



## Vying With Self



Fortune certainly smiles on Dimo! Our pioneering drive throughout over 70 years of enterprise has built a unique Sri Lankan brand, one that today represents over 50 of the world's best known brands.

This involvement with 'the world's best' is complemented by our own drive to strive for and achieve extremely high standards for Dimo. Along the way, as more and more self-declared heights of service were scaled and achieved, we began to be aware that... our greatest competitor was... **ourselves!** There truly is no more exacting competition than that which comes from wrestling with self! It is the intensity of purpose that you expend in striving to be the best... that **keeps** you the best!

An ancient Jataka story tells of the master musician Guttila, serving in the court of King Brahmadatta in Benares. The music he rendered on the veena (a stringed instrument - an Eastern equivalent of the lute family) was of divine quality.

In time, an overly ambitious young man named Musila heard of Guttila's prowess and travelled to Benares to seek a place of learning at the feet of the Guru. The divine insight that Guttila possessed made him wary of the newcomer and he at first refused to teach him.

Subsequently, through the intervention of his aged and blind parents, Guttila agreed to teach the young man. Having accepted his task, Guttila held nothing back, but taught fully and well.

On completing his training, the over ambitious nature of Musila surfaced again and he began to challenge his master. Ultimately a contest was arranged at which Guttila delivers an inspired performance... the would be challenger is vanquished and banished from the Kingdom.

To Dimo there is a teaching here that we see beyond the simple Guttila-Musila contest.

What kept Guttila a supreme musician? In fact he was not really competing with the young pretender. He was digging deep within - summoning the divine talent he alone had been blessed with. He was 'raising the bar' to reach a place that **he** wanted to go!

[A vying with self... competing with self.](#)

**The Dimo experience!**



**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.

This Annual Report is published within three months of the Balance Sheet date and the HTML and the PDF versions are published on-line at [www.dimolanka.com](http://www.dimolanka.com).



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# FINANCIAL HIGHLIGHTS

## A Steady Improvement over the Year

The momentum gained in the second quarter of 2009/10 steadily accelerated during the year and culminated in an excellent fourth quarter helping DIMO to end the year with satisfactory results as detailed in this report. Overall, all important aspects of financial performance such as business volumes, profitability, liquidity, shareholder return, gearing, etc. improved. Highlights of our financial performance in 2009/10 compared to the two previous years are given below.

	2009/10 Rs. '000	2008/09 Rs. '000	Change %	2007/08 Rs. '000
<b>Results for the Year</b>				
Group Turnover (Gross)	10,530,587 *	9,187,966 *	15	12,687,289
Group Profit before Tax	420,095 *	175,082 *	140	344,444
Group Profit from continuing operations	278,253	103,028	170	-
Group Profit for the year	248,297	89,444	178	205,093
Group Cash Flow from Operations	846,833	625,652	35	520,706
<b>Position at the Year end</b>				
Shareholders' Funds	2,200,928	2,004,845	10	1,657,151
Total Assets	5,538,428	5,263,174	5	5,831,158
Market Capitalisation	3,696,340	524,319	605	1,073,875
Term Loans Outstanding	662,383	898,876	(26)	730,702
<b>Financial Ratios</b>				
Interest Cover (Times)	2.20 *	1.31 *	68	1.67
Price Earnings (Times)	14.89	6.44	131	5.24
Current Ratio (Times)	1.28	1.25	3	1.26
Dividends Per Share (Rs.)	7.00	3.00	133	4.00
Earnings Per Share (Rs.) - Group	28.53	9.36	205	16.95
Debt/Equity (%)	89.35	135.16	(34)	169.00
Net Assets Value per Share (Rs.)	252.92	209.89	21	136.95
Return on Equity (%)	11.30	4.46	154	12.38
Dividend Payout Ratio (%) - Company	32.20	42.74	(25)	24.86
Dividend Cover - Company (Times)	3.11	2.34	33	4.02

\*Includes only continuing operations

## OPERATIONAL HIGHLIGHTS

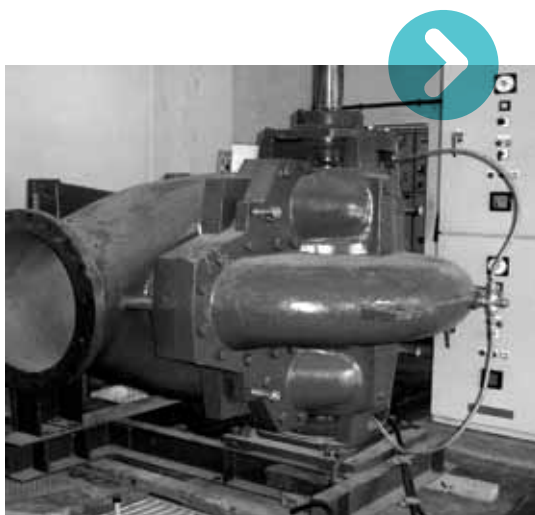
### Harnessing a New Optimism

We welcome the winds of optimism that blow across the global economic landscape as well as a resurgent Sri Lanka emerging from the shadows of the war. Operationally, Dimeo has performed well and our strategies for the future are built upon many initiatives that have delivered success and good results for the Company, during the year under review.



### Further Cementing a Close Relationship

2<sup>nd</sup> full maintenance agreement with Holcim



### At the Heart of Water Distribution

Largest water pump for NWS&DB at Ambathale



### Batta... a Performance that Belies its Name

Highest Batta sales for the year - over 2900 units





## Raising the Thresholds of Luxury

New E-Class launch



## A Great Scoop in the Maldives

Komatsu 6 units for Seven Harbours Project in Maldives



# PRACTICE MAKES PERFECT

East or West... novice or maestro... practice makes perfect. The novice must learn the rudimentary skills. The maestro must constantly 'hone his chops' (as they say in rock music idiom). Yet we like to think that it goes beyond... to an unlocking of the psyche. To fulfilment. To getting you to 'that other place'... bettering your best!



## CHAIRMAN & CEO'S REVIEW

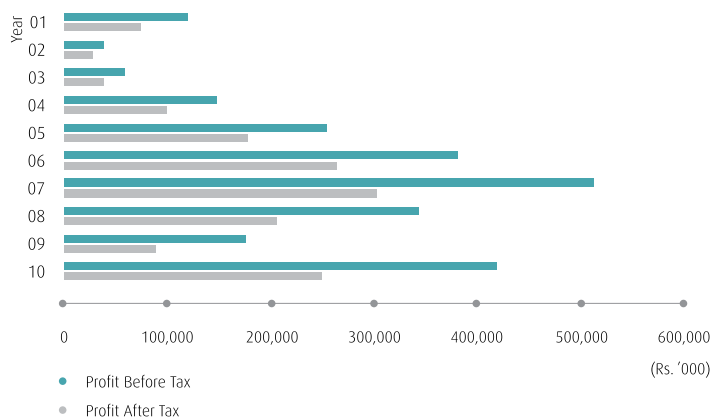
# Life knows no boundaries...

But our minds do. If we listen intently, specially to our inner selves, with a large heart and an open mind... the possibilities are endless





### Profit Before Tax & Profit After Tax



### At the Top of Our Game

Every year we have been challenging ourselves, striving to adapt, innovate more creatively and push our performance bar higher and higher. The Dimo team has risen to the challenge and ensured that we delivered even during troubled times. The boundaries of our business are limitless and the gradual easing of local and global conditions now enables us to focus on growing our core business and exploring new opportunities in the non-automobile sectors.

Dimo closed its 71st year on a strong note posting an after tax profit of Rs. 248 mn: a growth of 178% over the previous year's figure of Rs. 89 mn. Pre-tax profit excluding discontinued operations was Rs. 420 mn (2008/09 - Rs. 175 mn) and Group turnover for the year was Rs. 10,531 mn (2008/09 - Rs. 9,188 mn). The dividend for the year is Rs. 7/- (2008/09 - Rs. 3/-) per share, the highest in a decade.

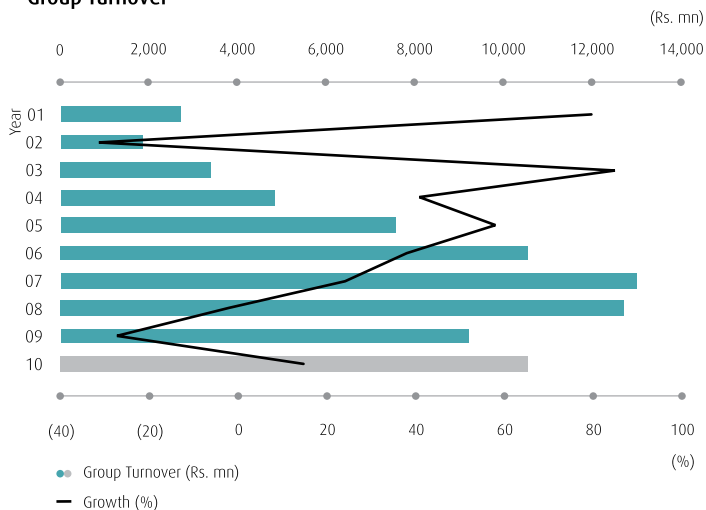
### A New Phase

The country has entered a new phase with the ending of the war. There has been a steep rise in the overall business confidence and a new burst of energy from every sector. This new positive force should provide the stimulus for the country to shed the legacies of the past and strive towards a new future. Some of the larger macro economic issues such as the high budget deficit, high public sector spending and inequitable growth in certain regions still remain, but overall there is a mood of optimism in the air.

Dimo will continue to grow its core business: the importation and sale of a wide variety of vehicles and vehicle accessories for the domestic market. This is where the Company has made a mark for itself and we intend to grow our stature and market share. Our core business still makes up a large part of our turnover.

At the same time, the Company will pursue its diversification policy. The Company has progressively moved into several new areas and has become the local representative for a wide range of high quality products. Two areas in which we anticipate growth are with regard to building technologies and health care solutions. In the field of health care, a growing consciousness and awareness about health issues, is likely to fuel a demand for health-related products. The Company will closely explore these two areas.

### Group Turnover



### Strengthening Relationships

The Company's relationships with the Principals remain strong. We will continue to give priority to enhancing our inter-relationships as part of our business strategy. We are proud to be associated with some of the global giants and be their representative in Sri Lanka over many years.

The relationships with our customers are equally strong. We focus on marketing relationships with the customer and not merely the product. We will continue to view our business in this light.

### Total Solutions

Our goal at Dimo is to represent the best brands in the world and to provide total solutions for a variety of day-to-day requirements and challenges. From lighting solutions to state-of-the-art electro medical products, from building management systems and power tools to light trucks and high end cars, Dimo now has them all. The broad range of brands and products we market enables our customers to access most of what they need at a single store. We accompany this with renowned after-sales-service across the country.

# We will continue to grow core business whilst pursuing diversification...

## Expanding Our Reach

We continue to expand our dealer network and customer service points. We have set up a presence in the North and the East with a view to providing our services to those segments of the population.

Recently, we opened our second Dima Automobile Training School, in Jaffna. Residents of the North were deprived of quality technical training facilities for over 30 years as a result of the war. Our new school will enable the youth of the Northern Province to gain access to a high quality training school to hone their automobile skills.

## Sustainable Outcomes

Sustainability at Dima is not a mere philanthropic concept. Our contribution to sustainable entrepreneurship we see as of utmost necessity to make a positive difference to the society, environment and the economy.

Most of our products are environment friendly and compliant. In our facilities, water resources are managed so as to minimise usage, reduce wastage and recycle wherever possible. We are taking steps to reduce our carbon footprint by optimising the use of fuel, reducing electricity consumption and curtailing activities that produce greenhouse gases.

Presently, we are in the process of developing a storage and transportation solution for farmers. Our objective is to minimise the wastage of vegetables and enable the farmer to maximise the sales of his products and obtain the best returns. The Company has taken up this challenge to make a difference to the lives of the rural farmer.

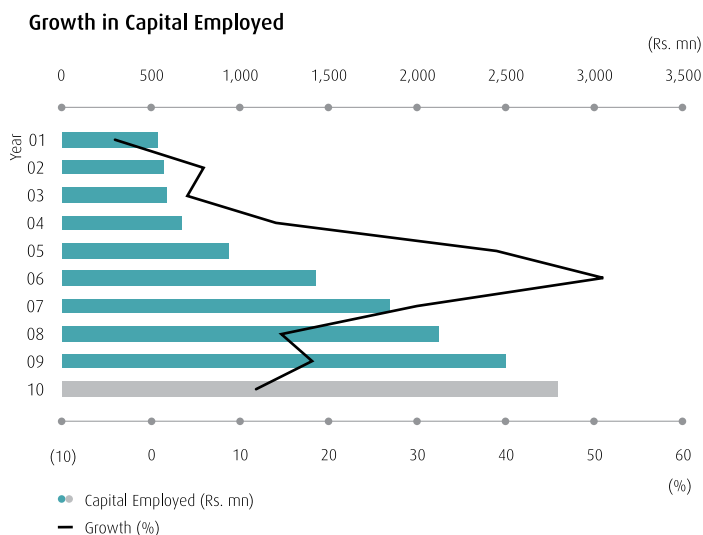
Our future interventions in the area of sustainability are likely to be systemic and aimed at changing processes and structures that produce unsustainable outcomes.

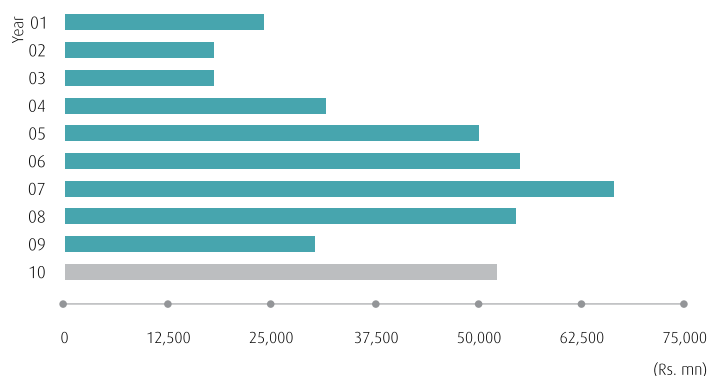
## Fuelling Innovation

The Company continues to encourage innovation and creativity, within and outside the Company. A few years ago, we entered into a partnership with the University of Peradeniya to support commercially viable concepts which the University Researchers have developed.

We are considering the viability of three proposals that have emerged out of this partnership. We hope that partnerships of this nature will develop relationships between research institutions and the commercial sector to transform innovative ideas to commercial usage.

The Company is on the verge of opening a new state-of-the-art 'Bosch Centre'. This new Centre will act as a 'hospital' for vehicles of all sorts. Vehicle owners will be able to drive in, discuss options with our staff and receive solutions for their different needs in a single store.



**Dividend Paid****'Feeling Good'**

I am optimistic of the future prospects for Sri Lanka. The world is coming out of a recession and the impact of the global crisis on the country and Asia in general has been limited.

There is new found independence and optimism in the country with the end of the war. This positive climate is likely to stimulate investment and the demand for new products. We are confident this will lead to larger markets for our product range.

Sri Lanka is likely to reap the benefits of the boom that China and India are experiencing. Tourism, tea and rubber sector businesses are likely to grow. The last two quarters of 2009 clearly indicate that the country is on the verge of a take off. A stable Government provides the opportunity for infrastructure development, in turn promising optimistic prospects for Dimo.

A developing economy will stimulate a demand for the products we market. The commercial vehicle market has already shown signs of recovery during the last two quarters and the passenger car market will also revive if the tariffs are reduced.

Public confidence in Dimo remains high. The Company markets world class products accompanied with state-of-the-art after-sales-service. Our passion to ensure the highest levels of customer satisfaction, has increased customer confidence in Dimo over the years.

My warm thanks to all who are part of the Dimo family. They continue to drive the Company with commitment, dynamism and flair. I am grateful to the vibrant Employees' Council for the close spirit of partnership that has evolved.

I thank our principals for the encouragement and advice they have provided and the alliances we have struck. We look forward to more years of fruitful collaboration. To our customers, I say 'thank you' for your patronage. 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 a new phase of growth.

**A.R. Pandithage**

Chairman, Managing Director/  
Chief Executive Officer

18th May 2010



OVERVIEW

## BOARD OF DIRECTORS





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 Knitting Mills PLC, Hayleys Advantis Ltd. 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., Nestlé Lanka PLC and Colombo Fort Land Investments PLC.

B.C.S.A.P. Gooneratne

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

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.

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 and CEO in July 2004. Holder of Dipl. Ing. from Germany. Member of the Institute of Engineers, Germany (VDI). Director, Dial Textiles Ltd., Chairman, Audit Committee of Dial Textiles Ltd.

S.C. Algama

Appointed to the Board in November 1984. Appointed as an Executive Director in 1994. Fellow of the Institute of Incorporated Engineers (SI). Council Member and Chairman-Transport and Automobiles Industries Committee of the National Chamber of Commerce, Sri Lanka.

A.M. Pandithage\*

Appointed to the Board in September 1982. Chairman and Chief Executive of Hayleys PLC. Chief Executive Officer of Hayleys Advantis since its inception. Fellow of the Chartered Institute of Logistics & Transport. Director of the Sri Lanka Port Management & Consultancy Services Ltd. Member of the Presidential Committee on Maritime Matters. Committee Member of the Ceylon Chamber of Commerce.

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.

Audit Committee

R. Seevaratnam (Chairman), Dr. H. Cabral, Dr. U.P. Liyanage, A.M. Pandithage

Remuneration Committee

Dr. U.P. Liyanage (Chairman), Dr. H. Cabral, A.M. Pandithage, R. Seevaratnam

Nominations Committee

Dr. H. Cabral (Chairman), Dr. U.P. Liyanage, A.M. Pandithage, A.R. Pandithage (Appointed w.e.f. 19th May 2009)  
R. Seevaratnam

Group Management Committee

A.R. Pandithage (Chairman), A.G. Pandithage (Deputy CEO), 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

\* Non-Executive Director

\*\* Independent Non-Executive Director

Dr. H. Cabral\*\*

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

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.

Dr. U.P. 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 Jayewardenepura. Director and Chairman of the Board of Management of PIM. Non-Executive Director of Chemanex PLC, Ceylon Cold Stores PLC, Arpico Plastics, Talawakelle Tea Estates PLC, Kuruwita Textile Mills PLC and Q&E Advertising.

T.G.H. Peries

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





# THE IMPORTANCE OF INTROSPECTION

The 'universal' musician seeks quietude. A time to get in touch with the psyche. A time some use to offer their attributes and talents to deities and seek divinely aided performance. It is a time of uncluttered thought... a revisit of basics... a prelude to the launch of a stunning performance!





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

**M.V. Bandara**  
General Manager - Sales and Service,  
Commercial Vehicles

**A. Mapalagama**  
General Manager - Auto Components,  
Power Tools and Outdoor Equipment

**D.S. Amarasuriya**  
General Manager  
Passenger Vehicle Service

**A.G. Pandithage**  
Deputy Chief Executive Officer

**A.R. Pandithage**  
Chairman

**S.C. Algama**  
Executive Director

**A.C.G. Dias**  
General Manager - Tyres

**E.D.C. Kodituwakku**  
General Manager - Finance & Controlling

**R.C. Weerawardane**  
Executive Director



OVERVIEW

GROUP  
MANAGEMENT  
COMMITTEE



# BUSINESS PERFORMANCE

## The Business Environment in 2009/10

It was a year that saw stabilisation and the beginnings of recovery after the shocks that buffeted the Sri Lankan and world economies in 2008/09. The Sri Lankan economy grew by 3.5% in real terms. Growth, tentative at first, strengthened to a noteworthy 6.2% in the fourth quarter from a mere 1.6% in the first quarter.

Sri Lanka continued to be impacted by the spill-over effects of the global financial and economic crises, while domestically, the internal conflict which ravaged the country for almost three decades reached a critical juncture during the early part of the year.

Unfavourable domestic weather conditions that lowered agricultural output were also behind the country's lower growth rates of the first quarter.

However, growth has rebounded after the second quarter, driven by the end of the war and the gradual recovery of the global economy. Looking forward, the cessation of hostilities in the Northern and the Eastern provinces presents an unprecedented opportunity for investment and growth in these regions, with benefits that are bound to spill over into the entire country.

## The Transportation Sector

The reopening of the A9 Road in July has greatly facilitated the movement of passengers and cargo to and from the Jaffna peninsula, which earlier could only be reached by air or sea. Regular bus services commenced, connecting Jaffna with Colombo, Kandy, Batticaloa and Trincomalee. Your Company, too, has not been idle; in September we became the first automobile company to open its own branch in Jaffna.

With the gradual reintegration of the Northern and the Eastern Provinces with the rest of the country, there will be a strengthened demand for goods and passenger transportation. To meet this emerging demand, an efficiently formulated institutional arrangement is needed.

Infrastructure development and growth in industrial production are two key drivers of commercial vehicle demand. The output of the industrial sector grew by 4.2% in 2009 compared to 5.9% in 2008.

Public passenger transport, comprising railway and bus transport, accounts for approximately 73% of all motorised passenger transport and serves as the primary source of transport for the general public. Of this, bus transport accounts for a 68% share, with state-owned bus services accounting for 23% and private bus operators accounting for 45%. Nearly 99% of cargo moves by road.

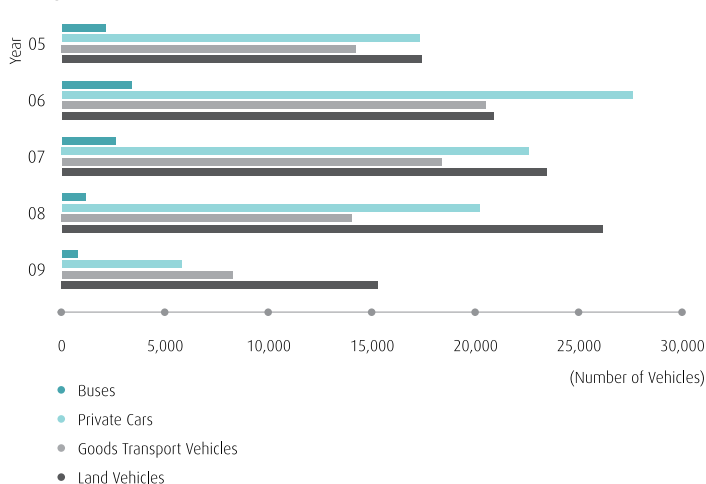
Passenger transport showed a moderate improvement in 2009, though the quality and efficiency of operations remained subdued. A total of 199 new buses were added to the SLTB fleet, while 90 buses were refurbished by end 2009. However, registration of new passenger buses decreased by 37.4% to 739 in 2009.

## Vehicle Registration and Current Vehicle Population

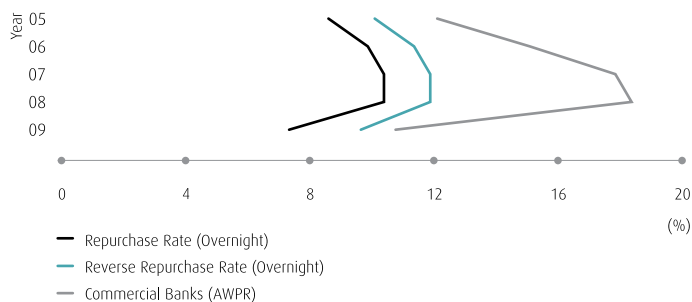
Class of Vehicle	2005	2006	2007	2008	2009	Total Vehicle population 2009
Motor Cars	17,283	27,578	22,603	20,237	<b>5,762</b>	<b>387,210</b>
Three Wheelers	41,085	64,466	43,068	44,804	<b>37,364</b>	<b>443,895</b>
Motor Cycles	130,696	156,626	182,508	155,952	<b>135,421</b>	<b>1,896,021</b>
Buses	2,069	3,346	2,637	1,180	<b>739</b>	<b>81,789</b>
Dual Purpose Vehicles	6,851	7,245	5,193	2,856	<b>1,280</b>	<b>197,516</b>
Goods Transport Vehicles	14,262	0,436	18,408	14,038	<b>8,225</b>	<b>284,847</b>
Land Vehicles	17,423	20,825	23,475	26,132	<b>15,284</b>	<b>303,790</b>
<b>Total</b>	<b>229,669</b>	<b>300,522</b>	<b>297,892</b>	<b>265,199</b>	<b>204,075</b>	<b>3,595,068</b>

Source: Department of Motor Traffic

### Registration of Motor Vehicles



### Interest Rates



### The Effect of Interest Rates

A critical factor impacting the Sri Lanka commercial vehicle business is the prevailing interest rates, since sales of these vehicles are largely dependent on leasing or commercial borrowing.

The Central Bank relaxed its monetary policy stance in 2009 to support domestic economic activity.

Market interest rates declined in line with these policy changes, though lending rates of commercial banks declined at a slower pace.

### Exchange Rate Movements

Government exchange rate policy in 2009 was focused on maintaining stability in the domestic foreign exchange market in the face of significant foreign exchange outflows during the first few months, followed by substantial inflows.

The annual average exchange rate in 2009 was Rs. 114.94 against the US Dollar when compared with Rs. 108.33 recorded in 2008. During the year, the Rupee depreciated against the US\$ 1.09%, Euro 2.60%, Indian Rupee 4.13% and the Sterling Pound 10.16%, while it appreciated against the Japanese Yen 0.89%.

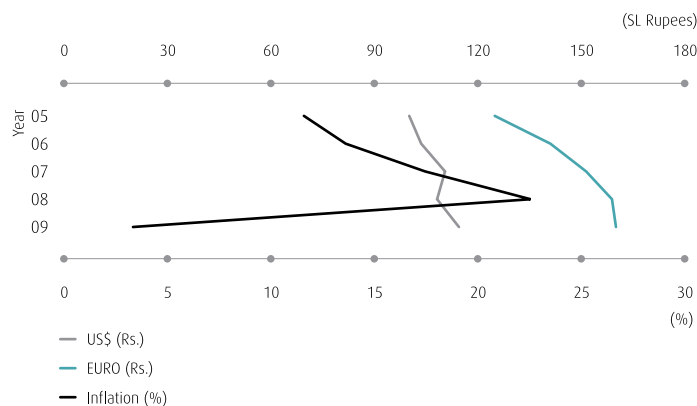
### Brighter Prospects for the Near Future

The restoration of peace underpins greater optimism with respect to the national economy. Peace presents a strong basis for long-term sustainable development supported by appropriate Government policies. These opportunities are expected to be complemented by the ongoing global economic recovery. The current low inflation and interest rate regime also provides a conducive environment for increased economic activity.

By the end of 2009, the Government had received financial commitments totalling to around US\$ 6.4 bn from Sri Lanka's development partners. The duration of projects to be implemented on the basis of these commitments is between two and five years; these project commitments are mostly tied to infrastructure development. In addition, a higher level of FDI is expected, especially in the tourism, agriculture, construction and manufacturing sectors.

Timely implementation of various rehabilitation, reconstruction and development projects identified under the *Negamahira Navodaya* (Eastern Resurgence) and *Wadakkil Wasantham* (Northern Re-awakening) programmes will pave the way for greater economic activity in former conflict-affected areas as well as the rest of the country.

### Currency Vs Inflation





# BUSINESS PERFORMANCE

## Vehicles Segment



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



Mercedes-Benz





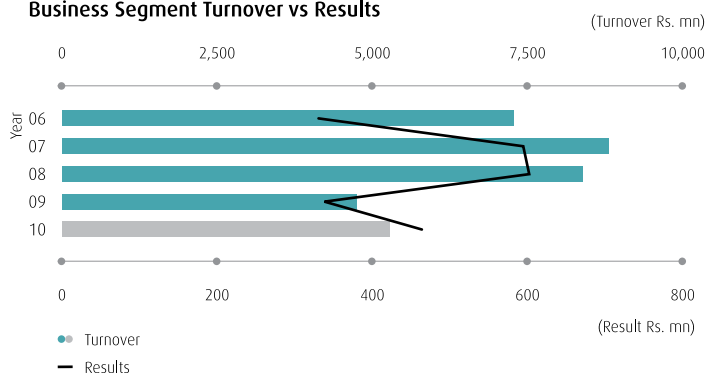
## Key Figures

	2009/10	2008/09	Change %
Segment Turnover (Rs. mn)	5,277	4,744	11
Segment Result (Rs. mn)	465	340	37
% Contribution to the Group Turnover	50	51	(1)
Segment Result/Segment Assets (%)	30	26	15

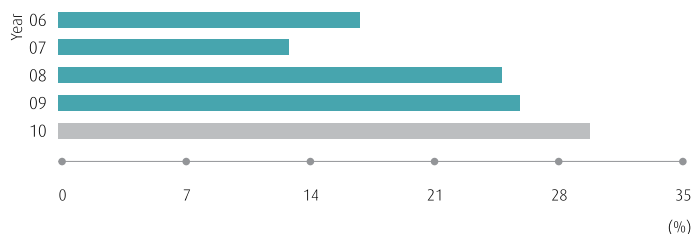
## Customer Profile

	B2C	B2B	B2G	Total
No. of Customers (accumulated)	23,694	6,009	717	30,420
Customer Satisfaction Index (weighted average %)	-	-	-	80%

## Business Segment Turnover vs Results



## Return on Total Assets



## Key Principals

Chrysler International Corporation

Daimler AG

Tata Motors Ltd.

Dimo represents some of the world's leading brands of passenger cars, SUVs and Commercial Vehicles. These include Mercedes Benz, Tata, Chrysler and Jeep. Dima's core business revolves around the sale and after-sales service 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, 204,075 new vehicles were registered in 2009, down from the 2006 high of 300,522 and 265,199 in 2008. 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 37% in 2009.

## Passenger Cars: Mercedes Benz

## Performance Review

Mercedes Benz vehicles compete in the high-end, luxury passenger car market. Our model range comprises the Mercedes Benz S-, E-, C-, M- and CLS-classes. Mercedes Benz is the leading luxury car brand in Sri Lanka, a position it has maintained for 70 years or more, and brand recognition is near universal.

The performance of Mercedes passenger vehicles was well below the desired levels and was not successful in meeting its annual targets set at the commencement of the financial year.

The high tariff regime continued to stifle the brand new passenger car market. High cost of financing and the conservative approach adopted by the providers of finance for vehicles during the early part of the year further affected passenger car sales.

Motor car sales fell to almost a quarter of their previous numbers year-on-year. The RMV reported that 5,762 vehicles were sold between January and December 2009, compared with 20,237 vehicles sold during the corresponding period last year - a volume drop of 72%. The Company also experienced a significant shift in demand towards less expensive models.

### New Products

The New E-Class was introduced in September. The launch was coupled with the Mercedes Benz Pageant. The model received a favourable response from the market, though price remains an obstacle to higher volume sales.

### Outlook

We remain cautiously optimistic despite the year's poor performance. Political stability and the end of the war are bound to have positive effects on commercial activity, driving economic growth and demand for our highly-valued products. However, future performance in this segment remains heavily dependent on the tariff structure for luxury vehicles. Until this issue is addressed, growth will be restricted. However, there is growth potential in the tourism sector.

### Pre-Owned Vehicles

#### Performance Review

The main objective of this business is to open up cross-purchasing (trade-in) opportunities to drive the sale of new cars. Comprehensive refurbishment of the traded vehicles ensures a quality ownership experience, backed by a warranty and after-sales service.

High prices in the year under review discouraged many Mercedes Benz owners from upgrading their vehicles, thus limiting the number of available vehicles for sale. Sales of pre-owned vehicles were also affected by expectations of a reduction in import duty on new cars. However, the last quarter saw a gradual improvement.





### Outlook

The outlook for pre-owned car sales to a large extent will depend on the sales of brand new passenger vehicles, which in turn will depend on the tariff levels. Therefore, occurrence or non-occurrence of a favourable reduction in vehicle tariff will largely determine the performance of this Business unit.

### Passenger Vehicles: Chrysler and Jeep

This Business too, was seriously affected by high duties and interest rates that prevailed. There was a drastic decline in purchases of brand new luxury petrol SUVs and sedans. For these reasons Chrysler and Jeep encountered severe competition from Japanese SUVs.

Consequently, performance levels did not meet up to budgetary expectations.

### New Products Introduced

The new Jeep Grand Cherokee Overlander 5.7-litre Hemi was launched in March.

### Events during the Year

The restructure of Chrysler Group LLC took place during the year. This did not in anyway interrupt supply of spare parts or provision of after sales care.

### Outlook

We expect an improvement, however, in the current year thanks to greater political stability, the end of the war and lower interest rates.

### Passenger Vehicles: TATA

In common with the rest of the passenger car market, this business saw sales fall to around a quarter of their 2008/09 levels. The market became highly price-sensitive, a critical drawback for Dima given our inability to offer a brand new car within the expected price range for this segment of passenger vehicles.

### New Products

The year saw an upgrade in the product portfolio as the new Vista replaced the popular Indica Xeta model. The new Safari Dicor SUV was launched during the year.

### Events during the year

Internationally, the new Tata Manza Luxury Sedan was launched by Tata Motors Ltd., although the bigger news was undoubtedly the launch in India of the long-awaited Nano. The Company has made plans to commence marketing this celebrated new automobile in the current financial year.

### Outlook

Unless there is a favourable change in the tariff, growth in this sector will be minimal. Arrival of the 'Nano' from Tata is eagerly awaited, to boost the performance of this business unit.

### Tata Commercial Vehicles

Dimo markets TATA trucks, tippers and buses ranging in size from one ton to over twenty tons. Based on payload and gross vehicle weight, our offering is categorised into the following segments:

- Medium and Heavy Commercial Vehicles - payload over 8t
- Buses
- Light and Intermediate Commercial Vehicles - payload between 1t-7t
- Small Commercial Vehicles - payload less than 1t
- Single Cabs

The market for commercial vehicles depends on several factors: transportation demand, which is driven by commercial activity and infrastructure development; exchange rates and tariff structures, which affect vehicle costs; and interest rates, which affect the cost of financing. A varied mix of positive and negative trends regarding these factors was seen in the year under review.

Transportation demand for goods and passengers increased; the national highway network was improved; new areas of the country were opened for commercial activity with the end of the war. Reduction of interest rates from the second quarter onwards, supported by relatively stabilised exchange rates significantly improved sale of commercial vehicles over the last three quarters.

The Tata brand continues to dominate the brand new commercial vehicle market with a 35% share (28% in 2008/09). According to RMV statistics, there has been an 11% drop (38% drop in 2008/09) in total industry volume (TIV) of this category in the year under review. Turnover of the commercial vehicles segment during the year under review increased by 19%, compared with a 46% decrease in 2008/09. At the beginning of the year under review, Dimo had only four branches and one display point. This was increased to six branches and an equal number of display points in the course of the year: new branches were opened in Jaffna and Kandy and display points at Ambalangoda, Ratnapura, Ampara, Dambulla and Vavuniya.

### Medium and Heavy Commercial Vehicles

Total industry volume (TIV) in the medium/heavy commercial vehicles segment improved by 26% during the year under review, compared to a 48% decrease during the corresponding period for 2008/09. This significant and welcome turnaround was due to the increased number of infrastructure-development projects that commenced in the Northern and the Eastern Provinces and the acceleration of economic activity.

TIV in the light commercial vehicle segment began to improve from the second half following a reduction in interest rates and improvements in the agriculture sector.

### Buses

TIV in the bus sector decreased by 37%, compared to a 55% drop in 2008/09. Even though the desired level of performance in the bus sector was not achieved during the period under review, we anticipate progress in performance in this sector in 2010/11.

### New Products

Two new Tata vehicles were launched in the Sri Lanka market in the year under review: the new Globus luxury bus, targeting the tourist sector, and the TATA World Truck prime mover, which boasts a 6.7 litre engine and a pulling capacity of forty tons.

