Loyalty Customers

Another opportunity to enhance our customer service is to be found in the 'Fleet Owners' Club'.

This Club was established with the intention of providing more value-added services for loyal customers. Membership is offered at different levels, based upon a system of loyalty points.

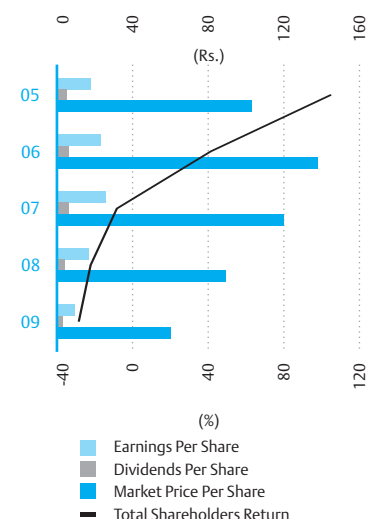
The number of loyalty points earned by a customer makes him/her eligible for one of four membership levels - Platinum, Gold, Silver or Bronze.

Based on these levels, a member will receive special discounts on repair or service jobs (discount applicable on labour and parts, but excluding repairs on vehicles involved in accidents). Special discounts are also extended on any purchases of genuine TATA spares parts, purchased from a Dimo Product.

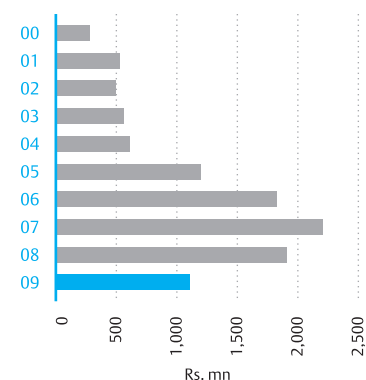
SMS based Product Verification system

An important aspect of good customer service is the reinforcement and reassurance at every point of our chain of interaction with the customer, that he/she 'Buys Genuine' when they purchase from Dimo.

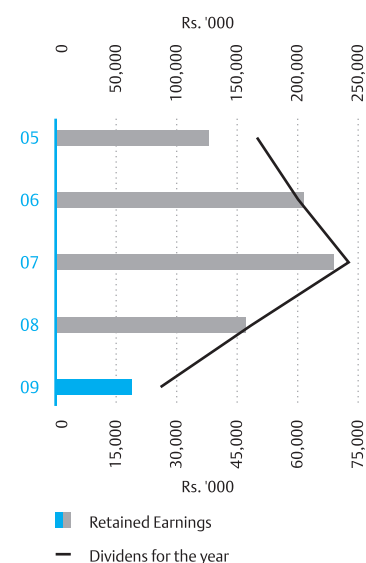
Total Shareholder Return



Group Revenue to Government



Retained Earnings vs Dividend Distributed



To minimize the impact of duplicate fuel injection products penetrating the local market, the Bosch Automotive Department has introduced a novel sticker with SMS verification facility.

All fuel injection components of Mico (Now Bosch), Zexel and Bosch will be affixed with a Holographic security sticker containing a hidden PIN number.

The customer only requires to uncover the hidden PIN number and send an SMS with this number to our contact telephone number 4656, which operates on both Dialog and Tigo networks. An immediate verification will be sent to the customer indicating whether the product is genuine or otherwise.

Suppliers

Our suppliers consist of Principals and other local suppliers

The Company's aim is to build long lasting and sustainable relationships with our Principals whilst fostering even stronger affiliations with Principals who share our philosophy of sustainability.

Our Principals underpin the Dimo brand.

That we are able to offer world class products of real value, which in turn add value to the lives of consumers, is only possible because of the help and support of our Principals.

The Dimo ethic ensures that all contractual obligations with our Principals are honoured, to the letter.

We also invest substantially, financially and by way of human resources to add value to the world class product offers we make.

The economic value transferred to our Principals is shown in the Statement of Value added as 'cost of goods and services bought'. The Statement appears on page 62 of this Report.

Government

The Company meets all its obligations to the Government of Sri Lanka as prescribed by law.

During the financial year under review, the Company paid out Rs. 1,143 mn by way of taxes and other levies. For purposes of comparison, the amount paid out last year was Rs. 1,906 mn.

This represents a total value added of 44% of total value added compared to 58% during the previous year.

The main reason for this decrease in taxes paid was due to the reduction in vehicle imports during the year.

The Company did not receive any financial assistance from the Government during the period under review.

Indirect Economic Impact

We wish to highlight a project which Dimo has channelled resources to, which benefits both the community and Company and strengthens infrastructure of the University of Peradeniya to provide such an opportunity to the public.

Dimo made a new investment in an Innovation & Research Centre in collaboration with the University of Peradeniya (Faculty of Engineering)

The Research based knowledge that the new Centre will generate is to be shared between the Faculty of Engineering and Dimo.

The process involves carrying out joint undergraduate/postgraduate research projects, to exchange technical knowledge and to act as research partners.

In line with the above objectives, the DIMO Centre for Innovative Research has been established inside University of Peradeniya. This will facilitate the creation of the best engineering based knowledge.

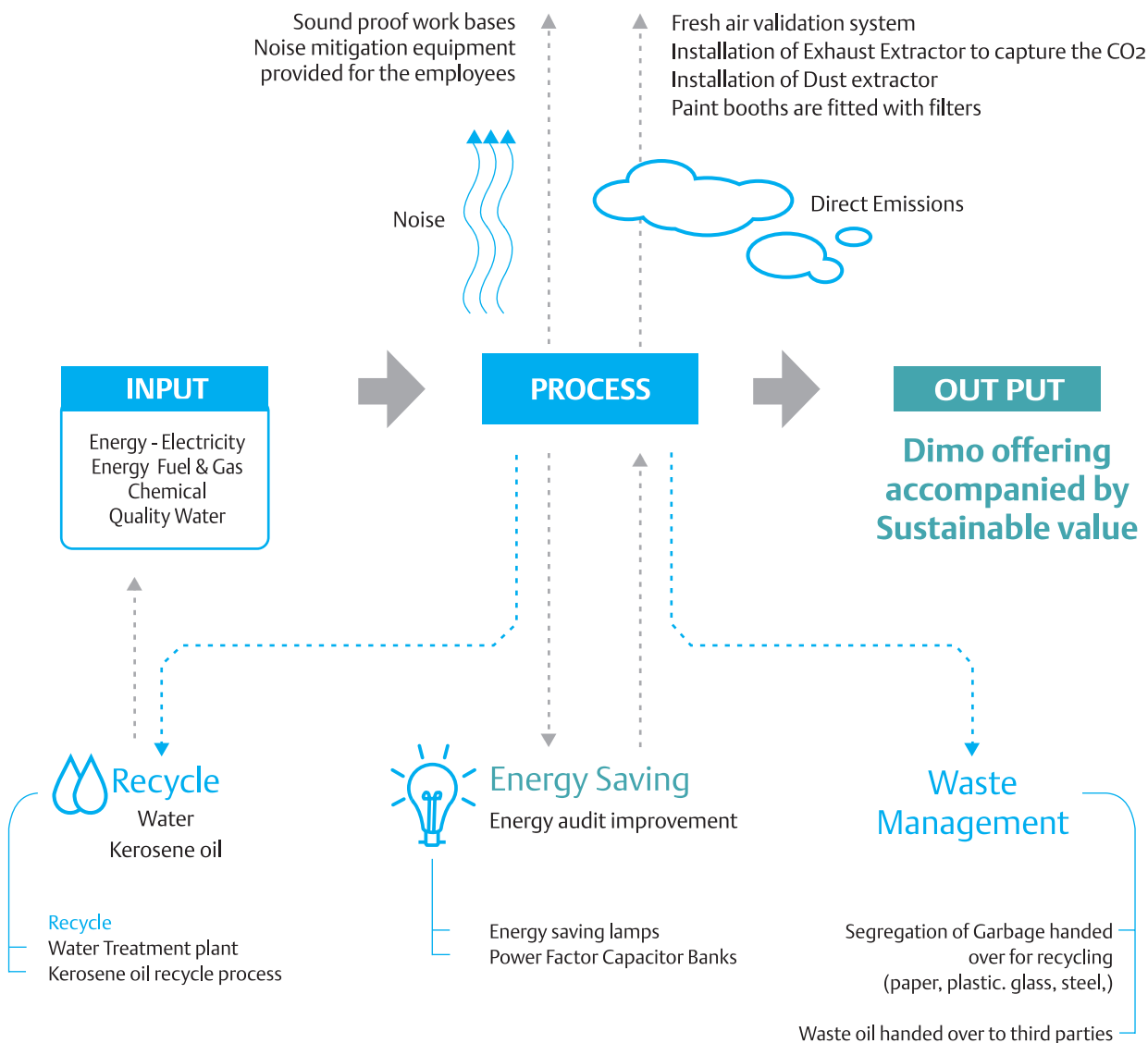
Management Approach

In this chapter, we discuss the environmental impacts of our business operations and the initiatives taken to safeguard and enhance the environment, which we regard as vital for sustainable growth and development.

Managing of the environmental impact of our business allows us to identify and address significant environmental impacts in relation to our products and activities.

This allows us to manage these areas and set environmental objectives for the Company.

Management of Environmental Impact



Environmental Management System (EMS)

The Company's EMS measures the impact of our operations on key environmental indicators thereby allowing us to initiate measures to minimise adverse effects.

It also assists 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, Re-use and Re-cycle.

Dimo's EMS has obtained ISO 14001 certification in 2005.

Within the scope of initiatives to nurture and safeguard the physical environment, the Company concentrates on six strategic areas of focus - Energy and Fuel management, Water management, Noise Emission control, Air Emission control, Waste management and Paper management.

These initiatives are well documented and monitored under the EMS.

QUALITY & ENVIRONMENT POLICY

"We at Dimo are committed to:
Continuously improve our systems and processes
Total customer satisfaction
Develop human resources
Conservation of resources
Reducing waste
Compliance to legal statutory and the requirement of the Principals"



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

Quality /Environment Management System



Environmental Performance Indicators

Managing Material Usage

The Company espouses the concept of recycling, as a saving of valuable resources. Currently, we have the following examples of measures in operation, to recycle input materials:

We have a buy back scheme for tyres where we use them in the commercial venture of tyre re-retreading. During the year under review, we have re-built 5115 tyres in this manner. In another effort to mitigate environmental consequences from old tyres, we accept tyres sold by us after their economical use and pass them on to manufacturers who use the old tyres in their manufacturing process.

We have also installed a new kerosene oil recycling mechanism in one of our workshops where kerosene used on a single occasion is recycled and reused. The departments were able to trim their kerosene usage by about 28.7% per month as a consequence of this measure. The used kerosene is disposed of in an environmentally friendly manner, through a sub-contracted service.

Managing Energy Use

The Company's main sources of energy consumption are electricity, diesel and petrol. We also utilise a small quantity of Liquid Petroleum gas (LPG).

The main source of electric power is obtained from the national grid, whilst a certain wattage is obtained through use of our in-house generator.



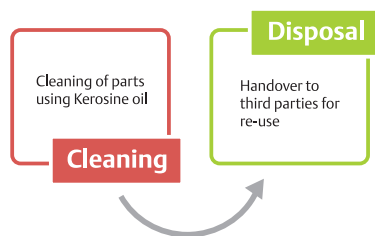
✦ Recycling Kerosene Oil to conserve a scarce resource

Energy consumption

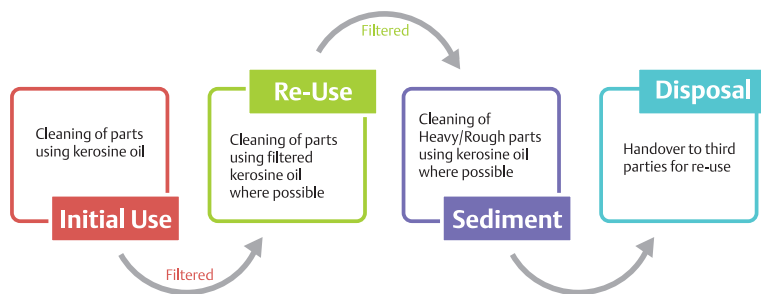
Source	Units	2008/09 Consumption
Electricity	Khm	1,687,202
Diesel for Vehicle	Lit	360,784
Diesel for Generator	Lit	4,300
Petrol for Vehicle	Lit	202,339
LP Gas	Kg	9,263

Kerosine Oil Re-cycling Mechanism

Previous Mechanism



Present Mechanism



Although Dimeo is exploring the use of alternative and renewable sources of energy, we have to report that currently, conventionally generated electricity remains our primary source of power.

Energy use is constantly monitored with a view to reducing cost and making maximum use of the energy consumed.

Dimeo, a certified Company, carried out energy audit. During the year, the Company carried out a number of energy audits for Business Units with significant energy consumption levels.

The action plan that evolved from these audits was implemented whilst recommendations were also made in respect of other Business Units.

The Table below depicts the energy saving achieved in some areas, as a consequence of the implementation of the Energy Audit's action plan.

Energy Savings Achieved

Location/Project	Consumption		Monthly Average Saving (w)	Monthly Average Saving (kwh)
	Before the Audit (w)	After the Audit (w)		
Lighting solution to M/B Store	4,840	3,708	1,132	226.40
Lighting solution to Marital handling Division	5,200	2,808	2,392	516.67
Logistic Centre office Building	11,250	8,100	3,150	604.80

Energy Saving Measures Implemented

Great or small, there is considerable activity across the Company, to achieve energy savings.

Capacitor banks have been installed in relevant areas for power factor correction. Our initiative to replace all incandescent bulbs with energy savers is almost complete. All computers in the Company switch to standby mode after 5 minutes in idling mode. One of the criteria for selecting new computers is a low radiation level. All staff are required to embrace the

energy saving habit by switching off appliances and lighting when these are not required. Air conditioning units are maintained in optimal condition and operate at a pre-determined cooling level. Equipment and machinery around the Company are maintained to high standards to prevent unnecessary energy drain due to faulty functioning.

We are increasingly using nature's gift of natural lighting, designing new facilities that make best use of this abundant resource.



a voluntary initiative

We are conscious that greenhouse gases produced as a by-product of our operations are contributing to global warming. Sri Lanka is not an Annex 1 country which is legally bound to reduce its greenhouse gas emissions. However, at Dimo, we have decided to voluntarily take measures to reduce our emissions.

In the ensuing year, we will be developing our strategy and instituting a programme to reduce our emissions within a specified number of years. As a preliminary, we have measured our direct carbon emissions.

We have used Greenhouse Gas Protocol's Standard to measure our emissions. Scopes 1 and 2 of the said standard have been used. Our main direct contributors to greenhouse gases were considered to stem from our travel and transport vehicles and the electricity that we purchase. We have also taken in emissions due to executive air travel under the aforementioned scope. However, these don't represent an exhaustive list and they are also limited by the lack of readily available data in our organisation. Also, we have not considered our indirect contributors to emissions (Scope 3). It is with these limitations that we report on our carbon footprint for 2008. This is but a preliminary step in our quest towards becoming a carbon zero company.

Given that the major part of our operations is based in Sri Lanka, we have limited the operations boundary to our head office and all offices, workshops and branches in the island.

The operations of our subsidiaries are based in the Company's own premises. Thus, we have taken the Company as our organisational boundary.

Our greenhouse gas emissions in 2008/09 are estimated to be 2,718 tCO₂-e. (metric tons of CO₂ equivalent). This is made up of 1,560 tCO₂-e and 1,159 tCO₂-e direct emissions relating to scope 1 and scope 2 respectively.

Note: tCO₂-e means, metric tons of Carbon Dioxide equivalent. There are six main greenhouse gases that are considered. They are carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF₆). The potency of each of them as a greenhouse gas is different. Carbon Dioxide equivalent, states the functionally equivalent amount of these gases, taking carbon dioxide (CO₂) as the reference.

Fresh Air Validation System

The Sri Lankan Environmental Authority evaluates and sets key parameters concerning Fresh Air Quality and effects on the environment bi-annually.

The Company's results in respect of such environmental effect are always below the levels set by the Environmental Authorities.

Dimo has taken extra precautions to minimise emissions.

This year, the Company implemented a Fresh Air Validation System, in Units Repair section of Head Office which has enabled us to reduce the temperature level, CO₂ level and Humidity level in the workshop area.

The Table shows a sample measure of Fresh Air Validation System is working when its switched off.

Fresh Air Validation System

Description	Fresh Air	
	Switch off	Switch on
Temperature .C	31.42	30.85
Co2 ppm	316	241
Relative Humidity %	66	58

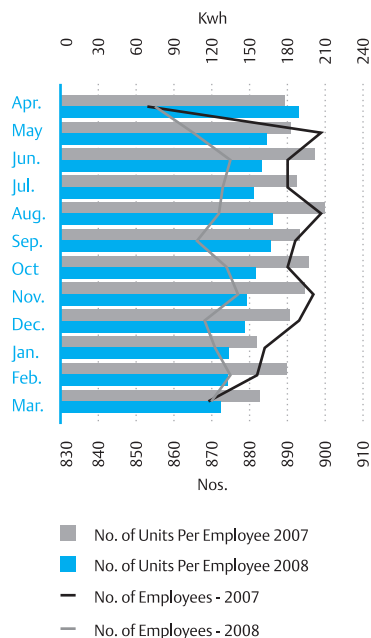
Managing Water

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.

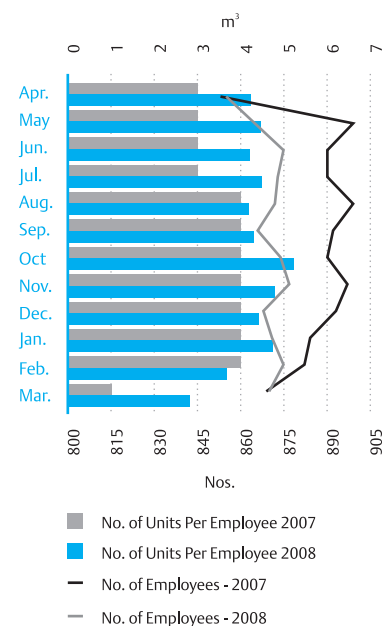
The National water supply system remains the Company's main source of water, while ground water is used in significant quantities in our workshop at Siyambalape.

The Table below depicts water consumption and reuse levels achieved during the year in review.

Electricity Consumption per Employee vs No. of Employees



Water Consumption per Employee vs No. of Employees



Total Water Consumption & Reused

Description	Water usage (M3)	Recycle water (M3)	Recycle percentage (%)
Municipal Water	25,666	-	-
Ground water	15,897	3,991	25
Total	41,563	3,991	10

Of the total ground water consumption of 15,897 M3, we have successfully recycled and reused 25% or 3,991 M3. This amounts to 10% of our total consumption.

Dimo operates an advanced water treatment and recycling plant at our Siyambalape/ Anuradhapura workshop.

A pH testing system has been installed to monitor the acidity levels of the waste water discharged and is periodically checked to ensure that water released conforms to legal limits.

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

Noise Emissions

Noise emission levels from all of the Company's facilities are strictly controlled to ensure that they conform or even supersede stipulated levels.

In real terms, we are always mindful to ensure that communities within the vicinity of our premises are not subjected to uncomfortable noise levels.

The Company engaged the service of an Independent Party approved by the environmental authority to measure the noise level. 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, Effluents and waste

Dimo follows a strict ethic which commits the Company to pursue reduction of ambient air emissions at every stage and in every aspect of its operations.

Installed exhaust extractors at all workshops ensure that emissions such as carbon dioxide and diesel fumes are captured and processed before release to the environment, within legally permissible limits.

Ozone depleting emissions such as gas from air conditioning units are recycled in special machines to avoid any leakage into the atmosphere.

All Company vehicles are subjected to regular and stringent emission tests to ensure they comply with emission regulations promulgated under the National Environment Act.

Our passenger car workshop in Colombo is equipped with exhaust gas and dust extractors to deal with gas emissions as well as harmful dust that emanates during cleaning of air filters and brake assemblies.

The Company's paint booths are all equipped with filtration systems to prevent release of toxic fumes and particles into the atmosphere.

Our Siyambalape workshop complex is also equipped with dust extractor filtration.

From the data contained in the Table below, it is clear that Dimo's actual emission levels are below the emission tolerance standard level required by the environmental authorities.

During the past year there were no instances of non-compliance.

Dimo Emission vs Tolerance level imposed by environmental authorities

Emission Type	SPM		SO ₂		NO ₂		CO ₂	
Tolerance Limit	0.35 (mg/m3)		0.12 (mg/m3)		0.15 (mg/m3)		9 (ppm)	
Year	2007	2008	2007	2008	2007	2008	2007	2008
Colombo -1	0.13	0.09	0.01	0.01	0.03	0.02	1.00	1.00
Anuradhapura	0.15	0.01	0.01	0.01	0.01	0.02	1.00	1.00
Siyambalape	0.04	0.05	0.01	0.01	0.01	0.01	1.00	1.00
Colombo - 2	0.16	0.10	0.01	0.01	0.01	0.01	1.00	1.00
Kurunegala	0.09	0.05	0.01	0.01	0.01	0.01	1.00	1.00
Matara	0.19	0.04	0.01	0.01	0.01	0.01	1.00	1.00
Weliweriya	–	0.08	–	0.01	–	0.02	–	1.00

Source: Certificate obtained from Industrial Technology Institute (ITI)

Waste Management

Dimo operates within the basic premise that waste must be reduced as far as possible. Waste not only costs money, it invariably harms the environment and the community. Thus it directly impacts negatively on our drive for sustainable development.

Here are some of the initiatives Dimo drives across its enterprise.

Waste Water Management

Dimo understands that the amount of quality water discharged by the Company is directly linked to ecological impacts and operational costs.

By progressively improving the quality of discharged water and/or reducing volumes, the Company has the potential to reduce adverse impact on the environment.

Unmanaged discharge of effluents with high chemical nutrient loads can have a significant impact on receiving waters.

To overcome these negative traits the Company has taken the following initiatives.

Water Treatment Plant- Siyamabalape

Dimo recycles waste water generated at our Siyamabalape site for re-use.

Further details are recorded under ‘Water Management’ on page 71 of this Report.

Our “GO Green Project”

The Company operates a waste collection system incorporating segregation of waste material as - plastics, solid waste, paper, glass and other materials.

Unfortunately, the Colombo Municipal Council is not geared to respond to such a system for managing waste.

We responded with our own programme led by a task force - “GO Green Project Team 3” who has found a solution to this problem.

Under the initiatives taken by this Team, waste is now collected from all our premises in a manner that will facilitate recycling. The waste is handed over to different parties who then process the recycling phase.

Waste food is handed over to a farm to be used as Animal feed.

This year, the system for waste management was introduced to the Company’s workshop in Siyambalape, the Weliweriya Logistics Centre, and our branches at Matara, Kurunegala. and Anuradhapura.

Dimo has 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.

As an example of how waste can be minimised in the simplest of settings, all used toner cartridges from our printers are recycled. The used toner cartridge is collected by our supplier, and sent to the manufacturer. During this financial year, we recycled approximately 61 cartridges in this manner.

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

Handling of Chemicals

Chemical spillages at our 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 of to be used in the furnaces of authorised parties.



- ✦ Ensuring a clean environment - the water treatment plant at our Siyambalape facility
- ✦ The promotional methods for our “Go Green Project Team 3” poster, vehicles and much more

Paper Management

The world is becoming increasingly aware that the cost of paper goes far beyond currency, to incalculable losses from denudation of forests.

Dimo has been working over the years, to effect substantial reductions in the amount of paper used within the organisation. Wherever possible, the Company has introduced procedures for recycling used paper and seeks to use recycled paper for certain applications.

The Company's Energy Management System stipulates the following specific measures with regard to paper:

- Conduct of awareness campaigns within the organisation with a view to creating a paperless office
- Conduct of awareness campaigns around focusing the need to reduce excessive printing of e-mails and other documents
- That all e-mails circulated internally carry the message 'Please consider your environmental responsibility before printing this e-mail'
- Mount initiatives to promote the re-use of 'one sided' paper
- Promote the use of recyclable paper bags when selling products to customers at our sales outlets
- Place colour coded containers in offices to segregate paper from plastics
- Ensure that segregated paper is disposed of to an authorised paper recycler

Dimo has conducted its business in full compliance with environmental laws and regulations.

SOCIAL PERFORMANCE

OUR PLACE IN SOCIETY

Labour Practices & Decent Work Management Approach

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.

Commitment to the wider social order must come from within and in this respect, Dimo follows a 'Code of Conduct' applicable to all employees, which guides us in a very comprehensive manner on correct procedure, thinking and action across diverse parameters of enterprise.

Our Workforce... founded on Best Practice

The Dimo team has been one of the main drivers of sustainable change and the Company makes consistent and substantial investments in their welfare, skill enhancement and future. The Company's goal is to make work enjoyable, rewarding and productive and to create a work space that is enriching and innovative.

As a guide to desired performance outcomes and implementation of Best Practices, Dimo has implemented a "Code of Conduct" for its employees during the year under review. This Code covers areas such as handling Proprietary information, Conflict information, acceptance of benefits from third parties, maintaining accurate books and accounts, usage of Company property for personal benefit, use of competitor information, insider trading, external business, political bias, protection of the environment and natural resources and gender equity.