### Light Commercial Vehicles (LCV) and Small Commercial Vehicles (SCV)

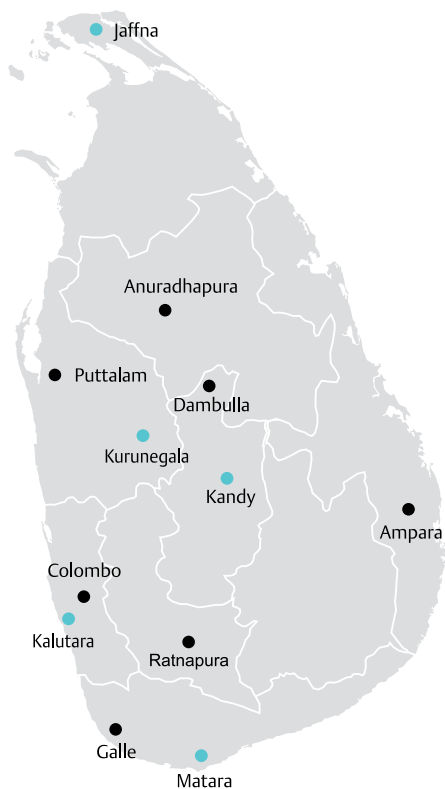
Overall, our performance in this business category was satisfactory. In fact this business performed extremely well towards the end of the financial year. Dimo increased its share of the overall commercial-vehicle market to 35%, mainly due to the success of 'Dimo Batta' which falls into the small commercial vehicle segment. 'Dimo Batta' also led to an increase in the market share of the small commercial vehicle business.

Budgeted turnover and net profit figures were attained. It should be noted that the overall drop in TIV in this segment was 6% compared to last year (the drop in 2008/09 was 44%). High bank and leasing-company lending rates, together with leasing restrictions in the first quarter, resulted in a fall of over 60% in TIV in Q1 compared to the corresponding period in 2008-09. Subsequent favourable changes in the economic landscape, including interest rates, helped a commendable recovery in light and small commercial vehicle sales.

Dimo Batta won a silver award at the eighth SLIM Brand Excellence Awards in the category 'best international brand of the year'. Batta was also our featured star contributor at the *Ranaviru Upahara* celebrations, where we offered a special discount of Rs. 100,000/- to members of the armed forces who purchase the vehicle.



At the beginning of the year under review, Dima had only four branches and one display point. This was increased to six branches and an equal number of display points in the course of the year



#### Existing Branch Network in 2009/10

Colombo  
Matara  
Anuradhapura  
Kurunegala  
Kandy  
Jaffna

#### Dima Display points

Yakkala  
Puttalam  
Ampara  
Ratnapura  
Ambalangoda  
Dambulla

#### Outlook

With improved GDP growth forecast for the medium term, the immediate future looks very promising for the commercial vehicles sector. Provided good weather prevails, the agricultural sector should return to an increase in growth in 2010/11; commercial activity will increase due to developments in tourism and the fishing industry. We expect to see higher Government and private expenditure; the effort of reconstructing the country post-war will further stimulate capital investment and private consumption.

We intend to take advantage of these prospects by introducing a range of new Tata products enriched with new technologies and efficiencies in the upcoming year. Operationally, we plan to consolidate and further strengthen our position in the market by aligning sales and spare parts with service, our main strength.







# SEEING WITH THE MIND

The maestro knows his trade. Years of discipline, skill and love of his trade has allowed him to 'see with the mind' transcending the eye. It is not necessary to 'see' where he needs to place his fingers on the fret board. A gift shared by those truly in tune with their trade!





# BUSINESS PERFORMANCE

## Vehicle Parts and Services



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

**BF Goodrich**  
Tires

**BIMITE**  
Engine Bearings

**BLAUPUNKT**  
The advantage in your car.

**BOSCH**  
Invented for life

**CHRYSLER**  
INSPIRATION COMES STANDARD

**RETREADS**

**AEPM**

**Fenner**  
FENNER (INDIA) LIMITED

**GABRIEL**  
VOCAL ENGINEERING

India Pistons Ltd. **IPL**

**Jeep**

**KBX**

**Mercedes-Benz**

**MICHELIN**

**MRF**

**Pioneer Oil Seals**

**Rane**  
Rane Brake Linings Ltd.

**SBP**  
AUTO PARTS

**SRM**

**TATA**

**TURBO**  
BEARINGS

**ZEXEL**



## Key Principals

BF Goodrich  
 Bimetal Bearings Ltd.  
 Blaupunkt Werke GmbH  
 Bosch Ltd.  
 Bosch Automotive Systems Corporation  
 Bosch Chassis Systems India Ltd.  
 Daimler AG  
 Daimler South East Asia Ptd Ltd.  
 Fenner (India) Ltd.  
 Gabriel India Ltd.  
 India Pistons Ltd.  
 Michelin  
 MRF  
 Rane Brake Linings Ltd.  
 Rane Engine Valves Ltd.  
 Robert Bosch GmbH  
 Sri Bhavani Castings Ltd.  
 Tata Motors Ltd.  
 VE Commercial Vehicles Ltd.  
 Victor Gaskets India Ltd.

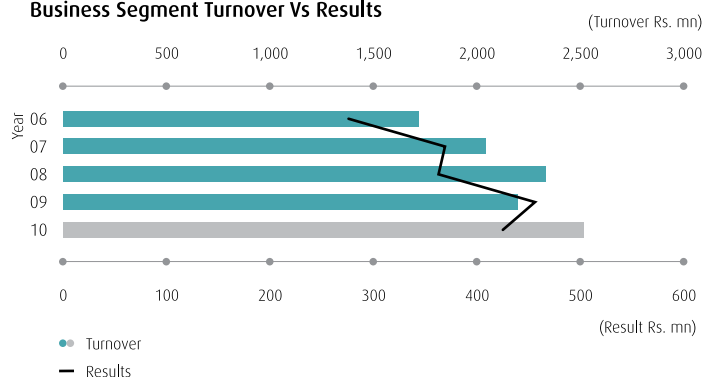
### Key Figures

	2009/10	2008/09	Change %
Segment Turnover (Rs. mn)	2,554	2,235	14
Segment Result (Rs. mn)	432	464	(7)
% Contribution to the Group Turnover	24	24	–
Segment Result/Segment Assets (%)	33	39	(13)

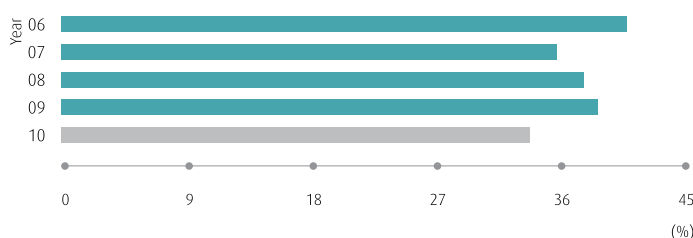
### Customer Profile

	B2C	B2B	B2G	Total
No. of Customers (accumulated)	2,954	8,240	548	11,742
Customer Satisfaction Index (weighted average %)	–	–	–	83%

### Business Segment Turnover Vs Results



### Return on Total Assets



Dimo markets spare parts for commercial and passenger vehicles and construction machinery from a number of reputed suppliers such as Mercedes Benz, TATA, Chrysler, Bosch, Michelin, Komatsu and Bomag. We also offer engine management systems, car multimedia systems, accessories and a range of Original Equipment Manufacturers' (OEM) parts.

This business segment showed an increase of 8% in sales during the year under review compared to the 0.5% negative growth 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 will continue to expand the dealer network especially in the growing markets such as the Eastern and the Northern Provinces to improve results in the ensuing year.

The Company focused extensively on its revenue flows from vehicle parts & sales during the year. Island wide service campaigns supplemented the sales efforts to improve spare part sales.

#### Mercedes and Chrysler Parts

The effects of lower sales of Mercedes Benz vehicles during the recent past were felt by a marginal drop in turnover. In order to reverse this trend, a series of customer events and service campaigns are planned for the ensuing year.

#### TATA Parts

Special promotional campaigns for TATA parts were conducted in eleven districts, the main efforts being concentrated in the towns of Ampara, Badulla, Hambantota, Kurunegala, Matale and Ratnapura. Our teams visited all major garages where Tata vehicles are repaired. The focus of the campaign was on briefing garage owners and mechanics about new technology used in TATA vehicles. Additionally, presentations on the advantages of using genuine parts were made to all fleet owners and garage owners in these districts.

The setting-up of new branches and display points have resulted in substantial bottom-line increases as customers find it more convenient to purchase their requirements at these outlets.

The number of authorised dealers was increased from 40 to 53. The number of other retailers (excluding authorised dealers) grew from 98 to 120. Turnover of TATA parts sales and services grew by 12% (1.4% - 2008/09)

#### Bosch & OE Parts

The end-users of Bosch products are garages, workshops and service stations. Dealers and distributors who purchase products in bulk are the intermediaries between the Company and the end user. Major marketing activities conducted during the last financial year included garage campaigns in Anuradhapura, Colombo and suburbs, Galle, Kandy, Kurunegala, Matara, Polonnaruwa and Puttalam.

A pack-flap collection programme for end users (garages, workshops and service stations), a foreign tour programme for dealers and street promotions supplemented the sales efforts. The acquisition of new dealers and service-station customers improved the turnover of the business; a particularly high performer was the range of filters designed to suit Indian vehicles. Turnover of Bosch & OE parts increased by 6% (7% -2008/09).

#### New Products

Several new Original Equipment Manufacturer (OEM) product lines such as new clutch plate systems, etc. were introduced during the course of the year. Another important introduction was WD-40, which is a world renowned general purpose water disperser.

#### Outlook

New and ongoing infrastructure developments such as road construction will result in an increase in the running mileage of vehicles. This is expected to increase the number of repairs made by vehicle owners, which will directly impact on the automobile spare parts business.

The cessation of hostilities of the North and the East has increased the potential sales territory by a significant area. Sales in the Northern Province increased in the year under review; several OEM parts dealers were appointed in the Eastern Province. Whilst the Company has a distribution network to serve the Northern Province, initiatives will be taken to strengthen the existing network. These initiatives coupled with the positive economic outlook are expected to provide the acceleration for the growth of the spare parts business.

#### Tyres

Dimo supplies tyres to the passenger-car, commercial-vehicle, construction and agricultural-machinery market segments. The market segments are served through the franchises we hold from Michelin, B.F. Goodrich and MRF.

The tyre market can be separated into two segments: the passenger-car segment and the commercial-vehicle/bus segment.

Our performance in the passenger-car segment remained stagnant, with sales similar to that of the previous year. In the truck and bus segments, by comparison, we performed better than average for the industry.



We attempted to breathe life into the moribund passenger-car market with a zero-per cent interest plan. Customers could purchase tyres on credit and settle in 16 interest-free instalments. The results, however, were moderate. We also launched a 'check-and-go' campaign, in which a team of professionals would visit car parks, check the tyres of parked vehicles and offer expert consultations to car owners. Related to this was our 'one-to-one' campaign, in which a team of eight representatives visited fleet owners and other customers offering doorstep consultations.

The eastern province has always been a strong market for commercial vehicle tyres. The dealer networks in the Northern Province will be further strengthened during the ensuing period.

### Vehicle Service

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

Turnover decreased by 6.3% over the previous year compared to a 1.2% growth the previous year.

The Company is committed to investing necessary amounts to have an adequately trained technical staff and equipment with latest technology.

### Commercial Vehicle Workshop

The Commercial Vehicle Workshop situated at Siyambalape is one of the largest vehicle workshops in the country. The overall performance of this Business unit was below its expectations. The fourth quarter recorded satisfactory revenue levels after a 'below par' first three quarters of the year. A special initiative was launched to market the services offered by the Commercial Vehicle Workshop.

### Mercedes-Benz Passenger Vehicle Workshop

The Mercedes Benz workshop did not record the revenues that were anticipated. Availability of substitute spare parts and their use by garages/workshops without appropriately trained personnel, continue to affect this business.

Whilst the Company is educating the customers on the ill effects of their vehicles being attended to by non-franchise workshops, promotional activities are carried out to encourage the Mercedes owners to use the Company's workshop, that is equipped with state-of-the-art technology to take care of their vehicles.



### Bosch Service Mart

The Service Mart provides diesel fuel injection systems franchised by Bosch, Mico and Zexel. This is the only multi-brand workshop operated by the Company. It provides multiple types of services, specialising in engine-management system repairs, fuel-injection pump repairs and air-conditioning and electrical repairs using Bosch technology and equipment.

With the introduction of new Government regulations on emissions, several free emission-testing campaigns were conducted at the Service Mart. This was carried out as a promotional activity, in order to introduce the workshop to new customers and to carry out necessary repair that will arise after testing the emission levels.

### Tyre Retreading

'Dimo Retreads' is a relatively new line of business; it was only recently that we commenced retreading radial tubeless tyres. Intended originally as a means of lowering tyre cost per kilometre for our MRF and Michelin customers, focused upon a segment which seeks high-quality, premium products and efficient services. All Dimo customers can now enjoy the benefits of a complete tyre service from one source.

The main raw material used in the retreading process is rubber. In the year under review, world rubber prices more than doubled, causing a steep rise in retreading prices as well. As a recently started venture, this placed us in a relatively disadvantageous position.

### Future Plans

At present, not many customers consider retreads when thinking of tyre replacements. Therefore, intense promotional campaigns are planned to promote the cause of 'retreads', whilst attaching to it the advantages of using quality retreads from Dimo.





# BUSINESS PERFORMANCE

## Lighting & Power Tools



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





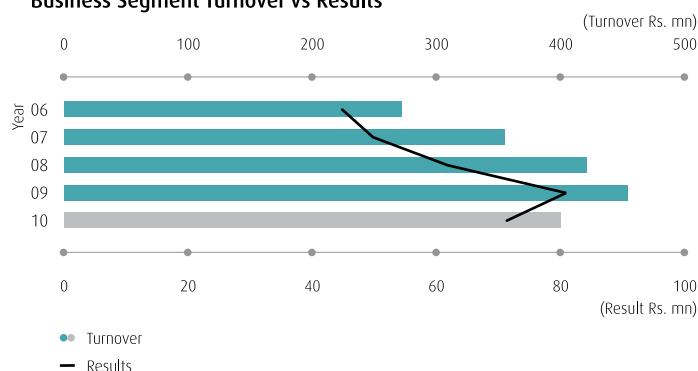
## Key Figures

	2009/10	2008/09	Change %
Segment Turnover (Rs. mn)	<b>401</b>	454	(12)
Segment Result (Rs. mn)	<b>71</b>	81	(12)
% Contribution to the Group Turnover	<b>4</b>	5	(1)
Segment Result/Segment Assets (%)	<b>38</b>	39	(1)

## Customer Profile

	B2C	B2B	B2G	Total
No. of Customers (accumulated)	130	2,132	269	2,531
Customer Satisfaction Index (weighted average %)	-	-	-	89%

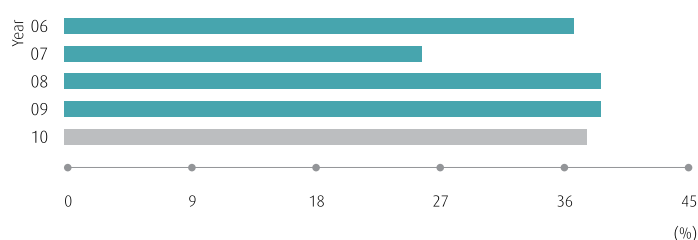
## Business Segment Turnover vs Results



## Key Principals

Davex Engineering (M) Sdn Bhd  
 Fischer Werke GmbH  
 OSRAM GmbH  
 Robert Bosch Ew.  
 Rudolt Zimmermann  
 Siemens AG  
 SiTeco Lighting (M) Sdn Bhd  
 Snap-on Tools Private Limited  
 Vossloh-Schwabe GmbH  
 WD 40 Company  
 Zenoah

## Return on Total Assets



## Lighting Solutions

Dimo imports a wide range of lamps, lighting equipment and systems from highly reputed overseas principals. Our main line is the world-famous Osram brand of lamps and lighting accessories, from CFLs to halogen lamp transformers and dynamic lighting control systems. In addition, we offer light fittings by Siteco, Davis, RZB, Vossloh-Schwabe and Siemens.

Energy efficient tailor made designs are offered for any type of lighting application. This business unit is capable of performing energy audits for commercial establishments and also of delivering & implementing lighting systems based on such audits. To compliment the energy saving lighting solutions, this business unit offers technical assistance in obtaining financing for energy-efficient investments.

### A Year of Important Developments

A number of important developments took place in the year under review. New domestic and institutional markets have opened in the North and the East and projects from institutional customers are emerging. Meanwhile, the Government is focusing closely on energy conservation and has taken several policy decisions regarding demand-side management for electricity.

New regulations on CFL imports are gradually being implemented, during which process all CFL manufactures are to be registered at the Sri Lanka Standards Institution and all CFLs are to be rated for energy efficiency. The Government also encourages private firms to audit and manage energy usage to bring down costs, creating opportunities for our energy-audit business in the industrial sector. There were no electricity tariff increases in the year under review.

Sri Lanka's annual electricity consumption is estimated to be 8.2 bn kWh. According to the Central Bank, electricity consumption increased by 0.3% in 2009, compared to an increase of 1.7% the previous year. Consumption in the industrial sector declined by six per cent, while in the domestic and general-purpose category it grew by 4.6 and 3.8% respectively. High tariffs continue to affect consumption, forcing consumers to conserve power and shift to alternative sources.

The importance of conserving energy and developing renewable sources has been formally recognised with the formation of the Sri Lanka Sustainable Energy Authority, which is empowered to declare 'energy development areas', implement energy efficiency measures, introduce energy conservation programmes and promote energy security, reliability and cost-effectiveness in energy delivery. Under the Renewable Energy Development Programme, which aims to provide ten per cent of Sri Lanka's energy requirements from non-conventional renewable sources by 2015, several initiatives are being implemented.

The European Union does not allow usage of high-wattage incandescent lamps and such items are no longer manufactured for those countries. Demand for these products, however, in Sri Lanka remains strong.

### The Market & Performance

There was a substantial increase in the sales of compact fluorescent lamps (CFLs). the share of CFL's used out of the total lamps in the country rose from 26% in 2005 to 51% by the end of 2009.

The construction sector, an important sector for this division, grew by only 5.6% last year, against a rate of 7.8% during the previous year. This had the expected impact on our revenues. Also affecting our performance were stock shortages caused by delays in the shipment of Osram CFL lamps due to the global increase in demand for CFLs. Eventually the business unit did not meet its budgeted revenue targets.

Three new products were introduced during the course of the year: a CFL lamp for outdoor lighting applications, high-wattage CFLs for industrial applications, and LED retrofit lamps to replace halogen lamps.

### Future

Over the long-term, we are committed to turning Dimeo into a Company reputed for 'energy-saving' or ESCO. ESCOs are firms that provide energy-saving technical solutions to other businesses and institutions, thereafter continuing to receive part of the regular saving on energy costs as payment. This would place the Business unit in the enviable position of having a robust revenue stream.

For the near future, we see opportunity in the new markets of the North and the East, the revival of tourism and Sri Lanka's co-hosting of the ICC World Cup in 2011. To take advantage of these opportunities, we are currently engaged in expanding our distribution network and knowledge delivery programmes to our customers.





### Power Tools

The fortunes of the construction industry directly affect the performance of this segment. The lower growth in construction industry last year did not provide any assistance in its march towards growth.

However, Bosch power tools acquired market leadership with some difficulty, attaining a market share in excess of 35%. Bosch also enjoyed a significant growth in accessories; our performance became a benchmark for other South Asian countries.

### New Products

Two new lines were introduced, both aimed at carpenters and cabinet-makers: the GOF 1300 router and the GMR1 trimmer, both available at an attractive price.

### Key Events

A new distribution channel for Skil Products was launched. On this foundation we intend to build up Skil as a brand for price-conscious customer, especially in outstation markets.

The Business unit held a special programme for Samudhi Bank managers in every district, who are lenders to small & medium scale industrialists. The object was to familiarise them with our brands and the advantages of choosing them.

### Outlook

The current economic environment is expected to grow the construction industry. The budgets indicate a growth in turnover for the year 2010/11.





# BUSINESS PERFORMANCE

## Construction, Agricultural & Material Handling Machinery



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

**BOMAG**  
FAVAT GROUP

**CLAAS**

**DEMAG**  
Cranes & Components

**DONGYANG**

**EVERDIGM**

**GEHL**

**Haulotte**  
GROUP

**intraco pallet**

**KOMATSU**

**KSB**

**Mahindra**  
Tractor World

**mhc DEMAG**

**ROAD TRAINS**  
TSCHUSCHU

**SSI SCHAEFER**

**SCHWING**  
Stetter

**SIEMENS**

**WOMA**





## Key Figures

	2009/10	2008/09	Change %
Segment Turnover (Rs. mn)	<b>1,517</b>	1,337	13
Segment Result (Rs. mn)	<b>145</b>	155	(6)
% Contribution to the Group Turnover	<b>14</b>	14	-
Segment Result/Segment Assets (%)	<b>24</b>	43	(44)

## Customer Profile

	B2C	B2B	B2G	Total
No. of Customers (accumulated)	2,433	2,406	369	5,208
Customer Satisfaction Index (weighted average %)	-	-	-	79%

## Key Principals

Bomag GmbH

Claas India Ltd.

Everdigm

DE MAG Cranes &amp; Components GmbH

Hanwa Company

Komatsu Ltd.

Komatsu Asia &amp; Pacific Pte Ltd.

Komatsu Utility Cotd.

KSB AG

Mahindra &amp; Mahindra Ltd.

Maulotte Group

Road Trains Tsehu Tschu GmbH

Schwing Stetter

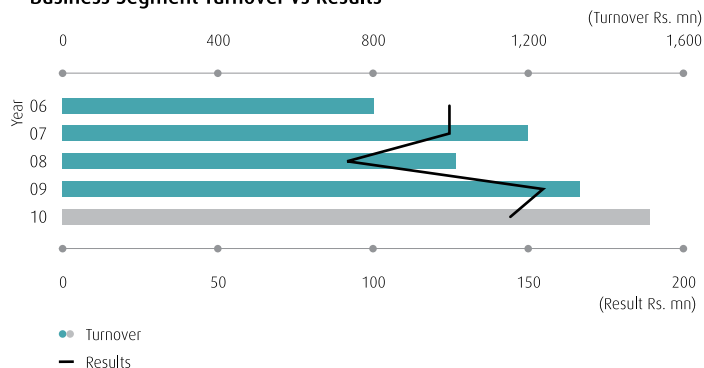
See Hau Global sanbhd.

Siemens AG

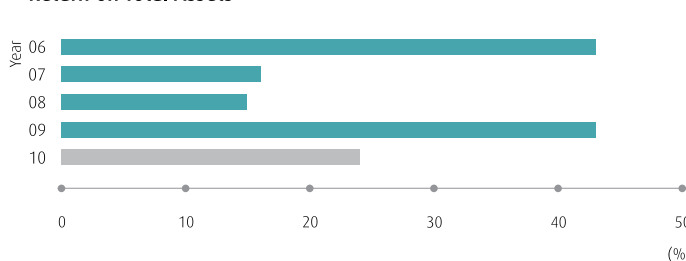
SSI Schaefer Systems International Pte Ltd.

WOMA GmbH

## Business Segment Turnover Vs Results



## Return on Total Assets



## Construction and Mining Equipment

Dimo supplies Bomag compaction and road building equipment such as soil compactors, road rollers, trash compactors, bitumen sprayers and milling machines; construction and mining equipment from Komatsu; concrete machinery from Schwing Stetter and Everdigm hydraulic breakers. Our performance is, of necessity, closely tied to the fortunes of the construction industry.

During 2009, the construction sub-sector grew by 5.6%, a slower growth compared to the previous year's figure of 7.8%. The sub-sector expanded with positive contributions from public sector mega-construction projects such as the Norochcholai and Upper Kotmale Power Plants, the Colombo-Katunayake and southern expressways and the Colombo outer circular highway project, as well as the construction of several flyovers and other rural road-development projects under the *Maga Neguma* programme. Infrastructure development projects are expected to continue providing opportunities for the construction industry and for suppliers such as ourselves.

## Performance

Dimo has done extremely well in the construction and mining equipment business, achieving targeted unit sales and market shares during the year. In all, turnover increased by over 135% during the last two financial years.

The year saw us supply customers with some of the largest Komatsu machines available: PC600-8R and PC 450LC-8R excavators, a WA 470-3A wheel loader and a WB 97S-5EO backhoe, the last of these being supplied to a major project in the Republic of Maldives. Also of interest was the supply of four Komatsu PC35MR-3 mini-excavators modified for use as de-mining machines. The modification was entirely designed and implemented by technical staff of Dimo.

## New Products

Komatsu's new 20-ton PC200-8 excavator, with its eco-friendly Tier 3 engine and Bomag's single-drum ten-ton compactors were the products launched this year. The latter is very competitively priced and targets the emerging soil-compaction market.

## Outlook

Our immediate plans are to consolidate the market leadership achieved by Komatsu in the construction and mining-equipment market by the end of the current year.

## Holcim Project

Dimo and Komatsu have been key partners of Holcim (Lanka) Ltd. since 2004, when the Company signed a full maintenance contract for maintenance services on the fleet of Komatsu mining equipment deployed at its open-cast limestone quarry north of Puttalam. On satisfactory completion of the first agreement in December 2008, a new one was signed, covering a further five years effective 1st July 2009.

The maintenance contracts covers sophisticated technical services, with targets set for 90% minimum machine availability at all times throughout the year.

## Fluid Management Systems (FMS)

The FMS business unit serves two major markets: the building-service sector and National Water Supply Network. Our lines include KSB pumps and valves, Siemens water-treatment plants and Siemens process instrumentation.

With increased urbanisation, Sri Lanka's thirst for piped water continues to grow, further driven by consumer lifestyle changes and the expansion of commercial and industrial activity. The NWS&DB provided 80,060 new connections during the year under review, bringing the total number of connections in the country, including industrial and commercial establishments, to 1.3 mn.

Several major water-supply schemes were in progress in 2009. These included the Greater Kandy water supply project (Phase I, Stage II), the Towns South of Kandy water supply project, the Nuwara Eliya District Group Towns water supply project, the rehabilitation and augmentation of the Kirindi Oya water supply project, the Towns North of Colombo water supply project (Stage II), the Kelani Right Bank water-treatment plant and the Greater Colombo water rehabilitation project.

## New Products

Siemens process instrumentation business and water-treatment plants were officially launched during the year.

## Key Events

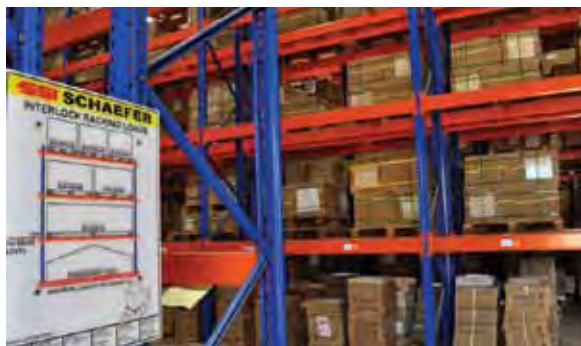
In operations, we installed Sri Lanka's largest booster-pump station at the Customs Headquarters in Colombo, and the country's largest vertical turbine pump for the National Water Supplies & Drainage Board (NWS&DB) at Baddegama. We also secured an order for Sri Lanka's largest-ever water pump by capacity, also from the NWS&DB, to be used at Ambathale Purification Plant.

## Future

Supply of safe drinking water has always been a priority level investment in the country and this is expected to steer this business into another year of success.

## Agricultural Machinery

Dimo markets Mahindra tractors and CLAAS harvesters - high-quality products tested in the huge and demanding Indian market - to Sri Lankan farmers. The performance of this business unit is linked to the health of the agricultural sector.



Agriculture grew only modestly in 2009 due to several factors: tea production was adversely affected early part in the year by the drought in the major planting districts, while paddy production in the Yala Season was severely affected as a result of the delay in the monsoon. Coconut production also declined, largely owing to the lag-effect of unfavourable weather in the previous year.

Mahindra's market share for the year under review was 14.5%, a number that the Company would like to see growing rapidly. The tractor market too saw a 20% decline in its market size. The source of encouragement is the increase in the number of tractors sold in the areas affected by the war.

### New Products

Introduced in the year under review were the Mahindra Shaan 25 hp. multi-purpose vehicle, a multifunctional rotavater and a range of tractor attachments.

### Key Events

Mahindra sales are largely generated through selling campaigns and demonstrations. A large number of these were carried out as usual during the year in all areas with sales potential, together with complementary service campaigns. The business unit participated in the customary round of agricultural exhibitions, trade and vehicle fairs. Tractor display points were opened in the North and the East and a roadside billboard campaign for the Mahindra & Mahindra brand was carried out.

An important introduction was the Dimo Mahindra loyalty card, which offers loyal Mahindra and Dimo customers special incentives for sales leads provided by cardholders.

### Future

The 2010/11 Mahindra special promotion, now under way, packages a multifunctional rotavater with the tractor for a very competitive price.

A sales-monitoring system has been designed and is being implemented to ensure all enquiries are followed up. Special tie-up arrangements with financial institutions will make it possible to offer better financing terms on our products to customers.



With the increase in land under cultivation and the ongoing shortage of manpower, machine harvesting has become popular, affording an excellent business opportunity for the CLAAS harvesters. These machines are capable of harvesting under any weather condition and we foresee good results from this product in the coming year.

### Material Handling and Storage

Our lines in this Business unit include Komatsu forklift trucks, SSI-Schaefer racking and storage systems, MHE-Demag dock and building maintenance equipment, Intraco plastic pallets, Haulotte aerial work platforms and parking solutions from Dongyang and Saehan.

### Performance

Targeted projects in the racking and storage market were slimmed down or delayed pending an improvement in business conditions. For us, the result was inability to achieve our sales targets despite being able to consolidate our market leadership position in forklift trucks.

### Outlook

The Material Handling and Storage business largely depends on the manufacturing industry, export industry in particular. The fortunes of these industries presently look favourable and another year of growth is eagerly anticipated.





# BUSINESS PERFORMANCE

## Electro - Mechanical and Bio Medical Engineering



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

**Dräger medical**  
A Dräger and Siemens Company

**EuroPower**  
TM

**INTERPOWER**

 **JOHN DEERE**

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

**mtu**  
fascination of power

**DETROIT DIESEL**



**SIEMENS**

**Tognum**

 **YORK**

**ZEISS**



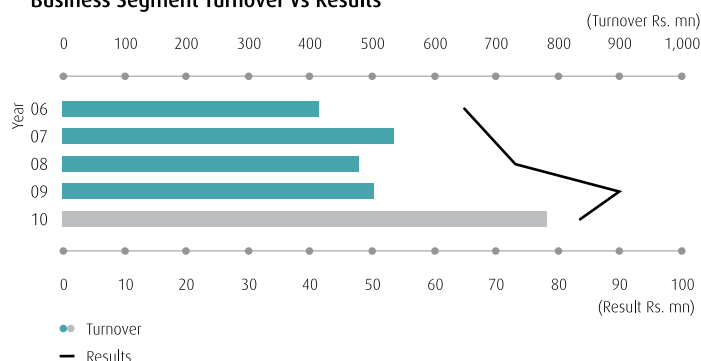
## Key Figures

	2009/10	2008/09	Change %
Segment Turnover (Rs. mn)	782	504	55
Segment Result (Rs. mn)	84	90	(7)
% Contribution to the Group Turnover	7	6	1
Segment Result/Segment Assets (%)	31	30	1

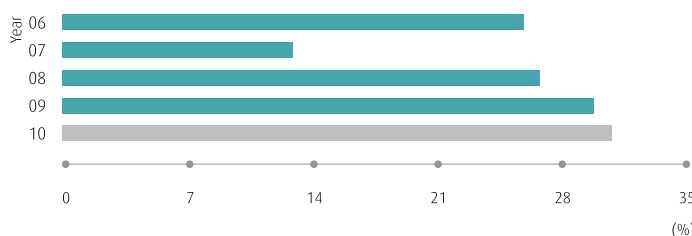
## Customer Profile

	B2C	B2B	B2G	Total
No. of Customers (accumulated)	25	469	158	652
Customer Satisfaction Index (weighted average %)	-	-	-	82%

## Business Segment Turnover Vs Results



## Return on Total Assets



## Key Principals

Carl Zeiss Meditec

Carl Zeiss Meditec SAS

Draeger Medical

Interpower International Ltd.

John Deere Asia (Pvt) Ltd.

KHD Humboldt Wedag AG

Power Source International Pte. Ltd.

Siemens AG

Tognum GmbH

VM MOTORI S.P.A.

## Power Solutions

In power solutions, the Power Engineering division offers products from such world-leading names as Helmke, KHD, Phelps Dodge and Trafo, aside from our mainstay partner, Siemens. This Business unit is known for delivering quality and reliability and for providing optimal, cost-effective designs tailored to meet the needs of individual clients. Dimeo is now a one of the leading companies in the power sector, recognised for its integrated power generation, transmission and distribution solutions. Our services also extend to the set-up of complete turnkey installations and the commissioning of:

- Indoor and outdoor high- and medium-voltage substations
- SCADA substation automation
- Low-voltage industrial systems
- Mini-hydropower plants and wind-power plants
- Service and maintenance of high- and medium-voltage equipment and systems
- Thermographic surveys and conditioning monitoring



The Business unit secured several prestigious projects during the year under review. For most of these projects, installation, testing and commissioning of the system was carried out by the Group.

Industry Overview

	2009	2008	2007	2006	2005
Available capacity (MW)	2,683	2,645	2,444	2,434	2,411
CEB (hydro)	1,207	1,207	1,207	1,207	1,207
Thermal	548	548	548	548	548
Wind	3	3	3	3	3
Private – Hydro	172	138	117	107	84
Thermal	742	737	567	567	567
Others	11	12	2	2	2

Source: Central Bank Annual Report 2009

The Market

Electricity generation declined by 0.2% in 2009, mainly due to a slowdown in the industrial sector. Hydropower generation decreased substantially by 5.9% due to the severe drought that prevailed in the catchment areas during the first few months of the year. Correspondingly, thermal power generation increased by 3.7%.

Several power projects were in various stages of implementation in 2009. The second phase (100 MW) of the Kerawalapitiya Combined Cycle Power Plant, which was added to the national grid in March 2010 on a test basis, will be added on a permanent basis by May 2010, enhancing generation capacity by 300 MW. The construction of the phase I of Norochcholai Coal Power Plant (300 MW) and Upper Kotmale Hydro Power Plant (150 MW) continued; the plants are expected to be connected to the national grid by 2011.

A joint venture between CEB and National Thermal Power Company of India is expected to contribute another 500 MW through a coal power plant in Trincomalee. Rural electrification schemes have been given priority in the Government infrastructure programme due to the high socio-economic returns associated with those schemes. In particular, rehabilitation and expansion work in the Northern and the Eastern Provinces has provided electricity for 21,000 households affected by the conflict. All these developments imply an expansion in both generating capacity and consumption that bode well for our business.



The importance of energy conservation and the promotion of renewable energy have been recognised, and the new Sustainable Energy Authority has been empowered to declare energy development areas, implement energy efficiency measures, introduce energy conservation programmes and to promote energy security, reliability and cost-effectiveness in energy delivery.

### Performance

The following were projects of note: construction of 220 kV gas-insulated switchgear to grid substation at Kerawalapitiya for the CEB, the first of its kind in Sri Lanka; a contract to supply a 220 kV air-insulated switchgear to grid substation at Kotugoda, also for the CEB, the augmentation of a 220 kV air insulated grid substation at Biyagama supply, Installation testing and commissioning of 11 kV power distribution system for Cinnamon Lake Hotel, Supply of 110 Nos. of 11 kV switchgear Panels to CEB.

Other ongoing projects where DIMO has partnered with Siemens include:

- Colombo City Electricity Distribution Development Project, Package C
- Colombo City Electricity Distribution Development Project, Package D (this is the first substation automation project in Sri Lanka)
- Upgrading the Control System of Sapugaskanda Thermal Power Plant
- Balance-of-plant (BOP) contract to the first private wind power plants in Sri Lanka
- 11 kV medium-voltage system at Ceylon Petroleum Corporation

### Building Technologies

Our offerings in building technology include building automation, fire detection, fire protection and fire suppression systems, CCTV and access control systems, public-address systems and HVAC products. By integrating these systems we create 'intelligent buildings' that deliver such benefits as energy efficiency, user safety and security, staff productivity and long-term cost savings.

The division has made a major breakthrough in this sector by winning number of prestigious projects within a short period of time. Among these were a building-automation contract for the new Customs Headquarters, the single largest project of this nature yet attempted in Sri Lanka, which consists of an automation system, IP-based CCTV, an access-control system and a car-park management system. Same building will also be protected by an intelligent, fully addressable fire detection system from Siemens.



The division has also moved ahead in providing complete low-current solutions for existing and upcoming building complexes such as the Ceylon Petroleum Corporation headquarters, Peoples' Leasing headquarters, the new Convention Centre at Hambantota and the new Administrative Complex at Hambantota.

### Outlook

Plans are in hand to expand the division with a focus on renewable energy. We are currently studying the feasibility of investing in our own mini-hydropower plants. With the hope for revival in tourism, the division is working towards providing cost-effective solutions for hotels both upcoming and under renovation.

### Power Systems

This business unit provides state-of-the-art power solutions for non-road transport, mainly marine propulsion and rail traction. Dimo's industrial refrigeration business also comes under the purview of this business unit.

The Power Systems division represents some of the leading global brands in its field, among them being MTU, John Deere and York Johnson.

### The Market

The northern railway line is to be reconstructed in five phases, of which the first - work on the railway line between Vavuniya and Omanthai - has already commenced. Other line extensions are also imminent, as well as rehabilitation work to improve the track from Polgahawela to Anuradhapura so as to enable speeds of up to 100 km/h. All the railway line extensions and plans point to the need of more locomotives.

In the fisheries sector, which is a key sector served by the industrial refrigeration business, annual production increased by 6.5%, indicating opportunities in this sector.

### Performance

The achievements of this business unit fell short of its budgets. Lower than expected demand for spare parts from marine propulsion business was the main reason for this shortfall.

The Company entered into a MOU with Damen shipyards, internationally recognised Dutch ship builder and a ship repairer.

### New Workshop

In order to expand the marine propulsion business, the Company commenced a marine-repair workshop in Trincomalee. Plans are in place to widen the scope of activities at the Trincomalee workshop.





## Bio Medical Engineering

### The Medical Equipment Market: Pertinent Statistics

	2009	2008	2007	2006	2005
Hospitals (Practicing Western Medicine)	555	619	619	604	606
No. of Doctors	13,633	13,026	11,442	10,526	9,070
Total Health Expenditure (Rs. mn)	71,452	74,548	68,702	58,038	44,850
Total Health Expenditure as a percentage of GDP	1.48	1.69	1.92	1.97	1.83

Source: Central Bank Annual Report 2009

This business unit supplies equipment from Siemens, Draeger and Carl Zeiss - world-renowned suppliers who are at the leading edge of innovation in this rapidly advancing field.

Generally speaking, the performance of the division was satisfactory in relation to the industry. The year saw a general decline in the medical equipment business as a whole, and funds allocated for purchasing and investment by both the Government and the private sector were low compared with previous years. Government procurement of Bio Medical equipment was lower than usual, although foreign funded projects supplied some medical equipment to Government hospitals.

The year under review was one worthy of note since it brought us a market breakthrough in the form of a contract to supply the first 16-slice CT scanner ordered by the private-medicine sector. This new Siemens scanner represents a remarkable advancement in brain imaging and is sure to gain the diagnostic confidence level of neurophysicians and radiologists. Additionally, we secured an order for a Siemens Avanto 1.5-tesla MRI scanner and the first Siemens 64-slice CT scanner with a leading private-sector hospital specialising in cardiac medicine.

Recently, we entered the multifocal lens business in Sri Lanka and are optimistic of the future growth of this product.

### New Products

Introduction of New IOL technology to the industry has created lot of excitement in the ophthalmic sector. The unique multifocal microincision system for cataract surgery, with lens implantation through an incision less than 2 mm wide with technology from Carl Zeiss has positioned our brand at the top of the competitive ladder.

### The Year Ahead

The Siemens sales division will place more marketing emphasis on ultrasound, echo cardiography and mobile x-ray systems, in which we see enormous potential. The Carl Zeiss sales division will continue to promote the MICS system for cataract surgery, while the Draeger Medical sales division is focusing on penetrating the critical care market after a successful year of creating awareness of the advanced technologies available from Draeger.



# FINANCIAL REVIEW

## Overview

The group demonstrated its resilience in the financial year amidst most challenging domestic and external conditions, which changed for the better as the year progressed. The recovery was possible largely due to the favorable changes that took place in the local economic landscape since the second quarter of the year, marked by an increase in demand in the vehicle market, lower interest rates, lower inflation rates and relative stabilization in exchange rates. The first quarter of the financial year recorded a loss and each ensuing three month period showed a marked improvement in Profit before Tax, finally ending the year with an outstanding fourth quarter. In order to provide the readers with a balanced view and the trend that prevailed during the year, quarterly data have been used, where appropriate.

The operations of the telecommunication sales and service business was discontinued during the year under review. SLAS 38 on 'Non-Current Assets held for sale and discontinued operations' was followed in accounting for the discontinuation and preparation of Financial Statements.

## Financial Environment

The following extracts from the Central Bank Annual Report 2009 provides a brief account of the economic background for the calendar year 2009, against which the group achieved its results of the first three quarters of the financial year. It also provides vital economic data that prevailed at the kick off of the fourth quarter of the financial year. The table that follows the extracts from the Central Bank Report 2009 provides some relevant economic data for the quarter ended 31st March 2010, which have also been extracted from data published by the Central Bank.

"Inflation, as measured by the year-on-year change in the Colombo Consumers' Price Index (CCPI), which was 14.4 per cent at end 2008, continued to decline during much of the first three quarters of the year, to reach a five year low of 0.7 per cent by September 2009. Annual average inflation, which was 22.6 per cent at year end 2008, also declined continuously, to reach 3.4 per cent by end 2009."

"The entire market interest rate structure gradually shifted downwards following the reduction in the policy rates. Short term money market interest rates remained at a low level with much of the volatility smoothened out during 2009."

"The Average Weighted Prime Lending Rate (AWPR) showed a marked decline of over 800 basis points to 11.12 per cent at end December 2009. The Average Weighted Lending Rate (AWLR) has gradually declined during the year by a total of 272 basis points to 17.41 per cent, with a marked decline observed in the final quarter of 2009."

"Although the exchange rate remained relatively steady at around Rs. 114.80 against the US dollar until end October 2009, as a result of the strong external sector performance during the latter part of 2009 and benefitting from further investments in Treasury bills and bonds, and the issuance of the second sovereign bond of US dollars 500 million, the rupee appreciated further against the US dollar."

"By end 2009, the rupee appreciated to Rs. 114.38 resulting in an overall depreciation of 1.09 per cent against the US dollar when compared to a depreciation of 3.91 per cent in 2008. Meanwhile the annual average

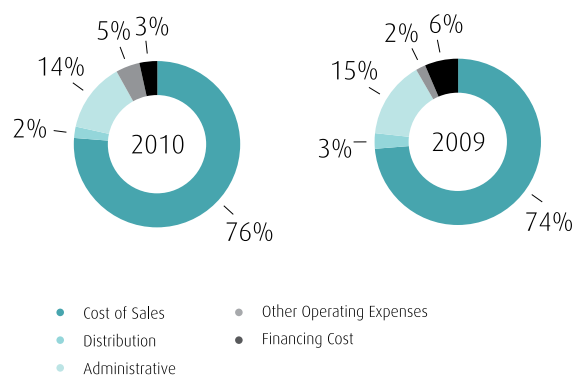
exchange rate in 2009 was Rs. 114.94 against the US dollar when compared with Rs. 108.33 recorded in 2008. During the year, the rupee depreciated against the Euro (2.60 per cent), Indian rupee (4.13 per cent) and the Sterling pound (10.16 per cent) while it appreciated against the Japanese yen (0.89 per cent)."

## Economic Data for the Quarter ended 31st March 2010

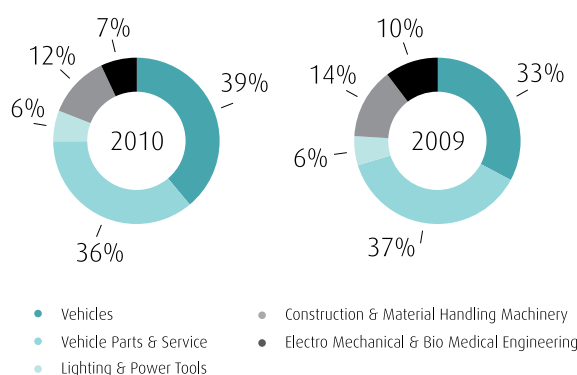
	2010 1st Quarter	2009
AWPR - %	10.54	10.91
Rate of Inflation - % (CCPI Annual Average)	3.2	3.4
Exchange Rate (Rs. per USD)	114.02	114.38

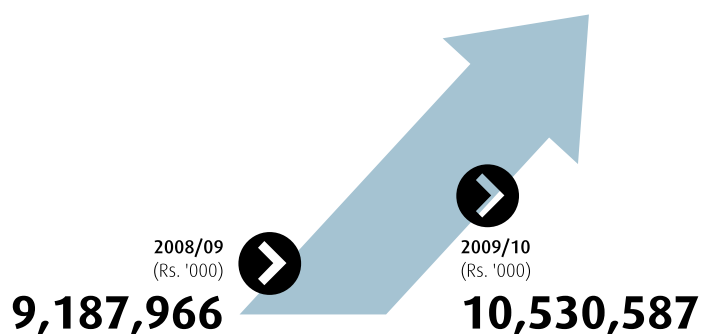
Source: Central Bank of Sri Lanka

## Cost & Expenses (%)



## Composition of Gross Profit by Segment (%)





Reduction  
in Net Finance  
Cost

38%



Growth in  
Turnover

15%

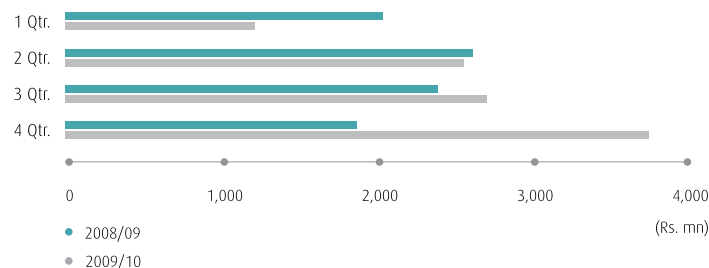


Increase in  
Profitability

### Turnover\*

The group turnover increased by 15% to Rs. 10.5 bn when compared with the last year's turnover of Rs. 9.2 bn. The negative effects of the significantly low turnover in the first quarter were compensated by the rapid turnover increase from the second quarter onwards. The reducing interest rates coupled with the relaxation of the cautious approach previously adopted by the providers of vehicle finance could be identified as key reasons for the growth in turnover that was led by Commercial Vehicle Sales.

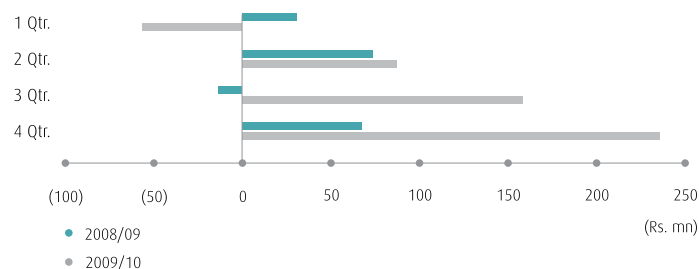
### Net Turnover



### Profitability\*

The profit before taxation figure shows a significant growth of approximately 140% to that of last year's figure of Rs. 175 mn. The increase in turnover and the significant reduction in finance cost collectively triggered the increase in profitability of the group. The intense competition that existed during the year caused the gross profit margin to come down to 23%, from 24% previous year.

### Profit before Tax



\*Includes only continuing operations

### Finance Expenses\*

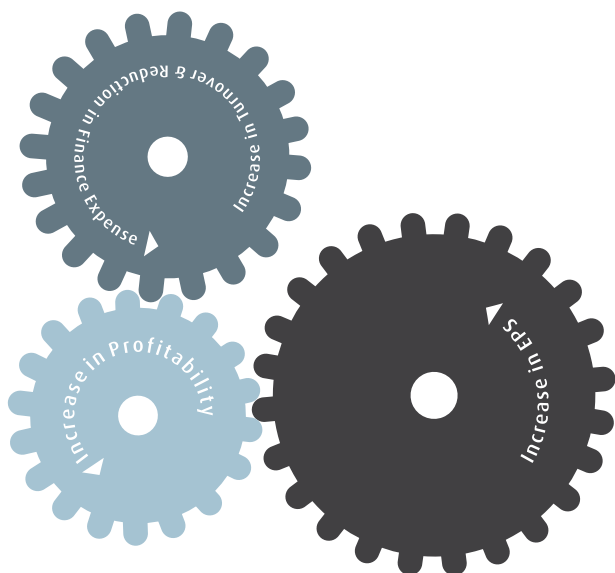
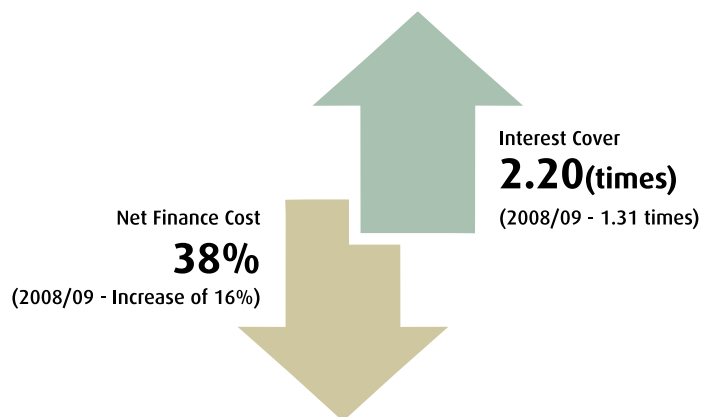
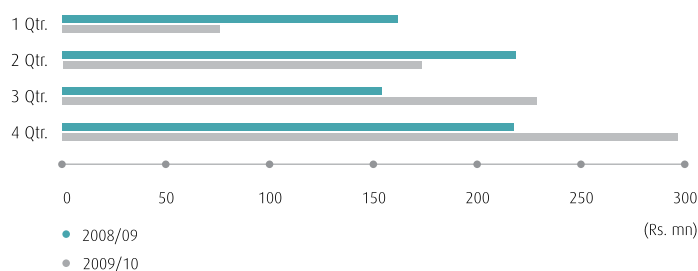
Net finance cost, which is usually a significant component in the cost structure, reduced by 38% (increase of 16% in 2008/09) to Rs. 366 mn (2008/09 Rs. 585 mn), due to lower interest rates and reduced level of borrowings. As a result of increased profits during the last three quarters and reduction in interest cost, the interest cover moved towards a favorable position of 2.20 times to that of 1.31 times during the period of 2008/09.

### Earnings

The net profit after tax increased by 178% (reduction of 56% in 2008/09) to Rs. 248 mn (Rs. 89,444 - 2008/09) with the help of turnover increase and the reduction in finance expenses during the year.

Earnings before interest and tax (EBIT) marginally increased to Rs. 778 mn from Rs. 761 mn previous year. However, as seen from the graph below, EBIT showed a significant improvement in the second half of the year compared to the corresponding period in the previous year.

### EBIT

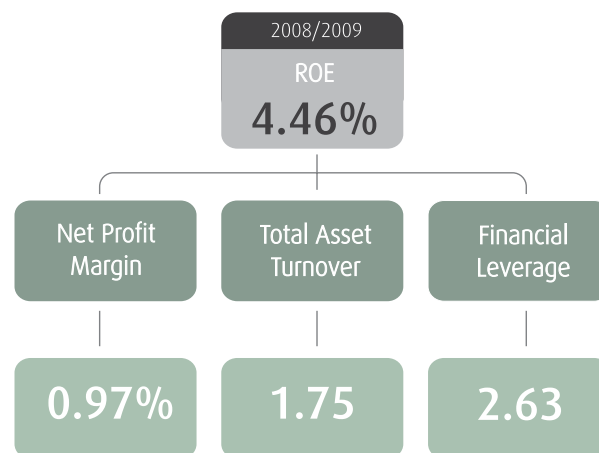
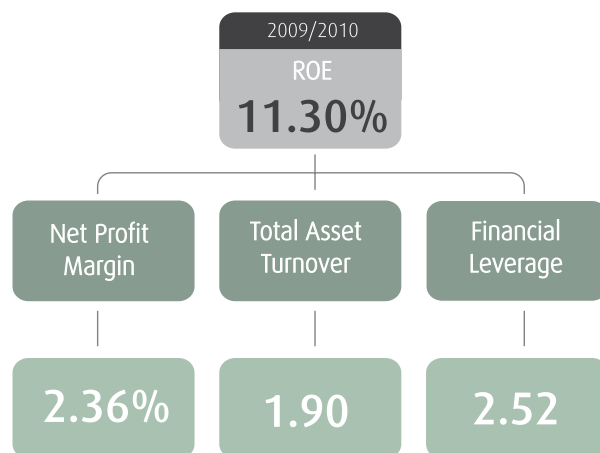


Earnings per share (EPS) increased to Rs. 28.53 by a percentage of 205% compared to the last year's EPS of Rs. 9.36.

EPS from continuing operations was Rs. 31.97 per share (Rs. 10.79 - 2008/09)

\*Includes only continuing operations





### Return on Equity (ROE)

ROE increased to 11.30% from a ratio of 4.46% in the previous year. Improvement in the Net Profit Margin contributed significantly to the improved ROE.

### Dividends

A Final dividend of Rs. 3.00 per share for the year 2008/09 (First and final dividend of Rs. 4.00 - 2007/08) and an interim dividend of Rs. 3.00 per share for the year 2009/10 (no interim dividend in 2008/09) was paid during the year. The gross dividend paid during the year amounted to Rs. 52.214 mn (Rs. 26.107 mn - 2008/09).

The Directors have approved a final dividend of Rs. 4.00 per share (first & final dividend of Rs. 3.00 per share in 2008/09) for the year ended 31st March 2010. The dividend cover was 3.11 times (2.34 times in 2008/09).

The company has access to necessary funds to finance the payment of the final dividend.

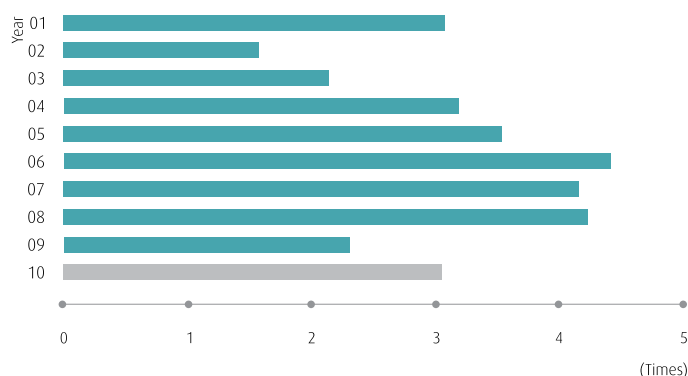
### Solvency

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 requisite solvency levels for payment of dividends.

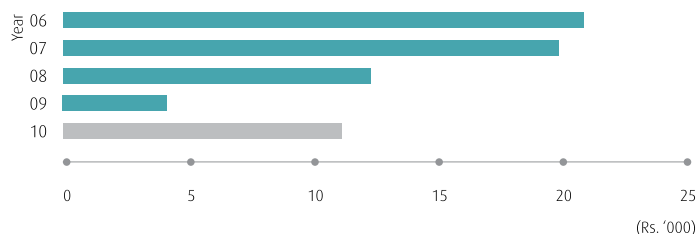
Following is the computation of solvency for the Company as at the year end.

	2009/10 Rs. mn	2008/09 Rs. mn
Non-Current Assets	2,107	2,173
Current Assets	3,092	2,800
Total Assets	5,199	4,973
Current Liabilities	2,545	2,317
Non-Current Liabilities	683	822
Total Liabilities	3,228	3,139
Assets Less Liabilities	1,971	1,834
Stated Capital	182	182
	1,789	1,652

### Dividend Cover



### Return on Equity



### Working Capital

The group's current ratio at the year-end was 1.28:1, which is a marginal improvement from corresponding ratio of 1.25:1. Prudent management of working capital continues to be a key focus area and receives focused attention on a priority basis. Inventories as at the year-end marginally decreased to Rs. 1.32 bn compared to the Rs. 1.33 bn previous year. Year end Trade receivables increased to Rs. 1.99 bn from a corresponding figure of Rs. 1.65 bn. The increase in Trade receivables can be mainly attributed to higher level of Turnover in March 2010 compared to March 2009.

### Borrowings

Borrowings consist of term loans, import loans, short term loans & overdrafts. The total amount of term loans outstanding as at the year end amounted to Rs. 663 mn (Rs. 899 mn -2008/09), indicating a reduction of approximately 26%. The term loans have been obtained for a five-year repayment period except for the loan obtained to finance the acquisition of weliwariya property which has a repayment period of ten years.

Group's interest bearing loans decreased by 27% from Rs. 2,710 mn to Rs. 1,967 mn during the year. Interest rates of overdrafts are reviewed periodically and rates charged on short term/import loans are determined based on money market rates.

Details of term loans are available in Note 27.1 to the Financial Statements.

### Debt to Equity Ratio

The group's debt to equity, which is calculated as a proportion of the total interest bearing borrowings to equity has come down to 89% from 135%. Reduction in the total Debt (from Rs. 2.7 bn to Rs. 1.97 bn) and the increase in the Shareholders' funds (from Rs. 2 bn to Rs. 2.2 bn) explain the reasons for the reduction in the Debt to Equity Ratio.

### Cash Flow

The group's cash inflow from operating activities increased from the previous year by 35% to Rs. 847 mn (Rs. 626 mn - 2008/09). The group's ability to generate sufficient cash flow from operations has resulted in a reduction of borrowing to finance working capital.

The outflow on account of interest and dividend payments amounted to Rs. 377 mn and Rs. 52 mn respectively. Outflow on account of Capital Expenditure during the year was Rs. 36 mn. (Rs. 118 mn 2008/09).

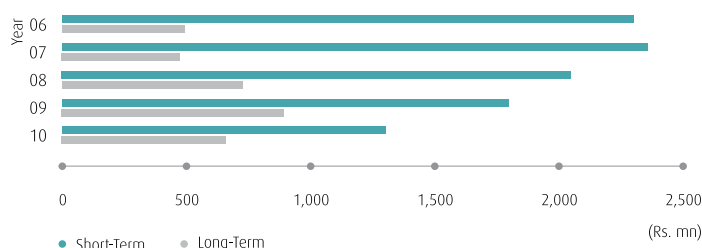
The Group possesses the necessary banking facilities to support its operations.

The Group's cash and cash equivalents increased by Rs. 527 mn (increase of Rs. 211 mn - 2008/09) during the year.

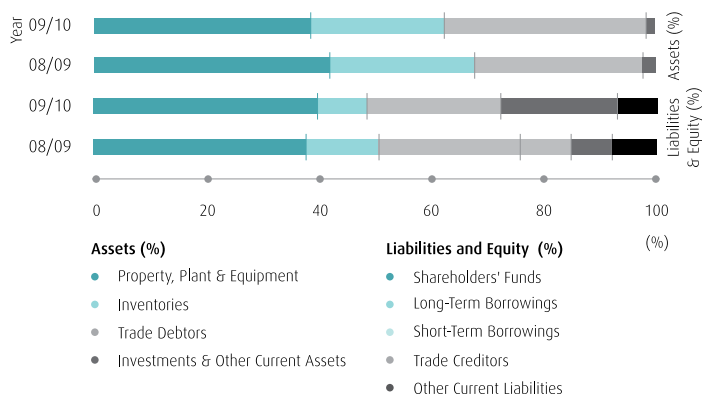
### Shareholders' Funds

The shareholders' funds moved up from the previous year's figure of Rs. 2,005 mn to Rs. 2,201 mn. The details of the movement in shareholders' funds are given in the statement of Changes in Equity on page 138.

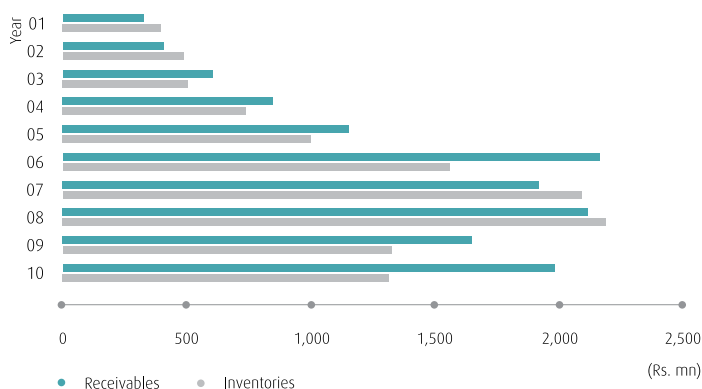
### Borrowings



### Balance Sheet Structure



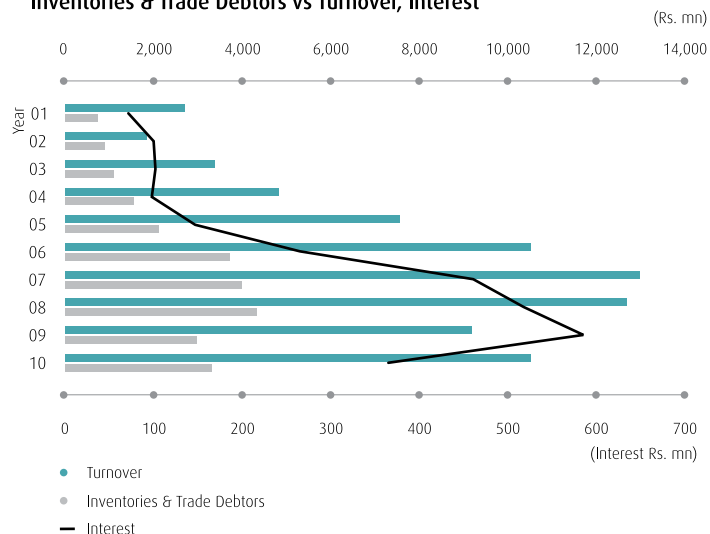
### Inventories & Receivables



### Growth in Property, Plant & Equipment



### Inventories & Trade Debtors vs Turnover, Interest



### Market Value Added (MVA)

As at 31st March	2009/10 Rs. '000	2008/09 Rs. '000
Market Capitalisation	3,696,340	524,319
Shareholders' Funds	2,200,928	2,004,845
Market Value Enhancement/(Depletion)	1,495,412	(1,480,526)

Market Value Added (MVA) is the difference between the market value of a company and the capital contributed by investors, viz. shareholder equity. Market value added is considered to be an indicator depicting the wealth added to the shareholders.

The significant increase in the market capitalisation was due to the sharp increase in the price of the share, which increased from Rs. 60.25 (31st March 2009) to Rs. 424.75 (31st March 2010). The increase in MVA from 2008/09 in absolute terms amounted to Rs. 2,976 mn (reduction of Rs. 897 mn from 2007/08 to 2008/09).

### Taxation

The income tax expense for the year was Rs. 142 mn (Rs. 72 mn - 2008/09). The corporate income tax rate applicable to the Company was 35%. A social responsible levy of 1.5% of the income tax payable was also applicable. The reconciliation between accounting profit and taxable profit is available on Note 9 to the Financial Statements.

### Treasury Management

The Group operates a central treasury function. It controls decisions in respect of cash management, utilisation of borrowing facilities, banking relationships and foreign currency exposure management. Further, it enables effective cross utilisation of funds between Business Units.

### Financial Market Risk

The Company is exposed to various changes in financial market conditions. This includes the exposure to fluctuations in interest rates and exchange rates. Forward Exchange Rate contracts may be entered into for imports on a selective basis.

### Retirement Benefits

The actuarial valuation of the gratuity liability carried out as at the year end places the Group's liability at Rs. 142 mn compared to that of the previous year of Rs. 125 mn. This 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 30 to the Financial Statements. The charge to the Income Statement for the year on account of the gratuity liability is Rs. 28 mn, which was Rs. 29 mn for the year 2008/09.

### Segment Performance

The vehicles segment experienced a fruitful financial year compared to that of 2008/09. This was mainly due to the increase in demand for commercial vehicles.

Vehicles segment revenue increased by 11.24% to Rs. 5,277 mn compared to the 2008/09 figure of Rs. 4,744 mn. The segment result has also increased by 36.98%.

Vehicle Parts & Services segment produced a 14.24% increase in revenue amounting to Rs. 2,554 mn compared to the previous year's figure of Rs. 2,235 mn. The segment result has however dipped from Rs. 464 mn to Rs. 432 mn by 6.78% due to reduction in margins.

Lighting & Power Tools segment has also experienced a decline in revenue and segment result of 11.70% and 11.81% respectively.

Construction and Material Handling Machinery segment recorded a 13.49% increase in revenue amounting to Rs. 1,517 mn from last year's figure of Rs. 1,337 mn. Due to reduction in margins in this segment, the segment result reduced by 6.59% from Rs. 155 mn to Rs. 145 mn.

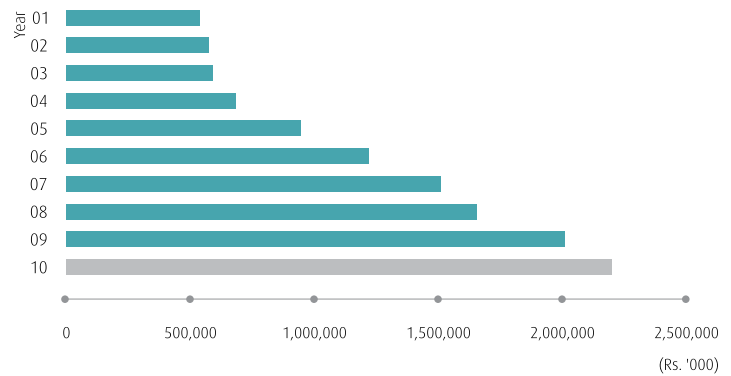
Electro Mechanical and Bio Medical Engineering Segment showed a significant growth in turnover. The segment achieved a revenue growth of 87.12% from Rs. 418 mn to Rs. 782 mn. However, the segment result has come down by 12.40% from Rs. 95 mn to Rs. 84 mn due to reduction in margins.

### Contractual Obligations

Financial contractual obligations to banks as at 31st March 2010 are given below:

Obligation		31.03.2010 Rs. mn		31.03.2009 Rs. mn		Settlement
Long-Term Borrowing	➤	665	➤	907	➤	Equal monthly instalments
Short-Term Borrowing	➤	1,211	➤	1,596	➤	On maturity at terms ranging from one month to six months
Overdraft	➤	90	➤	207	➤	On demand
Letter of Credit	➤	1,043	➤	495	➤	As per LC conditions
Bank Guarantees	➤	589	➤	465	➤	As per guarantee conditions

### Net Assets





### 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 integrated 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.

### 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 (Analysts, Banks and Government etc.), within the bounds of commercial confidentiality, to enable them to make informed judgments on the performance of the Group.

### Outlook 2011

The gradual recovery of the domestic economy and the much awaited end to the decades' long conflict, which has enabled the reintegration of the Northern and the Eastern Provinces with the rest of the country, are expected to provide tremendous opportunities for growth in all the major sectors in the economy.

It is strongly believed that there will be a considerable economic peace dividend as investment opportunities vegetate in former conflict areas. In addition, reduction in interest rates and a stable exchange rate provide a firm foundation for economic growth.

Based on the forecasts and projections available, inflationary pressures in the year 2010 are expected to be moderate, perhaps being at single digit during the year.

Information contained in the financial review showed that subsequent to a first quarter loss, performance has gradually improved ending the year with an outstanding fourth quarter. Dima team is well equipped to face the challenges and seize the opportunities to take this trend forward with the aid of a positive economic outlook and deliver a much more improved result as indicated by the budgets for the ensuing year.





# ENVISIONING GOALS BEYOND

Music is truly magical. It has the capacity to set the mind free; set the imagination free; allow one to 'see' far horizons as clearly as if they were right before us. Mirrored in many pursuits of the passionate, it is a unique gift shared by unique entities... one that helps them reach maestro status.

# SUSTAINABILITY RESIDES AT OUR CORE

## Chairman & CEO's Statement

Dear Reader,

It is with great pleasure that I present to you the Sustainability Report of Dimo for the year 2009/10.

Sustainable entrepreneurship has always been at the core of Dimo's corporate strategy and in this Report we look at how the Company's activities have contributed to enhancing the economy, preserving the environment and empowering society.

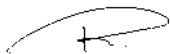
While delivering values to our shareholders we are conscious of our larger responsibilities as a corporate citizen. In this regard we have paid particular attention to generating employment for unemployed youth and providing vocational and technical training to those who have not been able to make it into the formal educational system. The end of the war in May 2009 has provided a new set of opportunities and challenges. The Company is committed to participating in the development of those regions and in helping the people return to normal life as soon as possible.

In order to integrate sustainable entrepreneurship more closely, we at Dimo have taken measures to establish a Committee on Sustainability with a specific terms of reference. This Committee will ensure that sustainable practices are further strengthened and streamlined in all aspects of the Company's business.

We continue to focus on the usage of energy, water and other resources responsibly and in an environment friendly manner. Special measures are being taken to reduce Green House Gas emissions and the Company's carbon footprint.

We are perennially faced with decisions where the requirements of sustainable entrepreneurship clash with short-term profitability. We try to resolve these tensions by focusing on the long-term consequences rather than on the short-term benefits. Dimo has built a unique brand in these 70 years and we are committed to staying 'at the crease' for many more years to come.

The Company has already won many sustainability accolades. However, to us the journey has only just begun, our strategy has been designed, our processes are in place: we must now convert this into tangible benefits for the economy, society and the environment.



**A.R. Pandithage**

Chairman, Managing Director/Chief Executive Officer

18th May 2010



## Preamble

Sustainability requires two key things: a capacity to think out of the box and a commitment to some key principles of business.

Companies need to constantly adapt and re-engineer their processes and practices. New initiatives need to be explored and employees need to be retaught. Sustainability also requires a commitment to some new ideas in the management of institutions and a willingness to resolve tensions between short-term gain and long-term benefits.

Sustainability has been integrated into all aspects of Dimo's corporate strategy. The Company's systems and processes have been refined and adapted to ensure that the potential impacts on the economy, the environment and on larger society, constantly figure in decision making processes within the Company. The Company has embarked on several new initiatives designed to deliver a larger social wealth.

Modern corporate citizenship is driven by a high level of transparency and so is Dimo. Today, a sustainability report is an important tool in enhancing the transparency of every aspect of a company's activities and we hope this report will do exactly that.

## An Overview of this Report

This is the 6th Sustainability Report produced by Diesel and Motor Engineering PLC (Dimo) and its subsidiaries.

Our purpose in producing this 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 endeavoured to report in as fair and transparent manner as possible, presenting both negative and positive aspects without bias, as we believe it to be imperative that stakeholders have access to comprehensive details to aid informed opinion and choice.

Ours is not a 'static' initiative but one in which we strive each year to improve on sustainable wealth creation, which we have endeavoured to portray through this Report.

A Report of this nature arising as it does from an evaluative framework gives the Company an opportunity to review the adequacy of its existing strategy and initiatives and institute change and improvement where necessary.

For purposes of brevity and to avoid frequent repetition, we have adopted the process of cross referencing to help the reader locate more in depth data at relevant points of the narrative.

## Profiling the Organisation

Dimo is one of Sri Lanka's largest diversified business entities with a history of over 70 years of enterprise.

The 'Historical Note' appearing on page 171 details the evolutionary journey of Dimo, from the commencement of operations to the present day.