The right to freedom of religion of all employees is respected and Company practices have been adapted so as to allow all employees to practice their religion without any hindrance.

The Company offers a comprehensive corporate medical service that covers most situations of ill health for both the employees and their families. Reimbursements of medical expenses of up to Rs 100,000 are provided under this scheme.

In most of the instances, the Company covers expenses beyond that sum, including critical illness surgery expenses, for procedures such as cardiac bypass,

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

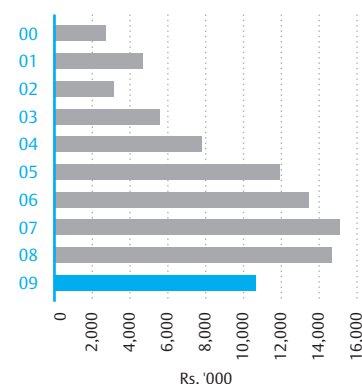
Our remuneration packages are on par with the best in the industry with annual adjustments to take into account, inflation and other variables. Performance related incentives are offered by the company and 'super performers' duly rewarded. Longevity of service is given special recognition and treated as a milestone for the employee concerned.

Every employee receives comprehensive life assurance and is covered 24 hours a day.

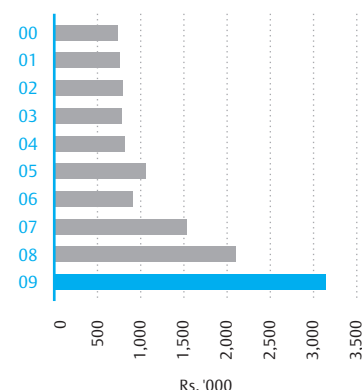
Age Group Analysis (Age vs No. of Employees)

Age Group	Non-Executive			Executive			Total
	Male	Female	Total	Male	Female	Total	
Above 61	6	1	7	8	1	9	16
51 - 60	44	–	44	39	5	44	88
46 - 50	26	–	26	33	7	40	66
41 - 45	24	1	25	44	5	49	74
36 - 40	43	1	44	51	4	55	99
31 - 35	63	1	64	81	7	88	152
26 - 30	161	11	172	61	16	77	249
21 - 25	89	14	103	15	2	17	120
Below 20	5	1	6	–	–	–	6
Total	461	30	491	332	47	379	870

Group Turnover Per Employee



Property, Plant & Equipment Per Employee



Dimo is fully committed to caring for its workforce. One of the priorities of our Human Resources department is the development of social benefits for our people.

The Company currently provides numerous welfare benefits to its employees which include many measures that are unique to Dimo.

Employee Welfare

- Employees' medical expenses are covered by the Company, which is well beyond normal market practices.
- A Doctor visits our premises daily and consultation for employees is free of charge.
- In-house nursing facilities are provided at our 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.
- Free transport four times a day between Colombo, Siyambalape and Weliweriya.
- Uniforms and footwear are provided for drivers and workshop staff.
- Meals are provided at subsidised rates.
- A death donation fund is in operation, 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 (of a permanent employee only)
- An Annual Excursion allowance is paid out for all employees
- A Mercedes Benz vehicle is made available for employee weddings
- Free school books and footwear are provided to children of employees
- An annual Christmas party is held for children of employees

Employee - Company Relationship

The Company is committed to safeguarding the right to freedom of association and encourages employees to openly discuss their grievances.

Employee Council 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.

Health and Safety

The health and safety of our employees are central to our ethos of caring for our people.

The Company provides the necessary safety equipment required at the various work stations to all employees.

Every year, the Company conducts a health and safety audit which identifies potential hazards and the programmes/procedures we require to put in place, in order to address them.

This is in addition to the exhaustive measures already in place to mitigate such risks.

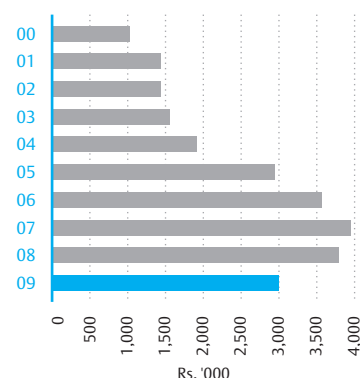
There were no major incidents of risk/accidents recorded during the year under review.

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 equipment.
- Within our initiatives to enhance awareness on safety issues, few employees took part in the certificate programme on Occupational Safety and Health
- The Company conducted safety audits and took action in accordance with the recommendations.

- Thirty employees successfully completed the certificate programme on First Aid which was conducted by the St. John's Ambulance enterprise.
- Regular fire drills are conducted at all branches and all employees are educated on how to respond to emergency.
- Special protective clothing along with eyewear is provided for the employees whose job requires same. The Company is constantly improving the design and the comfort levels of the wearer.
- The machinery and equipment installed in the Company's workshops is state of the art; they are all equipped with modern safety mechanisms.

Value Added Per Employee



- ✕ The 'Extended' Dimo Family participate in a company social
- ✕ Ensuring employees safety - A safety training in progress

Training & Education

Dimo invests in the development and career advancement of its employees. An integral aspect of personal development is to give the employee the tools which he/she can apply to achieve desired proficiency in their job.

In terms of the objectives we have set for our Training initiatives, these are some key aspects:

- Achieve full development of the potential for employee
- Increase job satisfaction
- Through proficiency, maximise the employees' contribution to the Company

All employees are given the opportunity of participating in training programmes - internally conducted as well as those run by external agencies, both local and overseas.

This year, employees were exposed to a full curriculum of training opportunities across areas such as product and service related training, Engineering, Outward Bound Training, attitude development, and motivation.

The Company implements a knowledge sharing scheme where those employees who have undergone training are then required to share training content with co-workers in order to cascade knowledge 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.

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

Employee Category	Internal		External		Overseas	
	# Training hr	%	# Training hr	%	# Training hr	%
Engineering & Technical	1834	42	292	22	744	46
Product & Service	1,390	32	611	46	880	54
Management Skill Development	324	8	75	6	–	0
Administration & Other	820	18	345	26	–	0
Total Hour	4,368		1323		1624	

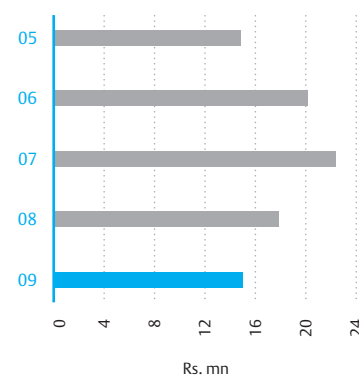
Total employee training hours stood at 7,315 for the year in review, out of which 1624 hours represented overseas training.

There was a concentration of focus on Engineering & Technical (744hr) and Product/ Services Support training (880hr) in the overseas training provided.

Diversity and equal opportunity

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.

Training Cost



✱ A total of 7,315 employee training hours

A trend we identified in the recent past continues this year too. Once the province of males, an increasing number of females are enrolling in the training school to qualify as automobile mechanics and service advisors.

The Company does not tolerate gender bias and this is reflected in the fact that our emoluments are made irrespective of gender.

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	–	2	13	2	15	17
26 - 30	15	–	15	19	5	24	39
21 - 25	8	–	8	9	3	12	20
16 - 20	21	1	22	45	5	50	72
11 - 15	56	1	57	40	4	44	101
05 - 10	43	2	45	64	10	74	119
Below 24	316	26	342	142	18	160	502
Total	461	30	491	336	47	382	870

Dimo is a non-discriminatory employer 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 ties or other distinctions.

Promotions are strictly on merit and potential. Dimo's employment practices have generated a high degree of loyalty: 368 of our employees have been in service for over five years and 249 for over 10 years.

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 other stakeholders it engages with.

Dimo also endeavours to ensure that our suppliers, dealers and other business partners also respect and espouse human rights within the scope of their own businesses.

We do not tolerate discrimination and work to ensure equal opportunity for all associates. We comply with all applicable laws, regulations and other employment standards, wherever we work.

DIMO respects the dignity of our workers in the workplace and we work to ensure our associates, right to personal security, a safe, clean and healthy workplace and freedom from harassment or abuse of any kind.

The Code of Conduct to which all employees are adherents, incorporates the tenets of human rights and compliance. Dimo also intends to introduce specific training programmes for employees in relation to policies and procedures concerning human rights aspects in work.

Freedom of Association and Collective Bargaining

There has not been any breach of the right to freedom of association or the right to collective bargaining available to employees.

We deal fairly and honestly with our employees regarding wages, benefits and other conditions of employment and recognise their right to freedom of association.

Child Labour

Dimo is strictly against the use of child labour.

We believe that children below legally employable age limits should be gaining an education, and responsible business entities can have no reason to offer employment to the under aged.

We extend this same view and stance towards all our outsourcing services

Forced and Compulsory Labour

The employees may be required to perform reasonable overtime in order to fulfill customer requirements. There have not been any recorded instances of forced labour at Dimo.

The Company adheres to the law of the land, concerning labour.

Security Training pact ice

Dimo does not employ its own in-house security staff. All security duties are provided by a specialised company.

Dimo continuously monitors their service level at monthly meetings.

Including Society in Our Equation

Empowering the Broader Community

The synergies and relationships that one shares as part of a community are invaluable. Contrary to what one may believe when reviewing the relationships between a corporate entity and society at large, it is not a one-way street. Two-way communication, friendship, enrichment, progress and well-being result.

Thus, Dimo is firmly committed to investment in the welfare of the broader community and to facilitate a sustainable future for them.

The following are some of the specific community initiatives the Company has been involved in over the year.

Dimo Automobile Training School (DATS)

Each year the Company enrolls two batches of 16 students each in the Dimo Automobile Training School (DATS).

DATS provides 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 subsidised meals, uniforms and footwear at Company's cost. They are also entitled to medical facilities and insurance cover at Company's cost.

The two-year course is followed by a competitive examination and exposes them to Mercedes, TATA, Bosch and Japanese vehicle/equipment maintenance and the latest developments in automobile technology.

The Dimo certificate is well recognised by the Sri Lankan auto 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.



✕ Every year 32 youngsters graduate from the state-of-the-art Dimo training school. They follow a 2-year comprehensive programme free-of-charge.

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 any other career choice.

During the year under review, DATS was granted the approved centre status by City and Guilds which gives DATS the opportunities to offer the City and Guilds international application in Motor Vehicle Engineering for both certificate and diploma levels. These are highly sought after qualifications amongst individuals who seek career and professional advancement in the motor engineering industry.

Also during the year under review, the Company incurred Rs. 6.75 mn as recurrent expenses for the operation of DATS.

Scholarship to Junior Athletes

For the first time in its history, Dimo provided athletic scholarships to the twelve top athletes (both Males and Females) in three age categories.

The scholarships cover twelve months and the athletes' performances will be monitored during the period. This will directly assist these top athletes to continuously improve their performance, without losing focus due to life situations they may face such as financial constraints.

Junior Athletic Championship 2008

The National Junior Athletics Championship conducted by the Athletic Association of Sri Lanka was held from 2nd to 04th of May 2008 at Sugathadasa Stadium.

Dimo came forward to sponsor this event; what we sought was not acclaim or publicity. We sought to give deserving athletes and the sport itself a boost, to attain standards we could all be proud of, as a community. Approximately 2600 athletes from all parts of the country participated in this event.

The Vidujaya Exhibition

The Vidujaya programme is a concept of the Forestry and Environmental Society of the University of Sri Jayawardenapura. It is an exhibition targeted at the undergraduates of the University and seeks to foster and raise awareness on environmental issues.

Since this aspect was a good fit in terms of our own ethos, the Company came forward to co-sponsor the programme.

TATA and St. Joseph's Montessori, Ragama

The students of St. Josephs Montessori School in Ragama were given an entertaining morning session one day, by the Tata Commercial Sales Division.

A children's movie was screened and refreshments were served. It was heart warming to see the joy and happiness of the little children as they enjoyed the programme. This was the first occasion, such an event had been organised for the school.

Dimo Gimanhala

The Company invested in the construction of a resting area along the Colombo-Kurunegala highway. The project is complete and now Dimo's customers can use this as a 'pit stop' on their travels and enjoy the services provided by the Dimo Gimanhala.

Blood Donation Campaign

A blood donation campaign was conducted at the Dimo Head Office.

Enthusiastic staff participation ensured that the campaign was a success.

The Company hopes to make this an annual event.

Donation to Sri Lanka Army

The Company donated sports equipment in the form of ten carom boards to the Sri Lanka Army's transit camps in Kankesanthurai.

Corruption

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

Public Policy

Dimo has not been party to any lobbying nor has it adopted any position with regard to public politics. The Company has not made any monetary donations to political parties or related institutions.



- ✦ One of the many religious ceremonies of the Company
- ✦ Twelve top athletes receive comprehensive sponsorships
- ✦ Sponsorship of bus-stops with seating facilities

Anti-Competitive Behaviour

Dimo does not engage in anti-competitive behaviour and does not support other organisations engaging in such practices.

No legal action has been instituted against the Company on this basis.

Compliance with Regulations

Dimo has not received any fine derived from its failure to comply with regulations

Product Responsibility**Customer Health and Safety**

The Company makes every effort 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 its products.

Dimo's principals and suppliers also follow similar practices and we ensure that our suppliers are highly reputed brands who comply with the highest standards of product responsibility.

Our principals' and suppliers' products are evaluated for any possible impact to the customer's health and safety in all phases of the life-cycle of the product.

The following are some of the specific measures that the Company and its 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 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 emissions significantly.
- Introduction of new Osram LED technology as lighting appliances. This has an energy efficiency rating of over 80% which is derived from CFL technology.
- Siteco lighting solutions make maximum use of natural light.
- After years of use customers can return a Mercedes Benz vehicle 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 re-use 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.
- The Michelin 'Green tyres', which are subject to a ISO 14001 certified manufacturing process, make it possible to reduce 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.
- Dimo was the first to introduce non asbestos clutch plates/wiper blades in Sri Lanka.
- Siemens medical equipments' radiation levels are on average, less than those of our competitors.

- The KSB pumps we market have energy conservation features.
- The Mahindra & Mahindra tractors are among the most economical in their category.
- MTU engines conform to Euro III standards.
- Customers are educated on the use of CFC free refrigeration when handing over the refrigeration projects .
- Komatsu heavy machinery conforms to Euro III standards.
- Siemens power generations solutions offer renewable power solutions such as windmills and Biomass generation.
- Siemens Building Management Systems have the ability to reduce power consumption of high-rise buildings and industrial application by a significant proportion.

Product Labelling

In accordance with the customers right, most product labels and packaging provides relevant information on the use of the products and makes mention of any dangers and risk, technical specifications, guarantee details, information about manufacture, details if the product is distributed by third parties, relevant certification and serial number of all the components (there value is our principals' standard). There was no case of dissatisfaction regarding the labelling of our products.

Marketing Communications

Dimo's marketing communication regime is fully based on transparency.

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

The Company also has special guidelines governing its advertising and promotional activities These activities are continuously monitored by the Company's Corporate Communications Division.

There was no case of non compliance with stipulated standards and regulations in respect of the Company's marketing communications activities.

Customer Privacy

Dimo respects and protects the customer's privacy and the customer's data which it is privy to .

There have been no transgressions in this context, during the applicable reporting period

Compliance

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

All products that bear the stamp 'Dimo' contain a message of quality.

GRI Compliance Index is available on pages 151 to 153.

Sustainability Indicators

	2008/09	2007/08
1. Economy		
1.1 Impact on Economy		
◦ Total value addition	Rs. 2,582 mn	Rs. 3,280 mn
1.2 Impact on economic condition of Stakeholder		
1.2.1 Shareholder		
◦ Earning per share	Rs. 9.36	Rs. 16.95
1.2.2 Employees		
◦ Employee related cost	621.8 mn	573.2 mn
2. Environment		
2.1 Energy, Water & Fuel Management		
◦ Total water consumption	41,563M ³	52,042M ³
2.2 Emission Management		
◦ Emission and Noise the tolerance standard level imposed by environmental authorities	Page 72	Page 72
2.3 Waste Management		
◦ Volume of recycle water as a percentage of total water consumption	10%	10%
2.4 Material Management		
◦ Number of tyres sent for recycling	611	Not Available
◦ Number of tyres re-used and recycled (by tyre retreading business units)	5,115	2,574
3. Social		
3.1 Labour Practices & Decent work		
◦ Number employee training hours (Internal, External and overseas)	7,315 hours	Not Available
◦ Employee satisfaction index	53.87%	55.03%
3.2 Society		
◦ Amount of Expenditure incurred during the year for Dimo Automobile Training School	6.7 mn	5.3 mn

INDEPENDENT ASSURANCE REPORT



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TO THE READERS OF THE SUSTAINABILITY REPORT 2009

Introduction

We have been engaged by Diesel & Motor Engineering PLC (Dimo) to review the Sustainability Report 2009 (further referred to as The Report). The Report, including the identification of material issues, is the responsibility of Dimo's management. Our responsibility is to issue an assurance report on The Report.

Context and Scope

In The Report Dimo describes its efforts and progress in relation to Sustainability. Our engagement was designed to provide the readers of The Report with:

- reasonable assurance on whether:
 - the data on financial performance, as specified under Value Added Statement on page 62 of The Report are properly derived from financial records of Dimo for the year ended 31st March 2009;
- limited assurance on whether:
 - the data on Sustainability Indicators for 2009 specified on page 82 are fairly stated;
 - the other information in The Report is fairly stated.

'Fairly stated' means that the reported information properly reflects the information contained in the underlying sources such that it is consistent with the source information. Reasonable assurance is a higher level of assurance than limited assurance, which is reflected in the nature and depth of the work performed.

Standards and Criteria

We conducted our engagement in accordance with the Sri Lanka Auditing Practice Statement (SLAPS 3), applicable to review engagements, and the International Standard on Assurance Engagements (ISAE 3000): *Assurance Engagements other than Audits or Reviews of*

Historical Financial Information, issued by the International Auditing and Assurance Standards Board. Amongst others, these standards require that:

- the assurance team members possess the specific knowledge, skills and professional competencies needed to understand and review the information in The Report;
- when providing limited assurance, which is a lower level than reasonable assurance, a negative form of conclusion is used.

There are no generally accepted standards for reporting sustainability performance. Dimo applies its own internal sustainability reporting criteria, derived from Sustainability Reporting Guidelines of the Global Reporting Initiative and its stakeholder engagement process as detailed on page 57 of the Report.

Considerations and limitations

Environmental and social performance data are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

To obtain a thorough understanding of the financial results and financial position of Dimo, the reader should consult Dimo's audited Financial Statements for the year ended 31st March 2009, included in the Annual Report from pages 110 to 136.

Work Undertaken and Conclusions

We reviewed the reliability of the data on Sustainability Indicators for 2009 based on reviews of:

- the systems used to generate, aggregate and report these data;
- the data reported by the relevant business units to corporate level;
- the data validation processes at corporate and business level;
- the data trends in discussions with management.

Based on the above, the data for Sustainability Indicators for 2009, specified on page 82 do not appear to be unreliable.

Financial Data

We have reconciled the data on financial performance (Value Added Statement) reported on page 62 of the Report with the financial records of Dimo for the year ended 31st March 2009.

Based on the above, we conclude that the data on financial performance (Value Added Statement) reported on page 62 are properly derived from the financial records of Dimo for the year ended 31st March 2009 for which the independent Auditors issued an unqualified audit opinion dated 22nd May 2009 on page 109 of the Annual Report.

Other Information

We reviewed the other information in The Report, based on:

- an analysis of the systems and processes used to generate this information;
- review of internal documentation and sources;
- interviews with staff for the information;
- our knowledge and understanding of the sector and Dimo's business.

Based on the above, the other information in The Report does not appear to be unfairly stated.

Ford, Rhodes, Thornton & Co.
Chartered Accountants

Colombo
22nd May 2009

New Standards in Precision

Our medical equipment is precision engineered to help in the treatment of complicated and advanced illnesses. In 2008, the Company installed a modern linear accelerator, at a private hospital in Colombo.

The linear accelerator enables a range of advanced treatments including several sophisticated forms of radiation therapy to be administered at new levels of precision. The linear accelerator blends software and hardware into a single integrated solution and ensures that radiation is safe, cost efficient, and applied according to internationally accepted standards.



Karunashantha, Sithira, Mayuri with Sanga



ENTERPRISE GOVERNANCE

Enterprise governance is “The set of responsibilities and practices exercised by the Board and Executive Management with the goal of providing strategic direction, ensuring that objectives are achieved, ascertaining that risks are managed appropriately and verifying that the organisation’s resources are used responsibly.” (IFAC/CIMA, 2004).

Governance Framework

The Challenge

Today, there is an overwhelming call for Governance in the corporate arena, in a local and a global context. Events that have unfolded in the recent past not only press the case for good governance, but also question the effectiveness of seemingly robust corporate governance frameworks. Thus, the challenge is to install and live in a governance framework that allows requisite flexibility and efficiency whilst maintaining its effectiveness, in order to sustain growth and to assure the stakeholders that their stake in the business is nurtured with care and due diligence.

Corporate Philosophy

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

Governance Policy

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, our endeavour is to ensure clear lines of responsibility and accountability across the entire Group. The Company is committed to a policy of transparent, accountable and responsible governance and strives to ensure that the Company’s ethos of governance spreads across the entire organisation and the way business is conducted.

In order to survive, compete and grow, the organisation requires to strategically align all its resources with the Enterprise Governance

strategy and to manage all decision-making and operational risks within a well planned and designed Enterprise Governance framework. Current profitability, sustainable future growth, protection of intellectual capital as well as requisite internal controls, stakeholder expectations and corporate democracy, are some key elements that are taken into account in defining the boundaries of conformance and performance.

Compliance & Adherence

The Company is bound by the regulatory requirements for Corporate Governance as promulgated by the Colombo Stock Exchange. In its search for continuous improvement in good governance, the Company embraces best practices in Corporate Governance on its own initiative.

The Company has complied with requirements of the listing rules of the Colombo Stock Exchange. The Table on page 92 provides a summary of the listing requirements and the Company’s compliance response.

The Company uses the Code of Best Practices jointly issued by the Institute of Chartered Accountants of Sri Lanka and the Colombo Stock Exchange as a guideline and is making every endeavour to adhere to the principles laid down therein and to address the disclosure requirements as set out in Schedule F of the Code.

Inclusive Approach

Good Governance is not simply an integral part of the Company strategy, but the very basis of it. Performance, Conformance, Ethics, Accountability, Sustainability and Risk Management constitute some of the building blocks of the Company Strategy.

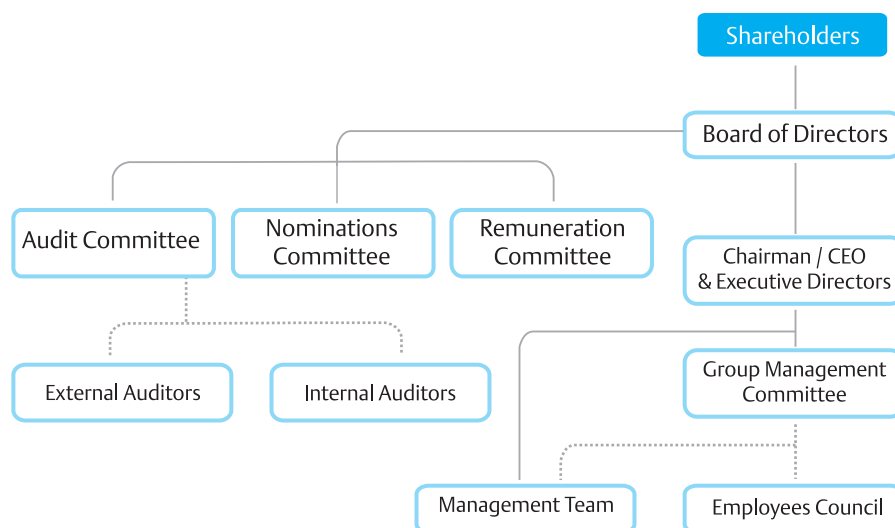
Whilst adopting of strategy and overseeing its enactment rests with the Board, its execution is delegated to the Senior Management Team led by the Group Management Committee.

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

Supportive Culture

Enterprise Governance requires high levels of commitment across the organisation, hence it is imperative that a suitably enabling governance culture should also prevail. 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.

The Corporate Governance Structure



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 and corporate governance practices towards sustainability. Appreciating the importance of good governance, respecting the governance structure transparency, good conduct, confidentiality of customer information, sustainability, conformance to laws and regulations are some key features of the Group's governance culture.

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

Governance Embedded Plans, Objectives & Operations

The Board, together with the Group Management Committee and senior management is tasked with converting philosophy and policy into strategic initiatives thus providing the strategic direction that filters across the organisation providing the basis for its objectives, plans and operations. Whilst business units have substantial autonomy in managing their operations, the assigned GMC members play a supervisory role with regard to adherence to the governance policy.

The final responsibility of good governance lies with the Board of Directors.