Details of Group Structure appear on page 126 of this Report.

A very comprehensive review of the Group's business portfolio may be found in the Business Performance section of this Report, beginning at page 20.

The Financial Review appearing from pages 48 to 55 in this Report provides details of all salient financial data and information.

Dimo's corporate philosophy is geared to help the Group produce new opportunities and a better lifestyle for all stakeholders through its entrepreneurial activities.

This Sustainability Report captures the activities of Dimo and its subsidiaries for the year under review.

## Awards and Accolades

Dimo has received numerous awards and accolades during the period under review.

Given below is the complete list of awards:

- Grand Award for the best Chairman's Letter (International) - 23rd International ARC Awards held in New York
- Gold Award for best Chairman's Letter under category of Engineered Industrial Products - 23rd International ARC Awards held in New York
- Gold Award for best Interior Design under category of Engineered Industrial Products - 23rd International ARC Awards held in New York
- ACCA Sustainability Reporting Award winner 2009 - Medium Scale Enterprise Section
- Merit Certificate - Best Corporate Governance Disclosure - South Asian Federation of Accountants - Bangladesh
- Gold Award up to 5 subsidiaries - The Institute of Chartered Accountants of Sri Lanka
- Bronze Award for Best Corporate Governance Disclosure 2009 - The Institute of Chartered Accountants of Sri Lanka
- Silver Award for Best Corporate Citizen Award 2009 (under 10 bn turnover category) - Ceylon Chamber of Commerce
- Silver Award for Best international Brand (DIMO Batta) - Sri Lanka Institute of Marketing

## The Parameters of this Report

### Report Profile

Whilst this Report spans the period 1st April 2009 to 31st March 2010, certain data of relevance outside this period has been included to lend context.

The previous most recent report produced by Dimo was released on 22nd May 2009.

The Company adopts an annual reporting cycle.

Any questions or inquiries pertaining to this Sustainability Report may be directed to the Corporate Communications division at [dimo@dimolanka.com](mailto:dimo@dimolanka.com)

## Report Scope and Boundary

In determining the materiality of the information presented in this Report, Dimo has conducted its own structured materiality analysis to identify relevant content.

This analysis took the form of a materiality test, to identify the indices to be reported on. A specially tailored questionnaire was used to identify the indices which should be reported upon. All indices which scored above a pre-determined level were included in this Report, whilst those of lesser importance were partially reported on with available data.

In regard to boundary setting, this Report covers all enterprises of Dimo and its subsidiaries, excluding joint ventures.

This Report is aligned with the Global Reporting Initiative (GRI) G3 Sustainability Reporting Guidelines, released in October 2006, at a self-declared application level of 'B+.'

The Report has also been verified and assurance provided by Det Norske Veritas AS (DNV).

### Description of Key Impacts, Risks and Opportunities

The above topic is comprehensively discussed in our Management Report (pages 20 to 47) and in the segment on Risk Management (pages 117 to 120).

Dimo carried out an analysis aimed at identifying and assessing the business risks facing the Group with regard to its activities and the current environment, as well as the controls associated with each risk. The analysis considered the strategic, financial, operational and fortuitous risks.

## Organisational Impact

Traditionally, organisations have been paying more emphasis to the impact on the economic well-being of the shareholder viz., profitability and have attached relatively less importance to economic impacts on other stakeholder groups.

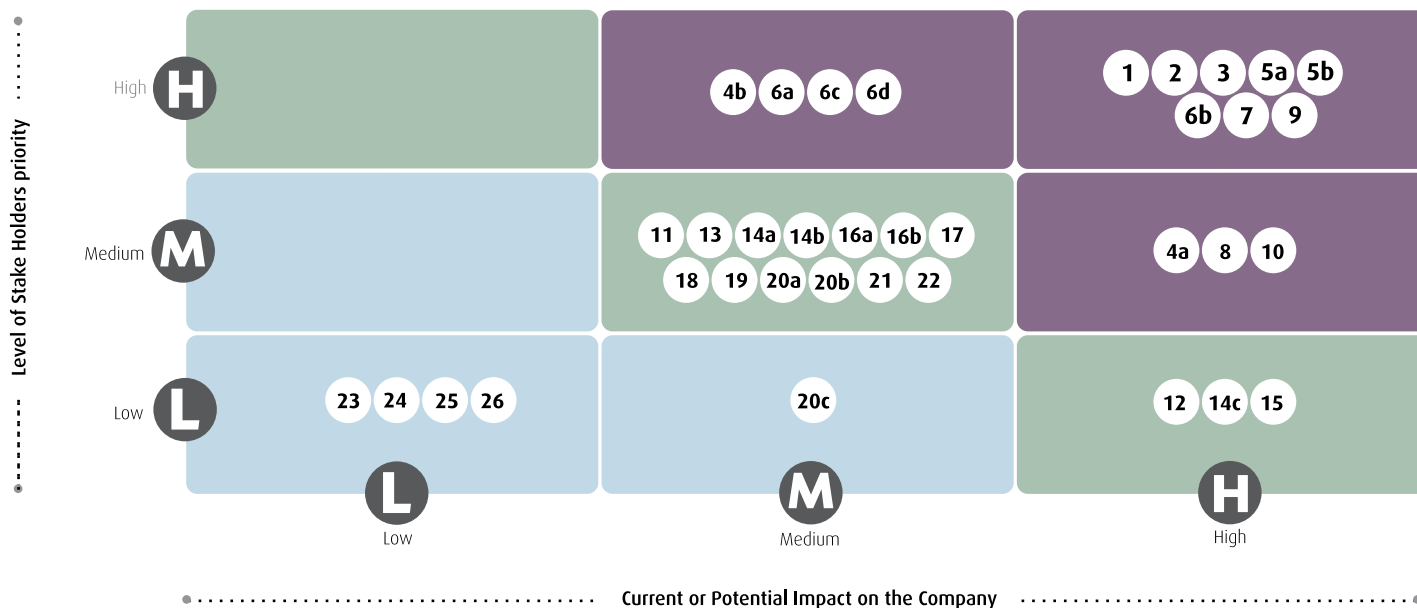
However, we must note that the remaining two parameters of Sustainability - Environmental and Social - are becoming increasingly important and this rapid change in thinking is compelling organizations to give sustainability its due place.

From a business point of view too, customers are expecting business entities to give due importance to a sustainability framework encompassing all parameters in addition to the economic impact on the shareholder.

Dimo is a Company associated with world class Principals and Suppliers who take a holistic approach to sustainability and use it as a driver of value creation and competitive advantage.

The world class brands that Dimo offers make it opportune to adopt an all inclusive approach making a positive impact on all aspect of sustainability.

## Materiality Issues - an Identification Matrix



A materiality test was done for all indicators through a self-developed questionnaire. Based on the answers for each indicator a rating was ascertained. The indicators with highest ratings were identified as material to stakeholders and the organisation.

The above diagram indicates factors identified through the material test and has been plotted according to the priority of stakeholders and the impact on the Company.



**High** - The issues indicated in this area are of high impact for both stakeholders and the organisation. All indicators shown in this area are fully reported on.

Current status and future plans of high materiality issues have been discussed in page 62.



**Medium** - The issues indicated in this area do not have a major impact on our business operation. However, these issues have also been addressed during the reporting period and have been fully or partially reported on, under the GRI3 Index as per the availability of data.



**Low** - The issues found in this segment of the grid exert only a minor impact on our business operations and are therefore not reported on.

#### Indicators of High Relevance

		GRI Indicator
<b>Economic</b>		
1 Shareholder Return on Investment	EC1	
2 Direct Economic Value Generated and Distributed	EC1	
<b>Environment</b>		
3 Energy Consumption	EN3, EN4 & EN5	
4 <u>Water</u>		
4a Water Consumption	EN8	
4b Water Discharge	EN21	
5 <u>Waste</u>		
5a Solid Waste	EN22	
5b Hazardous Waste	EN22	
<b>Labour Practices and Decent Work</b>		
6 <u>Employees</u>		
6a Training and Education	LA10	
6b Occupational Health and Safety	LA6, LA7 & LA8	
6c Remuneration	LA14	
6d Employee Rights	LA4	
<b>Human Rights</b>		
7 Ethical Compliances of Suppliers/Contractors	HR2	
<b>Society</b>		
8 Corruption	S02, S03 & S04	
<b>Product Responsibility</b>		
9 Customer Health and Safety	PR1	
10 Ethical Concerns on Marketing, Advertising and Sponsorship	PR6	

#### Indicators of Medium Relevance

		GRI Indicator
<b>Economic</b>		
11 Purchasing from Local Suppliers/Contractors	EC6	
<b>Environment</b>		
12 Use of Material	EN1	
13 Use of Recycled Material	EN2	
14 <u>Emissions</u>		
14a GHG emissions	EN16 & EN17	
14b Ozone-depleting substances (ODS)	EN19	
14c NOx & SOx	EN20	
15 Significant Spills	EN23	
<b>Human Rights</b>		
16 Human Rights Awareness		
16a Employees	HR3	
16b Security Personnel	HR8	
17 Discrimination	HR4	
18 Child Labour	HR6	
19 Forced & Compulsory Labour	HR7	
<b>Society</b>		
20 <u>CSR</u>		
20a Health	S01	
20b Education	S01	
<b>Product Responsibility</b>		
21 Product Labelling	PR3	
22 Customer Privacy	PR8	

#### Indicators of Low Relevance

		GRI Indicator
<b>Economic</b>		
23 Local Hiring of Employees	EC7	
<b>Environment</b>		
24 Biodiversity	EN11-EN15 & EN25	
25 Packaging Material	EN27	
<b>Human Rights</b>		
26 Indigenous Rights	HR9	
<b>Society</b>		
20 <u>CSR</u>		
20c Tree Plantation	S01	

## Our Objective &amp; Commitment

Where are we now?	Where do we want to be?	How do we get there?	By When
<b>Environment - Energy Consumption</b>			
We regularly measure our monthly energy consumption. (Electricity, Diesel, Petrol and Gas) Initiatives have been taken to reduce the electricity consumption (discussed in the report).	Measure the reductions achieved through the initiatives taken. Conduct audits in all DIMO locations and identify improvements we can make to reduce the energy consumption.	Conduct internal audits in all Dimo locations and make recommendations.	March 2011
Measure GHG emissions (CO <sub>2</sub> ).	Reduce GHG emissions by 5% from the current level.	Adopting energy efficient initiatives.	March 2012
<b>Environment - Water Consumption and Discharge</b>			
Waste water is recycled and reused (32% ground water is recycled).	To increase the ground water recycling percentage up to 40%.	Biological water treatment plants to be established in the newly developed workshops in Matara and Kurunegala.	March 2011
Water is treated and recycled before discharge.	Measure the water discharged in 90% of all Dimo locations on a monthly basis.	Identify the requirements for meters in all locations and install.	March 2011
<b>Environment - Solid Waste &amp; Hazardous Waste</b>			
Solid waste is segregated and handed over to selected third parties for further recycling. Hazardous waste is also handed over to third parties for recycling and re-use.	Identify a total solution for waste disposal. We are looking at achieving a total solution (100%) for hazardous waste and 80% solution for solid waste.	Approach an Environment Authority approved 3rd party for a total solution and implementation.	March 2011
<b>Supply Chain management</b>			
We have introduced a supplier code and declaration for local suppliers.	To receive the declaration signed by 90% of the local supplier base and maintain this percentage every year.	Conduct an awareness program on ethical business practices biannually.	March 2011
<b>Our People - Training &amp; Development</b>			
We have conducted 8,936.5 hrs of training for our employees internally and externally (local & foreign).	To introduce career ending programmes for retiring employees.	Identify employees who are approaching retirement and conduct programmes biannually.	March 2011
<b>Our People - Occupational Health &amp; Safety</b>			
We established a 'Health and Safety' Committee and conducted audits to identify possible occupational Health and Safety risks.	To obtain external recognition for our health and safety policies and procedures (OHSAS 18001 Occupational Health and Safety Standard).	Conduct continuous audits and plan continual improvements.	March 2011
<b>Our People - Employee Satisfaction</b>			
Taking care of our people as we know that they are our strength. Our current level of employee satisfaction is 54.29% and the response rate is 55.6%.	Increase the response rate to 60% and the satisfaction level to 65%.	Appropriate initiatives led by HRD Division.	March 2011
<b>Community - Customer Health and Safety</b>			
Creating awareness in all our workshops on customer health and safety.	Increasing awareness on post purchase health and safety issues (Eg: Osram CFLs - hazardous waste).	Communicate disposal options and methods to customers through advertising and promotions (Eg: safe Osram CFL disposal).	March 2011
<b>Community - Ethical Marketing Practices</b>			
Following the marketing and communication codes of our principals.	Develop a marketing and communication code for all Dimo advertising and promotions.		December 2010



### Governance, Commitments and Engagement

The Board is committed to integrating sustainability within all aspects of the Company's business.

#### The Process of Sustainability Management within the Company

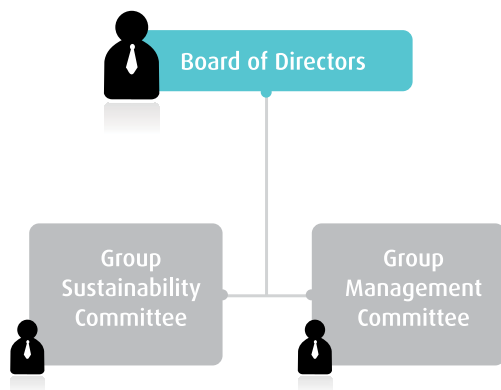
Each Business Unit and Business Division identifies the relevant sustainability objectives and initiatives that need to be included in business and operational plans.

Responsibility for individual projects and initiatives are vested with the various Business Units and Divisions, which are equipped with the resources and expertise to ensure implementation.

The Group Management Committee assumes overall responsibility for identifying and managing economic, social and environmental impacts of the Group's activities. For this purpose it uses processes such as Quality Management System, Environmental Management System, several task specific committees and the Group's Management Information System.

The Quality Management System (QMS) and the Environmental Management System (EMS) received QMS ISO 9001:2000 and EMS ISO 14001:2004 accreditation respectively, which is evaluated and revalidated on an ongoing basis.

As an initiative a Sustainability Committee of ten members was appointed on the 18th May 2010 consisting of six Executive Directors and four members of the senior management to represent the employees. It will oversee the processes within the institution and constantly evaluate and refine processes and practices.



The Terms of Reference of the new Committee on Sustainability have been documented. The main objective of this Committee will be to establish goals and integrate sustainability into the daily business activities of the Company. The Committee will ensure that adequate human and financial resources are allocated for the implementation of the Company's sustainability strategy.

Dimo complies with the Listing Rules of the Colombo Stock Exchange pertaining to Corporate Governance and also conforms to Best Practices and guidelines issued by various institutions that propagate good governance in order to improve its own Corporate Governance framework and its implementation. The Enterprise Governance Report appears on pages 104 to 123.

#### 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 with legal, statutory and principals' requirements"

#### THE VALUES THAT GUIDE US

Customer First;

Partner with the world's best;

Make work enjoyable and rewarding;

Never compromise Dimo's ethics;

Benefactor of society and friend of the environment.

#### Commitments to Memberships

- American Chamber of Commerce
- Ceylon Chamber of Commerce
- Ceylon Motor Traders Association
- Chamber of Construction Industry
- Department of Commerce
- National Chamber of Commerce
- Sri Lanka-Australia & New Zealand Business Council
- Sri Lanka-France Business Council
- Sri Lanka-German Business Council
- Sri Lanka-Italy Business Council
- Sri Lanka-Japan Business Council
- Sri Lanka-Malaysia Business Council
- Sri Lanka-Taiwan Business Council
- Sri Lanka Tyre Importers Association
- Vocational Training Authority



ISO EMS & QMS Certificates

## Stakeholder Engagement Process - In Summary

Stakeholders	Sustainability Issues & Concerns	Process of Engagement
<b>Shareholders</b> <ul style="list-style-type: none"> <li>• Owners</li> <li>• Providers of Capital</li> </ul>	<ul style="list-style-type: none"> <li>• Profits &amp; Growth</li> <li>• Return on Investment</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Annual General Meeting</b> provides an opportunity to review the past year's performance and engage in discussions with the management</li> <li>• <b>Annual Report</b></li> <li>• <b>Quarterly reports</b> provide a quarterly review of performance.</li> <li>• <b>Company Website</b></li> </ul>
<b>Employees</b> <ul style="list-style-type: none"> <li>• The key resource for competitive advantage and sustainable growth</li> </ul>	<ul style="list-style-type: none"> <li>• Individuals' future growth is linked to Company achieving its objectives</li> <li>• Personal Development</li> <li>• Health and Safety</li> <li>• Balance between professional and personal life</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Employee Council meetings</b></li> <li>• <b>Employee Portal</b> of the Company accessible to every employee.</li> <li>• Annual strategic planning meeting</li> <li>• Company's '<b>Open Door</b>' policy encourages direct employee - management dialogue.</li> <li>• <b>Annual Employee Surveys</b> - voluntary and confidential.</li> <li>• <b>Newsletter</b></li> <li>• <b>H.R. Clinics</b></li> <li>• Individual <b>Performance Reviews</b> - biannual</li> <li>• Dimo Quiz competition</li> <li>• Employee <b>Reward &amp; Recognition</b></li> </ul>
<b>Customers</b> <ul style="list-style-type: none"> <li>• Principal source of sustenance</li> </ul>	<ul style="list-style-type: none"> <li>• Product quality</li> <li>• Availability (island-wide cover)</li> <li>• Standard of After-care</li> <li>• Reliability</li> <li>• Technology</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Customer Relationship Management</b> process (CRM) enables keeping in touch with the customer on a daily basis. It helps to respond to queries and problems from the customer. 'Problem solving' for challenges the customer faces is also done through the CRM process.</li> <li>• A <b>Customer Satisfaction Index</b> maintained by each department provides an assessment of satisfaction levels and helps to improve problem solving capacities within the Company.</li> <li>• Dimo 'Fleet Owners Clubs' for Loyalty Customers</li> <li>• SMS verification system to identify the duplicate product (Bosch, Zexel )</li> <li>• 'Mercedes Club'</li> <li>• 24 hour roadside assistance</li> </ul>
<b>Business Partners and Suppliers</b> <ul style="list-style-type: none"> <li>• Critical part of Value chain</li> </ul>	<ul style="list-style-type: none"> <li>• Market Share</li> <li>• Profitability and adherence to Principals' Standards</li> </ul>	<ul style="list-style-type: none"> <li>• A <b>high speed 24 x 7 on-line</b> link enables constant dialogue with principals. Issues discussed include product quality, marketing, customer satisfaction, 'problem solving' and employee motivation.</li> <li>• <b>On site visits</b> from principals and on site visits to principals' locations facilitate engagement.</li> <li>• Supplier code</li> <li>• Code for suppliers</li> </ul>
<b>Community</b> <ul style="list-style-type: none"> <li>• Civil Safety</li> <li>• Stakeholders in Sustainable development</li> </ul>	<ul style="list-style-type: none"> <li>• Social and Environmental impact</li> </ul>	<ul style="list-style-type: none"> <li>• Dialogue with Religious Dignitaries</li> <li>• Written and oral communications initiated by stakeholders</li> <li>• Company website</li> </ul>

## Stakeholder Engagement

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

Dimo has in place comprehensive systems and processes 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 stakeholder, 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 expectations whilst maintaining the values and equity of true sustainable entrepreneurship.

## Shareholders

The Annual General Meeting is the principal forum at which shareholders may discuss the performance of the Group, its Financial Statements, returns, appointments and many other relevant matters.

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

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

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

The Company Secretary is available for consultation by shareholders.

## Employees

The Employee Council meets monthly and provides a forum through which employee and Company could engage in frank discussion on matters pertaining to the Company's operations.

The employees nominate their representatives to the Council, whilst the Heads of Business Units also attend.

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.

## Employee Portal (Intranet)

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

## 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

HR Clinics are conducted 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 at site – where these aren't possible, such matters are referred for further discussion with the senior management.

These clinics have now been held for the second consecutive year.

Here are some of the other initiatives we undertook during the year under review, to facilitate dialogue with employees.

## The Dimo Quiz

This Annual Dimo Quiz provides employees with the opportunity to keep abreast of current events and sharpen their intellectual skills. Questions focus on the Company's activities, history and profile and on local and international affairs.

Every year it attracts strong participation from employees in all business units and divisions.

## Employee Reward & Recognition

Dimo recognises and rewards exceptional contributions from its employees through its Individual/Team Rewards and Recognition Scheme.

Under this scheme, employees either as individuals or as a team are feted for exceptional contribution in areas such as - Exceptional Quality Service- Internal/ External, effecting improvements to process to reduce cycle time, helping to reduce cost, devising methods to engender continuous improvement, exceptional house keeping, exceptional team achievements, contribution toward Health and Safety and Living values etc.

The nominations are made by the Managers of the various business units.

### News from the Human Resource Department

The HR Department maintains systems of communication with all employees via e-mail to disseminate news about company events and activities.

### Knowledge Sharing Session

The Company has regular product knowledge sharing sessions for its employees. At these sessions managers of each business unit share information with employees from other units about the products of their particular units. These sessions enable employees to be updated and informed about products being marketed by all business units of the Company.

### Employee Satisfaction Survey

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

Participating in the Employee survey is a voluntary activity at the sole discretion and choice of the employee.

Anonymity is also an option offered to the employee in completing the survey. Results and findings are summarized and presented for discussion at Employees' Council meetings and the Business Unit Managers' meetings.

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

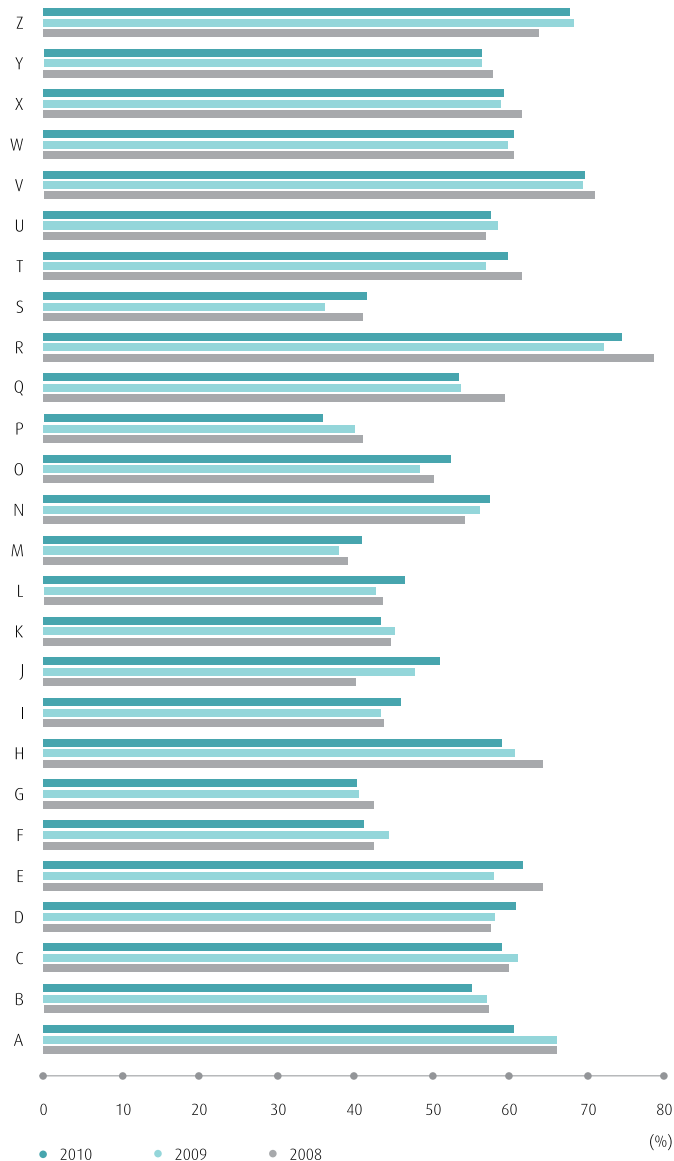
For the year under review the overall satisfaction index was 54.29% which was slightly higher than the previous year's figure of 52.23%. Dimo's staff strength is 864, of which 481 or 55.64% participated in this year's survey. In the previous year, of a total cadre of 870 employees, 503 (58.2%) participated in the survey.

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 suggestions for the year ahead.

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

### Employee Satisfaction Survey



Dimo Newsletter

- |   |                                     |
|---|-------------------------------------|
| A - Nature of Work/Responsibility           | N - Superior's Guidance             |
| B - Designation                             | O - Financial Assist: for Education |
| C - Freedom to Perform Duties               | P - Canteen Facility                |
| D - Availability of Challenging Assignments | Q - Sanitation                      |
| E - Job Security                            | R - Medical Facilities              |
| F - Salary                                  | S - Recreation Facilities           |
| G - Incentives                              | T - Working Environment             |
| H - Other Perks                             | U - Superior Relations              |
| I - Recognition & Appreciation              | V - Peer Relations                  |
| J - Retirement Benefits                     | W - Customer Satisfaction           |
| K - Appraisal System                        | X - Focus on Quality                |
| L - Opportunity for Training                | Y - Continuous Improvement          |
| M - Prospects for Promotion                 | Z - Focus on Environment            |



### Our Principals (Business Partners) and Suppliers

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 utilization 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 that included their experience with their product portfolio 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. This information includes annual reports and more frequent periodic updates.

Each year, Dimo's business units evaluate suppliers based on a self-declared evaluative criteria at monthly, quarterly and annual intervals, as required by ISO standards.

As a new initiative we developed a Governing Code for suppliers to encourage them to maintain high ethics and exemplary environmental and labour standards. Through this we are looking to incorporate sustainability practices within our supply chain management functions.

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

### Customers

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

In this respect the Company ensures that the products and services it offers adequately targets and meets customer expectations and requirements.

Dimo continues to offer the Sri Lankan consumer a portfolio of premium products and services from the world's best brands.

### Customer Relationship Management (CRM)

The ambit of Dimo's Customer Relationship Management provides the main point of engagement with the customer.

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

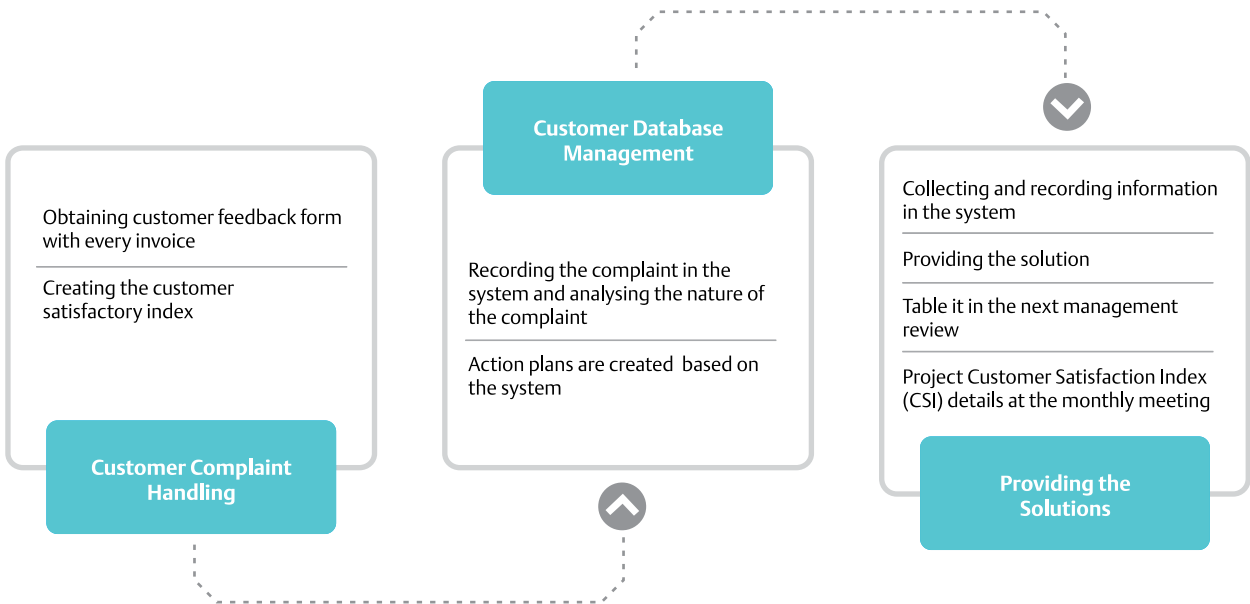
The CRM Department also spearheads problem solving processes in relation to any aspects of our products and/or services that adversely affect the customer.

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 provide a solution within a maximum of 3 days. Mission critical complaints receive utmost priority.

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



Customer Complaint Management

The Group continues to be able to reduce the quantum of customer complaints it receives annually. For the year under review we have been able to achieve a 38% reduction over 2008/09 results.

Financial Year	Customer Complaints
2006/07	458
2007/08	305
2008/09	289
<b>2009/10</b>	<b>180</b>

During the year under review, 180 customer complaints were received by the CRM. Of this number, 73 complaints were resolved within a time frame of less than three days, whilst all of the balance complaints were eventually solved satisfactorily.

### Customer Satisfaction Survey Index

Each business unit collects data necessary to carry out a Customer Satisfaction Survey.

The CRM Unit 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 unit maintains a Customer Satisfaction Survey Index for the Vehicle division and these details are forwarded to business units heads, monthly.

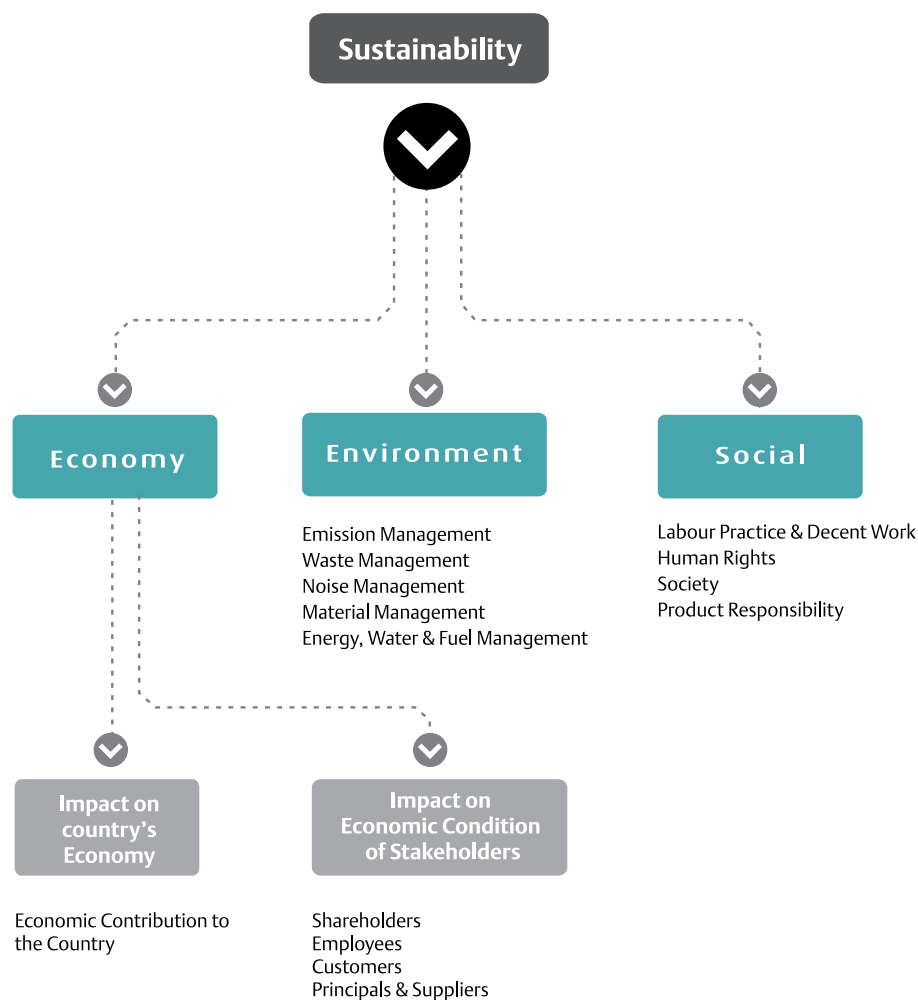
Both these quarterly and monthly reports contain an analysis of customer responses and will enable the Company to continuously improve its problem solving capacity.

### Improving Customer Service

Dimo took several measures to enhance customer service during the year.

New Dimo branch and display points were opened in Jaffna (branch), Ratnapura (Display Point) and Dambulla (Display Point).

We also expanded our dealer network for spares for Mahendra & Mahendra, TATA, M & M, CLAAS Harvester and tyres in general.



# ECONOMIC PERFORMANCE

## A VITAL ASPECT OF SUSTAINABLE VALUE CREATION

### Management Approach

Through its enterprise, Dimeo seeks to enhance the economic well-being of all its stakeholders and of 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.

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.

Dimeo's Financial Policy, Goals and Performance are dealt with at length within the Financial Review appearing on pages 48 to 55.

### 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.

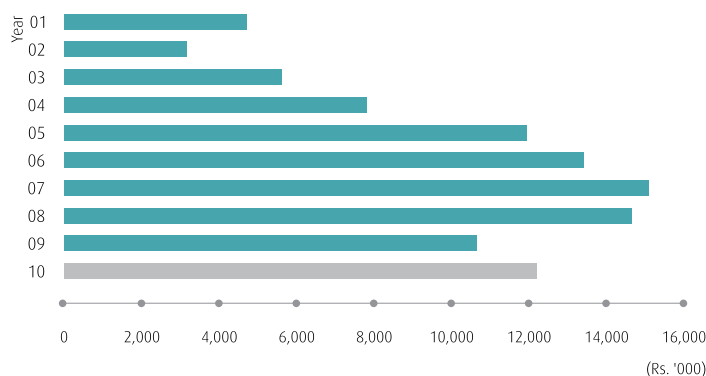
This statement indicates the value added to the economy by the Company and the value distribution to stakeholders.

The total value created for the financial year was Rs. 2.99 bn (as against Rs. 2.58 bn of the previous year) which was distributed among Government, Employees, Lenders and shareholders in the manner set out in the Statement of Value Added. Rs. 717 mn or 24% of the value created was shared with employees in comparison with the Rs. 621 mn or 24% of the previous year.

Rs. 1.52 bn (Rs. 1.14 bn in 2008/09) was paid to the Government by way of taxes. This represents 51% (44% in 2008/09) of value added by the Company.

The comparatively high proportion paid to the Government illustrates the relatively high taxes applicable to vehicle imports.

Group Turnover Per Employee



## Statement of Value Added

For the period of		Consolidated 2009/10 Rs. '000	%	Consolidated 2008/09 Rs. '000	%	Company 2009/10 Rs. '000	%	Company 2008/09 Rs. '000
Gross Turnover		10,570,892		9,274,103*		9,556,752		8,666,943
Other Income		44,244		68,023		28,811		68,654
Less: Cost of Materials and Services brought in		(7,615,946)		(6,759,265)		(6,859,852)		(6,361,897)
		2,999,190		2,582,861		2,725,711		2,373,700
<b>Value Shared With</b>								
Employees	24	717,616	24	621,868	23	626,952	23	543,087
Government	51	1,520,283	44	1,143,422	52	1,427,101	46	1,103,234
Lenders	12	365,746	23	599,902	13	344,001	23	547,027
Shareholders	2	52,214	1	30,250	2	52,214	1	30,250
Retained in Business	11	343,331	7	187,419	10	275,443	6	150,102
Depreciation Set Aside	3	95,034	2	97,975	3	87,241	2	88,981
Profit Retained	6	248,297	5	89,444	7	189,202	5	61,121
	100	2,999,190	100	2,582,861	100	2,725,711	100	2,373,700

\* Turnover includes turnover from continuing and discontinuing operations.

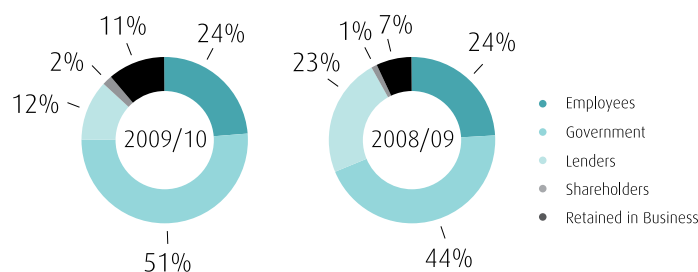
Earnings per Share increased to Rs. 28.53 per share (Rs. 9.36 - 2008/09) and 205% (drop of 44% - 2008/09) leading to an overall increase in earnings. The reasons for this are discussed in detail in the Financial Review appearing on pages 48 to 55.

This increase in profit after tax has led to an increase in the dividends and also led to an increase in the market price per share.

The value that accrues to a shareholder is a combination of the dividends per share and the appreciation/depreciation of the share over the medium to long-term.

The Total Shareholder Return Chart captures the value addition to shareholders over the medium to long-term.

Shareholders' funds stood at Rs. 2,201 mn compared to Rs. 2,004 mn at the end of the previous financial year.

Consolidated Value Added  
(%)

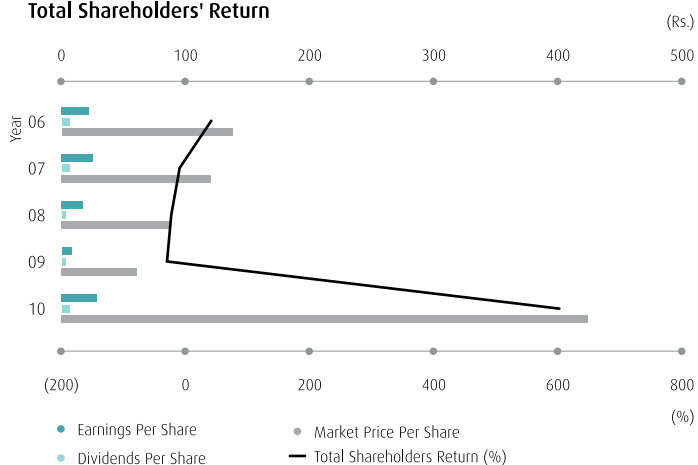
## Total Shareholder Return (TSR)

Total Shareholders Return	2010	2009	2008	2007
Market Price per Share (Rs.)	424.75	61.00	88.75	120.00
Dividend Per Share (Rs.)	7.00	3.00	4.00	6.00
Shareholders Total Return (%)	607.78	(27.88)	(22.7)	(9.03)
Earnings Per Share (Rs.)	28.53	9.36	16.95	25.76

The total shareholder return (TSR) increase by 607.78% (drop of (27.88)% - 2008/09).

The increase in the market value per share also contributed to the increase in the TSR.

## Total Shareholders' Return





### Economic Value Added

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

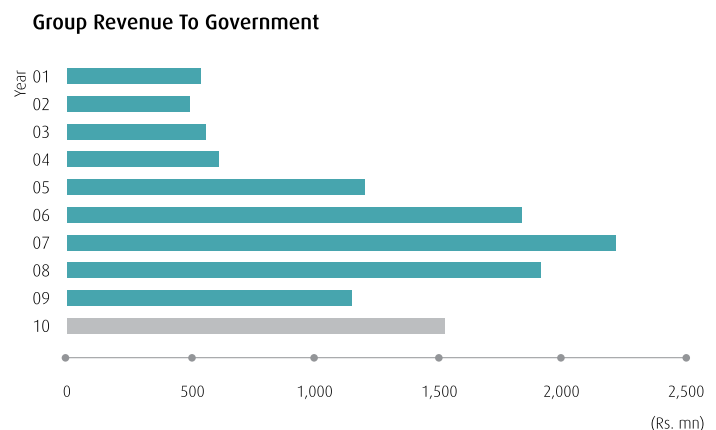
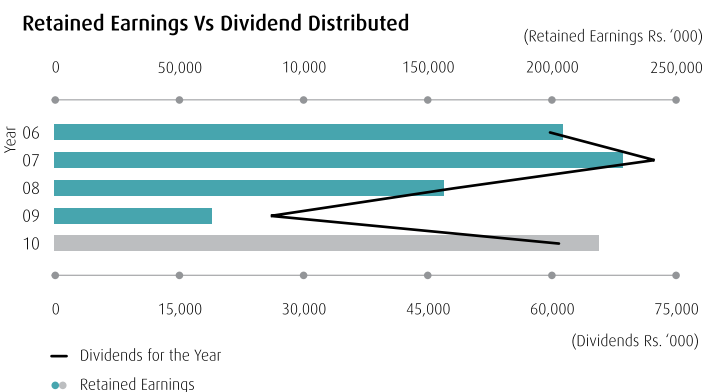
	2009/10 Rs.'000	2008/09 Rs.'000
Total Capital Supplied		
Equity	2,200,928	2,004,845
Long-Term Interest Bearing Loans and Borrowings	662,383	898,876
	2,863,311	2,903,721
<b>Earnings</b>		
Profit after Tax	248,297	89,444
Add: Interest on Long-Term Borrowings	129,291	124,182
Adjusted Earnings	377,588	213,626
Weighted Average Cost of Capital	11.24%	16.90%
Economic Charge	321,836	490,729
Economic Value Added	55,752	(277,103)

	Source	2009/10	2008/09
Average Risk Free Rate (Avg. Treasury Bill Rate)	Central Bank	9.91%	18.45%
Beta Factor - Dirmo	CSE	0.87	0.32
Risk Premium	Assumed	2%	2%
All Share Price Index (ASPI)	CSE	3,724.60	1,638.06
Average Weighted Prime Lending Rate (AWPR)	Central Bank	13.82%	18.50%
Rate of Income Tax	Applicable Rate	35%	35%
Cost of Equity (Based on CAPM)	Computed	11.65%	19.09%
Cost of Debt (After Tax)	Computed	8.98%	12.03%

### Implications of Climate Change

In the short-term, climate change poses no immediate risks to the Company's business. However, this scenario could change over the long-term.



Possible areas of impact may be found in the pressure exerted by future carbon tax implications on vehicle pricing. Conversely, opportunities may lie in the marketing of fuel efficient/hybrid vehicles.

Opportunity for the Company also exists through the growing demand for energy efficient equipment such as CFL/LED lighting and water pumps.

#### Financial Assistance from the Government

Dimo received no financial assistance from the Government of Sri Lanka during the reporting period.

#### 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 the Company's performance. The performance-based incentive payment is linked to a pre-determined scheme. Staff costs increased from Rs. 621 mn to Rs 717 mn reflecting an upward movement in salaries.

Dimo's salary regime provides for levels of pay that exceed those prescribed by law.

They also enable the Group to attract and retain talent.

Staff are also entitled to a comprehensive medical insurance cover.

The end-of-service benefit liability payable is included on page 161 under Financial Statements Note 30.

#### Suppliers

Our suppliers consist of Principals and other local suppliers

The Company's endeavour 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.

The fact that Dimo is 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 support and participation of our Principals.

Dimo honours all contractual obligations with its Principals, to the letter.

We also invest significantly by way of human resources to add value to the world class products we offer.

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 72.

The Group's expenditure in respect to Suppliers (Materials and Services bought) is recorded in our Statement of Value Added and amounts to Rs. 7,460 mn.

This consists of only locally-based suppliers since the Company operates only in Sri Lanka. For the year under review, Rs. 1,893 mn was spent on local suppliers during the reporting period.

#### Profiling Recruitment

Dimo's business is enacted only within Sri Lanka.

All employees, across all grades are recruited locally.

The Group operates a wide network of branches and display points located around Sri Lanka and when recruiting staff for these units, priority is afforded to candidates from the relevant localities, as a practice.

#### Indirect Economic Impacts

In terms of infrastructural investments in services primarily benefiting the general public, Dimo runs two showcase establishments - the Dimo Automobile Training School (DATS) at Siyambalape and the Dimo Innovation and Research Centre at University of Peradeniya.

These projects are described in detail on pages 91 and 92 in the section on Society.

# ENVIRONMENTAL PERFORMANCE

## A CLARION CALL TO ACTION

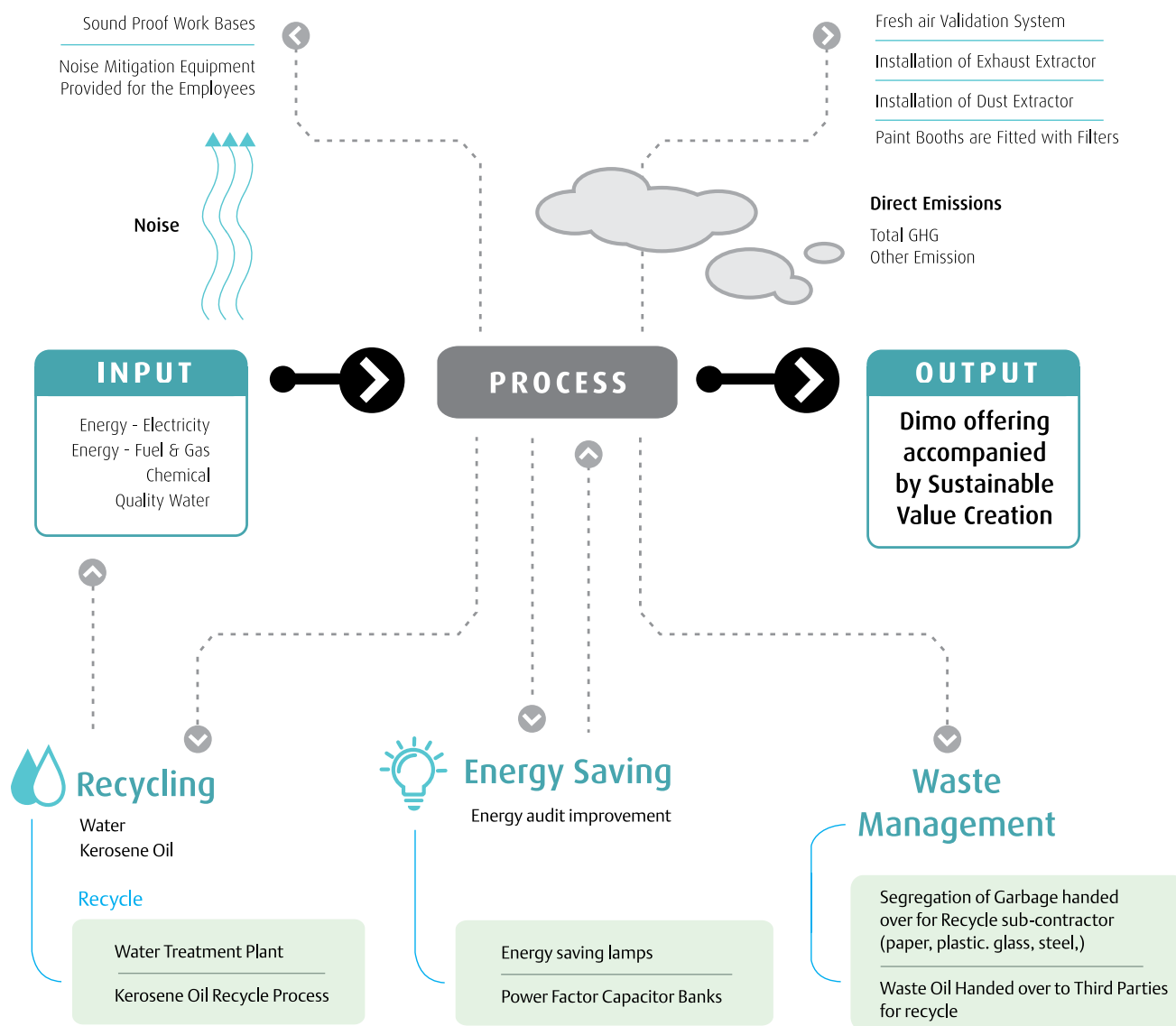
### Management Approach

Dimo has in place a very comprehensive and wide ranging environmental management regime that allows it to monitor impacts from business processes and adopt a 'return to nature' ethos across the Group.

The ensuing information presents the practices and processes in place that help identify the key factors that form the basis of our environmental management system and sets the environmental objectives which we monitor closely.

The more thorough and comprehensive the evaluation, the more general awareness spreads across the Group engendering positive action.

Such awareness has yielded more attention to the effects of climate change and what measures are within Dimo's power to achieve, which could contribute to a more responsible stewardship of this critical factor in the environmental sphere.



**Environmental Management System (EMS)**

Dimo's EMS measures the impact of our operations on key environmental indicators, thereby allowing us to initiate measures to minimise adverse affects.



*Our environmental friendly workshop at Siyambalape*

It also assists in integrating energy saving processes and technologies within the Company and the reduction of waste.

The EMS is guided by the Triple R concept: Reduce, Re-use and Re-cycle.

Dimo's EMS initially obtained ISO:14001 certification in 2005.

Within the scope of its initiatives to nurture and safeguard the physical environment, Dimo concentrates on six strategic areas - 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 Management System**

Senior Management - Communicates to the Employee on the Importance of Environmental Management System



Establish QMS/EMS Policy



Establish Objective through Participation between Management & Employees



Conduct Management Reviews & Internal Audits (biannual) ISO



Ensure Availability of Resources for implementation



Establish Company Objective for each Aspect and Impact



Establish Department Level



Implementation at Department Level with Completion time frames



Maintain Management Programmes



Review Progress



## Materials

### Managing Usage of Materials

The Dimo Group primarily represents a portfolio of products of premier international brands. Although we are mainly engaged in importing and trading of products of these brands, we do use materials in certain processes such as vehicle repair and maintenance, accomplishing of projects, installations and after-sales-services to name a few.

Type of Material used	Measurement	Quantity
Paints	Lt	79,699
Diesel	Lt	391,182
Kerosene	Lt	17,919
Lubricants*	Lt	74,478
Petrol	Lt	159,126
No. of Tyres Retreaded	Nos.	7,161

\*Lubricants are mainly used for vehicles brought in for service

### Recycling

Dimo 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:

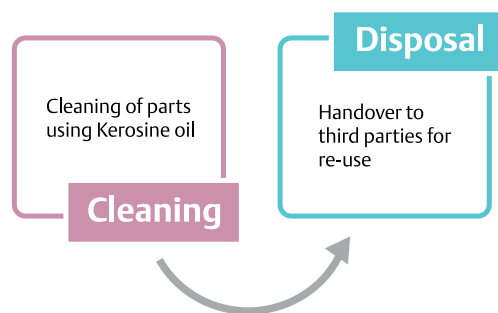
We have a buy back scheme for tyres where we use a certain portion of such items for tyre re-building. During the year under review, we have re-built 7161 tyres in this manner. A total number of 449 tyres were handed over to third party manufacturers who use them as input raw material.

The evolution of a single cycle usage of kerosene to a multi-step process as depicted in our diagrams has significantly improved the recycling of kerosene used by the various departments of Dimo.

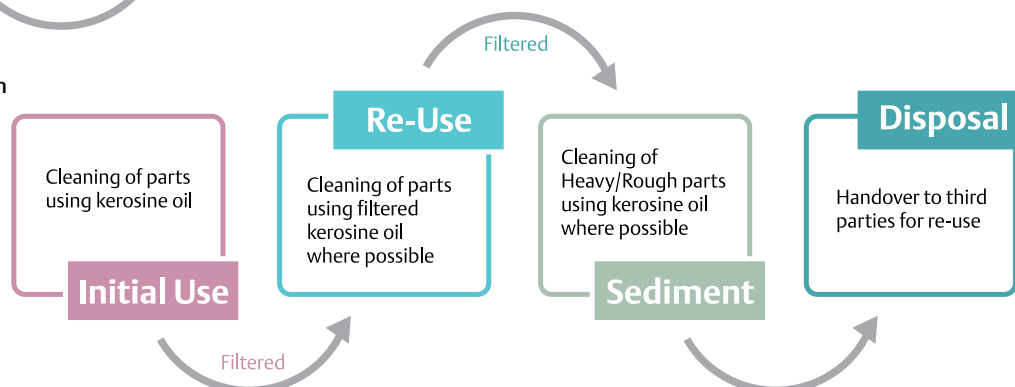
The improved process has allowed the Group to reduce kerosene usage by approximately 20% during the year under review.

### Kerosene Oil Recycling Mechanism

#### Previous Mechanism



#### Present Mechanism





## Energy

### Managing the Use of Energy

The Company's main sources of energy are electricity, diesel, petrol & LP gas.


As direct energy consumption, we consume a small amount of LPG, primarily for use in our cafeteria and workshop, while a certain wattage of electricity is generated in-house.

The main source of indirect energy consumption is electricity drawn from the national grid.

### Direct & Indirect Energy Consumption

Source	Consumption	
	2008/09 MJ	2009/10 MJ
Diesel for Vehicles	13,597,460	13,575,786
Diesel for Generators	169,329	161,803
Petrol for Vehicles	6,355,506	6,690,286
LP Gas	220,521	238,911
Electricity	5,868,162	6,093,927
Total	26,210,978	26,740,713

 - Direct Energy Consumption

 - Indirect Energy Consumption

### Energy Saved by Conservation and Improved Efficiencies

All initiatives have their roots in the evaluative process and during the year, Dimo conducted several Energy Audits which generated energy savings recommendations in several areas of the Group.

Capacitor banks have been installed in relevant areas for power factor correction.

We employ a 'Green IT' approach within the offices of Dimo, where all computers are programmed to switch to standby mode after 5 minutes in idling mode. All new computer equipment sourced by the Group must conform to low radiation specifications.

Staff are encouraged to follow the 'switch off/turn off when not required' dictum in respect of lighting, computers, water taps and any such items that have a propensity to generate wastage, unless used responsibly.

Air conditioning units are maintained in optimal condition and operate at a pre-determined cooling level of 24C.

Using natural lighting resources is being optimised and new facilities are being specifically designed to maximise this benefit.

Machine operation across the Group's work areas is monitored closely and runs at optimum energy levels.

### Initiatives to provide energy-efficient or renewable energy-based products and services

Our marketing efforts have successfully increased sales of DIMO 'Batta' from 1848 units (2008/09) to 2986 units (2009/10). Dimo Batta is the most fuel-efficient Diesel Mini truck in its segment in the Sri Lankan market. Fuel efficiency is one of the main Unique Selling Proposition (USPs) of this product.

Our lighting division offers the service of conducting energy audits for external organisations. During the reporting period, four such energy audits have been conducted and all four parties have implemented the recommendations given by our team, which is a 100% achievement comparing to the 80% achievement in the previous year.

Dimo also created awareness among school/university students through a series of lectures on Mercedes Benz's Blue Efficiency technology. After the event, educational material from Daimler AG was also disseminated.

The Company plans on conducting regular energy audits to ensure that its energy use is at an optimal level and environmentally friendly. Energy efficient lamps are sold at a discounted rate to employees to encourage them to use these lamps at home.

### Reducing Indirect Energy Consumption

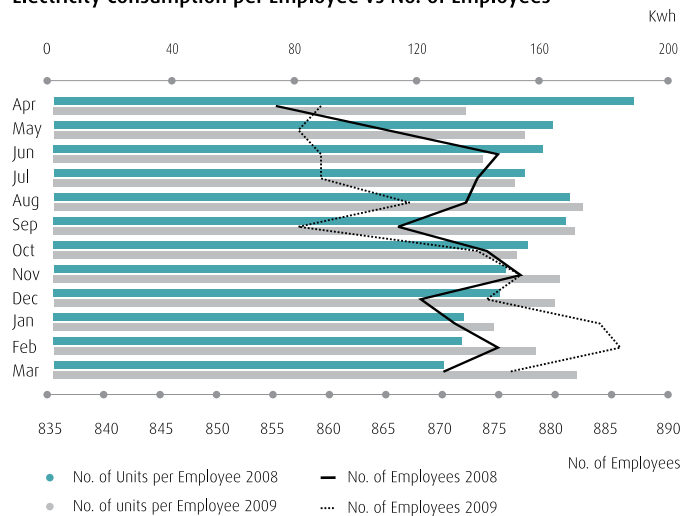
Dimo continues to explore and increasingly integrate the use of alternative and renewable sources of energy. However, at the time of writing, we have to report that conventionally-generated electricity remains our primary source of power.

Energy use is constantly monitored to effect savings on consumption and costs.

The ongoing Fresh Air Validation System continues to generate positive environmental effects, which has enabled to reduce the temperature level, CO2 level and humidity level in the Units Repair workshop area. The chart below depicts the results.

Description	Environmental Effect	
	Before Implementation	After Implementation
Temperature .C	31.42	30.85
Co2 ppm	316	241
Relative humidity %	66	58

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



### Water

#### Managing the Use of Water

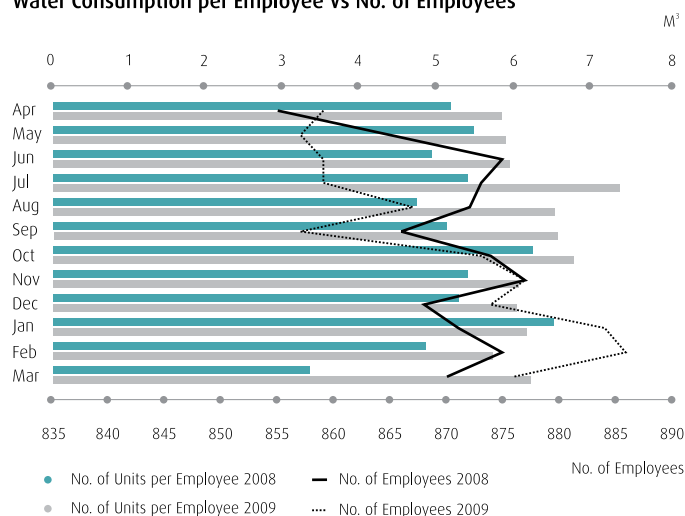
Whilst Dimo's main source of water remains the national supply, ground water sources are being explored and utilised at our Siyambalape workshop and Weliveriya logistics centre.

As the chart appearing below indicates, Dimo successfully recycles 32% of its ground sourced water. Equated against total consumption, this amounts to the recycling of 7% of our total water consumption.

#### Water Consumed and Recycled/Reused

Description	Water Usage (M <sup>3</sup> )		Recycled/Reused Water (M <sup>3</sup> )		Recycled/Reused Percentage (%)	
	2009/10	2008/09	2009/10	2008/09	2009/10	2008/09
Municipal water	32,454	25,666	—	—	—	—
Ground water	8,201	15,897	2,613	3991	32	2
<b>Total</b>	<b>40,655</b>	<b>41,563</b>	<b>2,613</b>	<b>3991</b>	<b>7</b>	<b>10</b>

### Water Consumption per Employee Vs No. of Employees



### Emissions, Effluents and Waste

Dimo is committed to reducing ambient air emissions across all areas of its enterprise.

The ensuing data will lend context to our efforts.



## REDUCING OUR CARBON FOOTPRINT

## WE

have brought down our total absolute greenhouse gas emissions by **114,013 kgs** of CO<sub>2</sub> equivalent over last year. More importantly, our greenhouse gas emissions per earnings\* has come down by over **60%** from **0.03 kgs** last year to **0.01 kgs** in the year under review.

As with all corporate activity, Dimo is aware that our operations contribute to global warming. While Sri Lanka is not a high carbon intensive economy country, and not legally bound to reduce emissions according to international standards, the Company has decided that its stature as a leading corporate entity requires it to take concrete steps to reduce carbon emissions.

Last year, we developed a carbon reduction strategy and established processes within the Company to monitor progress. We used Scopes 1 and 2 of the WBCSD/WRI Greenhouse Gas Protocol's Standard to measure our emissions.

The Company started by measuring our direct carbon emissions. The Company's main direct emissions arise from the electricity we purchase; the transport vehicles we use and executive air travel. We have taken these into account plus we have also taken into account fuel used in our standby power generators and in our heaters. Fugitive emissions by way of replacement of HFC gasses in our air-conditioners were estimated to be less than 50 kgs of CO<sub>2</sub>, hence this has been left out of the calculation.

In the year under review, direct greenhouse gas emissions were reduced by 4.1% over the previous year's figure. This is the result of a decrease in electricity consumption and a decrease in the fuel we have used in our transport vehicles. So far the Company has not been able to measure its indirect emissions which fall within Scope 3 of the Greenhouse Gas Protocol's Standard. However, we consider that we have made a first and important step in reducing our Scope 1 and 2 carbon emissions. Our long-term goal is to become carbon neutral.

We have Reduced Our Greenhouse Gas Emissions by 4.1% over Last Year							
Source	Units	2009/10			2008/09		
		Consumption by type	CO <sub>2</sub> emission kg	% out of total emissions	Consumption by type	CO <sub>2</sub> emission Kg	% out of total emissions %
Electricity purchased	kWh	1,630,474	1,108,722	43	1,687,202	1,147,297	42
Diesel for transport vehicles	Litres	361,360	955,183	37	360,784	953,661	35
Petrol for transport vehicles	Litres	192,214	443,381	17	202,339	466,735	17
International air travel	Km	791,596	66,242	3	979,646	114,733	4
LP Gas for heating	Kg	8,550	22,922	1	9,263	24,832	1
Diesel for generators	Litres	3,088	8,163	0	4,300	11,366	0
Total CO <sub>2</sub> -e emission	kg CO <sub>2</sub> -e		2,604,612	100		2,718,625	100
CO <sub>2</sub> -e per earnings*	kg		0.01			0.03	

$$\text{*CO}_2\text{-e per earnings} = \frac{\text{Total Kg CO}_2\text{-e}}{\text{Profit attributable to shareholders}}$$

The Company's operations are based mainly in Sri Lanka and so we have covered our assessment to our head office and the 14 offices, workshops and branches in the island. Our subsidiary groups operate out of the Company's premises. Thus, we have taken the Company as our organisational boundary.

Our greenhouse gas emissions in 2009/10 are estimated to be 2,605 tCO<sub>2</sub>-e. (metric tons of CO<sub>2</sub> equivalent). This is made up of 1,488 tCO<sub>2</sub>-e and 1,117 tCO<sub>2</sub>-e direct emissions relating to scope 1 and scope 2 respectively.

*Note: tCO<sub>2</sub>-e means metric tons of Carbon Dioxide equivalent. There are six main greenhouse gases that are considered. They are carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride (SF<sub>6</sub>). 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 (CO<sub>2</sub>) as the reference.*

### Risks from Ozone Depleting Substances

The business operations of Dimo induce no risk of the release of ozone depleting substances to the environment.

We have a responsible approach to any perceived areas of risk such as the disposal of items such as air conditioning units which we ensure must go through a recycling process.

### Managing Noise Emission

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.

Noise levels are measured by the Environmental Authority.

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.

NOx, SOx and other significant air emissions

Monitoring is done annually and complies with tolerance levels regulated by the Environment Authority

### Dimo Emission Levels vs Tolerance Levels imposed by Environmental Authorities

Emission Type	SPM		SO <sub>2</sub>		NO <sub>2</sub>		CO <sub>2</sub>	
Tolerance Level	0.35 (mg/m <sup>3</sup> )		0.12 (mg/m <sup>3</sup> )		0.15 (mg/m <sup>3</sup> )		9(ppm)	
Location	2010	2009	2010	2009	2010	2009	2010	2009
Colombo - 1	<b>0.10</b>	0.09	<b>0.01</b>	0.01	<b>0.01</b>	0.02	<b>1.00</b>	1.00
Anuradhpura	<b>0.08</b>	0.01	<b>0.01</b>	0.01	<b>0.01</b>	0.02	<b>1.00</b>	1.00
Siyambalape	<b>0.10</b>	0.05	<b>0.01</b>	0.01	<b>0.01</b>	0.01	<b>1.00</b>	1.00
Colombo - 2	<b>0.12</b>	0.10	<b>0.01</b>	0.01	<b>0.01</b>	0.01	<b>1.00</b>	1.00
Kurunegala	<b>0.05</b>	0.05	<b>0.01</b>	0.01	<b>0.01</b>	0.01	<b>1.00</b>	1.00
Matara	<b>0.07</b>	0.04	<b>0.01</b>	0.01	<b>0.01</b>	0.01	<b>1.00</b>	1.00
Weliwariya	<b>0.11</b>	0.08	<b>0.02</b>	0.01	<b>0.02</b>	0.02	<b>1.00</b>	1.00

### Waste Water Management

Dimo appreciates that the quality of water discharged by the Company in the process of its business operations 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.



Tree plantation project with school children

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

Dimo has taken several initiatives of responsible stewardship in this regard.

At the outset, it may be prudent to refer to the section on 'Managing the Use of Water' appearing on page 78, which segment also contains a graphical presentation of water used and recycled by the Group.

#### **Water Treatment Plant - Siyambalape**

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

A pH testing system has been installed to monitor the acidity levels of the waste water discharged into the sewage system and is periodically checked to ensure that water released to sewage systems 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 when it is released into the physical environment.

So far, the Company has not been measuring the volume of water discharged. However, this will be rectified and the Company hopes to instal a meter to measure volumes discharged during the course of the coming year.

#### **Our 'GO Green Project'**

Dimo runs a waste collection system incorporating segregation of waste material as - plastics, solid waste, paper, glass and other materials.

Although the Colombo Municipal Council is not geared to respond to such a system for managing waste, we have responded with our own programme led by a task force - 'GO Green Project Team 3' who have found a solution to this problem.



Water treatment plant at Siyambalape workshop



Our Go Green project segregates garbage and hands it over to a third party for recycling



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 commence the recycling phase.

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

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 disposed of responsibly. The used toner cartridge is collected by our supplier, and sent to the manufacturer. During this financial year, we disposed approximately 137 (61 - 2008/09) cartridges in this manner.

Colour coded containers have been placed in dining areas to segregate food waste from paper waste and polythene/plastics..

### Paper Management

The Company's goal is to reduce the amount of paper it uses within the organisation. Wherever possible, the company has introduced procedures for recycling used paper and seeks to use recycled paper for certain applications within its operations.

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

- Conduct of awareness campaigns within the organisation with a view to creating a paperless office
- Conduct of awareness campaigns around 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.



Bags made out of recycled paper



Going for a polythene free zone



Helping to keep city clean

**Solid waste disposal**

Waste Category	Measurement		Method of Disposal
	No. of bins - 175 ltrs (01.04.2009- 31.12.2009)	Weight (kgs) (01.01.2010- 31.03.2010)	
Organic	514	8,548	Handed over to third party as animal feed
Paper	620	1135	Handed over to third party for recycling
Polythene	232	212.5	} Handed over to third party for recycling
Plastic	127	245	

**Hazardous waste disposal**

Type of Waste	Units	Quantity Disposed	Disposal Method
Toner Cartridges	Nos.	137	Handed over to supplier for recycling
Iron	kg	17,150	Handed over to Iron Vendor
Waste Oil	barrels	200	Handed over to third party for recycling
Tyres	Nos.	449	Handed over to third party for recycling & refuse
Batteries	Nos.	22	Handed over to third party for recycling

\* Waste oil includes - engine oil from serviced vehicles and kerosene oil

**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 the furnaces of authorised parties.

As stated earlier in this Report, the oil separator in operation at our Siyambalape and H/O workshop ensures that only uncontaminated water free of oil residue is released into sewage disposal systems.

**Bio-Diversity**

The Company has no operations located within bio-diversity hot spots and thus exerts no impact on this aspect of the environment.

**Mitigating Environmental Impacts from Products/Services**

The Dimo product portfolio comprises some of the world's No. 1 brands. In many ways, their stance and initiative towards sustainable value creation mirrors our own.

Many of their products which we represent, market and service exhibit exemplary environmental consciousness. This is further discussed in the Product Responsibility section appearing on page 93.

Expenses incurred for maintenance of water treatment plants & water recycling process amounted to Rs. 647,502.90.

# SOCIAL PERFORMANCE

## ONE WITH A RESPONSIBLE COMMUNITY

### 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 Ethics' applicable to all employees, which guides us in a very comprehensive manner on correct procedure, thinking and action across diverse parameters of enterprise.

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.

In the Code of Ethics adopted by the Company last year, the following subjects featured - Proprietary information, Conflict information, acceptance of benefits from third parties, accurate books and accounts, usage of Company property for personal benefit, competitor information, insider trading, external business, political biases, preservation of the environment and gender equity.

#### A Dynamic Workforce - Moulded through Best Practice

The Dimo team is one of the main drivers of sustainable enterprise. The Group makes consistent and substantial investments in their welfare, skill enhancement and future.

We also endeavour to make work enjoyable, rewarding and productive and to create a work space that is enriching and innovative.

Dimo's Code of Ethics provides guidance for employees at all levels on how they should conduct themselves at the workplace in dealing with the society and in connection with other aspects of their employment. It applies to a variety of situations that may potentially arise in the course of employment.

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 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 approved 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.

Employees receive comprehensive life assurance and are covered 24 hours a day.

Workers' rights across a multitude of parameters are safeguarded. For example, 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.

During the year under review, Dimo developed a new Occupational Health and Safety Policy, which was an improvement over the existing policy. This was introduced throughout the Company.

#### Employment

Profiling our employees by type of contract and status yields the following information - Dimo have 784 persons on permanent cadre with another 80 on fixed-term contract, thus totalling 864.

The chart appearing below profiles our employees across the parameters of age, gender and position held.

**Total number of employees in each category (senior management, middle management, technical, administrative)**

Age	Board of Directors		Senior Management		Middle Management		Executives		Clerical/ Supervisory		Manual		Non-Executive		Total	
	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M
< 20	-	-	-	-	-	-	-	-	-	1	-	1	-	-	-	2
21-30	-	-	1	-	4	24	15	61	17	72	-	122	5	26	42	305
31-40	-	-	2	6	4	42	6	95	2	42	-	69	-	7	14	261
41-50	-	3	1	9	1	23	9	41	-	15	-	28	1	4	12	123
51<	-	4	-	7	-	13	7	26	-	17	-	15	1	15	8	97
<b>Total</b>	-	7	4	22	9	102	37	223	19	147	-	235	7	52	76	788

**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	4	-	4	16	1	17	21
26 - 30	13	-	13	15	6	21	34
21 - 25	4	-	4	13	3	16	20
16 - 20	27	-	27	42	6	48	75
11 - 15	52	1	53	45	5	50	103
05 - 10	39	2	41	70	8	78	119
Below 4	295	23	318	153	21	174	492
<b>Total</b>	<b>434</b>	<b>26</b>	<b>460</b>	<b>354</b>	<b>50</b>	<b>404</b>	<b>864</b>

Promotions within the Company are based on past performance and future potential. The Company's employment practices have generated a high level of loyalty: 372 of our employees have been in service for over five years and 253 for over 10 years whilst total employee turnover for the reporting period was 123.

The charts below examine our employee turnover for the year under review, against several parameters.

**Employee Turnover by Gender, Age and Position**

Age	Board of Directors		Senior Management		Middle Management		Executives		Clerical/ Supervisory		Manual		Non-Executive	
	F	M	F	M	F	M	F	M	F	M	F	M	F	M
< 20	-	-	-	-	-	-	-	-	-	1	-	-	-	1
21-30	-	-	-	-	4	2	2	9	2	4	1	5	-	28
31-40	-	-	1	2	-	5	1	8	-	2	-	1	-	8
41-50	-	-	-	1	-	3	-	4	-	-	-	2	-	6
51<	-	-	-	1	1	1	-	4	-	3	-	1	-	9
<b>Total</b>	-	-	1	4	5	11	3	25	2	10	1	9	-	52



*Celebration of X'mas with employees and their families*

*55 practise Art competition for employees' children*

### Employee Turnover by category

Category	Nos.
Voluntary (Resignation & vacation of Post - 91, termination of contract - 26)	117
Involuntary (Termination of probationary services)	3
Retirement	2
Death in service (Not while on duty)	1

### Employee Benefits

Employee benefits include - Life Insurance, Healthcare, Disability/Invalid Cover, Maternity/Paternity Leave and special Retirement Provisions among others.