Enterprise Governance Framework

The Company's enterprise governance framework covers both business governance and corporate governance aspects. It encompasses a set of interlinked processes covering strategic planning, performance management and accountability, and provides a strong base for making strategic decisions, identifying key performance indicators, assessing risk appetite and managing risk.

It also covers processes and systems that are in place to ensure that the Company's resources are employed efficiently and prudently towards achieving the Company's business objectives directed at promoting increased shareholder value and fulfilling shareholder expectations.

Performance
Strategic Planning

Setting and communicating the Company's vision guiding the formulation of a sound business strategy and implementating it are two key responsibilities of the Board. Whilst the Board also sets broad parameters of performance, these are translated into specific actions by the Business Units. Each Business Unit is required to set their specific objectives in line with the parameters set by the Board. Value creation and resource utilisation are the two main pillars in the 'Performance' dimension of Governance, upon which the Board of Directors sets the direction of Corporate Strategy.

In addition to adoption of strategies, the Board through committees, is responsible for ensuring an effective review mechanism. Towards effective utilisation of resources, the Board is mandated to approve all significant investment decisions. A Capital Expenditure approval guideline ensures that key investment decisions receive timely approval of the Board.

Business Units compile and present their annual budgets and forecasts based on the overall strategic direction provided by the Board which include non-financial information such as market conditions, competition, challenges and opportunities which then they submit for Board approval. 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. Budgetary initiatives contribute to the basis upon which key performance indicators are formulated.

Strategy implementation and monitoring

The strategic direction of the Board is communicated to the management team through the Executive Directors, and if required, the Board meets the Business Unit managers for a review of performance. The Board of Directors, apprised of progress, evaluates performance in line with the business objectives. Information

generally reviewed by the Board includes key performance indicators, budgets, financial statements, customers, market developments, employees and relationship with principals. The operational results of each Business Unit are reviewed quarterly by the Board of Directors and projected results are compared with budgets and key performance targets.

A management team consisting of Group Management Committee (GMC), General Managers/Heads of Business Units and Support Services Units meets on a regular basis to review progress and discuss and resolve operational issues. Heads of respective Business Units are responsible for achieving targets. Rewards and incentives are linked to many parameters including profitability and resource utilisation. Individual targets of employees are set out in line with the Business Unit's overall targets and are reviewed on an annual 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 present Board consists of seven Executive Directors (including the Chairman), four Non-Executive Directors of whom three members are Independent Non-Executive Directors. Mr. R.A. Ebell, who was a member of the Board, resigned with effect from 30.06.08. The presence of the Non-Executive Directors provides the opportunity to maintain Board functions from management functions. The composition of the Board is achieved in a manner that provides sufficient technical and commercial expertise in the decision-making process.

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 11.

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 Senior Independent Director on the Board.

The presence of independent Directors who hold office in other entities in diverse capacities and who possess skills and experience in spheres of activity related to various facets of business, provides a mechanism for critically reviewing all aspects of the Company's operations. The presence and involvement of independent Directors ensure that no single individual has unfettered powers of decision-making and ensures that independent judgment prevails over issues of strategy, performance, risk, resources and standards of business conduct. The presence of a Senior Independent Director adds more emphasis to transparency in governance affairs.

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

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 Board monitors and evaluates risks and performance, approves all important investment decisions and is also responsible for the installation of sound internal financial controls. The Board follows a policy of strict compliance with laws and regulatory requirements and ensures that stakeholder interests are considered in key corporate decisions.

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

The Directors' Responsibilities for the Financial Statements are described on page 108.

The Chairman & CEO's and Chief Financial Officer's Responsibility Statement is available on Page 93.

Board Independence

The composition of the Board of Directors meets the level of independence required by the listing 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.

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.

Related party transactions given on page 107 show the transactions relating to Directors and/ or parties related to them.

Shareholding of Directors is available in the Annual Report of Directors on page 104.

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

Senior Independent Director

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

Appointment, Retirement and Re-Election of Directors

The Board appoints the Directors based on the recommendations of the Nominations Committee. The Company's Articles of Association provide 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 article 66 of the Articles of Association, one-third of the Directors, except for the Managing Director who is also the Chairman, retire in rotation and may offer themselves for re-appointment at the AGM. Based on the current composition of the Board, Directors are re-elected every three years.

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

The Board's Understanding of the Company's Business

Following the appointments 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 training and in-house training.

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

Effectiveness of the Board

Expertise in Finance, Engineering, Law and Marketing is available to the present Board. The Board ensures that the Chairman/Chief Executive Officer and the management team possess the skills required to implement the overall strategy.

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 to 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.

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

Financial Acumen

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

Evaluation of Board Performance

The Board during the course of conducting its business examines its performance in discharging its key responsibilities set out earlier in this Report.

The Board has set in process a performance evaluation of its own covering areas such as its contribution towards developing, implementing and monitoring of strategy, communication with stakeholders, work processes involving the Board, review of its own performance evaluation process and other areas related to the conduct of its business. The methodology of evaluation involves each Board member completing a check list and providing a rating on each item covered in the check list.

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

Meetings and Attendance

Ten Board meetings were held during the financial year.

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

The attendance of the Directors at Board meetings is given in the table appearing on page 90.

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. An evaluation of the performance of the Audit Committee, Nominations Committee and the Remuneration Committee was carried out by the Board during the year under review.

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 laws and Company policies, and also for reviewing the effectiveness of the Audit.

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 not impaired in any way as a result of the additional professional services performed by them. The Committee also takes into consideration the Guidelines for Appointment of Auditors for Listed Companies in evaluating the suitability and independence of the Auditor.

The Committee met the External Auditors prior to recommendation of Financial Statements to the Board. It also met the internal auditors at regular intervals during the financial year to discuss the findings and to identify the levels of risk carried by the areas reviewed by the internal auditors.

The Board of Directors appoints members to the Audit Committee. The present Committee consists of three Independent Non-Executive Directors and one Non-Executive Director. The Chairman of the Audit Committee is Mr. R. Seevaratnam, an experienced Chartered Accountant. Mr. R.A. Ebell, who was a member of the Committee, resigned with effect from 30th June 2008.

Mr. H.M.A. Jayasinghe, who has previously served on the Board and also as the Chairman of the Audit Committee functions now 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.

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

The Report of the Audit Committee is available on page 97.

Committee meetings and the attendance of members are given in the table appearing on page 90.

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 remuneration of the Executive Directors is decided by the Remuneration Committee in consultation with the Chairman/ CEO. No Director is involved in deciding his own remuneration.

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 congruence with shareholder interests.

The Board of Directors appoints members to the Remuneration Committee.

The present Committee consists of three Independent Non-Executive Directors and one Non-Executive Directors. The Chairman is Dr. U. Liyanage, an independent Non-Executive Director. Mr. R.A. Ebell, who was a member of the Committee, resigned with effect from 30th June 2008. The Committee is entitled to obtain professional advice at the Company's expense.

The Remuneration of the Non- Executive Directors is decided by the Board.

The Total Directors' emoluments is disclosed in Note 4 on page 123.

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

The Report of the Remuneration Committee is available on page 98.

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 the careful scrutiny of the required level and range of skills, knowledge, expertise and desired independence. Succession planning at Board and Senior Management level is a subject that is under the purview of the Nominations Committee. The Committee consults the views of the Chairman/CEO, who is also a member of the present Committee, on matters of succession at senior management level.

The present Committee consists of three Independent Non-Executive Directors and one Non-Executive Director and the Chairman/CEO. Its Chairman is Dr. H. Cabral, an Independent Director. Mr. R.A. Ebell, who was a member of the Committee, resigned with effect from 30th June 2008.

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

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

The report of the Nominations Committee is available on page 99.

Risk Management

Enterprise Risk Management report is available on page 94 to 96.

Going Concern

Information on the Directors' determination of the entity as a going concern is included in the Annual Report of the Directors appearing on page 106.

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. 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 carry out any additional tasks they consider necessary.

Board and Board Committee Meetings and the attendance of members

Name	Board	Audit Committee	Nominations Committee	Remuneration Committee
A.R. Pandithage	10/10	–	–	–
R. Seevaratnam**	10/10	5/5	1/1	2/2
Dr. H. Cabral **	08/10	3/5	1/1	2/2
Dr. U. Liyanage**	06/10	5/5	1/1	2/2
A.N. Algama	10/10	–	–	–
A.M. Pandithage *	09/10	5/5	1/1	2/2
A.G. Pandithage	09/10	–	–	–
B.C.S.A.P. Gooneratne	10/10	–	–	–
R.A. Ebell***	02/06	2/2	1/1	0/0
R.C. Weerawardane	10/10	–	–	–
S.C. Algama	10/10	–	–	–
T.G.H. Peries	05/10	–	–	–

* Non-Executive Director

** Independent Non-Executive Director

*** Non- Executive Director - resigned with effect from 30th June 2008

Financial Reporting

Financial Statements of the Company are prepared in accordance with the Sri Lanka Accounting Standards and also conform to the requirements of the Companies Act no. 7 of 2007. 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 103 to 107.
- Chairman's & CEO's Review - pages 6 to 9.
- Financial Review - pages 48 to 53.
- Business Performance Review - pages 16 to 45.

The Board possesses the necessary expertise in financial reporting and has the services of three 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 Nominations Committees are usually present at the Annual General Meeting. All Directors were present at the last AGM of the Company.

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

Major Transactions

No transactions transpired during the year under review, which could within the definition of a Major Transaction in the Companies Act No. 7 of 2007.

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 on pages 58 to 59.

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 are available in the Sustainability Report on pages 54 to 83.

Independent Review

The Company engaged Ms. Det Norske Veritas in May 2007 in order to carry out a critical independent review of the Corporate Governance. This review highlighted several areas for improvement, which are currently receiving attention.

Compliance with Corporate Governance Regulations

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

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

Corporate Governance Compliance Table

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	Four out of Eleven 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 Four Non-Executive Directors are independent *
6.2 (b)	Independent Directors	Each Non-Executive Director should submit a declaration of independence/non-independence	Compliant	Non-Executive Directors have submitted the declaration. in the prescribed format.
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 (a)	Independent Directors	The Board shall make a determination annually as to the independent or compliant non-independence of each Non-Executive Director	Compliant	The Board has carried out the determination as stated in the Enterprise Governance Report. Please refer Page 88 (Board Independence)
6.3 (c)	Disclosure relating to Directors	A brief resumé of each Director should be included in the Annual Report including the area of Expertise	Compliant	Please refer page 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 Non-Executive Directors, a majority of whom shall be independent.	Compliant	Remuneration Committee consists of four Non-Executive Directors of which three are Independent*. Chairman of Remuneration Committee is a Non-Executive Independent Director.
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 98.
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 b. Statement of Remuneration Policy c. Aggregate remuneration paid to Executive & Non-Executive Directors	Compliant Compliant Compliant	Please refer page 11. Please refer the Remuneration Committee Report on page 98 for a brief statement of policy. Please refer page 135.
6.6	Audit Committee	The Company shall have an Audit Committee	Compliant	Names of the members of the Audit Committee are available on page 11.
6.6 (a)	Composition of Audit Committee	Shall comprise Non-Executive Directors, a majority of whom can be independent.	Compliant	Audit Committee consists of four Non-Executive Directors of which three are Independent *. Chairman of Audit Committee is a Non-Executive Independent Director
		Chief Executive Officer and the Chief Financial Officer should attend Audit Committee Meetings The Chairman of the Audit Committee or one member should be a member of a professional accounting Body	Compliant Compliant	Chief Executive Officer & Chief Financial Officer attend by invitation Chairman of Audit Committee is a member 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
	Disclosure in the Annual Report relating to Audit Committee	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 basis for such determination	Compliant	Please refer Audit Committee Report on page 97.
		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 97.

* Mr. R.A. Ebell who was a member of the Board, Audit Committee, Nominations Committee and the Remuneration Committee resigned with effect from 30th June 2008. He has submitted a declaration of independence as required. The number of Directors & Committee Members given under 6.1, 6.2(a), 6.5(a) and 6.6(a) above represents the composition as at 22nd May 2009 and therefore does not include Mr. R.A. Ebell.

CHAIRMAN & CEO'S AND CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

The financial statements are prepared in compliance with the Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka and the requirements of the Companies Act No. 7 of 2007 and any other applicable statutes. The accounting policies used in the preparation of the financial statements are appropriate and are consistently applied, except unless otherwise stated in the notes accompanying the Financial Statements.

The Board of Directors and the management of our Company accept responsibility for the integrity and objectivity of these Financial Statements. The estimates and judgments relating to the Financial Statements were made on a prudent and reasonable basis, in order that the Financial Statements reflect in a true and fair manner, the form and substance of transactions, and reasonably present the Company's state of affairs. To ensure this, the Company has taken proper and sufficient care in installing a system of internal control and accounting records, for safeguarding assets, and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis. Our internal auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Company were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting.

The Financial Statements were audited by Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants, the independent auditors.

The Audit Committee of our Company meets periodically with the internal auditors and the independent auditors to review the manner in which these auditors are performing their responsibilities, and to discuss auditing, internal control and financial reporting issues. To ensure complete independence, the independent auditors and the internal auditors have full and free access to the members of the audit committee to discuss any matter of substance.



A.R. Pandithage
*Chairman/ Managing Director/
Chief Executive Officer*



B.C.S.A.P. Gooneratne
Chief Financial Officer

22nd May 2009

ENTERPRISE RISK MANAGEMENT

Overview

The Group, consisting of several business units many of them in relatively diverse areas, is exposed to a variety of risks inherent to commercial ventures. It is, therefore, important for a business to identify the variety of risks it is exposed to, examine the likelihood of occurrence and the extent of impact that an occurrence may cause thus calling for processes and systems encompassing enterprise risk management. Enterprise risk management helps the entity to effectively deal with uncertainty. Enterprise risk management is an integral part of Group's business strategy. Risk management reconciles the two dimensions of enterprise governance namely, conformance and performance.

The Challenge

Uncertainty provides both risk and opportunity with a potential to erode or enhance value. The challenge for management is to determine acceptable limits of such uncertainty.

Guiding Principle

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. The Company's strategy reflects the risk appetite of the Company. 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.

Risk Mapping

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 minor, moderate and significant.

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 LIKELIHOOD	High

Risk Exposure

The likelihood of occurrence and the significance of the impact are assessed based on available information and mapped on the model laid out above. The model would indicate the extent of the Risk Exposure and Risk Management actions that the exposure encompasses.

The risk exposure assessed is set out under each type of risk discussed below.

Economic Risk

Economic risks are those changes in the economic environment that have the potential to affect the company adversely.

The economic risk was manifested in the drop in vehicle sales during the year under review. High interest rates, a conservative lending policy, high tariff are all economic factors that affected sales. High interest rates had a further impact on the results through an increase in finance costs.

Prudent management of costs and working capital were two measures that helped to mitigate the impact.

Risk Exposure

Likelihood: High **Impact:** Moderate

Market/Portfolio Risk

The vehicles and vehicle parts/service segments that form the Group's core business, accounts for 75% 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. 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 Power, Healthcare, Water and Industry sectors.

Risk Exposure

Likelihood: Low **Impact:** Significant

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 damage and specific attention is given to situations where such risks can not be adequately covered by insurance.

There was no incident during the year relating to this risk that affected the profitability of the group during the year.

Risk Exposure

Likelihood: High **Impact:** Low/Moderate

Foreign Exchange Rates

Foreign currency exposure arising out of trading activities is hedged through forward contracts, when desirable. An impact on profits arises when translating foreign currency assets and liabilities into local currency at the Balance Sheet date.

GOVERNANCE REPORT

ENTERPRISE RISK MANAGEMENT

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.

Profits or Losses that arose due to fluctuations in foreign exchange rates have been appropriately accounted for in the Income Statement.

Risk Exposure

Likelihood: High **Impact:** Low/Moderate

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.

Risk Exposure

Likelihood: High **Impact:** Low

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 in order to ensure that requisite funds are available for operations and investment.

The Group possessed adequate funds and bank facilities to facilitate an uninterrupted and smooth functioning of its operations. The Directors are of the opinion that the Group possesses adequate bank facilities required to carry out its operations unhindered. The unutilised bank facilities/overdraft facilities as at 31st March 2009 were Rs. 2,943 mn (Rs. 3,321 mn as at 31st March 2008).

Risk Exposure

Likelihood: Low **Impact:** Significant

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 developments in the international market and also competitor strategies and promptly develops counter strategies as 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 through the constant technological innovations achieved by them, allowing us to offer superior products to the market.

The impact of any occurrence due to the industry risk was not felt in a significant manner during the year.

Risk Exposure

Likelihood: Low **Impact:** Significant

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 aspects such as after care conform to the rigorous standards set down by 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.

The year under review did not give rise to any occurrence in respect of relationships with principals that seriously affected the overall performance.

Risk Exposure

Likelihood: Low **Impact:** Significant

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.

The employee attrition rate for the year Nos. 14% Information gathered at exit interviews and the results of the employee satisfaction surveys are used to address this risk factor.

Risk Exposure

Likelihood: Low **Impact:** Significant

Labour Relations

The regular meetings of the Employee's Council provide a forum to discuss employee concerns and help the management to respond and address them adequately. 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 59.

Risk Exposure

Likelihood: Low **Impact:** Moderate

Compliance with Laws & Regulations

Laws, regulations and accepted principles have a considerable impact on any business. Regular review of compliance is carried out by the Management, Audit Committee and Internal Auditors. The Group Management Committee is tasked with the responsibility of identifying any changes to legislations and subsequent education of relevant personnel in an expeditious manner.

Risk Exposure

Likelihood: Medium **Impact:** Moderate

Loss of Data

The Company operates within a fully computerised environment and the loss of important data arising from technological failure is another risk we have to guard against. The Company employs various measures such as regular back-up of data to guard against

GOVERNANCE REPORT

ENTERPRISE RISK MANAGEMENT

and minimise the risk of data loss. 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.

There was no incident during the year relating to this risk that affected the profitability or operations of the Group during the year.

Risk Exposure

Likelihood: Medium **Impact:** Moderate

Information Security

Employees are made aware of the importance of ensuring security of information and maintaining confidentiality measures to mitigate the risks in this area include restriction of access to information in certain instances. The ethical values that we propagate also stress the need to maintain confidentiality.

During the year, the employees signed and acknowledged their commitment to the Code of Ethics of the Group. There was no incident during the year relating to this risk that significantly affected the profitability of the Group during the year.

Risk Exposure

Likelihood: Medium **Impact:** Moderate

Frauds & Errors

The management has put in place a system of internal controls, to minimise the risk of fraud and irregularities and to 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.

The Internal auditors met the Audit Committee 4 times during the year. There was no occurrence under this risk category reported to the Audit Committee that would affect the Group's Profit in a significant manner.

Risk Exposure

Likelihood: Medium **Impact:** Moderate

Customers

The Company's Customer Relationship Management process helps it respond effectively and efficiently to customer complaints and to 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.

Data relating to number of customers and customer satisfaction index is available in the operational review from page 16 to page 45.

Risk Exposure

Likelihood: Medium **Impact:** Moderate

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 in the better application of existing technologies.

Capital Expenditure relating to workshops and IT during the year amounted to Rs. 28 mn and Rs. 7 mn respectively. Overseas training during the year in relation to update of knowledge and skills on technical aspects and products and services amounted to 1,624 hours.

Risk Exposure

Likelihood: Low **Impact:** Moderate

Risk Management Process

The identification, development, implementation and review of an effective risk management strategy are under the purview of the Audit Committee. This is done through evaluation of internal audit findings. Based on the findings of the internal audit, the internal Auditors attach a ranking to each area of business, which is used for further planning of Risk Management. The monthly operating results that include key data, periodic reports, and special investigation reports also serve as early warning systems to track the risk potential or any emerging risks.

There are two key activities that enable the organisation to identify risks. They are strategic planning and review of business units and internal audit. Once the risks are identified monitoring measures are embedded into the business plans. The Board of Directors and the Audit Committee continuously review the implementation of the selected strategies and if necessary, take steps to modify or change it.

The Group Management Committee (GMC) 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 Management meetings. The finance function also assists GMC in identifying operational risks. The findings of the Finance Department are communicated to the members of the management team concerned for necessary action.

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.

Monthly Operational Results

Monthly operational results are used as a risk review mechanism by identifying significant deviations from original objectives. This in turn, enables the management to take early corrective steps.

Internal Audit Reports

Internal audit reports may include any non-compliance with policy, laws or processes. Non-compliance with laws and regulations has 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.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee is formally constituted as a Subcommittee of the Main Board, to which it is accountable and it is wholly consisted with four Non-Executive Directors and three of them are independent.

The Audit Committee has a written terms of reference, dealing clearly with its authority and duties and according to that 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 and regulatory requirements, review of External Auditor's performances, independence and internal audit function.

The followings are the principal activities carried out by the Audit Committee during the year ended 31st March 2009.

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.

Risk Management

The Audit Committee meets the Internal Auditors on a quarterly basis and review their findings in order to identify effectiveness of internal controls and risks attached to different areas of operations. The Committee also reviews different types of risks attached to the Company's business and its operations during its deliberations, with view to taking appropriate action.

Compliance with Laws and 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 Statements 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.

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 Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants by conducting 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 has received a declaration from the External Auditors, confirming that they do not have any relationship or interest in the Company or its subsidiaries as required by the Companies Act No. 7 of 2007.

The Committee reviewed 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 reappointment.

Meetings of Audit Committee

Three meetings were held during the year ended 31st March 2009. The meeting dates and attendance details are given in page 90. The Internal Auditors attend the meetings quarterly.

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 the Group assets are properly accounted for and adequately safeguarded.



R. Seevaratnam

Chairman - Audit Committee

Colombo
22nd May 2009

THE REMUNERATION COMMITTEE REPORT

The Remuneration Committee is a subcommittee of the Board. The members of the Committee comprise of three Independent Directors and one Non-Executive Director. The Chairman of the Committee who is an Independent Director and the members of the Committee were 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. He does not participate in any discussion pertaining to his remuneration. The decisions on matters relating to remuneration of Executive Directors and Senior Members of the management team were arrived at in consultation with Chairman/CEO. No Director is involved in determining his own remuneration.

The remuneration packages which are linked to the individual performances are aligned with the

Company's short-term and long-term strategy.

The Committee makes every endeavour to maintain remuneration levels that are sufficient to attract and retain Executive Directors and Members of the management team, to run the Company successfully. This is considered to be the Remuneration Policy of the Company.

The Directors' emoluments are disclosed on page 123.

The Committee meets as and when a need arises. The Remuneration Committee meetings and members attendance is given on page 90.



Dr. U. Liyanage

Chairman - Remuneration Committee

Colombo
22nd May 2009

THE NOMINATION COMMITTEE REPORT

The Nominations Committee is established for the purpose of advising the Board in relation to nominations, re-election, 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 Chairman and the members of the Nomination 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's Corporate Management.
- Evaluate performance of Executive Directors.

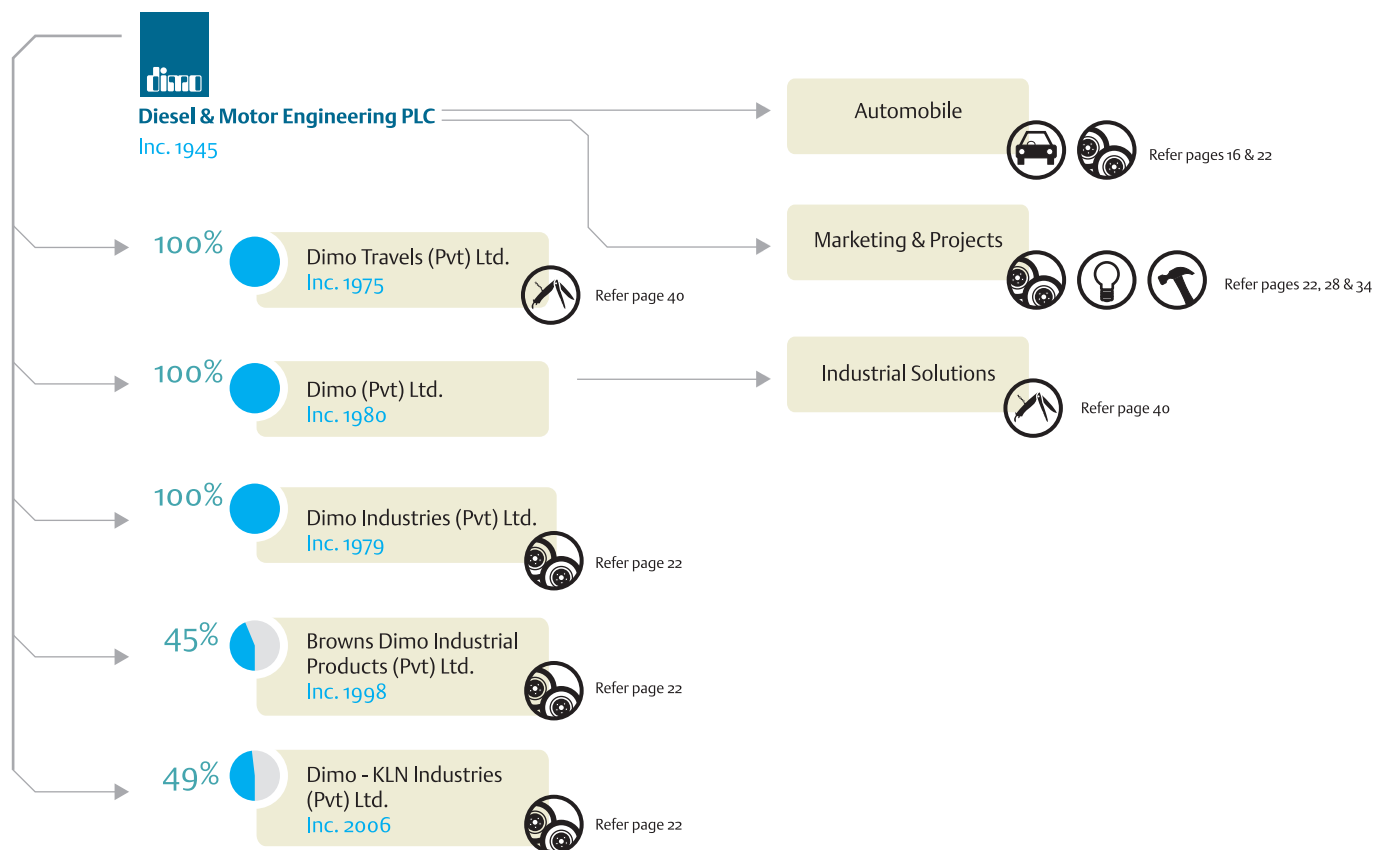
The Committee is satisfied that the combined knowledge and experience of the Board matches the strategic demands facing the Company.