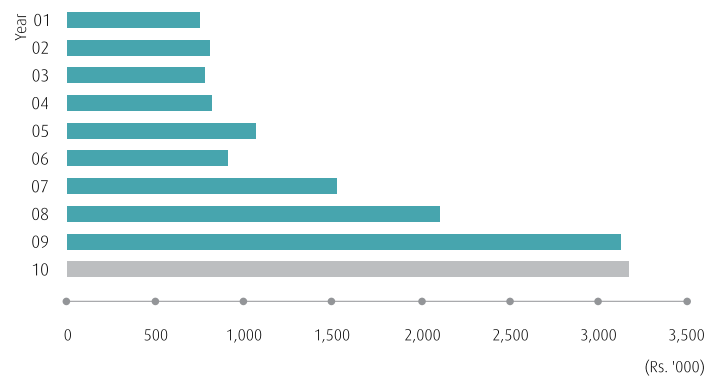
One of the priorities of our Human Resources department is the development of social benefits for our people.

The Company currently provides numerous welfare benefits to its employees

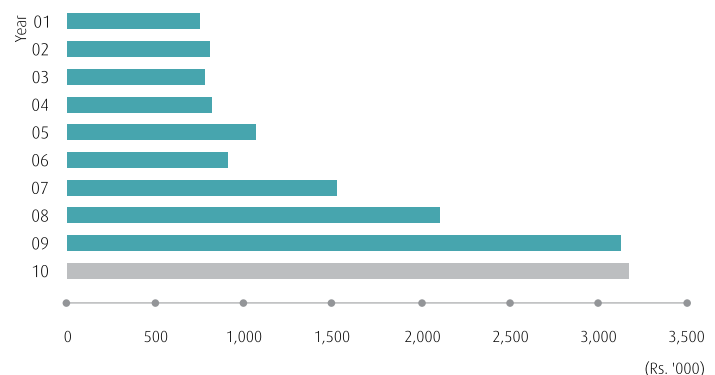
### Welfare Measures for Employees and their Immediate Family Members

- Workman's Compensation
- Personal Accident Insurance Cover
- Group Term Life Assurance Cover
- Surgical & Hospitalisation Expenditure Cover
- A doctor visits the premises everyday and the employees can consult him free of charge.
- Qualified nurse is available during office hours to assist during any illness
- A mobile laboratory visits all our locations twice a week and medical tests are offered at no cost to the employees.
- Meal & Night Out Allowances.
- Subsidised breakfast and Lunch facilities at Colombo, Siyambalape.
- Comprehensive Annual Calendar of Social Events - New Year, Sports Day, Group Religious Ceremony, Dinner Dance.
- Reimbursement of - Exam fees/Course fees/Subscriptions to professional bodies, subject to the rules that govern the scheme.
- 13th month salary & incentives.
- Sports facilities.
- Library facilities.
- Purchase Loans and Distress Loans.
- Annual Excursion Allowance.

### Property, Plant & Equipment Per Employee



### Property, Plant & Equipment Per Employee





- Annual donation of free school books/shoes to children of all employees.
- Uniforms/Footwear for all drivers/workshop staff.
- Christmas Party for the children of employees.
- Free transport between Colombo, Siyambalape/Weliveriya (4 times daily).
- Provision of a vehicle for employee weddings.
- Death Donation Fund - Group and Employee make equal contributions - the fund releases Rs. 50,000/- in the case of an employee and Rs. 40,000/- in the case of a family member.

### Labour/Management Relations

Trade unions do not exist within the Dimo Group. Instead, a vibrant and very effective system of Employee Councils is in place. The Councils hold monthly meetings at which all manner of Employee/Company related issues are taken up, including grievances, and solutions are found.

The Company is committed to safeguarding the right to freedom of association and collective bargaining and encourages employees to organise so as to better negotiate their rights. The Employee Council is the body that represents their issues arising from such organisation.

All departments have an 'open door' policy where any employee can directly address their superiors.

### Minimum notice periods regarding operational changes

No major operational changes took place during the year under review. Where the Company plans major operational changes these will be discussed with employee representatives through the Employee Councils and an opportunity given for an exchange of views on the proposed changes.

### Occupational Health & Safety

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

Health and Safety Committees were established within the Company during the year under review. All employees, from every level including the management, are members of this Committee. The Committees help in ensuring the highest levels of workplace health and safety.

No. of Members in H&S Committee	29
Management representation	7 (24%)
Executive level representation	18 (62%)
Non-Executive Level representation	4 (13.7%)

Through special Health and Safety audits, the Committee is actively working towards obtaining OHSAS 18001 Occupational Health and Safety Standards

Every year, Dimo 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.

Safety gear in our workshops was replaced this year with better quality and upgraded equipment. The equipment in Dimo's workshops is state of the art and is equipped with modern safety mechanisms.

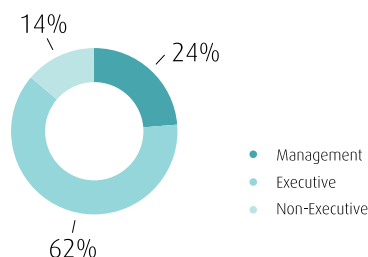
Special protective clothing and eyewear is provided for employees in relevant areas of work. The Company is constantly improving the design and comfort levels of this apparel for greater worker comfort.

The Company has a comprehensive reporting mechanism in place to deal with accidents and incidents at its work sites.

Regular fire drills are conducted at all branches and all employees are educated on how to respond to an emergency.

### Joint Management Worker Health Committee Representation

(%)



## Injuries/Disease/Fatalities/Lost Days/Absenteeism

Type of Waste	Total No.	Rate (%)
Injuries	7	0.74
Occupational disease	No	–
Lost working days	49	5.2
Work related fatalities	No	–

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

## Providing Awareness and Risk Control amongst Employees against Disease

The chart below depicts the measures taken to educate and train employees and their families on serious diseases, the risks they pose and the best methods of prevention.

Programme Recipient	Assistance Programme							
	Education/Training		Counselling		Prevention/Risk Control		Treatment	
	Yes	No	Yes	No	Yes	No	Yes	No
Workers	1	–	–	–	1	–	–	–
Workers' families	1	–	–	–	1	–	1	–
Community	–	–	–	–	–	–	1	–

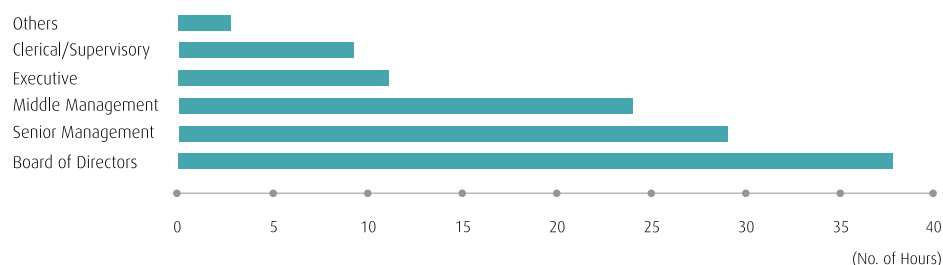
Some examples of the programmes conducted in the above mentioned Assistance Programmes were - Eye Clinic for Dimo family members, Personality Development and Reproductive Health for the spouses of employees and adult children, and Dengue prevention programmes conducted by Public Health authorities.

## Health & Safety within Formal Agreements with Employees

As has already been reported, the Group has a series of initiatives addressing health and safety issues, such as health audits, the new Health and Safety Committee and staff welfare measures.

Dimo is in the process of formulating a policy on health and safety, which we intend to incorporate as a document that will accompany every letter of appointment it issues.

## Per Employee Training Hours





Innovation through training



A training programme 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.

For the year in review, the Company provided a total of 1,233.5 (1,323 - 2008/09) hours of training through external sources, 5577 (4,368 - 2008/09) hours internally and 2,126 (1,624 - 2008/09) hours through foreign sources.

#### Total number of hours devoted for training in each category

Employee Category	Executive				Non-Executive	
	Board of Directors	Senior Management	Middle Management	Executive	Clerical/ Supervisory	Others
Total employees	7	26	111	260	166	294
Total training hours	265.5	756	2680	2879	1539.5	816.5
Per employee training hours	37.9	29.1	24.1	11.1	9.3	2.8

Rs. 12 mn were spent on training during the year under review. There was an emphasis given to technical and product service training in many of the programmes.

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, to develop their knowledge, skills and attitudes.

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, product awareness and motivation.

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

Employees' Personal 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.

Graph on cost of training and relevant photographs

81.36% of employees went through a formal performance appraisal and review during the year under review. The review process covered both executive and Non-Executive grades. 345 Executives and 358 Non-Executives went through this process.

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

### Diversity & Equal Opportunity

Dimo is an equal opportunity provider and the Company ensures that all employees are treated with respect and equality.

### Human Rights

#### Management Approach

Dimo is committed to all those rights contained in international conventions 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 Ethics, 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.

Our Human Resources Procedure Manual which is uploaded on the employees' portal also incorporates relevant information on the human rights issues of employees.

The Company has in place a Supplier Code and Declaration and suppliers must agree to conform to the principles contained in the Code.

### Training Hours on Human Rights

$$1. \frac{\text{Total number of hours devoted on training Human Rights policies \& procedures}}{\text{Total number of hours devoted for employee training}} \times 100$$

$$2.2\% (200/8,936.5 \times 100)$$

$$2. \frac{\text{Total number of employees received training on Human Rights policies \& procedures}}{\text{Total number of employees}} \times 100$$

$$11.6\% (100/864 \times 100)$$

The Company is an equal opportunity employer and follows a policy of non-discrimination in its recruitment and promotion policies. Workplace practices are also governed by a norm of equality. Special measures have been taken to respond to and reduce sexual harassment at the workplace.

### Incidents of Discrimination

Dimo has not recorded any incidents of discrimination during the period under review.

The elimination of gender-based discrimination and the eradication of gender stereotypes is part of the Company's philosophy. Special measures are taken to ensure that women can participate in a variety of occupations within the Company. Women are now recruited as automobile mechanics and drivers, previously considered to be the preserve of men.



DATS training school at Siyambalape - Class room



DATS training school at Siyambalape - Practical Lessons

**Freedom of Association & Collective Bargaining**

We have not identified any operation which risks the freedom of association and collective bargaining of employees

All our employees have complete freedom to voice their opinion and take up issues with relevant authorities through many avenues such as the Employee Councils, the Company's open door policy and more.

**Child Labour**

Dimo is strictly against the use of child labour. Our business has not had an occasion for concern in this regard.

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.

This position is embodied within the Group's HR policies and we have also included relevant provisions within our newly developed code for suppliers and third party contractors.

**Forced/Compulsory Labour**

Dimo does not and never has, condoned the concept of forced or compulsory labour. Here too, our business has not had an occasion for concern in this regard.

Our employees may be required to perform reasonable overtime in order to fulfil customer requirements.

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

**Society****Management Approach**

Dimo's relationship and interaction with society at large is complex yet cordial. It is a strong two-way communication channel that yields rich relationships, understanding and acceptance and results in an invaluable mutual well-being that nurtures both entities.

Thus Dimo's policy is firmly entrenched in investing in the welfare of the broader community, thereby facilitating a sustainable future for them.

Here are some of the initiatives that the Group has conducted over the year in review.

**Dimo Automobile Training School (DATS)**

The Dimo Automobile Training Schools (DATS) was established in 1990 at our workshop at Siyambalape.

A batch of 16 students is enrolled each year.

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 the 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 engineering community.

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

Depending on the availability of vacancies, on completion of their two-year course, DATS trainees are offered a position at Dimo. These trainees are under no obligation to accept such employment and are free to make any other career choice.

Over the years, DATS has produced 290 students. Some of them have been recruited by the Company (86), while others have found employment in other establishments in Sri Lanka (108), and some others have been employed in companies overseas (96).

The new DIMO training school was to be opened in Jaffna on the 3rd May 2010.



### Training provided to vocational training students

As a benefit to society, Dimo provides students from the following institutes with motor mechanical and motor repair training.

Practical knowledge is a requirement in the student's diploma and degree programmes. Therefore, we voluntarily provide training for these students.

Students are provided with all equipment and facilities.

In 2008/09, 76 Students were provided with such vocational training.

This year, 80 Students benefited.

As at the end of the reporting period, 52 Students were undergoing their training programmes successfully.

Students were enlisted for training from the following institutions:

1. NAITA (National Apprentice & Industrial Training Authority)
2. Ceylon German Technical Training Institute
3. University of Moratuwa
4. University of Peradeniya
5. University of Sri Jayawardenapura
6. Vocational Training Authority of Sri Lanka
7. Automobile Engineering Training Institute
8. Ministry of Vocational & Technical Training
9. The Open University of Sri Lanka
10. CETRAC (Construction Equipment Training Centre)

### Dimo Innovation and Research Centre at University of Peradeniya

Dimo continued its support for the Dimo Centre for Innovative Research located within the University of Peradeniya, Faculty of Engineering.

The Centre facilitates research-based knowledge sharing between the two entities. The scope of such activity includes the conduct of joint undergraduate/postgraduate research projects to exchange technical knowledge and also allows the parties to act as research partners.

Ultimately this project will facilitate the creation of an engineering-based knowledge resource.

### DIMO Supports Polgahawela Hospital

The Clinical Ward of the Polgahawela District Hospital was painted by the staff of our Kurunegala branch to commemorate the third anniversary of the establishment of the branch.

### Career Fairs

Dimo conducted career fairs at the universities of Sri Jayawardenapura and Peradeniya last year. The Company also partnered with the National Chamber of Commerce to organise a third career fair in June.

The programmes at these universities were organised as follows:

- University of Jayawardenapura - 18th March 2009- organised by the department of Human Resource Management
- University of Peradeniya - 30th July 2009 organised by the department of Mechanical Engineering & 11th June 2009 - Organised by National Chamber of Commerce of Sri Lanka

Whilst educating participants about the Company, we were also able, through a series of interviews, to identify several undergraduates who had the required attributes and potential to join the Company.

### Dimo Gimanhala

The Dimo constructed and financed Rests along the Colombo-Kurunegala highway continues to be a boon to Dimo customers.

They can now pull in for a 'pit stop' and enjoy the services available.

### Corruption

Dimo espouses a zero tolerance policy on corruption.

Similarly, Dimo does not tolerate ethically unsound or corrupt practices on the part of our business partners either.

The Group's Code of Ethics has highly specific prohibitive conditions covering a wide range of risk amongst all stakeholder groups. The Code was explained to all employees and they were asked to commit themselves to the principles and policies contained therein.

The Company therefore, maintains vigilance across all its constituents.

There were no incidents of corruption reported during the year under review.

### Anti-Competitive Behaviour

Dimo does not engage in anti-competitive behaviour. No legal action has been instituted against the Company on this basis.

## Product Responsibility

### Management Approach

Dimo sets very high standards for itself in maintaining optimum product responsibility across all defined parameters.

We harness the top tier products of our Principals (who themselves espouse the highest of standards in this respect) with a rigorously maintained responsibility ethos across the entire supply chain, to deliver products that safeguard the health and safety of customers, disseminate the required product information and adopt ethical marketing practices.

Here are some general initiatives taken by the Group and its Principals:

- Introduction of new Osram LED technology lighting appliances. This has an energy efficiency rating of over 80% which is derived from CFL technology. The useful life per unit has increased 100 times.
- The Bosch power tools recycling system enables dealers to pay for and take back old batteries for recycling. Plastics are also recyclable while the packaging is also of fully recyclable cardboard.
- Dimo was the first to introduce non-asbestos clutch plates/wiper blades in Sri Lanka.
- Customers are educated on the use of CFC-free refrigeration when entrusting their refrigeration projects.

### Customer Health & Safety

#### Life Cycle Stages of Products Assessed for Health/Safety Impacts

All Dimo products come with the highest levels of safety. The Company follows global best practices when servicing its products, especially vehicles and power tools, in order to ensure the highest levels of safety for our customers.

The Company has modified its practices and takes every precaution 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.

All health and safety measures that should be taken as per the requirement of ISO guidelines and accreditation are in place.

We are also looking at achieving wider coverage in communicating safe disposal methods of selected products utilising our marketing communication programmes.

### Product & Service Labelling

All Dimo products are adequately labelled, have a catalogue reference and if required, an accompanying user's manual.

In accordance with the legislation in force, each product bears the required labelling in the shape of pictographs, use-by date, standardisation code number, information on possible environmental impact and the quality certification stamp.

### Customer Satisfaction

This is covered more fully in the 'Business Performance Review' appearing on page 23, 31, 35, 39 and 43.

### Marketing Communications

Dimo's marketing communication regime is fully based on transparency. It lies completely within the applicable regulatory framework.

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

As a practice, we follow the marketing communication codes of our Principals. In the absence of policies defined by principals, Dimo has its own policy in place to address relevant issues which can arise.

### Monitoring Marketing Communications

A new initiative this year sees the Company's Corporate Communications team introducing a Communication Policy throughout the Group.

### 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.

## Compliances

### Product Responsibility

There were no incidents during the past year relating to transgressions of health and safety, product labelling, advertising or customer confidentiality.

### Environment

The Company has not been fined or penalised for non-compliance with legislation, including environmental regulations in force. All legal requirements are complied with.

### Society

As a leading corporate citizen the Company conforms strictly with all rules and regulations pertaining to the environment, product standards, tax regulations and all other requirements of the business. So far it has not received any penalties or non-monetary sanctions resulting from breaches of any rules or regulations

# STANDARD DISCLOSURE G3 INDEX & REPORT APPLICATION LEVEL

Index No.	Description	Report section/Level	Page No.
<b>1. Strategy and Analysis</b>			
1.1	Statement from the most senior decisionmaker of the organisation (e.g., CEO, chair, or equivalent senior position) about the relevance of sustainability to the organisation and its strategy.	Chairman & CEO's Statement	58
1.2	Description of key impacts, risks and opportunities	Risk Management/Chairmen & CEO's Review/Materiality Analysis/Business Performance	117-120, 10-13, 60-62, 20-47
<b>2. Organisation Profile</b>			
2.1	Name of the organisation	Corporate Information	Inner back cover
2.2	Primary brands, products, and/or services	Business Performance	20-47
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures.	Enterprise Governance	104-123
2.4	Location of organisation's 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	within the Sri Lanka	-
2.6	Nature of ownership and legal form	Group Structure	126
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)	Business Performance	20-47
2.8	Scale of the reporting organisation	Enterprise Governance Report/Group Structure	104,64,110
2.9	Significant changes during the reporting period regarding size, structure, or ownership	Sustainability Report/Director Report	60,129-134
2.10	Awards received in the reporting period	Sustainability Report	59
<b>3. Report Parameters</b>			
3.1	Reporting period (e.g., fiscal/calendar year) for information provided	31.03.2010	
3.2	Date of most recent previous Report	22.05.2009	
3.3	Reporting cycle (annual, biennial, etc.)	12 Months	
3.4	Contact point for questions regarding the report or its contents	Sustainability Report/Report Profile	59
3.5	Defining report content	Sustainability Report/Report Scope & Boundary	60
3.6	Boundary of the Report	Sustainability Report/Report Scope & Boundary Report	60
3.7	State any specific limitations on the scope or boundary of the Report	Sustainability Report/Report Scope & Boundary	60
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/Report Scope and Boundary	60
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the Report	Sustainability Report/Report Scope and boundary	60
3.10	Explanation of the effect of any restatement of information provided in earlier report, and the reasons for such re-statement	Sustainability Report/Report Scope & Boundary	60

Index No.	Description	Report section/Level	Page No.
3.11	Significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the Report	Sustainability Report/ Report Scope & Boundary	60
3.12	Table identifying the location of the Standard Disclosures in the Report	Sustainability Report	60
3.13	Policy and current practice with regard to seeking external assurance for the Report	Independent Assurance Statement	100-101
<b>4. Governance, Commitments and Engagement</b>			
4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight.	Governance Report/ Enterprise Governance	104-123
4.2	Indicate whether Supervisory Board member is also an executive officer	Governance Report/ Enterprise Governance	104-123
4.3	For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members	Governance Report/ Enterprise Governance	104-123
4.4	Mechanisms for shareholders and employees to provide recommendations or directions to the highest governance body	Governance Report/ Enterprise Governance	104-123
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives, and the organisation's performance	Governance Report/ Enterprise Governance	104-123
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	Governance Report/ Enterprise Governance	104-123
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	Sustainability Report/Governance, Commitment and Engagement	63-69
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	Sustainability Report/Governance, Commitment and Engagement	63
4.9	Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles	Sustainability Report/Governance, Commitment and Engagement	63
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance	Sustainability Report/Governance, Commitment and Engagement	63-69
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation	Sustainability Report/Governance, Commitment and Engagement	63-64
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses	Sustainability Report/Governance, Commitment and Engagement	63-64
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organisations in which the organisation	Governance, Commitment and Engagement	63
4.14	List of stakeholder groups engaged by the organisation	Sustainability Report/Stakeholder Engagement	64-69

Index No.	Description	Report section/Level	Page No.
4.15	Basis for identification and selection of stakeholders with whom to engage	Sustainability Report/Stakeholder Engagement/Materiality Analysis	63-69, 60-61
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	Sustainability/Stakeholder Engagement	60-69
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting	Sustainability Report/Stakeholder Engagement	60-69

Index No.	Description	Report section/Level	Page No.
<b>Performance Indicators</b>			
<b>Economic</b>			
EC1	Direct Economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and Governments	Reported	71
EC2	Financial Implications and other risks and opportunities for the organisation's activities due to climate change	Reported	72,73
EC3	Coverage of the organisation's defined benefit plan obligations	Reported	73
EC4	Significant financial assistance received from Government	Reported	73
EC5	Range of ratios of standards entry level wage compared to local minimum wage at significant locations of operation	Reported	73
EC6	Policy, practices, and promotions of spending on-locally-based suppliers at significant locations of operation	Reported	73
EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation	Reported	73
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit-through commercial, in-kind, or pro bono engagement	Reported	73
EC9	Understanding and describing significant indirect economic impact, including the extent of impacts	NM, NR	-
<b>Environmental</b>			
EN1	Materials used by weight or volume	Reported	76
EN2	Percentage of materials used that are recycled input materials	Reported	76
EN3	Direct energy consumption by primary energy source	Reported	77
EN4	Indirect energy consumption by primary source	Reported	77
EN5	Energy saved due to conservation and efficiency improvements	Reported	77
EN6	Initiatives to provide energy-efficient or renewable energy-based products and services, and reductions in energy requirements as a result of these initiatives	Reported	77
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	Reported	77
EN8	Total water withdrawal by source	Reported	78



Index No.	Description	Report section/ Level	Page No.
EN9	Water sources significantly affected by withdrawal of water	NM, NR	–
EN10	Percentage and total volume of water recycled and reused	Reported	78
EN11	Locations of size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected area	NA, NR	–
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	NA, NR	–
EN13	Habitats protected or restored	NA, NR	–
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity	Not Applicable	–
EN15	Number of IUCN Red list species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	NA, NR	–
EN16	Total direct and Indirect greenhouse gas emissions by weight	Reported	79
EN17	Other relevant indirect greenhouse gas emissions by weight	Reported	79,80
EN18	Initiatives to reduce greenhouse gas emissions and reduction achieved	PR	80
EN19	Emissions of ozone-depleting substances by weight	PR	80
EN20	NOx, SOx, and other significant air emissions by weight	PR	80
EN21	Total water discharged by quality and destination	PR	80,81
EN22	Total weight of waste by type and disposal method	Reported	83
EN23	Total number of volumes of significant spills	PR	83
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	NM, NR	–
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	NM, NR	–
EN26	Initiative to mitigate environmental impacts of products and services, and extent of impact mitigation	Reported	83
EN27	Percentage of products sold and their packaging materials that are reclaimed by category	NM, NR	–
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Reported	93
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting member of the workforce	NR	–
EN30	Total environmental protection expenditure and investments by type	Reported	83
<b>Labour Practices and Decent Work</b>			
LA1	Total workforce by employment type, employment contract, and region	Reported	85
LA2	Total number and rate of employee turnover by age group, gender, region	Reported	85/86
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations	Reported	86/87
LA4	Percentage of employees covered by collective bargaining agreements	Reported	87
LA5	Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements	Reported	87

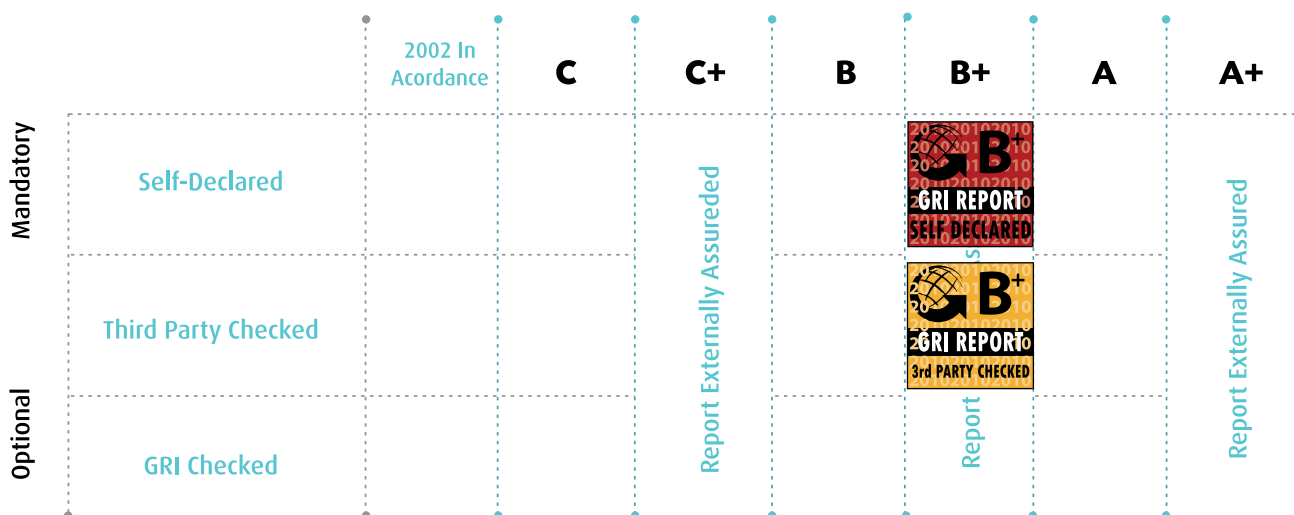
Index No.	Description	Report section/Level	Page No.
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advice on occupational health and safety programmes	Reported	87
LA7	Rates of injury, occupational diseases, lost days and absenteeism, and of work-related fatalities by region	Reported	88
LA8	Education, training, counselling, prevention, and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases	Reported	88
LA9	Health and safety topics covered in formal agreements with trade unions	NA, NR	–
LA10	Average hours of training per year per employee by employee category	Reported	88,89
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	NR	–
LA12	Percentage of employees receiving regular performance and career development reviews	Reported	90
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age, group, minority group membership, and other indicators of diversity	Reported	90
LA14	Ratio of basic salary of men to women by employee category	Reported	90
<b>Human Rights</b>			
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening	PR	90
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken	Reported	90
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	Reported	90
HR4	Total number of incidents of discrimination actions taken	Reported	90
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights	PR, NA	91
HR6	Operations identified as having significant risk or incidents of child labour, and measures taken to contribute to the elimination of child labour	Reported	91
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures taken to contribute to the elimination of forced or compulsory labour	Reported	91
HR8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations	NR	–
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken	NA, NR	–
<b>Society</b>			
S01	Nature, scope, and effectiveness of any programmes and practices that asses and manage the impacts of operations on communities, including entering, operating, and exiting	Reported	91,92
S02	Percentage and total number of business units analysed for risks related to corruption	Reported	92
S03	percentage of employees trained in organisation's anti-corruption policies and procedures	Reported	92
S04	Actions taken in response to incidents of corruption	Reported	92
S05	Public policy positions and participation in public policy development and lobbying	NM, NR	–
S06	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country	NM, NR	–

Index No.	Description	Report section/Level	Page No.
S07 ●	Total number of legal actions taken for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes	Reported	92
S08 ●	Monitory value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Reported	93
<b>PRODUCTS RESPONSIBILITY</b>			
PR1 ●	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	Reported	93
PR2 ●	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes	Reported	93
PR3 ●	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements	Reported	93
PR4 ●	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	Reported	93
PR5 ●	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	Reported	93
PR6 ●	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	Reported	93
PR7 ●	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes	Reported	93
PR8 ●	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Reported	93
PR9 ●	Monetary value of significant fines for noncompliance with laws and regulations concerning the provision and use of products and services	Reported	93

NM - Not Material, NA - Not Applicable, NR - Not Reported, PR - Partially Reported

● High ● Medium ● Low

#### Report Application Level



# INDEPENDENT ASSURANCE STATEMENT



## Introduction

Det Norske Veritas AS (DNV) has been commissioned by the management of Diesel & Motor Engineering PLC (the Company) to carry out an assurance engagement on the Company's 2009/10 Sustainability Report (the report) in its printed format against the Global Reporting Initiative (GRI) 2006 Sustainability Reporting Guidelines Version 3.0 (G3) and AccountAbility's AA1000 Assurance Standard 2008 (AA1000AS 2008).

Diesel & Motor Engineering PLC is responsible for the collection, analysis, aggregation and presentation of information within the report. Our responsibility in performing this work is to the management of Diesel & Motor Engineering PLC only and in accordance with terms of reference agreed with the Company. The assurance engagement is based on the assumption that the data and information provided to us is complete and true. This statement is intended for the management and broader stakeholders of Diesel & Motor Engineering PLC.

## Scope of Assurance

The scope of work agreed upon with Diesel & Motor Engineering PLC included the following:

- External verification of the entire report covering economic, environmental and social indicators for the period 1st April 2009 to 31st March 2010, and prepared using the GRI G3 guidelines;
- Evaluation of the report's adherence to the three Accountability principles (Inclusivity, Materiality and Responsiveness) and the reliability of specified performance information, as required for a Type 2, Moderate Level of assurance, according to AA1000AS 2008;
- Evaluation of the additional principles of Completeness and Neutrality, as set out in DNV's Protocol for Verification of Sustainability Reporting;
- The boundary of the report covers Diesel & Motor Engineering PLC and its subsidiaries;
- Confirmation of adherence to the requirements for GRI Application Level "B+";
- The verification was carried out in May 2010.

## Verification Methodology

Our assurance engagement was planned and carried out in accordance with the DNV Protocol for Verification of Sustainability Reporting\*. As part of the verification we have challenged the sustainability-related statements and claims made in the report and assessed the robustness of the underlying data management system, information flow and controls. For example, we have:

- Examined and reviewed documents, data and other information made available to us by Diesel & Motor Engineering PLC.
- Visited the Head-Office and site operations at Siyambalape and Colombo (Jetawana Road).
- Conducted interviews with key representatives (including data owners and decision-makers from different divisions and functions) of the Company;

- Performed sample-based reviews of the mechanisms for implementing the Company's own sustainability-related policies, as described in the report, and for determining material issues to be included in the report;
- Performed sample-based audits of the processes for generating, gathering and managing the quantitative and qualitative data included in the report;
- Reviewed the process of acquiring information and economic data from the financial data presented in the 2009/10 certified Consolidated Balance Sheets.

## Conclusions

In our opinion, the report is an appropriate representation of the Company's sustainability-related policies, management systems and performance. We also confirm that the report meets the content requirements of the GRI Application Level "B+". We have evaluated the report's adherence to the following principles on a scale of 'Good', 'Acceptable' and 'Needs Improvement':

### AA1000AS (2008) Principles

**Inclusivity:** Acceptable. The Company engages with selected stakeholders during the year through the channels as listed in the report. But a formal engagement process needs to be strengthened with appropriate documentation of the stakeholder feedbacks and expectations.

**Materiality:** Needs Improvement. The Company has improved its materiality determination process to bring out issues of significance in relation with the GRI G3 performance indicators. The relative grading of the stakeholder concerns in the materiality determination process need to be improved.

**Responsiveness:** Acceptable. We consider that the Company has adequately responded to key stakeholder concerns through its policies and management systems, and this is fairly reflected in the report within the defined scope and boundary.

**Reliability:** Acceptable. In accordance with Type 2, Moderate Level assurance requirements, we conclude that the specified sustainability data and information presented in the report are generally reliable. Although no systematic errors have been detected, DNV observed improvements possible in data and information related to some of the performance indicators, in particular water, hazardous waste and health and safety. Although in many of the performance indicators the Company compares the performance with that of previous years, it is also evident that the Company is aware of the need to improve the data management process

### Additional Principles

**Completeness:** Acceptable. The report boundary covers the Company and its subsidiaries with the coverage of their operations in Sri Lanka. The Company has made disclosures on the performance of indicators pertaining to most material issues identified and is also committed to improve the disclosures in future.

\* [www.dnv.com/services/assessment/corporate\\_responsibility/services\\_solutions/sustainabilityreporting/order](http://www.dnv.com/services/assessment/corporate_responsibility/services_solutions/sustainabilityreporting/order)

**Neutrality:** Good. The Company has reported sustainability issues, in a balanced manner, in terms of content and tone. Challenges and limitations are fairly presented with commitments to future improvements.

#### Opportunities for Improvement

The following is an excerpt from the observations and opportunities reported back to the management of Diesel & Motor Engineering PLC. However, these do not affect our conclusions on the report, and they are indeed generally consistent with the management objectives already in place.

- The Company's sustainability work would benefit from developing mid-term objectives and goals aligned to the material issues identified.
- Reporting on trends of the performance indicators can be improved by objectively designing the metrics and reporting them over a time period to enable the stakeholder to make informed decisions.
- Implementation of systematic quality assurance procedures of internal data management systems will help further improve the reporting process by increasing the reliability of reported data.

#### DNV's Competence and Independence

DNV is a global provider of sustainability services, with qualified environmental and social assurance specialists working in over 100 countries. DNV was not involved in the preparation of any statements or data included in the report except for this Assurance Statement. DNV maintains complete impartiality towards people interviewed during the assignment. DNV expressly disclaims any liability or co-responsibility for any decision a person or entity would make based on this Assurance Statement.

For Det Norske Veritas AS



**Santhosh Jayaram**

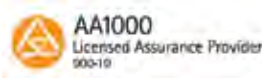
Lead Verifier  
Head: Sustainability and Business Excellence Services,  
South Asia  
Det Norske Veritas AS



**Dr. Helena Barton**

Global Manager, CR Services  
Det Norske Veritas AS

18th May 2010





# SOUNDING THE RIGHT NOTES

Ultimately, all the learning, all the skills, all the aptitudes boil down to the act of playing the instrument. The notes he chooses, the way he positions his fingers and plucks the strings, the force he uses, how fast or slow... and a myriad other factors. Therein lies the difference between symphony and cacophony!



# ENTERPRISE GOVERNANCE

## Corporate Philosophy

Enterprise Governance forms the core of operations of the Company. The Company philosophy entails 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.

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

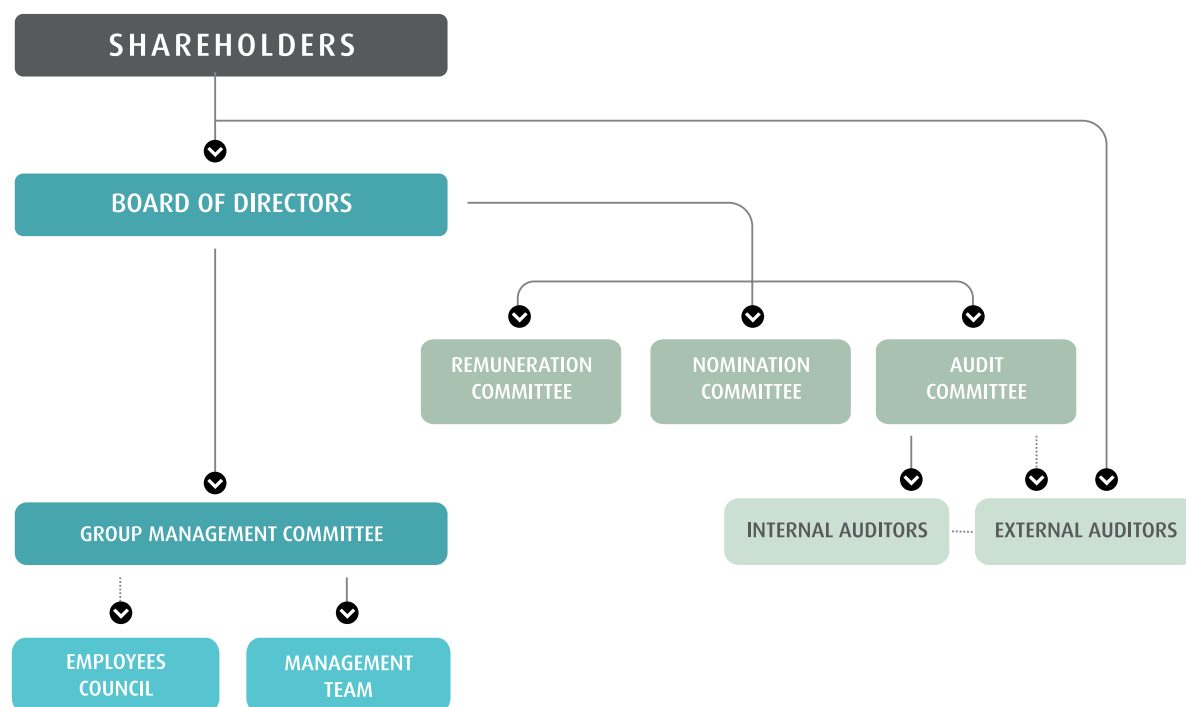
## Governance Guiding Policy

The Company is committed to a policy of transparent, accountable and responsible governance. The Board's objective is to deliver superior returns to all stakeholders and it is done in accordance with the highest standards of corporate and business ethics. In this regard, the organisation has clear lines of responsibility and accountability within the entire Group.

## Responsibility

The ultimate responsibility towards good governance rests with the Board of Directors. In order to achieve the Board's objectives it has placed a governance structure and a process in, and implements and monitors its effectiveness through Board Committees.

## The Enterprise Governance Structure



## Governance Strategy

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

The Group follows an incremental approach in embedding enterprise governance into its value addition process and is making conscious efforts to continually improve the governance framework and the process.

## Governance Values

Enterprise governance requires high levels of commitment across the organisation and it is essential that, an enabling governance culture is created. This envisages creation of awareness at all levels. All employees are expected to respect corporate values in achieving their own objectives set by the management and in achieving the overall objectives of the Company.

Business principles & values are not compromised at the expense of performance. The company leadership recognises the role played by corporate governance, in sustainability. Good governance, transparency, good conduct, sustainability, conformance to laws and regulations are some key values that fall within the governance culture.

The sustenance 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.

## Enterprise Governance Framework

The enterprise governance framework covers the processes and systems that the Board has in place to ensure that the Company's resources are used efficiently and prudently to achieve the Company's business objectives and excellence in enterprises governance.

Current profitability, sustainable future growth, protecting intellectual capital and on the other hand requisite internal controls, stakeholder expectations, corporate democracy, are some key elements that are taken into account in defining the boundaries in conformance and performance. As such, the enterprise governance framework covers both dimensions of enterprise governance, namely **Performance** and **Conformance**.

### Performance

#### Strategic Planning

Identification and effective communication of the vision and ensuring the formulation of a sound business strategy and its implementation are two key responsibilities of the Board.

The Board, together with the Group Management Committee is tasked with converting the philosophy, policy and the Strategic Direction into strategic initiatives thereby providing the basis for the objectives, plans and operations. The Chairman/Managing Director/CEO serves as the Chairman of the Group Management Committee. The composition of the GMC is given on page from 14 to 17.

Value creation and resource utilisation are the two main pillars in the 'Performance' dimension of governance, upon which the Board of Directors set the direction of corporate strategy. Whilst the Board set broad parameters for performance, these are translated into specific actions by the business units.

#### Business Plans

Each business unit is required to set their specific objectives in line with the parameters set by the Board. Business units, based on the strategic direction provided by the Board, compile and present their annual business plans and forecasts for the ensuing period together with non-financial information such as market conditions, competition, challenges and opportunities, etc., to the Board.

The Board evaluates annual business plans and proposals and provides feedback as deemed necessary. After all amendments have been duly incorporated, the plans are formally approved by the Board and they partly form the basis of the key performance indicators.

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.

In addition to adoption of strategies, the Board through committees is responsible for ensuring an effective review mechanism.

## Strategy Implementation and monitoring

The strategic direction of the Board is communicated to the Group Management Committee through the Executive Directors.

The Group Management Committee (GMC) is responsible to the Board of Directors for the implementation of business strategy. This supervisory role is exercised in accordance with strategic direction provided by the Board. A management team consisting of Group Management Committee, Heads of Business Units and Support Services Units meet on a monthly basis to review progress and discuss and resolve operational issues. Heads of respective business units are responsible for achieving the pre-agreed objectives. Rewards and incentives are linked to the many parameters including profitability and resource utilisation. Individual targets of employees are set out in line with the business unit's overall targets and achievements are reviewed on a biannual basis. The performance of individual executives is evaluated based on their level of achievement, and this coupled with their competency reviews forms the basis of their remuneration revisions and promotions.

The Board of Directors, apprised of progress, evaluates company's performance against the business objectives. Information generally reviewed by the Board includes key performance indicators, budgets, Financial Statements, customers, market developments, employees and relationship with principals.

### Conformance

#### Compliance and Adherence

The Company is bound by the regulatory requirements of corporate governance issued by the Colombo Stock Exchange (CSE). In its search for continuous improvement in good governance, the Company embraces best practices in corporate governance on its own. The Company has complied with requirements of the Listing Rules of the CSE relating to corporate governance. The table on page 115 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 (ICASL) and the Securities Exchange Commission (**the SEC Code**) as a guideline for best practices in corporate governance and is making every endeavor to adhere to the principles laid down therein. The corporate governance disclosures are in compliance with the requirements of the schedule F of the SEC Code.

The SEC Code is divided into two sections, namely, **company** and **shareholders**, with each section setting out the principles of best practices in corporate governance. The rest of this Report gives an account of the Company's response on compliance with each principle in the Code. Principles of the SEC Code are given with the Company's response on compliance following.



SECTION 1: THE COMPANY

DIRECTORS

A.1. The Board

Principle: Every public company should be headed by an effective board, which should direct, lead and control the Company.

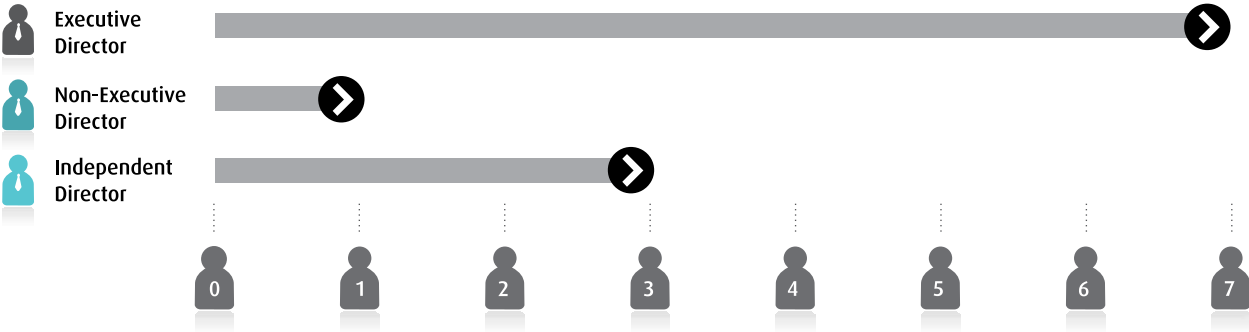
The Board is committed to a policy of ‘Responsible Governance’. Through the governance framework of the Group, consisting of policies, processes, committees, meetings, reviews, reports and audits, the Board ensures that it leads, directs and controls effectively in perpetuating a successful business, including optimising long-term financial returns. The Board provides the required care, effort, thought and analysis to identify and select the right team of people to help the organisation with its current challenges and opportunities, to take the organisation forward into the future and to work in partnership with the senior management team, providing oversight.

Board Composition

The Board consists of seven Executive Directors (including the Chairman) and four Non-Executive Directors out of whom three are Independent Directors. This composition meets the number of Non-Executive Directors and Independent Directors required by the CSE Listing Rules. The composition of the Board is achieved in a such manner that, it provides necessary technical and commercial expertise in the decision making process. There were no appointments to, or resignations from the Board of Directors during the year under review.

A list of the Directors with brief biographies appear on the pages from 14 to 15.

Board Balance



Board Responsibilities

The Board provides good stewardship, vision and strategic direction to the company and fosters a culture of integrity, transparency and accountability across the Group. The Directors are from diverse backgrounds and bring to bear a wide range of experience and competencies that facilitates the effective discharging of its responsibilities. The Board monitors and evaluates risks and performance, approves all important investment decisions and is also responsible for the installation of sound internal 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.

One of the Board’s responsibilities is to monitor the effectiveness of management policies and decisions, including the execution of its strategies. In addition to fulfilling its obligations for increased stockholder value, the Board has responsibility to DIMO’s customers, employees, suppliers and to the communities where it operates - all of whom are essential to a successful business. The Board relies on the integrity and due diligence of senior management, auditors and advisors to oversee the Group’s overall performance objectives, financial plans and annual budget, major investments, divestment and funding proposals, financial performance reviews, risk management and corporate governance practices.

To assist the Board in the efficient discharge of its responsibilities and providing independent oversight of management, Board committees, namely Audit Committee, Remuneration Committee and Nomination Committee have been established.

The Statement of Directors’ Responsibilities for the Financial Statements is available on page 134.

The Chairman/Managing Director/CEO’s and Chief Financial Officer’s Responsibility statement is available on page 116.

## Compliance

The Board is responsible for determining that, the Company is managed in such a way that stakeholder interests receive its due place, while adhering to the laws of the jurisdictions within, which it operates and observing high ethical standards. This is an active, not a passive responsibility.

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

Any Director may obtain independent professional advice that may be required in discharging his/her responsibilities effectively, at the Company's expense.

## Board Meetings

Board meetings are conducted in an atmosphere that, that encourages healthy debate by all members of the Board. The Chairman plays a key role in ensuring views of all Directors are sought during Board meetings in order to bring each Director's independent judgment to bear upon matters relating to strategy, performance, resources and business conduct.

The Board members meet regularly in accordance with a pre-agreed schedule and additionally, as and when there are pressing corporate or commercial matters to be considered or decided upon.

The Company recognises that to focus only on a Director's attendance at formal meetings alone, may lead to a narrower view of the contribution that a Director could make. Directors' contributions may be made in many other forms, such as bringing strategic relationships to the Group and providing guidance to management team or an exchange of views with the management team which is outside the formal environment of the Board or Board Committee Meetings.

In 2009/10, a total of six Board meetings were held, with an average of 94% attendance.

## Composition of Board and Board Committees for 2009/10

Board Member	Date of Appointment to the Board		Board		Committee Members					
	First	Re-Election	Position	Attendance	Audit Committee		Nomination Committee		Remuneration Committee	
					Position	Attendance	Position	Attendance	Position	Attendance
A.R. Pandithage	June 1977	–	Chairman/MD/CEO	6/6	No	–	Member	1/1*	No	–
R. Seevaratnam	January 2007	June 2007	Independent Director	6/6	Chairman	4/4	Member	1/1	Member	1/1
Dr. H. Cabral	October 2006	June 2009	Independent Director	5/6	Member	3/4	Chairman	1/1	Member	1/1
Dr. U.P. Liyanage	October 2006	June 2009	Independent Director	6/6	Member	4/4	Member	1/1	Chairman	1/1
A.N. Algama	November 1984	June 2008	Executive Director	5/6	No	–	No	–	No	–
A.M. Pandithage	September 1982	June 2007	Non-Executive Director	6/6	Member	4/4	Member	1/1	Member	1/1
A.G. Pandithage	December 1995	June 2008	Director/Deputy CEO	5/6	No	–	No	–	No	–
B.C.S.A.P. Gooneratne	April 2006	June 2009	Executive Director	6/6	No	–	No	–	No	–
R.C. Weerawardane	June 2002	June 2008	Executive Director	6/6	No	–	No	–	No	–
S.C. Algama	November 1984	June 2009	Executive Director	6/6	No	–	No	–	No	–
T.G.H. Peries	August 1977	June 2008	Executive Director	5/6	No	–	No	–	No	–

\*Mr. A.R. Pandithage was appointed a member of the Nomination Committee with effect from 19th May 2009.



### The Company Secretary

The Company Secretary assists the Chairman in all aspects pertaining to the function of Board of Directors. He helps in arranging Board meetings and in making available all necessary information to the Board for their deliberations. Mr. B.C.S.A.P. Gooneratne, who is also an Executive Director, functions as the Company Secretary.

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

### Board Members' Understanding of the Company's Business

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

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

Directors are briefed on changes to regulations and accounting standards from time to time either, during Board meetings or at specially convened sessions.

### 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 arise. The Lead Director presides at Board meetings in the absence of the Chairman of the Board of Directors.

### Board Committees

These Committees are primarily made up of Independent or Non-Executive Directors. The committees' respective roles and responsibilities are further explained in this report. Special purpose committees are also established as and when the need arises.

The composition of the Board Committees is structured to ensure an equitable distribution of responsibilities among Board members to maximise the effectiveness of the Board and foster active participation and contribution. Diversity of experience and appropriate skills are considered along with the need to maintain appropriate checks and balances between the different committees. All Board committees have the services of a Secretary for each Committee.

### A.2. Chairman and Chief Executive Officer (CEO)

**Principle:** There are two key tasks at the top of every public company - conducting of the business of the Board, and facilitating executive responsibility for management of the Company's business. There should be a clear division of responsibilities at the head of the Company, which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision.

The functions of the Chairman and Chief Executive Officer (CEO), are vested in the same person, who is also designated the Managing Director (MD). The Board of Directors is of the firm belief that the existing arrangement has worked out to be economically beneficial to shareholders so as to not

warrant any change and 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 and involvement of the Senior Independent Director and other Independent Directors ensure that no single individual has unfettered powers of decision-making and provides the basis for prevalence of independent judgment 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/Managing Director/CEO also serves as a bridge between management and the Board, ensuring that both act with a common purpose.

The Chairman/Managing Director/CEO's performance is reviewed by the Nomination Committee and the Remuneration Committee.

### A.3. Chairman's Role

**Principle:** The Chairman's role in preserving good corporate governance is crucial. As the person responsible for running the Board, Chairman should preserve order and facilitate the effective discharge of Board functions.

### Board Participation

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

### Effectiveness of the Board

Each Director brings on Board a wide range of skills, knowledge and experience. Expertise in Finance, Engineering, Law and Marketing is available in the present Board. The Board ensures that the Chairman/Managing Director/CEO and the management team possess the skills to implement the overall strategy.

The presence of Independent Directors who hold other office in diverse positions possessing skills and experience in spheres of activity related to various facets of business, provide a mechanism for critically reviewing all aspects of the Company's operations.

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

#### A.4. Financial Acumen

**Principle:** The Board should ensure the availability within it of those with sufficient financial acumen and knowledge to offer guidance on matters of finance.

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

#### A.5. Board Balance

**Principle:** It is preferable for the Board to have a balance of Executive and Non-Executive Directors such that no individual or small group of individuals can dominate the Board's decision-taking.

##### Board Independence

The composition of the Board of Directors meets the level of independence required by the Listing Rules of the CSE. There was no change in the number of Directors or in their status as Non-Executive or Independent Directors during the period under review.

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. 07 of 2007, which also shows details of Directors, interests in the Company, as required by the Act.

Related party transactions given on page 163 shows the transactions relating to Directors and/or parties related to them.

Shareholding of Directors is available in the Annual Report of Directors from Pages 166 to 167.

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 CSE Listing Rules. Based on the criteria Mr. R. Seevaratnam, Dr. H. Cabral and Dr. U.P. Liyanage are considered to be Independent Non-Executive Directors.

#### A.6. Supply of Information

**Principle:** The Board should be provided with timely information in a form and of a quality appropriate to enable it to discharge its duties.

A sophisticated management information system is in place and provides relevant and current information. All Board members including Non-Executive Directors, receive information on the operations and performance of the Company on a monthly basis. This routine helps eliminate information asymmetry between executive Directors and Non-Executive Directors. The Directors are provided with comprehensive data on financial and non-financial information prior to Board meetings, in addition to the agenda of the Meeting and the minutes of the previous meeting. Additional information may be requested by any member of the Board as and when required. Directors may also seek any information from the management team on matters discussed at Board meetings that requires follow up.

#### A.7. Appointments to the Board

**Principle:** There should be a formal and transparent procedure for the appointment of new Directors to the Board.

##### Appointment of Directors

The Board appoints the Directors based on the recommendations of the Nomination Committee. The Company's Articles of Association provides that any Director appointed by the Board to hold office until the next Annual General Meeting (AGM), may seek reappointment 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.

New appointments are made known to the public through the CSE and the media.

##### 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 at Board and Senior Management level and in ensuring smooth management transitions. It reviews the size and structure of the Board on a continuing basis and constantly reviews the balance of skills, knowledge and experience of the Board of Directors. The Committee also reviews the independence of Directors including actual, potential or perceived conflicts of interest.

Appointments to the Board are made further to careful scrutiny of the required level and range of skills, knowledge, expertise and desired independence. The Committee consults the views of the Chairman/MD/CEO, who is also a member of the Nomination Committee, on matters of succession at senior management level.

The Committee consists of three Independent Non-Executive Directors, one Non-Executive Director and the Chairman of the Board. The Chairman of the Committee is Dr. H. Cabral, an Independent Director. Mr. A.R. Pandithage, who is also the Chairman, Managing Director and Chief Executive Officer, was appointed to the Nomination Committee w.e.f. 19th May 2009.

The composition of the Nomination Committee is available on the table appearing on page 107.

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

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

The report of the Nomination Committee is available on page 123.

#### A.8. Re-election

**Principle:** All Directors should be required to submit themselves for re-election at regular intervals and at least once in every three years.

##### Retirement & Re-Election of Directors

In terms of the Articles of Association, one-third of the Directors, except for the Managing Director who is also the Chairman/CEO, retire in rotation and may offer themselves for reappointment at the AGM. Based on the current composition of the Board, Directors are re-elected every three years. A brief resumé of Directors, including the Directors who offer themselves for re-election is available on page 129.

#### A.9. Appraisal of Board Performance

**Principle:** Boards should periodically appraise their own performance in order to ensure that Board responsibilities are satisfactorily discharged.

The effectiveness of the Board is vital to the success of the Group. The Board undertakes a process that appraises its performance in discharging its key responsibilities set out earlier in this Report. The appraisal covers areas such as their contribution towards developing, implementing and monitoring of strategy, communication with stakeholders, 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 checklist and assigning a rating on each item covered in the checklist involving areas of appraisal.

#### A.10. Disclosure of Information in Respect of Directors

**Principle:** Shareholders should be kept advised of relevant details in respect of Directors.

The Code requires that the following information about the Directors be given in the Annual Report.

Requirement	Response
Name, qualifications and brief profile	Available on page 14 Board of Directors - Overview
The nature of his expertise in relevant functional areas	Available on page 14 Board of Directors - Overview
Immediate family and/or material business relationships with other Directors of the Company	Mr.A.R.Pandithage, Mr.A.G.Pandithage and Mr.A.M.Pandithage fall within the definition of 'close family members' of the Code.
Names of listed companies in Sri Lanka in which the Director concerned serves as a Director	Available on page 14 Board of Directors - Overview
Names of other companies in which the Director concerned serves as a Director, provided that where he holds directorships in companies within a Group of which the Company is a part, their names need not be disclosed; it is sufficient to state that he holds other directorships in such companies	Available on page 14 Board of Directors - Overview
Number of Board meetings of the Company attended during the year	Available on page 107
Names of Board committees in which the Director serves as Chairman or a member	Available on page 107
Number of committee meetings attended during the year.	Available on page 107

#### A.11. Appraisal of Chief Executive Officer

**Principle:** The Board should be required, at least annually, to assess the performance of the CEO.

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

Whilst the performance evaluation of the Chairman/Managing Director/CEO is done by the Non- Executive Directors led by the Senior Independent Director, the performance appraisal of Executive Directors will be carried out by the Chairman/Managing Director/CEO in consultation with the Non-Executive Directors.



## DIRECTORS' REMUNERATION

### B.1. Remuneration Procedure

Principle: Companies should establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of individual Directors. No Director should be involved in deciding his/her own remuneration.

#### Remuneration Committee

The Remuneration Committee is responsible for determining the framework and policy on remuneration of the Chairman/Managing Director/CEO, 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/Managing Director/CEO.

The Board of Directors appoints members to the Remuneration Committee.

The present Committee consists of three Independent Non-Executive Directors and one Non-Executive Director. The Chairman of the Remuneration Committee is Dr. U.P. Liyanage, an Independent Non-Executive Director. The composition of the Remuneration Committee meets the requirements of the CSE listing rules and is available in the table appearing on page 107.

The Board of Directors has set the terms of reference of the Remuneration Committee.

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

No Director is involved in deciding his own remuneration.

The Remuneration of the Non-Executive Directors is decided by the Board. Time commitments and responsibilities of their role are taken into consideration when remuneration levels of Non-Executive Directors are determined.

Committee meetings and attendance of members is disclosed in the table appearing on page 107.

The report of the Remuneration Committee available on page 122 provides more details of the functioning of the Remuneration Committee.

### B.2. The level and make up of Remuneration

Principle: Levels of remuneration of both Executive and Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the Company successfully. A proportion of Executive Directors' remuneration should be structured to link rewards to corporate and individual performance.

The Company's remuneration policy aims to attract and retain high caliber 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.

When required, the Remuneration Committee uses remuneration surveys to ascertain market levels of remuneration.

### B.3. Disclosure of Remuneration

Principle: The Company's Annual Report should contain a Statement of Remuneration Policy and details of remuneration of the Board as a whole.

#### Remuneration Policy & Disclosures

The remuneration policy is available in the Report of the Remuneration Committee appearing on page 122.

Total Directors' emoluments are disclosed in Note 8 on page 149.



## RELATIONS WITH SHAREHOLDERS

### C.1. Constructive use of Annual General Meeting (AGM) and Conduct of General Meetings

Principle: Boards should use the AGM to communicate with shareholders and should encourage their participation.

#### Shareholder Information, Communications and Participation

The Company fulfils all requirements laid down by the Listing Rules of the CSE with regard to convening general meetings and communicating with shareholders. 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. Transparency through effective and ongoing communication is considered essential in discharging the fundamental responsibility of creating shareholder value.

The AGM provides a forum for shareholders to raise any queries. The Chairmen of the Audit, Remuneration and Nomination 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.

### C.2. Major Transactions

Principle: Further to compliance with the requirements under the Companies Act, Directors should disclose to shareholders all proposed corporate transactions, which if entered into, would materially alter/vary the Company’s net assets base or in the case of a company with subsidiaries, the consolidated group net asset base.

There was no transaction during the year that fell within the definition of a major transaction in the Companies Act No. 07 of 2007.



## ACCOUNTABILITY and AUDIT

### D.1.Financial Reporting

Principle: The Board should present a balanced and understandable assessment of the Company’s financial position, performance and prospects.

The Statement of Directors’ Responsibilities for Financial Statements is available from page 134. The Report of the Auditors outlines their reporting responsibilities.

The Board strives to present a balanced and objective assessment of the Company’s position, performance and prospects. These aspects are covered in detail in the following Reports:

Name of the Report	Page No's.
Directors’ Report	From 129 to 133
Chairman and CEO’s Review	From 10 to 13
Financial Review	From 48 to 55
Business Performance Review	From 20 to 47
Sustainability Report	From 58 to 101
Enterprise Risk Management Report	From 117 to 120

#### Annual Report of Directors

Section D.1.2.of the SEC Code requires that certain declarations be made by the Directors, in the Annual Report of Directors regarding compliance with laws, interests in contracts, equitable treatment of shareholders, going concern assumption and internal controls. These declarations have been made in their appropriate places in the Annual Report of Directors appearing from pages 129 to 133.

#### Going Concern

Information on the Board’s determination of the entity as a going concern is included in the Annual Report of Directors appearing from pages 129 to 133.

## D.2. Internal Control

**Principle:** The Board should maintain a sound system of internal control to safeguard shareholders' investments and the Company's assets.

The main responsibility for establishing a suitable and effective system of Internal Controls lies with the Board of Directors.

### The systems are designed to -

Safeguard assets
Maintain proper accounting records
Provide reliable financial information
Identify and manage business risk
Maintain compliance with appropriate legislation and regulation
Early detection of instances of non-compliance
Identify and adopt best practices

Outsourcing of the internal audit function has enhanced the independence of the internal audit function. 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.

The Board has the overall responsibility for maintaining the systems of internal control of the Company and for monitoring their effectiveness; while the implementation of internal control system is the responsibility of management. The Group's systems of internal control are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material financial misstatement or loss.

## D.3. Audit Committee

**Principle:** The Board should establish formal and transparent arrangements for considering how they should select and apply accounting policies, financial reporting and internal control principles and maintaining an appropriate relationship with the Company's Auditors.

### Responsibilities of the Audit Committee

The Audit Committee is a subcommittee 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 publish financial Statements, including compliance with relevant accounting standards & laws and Company policies, and also for review of effectiveness of the audit.

The Audit Committee plays a key role in reviewing the effectiveness of the internal control system. The methods by which the Audit Committee satisfies itself, that it is operating effectively are given below:

- Board Committees with terms of reference
- Clear organisational structures with assigned responsibilities and set objectives
- Representations from Executive Management
- Budgetary control
- Approval procedures for capital expenditure and investments
- Review of information called for Board meetings
- Discussions with External and Internal Auditors
- Review of Internal Audit Programs and Reports
- Code of Ethics
- Assessment of situations of potential conflict of interest, if any.

The report of the Audit Committee available on page 121 provides more details of the functioning of the Audit Committee.

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

### Auditors

The Audit Committee determines the appointment/reappointment, evaluation, terms of engagement and fees of the Auditors. The Audit committee may, if so required, recommend to the Board, removal of Auditors. Based on the provisions of Section 3 of the Guideline for Appointment of Auditors of Listed Companies, issued by the Securities Exchange Commission, the Audit Committee determined that the External Auditors possess the required independence to be the Auditors of the Company.

The Committee met the External Auditors prior to recommendation of Financial Statements to the Board.

The Audit Committee encourages the External Auditors to communicate with the Internal Auditors.

The Audit Committee 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.



### Composition of the Audit Committee

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 who is also the Senior Independent Director. The composition of the Audit Committee meets the requirements of the CSE Listing Rules.

The composition of the Audit Committee is available in the table appearing on page 107.

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

The Chairman/Managing Director/CEO, Deputy Chief Executive Officer and the Director-in-charge of the finance function attend Audit Committee meetings, unless otherwise determined by the Audit Committee. Any member of the Board may attend the Committee meetings by invitation.

Committee meetings and the attendance of members is given in the table appearing on page 107.

The report of the Audit Committee is available on page 121.

### D.4. Code of Business Conduct and Ethics

**Principle: Companies must adopt a Code of Business Conduct and Ethics for Directors and members of the senior management team and must promptly disclose any waivers of the Code for Directors or others.**

The Company has a Code of Ethics applicable to all employees of the Company. The areas covered in the Code of Ethics include proprietary information, conflict of interest, benefits from third parties, accurate books of account, usage of Company property for personal use, illegal acquisition of competitor information, insider trading, protection of environment and natural resources and gender equity.

### D.5. Corporate Governance Disclosures

**Principle: Directors should be required to disclose the extent to which the Company adheres to established principles and practices of good Corporate Governance.**

This report contains the extent to which established principals of good Corporate Governance has been adhered to and the requirements of Code of Best Practices on Corporate Governance issued by the SEC and ICASL has been complied with. The Company has implemented the regulations of the Section 7.10 of the Listing Rules of CSE on Corporate Governance. Mr. R. Seevaratnam, Dr. H. Cabral and Dr. U.P. Liyanage satisfy the criteria of an Independent Director as prescribed by the aforesaid section and have submitted the requisite declaration based on which the Board has determined that they are Independent Directors.



## SECTION 2: THE SHAREHOLDERS INSTITUTIONAL INVESTORS

### E.1. Shareholder Voting

**Principle: Institutional shareholders have a responsibility to make considered use of their votes and should be encouraged to ensure their voting intentions are translated into practice.**

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

The Chairman ensures that any views expressed by investors to him personally or at General Meetings are discussed with the Board. The Directors consider it important to understand the views of shareholders and, in particular, any issues which concern them. The shareholders are encouraged to participate at General Meetings and cast their votes.

### E.2. Evaluation of Governance Disclosures

**Principle: When evaluating Companies' governance arrangements, particularly those relating to Board structure and composition, institutional investors should be encouraged to give due weight to all relevant factors drawn to their attention.**

The Annual Report contains an Enterprise Governance Report that covers the Company's Governance arrangements. The Annual Report provides a comprehensive review of the Company's performance and prospects. This is supplemented by quarterly reports and other circulars, where necessary.



## OTHER INVESTORS

### F.1. Investing/Divesting Decision

Principle: Individual shareholders, investing directly in shares of companies should be encouraged to carry out adequate analysis or seek independent advice in investing or divesting decisions.

The Company's communications with the shareholders, including the Annual Report provides information that enables shareholders to make informed judgments or to seek advice on their investment decisions. The extensive nature of the information given would facilitate the shareholders in carrying out adequate analysis when making their decisions.

### F.2. Shareholder Voting

Principle: Individual shareholder should be encouraged to participate in General Meetings of companies and exercise their voting rights.

The shareholders are encouraged to participate at General Meetings and cast their votes. Instructions with regard to appointing a proxy and the manner in which a Proxy Form should be completed are available in the proxy form circulated with the Annual Report.

### Corporate Governance Compliance Table

CSE Listing Rule No.	Subject	Applicable Requirement	Compliance Status	Details
7.10.1	Non-Executive Directors	At least two or one third of the Directors, whichever is higher, should be Non-Executive Directors	Compliant	Four out of Eleven Directors are Non-Executive Directors.
7.10.2 (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.
7.10.2 (b)	Independent Directors	Each Non-Executive Directors should submit a declaration of independence/non-independence.	Compliant	Non-Executive Directors have submitted the declaration in the prescribed format.
7.10.3 (a)	Disclosures relating to Directors	Names of independent Directors should be disclosed in the Annual Report.	Compliant	Please refer page 14
7.10.3 (b)	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 109. (Board independence)
7.10.3 (c)	Disclosures 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 14
7.10.3 (d)	Appointment of new Directors	Provide brief resumé of any new Director appointed to the Board.	N/A	N/A
7.10.5	Remuneration Committee	A listed company shall have a Remuneration Committee.	Compliant	Name of members of the Remuneration Committee is available on page 107.
7.10.5 (a)	Composition 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.
7.10.5 (b)	Function of Remunerations Committee	The Remuneration Committee shall recommend the remuneration of the Chief Executive Officer and the Executive Directors.	Compliant	Please refer the Remuneration Committee Report on page 122.
7.10.5 (c)	Disclosure in the Annual Report relating to Remuneration Committee	The Annual Report should set out;		
		a. Names of Directors comprising the Remuneration Committee.	Compliant	Please refer on page 107
		b. Statement of Remuneration Policy	Compliant	Please refer the Remuneration Committee report on page 122 For a brief statement of policy.
		c. Aggregate Remuneration paid to Executive and Non-Executive Directors.	Compliant	Please refer on page 149
7.10.6	Audit Committee	A listed company shall have an Audit Committee.	Compliant	Names of the members of the Audit Committee are available on page 107.
7.10.6 (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.	Compliant	Chief Executive Officer and Chief Financial Officer attend by invitation.
		The Chairman of the Audit Committee or one member should be a member of a professional accounting body.	Compliant	Chairman of Audit Committee is a member of a professional accounting body.
7.10.6 (b)	Function of Audit Committee	Should be outlined in the Section 7.10 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.
7.10.6 (c)	Disclosure in the Annual Report relating to Audit Committee	a. Names of Directors comprising the Audit Committee	Compliant	Please refer on pages 107
		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 pages 121
		c. The Annual Report shall contain a report of the Audit Committee setting out the manner of compliance of functions.	Compliant	Please refer Audit Committee report on pages 121

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

The Financial Statements are prepared in compliance with the requirements of the following:

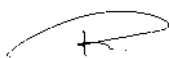
- Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka;
- Companies Act No. 07 of 2007;
- Listing Rules of the Colombo Stock Exchange; and
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.

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 the 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. The 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.

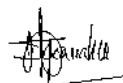
The Financial Statements were audited by Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants, the Independent Auditors.

The Audit Committee of the 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

18th May 2010

# ENTERPRISE RISK MANAGEMENT

## Overview

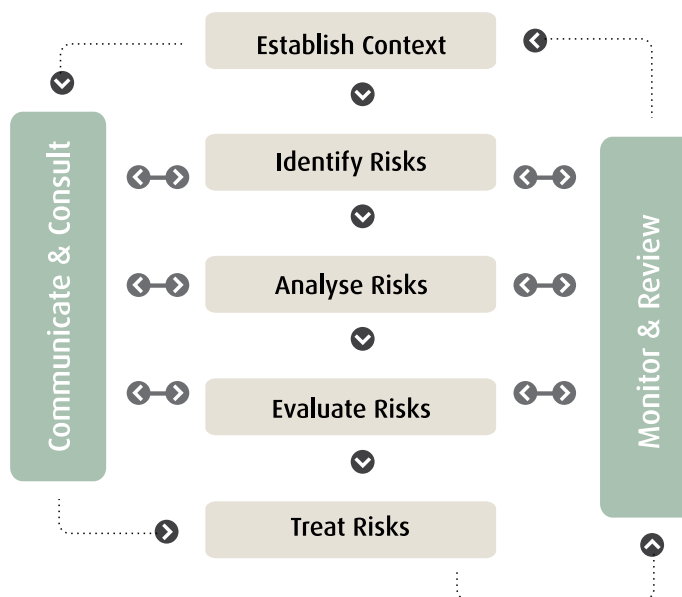
Effective risk management is fundamental to the business activities of the Group. While we remain committed to increasing shareholder value by developing and growing our business within our board-determined risk appetite, we are mindful of achieving this objective in line with the interests of all stakeholders.

We seek to achieve an appropriate balance between risk and reward in our business, and continue to build and enhance the risk management capabilities that assist in delivering our growth plans in a controlled environment.

Dimo operates in a constantly evolving environment, which exposes the Group to risk factors and uncertainties in addition to the risk factors related to its operations. The materialisation of the risks described below could have a material adverse effect on our operations, our financial condition, our results, our prospects or our share price.

It is important for a business to identify the variety of risks it is exposed to, examine the likelihood of the occurrence and the extent of impact that it may create. Enterprise risk management is an integral part of Group's business strategy. Thus Risk Management reconciles the two dimensions of enterprise governance namely, conformance and performance.