Dr. H. Cabral
Chairman - Nomination Committee

Colombo
22nd May 2009

GROUP STRUCTURE



Segments



Construction, Agricultural & Material Handling Machinery



Electro Mechanical & Bio Medical Engineering



Lighting & Power Tools



Vehicles



Vehicle Parts & Services

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 (Managing Director), R.H. Fernando, B.C.S.A.P. Gooneratne, A.G. Pandithage, W. Pushpawela, 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.	- A.R. Pandithage (Chairman), K.D.P. Fernando, A. Mapalagama, A. Munidasa, N.M. Prakash, R.C. Weerawardane,
Dimo - KLN Industries (Pvt) Ltd.	- A.R. Pandithage (Chairman), A.A.D. Perera, Gita Shetty, Prasanna Kumar Shetty, Nakul Shetty, R.C. Weerawardane

Annual Report of the Board of Directors **103** Annexure to the Annual Report of the Board of Directors **107**
Statement of Directors' Responsibilities for Financial Statements **108** Independent Auditors' Report **109**
Income Statements **110** Balance Sheets **111** Statements of Changes in Equity **112**
Cash Flow Statements **113** Significant Accounting Policies **115** Notes to the Financial Statements **121**

Financial Reports

FINANCIAL CALENDAR

Results - 1st Quarter ended 30th June 2008 - **21st July 2008**
Results - 2nd Quarter ended 30th September 2008 - **7th November 2008**
Results - 3rd Quarter ended 31st December 2008 - **12th February 2009**
Annual Report - Financial Year ended 31st March 2009 - **22nd May 2009**
64th Annual General Meeting - **29th June 2009**
Dividend declared - **22nd May 2009**
Dividend Payable - **11th June 2009**



ANNUAL REPORT OF THE BOARD OF DIRECTORS

GENERAL

The Board of Directors of Diesel & Motor Engineering PLC have pleasure in presenting the Annual Report of the Board of Directors and audited Consolidated Financial Statements for the year ended 31st March 2009, approved by the Board on at a meeting held on 22nd May 2009.

The Financial Statements have been prepared in accordance with the Sri Lanka Accounting Standards as required by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and conform to the requirements of the Companies Act No. 7 of 2007.

PRINCIPAL ACTIVITIES

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

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 Companies affairs.

GROUP STRUCTURE

A diagram depicting the Group Structure is available on page 100.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

A review of financial and operational performance and future business developments of the Group are contained in the Chairman and CEO's Review (Pages 6 to 9) and Business Performance Report (pages 16 to 45). These reports together with the Audited Financial Statements reflect the state of affairs of the Company and Group.

FINANCIAL STATEMENTS

The Financial Statements of the Company and the Group are given on pages 110 to 136.

AUDITORS' REPORT

The Auditors' Report on the Financial Statements is given on page 109.

SIGNIFICANT ACCOUNTING POLICIES

The Significant Accounting Policies adopted in the preparation of Financial Statements are given on pages 115 to 120.

The accounting policies set out in the Financial Statements consistent with those used in the previous year, other than for the effects of SLAS 16 (Revised 2006) - Employee Benefits which was adopted during the year.

DIRECTORATE

List of Directors

Following were the Directors of the Company as at the end of the financial year and their qualifications and experiences are given in the Board of Directors section on pages 10 and 11. of this 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*)

- 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

Mr. R.A. Ebell has resigned from the Board with effect from 30th June 2008. There were no new appointments made to the Board, during the year.

Mr. A.G. Pandithage, Mr. A.N. Algama, Mr. T.G.H. Peries and Mr. R.C. Weerawardane retired by rotation in accordance with the Articles of Association and were re-elected to the Board at the Annual General Meeting held during the year.

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

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Statement of Directors' Responsibilities for the Financial Statements is given on page 108 of this Annual Report.

DIRECTORS' SHAREHOLDINGS

The Directors and their spouses held 3,476,894 (2007/08 - 3,383,477) ordinary shares of the Company, which amounts to 39.95% (2007/08 - 27.96%) of the ordinary shares issued as at 31st March 2009.

ANNUAL REPORT OF THE BOARD OF DIRECTORS

The shareholdings of Directors and their spouses as at 31st March 2009 are as follows:

As at 31st March	2009			2008		
	Shareholding - No. of Shares			Shareholding - No. of Shares		
	Director	Spouse & Children under 18	Total	Director	Spouse & Children under 18	Total
A.R. Pandithage	971,798	910,297	1,882,095	971,798	910,297	1,882,095
A.N. Algama	264,172	—	264,172	170,755	—	170,755
A.M. Pandithage	178,745	41,033	219,778	178,745	41,033	219,778
A.G. Pandithage	339,380	44,165	383,545	339,380	44,165	383,545
S.C. Algama	392,278	6,856	399,134	392,278	6,856	399,134
T.G.H. Peries	191,284	136,886	328,170	191,284	136,886	328,170
	2,337,657	1,139,237	3,476,894	2,244,240	1,139,237	3,383,477

INTEREST REGISTER

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

• Directors' Interest in Contracts

All Directors have made declarations on their interests 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 107.

• Acquisition/Disposal of Shares by Directors

Mr. A.N. Algama purchased 30,900 shares and disposed 9,200 shares of the Company during the year. Further, 71,717 shares were transmitted to Mr. A.N. Algama 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 are given on Note 4 to the Financial Statements on page 123.

• Insurance

A 'Directors' and Officers' Liability insurance policy was obtained during the year.

DIRECTORS' MEETINGS

The details of the Directors' Meetings are presented in Report of the Enterprise Governance on page 90.

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 subcommittees are given on pages 97 to 99 of this Annual Report.

- Audit Committee
- Remuneration Committee
- Nominations Committee

AUDITORS

The Auditors - Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants were paid Rs. 1.35 mn for the year ended 31st March 2009 (2007/08 - 1.18 mn) as Audit fees. In addition, Auditors were paid Rs. 0.43 mn (2007/08 - 0.15 mn) for Audit-related services and Rs. 0.63 mn (2007/08 - 0.71 mn) for non-audit service, in respect of the Group.

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

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

TURNOVER

The Company recorded a turnover of Rs. 8,667 mn in 2008/09 (for 2007/08 - Rs. 12,169 mn). The Group turnover for 2008/09 is Rs. 9,274 mn (for 2007/08 - Rs. 12,687 mn).

Segment turnover and other segment information are available on pages 121 & 122.

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

ANNUAL REPORT OF THE BOARD OF DIRECTORS

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 870 (2007/08 - 867).

HEALTH AND SAFETY

The Group safeguards occupational health and hygiene of its employees by providing a safe working environment and complying with all relevant statutory obligations. The Group also has an employees' medical scheme and expenditure in relation to this for the year was Rs. 13 mn.

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 the 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 66 to 74.

QUALITY

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

OPERATIONAL RESULTS AND DIVIDENDS OF THE GROUP

	2008/09 Rs. '000	2007/08 Rs. '000
Turnover		
The Gross Turnover	9,274,103	12,687,289
Profit		
After making provision for bad and doubtful debts and all known liabilities and after charging a sum of Rs. 97,615,652/- (2007/08 - Rs. 84,244,159/-) for depreciation of property, plant & equipment the profit made by the		
Group before tax was	155,021	344,444
Income tax expense	(65,577)	(139,351)
Group profit after taxation	89,444	205,093
Retained earnings brought forward	520,221	369,578
Surplus on actuarial valuation of retirement benefit obligations at the beginning of the year	8,028	–
Appropriations		
Dividend paid	(30,250)	(54,450)
Transfers to general reserve	(220,000)	–
Available for appropriation	367,443	520,221

Dividends on Ordinary Shares

The Directors recommend a first & final dividend of Rs. 3/- per share (2007/08 - Rs. 1.50 per share - Interim and Rs. 2.50 per share - Final) payable on 11th June 2009 to the shareholders of the issued ordinary shares of the Company as at close of the business on 2nd June 2009. 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 and 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. 786,936/- (2007/08 - Rs. 628,265/-).

PROPERTY, PLANT & EQUIPMENT

Group expenditure on property, plant & equipment during the year amounted to Rs. 118,097,174/- (2007/08 - Rs. 554,483,332/). Information relating to movement in property, plant & equipment is given in Note 8 to the Financial Statements.

MARKET VALUE OF FREEHOLD LAND

A qualified independent valuer last revalued the freehold land of the Company on 30th September 2008 and the carrying value of the freehold land has been adjusted accordingly. The details of the Freehold land are given in Notes to the Financial Statements on Page 127.

GROUP INVESTMENT

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

ANNUAL REPORT OF THE BOARD OF DIRECTORS

STATED CAPITAL

The stated capital of the Company as at 31st March 2009 was Rs. 182.5 mn (in 2008 - Rs. 182.5 mn). The number of shares in issue as at 31st March 2009 was 8,702,389 (2007/08 - 12,100,000).

The Company acquired 3,397,611 of its own ordinary shares during the year. As per the provisions of the Companies Act No. 7 of 2007, own shares acquired are deemed to be cancelled immediately upon acquisition by the Company.

RESERVES

The total reserves as at 31st March 2009 stand at Rs. 1,822,344,084/- (2007/08 - Rs. 1,474,649,854/-) comprising capital reserves of Rs. 1,135,611,833/- (2007/08 - Rs. 311,521,385/-) and revenue reserves of Rs. 686,732,251/- (2007/08 - Rs. 1,163,128,469/-). The Statement of Changes in Equity on page 112 gives the movement in equity during the year.

SHARE INFORMATION

Information relating to shareholding, earnings and net assets per share, market value per share, dividends and share trading are available on pages 138 to 141.

SHAREHOLDINGS

There were 1,212 registered shareholders as at 31st March 2009. The percentage of shares held by the public as at 31st March 2009 was 45% of the issued shares. The twenty major shareholders as at 31st March 2009 and the number of shares held and their percentage shareholding are given on page 104.

COMPLIANCE WITH LAWS AND REGULATIONS

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

OUTSTANDING LITIGATION

In the opinion of the Directors and in consultation with the Company Lawyers and legal counsel, litigations currently pending against the Company will not have an impact on the operations of the Company. The details of the litigations against the Company are given on page 136.

EVENTS OCCURRING AFTER THE 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 AND COMMITMENTS

Contingent Liabilities and Capital Commitments made as at 31st March 2009 is given in Note 30 to the Financial Statements.

GOING CONCERN

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

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at the Registered Office of the Company, No. 65, Jethawana Road, Colombo 14 on 29th June 2009. The Notice of Annual General Meeting is given on page 156.

By order of the Board of Directors



A.R. Pandithage

*Chairman/Managing Director/
Chief Executive Officer*



R.C. Weerawardane

Director



B.C.S.A.P. Gooneratne

Secretary

Colombo
22nd May 2009

ANNEXURE TO THE ANNUAL REPORT OF THE BOARD OF DIRECTORS

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

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

The disclosures as required by the SLAS - 30 on Related Party Disclosures pertaining to subsidiaries, associates, joint ventures are given in Note 28 on page 135.

The Directors of the Company are also Directors of the following companies with which the Company had transacted in the ordinary course of business in an arm's length basis.

Transactions with Diesel & Motor Engineering PLC & Its Subsidiaries

Name of the Company	Name of the Director	Nature of Transaction	Value (Rs.)
Hayleys AIG Insurance Co. Ltd	Mr. A.M. Pandithage	Insurance Claims Received	9,686,328
		Insurance Premiums paid	4,936,912
Hayleys Electronic (Pvt) Ltd.	Mr. R.A. Ebell	Purchases of Electronic Items	2,694
Hayleys PLC.	Mr. R.A. Ebell	Fees paid for Training	33,890
	Mr. A.M. Pandithage	Sales of Vehicle	6,500,000
Logiventures (Pvt) Ltd.	Mr. R.A. Ebell	Container Hiring Chargers paid	985,215
MIT Cargo (Pvt) Ltd.	Mr. R.A. Ebell	Payment made for shipping-related services	2,979,883
	Mr. A.M. Pandithage	Payment received for repair of Forklift	883,918
NYK Line Lanka (Pvt) Ltd.	Mr. A.M. Pandithage	Freight Charges paid	1,071,191
Q & E Advertising (Pvt) Ltd.	Dr. U. Liyanage	Press /Media Advertisements & Art Work	8,435,454
		Payment received for repair of UPS	14,260
Logiwiz (Pvt) Ltd.	Mr. A.M. Pandithage	Services of Storage & Delivery, Sales of Lighting, Annual Maintenance Contract	4,298,553
Toyo Cushion Lanka (Pvt) Ltd.	Mr. A.M. Pandithage	Payment received for Forklift repair	222,275
Hayleys Advantis (Pvt) Ltd.	Mr. R.A. Ebell	Vehicle Servicing, Sales of Tyres & Lighting Products	728,130
	Mr. A.M. Pandithage		
Hayleys Industrial Solutions (Pvt) Ltd.	Mr. R.A. Ebell	Sales of Power Tools	44,774
	Mr. A.M. Pandithage	Purchasing Filters	338,898
Hayleys Mgt Knitting Mills Ltd.	Mr. R.A. Ebell	Sales of Telephone System, Spare Parts	223,731
Ceylon Cold Stores	Dr. U. Liyanage	Sales of Tyres, Spare Parts & Lighting Products	3,959,735
Dipped Products PLC	Mr. R.A. Ebell	Payment received for Forklift repair	93,710
	Mr. A.M. Pandithage		
	Mr. R. Seevaratnam		
Air Global Ltd.	Mr. A.M. Pandithage	Purchase of Air Tickets and Travellers Cheques	123,374
Global Holidays (Pvt) Ltd.	Mr. A.M. Pandithage	Payment Travellers cheques	492,688
Hayleys Consumer Products Ltd.	Mr. R.A. Ebell	Purchases of Consumer Items	2,334,500
	Mr. A.M. Pandithage		

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Companies Act No. 7 of 2007 require 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. 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.

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

- a. Appropriate Accounting Policies have been used in a consistent manner;
- b. Where necessary, prudent judgment and estimates have been made;
- c. Requirements of the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 have been followed;
- d. Comply with the listing rules of the Colombo Stock Exchange.

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, and to ensure that the Financial Statements presented comply with the requirements of the Companies Act No. 7 of 2007.

The Board of Directors accepts responsibility for the integrity and objectivity of the Financial Statements presented.

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

The responsibility of the Auditors in relation to the Financial Statements appears in the Report of the Auditors on page 109.

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 is given on page 109.

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 2010

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
22nd May 2009

INDEPENDENT AUDITORS' REPORT



KPMG Ford, Rhodes, Thornton & Co.
(Chartered Accountants)
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Colombo 00300,
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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, 2009, 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 are set out on pages 110 to 136 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, 2009 and the financial statements

give a true and fair view of the Company's state of affairs as at March 31, 2009 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 31st March, 2009 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 Section 153 (2) to 153 (7) of the Companies Act No. 07 of 2007.

Chartered Accountants

Colombo
22nd May 2009

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A.N. Fernando FCA
Ms. M. P. Perera FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA

S. Sirikananathan FCA
P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyrathne ACA

M.R. Mihular FCA
C.P. Jayatilake FCA
Ms. S. Joseph ACA
S.T.D.L. Perera ACA

INCOME STATEMENTS

Consolidated				Company			
For the year ended 31st March	Note	2009 Rs. '000	2008 Rs. '000	Change %	2009 Rs. '000	2008 Rs. '000	Change %
Gross turnover	1	9,274,103	12,687,289	(27)	8,666,943	12,169,146	(29)
Sales taxes		(89,888)	(129,439)	(31)	(85,774)	(125,722)	(32)
Net turnover		9,184,215	12,557,850	(27)	8,581,169	12,043,424	(29)
Cost of sales		(6,824,874)	(10,181,909)	(33)	(6,503,264)	(9,874,218)	(34)
Gross profit		2,359,341	2,375,941	(1)	2,077,905	2,169,206	(4)
Other income	2	68,023	37,900	79	68,654	35,804	92
Distribution expenses		(288,104)	(326,815)	(12)	(272,244)	(314,350)	(13)
Administrative expenses		(1,384,160)	(1,227,721)	13	(1,219,409)	(1,092,783)	12
Net finance cost	3	(599,902)	(518,143)	16	(547,027)	(469,899)	16
Share of profit/(loss) of equity accounted investee - Net of income tax		(177)	3,282	(105)	—	—	
Profit before taxation	4	155,021	344,444	(55)	107,879	327,978	(67)
Income tax expense	5	(65,577)	(139,351)	(53)	(46,758)	(133,309)	(65)
Profit for the year		89,444	205,093	(56)	61,121	194,669	(69)
Attributable to:							
Equity holders of the Company		89,444	205,093				
Minority interest		—	—				
Profit for the year		89,444	205,093				
Basic earning per share - (Rs.)	6	9.36	16.95				
Diluted earning per share - (Rs.)	6	9.36	16.95				
Dividend per share - (Rs.)	7				3.00	4.00	

Figures in brackets indicate deductions.

The Significant Accounting Policies from pages 115 to 120 and Notes to the Financial Statements from pages 121 to 136 form an integral part of these Financial Statements.

The Report of the Auditors is on page 109.

BALANCE SHEETS

		Consolidated		Company	
As at 31st March		2009	2008	2009	2008
	Note	Rs. '000	Rs. '000	Rs. '000	Rs. '000
ASSETS					
Non-Current Assets					
Property, plant & equipment	8	2,205,579	1,392,110	2,137,103	1,329,751
Leasehold property	9	1,440	1,520	1,440	1,520
Intangible assets	10	2,047	2,749	2,047	2,749
Investment in subsidiaries	11	–	–	23,350	350
Investment in joint venture	12	–	–	1,323	6,000
Investment in equity accounted investee	13	24,833	25,011	6,750	6,750
Other long-term investments	14	1,012	41,678	1,005	41,671
Total non-current assets		2,234,911	1,463,068	2,173,018	1,388,791
Current Assets					
Inventories	15	1,329,848	2,189,806	1,240,180	2,123,448
Trade & other receivables	16	1,652,528	2,117,315	1,443,766	1,899,155
Income tax recoverable	26	36,189	9,747	34,367	–
Receivable from subsidiaries & joint venture	28	–	–	72,762	113,876
Cash & Bank balances	17	9,698	51,222	8,870	49,454
Total current assets		3,028,263	4,368,090	2,799,945	4,185,933
TOTAL ASSETS		5,263,174	5,831,158	4,972,963	5,574,724
EQUITY AND LIABILITIES					
Stated capital	18	182,500	182,500	182,500	182,500
Revaluation reserve	19	1,135,612	311,522	1,135,612	311,522
Revenue reserves	20	686,733	1,163,129	515,691	1,021,007
Total Equity		2,004,845	1,657,151	1,833,803	1,515,029
Non-Current Liabilities					
Long-term interest bearing loans and borrowings	21	662,969	554,176	662,969	554,176
Deferred tax liabilities	22	42,319	41,132	41,315	40,990
Deferred income	23	363	1,222	363	1,222
Retirement benefit obligations	24	125,167	115,763	117,137	108,130
Total non-current liabilities		830,818	712,293	821,784	704,518
Current Liabilities					
Current portion of long-term interest bearing loans and borrowings	21	244,276	193,539	244,276	193,539
Trade & other payables	25	380,809	1,163,544	320,341	1,108,779
Amounts payable to subsidiaries	28	–	–	375	392
Income tax payable	26	–	49,972	–	49,972
Short-term interest-bearing loans and borrowings	27	1,802,426	2,054,659	1,752,384	2,002,495
Total current liabilities		2,427,511	3,461,714	2,317,376	3,355,177
TOTAL EQUITY AND LIABILITIES		5,263,174	5,831,158	4,972,963	5,574,724

It is certified that the Financial Statements as set out on pages 110 to 136 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

22nd May 2009

Colombo



B.C.S.A.P. Gooneratne

Director

Figures in brackets indicate deductions.

The Significant Accounting Policies from pages 115 to 120 and Notes to the Financial Statements from pages 121 to 136 form an integral part of these Financial Statements.

The Report of the Auditors is on page 109.

STATEMENTS OF CHANGES IN EQUITY

Consolidated	Note	Stated Capital Rs. '000	Revaluation Reserve Rs. '000	General Reserve Rs. '000	Retained Earnings Rs. '000	Total Rs. '000
2007/08						
Balance as at 1st April 2007		182,500	311,522	642,908	369,578	1,506,508
Dividends to shareholders						
- 2006/07 - final	7	—	—	—	(36,300)	(36,300)
- 2007/08 - interim	7	—	—	—	(18,150)	(18,150)
Profit for the year		—	—	—	205,093	205,093
Balance as at 31st March 2008		182,500	311,522	642,908	520,221	1,657,151
2008/09						
Effect of change in accounting policy due to adoption of SLAS 16 (Revised 2006)		—	—	—	8,028	8,028
Revised balance as at 1st April 2008		182,500	311,522	642,908	528,249	1,665,179
Transfer to general reserve		—	—	220,000	(220,000)	—
Dividends to shareholders						
- 2007/08 - final	7	—	—	—	(30,250)	(30,250)
Transfer from general reserve		—	—	(543,618)	543,618	—
Acquisition of Company's own shares	20	—	—	—	(543,618)	(543,618)
Surplus on revaluation of land	8	—	824,090	—	—	824,090
Profit for the year		—	—	—	89,444	89,444
Balance as at 31st March 2009		182,500	1,135,612	319,290	367,443	2,004,845

Company	Note	Stated Capital Rs. '000	Revaluation Reserve Rs. '000	General Reserve Rs. '000	Retained Earnings Rs. '000	Total Rs. '000
2007/08						
Balance as at 1st April 2007		182,500	311,522	573,082	307,706	1,374,810
Dividends to shareholders						
- 2006/07 - final	7	—	—	—	(36,300)	(36,300)
- 2007/08 - interim	7	—	—	—	(18,150)	(18,150)
Profit for the year		—	—	—	194,669	194,669
Balance as at 31st March 2008		182,500	311,522	573,082	447,925	1,515,029
2008/09						
Effect of change in accounting policy due to adoption of SLAS 16 (Revised 2006)		—	—	—	7,431	7,431
Revised balance as at 1st April 2008		182,500	311,522	573,082	455,356	1,522,460
Transfer to general reserve		—	—	200,000	(200,000)	—
Dividends to shareholders						
- 2007/08 - final	7	—	—	—	(30,250)	(30,250)
Transfer from general reserve		—	—	(543,618)	543,618	—
Acquisition of Company's owned shares	20	—	—	—	(543,618)	(543,618)
Surplus on revaluation of land	8	—	824,090	—	—	824,090
Profit for the year		—	—	—	61,121	61,121
Balance as at 31st March 2009		182,500	1,135,612	229,464	286,227	1,833,803

Figures in brackets indicate deductions.

The Significant Accounting Policies from pages 115 to 120 and Notes to the Financial Statements from pages 121 to 136 form an integral part of these Financial Statements.

The Report of the Auditors is on page 109.

CASH FLOW STATEMENTS

		Consolidated		Company	
As at 31st March	Note	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
Operating Activities					
Cash receipts from customers		9,755,196	12,385,498	9,180,476	11,863,519
Cash paid to suppliers and employees		(8,391,861)	(11,148,193)	(7,866,862)	(10,752,343)
Cash generated from operations		1,363,335	1,237,305	1,313,614	1,111,176
Interest paid		(596,879)	(514,750)	(548,606)	(460,853)
Income taxes paid		(140,804)	(201,849)	(130,772)	(184,818)
Net cash flow from operating activities		625,652	520,706	634,236	465,505
Investing Activities					
Proceeds from disposal of property, plant & equipment		41,397	25,424	41,270	24,511
Investment in shares		(298)	–	(25,298)	–
Dividends received		1,713	1,913	1,713	1,913
Interest received		1,519	637	1,017	354
Proceeds from disposal of shares		75,684	–	75,684	–
Acquisition and construction of property, plant & equipment	8	(118,097)	(547,186)	(102,234)	(524,401)
Net cash flow from investing activities		1,918	(519,212)	(7,848)	(497,623)
Financing Activities					
Acquisition of Company's own shares	20	(543,618)	–	(543,618)	–
Proceeds from long-term loans	21	350,000	400,000	350,000	400,000
Repayment of long-term loans	21	(181,826)	(146,863)	(181,826)	(146,863)
Dividends paid	7	(30,250)	(54,450)	(30,250)	(54,450)
Repayment of finance lease obligations	21	(11,167)	(19,398)	(11,167)	(19,398)
Net cash flow from financing activities		(416,861)	179,289	(416,861)	179,289
Net increase/(decrease) in cash & cash equivalents		210,709	180,783	209,527	147,171
Cash & cash equivalents at beginning of the year		(2,003,437)	(2,184,220)	(1,953,041)	(2,100,212)
Cash & cash equivalents at end of the year	A	(1,792,728)	(2,003,437)	(1,743,514)	(1,953,041)
Note A					
Analysis of Cash & Cash Equivalents					
Cash and bank balances	17	9,698	51,222	8,870	49,454
Bank overdrafts	27	(206,706)	(199,926)	(193,925)	(187,394)
		(197,008)	(148,704)	(185,055)	(137,940)
Short-term bank loans	27	(1,595,720)	(1,854,733)	(1,558,459)	(1,815,101)
Cash & cash equivalents		(1,792,728)	(2,003,437)	(1,743,514)	(1,953,041)

Figures in brackets indicate deductions.

The Significant Accounting Policies from pages 115 to 120 and Notes to the Financial Statements from pages 121 to 136 form an integral part of these Financial Statements.

The Report of the Auditors is on page 109.

CASH FLOW STATEMENTS

RECONCILIATION OF OPERATING PROFIT WITH CASH FLOWS FROM OPERATING ACTIVITIES

		Consolidated		Company	
As at 31st March	Note	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
Profit before taxation	4	155,021	344,444	107,879	327,978
Adjustments for:					
Dividend income		(1,713)	(1,913)	(1,713)	(1,913)
Interest income		(1,519)	(637)	(1,017)	(354)
Interest on finance lease		2,523	3,073	2,523	3,073
Share of profit of equity accounted investee - Net of tax		177	(3,282)	–	–
Depreciation	8	97,916	84,244	88,250	77,029
Amortisation of intangible assets		782	139	782	139
Impairment loss on property, plant & equipment	8	6,594	–	6,594	–
Fall in value of investment in joint venture	12	–	–	6,677	–
Gain on disposal of property, plant & equipment	2	(16,998)	10,685	(16,901)	10,709
Gain on disposal of investment		(34,720)	–	(34,720)	–
Provision for slow moving inventories		19,015	9,548	18,493	7,365
Provision for bad & doubtful debts		20,585	6,194	26,440	2,466
Provision for defined benefit plans	24	29,412	27,996	26,155	27,168
Amortisation of deferred income	23	(915)	(1,996)	(915)	(1,996)
Income taxes paid		(140,804)	(201,849)	(130,772)	(184,818)
Retirement benefits paid	24	(11,980)	(5,986)	(9,716)	(5,741)
		(31,645)	(73,784)	(19,840)	(66,873)
(Increase)/decrease in inventories		840,943	(89,681)	864,775	(117,766)
(Increase)/decrease in receivables and prepayments		444,023	(203,766)	469,872	(259,798)
Increase/(decrease) in trade & other payables		(782,690)	543,493	(788,450)	581,964
		502,276	250,046	546,197	204,400
		625,652	520,706	634,236	465,505

Figures in brackets indicate deductions.

The Significant Accounting Policies from pages 115 to 120 and Notes to the Financial Statements from pages 121 to 136 form an integral part of these Financial Statements.

The Report of the Auditors is on page 109.

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 at No. 65, Jethawana Road, Colombo 14. The Consolidated Financial Statements of Diesel & Motor Engineering PLC as at and for the year ended 31st March 2009 comprise the Company and its fully-owned Subsidiaries (together referred to as the 'Group' and individually as 'Group Entities') 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.

There were no significant changes in the nature of principal activities of the Company and the Group during the financial year concerned.

The Financial Statements for the year ended 31st March 2009 were authorised for issue by the Board of Directors on 22nd May 2009.

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

2. BASIS OF PREPARATION

2.1 Statement of Compliance

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

2.2 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis, except for land included in property, Plant & Equipment which has been measured at fair value as explained in Note 8 to the Financial Statements.

2.3 Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements. The statement containing the Directors' Responsibilities for Financial Statements is given on page 108.

2.4 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.

3. USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with SLAS requires management to make judgements, 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 and judgemental decisions.

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

3.1 Judgements

In the process of applying the Company's accounting policies in conformity with SLAS, management has made the judgments, apart from those involving estimations, which has the most significant effect on the amounts recognised in the Financial Statements

3.2 Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the Balance Sheet date, that have a significant risk of causing a material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below. The respective carrying amounts of assets and liabilities are given in related notes to the Financial Statements.

3.2.1 Fair Value of Property, Plant & Equipment

The property, plant & equipment of the Company are reflected at fair value. When current market prices of similar assets are available, such evidences are considered in estimating fair values of these assets. In the absence of such information the Company determines within a reasonable fair value estimates, amounts that can be attributed as fair values, taking into consideration discounted cash flow projections based on estimates, derived evidence such as current market rents for similar properties and using discount rates that reflect uncertainty in the amount and timing of cash flows.

3.2.2 Fair Value of Unquoted Equity Investments

The unquoted equity instruments have been valued based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics. This valuation requires the Company to make estimates about expected future cash flows and discount rates, and hence they are subject to uncertainty.

3.2.3 Defined Benefit Plans

The cost of defined benefit plans - gratuity is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary

SIGNIFICANT ACCOUNTING POLICIES

increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

4. 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.

5. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below are consistent with those used in the previous year, other than for the effects of SLAS 16 (Revised 2006) - Employee Benefits, which was adopted during the year.

Certain comparative amounts have been reclassified to conform to current year's presentation.

5.1 Basis of Consolidation

The Consolidated Financial Statements are prepared as per the Sri Lanka Accounting Standard 26 on Consolidated Financial Statements and Accounting for Investments in Subsidiaries.

5.1.1 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.

5.1.2 Associates (Equity Accounted Investees)

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% of the voting power of another entity. Associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. 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.

5.1.3 Jointly Controlled Entities

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.

The Consolidated Financial Statements include the Group's proportionate share of the joint venture assets/liabilities, revenue and expenses with items of a similar nature on a line by line basis.

5.1.4 Transactions Eliminated on Consolidation

Intra-group balances and transactions, and any unrealised 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 against the investment to the extent of the Group's interest in the investee.

Unrealised losses are also eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

5.2 Foreign Currency Transactions

Transactions in foreign currencies are translated into Sri Lankan Rupees at the rates exchange prevailing at the time the transactions are affected. Monetary assets and liabilities denominated in foreign currencies at the Balance Sheet date are retranslated into Sri Lankan Rupees at the exchange rate prevailed at that date. Foreign exchange differences arising on translation are recognised in profit and loss.

5.3 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 Groups' 'core' and 'non-core' business activities. Segment information includes revenue, segment result, assets, liabilities and cash flows.

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

SIGNIFICANT ACCOUNTING POLICIES

5.4 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.

5.4.1 Property, Plant & Equipment

Items of property, plant & equipment are measured at cost or fair value less, accumulated depreciation and any accumulated impairment in value. The carrying value of property, plant & equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

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. Subsequent Costs

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

The cost of the day-to-day servicing and maintenance of property, plant & equipment is recognised in profit and loss as incurred.

c. Revaluation

A revaluation of land is done when there is a substantial deviation 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 reserve included in shareholders equity. Decreases that offset previous increases of the same individual asset are charged against revaluation reserve directly in equity. All other decreases are recognised in profit and loss.

d. Derecognition

The carrying amount of an item of property, plant & equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in profit and loss in the year the asset is derecognised.

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.

The asset's residual values, useful lives and methods of depreciation are reviewed and adjusted if appropriate, at the end of each financial year.

f. Capital Work-in-Progress

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

5.4.2 Intangible Assets

An intangible asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably in accordance with SLAS 37 on Intangible Assets. Accordingly, assets with finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses. All computer software development and purchase costs incurred by the Company which are not integrally related to computer hardware and can be clearly identifiable and reliably measured, are included in the non-current assets under the category of intangible assets and carried at cost less cumulative amortisation.

a. 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.

b. Amortisation

Intangible assets with finite useful lives are amortised on a straight-line-basis on monthly basis and recognised in profit and loss from the date when the asset is available for use, over the best estimate of its useful economic life.

- Computer software - 4 years.

5.4.3 Investments

All quoted and unquoted shares, which are held as non-current investments, are measured at cost. In the Company's separate Financial Statements, investments in Subsidiaries, Associate and jointly - controlled entity are accounted for at cost. Income from these investments is recognised only to the extent of dividends received.

SIGNIFICANT ACCOUNTING POLICIES

The carrying amounts of long-term investments are reduced to recognise a decline which is considered other than temporary, determined on an individual investment basis.

5.4.4 Inventories

Inventories are valued at the lower of cost and net realisable value, after making due allowances for obsolete and slow moving items. 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.

5.4.5 Trade and Other Receivables

Trade receivables are stated at their estimated realisable value. A provision has been made in respect of bad and doubtful receivables when the debts.

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

5.4.6 Cash & Cash Equivalents

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

5.4.7 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.

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.

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.

5.5 Liabilities and Provisions

Liabilities classified as current liabilities in the Balance Sheet are those which fall due for payment on demand or within one year from the 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.

5.5.1 Employee Benefits

a. Defined Contribution Plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Employees are eligible for Employees' Provident Fund (EPF) contributions and Employees' Trust Fund (ETF) contributions in line with respective statutes and regulations. The companies contribute the defined percentages of gross emoluments of employees to approved funds and are recognised as an expense in profit and loss as they fall due.

b. Defined Benefits Plans - Retiring Gratuity

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group adopted the revised SLAS 16 - Employee Benefits with effect from 1st April 2008. Since the transitional liability as at this date is less than the liability as per the previous accounting policy, the decrease has been recognised immediately under SLAS 10 - Accounting Policies, Changes in Accounting Estimates and Errors. Provision for retirement benefit obligations is calculated by estimating the future benefits that employees have earned in return for their services in the current and prior periods; this benefit is

SIGNIFICANT ACCOUNTING POLICIES

discounted to determine its present value. The discount rate is based on the current market interest rates with necessary adjustments to match the term of the obligation. The calculation is performed by a qualified actuary using the projected unit credit method.

The liability is not externally funded.

The Company could not carry out an actuarial valuation of Retirement Benefit Obligations for the periods prior to 31st March 2008. Therefore, the Company was unable to apply the change in the accounting policy retrospectively for the earliest periods presented which is 1st April 2007. Due to the limitation of the retrospective application the Company determined the cumulative effect of the change in accounting policy and accordingly applied the change to the carrying amounts of the assets and liabilities as at the beginning of the current period and made the corresponding adjustment to the opening balance of the retained earnings.

Actuarial Gains and Losses

Actuarial gains or losses are recognised immediately profit and loss.

c. Short-Term Benefits

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

The liability is not externally funded.

5.5.2 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.

5.5.3 Trade and Other Payables

Trade and other payables are stated at their costs.

5.5.4 Provisions

A provision is recognised if, as a result of a past event, the Group has a legal or constructive obligation that can be measured reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

6. INCOME & EXPENSES

6.1 Revenue Recognition

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

a. Sale of Goods

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

b. Rendering of Services

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.

c. Service Support Income

Service support commission income from foreign principals is accounted for on an accrual basis once the shipment is effected.

6.2 Expenditure Recognition

Expenses are recognised in the Income Statement on the basis of costs incurred and earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant & equipment at an efficient level, has been charged to the Income Statement.

6.2.1 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 as an expense in the Income Statement on a straight-line basis over the lease term.

6.2.2 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 takes a substantial period of time to get ready for its intended use or sale, is capitalised as part of that asset.

6.2.3 Finance Income and Finance Expenses

Finance income comprises 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 comprise 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.

SIGNIFICANT ACCOUNTING POLICIES

6.2.4 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 not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected

to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

Deferred income tax relating to items recognised directly in equity is recognised in equity and not in the Income Statement.

7. 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.

8. 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.

9. CAPITAL COMMITMENTS AND CONTINGENCIES

Capital commitments and contingent liabilities of the Group are disclosed in respective Notes to the Financial Statements. Refer Note 30 to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. SEGMENT INFORMATION

The Group comprises the following main business segments:

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

	Vehicles		Vehicle Parts & Services		Lighting & Power Tools		Construction & Material Handling Machinery		Electro Mechanical & Bio Medical Engineering		Total	
For the year ended 31st March	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
Business Segment Turnover & Results												
Total segment revenue	4,924,323	8,838,398	2,446,458	2,430,439	488,043	421,211	1,394,437	1,069,614	617,745	532,577	9,871,005	13,292,239
Inter-segment revenue	180,139	434,402	211,276	64,757	34,259	458	57,441	51,906	113,787	53,427	596,902	604,950
Total external revenue	4,744,184	8,403,996	2,235,182	2,365,682	453,784	420,753	1,336,996	1,017,708	503,957	479,150	9,274,103	12,687,289
Segment results	339,690	602,847	463,768	368,775	81,076	61,805	155,111	91,869	89,772	73,119	1,129,417	1,198,415
Unallocated income	-	-	-	-	-	-	-	-	-	-	68,023	37,900
Unallocated expenses	-	-	-	-	-	-	-	-	-	-	(442,340)	(377,010)
Finance cost - net	-	-	-	-	-	-	-	-	-	-	(599,902)	(518,143)
Share of profit/(loss) of equity accounted investee	-	-	-	-	-	-	-	-	-	-	(177)	3,282
Income tax expense	-	-	-	-	-	-	-	-	-	-	(65,577)	(139,351)
Profit for the year	-	-	-	-	-	-	-	-	-	-	89,444	205,093
Business Segment Assets & Liabilities												
Segment assets	1,309,766	2,411,710	1,203,789	975,269	208,955	158,403	363,276	612,617	297,751	269,308	3,383,537	4,427,307
Investment in equity accounted investee	-	-	-	-	-	-	-	-	-	-	24,833	25,011
Unallocated assets	-	-	-	-	-	-	-	-	-	-	1,854,804	1,378,840
Total assets	1,309,766	2,411,710	1,203,789	975,269	208,955	158,403	363,276	612,617	297,751	269,308	5,263,174	5,831,158
Segment liabilities	978,157	2,061,305	441,855	661,636	145,701	399	108,925	26,277	53,306	290,722	1,727,944	3,040,339
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	1,530,385	1,133,668
Total liabilities	978,157	2,061,305	441,855	661,636	145,701	399	108,925	26,277	53,306	290,722	3,258,329	4,174,007
Business Segment other Information												
Capital expenditure	30,781	64,573	7,723	424,829	1,297	335	997	1,960	15,449	12,904	56,247	504,601
Depreciation	14,683	12,231	35,540	32,936	793	603	6,028	7,799	7,153	5,340	64,197	58,909
Non-cash expenses other than depreciation	15,818	3,909	16,371	17,067	1,220	1,808	18,871	9,704	10,270	5,716	62,550	38,204

NOTES TO THE FINANCIAL STATEMENTS

	Vehicles		Vehicle Parts & Services		Lighting & Power Tools		Construction & Material Handling Machinery		Electro Mechanical & Bio Medical Engineering		Total	
As at 31st March	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000	2009 Rs. '000	2008 Rs. '000
Business Segment Cash Flow												
Operating activities	781,543	520,340	39,835	477,815	37,889	135,600	176,931	106,374	43,565	(12,527)	1,079,763	1,227,602
Investing activities	(30,781)	(64,573)	(7,723)	(424,829)	(1,297)	(335)	(997)	(1,960)	(15,615)	(12,904)	(56,247)	(504,601)
Unallocated Cash Flows												
Common expenses											(324,473)	(517,620)
Income taxes paid											(140,804)	(201,849)
Proceeds from disposal of property, plant & equipment											41,396	25,424
Investment shares											(298)	–
Proceeds from disposal of shares											75,684	–
Dividends received											1,713	1,913
Interest received											1,519	637
Acquisition of construction of property, plant & equipment											(61,850)	(49,410)
Acquisition of Company's own shares											(543,618)	–
Proceeds from long-term loan											350,000	400,000
Repayment of long-term loan											(181,826)	(146,863)
Dividends paid											(30,250)	(54,450)
Net increase/(decrease) in cash & cash equivalents											210,709	180,783

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	
	2008/09 Rs. '000	2007/08 Rs. '000	2008/09 Rs. '000	2007/08 Rs. '000
Gain on disposal of property, plant & equipment	16,998	10,685	16,901	10,709
Sundry income	9,303	22,663	10,031	20,543
Hiring income	7,002	4,552	7,002	4,552
Gain on disposal of investment	34,720	–	34,720	–
	68,023	37,900	68,654	35,804

NOTES TO THE FINANCIAL STATEMENTS

3. NET FINANCE COST

	Consolidated		Company	
	2008/09 Rs. '000	2007/08 Rs. '000	2008/09 Rs. '000	2007/08 Rs. '000
Finance Income				
Dividend income	1,713	1,913	1,713	1,913
Interest income	1,519	637	1,017	354
Gain on translation of foreign currency	1,386	–	1,372	–
	4,618	2,550	4,102	2,267
Finance Costs				
Interest on long-term borrowings	(124,182)	(67,915)	(124,182)	(67,915)
Interest on short-term borrowings	(472,697)	(446,835)	(424,424)	(392,938)
Interest on finance lease	(2,523)	(3,073)	(2,523)	(3,073)
Loss on translation of foreign currency	(5,118)	(2,870)	–	(8,240)
	(604,520)	(520,693)	(551,129)	(472,166)
Net finance cost	(599,902)	(518,143)	(547,027)	(469,899)

4. PROFIT BEFORE TAXATION

	Consolidated		Company	
	2008/09 Rs. '000	2007/08 Rs. '000	2008/09 Rs. '000	2007/08 Rs. '000
4.1 Profit before taxation is stated after charging/ (crediting) all expenses/income including the following:				
Directors' emoluments	48,776	39,123	42,145	36,611
Auditors' remuneration				
- Statutory Audit	1,352	1,180	1,080	950
- Audit related services	433	145	232	145
- Non-Audit services	625	766	625	537
Depreciation on property, plant & equipment	97,916	84,244	88,250	77,029
Amortisation	782	139	782	139
Impairment loss on property, plant & equipment	6,594	–	6,594	–
Provision for fall in value of investment in joint venture	–	–	6,677	–
Amortisation of deferred income	(915)	(1,996)	(915)	(1,996)
Legal fees	9,597	13,251	9,277	12,625
Provision for bad & doubtful debts	59,053	6,194	50,327	2,466
Provision for slow moving inventories	19,015	9,548	18,493	7,365
Donations	860	628	787	628
Staff expenses (Note 4.2)	575,143	593,330	496,654	526,788

4.2 Staff Expenses

	Consolidated		Company	
	2008/09 Rs. '000	2007/08 Rs. '000	2008/09 Rs. '000	2007/08 Rs. '000
Defined contribution plan costs (EPF & ETF)	58,698	53,222	50,640	46,769
Defined benefit plan costs (Retiring gratuity)	28,863	27,996	26,683	27,168
Training expenses	14,810	20,135	7,765	14,652
Other staff costs	472,772	491,977	411,566	438,199
	575,143	593,330	496,654	526,788
Average number of employees for the year	869	866	731	761

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

NOTES TO THE FINANCIAL STATEMENTS

5. INCOME TAX EXPENSE

	Consolidated		Company	
	2008/09 Rs. '000	2007/08 Rs. '000	2008/09 Rs. '000	2007/08 Rs. '000
Current Tax Expense				
Current year				
- Company	44,202	123,646	44,202	123,646
- Subsidiaries	17,592	5,427	–	–
	61,794	129,073	44,202	123,646
Under provision in respect of previous year	2,596	–	2,231	–
	64,390	129,073	46,433	123,646
Deferred Tax Expense				
Origination and reversal of temporary differences	1,187	10,278	325	9,663
Total income tax expense	65,577	139,351	46,758	133,309

5.1 Reconciliation of Accounting Profit to Income Tax Expense

	Consolidated		Company	
	2008/09 Rs. '000	2007/08 Rs. '000	2008/09 Rs. '000	2007/08 Rs. '000
Profit before tax	155,021	344,444	107,879	327,978
Share of profit of equity accounted investee	177	(3,282)	–	–
Tax loss for the year	6,154	3,476	–	–
Disallowable expenses	174,213	149,277	165,410	142,251
Capital allowances	(104,062)	(112,431)	(93,024)	(104,175)
Allowable expenses	(13,936)	(8,989)	(12,248)	(8,909)
Income not liable to tax	(42,505)	(3,908)	(42,476)	(3,908)
Taxable income	175,062	368,587	125,541	353,237
Income tax thereon				
Tax at 15%	294	908	294	908
Tax at 35%	60,587	126,887	43,255	121,514
Social Responsibility Levy (SRL) at 1.5%	913	1,278	653	1,224
Current tax expense	61,794	129,073	44,202	123,646
Tax Losses				
At the beginning of the year	9,443	5,967	–	–
For the year	6,154	3,476	–	–
Adjustment to tax loss brought forward	4,264	–	–	–
At the end of the year	19,861	9,443	–	–

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%. The Social Responsibility Levy is 1.5% of the income tax.

NOTES TO THE FINANCIAL STATEMENTS

6. 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. The weighted average number of ordinary shares outstanding during the year and the previous year are adjusted for events that have changed the number of ordinary shares outstanding during the year.

Consolidated		
	2008/09	2007/08
Profit attributable to ordinary shareholders (Rs. '000)	89,444	205,093
Weighted average number of ordinary shares (Refer 'A' below)	9,551,792	12,100,000
Basic earnings per ordinary share (Rs.)	9.36	16.95
Diluted earnings per ordinary share (Rs.)	9.36	16.95
A. Weighted average number of ordinary shares		
Qualifying ordinary shares at the beginning of the year	12,100,000	12,100,000
Acquisition of Company's own shares	(3,397,611)	—
Qualifying ordinary shares at the end of the year	8,702,389	12,100,000
Weighted average number of ordinary shares at the year end	9,551,792	12,100,000

There were no potentially dilutive ordinary shares outstanding at any time during the year/previous year.

7. DIVIDENDS

Company		
	2008/09 Rs. '000	2007/08 Rs. '000
Interim paid (2007/08 - Rs. 1.50 per share)	—	18,150
Final proposed - Rs. 3/- per share (2007/08 - Rs. 2.50)	26,107	30,250
	26,107	48,400
Dividends (inclusive of proposed dividend) per share (Rs.)	3.00	4.00

Directors declared a First & Final dividend of Rs. 3/- per share for the year ended 31st March 2009 (2007/08 - Rs. 1.50 per share - interim & Rs. 2.50 per share - final). In accordance with the SLAS 12 (Revised 2005) on events after the Balance Sheet date, the proposed dividend is not recognised as a liability in the Financial Statements as at the year end.

NOTES TO THE FINANCIAL STATEMENTS

8. PROPERTY, PLANT & EQUIPMENT

	Freehold Land	Buildings & Premises	Plant & Machinery	Tools & Implements	Motor Vehicles	Leased Motor Vehicles	Computer Hardware & Software	Electrical Fixtures, Fittings, & Office Equipment	31.03.2009	Total 31.03.2008
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
a. Consolidated										
Cost or Valuation										
Balance at the beginning	550,199	573,136	175,958	116,185	168,826	6,825	98,072	141,832	1,831,033	1,312,039
Additions	—	16,054	34,313	6,580	32,266	—	7,054	21,830	118,097	554,483
Surplus of Revaluation	824,090	—	—	—	—	—	—	—	824,090	—
Disposals	—	—	(850)	—	(40,237)	—	(229)	(1,759)	(43,075)	(35,489)
Balance at the year end	1,374,289	589,190	209,421	122,765	160,855	6,825	104,897	161,903	2,730,145	1,831,033
Depreciation										
Balance at the beginning	—	51,302	69,541	81,816	86,177	2,116	69,605	78,604	439,161	375,667
Charge for the year	—	19,298	11,945	14,038	28,624	1,466	12,878	9,667	97,916	84,244
On disposals	—	—	(850)	—	(16,072)	—	(203)	(1,551)	(18,676)	(20,750)
Balance at the year end	—	70,600	80,636	95,854	98,729	3,582	82,280	86,720	518,401	439,161
Impairment										
Impairment loss	—	—	6,594	—	—	—	—	—	6,594	—
Accumulated depreciation and impairment	—	70,600	87,230	95,854	98,729	3,582	82,280	86,720	524,995	439,161
Capital work-in-progress									429	238
Carrying amount as at the end of the year	1,374,289	518,590	122,191	26,911	62,126	3,243	22,617	75,183	2,205,579	1,392,110
b. Company										
Cost or Valuation										
Balance at the beginning	550,199	546,410	149,395	104,276	164,619	6,825	88,040	130,212	1,739,976	1,242,152
Additions	—	16,054	26,248	5,017	32,177	—	5,922	16,816	102,234	531,698
Revaluation	824,090	—	—	—	—	—	—	—	824,090	—
Disposals	—	—	(850)	—	(40,128)	—	(229)	(1,743)	(42,950)	(33,874)
Balance at the year end	1,374,289	562,464	174,793	109,293	156,668	6,825	93,733	145,285	2,623,350	1,739,976
Depreciation										
Balance at the beginning	—	48,878	65,034	74,514	82,977	2,116	62,775	74,169	410,463	353,506
Charge for the year	—	18,429	9,363	11,601	28,166	1,466	10,954	8,221	88,200	77,029
On disposals	—	—	(850)	—	(15,991)	—	(203)	(1,537)	(18,581)	(20,072)
Balance at the year end	—	67,307	73,547	86,115	95,152	3,582	73,526	80,853	480,082	410,463
Impairment										
Impairment loss	—	—	6,594	—	—	—	—	—	6,594	—
Accumulated depreciation and impairment	—	67,307	80,141	86,115	95,152	3,582	73,526	80,853	486,676	410,463
Capital work-in-progress									429	238
Carrying amount as at the end of the year	1,374,289	495,157	94,652	23,178	61,516	3,243	20,207	64,432	2,137,103	1,329,751

NOTES TO THE FINANCIAL STATEMENTS

Notes

- i. The value of the land owned by the Group was assessed by an Independent valuer as at 30th September 2008.

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

Location	Cost Rs. '000	Carrying value - as at 30.09.2008 Rs. '000	Revalued Rs. '000	Pledged/ unpledged Rs. '000
No. 65 & 56, Jethawana Road, Colombo 14	414	279,859	821,660	—
No. 61, Jethawana Road, Colombo 14	18,014	43,000	132,000	—
No. 74, Jethawana Road, Colombo 14	113,808	113,808	172,313	✓
No. 135, Mahena Road, Siyambalape	16,483	23,573	94,290	✓
Kirindiwela Road, Weliveriya	89,958	89,959	154,026	✓
Total	238,677	550,199	1,374,289	
Revaluation gain (Difference between carrying value and revalued amount)			824,090	

- ii. There are no tax implications or tax liabilities pertaining to revaluation.
- iii. Group property, plant & equipment with cost of Rs. 308 mn (2007/08- Rs. 241 mn), have been fully depreciated and continue to be used by the Group. The cost of fully depreciated assets of the Company amounts to Rs. 256 mn (2007/08 Rs. 227 mn).
- iv. Group land and building with a carrying value of Rs. 821 mn (2007/08 - Rs. 400 mn), have been pledged as security for term loans obtained.
- v. The Impairment Loss represents machinery that are obsolete and indicates the economic performance of those assets are lower than expected. The details are as follows:

Nature of the Asset	Plant and Machinery
Business segment	Construction and Material Handling
Basis of impairment	Obsolete
Carrying amount	Rs. 6.9 mn
Loss on impairment	Rs. 6.6 mn

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

9. LEASEHOLD PROPERTY

	Consolidated		Company	
	2008/09 Rs. '000	2007/08 Rs. '000	2008/09 Rs. '000	2007/08 Rs. '000
Cost				
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
Amortisation				
Balance at the beginning	880	800	880	800
Amortisation for the year	80	80	80	80
Balance at year end	960	880	960	880
Carrying amount at year end	1,440	1,520	1,440	1,520

Leasehold property represents leasehold land situated at Anuradhapura is on a 30-year lease and expires in 2026.

NOTES TO THE FINANCIAL STATEMENTS

10. INTANGIBLE ASSETS

	Consolidated		Company	
	2008/09 Rs. '000	2007/08 Rs. '000	2008/09 Rs. '000	2007/08 Rs. '000
Cost				
Balance at the beginning	2,808	2,808	2,808	2,808
Additions	–	–	–	–
Balance at the year end	2,808	2,808	2,808	2,808
Accumulated Amortisation				
Balance at the beginning	59	–	59	–
Amortisation change for the year	702	59	702	59
Balance at the year end	761	59	761	59
Carrying amount at the year end	2,047	2,749	2,047	2,749

Intangible assets represent computer software.

11. INVESTMENTS IN SUBSIDIARIES

	Company		
	Group Interest %	2008/09 Rs. '000	2007/08 Rs. '000
Unquoted			
Dimo (Pvt) Ltd. - 25,000 ordinary shares	100	250	250
Dimo Industries (Pvt) Ltd. - 2,300,500 ordinary shares	100	23,050	50
Dimo Travels (Pvt) Ltd. - 500 ordinary shares	100	50	50
		23,350	350

The Company invested Rs. 23 mn in 2.3 mn shares of Dimo Industries (Pvt) Ltd. during the year.

The principal activities of the subsidiaries are given in page 103.

In the opinion of the Directors, the net realisable value of the unquoted investments in subsidiaries are higher than their cost.

12. INVESTMENTS IN JOINT VENTURE

	Company		
	Group Interest %	2008/09 Rs. '000	2007/08 Rs. '000
DIMO-KLN Industries (Pvt) Ltd. - 799,999 ordinary shares	50	8,000	6,000
Provision for fall in value of investment in joint venture		(6,677)	–
		1,323	6,000

The Company invested Rs. 2 mn in 200,000 shares of Dimo-KLN Industries (Pvt) Ltd., during the year.

Dimo-KLN Industries (Pvt) Ltd. has made losses since its commencement of commercial operations in August 2007. The present value of the future cash flows indicate an amount lesser than the carrying amount of the investment. A provision for the fall in value of the investment has been made accordingly.

NOTES TO THE FINANCIAL STATEMENTS

Summarised financial information of jointly controlled entity is as follows:

Jointly Controlled Entity		
	2008/09 Rs. '000	2007/08 Rs. '000
Revenue	7,791	1,882
Profit/(loss) before tax	(4,779)	(5,616)
Profit/(loss) after tax	(4,779)	(5,616)
Non-current assets	5,423	6,035
Current assets	9,927	5,666
Total Assets	15,350	11,701
Equity	2,282	3,061
Non-current liabilities	11	–
Current liabilities	13,057	8,640
Equity & liabilities	15,350	11,701

13. INVESTMENTS IN EQUITY ACCOUNTED INVESTEE

		Consolidated		Company	
	Group Interest %	2008/09 Rs. '000	2007/08 Rs. '000	2008/09 Rs. '000	2007/08 Rs. '000
Unquoted					
Browns Dimo Industrial Products (Pvt) Ltd.					
675,000 ordinary shares	45	6,750	6,750	6,750	6,750
Group share of net assets		18,083	18,261	–	–
Group investment in equity accounted investee		24,833	25,011	6,750	6,750

14. OTHER LONG-TERM INVESTMENTS

Consolidated					Company	
	No. of Shares	Market Value Rs. '000	2008/09 Rs. '000	2007/08 Rs. '000	2008/09 Rs. '000	2007/08 Rs. '000
Quoted						
Hunas Falls Hotels PLC - Ordinary shares	900	30	14	14	7	7
Hatton National Bank PLC - Non-voting ordinary shares	22,000	743	700	700	700	700
Ceylinco Insurance PLC - Non-voting ordinary shares	1,700	129	298	–	298	–
Hayleys PLC - Ordinary shares	–	–	–	40,964	–	40,964
			1,012	41,678	1,005	41,671

15. INVENTORIES

	Consolidated		Company	
	2008/09 Rs. '000	2007/08 Rs. '000	2008/09 Rs. '000	2007/08 Rs. '000
Stock in trade and work-in-progress	1,323,637	1,772,770	1,240,650	1,699,851
Provision for slow moving inventories	(69,013)	(49,998)	(61,930)	(43,437)
	1,254,624	1,722,772	1,178,720	1,656,414
Goods-in-transit	75,224	467,034	61,460	467,034
	1,329,848	2,189,806	1,240,180	2,123,448

NOTES TO THE FINANCIAL STATEMENTS

16. TRADE AND OTHER RECEIVABLES

	Consolidated		Company	
	2008/09 Rs. '000	2007/08 Rs. '000	2008/09 Rs. '000	2007/08 Rs. '000
Trade receivables	1,673,333	2,114,613	1,465,151	1,888,605
Provision for bad debts	(96,672)	(82,051)	(74,212)	(53,419)
	1,576,661	2,032,562	1,390,939	1,835,186
Deposits against imports	4,726	667	4,726	667
Deposits and pre-payments	44,122	51,129	25,377	33,598
Other trade receivables	22,850	29,030	18,781	25,984
Loans to employees	4,169	3,927	3,943	3,720
	1,652,528	2,117,315	1,443,766	1,899,155

17. CASH AND BANK BALANCES

	Consolidated		Company	
	2008/09 Rs. '000	2007/08 Rs. '000	2008/09 Rs. '000	2007/08 Rs. '000
Bank balances	3,982	45,808	3,379	44,215
Cash in hand	5,716	5,414	5,491	5,239
	9,698	51,222	8,870	49,454

18. STATED CAPITAL

	Consolidated/Company			
	2008/09		2007/08	
Voting Ordinary Shares	No. of Shares	Rs. '000	No. of Shares	Rs. '000
Issued and Fully Paid Ordinary Shares				
Balance at the beginning of the year	12,100,000	182,500	12,100,000	182,500
Acquisition of Company's own shares	(3,397,611)	—	—	—
Balance at the end of the year	8,702,389	182,500	12,100,000	182,500

The reduction of the number of issued and fully paid shares during the year was due to cancellation of shares consequent to the Company acquiring its own shares. More information on acquisition of own shares available in Note 20.

19. REVALUATION RESERVE

	Consolidated		Company	
	2008/09 Rs. '000	2007/08 Rs. '000	2008/09 Rs. '000	2007/08 Rs. '000
Reserve on revaluation of land	1,135,612	311,522	1,135,612	311,522

The increase in the reserve represent the increase in fair value of land consequent to a revaluation carried out during the year. Note 9 to the Financial Statements provide more details regarding the revaluation.

NOTES TO THE FINANCIAL STATEMENTS

20. REVENUE RESERVE

	Consolidated		Company	
	2008/09 Rs. '000	2007/08 Rs. '000	2008/09 Rs. '000	2007/08 Rs. '000
Balance at the beginning	1,163,129	1,012,486	1,021,007	880,788
Dividends to shareholders				
- Final	(30,250)	(36,300)	(30,250)	(36,300)
- Interim	–	(18,150)	–	(18,150)
Acquisition of Company's own shares	(543,618)	–	(543,618)	–
Surplus on actuarial valuation of retiring gratuity obligation	8,028	–	7,431	–
Profit for the year	89,444	205,093	61,121	194,669
Balance at the year end	686,733	1,163,129	515,691	1,021,007

The Revenue Reserves represent reserves available for distribution.

The Directors of the Company resolved to repurchase 3,397,611 ordinary shares held by Hayleys PLC for a total consideration of Rs. 543,617,760/-. In terms of Section 63 (3) of the Companies Act No. 7 of 2007, Repurchased shares are deemed to be cancelled immediately upon acquisition by the Company.

21. LONG-TERM INTEREST-BEARING LOANS AND BORROWINGS

Non-current portion of the interest-bearing loans and borrowings:

	Consolidated		Company	
	2008/09 Rs. '000	2007/08 Rs. '000	2008/09 Rs. '000	2007/08 Rs. '000
Term loans (21.1)	660,383	547,210	660,383	547,210
Finance lease obligations (21.2)	2,586	6,966	2,586	6,966
	662,969	554,176	662,969	554,176

Current portion of the interest-bearing loans and borrowings:

	2008/09 Rs. '000	2007/08 Rs. '000	2008/09 Rs. '000	2007/08 Rs. '000
Term loans (21.1)	238,493	183,492	238,493	183,492
Finance lease obligations (21.2)	5,783	10,047	5,783	10,047
	244,276	193,539	244,276	193,539

21.1 Term Loans

	Consolidated		Company	
	2008/09 Rs. '000	2007/08 Rs. '000	2008/09 Rs. '000	2007/08 Rs. '000
Non-Current				
At the beginning of the year	730,702	477,565	730,702	477,565
- Loans obtained - Secured	350,000	400,000	350,000	400,000
	1,080,702	877,565	1,080,702	877,565
Repayments during the year	(181,826)	(146,863)	(181,826)	(146,863)
At the end of the year	898,876	730,702	898,876	730,702
Transferred to current liabilities (repayable within one year)	238,493	183,492	238,493	183,492
Long-term portion of long-term loan (repayable after one year)	660,383	547,210	660,383	547,210

NOTES TO THE FINANCIAL STATEMENTS

21.2 Finance Lease Obligations

	Consolidated		Company	
	2008/09 Rs. '000	2007/08 Rs. '000	2008/09 Rs. '000	2007/08 Rs. '000
Gross liability - at the beginning of the year	22,068	31,414	22,068	31,414
Obtained during the year	–	10,052	–	10,052
Repayments during the year	(11,167)	(19,398)	(11,167)	(19,398)
Gross liability - at the end of the year	10,901	22,068	10,901	22,068
Finance charges unamortised	(2,532)	(5,055)	(2,532)	(5,055)
Net liability - at the end of the year	8,369	17,013	8,369	17,013
Transferred to current liabilities (repayable within one year)	5,783	10,047	5,783	10,047
Non-current portion of finance lease obligations (repayable after one year)	2,586	6,966	2,586	6,966

Analysis of loans is as follows:

	Commercial Bank PLC Rs. '000	Sampath Bank PLC Rs. '000	Hatton National Bank PLC Rs. '000	People's Bank Rs. '000	2008/09 Total Rs. '000	2007/08 Total Rs. '000
Loan - 1	350,000	150,000	120,000	150,000	820,000	670,000
Loan - 2	400,000	–	100,000	–	100,000	100,000
Loan - 3	–	–	200,000	–	200,000	200,000
Principal Amount	750,000	150,000	420,000	150,000	1,120,000	970,000
Balance as at the beginning	555,270	45,000	130,432	–	730,702	477,565
Loans obtained during the year	–	–	200,000	150,000	350,000	400,000
Repayments during the year	(109,560)	(30,000)	(42,266)	–	(181,826)	(146,863)
Balance as at the end	445,710	15,000	288,166	150,000	898,876	730,702
Age Analysis for Outstanding Balance						
Within 1 year	109,560	15,000	83,933	30,000	238,493	183,492
1-5 years	179,240	–	204,233	120,000	503,473	350,530
Over 5 years	156,910	–	–	–	156,910	196,680
	445,710	15,000	288,166	150,000	898,876	730,702

22. DEFERRED TAX ASSETS & LIABILITIES

Deferred Tax Liabilities

	Consolidated		Company	
	2008/09 Rs. '000	2007/08 Rs. '000	2008/09 Rs. '000	2007/08 Rs. '000
Balance at the beginning of the year	41,132	31,327	40,990	31,327
Origination and reversal of temporary differences	1,187	9,805	325	9,663
Balance at the end of the year	42,319	41,132	41,315	40,990

Recognised Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities are attributable to the following:

Property, plant & equipments	246,078	233,283	235,180	225,244
Retirement benefit obligations	(125,167)	(115,763)	(117,137)	(108,130)
Net tax liabilities	120,911	117,520	118,043	117,114
Deferred tax liability - at the rate of 35%	42,319	41,132	41,315	40,990

NOTES TO THE FINANCIAL STATEMENTS

23. DEFERRED INCOME

	Consolidated		Company	
	2008/09 Rs. '000	2007/08 Rs. '000	2008/09 Rs. '000	2007/08 Rs. '000
At the beginning of the year	1,222	3,218	1,222	3,218
Income deferred during the year	56	–	56	–
Amortised during the year	(915)	(1,996)	(915)	(1,996)
Balance at the end of the year	363	1,222	363	1,222

24. RETIREMENT BENEFIT OBLIGATIONS

	Consolidated		Company	
<i>As at 31st March</i>	2008/09 Rs. '000	2007/08 Rs. '000	2008/09 Rs. '000	2007/08 Rs. '000
Present value of unfunded gratuity	125,167	115,763	117,137	108,130
Total employee benefit	125,167	115,763	117,137	108,130
Movement in the present value of the defined benefit obligations				
Balance at the beginning of the year	115,763	93,753	108,130	86,703
Surplus on actuarial valuation of retirement benefit obligations at the beginning of the year	8,028	–	7,431	–
	107,735	93,753	100,699	86,703
Current service costs	9,325	–	8,292	–
Interest costs	17,238	–	16,111	–
Provision during the year**	–	27,996	–	27,168
Actuarial losses/(gains)	2,849	–	1,751	–
Total charge for the year	29,412	27,996	26,154	27,168
Benefits paid by the plan	(11,980)	(5,986)	(9,716)	(5,741)
Balance at the end of the year	125,167	115,763	117,137	108,130

An actuarial valuation was carried out on 31st March 2009 by Messrs Actuarial & Management Consultants (Pvt) Ltd.

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

	Y1	Y2	Y3	Y4	Y5	Y6 & onwards
Rate of discount %	15	14	13	12	12	12
Salary increase %	12	12	12	12	12	10

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

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

Full provision has been made in the financial statements for retiring gratuity from the first year of service of the employee in conformity with SLAS 16 - Retirement Benefit Costs. However, according to the Payment of Gratuity Act No. 12 of 1983, the liability for gratuity to an employee arises only on completion of five years of continuous service.

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

The transitional liability (as at 1st April 2008) is less than that would have been recognised as at 1st April 2008 under the Company's previous accounting policy, and therefore the Company recognised in the net decrease of defined benefit obligation amounting to Rs. 7.4 mn in Company and Rs. 8 mn in Group in the Statement of Changes in Equity.

NOTES TO THE FINANCIAL STATEMENTS

25. TRADE AND OTHER PAYABLES

	Consolidated		Company	
	2008/09 Rs. '000	2007/08 Rs. '000	2008/09 Rs. '000	2007/08 Rs. '000
Trade payables	168,434	726,024	142,662	714,430
Advances received	9,656	85,375	9,656	85,375
Interest payable	19,008	8,738	18,990	8,738
Unclaimed dividend	1,791	1,980	1,791	1,980
VAT/Turnover tax payable	57,211	121,849	53,348	119,169
Other payables and accrued expenses	124,709	219,578	93,894	179,087
	380,809	1,163,544	320,341	1,108,779

26. INCOME TAX PAYABLE (RECOVERABLE)

	Consolidated		Company	
	2008/09 Rs. '000	2007/08 Rs. '000	2008/09 Rs. '000	2007/08 Rs. '000
At the beginning of the year	40,225	113,001	49,972	111,144
Income tax for the year - Net of deferred tax - Note 5	64,390	129,073	46,433	123,646
	104,615	242,074	96,405	234,790
Tax paid during the year				
Economic Service Charge	49,174	62,987	45,000	60,000
Income Tax and SRL	60,196	138,862	55,043	124,818
Payments pertaining to previous year	31,434	—	30,729	—
	140,804	201,849	130,772	184,818
Income tax recoverable	36,189	9,747	34,367	—
Balance at the end of the year	—	49,972	—	49,972

27. SHORT-TERM INTEREST-BEARING BORROWINGS

	Consolidated		Company	
	2008/09 Rs. '000	2007/08 Rs. '000	2008/09 Rs. '000	2007/08 Rs. '000
Short-term bank loans	1,595,720	1,854,733	1,558,459	1,815,101
Bank overdrafts	206,706	199,926	193,925	187,394
	1,802,426	2,054,659	1,752,384	2,002,495

Unutilised bank facilities as at 31st March 2009 amounted to Rs. 2,943,262,676/- (2008 - Rs. 3,321,103,197/-). Inventories and book debts amounting to Rs. 95,000,000/- are pledged as securities for short-term interest-bearing loans and borrowings.

NOTES TO THE FINANCIAL STATEMENTS

28. RELATED PARTY DISCLOSURES

Transactions with the Related Parties in the ordinary course of business carried out on an arm's length basis.

28.1 Transactions with Key Management Personnel (KMPs)

KMPs are persons who have authority and responsibility directly or indirectly for planning, directing and controlling the activities of the Company.

The KMPs comprise of the Board of Directors of the reporting entity.

28.1.1 The Compensation of KMPs

For the year ending 31st March	2009		2008	
	Executive Directors Rs. '000	Non-Executive Directors Rs. '000	Executive Directors Rs. '000	Non-Executive Directors Rs. '000
Short-term employment benefit	45,242	3,534	36,573	2,550
Post-employment benefit - Defined benefit plans	6,139	—	4,313	—
	51,381	3,534	40,886	2,550

28.1.2 There are no long-term post-employment, terminal benefits and share-based payments made to the Directors during the year.

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

28.1.4 No loans were given to Key Management Personnel during the year.

28.1.5 The shareholding of the Key Management Personnel together with their close family members are disclosed on page 104 - Annual Report of the Board of Directors.

28.1.6 The names of the Directors of Diesel & Motor Engineering PLC, who are also Directors of other companies are given in page 107 -Annual Report of the Board of Directors.

28.2 Transactions with Close Family Members

Close family members are those who may be expected to influence or be influenced in their dealings with the Company.

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

28.3 Dealings with Subsidiaries, Associates and Joint Venture

28.3.1 Transactions with Subsidiaries, Associates, Joint Venture and Outstanding Balances

Name of the Company	Dimo (Pvt) Ltd.	Dimo Industries (Pvt) Ltd.	Dimo Travels (Pvt) Ltd.	Dimo KLN Industries (Pvt) Ltd.	
Relationship	Subsidiary	Subsidiary	Subsidiary	Joint Venture	Total
Shareholding	100%	100%	100%	50%	2009
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Opening Balance as at 1st April 2008	62,259	47,738	(392)	3,879	113,484
Sale of goods and services	2,155	—	—	139	2,294
Purchases of goods and services	(19,385)	(276)	—	—	(19,661)
Expense incurred - net	40,499	1,474	—	2,087	44,060
Interest charged - net	35,705	2,170	—	—	38,875
Fund transfers - net	(79,878)	(24,323)	17	(1,481)	(105,665)
Closing Balance as at 31st March 2009	41,355	26,783	(375)	4,624	72,387

28.3.2 The outstanding balances with related parties are not secured.

28.3.3 The guarantees and letter of credit taken by the Company on behalf of Dimo (Pvt) Ltd., as at 31st March 2009 amounted to Rs. 267 mn.

28.3.4 No provisions were made for bad and doubtful debts against any related parties.

28.3.5 The Company does not have an identifiable parent of its own.

NOTES TO THE FINANCIAL STATEMENTS

29. WARRANTIES

Warranties extended to products marketed by the Group are limited to those given by respective manufacturers.

30. COMMITMENTS AND CONTINGENCIES

30.1 Capital Expenditure Commitments

There are no capital expenditure commitments as at 31st March 2009.

30.2 Contingent Liabilities

Guarantees

The contingent liability as at 31st March 2009 on guarantees given by Diesel & Motor Engineering PLC, to third parties in respect of bid bonds and performance bonds amounted to Rs. 413,706,559/- (2007/08 - Rs. 320,522,967/-).

Litigations Against the Company

- a. The claims for lawsuits filed against the Company as at 31st March 2009 amounts to Rs. 32.4 mn. Although there can be no assurance, the Directors believe based on the information currently available that the ultimate resolution of such lawsuits would not likely to have a material effect on the results of operations, financial position or liquidity. Accordingly, no provision for any liability has been made in the Financial Statements.
- b. An import shipment, disputed by Sri Lanka Customs, regarding the H.S. Classification, is presently being challenged by the Company. A bank guarantee amounting to Rs. 31.3 mn in favour of Director General of Customs has been submitted by the Company in this connection. The legal counsel representing the Company is of the opinion that the basis on which the claim is made untenable and unlikely to succeed, and hence no provision is made in the Financial Statements.

31. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

The Board of Directors at a meeting held on 22nd May 2009 resolved to pay a First & Final dividend of Rs. 3/- per share.

No events have been arisen since the Balance Sheet date which would require adjustment to or disclosure in the Financial Statements, except as stated above.

TEN YEAR SUMMARY

Year ended 31st March	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	2009 Rs. '000
Results										
Group turnover	1,494,939	2,686,939	1,843,662	3,404,734	4,796,905	7,565,327	10,512,326	12,989,916	12,687,289	9,274,103
Profit before taxation	115,140	119,992	38,753	58,912	148,396	253,633	382,235	512,895	344,444	155,021
Taxation	(36,762)	(46,102)	(10,523)	(20,119)	(48,131)	(76,431)	(117,062)	(211,118)	(139,351)	(65,577)
Profit after taxation	78,378	73,890	28,230	38,793	100,265	177,202	265,173	301,777	205,093	89,444
Capital Employed										
Stated capital	—	—	—	—	—	—	—	—	182,500	182,500
Share capital	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	37,500	37,500	37,500	61,500	—	—
Revaluation reserves	182,301	182,301	182,301	182,301	182,301	311,522	311,522	311,522	311,522	1,135,612
Revenue reserves	264,956	314,846	325,076	363,869	432,634	566,836	777,009	1,012,486	1,163,129	686,733
Shareholders' Funds	514,757	564,647	574,877	613,670	742,435	1,005,858	1,216,031	1,506,508	1,657,151	2,004,845
Total borrowings	407,561	458,146	596,514	866,946	958,049	1,608,915	2,796,158	2,864,688	2,802,374	2,709,671
Net Capital Employed	922,318	1,022,793	1,171,391	1,480,616	1,700,484	2,614,773	4,012,189	4,371,196	4,459,525	4,714,516
Assets Employed										
Non-current assets	454,940	480,468	517,030	528,826	559,752	734,720	775,323	1,005,370	1,463,068	2,234,911
Current assets	786,502	803,832	952,905	1,197,756	1,692,349	2,460,687	3,794,288	4,193,262	4,368,090	3,028,263
Deferred income	—	—	—	—	(1,995)	(1,441)	(932)	(3,218)	(1,222)	(363)
Total liabilities (excluding borrowings)	(319,124)	(261,507)	(298,544)	(245,966)	(549,622)	(579,193)	(556,490)	(824,218)	(1,370,411)	(548,295)
Net Assets Employed	922,318	1,022,793	1,171,391	1,480,616	1,700,484	2,614,773	4,012,189	4,371,196	4,459,525	4,714,516
Net Cash Flow										
From Operating activities	87,912	88,131	(102,684)	(153,014)	(39,915)	(587,299)	(990,433)	383,134	520,706	625,652
From Investing activities	(15,746)	(53,658)	(56,104)	(57,827)	(75,584)	(97,584)	(91,474)	(287,636)	(519,212)	1,918
From Financing activities	(108,476)	(201,671)	(12,640)	(17,488)	26,434	92,125	305,800	(49,458)	179,289	(416,861)
Net Cash Inflow/(Outflow)	(36,310)	(167,198)	(171,428)	(228,329)	(89,065)	(592,758)	(776,107)	46,040	180,783	210,709
Key Indicators										
Earnings per share (Rs.)(*)(**)	6.79	6.40	2.44	3.36	8.68	15.34	22.96	25.76	16.95	9.36
Net assets per share (Rs.)	107.24	94.11	95.81	102.28	82.49	100.59	121.60	124.50	136.95	230.38
Market value per share (Rs.)	39.00	38.00	30.00	50.00	53.00	103.00	138.50	120.00	88.75	60.25
Return on average shareholders' equity (%)	16	14	5	7	15	20	24	22	13	5
Dividends proposed/declared (Rs.)	14,400	24,000	18,000	18,000	31,500	50,000	60,000	72,600	48,400	26,107
Dividends cover (time cover)	5	3	2	2	3	4	4	4	4	6
Price earnings ratio (times)	6	6	12	15	6	7	6	5	5	3
Dividend per share (Rs.)	3.00	4.00	3.00	3.00	3.50	5.00	6.00	6.00	4.00	3.00
Annual sales growth (%)	(6)	80	(31)	85	41	58	39	24	(2)	(27)
Current ratio (time)	1.18	1.24	1.16	1.16	1.20	1.24	1.33	1.30	1.26	1.25
Turnover to capital employed (times)	1.62	2.63	1.57	2.30	2.82	2.89	2.62	2.97	2.84	1.97

* 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 2009 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 2009 was 1,212 (1,224 as at 31st March 2008).

Residents				Non-Residents				Total		
Number of Shares held	No. of Share-holders	No. of Shares		No. of Share-holders	No. of Shares		No. of Share-holders	No. of Shares		
			%			%			%	
0 - 500	847	90,005	1.03	15	2,141	0.03	862	92,146	1.06	
501 - 1,000	100	76,978	0.89	6	4,664	0.05	106	81,642	0.94	
1,001 - 5,000	154	314,009	3.61	4	9,923	0.11	158	323,932	3.72	
5,001 - 10,000	22	156,839	1.81	1	5,500	0.06	23	162,339	1.87	
10,001 - 20,000	11	146,132	1.68	—	12,222	0.14	12	158,354	1.82	
20,001 - 30,000	10	239,558	2.75	—	—	0.00	10	239,558	2.75	
30,001 - 40,000	7	241,537	2.78	1	31,649	0.36	8	273,186	3.14	
40,001 - 50,000	9	387,837	4.46	—	—	0.00	9	387,837	4.46	
50,001 - 100,000	6	413,115	4.74	—	—	0.00	6	413,115	4.74	
100,001 - 1,000,000	17	5,293,813	60.83	—	—	0.00	17	5,293,813	60.83	
1,000,001 and Over	—	—	0.00	1	1,276,467	14.67	1	1,276,467	14.67	
Total	1,183	7,359,823	84.58	29	1,342,566	15.42	1,212	8,702,389	100.00	

Over 84% of the shares issued is held by residents of Sri Lanka.

Categories of Shareholders	31st March 2009			31st March 2008		
	No. of Share-holders	No. of Shares	%	No. of Share-holders	No. of Shares	%
Individuals	1,163	7,057,026	81.09	1,138	6,890,686	56.95
Institutions	49	1,645,363	18.91	86	5,209,314	43.05
Total	1,212	8,702,389	100	1,224	12,100,000	100.00

3. MARKET VALUE OF SHARES

The market value of an ordinary share of Diesel & Motor Engineering PLC, as at 31st March 2009 was Rs. 60.25 (Rs. 88.75 as at 31st March 2008).

4. DIVIDEND PAYMENTS

	2009 Rs. mn	2008 Rs. mn
Interim dividend - (Rs. 1.50 per share 2008)	—	18.15
Final dividend - Rs. 3/- per share (Rs. 2.50 per share 2008)	26.11	30.25
Final dividend was approved by the Directors on 22nd May 2009		
Final dividend payable on 11th June 2009		

SHARE INFORMATION

5. SHARE TRADING INFORMATION FROM 1ST APRIL 2008 TO 31ST MARCH 2009

	2009	2008	2007	2006
Highest (Rs.)	160.00 (June 30, 2008)	125.00 (April 16, 2007) (April 19, 2007)	155.00 (June 20, 2006)	153.00 (Feb. 6, 2006)
Lowest (Rs.)	57.50 (Jan. 07, 2009) (Jan. 08, 2009)	(April 24, 2007) 78.00 (Dec. 28, 2007)	100.00 (Dec. 29, 2006)	102.25 (Jan. 5, 2006)
No. of transactions	2,185	602	902	2,241
No. of shares traded (Rs.)	4,567,811	319,000	400,000	1,249,300
Value of shares traded (Rs.)	677,869,260	30,051,050	50,471,950	163,854,550
No. of days traded	163	162	197	213
No. of market days	239	239	240	241
Liquidity (%)*	52.49	2.64	3.31	12.49
CSE All Share Price Index	1,638.06	2,550.50	2,789.8	2,264.4
Milanka Price Index	1,736.20	3,181.30	3,837.6	2,877.7
Motor Sector	3,250.90	2,873.21	3,360.9	2,067.3

* This includes the share repurchase of 3,397,611 shares.

6. PUBLIC SHAREHOLDING

Number of Shares	3,949,028	5,318,912	5,302,892	3,388,464
%	45.38	43.96	43.83	33.88

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 ten 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 2008/09

Name	As at 31.03.2008	Movement	As at 31.03.2009	%
A.R. Pandithage	1,882,095	—	1,882,095	21.63
A.N. Algama	170,755	93,417	264,172	3.04
S.C. Algama	399,134	—	399,134	4.59
A.G. Pandithage	383,545	—	383,545	4.41
A.M. Pandithage	219,778	—	219,778	2.53
T.G.H. Peries	328,170	—	328,170	3.77
	3,383,477	—	3,476,894	39.97

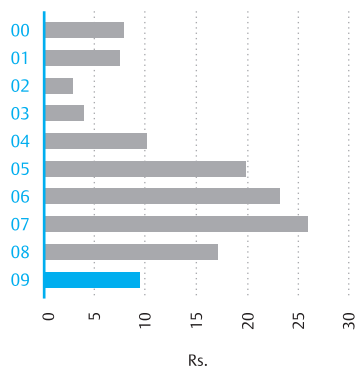
SHARE INFORMATION

9. MAJOR SHAREHOLDERS AS AT

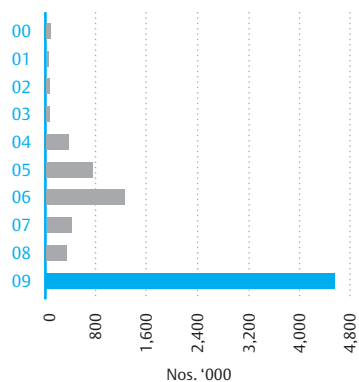
31st March 2009			31st March 2008		
Name of Shareholder	Total Shares	%	Name of Shareholder	Total Shares	%
Thurston Investments Ltd.	1,276,467	14.67	Hayleys PLC	3,397,611	28.08
Mr. A.R. Pandithage	971,798	11.17	Thurston Investments Ltd.	1,195,667	9.88
Mrs. J.C. Pandithage	910,297	10.46	Mr. A.R. Pandithage	971,798	8.03
Mr. A.K. Pandithage	417,640	4.80	Mrs. J.C. Pandithage	910,297	7.52
Mr. S.C. Algama	392,278	4.51	Mr. A.K. Pandithage	417,640	3.45
The Estate of the Late			Mr. S.C. Algama	392,278	3.24
Mrs. D.G. Pandithage	352,249	4.05	The Estate of the Late		
Mr. A.G. Pandithage	339,380	3.90	Mrs. D.G. Pandithage	352,249	2.91
Mr. K. Aloysius	327,476	3.76	Mr. A.G. Pandithage	339,380	2.80
Mr. A.N. Algama	264,172	3.04	Mr. K. Aloysius	327,476	2.71
Mr. T.G.H. Peries	191,284	2.20	Mr. T.G.H. Peries	191,284	1.58
Mr. A.M. Pandithage	178,745	2.05	Mr. A.M. Pandithage	178,745	1.48
The Estate of the Late			Mr. A.N. Algama	170,755	1.41
Mr. A.A.C.A. Algama	164,376	1.89	The Estate of the Late		
Dr. D. Jayanntha	154,600	1.77	Mr. A.A.C.A. Algama	164,376	1.36
JB Cocoshell (Pvt)Ltd.	140,400	1.61	Dr. D. Jayanntha	154,100	1.27
Mrs. M.S. Peries	136,886	1.57	Mrs. M.S. Peries	136,886	1.13
Mr. L.P. Algama	131,931	1.52	Mr. L.P. Algama	131,931	1.09
The Estate of the Late			Mr. A.C. Pandithage	109,632	0.91
Mr. N.U. Algama	116,515	1.34	The Estate of the Late		
Mr. C.H.N. Peries	103,786	1.19	Mr. N.U. Algama	116,515	0.96
Mr. Y.S.H.I.K. Silva	81,994	0.94	Elgin Investments Ltd.	114,759	0.95
Mrs. R.N. Perera	73,097	0.84	JB Cocoshell (Pvt) Ltd.	103,500	0.86
	6,725,371	77.28		9,876,879	81.62

SHARE INFORMATION

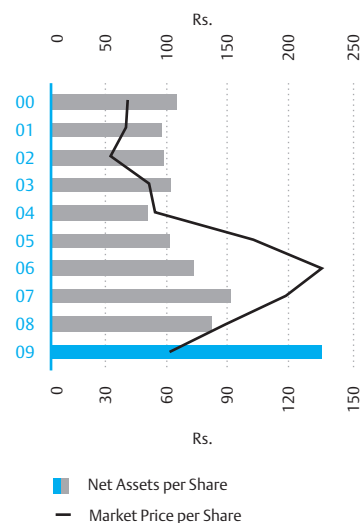
Earnings per Share



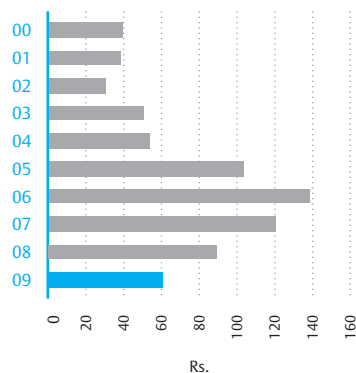
Number of Shares Traded



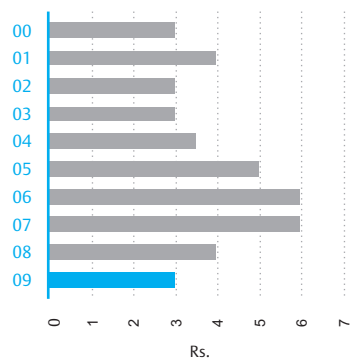
Net Assets per Share Vs Market price per Share



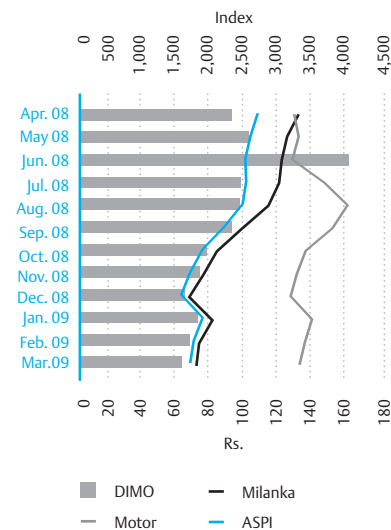
Market Price per Share



Dividend per Share



All Share, Sensitive Price & Motor Sector Index Vs DIMO Share Price



BRANCH NETWORK



1. Head Office
65, Jethawana Road, Colombo 14.

2. TATA Light, Commercial Vehicle
Showroom
61, Jethawana Road, Colombo 14.

3. TATA Passenger Car Showroom & 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. Dimo Mart
50, 51, Jethawana 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. Dimo Logistics Centre
Kirindiwela Road, Weliweriya.

12. TATA Spare Parts Showroom
74, 74/1, Jethawana Road, Colombo 14.

13. TATA Vehicle Display Point
32, Aluthgama, Bogamuwa, Yakkala.

HISTORICAL NOTE

Diesel & Motor Engineering PLC (DIMO) one of Sri Lanka's oldest and most respected organisations, celebrates this year, 70 years of trust with its stakeholders.

In 1932, Mr. F.K.Heller, a well known German businessman set up his own business in Sri Lanka with the distributorship of several world renowned German brands such as Mercedes Benz, Bosch, Siemens etc., under the name of Heller & Company. Being a German, in 1939 when World War broke out, the business of Mr. Heller was acquired by the Government.

The same year four unemployed youth Messrs Stephen Peries, Pandithage Don Alexander, Cyril Algama and Harold Algama from Heller & Company, got together and commenced a workshop at a rented premises off Prince of Wales Avenue with few mechanics. This was the beginning of DIMO. The initial business was making gaskets and turning out parts thus catering to the high demand prevalent for reconditioning, as new part replacement was costly due to the war. As business expanded, DIMO diversified to sale of electrical parts, fittings for motor vehicles and engine parts etc.

The four youth began humbly, but had great ambition to excel. Their vision was for DIMO to achieve the status of a world-class company in the products and services that it offered. Their vision remains undiluted even today, as the management of the Company has remained in the main in the hands of the founding families. The progeny have held true to the vision of the Company's first owners, of a commitment to excellence and ethical business practices.

In 1945 DIMO was incorporated as a Private Limited Liability Company. With the end of the 2nd World War, Mr. Heller was released and subsequently became a prominent industrialist in Germany. In 1949, Mr. Heller was an active partner of DIMO via Lohmann & Company Bremen Germany. In order to expand the activities, the business was relocated to

Jethawana Road, from where it still operates. In 1952, a showroom, main stores and garage was opened for business.

The first notable achievement for the Company came in 1959, when over 200 Mercedes Benz buses were supplied to the recently nationalised bus company.

DIMO 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".

In 1960, the Company extended its rear boundaries up to Bloemendhal Road, facilitating the expansion of its workshop.

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 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.

In 1966, the Company commenced manufacturing of radiators, radiator cores, silencer barrels and light engineering products for motor vehicles.

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, the Hayleys Group acquired a stake in the equity capital making DIMO one of its associate companies.

The divisional organisational structure was introduced in 1987 to support and nurture the development of the Company and to institutionalise the corporate management process.

As part of its evolving strategy of enhancing local expertise, in 1990 DIMO set up an automobile training school offering a two-year comprehensive service and maintenance course designed by Mercedes-Benz Germany. It is the only such enterprise of its kind in the corporate sector. The school has expanded, also offering automotive training courses for the UK-based City & Guilds programme.

DIMO is involved in a number of related fields, but maintains its core expertise representing many prestigious principal automobile and heavy-vehicle manufacturers and their allied services. Its portfolio consists of "best in class" brands such as Daimler, TATA, Bosch, MTU, Komatsu, Siemens, Michelin, Osram and Mahindra & Mahindra to name but a few. Its portfolio reaffirms the prestige and historicity of DIMO as a company committed to providing truly top-end products and services.



T.S. Peries



P.D. Alexandra



C.A. Algama



H.A. Algama

HISTORICAL NOTE

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 five outstation branches located at Anuradhapura, Kurunegala, Matara, Yakkala and Kandy.

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.

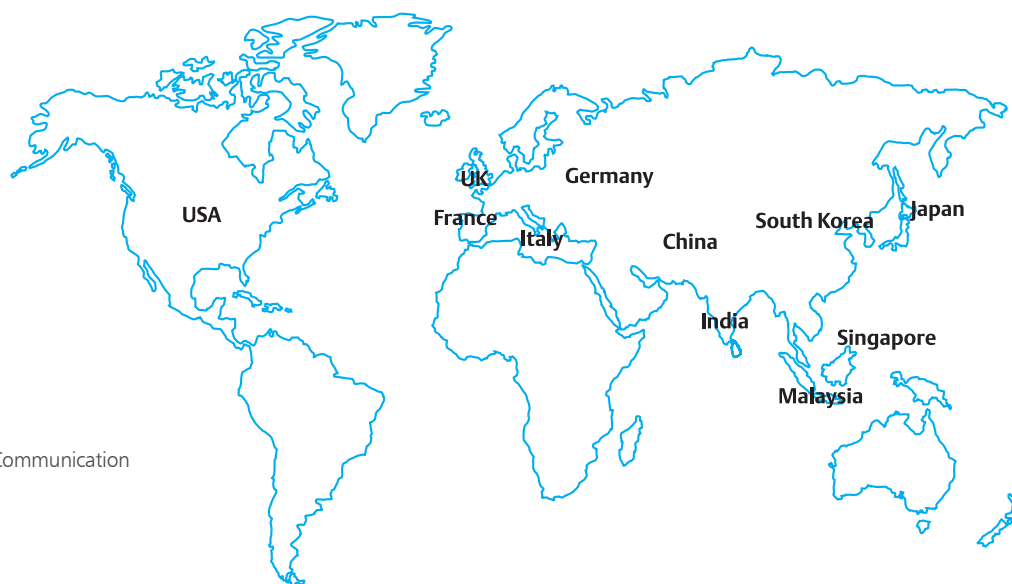
In 1998, Browns Dimo Industrial Products (Pvt) Ltd. was formed with Browns Group and DFCC Bank to undertake the activities of fabricating heat exchanges. During 2006, the Company invested in tyre rethreading and filter manufacturing ventures namely Dimo Industries (Pvt) Ltd. and Dimo KLN Industries (Pvt) Ltd. respectively. These factories were located in Homagama and Kandana.

The Company's logistical operations are being carried out from the property acquired at Weliwariya in Gampaha district in February 2008.

In 2008, the entirety of the divested stockholding of Hayleys Group was repurchased by DIMO.

During the last few decades DIMO has achieved sustainable growth with its annual turnover increasing from a mere Rs. 215 mn to Rs. 9.3 bn. The stated capital has increased from Rs. 10 mn to Rs. 182 mn through rights issues and capitalisation of reserves. Thus DIMO has laid the foundation towards achieving world class status.

KEY PRINCIPALS



CHINA

Infinite Shanghai Communication
Terminals Ltd.

FRANCE

Carl Zeiss Meditec
Michelin

GERMANY

Blaupunkt Werke GmbH
Bomag GmbH
Carl Zeiss AG
Daimler AG
DEMAG Cranes & Components GmbH
Draeger Medical
Fischer Werke GmbH
KHD Humboldt Wedag AG
KSB AG
OSRAM GmbH
Robert Bosch Ew.
Robert Bosch GmbH
Siemens AG
SiTeco Lighting (M) Sdn Bhd
Tognam GmbH
Vossloh-Schwabe GmbH
WOMA GmbH

INDIA

Bhagat Forge Ltd.
Bimetal Bearings Ltd.
Bosch Chassies Systems India Ltd.
Bosch Ltd.
Claas India Ltd.
Fenner (India) Ltd.

Gabriel India Ltd.
India Pistons Ltd.
KLN Engineering Products (Pvt) Ltd.
Mahindra & Mahindra Ltd.
MRF
Rane Brake Linings Ltd.
Rane Engine Valves Ltd.
Schwing Stetter
Shardlow India Ltd.
Sri Bhavani Castings Ltd.
Sri Ramadas Motor Transport Ltd.
Tata Motors Ltd.
Turbo Bearings (P) Ltd.
VE Commercial Vehicles 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
See Hau Global sanbhd
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.
Komatsu Asia & Pacific Pte. Ltd.
Komatsu Forklift Asia Pte. Ltd.
MHE-Demag (s) Ptc. Ltd.
MTU Asia Pte. Ltd.
Power Source International Pte. Ltd.

SOUTH KOREA

Dongsung Parking & Parts Co., Ltd.
Everdigm

UK

Interpower International Ltd.

USA

BF Goodrich
Indo Marine Engineering Co., Pvt. Ltd.
Snap-on Tools (Pvt) Ltd.

KEY PRINCIPALS

PRINCIPALS REPRESENTED AND DURATION OF RELATIONSHIP

Name	Country	Brands	No. of Years
Daimler AG	Germany	Mercedes-Benz	70
Robert Bosch GmbH	Germany	Bosch	55
KHD Humbltd Wedag AG	Germany	KHD	49
Siemens AG	Germany	Siemens	49
Tata Motors Ltd.	India	Tata	48
Bosch Ltd.	India	Mico	40
Komatsu Asia & Pacific Pte. Ltd.	Singapore	Komatsu	40
Komatsu Forklift Asia Pte. Ltd.	Singapore	Komatsu	40
Komatsu Ltd.	Japan	Komatsu	40
KSB AG	Germany	KSB	40
Bomag GmbH	Germany	Bomag	30
Bosch Automotive Systems Corporation	Japan	Zexel	25
Robert Bosch Ew.	Germany	Bosch	25
Carl Zeiss AG	Germany	Zeiss	24
MTU Asia Pte. Ltd.	Singapore	Mtu/DDC	22
Tognam GmbH	Germany	Mtu/DDC	22
Mahindra & Mahindra Ltd.	India	Mahindra	19
Michelin	France	Michelin	16
OSRAM GmbH	Germany	OSRAM	15
DEMAG Cranes & Components GmbH	Germany	DEMAG	15
Rane Brake Linings Ltd.	India	Rane	15
WOMA GmbH	Germany	WOMA	15
Blaupunkt Werke GmbH	Germany	Blaupunkt	14
Daimler South East Asia Pte. Ltd.	Singapore	Mercedes-Benz	14
India Pistons Ltd.	India	IPL	14
KLN Engineering Products (Pvt) Ltd.	India	KLN	13
Shardlow India Ltd.	India	Shardlow	13
Fenner (India) Ltd.	India	Fenner/Pioneer	12
PK Electronics	Malaysia	PK	12
Rane Engine Valves Ltd.	India	EVL	12
Vossloh-Schwabe GmbH	Germany	VS	12
Bimetal Bearings Ltd.	India	Bimite	11
SiTeco Lighting (M) Sdn Bhd	Germany	SiTeco	10
BF Goodrich	USA	BF Goodrich	9
Infinite Shanghai Communication Terminals Ltd.	China	Siemens/ Infinite	8
John Deere Asia (Pvt) Ltd.	Singapore	John Deere	8
MRF	India	MRF	8
Davex Engineering (M) SDN Bhd	Malaysia	Davis	7
Draeger Medical	Germany	Draeger	7
Interpower International Ltd.	UK	Interpower	7
Power Source International Pte. Ltd.	Singapore	Europower	7
SSI Schaefer Systems International Pte Ltd.	Malaysia	Schaefer	7
Claas India Ltd.	India	CLAAS	6
Daimler Regional Logistic Centre	Singapore	Mercedes-Benz/Chrysler/Jeep	6
MHE- Demag (s) Pte. Ltd.	Singapore	MHE-Demag	6
Chrysler South East Asia Pte. Ltd.	Singapore	Chrysler/Jeep	5
Everdigm	South Korea	Rhino	5
Schwing Stetter	India	Stetter	4
Zenoah	Japan	Zenoah	4
Bhagat Forge Ltd.	India	Bhagat Forge	3
Bosch Chassis Systems India Ltd.	India	KBX	3
Carl Zeiss Meditec	France	Zeiss	3
Fischer Werke GmbH	Germany	Fischer	3
Gabriel India Ltd.	India	Gabriel	3
Snap-on Tools (Pvt) Ltd.	USA	Hoffmann/JBC	3
Sri Bhavani Castings Ltd.	India	SBP	3
VE Commercial Vehicles Ltd.	India	Eicher Dem	3
Victor Gaskets India Ltd.	India	Victor	3
VM MOTORI S.P.A.	Italy	VM MOTORI	3
Dongsung Parking & Parts Co., Ltd.	Korea	Dongsung	2
Indo Marine Engineering Co., Pvt. Ltd.	USA	GEHL	2
See Hau Global sanbhd.	Malaysia	Intraco pallet	1
Turbo Bearings (P) Ltd.	India	Turbo	Just commenced
Sri Ramadas Motor Transport Ltd.	India	SRMT	Just commenced

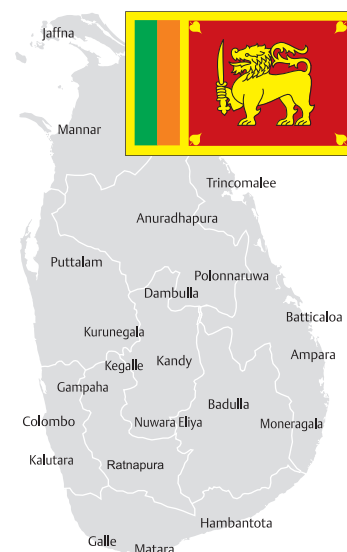
COUNTRY INFORMATION

The Democratic Socialist Republic of Sri Lanka; was previously known as Ceylon. An island state situated in South Asia and is located about 31 kilometres (19.3 miles) off the southern coast of India. It is home to twenty million people (2008).

Sri Lanka is a strategic naval link between West Asia and South East Asia and has been a centre of Buddhist religion and culture from ancient times. Today, the country is a multi-religious and multi-ethnic nation, with more than a quarter of the population following faiths other than Buddhism. The Sinhala community forms the majority of the population, with Tamils, who are concentrated in the North and East of the island, forming the largest ethnic minority. Other communities include Moors, Burghers, Kaffirs and the Malays.

The coastal areas of the island were controlled by the Portuguese in the 16th century and by the Dutch in the 17th century. The island was ceded to the British in 1796, became a Crown colony in 1802, and was united under British rule by 1815. As Ceylon, it became independent in 1948.

Famous for the production and export of tea, coffee, coconuts and rubber, Sri Lanka boasts a progressive and modern industrial economy and the highest per capita income in South Asia. The natural beauty of Sri Lanka's tropical forests, beaches and landscape, as well as its rich cultural heritage, make it a world famous tourist destination.



PHYSICAL FEATURES

Total area	65,610 Sq. K.M.
Land area	62,705 Sq. K.M.
Capital	Sri Jayawardhanapura
Commercial Capital	Colombo

	2008	2007	2006	2005	2004
DEMOGRAPHICS					
Mid-year population (mn persons)	20.2	20	19.8	19.7	19.5
Labour force (mn persons)	7.5	7.4	7.5	8.1	8.0
Labour force participation rate (%)	50.2	49.8	51.2	48.3	48.6
Unemployment rate (% of labour force)	5.2	6	6.5	7.7	8.3
KEY ECONOMIC INDICATORS					
GDP at Market Prices (Rs. bn)	4,312	3,540	2,898	2,423	2,070
GDP per capita (US \$)	2,014	1,617	1,421	1,241	1,062
GDP growth (%)	6.0	6.8	7.7	6.2	5.4
Colombo Consumers Price Index (2002=100) Annual average	22.6	15.8	10	11.0	9.0
Colombo Consumers Price Index (2002=100) Point to Point-end period	14.4	18.8	13.5	7.4	13.0
Fiscal deficit (% of GDP)	(7.7)	(7.7)	(8)	(8.4)	(7.9)
Current account balance (% of GDP)	(9.3)	(4.2)	(5.3)	(2.7)	(3.1)
External Assets (months of same year imports)	3.3	5.3	4.7	5.7	5.2
Overall debt service ratio (% of export of goods & services)	15.0	13	12.7	7.9	11.6
Total external debt & liabilities (% of GDP)	43.7	51.8	50.3	53.3	61.8
INTEREST RATES					
(percentage per annum at end-year)					
Treasury Bill rate					
91 days	17.33	21.3	12.76	10.10	7.25
364 days	19.12	19.96	12.96	10.37	7.65
Repurchase rate (overnight)	10.5	10.5	10	8.75	7.5
Reverse repurchase rate (overnight)	12	12	11.5	10.25	9
Commercial Banks					
Weighted average - prime lending rate (AWPLR)	18.5	17.95	15.19	12.2	10.2
Weighted average - deposit rate (AWDR)	11.63	10.31	7.6	6.2	5.3
EXCHANGE RATES					
Annual average Rs./US \$	108.33	110.62	103.96	100.5	101.19
End-year Rs./US \$	113.14	108.72	107.71	102.12	104.61
CAPITAL MARKETS					
All Share Price Index	1,503	2,541	2,722.4	1,922.2	1,506.9
Sensitive Price Index	1,631.3	3,291.9	3,711.8	2,451.1	2,073.7
Value of shares traded (Rs. mn)	101,454	104,985	105,154	114,599	59,052
Market capitalisation (Rs. bn)	488.8	820.7	834.8	584.0	382.1
Market capitalisation (% of GDP)	11	23	28	24	18

Source: Central Bank Annual Report 2008

COUNTRY INFORMATION

SECTORIAL COMPOSITION AND INCREASE IN GROSS DOMESTIC PRODUCT (GDP)

	As a Share of GDP (%)			Rate of Change (%)	
	2008	2007	2006	2008	2007
Agriculture Sector	12.1	11.90	10.30	7.50	3.40
Industrial Sector	28.4	28.50	29.70	5.90	7.60
Services Sector	59.5	59.60	60.00	5.60	7.10
Gross Domestic Product (GDP)	100.00	100.00	100.00	6.0	6.8

KEY SOCIAL INDICATORS

Population & Vital Statistics

Age distribution (%) (2008)

0-14 years	26.6%
15-64 years	67.0%
65 years & over	6.4%

Population density (2008) 322 persons per sq. km.

Crude birth rate (2008) 18.8 per 1000

Crude death rate (2008) 5.8 per 1000

Rate of natural increase (2008) 13.0 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 (2006)

Male 68.2 years

Female 75.8 years

LITERACY RATE (2006)

Overall 90.8%

Male 92.7%

Female 89.1%

HUMAN DEVELOPMENT INDEX (2006)

Ranking among 179 countries 104

EMPLOYMENT (2008)

Agriculture 32.7%

Industry 26.3%

Service 41.0%

POVERTY

Population below US\$ 1 a day (1990 - 2005) 5.6%

Population below US\$ 2 a day (1990 - 2005) 41.6%

PHYSICAL & SOCIAL INFRASTRUCTURE FACILITIES

	Unit	2008
Water Supply & Sanitation		
Access to safe drinking water	per cent	78
Access to pipe borne water	per cent	34.5
Electricity		
Households with electricity	per cent	83
Per capita electricity consumption	kWh/person	416.4
Communications		
Telephone Density		
Fixed lines	per 100 persons	17.1
Including cellular phones	per 100 persons	71.9
Internet and e-mail	per 1,000 persons	11.6
Public Health		
Hospital beds	per 1,000 persons	3.3
Persons per doctor	Number	1,552
Nurses	per 10,000 persons	11.4
Government expenditure on health	per cent of GDP	1.7

Source: Central Bank Annual Report 2008

COUNTRY INFORMATION

	Unit	2008
General Education		
School density (area covered by a school)	sq. km.	6.3
Pupil/teacher ratio (Government schools)	Number	19
Age specific enrolment ratio (Age 5-19 years)	per cent	71.5
University Education		
Pupil/teacher ratio	Number	15
Age specific enrolment ratio (Age 20-24 years)	per cent	3.8
Progression to University from GCE (A/L)		
Eligibility for university admission	per cent	58.5
Admission as a percentage of eligibility	per cent	16.5
Government expenditure on education	per cent of GDP	2.3
Banking		
Total number of commercial banks	Number	22
Domestic banks	Number	11
Foreign banks	Number	11
ATMs per 100,000 persons		8.4
Credit card issued per 100,000 persons		4,538
Banking Density		
No. of bank branches per 100,000 persons		10.2

KEY EXTERNAL

- The Global financial crisis triggered by the Sub-Prime mortgage lending in the United States, resulted in a liquidity crisis in other markets. It also led to a sudden withdrawal of a large part of the investment in Treasury bills & bonds by foreign investors in Sri Lanka. The surplus in the balance of payments which reached US\$ 218 mn in July' 2009 turned into a deficit of US\$ 1.2 bn by end 2008 and the external official reserves declined by about 50% to US\$ 1.75 bn.

The Central Bank took several measures to counter this decline in the official reserves in 2009.

- Negotiated with three countries for currency SWAP arrangements. Under this US\$ 200 mn has been received.
 - Promotion of investments in Treasury Bills and Bonds among the Sri Lankan diaspora.
 - The introduction of 20% bonus interest on interest earned on NRFC/RFC accounts.
 - Entered into negotiations with the International Monetary Fund (IMF) for a stand-by arrangement facility of US\$ 1.9 bn.
- An Economic Stimulus Package with an estimated cost of Rs. 16 bn was introduced by the Government with a view of easing the impact on the economy from the global financial crisis.

The Following are some of the measures introduced during the year which affected the Group:

- A 100% margin requirement was imposed on the total invoiced value of the goods which will be imported against advance payment terms, by the importer at the time of effecting the remittance.
- Banks were also requested to obtain a deposit of not less than 100% of the value of forward contracts for the sale of foreign exchange.
- The margin deposit requirement against the opening of Letters of Credit (LCs) on importation of motor vehicles was increased to 200% from 100%. However this requirement was subsequently withdrawn during the ensuing year.

Source: Central Bank Annual Report 2008

COUNTRY INFORMATION

THE FOLLOWING PROPOSALS WERE MADE DURING THE GOVERNMENT'S BUDGET PRESENTED ON 6TH OF NOVEMBER 2008 WHICH AFFECTS THE GROUP AND ITS EMPLOYEES:

- Nation Building Levy of 1% was imposed on the turnover on imports, manufacturing or services other than on banking and financial sector. This rate was subsequently increased to 3% during the ensuing year.
- Standard VAT rate was reduced from 15% to 12%.
- VAT threshold was increased to Rs. 650,000 per taxable period or Rs. 2.5 mn per annum.
- The claimability of input tax credit in relation to VAT paid at 20% will be restricted to 10%.
- Revising personal income tax rates are as follows:
 1. Up to Rs. 300,000 - Nil
 2. Next Rs. 400,000 - 5%
 3. Next Rs. 400,000 - 10%
 4. Next Rs. 400,000 - 15%
 5. Next Rs. 500,000 - 20%
 6. Next Rs. 500,000 - 25%
 7. Next Rs. 500,000 - 30%
 8. Balance - 35%
- Claim of input tax credit on custom declaration related to import of goods:

The present period of one year for the claim of input tax credit on customs declarations related to importation of goods will be extended for a period of two years;
- Increasing the annual maximum ESC liability of Rs. 60 mn for large businesses to Rs. 120 mn;
- The grace period of 36 months applicable to commence ESC liability will be removed;
- Port and Airport Development Levy Rate of the levy is increased from 3% to 5%;
- Social Responsibility Levy will be amended effective from 1st April 2008, for application of Social Responsibility Levy in relation to income tax payable by companies under the respective provisions of the Inland Revenue Act.
- Revising Withholding tax rates on interest on deposit are as follows.
 1. Up to Rs. 300,000 Nil
 2. Rs. 300,001- Rs. 1,000,000 - 2.5%
 3. Rs. 1,000,001 and above 10%

Source: Central Bank of Sri Lanka Annual Reports /Budget proposal highlights-Ministry of Finance & Planning.

GRI COMPLIANCE INDEX

Index No.	Description	Report level	Page No.
1. STRATEGY AND ANALYSIS			
1.1	Statement from the most senior decision-maker of the organisation	Sustainability Report	54
1.2	Description of key impacts, risks and opportunities	Risk Management	94-96
2. ORGANISATION PROFILE			
2.1	Name of the organisation	Corporate Information	Inner back cover
2.2	Primary brand, product, and/service	Business Performance	16-45
2.3	Operational structure of organisation	Enterprise Governance	86-92
2.4	Location of the headquarters	Corporate Information	Inner back cover
2.5	Number of countries where the organisation operates and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the Report	Not Applicable	
2.6	Nature of ownership and legal form	Annual Report of the Board of Directors and Share Information	103-107, 138-141
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)	Business Performance	16-45
2.8	Scale of the reporting organisation	Enterprise Governance	86-92
2.9	Significant changes during the reporting period	Chairman & CEO's Review	6-9
2.10	Awards received in the period	Sustainability Report	56
3. REPORT PARAMETERS			
3.1	Reporting period	31/03/2009	–
3.2	Date of most recent previous report	31/03/2008	–
3.3	Reporting cycle (annual, biennial, etc.)	12 Months	–
3.4	Contact point for questions regarding the report or its contents.	Sustainability Report	56
3.5	Defining report content	Sustainability Report	55
3.6	Report scope and boundary	Sustainability Report	55-56
3.7	State any specific limitations on the scope or boundary of the report	None	–
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations.	Sustainability Report	55
3.9	Data measurement techniques and the bases of calculations	Sustainability Report	55-56
3.10	Explanation of the effect of any re-statement of information provided in earlier report	Not Applicable	–
3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the report.	Not Applicable	–
3.12	Policy and current practice with regard to seeking external assurance	Assurance Report on Sustainability Report	83
4. GOVERNANCE, COMMITMENTS AND ENGAGEMENT			
4.1	Governance structure of the organisation	Enterprise Governance	86-92
4.2	Indicate whether Supervisory Board member is also an executive officer	Enterprise Governance	86-92
4.3	For organisations that have a unitary Board structure, state the number of members of the highest governance body that is independent and/or non-executive members	Enterprise Governance	86-92
4.4	Mechanisms for shareholders and employees to provide recommendations or directions to the highest governance body	Enterprise Governance	86-92
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives	Enterprise Governance/ Remunerations Committee Report	90 98
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	Enterprise Governance	86-92
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental and social topics	Enterprise Governance/ Nominations Committee Report	90 99
4.8	Internally developed statements of mission or values, codes of conduct and principles relevant to economic, environmental and social performance and the status of their implementation	Vision & Values	I

GRI COMPLIANCE INDEX

Index No.	Description	Report level	Page No.
4.9	Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental and social performance	Sustainability Report	56
4.10	Processes in place to evaluate the Supervisory Board (evaluating the performance)	Enterprise Governance	86-92
4.11	Processes for evaluating the highest governance body's own performance	Enterprise Governance	86-92
4.12	Externally developed economic, environmental and social charters, principles	Sustainability Report Environmental Management System	66
4.13	Membership in industry/business association	Not Reported	–
4.14	List of stakeholder groups engaged by the organisation	Sustainability Report	56-61
4.15	Basis for identification and selection of stakeholders	Not Reported	–
4.16	Approaches to stakeholder engagement	Sustainability Report	56-61
4.17	Key topics and concerns that have been raised	Sustainability Report	54-82

PERFORMANCE INDICATORS

Economic

EC1	Economic Value Generated	Sustainability Report	62
EC2	Financial Impacts due to climate change	Not Reported	–
EC3	Organisation's defined benefit plan obligations	Sustainability Report	64
EC4	Financial assistance received from the Government	Sustainability Report	65
EC5	Total payroll and benefits	Notes to the Financial Statements	123
EC6	Proportion of spending on locally-based suppliers compared to the locations of operations	Sustainability Report	65
EC7	Procedure for hiring local talent	Not Reported	–
EC8	Developments of infrastructure for public benefit	Sustainability Report	65

Environmental

EN1	Materials used by weight or volume	Not Reported	–
EN2	Percentage of recycled materials	Sustainability Report	68
EN3	Direct energy consumption	Not Reported	–
EN4	Indirect energy consumption	Sustainability Report	68
EN5	Energy saved due to conservation	Sustainability Report	69, 71
EN6	Usage of energy efficient products and services	Sustainability Report	71-72
EN7	Initiatives to reduce indirect energy consumption	Sustainability Report	70-71
EN8	Total water usage	Sustainability Report	71
EN10	Water recycling mechanisms employed	Sustainability Report	71, 73
EN11	Locations of land owned with surroundings that have a high biodiversity	Not Applicable	–
EN12	Impacts on the environment due to organisational activities	Not Applicable	–
EN13	Habitats protected or restored	Not Applicable	–
EN14	Strategies and future plans in managing the impacts on the diversity of the environment	Not Applicable	–
EN15	Endangered Species living around organisational premises	Not Applicable	–
EN16	Direct and indirect greenhouse gas emissions released by weight	Not Reported	–
EN17	Other relevant indirect greenhouse gas emissions by weight	Sustainability Report	72
EN18	Initiatives to reduce gas emissions	Sustainability Report	72
EN19	Emissions of ozone depleting emissions by weight and type	Sustainability Report	72
EN20	Total water discharged by quality and destination	Sustainability Report	72
EN21	NO, SO and other significant air emissions by weight and type	Not Reported	–
EN22	Total weight of waste by type and disposal method	Sustainability Report	73-74
EN23	Total number of volumes of significant spills	Sustainability Report	72
EN24	Weight of transported, imported, exported or treated waste deemed hazardous under the terms of Basel Convention Annex I, II, III and VIII and percentage of transported waste shipped internationally	Not Applicable	–
EN25	Identify size, protected status and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff	Not Applicable	–

GRI COMPLIANCE INDEX

Index No.	Description	Report level	Page No.
EN26	Initiative to mitigate environmental impacts from products and services	Sustainability Report	66-74
EN27	Percentage of products sold and their packaging reclaimed by category	Not Reported	–
EN28	Monetary value of significant fines due to non-compliance with environmental laws	None	–
EN29	Significant impacts on the environment due to the transportation of goods and services	Not Reported	–
EN30	Total environmental protection expenditures and investments	Not Reported	–
Labour Practices and Decent Work			
LA1	Total workforce	Sustainability Report	75
LA2	Total labour turnover	Risk Management	95
LA3	Benefits provided to employees	Sustainability Report	76
LA4	Percentage of employees covered by collective bargaining agreements	Sustainability Report	76
LA5	Minimum notice period regarding operational change	Not Applicable	–
LA7	Rates of injury, occupational diseases etc	Not Reported	–
LA8	Educating the employees regarding the safeguarding of themselves against serious illnesses	Not Reported	–
LA10	Average hours of training per year per employee	Sustainability Report	77
LA12	Percentage of employees receiving career development reviews	Sustainability Report	64, 75-76
LA13	Composition of the employees	Sustainability Report	78
LA14	Ratio of basic salary of man to woman	Sustainability Report	78
Human Rights			
HR1	Percentage of agreements that has undergone human rights screening	Not Reported	–
HR2	Percentage of suppliers that have undergone human rights screening	Not Reported	–
HR3	Total number of employees who has undergone training with regard to human rights	Not Reported	–
HR4	Total number of incidents of discrimination actions taken	None	–
HR5	Operations identified in which the right to exercise freedom of association maybe at significant risk	Not Reported	–
HR6	Operations involving child labour	Sustainability Report	79
HR7	Actions taken to contribute to the elimination of forced labour	Not Reported	–
HR8	Security personnel trained with regard to human rights	Sustainability Report	79
Society			
SO1	Programmes aimed to assess and manage the impact on the community due to business activities	Not Reported	–
SO2	Percentage of business units analysed for risk-based corruption	Not Reported	–
SO3	percentage of employees trained on anti-corruption policies	Not Reported	–
SO4	Actions taken in response to indications of risk-based corruption	Not Reported	–
SO5	Public policy positions in public policy development and lobbying	Not Reported	–
SO6	Total value of contributions to political parties	Sustainability Report	80
SO7	Total number of legal cases taken against the Company for anti-competitive behaviour	Sustainability Report	81
SO8	Monetary value of significant fines for non-compliance with laws and regulations	Sustainability Report	81
PRODUCTS RESPONSIBILITY			
PR1	Life cycles of the products	Not Reported	–
PR2	Total number of incidents involving non-compliance with regulations and voluntary codes	None	–
PR3	Types of information with regard to products and services required by procedures	Not Reported	–
PR4	Number of incidents involving non-compliance with regard to product labelling	Sustainability Report	82
PR5	Customer satisfactory data	Business Performance/ Sustainability Report	16-45 61
PR6	Ethical marketing campaigns	Sustainability Report	82
PR7	Incidents involving the non-compliance of ethical marketing campaigns	Sustainability Report	82
PR8	Policy procedures/management systems and compliance mechanisms for customer privacy	Sustainability Report	82
PR9	Monetary values of fines with regard to non-compliance with laws and regulations	Sustainability Report	82

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.

AMORTISATION

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

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 specific purposes. There reserves cannot be distributed to shareholders in the form of dividends. It consists 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.

DIVIDEND COVER

Profit attributable to ordinary shareholders divided by dividend. Measures the number of times dividend is covered by distributable profit.

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.

IMPAIRMENT

This occurs when recoverable amount of an asset is less than its carrying amount.

INTEREST COVER

Profit before taxation plus financing cost divided by financing cost.

KEY PERFORMANCE INDICATORS (KPI)

Are quantifiable measurement, 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 Statement should separately disclose items which are significant enough to effect evaluation or decision of users.

GLOSSARY OF FINANCIAL TERMS

NET ASSETS PER SHARE

Shareholders' funds divided by the weighted average number of ordinary shares in issue.

PRICE EARNING RATIO

Market price of a share divided by earnings per share as reported at that date.

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.

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.

SHARE CAPITAL

Consists of issue and paid up ordinary 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 event 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 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-Fourth Annual General Meeting of DIESEL & MOTOR ENGINEERING PLC will be held at the Registered Office of the Company, No. 65, Jethawana Road, Colombo 14, on Monday, 29th June 2009 at 10.00 a.m. and the business to be brought before the meeting will be:

AGENDA

1. To adopt the Annual Report of the Directors and the Statement of Accounts for the year ended 31st March 2009 with the Report of the Auditors thereon.
2. To re-elect Dr. H. Cabral, 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. B.C.S.A.P. Gooneratne, 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. S.C. Algama, who retires by rotation in terms of Article 66 of the Articles of Association as a Director of the Company.*
5. To re-elect Dr. U.P. Liyanage, 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 103 of the Annual Report.*

NOTE

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, Jethawana Road, Colombo 14, not less than forty-eight hours before the time fixed for the Meeting.

By Order of the Board,

Diesel & Motor Engineering PLC

Company Registration No. PQ-146



B.C.S.A.P. Gooneratne

Secretary

Colombo

22nd May 2009

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-Fourth Annual General Meeting of the Company to be held on Monday, 29th June 2009 and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof.

	For	Against
1. To adopt the Annual Report of the Directors and the Statement of Accounts for the year ended 31st March 2009 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect Dr. H. Cabral, 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. B.C.S.A.P. Gooneratne, 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. S.C. 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"/>
5. To re-elect Dr. U.P. Liyanage, 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 2009.

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, Jethawana Road, Colombo 14, by 10.00 a.m. on Saturday, 27th June 2009.
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.

COPORATE INFORMATIONS

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

TAX PAYER IDENTIFICATION NUMBER (TIN)

104002498

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
No. 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
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
Facsimile: 0094-11-2449080

Chairman & CEO's message delivered to the staff on the occasion of the 70th Jubilee Celebration

DIMO has created a unique Sri Lankan brand. As a 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. It is a brand like no other, one of the Sri Lankan brands.

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 the client is an enduring one, it lives, it throbs, it ebbs, and it flows. It is the essence of the D brand.

The journey of our Founder Fathers, Messrs T. S. Peiris, P. D. Alexander, H. Algama and C. Algama started in 1939 was a continuation from Heller & Company. Mr F. K. Heller was a very successful businessman from Germany who represented the top German brands like Mercedes-Benz, Bosch, and Siemens etc. He was imprisoned and his business was confiscated by the British with the advent of the Second World War. There onwards the four pioneers of DIMO continued representing these world renowned brands.

In this long journey of 70 Years, we have proved to our Principals that our association is an everlasting one based on mutual trust. We add DIMO value to their products so that our customers' expectations are fulfilled.

No organisation can survive without its human capital. DIMO is blessed with world class employees to look after world class products, and delight the customers in sales and after sales. I am appealing to you to nurture the culture and hold fast to what has been created 70 years ago.

In this year of our platinum celebration, we thank our Principals for the trust they have placed in us. We will continue to market your products to the entire satisfaction of our customers.

To our valued customer, our gratitude for having confidence in our organisation and helping us to grow to what we are today enjoying great respect island-wide.

I wish to assure our stakeholders that we are totally geared for a brighter future in the years to come.