## Risk Management Framework

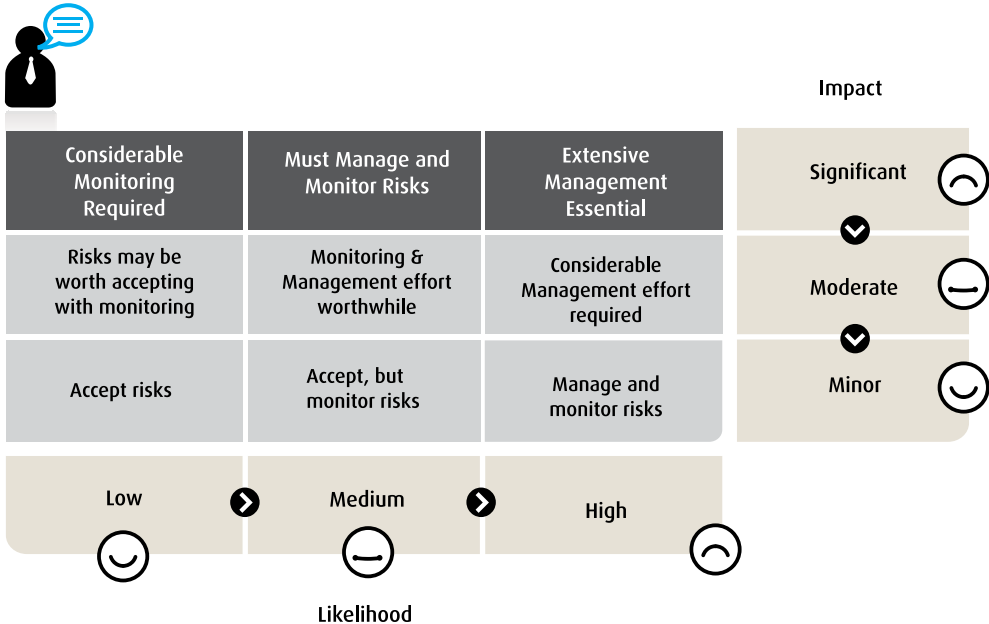


## Risk Mapping

Risk mapping is carried out in order to assess the likelihood of occurrence and consequence of an event/set of events. It is based on the following:

- Likelihood of occurrence is assessed 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 determining the loss it would cause and the extent of the impact. By considering these two factors the impact is then categorised as minor, moderate and significant.

Risk Management Actions



Portfolio Management

LIKELIHOOD: Low ☺

**+** **➡** Considerable Monitoring Required

IMPACT: Significant ☹

Description of Risk

❓ The vehicle sales and vehicle parts/services segments account for a significant share of the total portfolio. A significant alteration to the portfolio could have a considerable impact on results in the short-term and in the long-term.

**What we are doing to manage it?**  
The Group is currently diversifying its competencies to the areas of marketing & distribution and in providing engineering solutions to Power, Water and Healthcare sectors. 💡

Foreign Exchange Exposure

LIKELIHOOD: High ☹

**+** **➡** Considerable Management Effort Required

IMPACT: Moderate ☹

Description of Risk

❓ Foreign currency exposure arises out of trading activities. This directly impacts the trading profit when the foreign currency assets and liabilities are translated into local currency at the Balance Sheet date.

**What we are doing to manage it?**  
Foreign exchange exposure is hedged through forward contracts where it is deemed appropriate. Hedging of this impact is available to the extent that trade receivables in foreign currency and foreign currency bank account balances cover the exposure on foreign currency payables. The profit and losses that arose from foreign exchange rate fluctuations have been appropriately accounted for in the Income Statement. 💡

Liquidity Management

LIKELIHOOD: Low ☺

**+** **➡** Considerable Monitoring Required

IMPACT: Significant ☹

Description of Risk

❓ Unavailability of sufficient funds may interrupt the smooth functioning of the Company's day-to-day operations.

**What we are doing to manage it?**  
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. 💡

**Credit Management****LIKELIHOOD:**

High ☹️

**Manage and Monitor Risks****IMPACT:**

Minor ☺️

**Description of Risk**

Company extends credit facilities to customers during the course of business.

**What we are doing to manage it?**

Credit facilities are extended to customers in accordance with Group Credit policy. Customers are evaluated prior to extending credit facilities. 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. 💡

**Disaster Management****LIKELIHOOD:**

Low ☺️

**Considerable Monitoring Required****IMPACT:**

Significant ☹️

**Description of Risk**

Disaster-related risks are situations that can adversely affect people or resources and threaten the continued operation of the organisation. Damages from fire and floods have been identified as key disaster-related risks that the Company carries.

**What we are doing to manage it?**

Indemnity from insurance is the risk management measure taken to mitigate losses from such disasters. Preventive measures of safety are taken to minimise damage to people and property. The Company has a disaster recovery plan in place. Employees have been educated on the Company's disaster recovery plan. 💡

**Relationships with Principals****LIKELIHOOD:**

Low ☺️

**Considerable Monitoring Required****IMPACT:**

Significant ☹️

**Description of Risk**

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

**What we are doing to manage it?**

The Company has focused on developing a mutually beneficial relationship with principals in an effort to minimise the risk. It makes every endeavour to ensure that requirements of principals and targets are met. Company is constantly looking for new opportunities to develop viable business opportunities and relationships with new principals in order to reduce the Company's dependency on any single sector. 💡

**Customer Relationships****LIKELIHOOD:**

Medium ☹️

**Monitoring & Management Effort Worthwhile****IMPACT:**

Moderate ☹️

**Description of Risk**

As a profit making entity, customers are sovereign to the Company. Maintaining positive relationships with customers is vital.

**What we are doing to manage it?**

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. Company promotes customer loyalty through a number of innovative schemes and has developed a diverse customer base. 💡



## Industry Trends

LIKELIHOOD:  
Low ☺



Considerable Monitoring Required

IMPACT:  
Significant ☹

## Description of Risk



Industry risks arise from sudden changes within each industry. These could be driven by new customer trends and as entry of new/alternative products into the market.



## What we are doing to manage it?

With a view to minimising these risks, the Company closely monitors developments in its business domain including competitor strategies and promptly develops counter strategies as necessary. Company explores 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 the Company to offer superior products to the market with the strongly positioned Dimo brand. 💡

## Human Resources Management

LIKELIHOOD:  
Low ☺



Considerable Monitoring Required

IMPACT:  
Significant ☹

## Description of Risk



Company's human resources are the most important asset as it is the backbone of the business holding the Company together. Recruitment and retention of committed and capable employees could be a constant challenge.



## What we are doing to manage it?

Succession plans are available to minimise the impact of voluntary exits of employees. Also regular meetings of the Employees' Council provide a forum to discuss employee concerns and help the management to respond and address them adequately. The Company's remuneration packages are 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. More measures taken to nurture the Human Resources are discussed in the Sustainability Report appearing from page 58 to page 101. 💡

## Loss of Data

LIKELIHOOD:  
Low ☺



Considerable Monitoring Required

IMPACT:  
Significant ☹

## Description of Risk



As a Company which operates within a fully-computerised environment, loss of important data arising from technological failure is a risk that the Company faces.



## What we are doing to manage it?

The Company employs various measures such as regular back-up of data to guard against 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. The Company has in place a disaster recovery plan as part of its information system management. 💡

## Economic Behaviour

LIKELIHOOD:  
Low ☺



Considerable Monitoring Required

IMPACT:  
Significant ☹

## Description of Risk



The risks that arise from the changes in the economic environment that have the probability to affect the Company adversely.

The Group is highly sensitive to interest rate changes as it could impact demand for vehicles due to high cost of financing and increase the cost of borrowings due to higher level of borrowing it has on its capital structure.



## What we are doing to manage it?

Cautious management of working capital and costs were some of the measures that the Company has taken in order to mitigate the impact.

Group makes every endeavour to constantly negotiate with banks in order to obtain favourable terms of borrowing. 💡

# 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, of whom three members are Independent Non-Executive Directors.

The Audit Committee has written terms of references, dealing clearly with its authority & duties and 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 and independence and internal audit function.

The following are the principal activities carried out by the Audit Committee during the year ended 31st March 2010.

## Compliance with Financial Reporting

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

The review included:

- Any changes in Accounting Policies.
- Compliance with relevant Accounting Standards.
- Adequacy of provision against possible losses.
- Material changes arising from the audit.

## Risk Management

The Audit Committee meets the Internal Auditors on a quarterly basis and reviews 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 a 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 state 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 safeguarding of the Company's assets and reliability of Financial Statements. Effectiveness of Company's system of Internal Controls is mainly 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 programmers and results of the internal audit process.
- Effectiveness of the internal audit function.

## External Auditors

The Audit Committee reviewed the independence and objectivity of the External Auditors, Messrs KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants. 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.

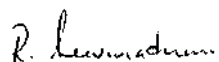
The Audit Committee has approved the extension of engagement of External Auditors, by one year, and recommended to the Board their reappointment.

## Meetings of Audit Committee

Four Audit Committee meetings were held during the year ended 31st March 2010. The attendance details are given on page 107. The Internal Auditors attend the meetings quarterly by invitation.

## 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  
18th May 2010

# THE REMUNERATION COMMITTEE REPORT

The Remuneration Committee is a subcommittee of the Board. The members of the Committee consist of three Independent Directors and a 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 the Senior Management.

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

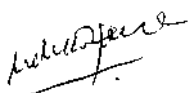
The terms of references that is currently applicable to the Remuneration Committee was approved by the Board of Directors on 111.

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 149.

The Committee meets as and when a need arises. The Remuneration Committee meetings and members attendance is given in page 107 under Enterprises Governance Report.



**Dr. U.P. Liyanage**

Chairman - Remuneration Committee

Colombo  
18th May 2010

# THE NOMINATION COMMITTEE REPORT

## Introduction

The main purpose of the Committee is to assist the Board by keeping the composition of the Board under review and conducting a rigorous and transparent process when making or renewing appointments of Directors to the Board. It also advises the Board on issues of Directors' conflicts of interest and independence. The Chairman and the members of the Nomination Committee are appointed by the Board of Directors.

## Committee Composition and its Key Activities

The Committee composition and their attendance details are given in page 107 of Enterprises Governance Report.

Mr. A.R. Pandithage was appointed as a member of the Nomination Committee with effect from 19th May 2009.

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

The Committee met on one occasion in 2009/10 and the members' attendance record is set out in the Enterprises Governance Report on page 107.

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 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.
- Recommend to the Board of Directors, appointment of Directors to subsidiaries.

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



**Dr. H. Cabral**

Chairman - Nomination Committee

Colombo  
18th May 2010









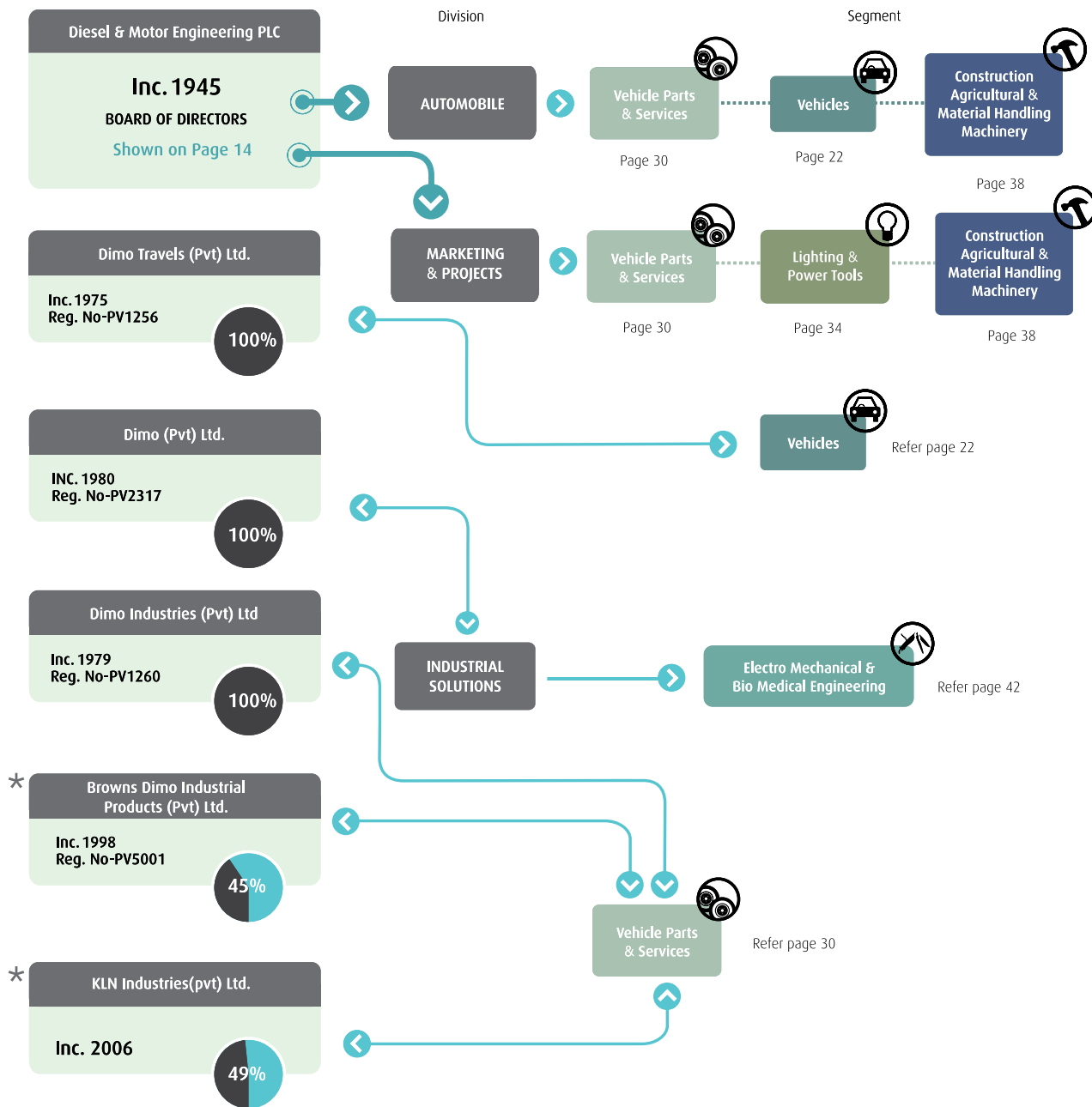
# REACHING THE SUBLIME

It's **that** moment in the performance... when it matters not how you trained, what you know, how and why you do what you do. The performer is 'transported to another place'... where exhilaration is derived from the oneness of heart, fingers and instrument to produce what he will know much later... as a masterpiece.

This is Ultimate Achievement!



# GROUP STRUCTURE



## Directors

Diesel & Motor Engineering PLC	Shown on Pages 14 and 15
Dimo Travels (Pvt) Ltd.	A.R. Pandithage (Chairman), S.C. Algama, M.V. Bandara, E.D.C. Kodituwakku
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 Dimeo Industrial Products (Pvt) Ltd.	A.R. Pandithage (Chairman), K.D.P. Fernando, A. Mapalagama, A. Munidasa, N.M. Prakash, R.C. Weerawardane,

\*Directors have decided to divest the investment in these Companies

# FINANCIAL REPORTS

Annual Report of the Board of Directors	129
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Statement of Directors' Responsibilities for Financial Statements	134
Independent Auditors' Report	135
Income Statements	136
Balance Sheets	137
Statements of Changes in Equity	138
Cash Flow Statements	139
Notes to the Financial Statements	141

## FINANCIAL CALENDAR

### Interim Financial Statements

Three months ended 30th June 2009 - 21st July 2009

Six months ended 30th September 2009 - 5th November 2009

Nine months ended 31st December 2009 - 8th February 2010

Twelve months ended 31st March 2010 - 18th May 2010

### Dividends

Interim Dividend for 2009/10 - 26th February 2010

Final Dividend for 2009/10 - Declared - 18th May 2010

Final Dividend for 2009/10 - Payable - 9th June 2010

Annual Report - Financial year ended 31st March 2010 - 18th May 2010

65<sup>th</sup> Annual General Meeting - 29th June 2010

# ANNUAL REPORT OF THE BOARD OF DIRECTORS

## General

The Board of Directors of Diesel & Motor Engineering PLC has pleasure in presenting the Annual Report of the Board of Directors and audited Consolidated Financial Statements for the year ended 31st March 2010.

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. 07 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, 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 retreaded tyres.

There was no significant change in:

- The nature of business of the Company or its subsidiaries except discontinuation of telecommunication sale and services business.
- The classes of business in the associate companies during the year that may have a significant impact on the state of the Company's affairs.

## Group Structure

A diagram depicting the Group Structure is available on page 126.

## 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 10 to 13), Business Performance Report (pages 20 to 47) and financial review (pages 48 to 55) These reports together with the Audited Financial Statements reflect the state of affairs of the Companies and Group.

## Financial Statements

The Financial Statements of the Company and the Group appearing on pages 136 to 164 are prepared in conformity with the Sri Lanka Accounting Standards as required by Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and comply with the requirements of the Companies Act No. 07 of 2007.

Financial Statements of the Company and the Group for the year ended 31st March 2010 certified by the General Manager - Finance and Controlling that it conforms to the requirements of the Companies Act No. 7 of 2007, and signed by the Chairman and Chief Financial Officer, are given on page 137 form an integral part of the Annual Report of the Directors.

## Auditors' Report

The Financial Statements for the year ended 31st March 2010 have been audited by Messrs KPMG Ford, Rhodes, Thronton & Co. (Chartered Accountants) and their Report is given on page 135.

## Significant Accounting Policies

The Significant Accounting Policies adopted in the preparation of Financial Statements are given on pages 142 to 146 of the Annual Report.

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

## Directorate

### List of Directors

As at 31st March 2010, the Board of Directors of Diesel & Motor Engineering PLC consisted of eleven members. Qualifications and experience of the Directors are given on pages 14 and 15 of this Annual Report.

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

- 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.P. Liyanage (Independent Non-Executive Director)
- A.M. Pandithage (Non-Executive Director)
- T.G.H. Peries (Executive Director)
- R. Seevaratnam (Independent Non-Executive Director)
- R.C. Weerawardane (Executive Director)

## Resignations, New Appointments and Re-elections to the Board

There were no new appointments made to the Board, during the financial year ended 31st March 2010.

Dr. H. Cabral, Dr. U. Liyanage, Mr. B.C.S.A.P. Gooneratne, and Mr. S.C. Algama retired by rotation in 2008/09 and were reappointed to the Board in accordance with the Articles by re-election at the Annual General Meeting during the year.

Mr. A.N. Algama, Mr. A.M. Pandithage, Mr. T.G.H. Peries and Mr. R. Seevaratnam retire by rotation in accordance with the Articles of Association and being eligible offer themselves for re-election at the AGM.

## Directors' Responsibilities for Financial Statements

The Directors are responsible for the preparation and presentation of Financial Statements of the Company to reflect a true and fair view of the state of its affairs. The Statement of Directors' Responsibilities for the Financial Statements is given on page 134 of this Annual Report.

## Directors' Shareholdings

The Directors and their close family members held 3,650,719 (2008/09 - 3,476,894) ordinary shares of the Company, which amounts to 41.96% (2008/09 - 39.95%) of the ordinary shares issued as at 31st March 2010.

The shareholdings of Directors and their close family members as at 31st March 2010 are as follows:

As at 31st March	2010 Shareholding - No. of Shares			2009 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	261,872	–	261,872	264,172	–	264,172
A.M. Pandithage	178,745	41,033	219,778	178,745	41,033	219,778
A.G. Pandithage	515,505	44,165	559,670	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
	<b>2,511,482</b>	<b>1,139,237</b>	<b>3,650,719</b>	<b>2,337,657</b>	<b>1,139,237</b>	<b>3,476,894</b>

### Interest Register

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

#### • Directors' Interest in Contracts

The Directors' interest in contracts are disclosed in the annexure to the Annual Report of the Board of Directors on page 133.

#### • Acquisition/Disposal of Shares by Directors

176,125 shares were transmitted to Mr. A.G. Pandithage during the year.

2,300 shares were disposed by Mr. A.N. Algama during the year.

#### • Directors' Remuneration

Directors' remuneration in respect of the Group and the Company are given on Note 8 to the Financial Statements on page 149.

#### • Insurance

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

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

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

### Directors' Meetings

The number of Directors' meetings, Board Committee meetings and their attendance details are presented in the Enterprises Governance Report on page 107.

### Internal Control System and Risk Management

The Board considers that strong internal controls are integral to the sound management of the Company and is committed to maintaining strict financial, operational and risk management controls over all its activities. The Group Management Committee has put in place an effective and

comprehensive system of internal controls covering financial, operational and compliance control. The Directors have outsourced a part of the internal audit function to review and report on the effectiveness of the internal controls.

The Risk Management Report is available on pages 117 to 120.

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

### Board Committees

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

- Audit Committee
- Remuneration Committee
- Nomination Committee

The Reports of the above committees are given on pages 121 to 123 of this Annual Report.

### Auditors

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

The Auditors - were paid Rs. 1.75 mn for the year ended 31st March 2010 (2008/09 - 1.35 mn) as Audit fees by the Group. In addition, Auditors were paid Rs. 0.16 mn (2008/09 - Rs. 0.43 mn) for audit-related services and Rs. 2.99 mn (2008/09 - Rs. 0.63 mn) for non-audit services, by the Group.

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

### Appointment of Auditors

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

### Turnover

The Company recorded a turnover of Rs. 9,557 mn in 2009/10 (for 2008/09 - Rs. 8,667 mn). The Group turnover for 2009/10 is Rs. 10,530 mn (for 2008/09 - Rs. 9,187 mn).

Segment turnover and other segment information are available on pages 147 and 148.

### Human Resources

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

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

Adequate measures are taken to ensure that all employees have the opportunity to understand and appreciate the Group's objectives and policies. The employment policy of the Group embodies the principal of equal opportunity. The Group aims to create an opportunity for participation and involvement, identification and development of skills, promote the use of initiative and to stimulate personal advancement. Reward systems recognise success at both the corporate and individual level. The number of persons employed by the Company and its subsidiaries at the year end was 864 (2008/09 - 870).

### 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. 14,759,291/-.

### Quality

The Group is committed to maintaining 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

	2009/10 Rs. '000	2008/09 Rs. '000
<b>Turnover</b>		
The Gross Turnover	<b>10,530,587</b>	9,187,966
<b>Profit</b>		
After making provision for bad and doubtful debts and all known liabilities and after charging a sum of Rs. 94,887,174/- (2008/09 - Rs. 97,615,652/-) for depreciation of property, plant & equipment the profit made by the Group before tax was	<b>420,095</b>	175,082
Income tax expense	<b>(141,842)</b>	(72,054)
Group profit after taxation from continuing operations	<b>278,253</b>	103,028
Loss from discontinued operations	<b>(29,956)</b>	(13,584)
Group profit after taxation	<b>248,297</b>	89,444
Retained earnings brought forward	<b>367,443</b>	520,221
Surplus on actuarial valuation of retirement benefit obligations at the beginning of the year	-	8,028
<b>Appropriations</b>		
Dividend paid	<b>(52,214)</b>	(30,250)
Transfers to general reserve	-	(220,000)
Available for appropriation	<b>563,526</b>	367,443

### Dividends on Ordinary Shares

The Directors approved a final dividend of Rs. 4/- per share (2008/09 - Rs. 3 per share - Final) payable on 9th June 2010 to the shareholders of the issued ordinary shares of the Company as at close of the business on 31st May 2010. In accordance with Section 56 of the Companies Act No. 07 of 2007, a solvency test was carried out by the Company's Auditors, prior to recommending the final dividend.

### Income Tax

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

### Donations

The donations made during the year amounted to Rs. 1,165,505/- (2008/09 - Rs. 859,834/-).



### Property, Plant & Equipment

Group expenditure on property, plant & equipment during the year amounted to Rs. 36,886,566/- (2008/09 - Rs. 118,096,174/-). Information relating to movement in property, plant & equipment is given in Note 13 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 154.

### Group Investment/Divestment

There were no new equity Investments made during the year.

After continuous monitoring of the market environment and the performance of business operation the Board decided to divest its 49% holding in Dimo KLN Industries (Pvt) Ltd. and 45% holding in Browns Dimo Products Industrial (Pvt) Ltd. The Financial Statements have been prepared giving due recognition to the above decisions.

### Discontinued Operations

Upon review of the feasibility of the continuity of telecommunication sales and services business, the Board decided to exit from the said business, during the year. This business made a loss of Rs. 29,956,101/-. Carrying value of assets pertaining to this business have been adjusted to reflect their realisable value, unless they are transferred to other business units of the Group.

### Stated Capital

The stated capital of the Company as at 31st March 2010 was Rs. 182.5 mn (in 2009 - Rs. 182.5 mn). The number of shares in issue as at 31st March 2010 was 8,702,389 (2008/09 - 8,702,389).

### Reserves

The total reserves as at 31st March 2010 stand at Rs. 2,018,427,956/- (2008/09 - Rs. 1,822,344,084/-) comprising capital reserves of Rs. 1,135,611,833/- (2008/09 - Rs. 1,135,611,833/-) and revenue reserves of Rs. 882,815,956/- (2008/09 - Rs. 686,732,251/-). The movement in reserves during the year is set out in the Statement of Changes in Equity on page 138.

### Share Information

Information relating to shareholding, earnings net assets per share, market value of shares, dividends and share trading are available on pages 166 to 168.

### Shareholdings

There were 1,196 registered shareholders as at 31st March 2010. The percentage of shares held by the public as at 31st March 2010 was 43% of the issued shares. The twenty major shareholders as at 31st March 2010, the number of shares held and their percentage shareholding are given on page 166.

### Equitable Treatment to Shareholders

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

### Compliance with Laws and Regulations

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

### Outstanding Litigation

In the opinion of the Directors and the Company Lawyers and legal counsel, litigations currently pending against the Company will not have a material impact on the reported financial results or future operations of the Company. The details of the litigations against the Company are given on page 164.

### 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

Information on Contingent Liabilities and Capital Commitments as at 31st March 2010 are given in Note 36.2 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.

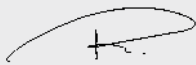
### Ammendments to the Articles of the Association

In order to comply with a requirement of the Colombo Stocks Exchange a Special Resolution is to be passed at the Annual General Meeting, amending the articles. The Notice of Meeting contains the Special Resolution to be passed.

### Annual General Meeting

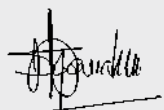
The Annual General Meeting will be held at the Registered Office of the Company, No. 65, Jetawana Road, Colombo 14 on 29th June 2010. The Notice of Annual General Meeting is given on page 163.

By order of the Board of Directors,



**A.R. Pandithage**

Chairman, Managing Director &  
Chief Executive Officer




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

Secretary

Colombo

18th May 2010



**R.C. Weerawardane**

Director

# 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.	Browns DIMO Industrial Products (Pvt) Ltd.
<b>Relationship</b>	Subsidiary	Subsidiary	Subsidiary	Associate
<b>Name of the Director</b>				
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 Transactions' with subsidiaries and associates are given in Note 34 on page 163.

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 and its Subsidiaries

Name of the Company	Name of the Director	Nature of Transaction	Value (Rs.)
Ceylon Cold Stores PLC	Dr. U.P. Liyanage	Sales of Tyres, Spare Parts and Lighting Product	921,692
Dipped Products Ltd.	Mr. A.M. Pandithage Mr. R. Seevaratanam	Repairing Forklifts	63,124
Hayleys Advantis Ltd.	Mr. A.M. Pandithage	Sales of Lighting Products	73,725
Hayleys Industrial Solutions	Mr. A.M. Pandithage	Sales of Power Tools Purchasing Filters	114,946 525,168
Hayleys PLC	Mr. A.M. Pandithage	Repairing and Servicing of Vehicles	181,014
Logiwiz Ltd.	Mr. A.M. Pandithage	Storage & Material Handling Equipment Service and Annual Maintenance Contract	2,048,012
Mit Cargo (Pvt) Ltd.	Mr. A.M. Pandithage	Repair and Servicing of Forklifts Obtaining Freight Services	506,914 3,659,331
Toyo Cushion Lanka (Pvt) Ltd.	Mr. A.M. Pandithage	Repair and Servicing of Forklifts	53,627
Global Holidays (Pvt) Ltd.	Mr. A.M. Pandithage	Purchase of Travelers Cheques	548,536
NYK Line Lanka (Pvt) Ltd.	Mr. A.M. Pandithage	Obtaining Freight Services	570,673
Hayleys Life Sciences Ltd.	Mr. A.M. Pandithage	Purchasing Consumer Items	3,513,270

# STATEMENT OF DIRECTORS'

## RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The Companies Act No. 07 of 2007 requires 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. 07 of 2007, the Directors are required to prepare for each financial year and place before the General Meeting of shareholders the Financial Statements, which comprise:

1. A statement of Income, which presents a true and fair view of the profit or loss of the Group for the financial year; and
2. A Balance Sheet, which presents 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. 07 of 2007.

In addition, the Directors have to ensure that Financial Statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the 'Framework for the preparation and presentation of Financial Statements' set out in the Sri Lanka Accounting Standards. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable Sri Lanka Accounting Standards.

Directors also have to ensure that:

- Appropriate Accounting Policies have been used in a consistent manner;
- Where necessary, prudent judgment and estimates have been made;
- Requirements of the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 have been followed;
- 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. 07 of 2007.

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

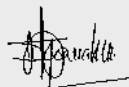
The Directors are required to provide the Auditors with every opportunity to take whatever steps necessary and undertake to enable them to form their audit opinion.

The responsibility of the Auditors in relation to the Financial Statements appears in the Report of the Auditors on page 135.

Messrs KPMG Ford, Rhodes, Thornton & Company, the Auditors of the Company has examined the Financial Statements and the related records and information. Their opinion on Financial Statements is given on page 135.

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 2011 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  
18th May 2010



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

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+94 - 11 230 7345  
Internet : www.lk.kpmg.com

## 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, 2010, 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 136 to 164 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 policies 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 - Company

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended March 31, 2010 and the financial statements give a true and fair view of the Company's state of affairs as at March 31, 2010 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### Opinion - Group

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at March 31, 2010 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  
18th May 2010

KPMG Ford, Rhodes, Thornton & Co, a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International cooperative ("KPMG International"), a Swiss entity.

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 FCA

# INCOME STATEMENTS

ANNUAL REPORT 2009/10

DIESEL & MOTOR ENGINEERING PLC

For the year ended 31st March		Consolidated			Company		
		2010	2009*	Change	2010	2009	Change
Note		Rs. '000	Restated Rs. '000	%	Rs. '000	Rs. '000	%
<b>Continuing Operations</b>							
Gross turnover	5	10,530,587	9,187,966	15	9,556,752	8,666,943	10
Sales taxes		(115,646)	(89,106)	30	(103,143)	(85,774)	20
<b>Net turnover</b>		<b>10,414,941</b>	9,098,860	14	<b>9,453,609</b>	8,581,169	10
Cost of sales		(8,028,818)	(6,898,780)	16	(7,362,013)	(6,635,499)	11
<b>Gross profit</b>		<b>2,386,123</b>	2,200,080	8	<b>2,091,596</b>	1,945,670	8
Other income/(expense)	6	44,244	68,023	(35)	28,811	61,977	(54)
Distribution expenses		(213,510)	(155,406)	37	(197,312)	(140,009)	41
Administrative expenses		(1,439,252)	(1,351,947)	6	(1,272,779)	(1,212,732)	(5)
Net finance cost	7	(365,746)	(585,491)	(38)	(344,001)	(547,027)	(37)
Share of post-tax profit/(loss) of equity accounted investee		8,236	(177)	(4,753)	-	-	-
<b>Profit before taxation</b>	8	<b>420,095</b>	175,082	140	<b>306,315</b>	107,879	184
Income tax expense	9	(141,842)	(72,054)	97	(117,113)	(46,758)	150
<b>Profit from continuing operations</b>		<b>278,253</b>	103,028	170	<b>189,202</b>	61,121	210
<b>Discontinued Operations</b>							
Loss from discontinued operations (net of income tax)	10	(29,956)	(13,584)		-	-	
<b>Profit for the year attributable to equity holders of the Company</b>		<b>248,297</b>	89,444		<b>189,202</b>	61,121	
<b>Earnings per Share</b>							
Basic earnings per share - (Rs.)	11	28.53	9.36		21.74	6.40	
Diluted earnings per share - (Rs.)	11	28.53	9.36		21.74	6.40	
<b>Continuing Operations</b>							
Basic earnings per share - (Rs.)	11	31.97	10.79		21.74	6.40	
Diluted earnings per share - (Rs.)	11	31.97	10.79		21.74	6.40	
Dividend per share - (Rs.)	12				7.00	3.00	

\* Comparative figures have been restated to reflect the results of discontinued operation as explained in Note 10 to the Financial Statements.


Figures in brackets indicate deductions.

The Notes to the Financial Statements from pages 141 to 164 form an integral part of these Financial Statements.

The Report of the Auditors is on page 135.

As at 31st March	Note	Consolidated		Company	
		2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>ASSETS</b>					
<b>Non-Current Assets</b>					
Property, plant & equipment	13	2,137,747	2,205,579	2,079,623	2,137,103
Leasehold property	14	1,360	1,440	1,360	1,440
Intangible assets	15	1,345	2,047	1,345	2,047
Investment in subsidiaries	16	-	-	23,350	23,350
Investment in jointly controlled entity	17	-	-	-	1,323
Investment in equity accounted investee	18	-	24,833	-	6,750
Other long-term investments	19	1,012	1,012	1,005	1,005
Deferred tax assets	28	7,941	-	-	-
<b>Total non-current assets</b>		<b>2,149,405</b>	<b>2,234,911</b>	<b>2,106,683</b>	<b>2,173,018</b>
<b>Current Assets</b>					
Inventories	20	1,316,374	1,329,848	1,236,757	1,240,180
Trade & other receivables	21	1,988,142	1,652,528	1,787,433	1,443,766
Income tax recoverable	32	10,251	36,189	10,183	34,367
Amounts due from subsidiaries	34	-	-	23,265	72,762
Cash & cash equivalents	22	35,461	9,698	27,765	8,870
<b>Total current assets</b>		<b>3,350,228</b>	<b>3,028,263</b>	<b>3,085,403</b>	<b>2,799,945</b>
Assets classified as held for sale	23	38,795	-	6,750	-
<b>TOTAL ASSETS</b>		<b>5,538,428</b>	<b>5,263,174</b>	<b>5,198,836</b>	<b>4,972,963</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Stated capital	24	182,500	182,500	182,500	182,500
Capital reserve	25	1,135,612	1,135,612	1,135,612	1,135,612
Revenue reserves	26	882,816	686,733	652,679	515,691
<b>Total equity attributable to the equity holders of the Company</b>		<b>2,200,928</b>	<b>2,004,845</b>	<b>1,970,791</b>	<b>1,833,803</b>
<b>Non-Current Liabilities</b>					
Interest bearing borrowings	27	502,729	662,969	502,729	662,969
Deferred tax liabilities	28	36,078	42,319	36,078	41,315
Deferred income	29	11,775	363	11,239	363
Defined benefit obligations	30	142,138	125,167	132,607	117,137
<b>Total non-current liabilities</b>		<b>692,720</b>	<b>830,818</b>	<b>682,653</b>	<b>821,784</b>
<b>Current Liabilities</b>					
Interest bearing borrowings	27	162,354	244,276	162,354	244,276
Trade & other payables	31	1,159,629	380,809	1,074,877	320,341
Amounts due to subsidiaries	34	-	-	37,251	375
Income tax payable	32	15,555	-	-	-
Short-term interest bearing borrowings	33	1,301,516	1,802,426	1,270,910	1,752,384
<b>Total current liabilities</b>		<b>2,639,054</b>	<b>2,427,511</b>	<b>2,545,392</b>	<b>2,317,376</b>
Liabilities directly associated with assets classified as held for sale	23	5,726	-	-	-
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>5,538,428</b>	<b>5,263,174</b>	<b>5,198,836</b>	<b>4,972,963</b>

It is certified that the Financial Statements as set out on pages 136 to 164 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

18th May 2010

Colombo

*Figures in brackets indicate deductions.*

The Notes to the Financial Statements from pages 141 to 164 form an integral part of these Financial Statements.

The Report of the Auditors is on page 135.



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

Director



# STATEMENTS OF CHANGES IN EQUITY

ANNUAL REPORT 2009/10

DIESEL & MOTOR ENGINEERING PLC

Consolidated	Note	Stated Capital Rs. '000	Capital Reserve Rs. '000	Revenue Reserves		Total Rs. '000
				General Reserve Rs. '000	Retained Earnings Rs. '000	
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		-	-	-	(30,250)	(30,250)
Transfer from general reserve		-	-	(543,618)	543,618	-
Acquisition of Company's own shares	26	-	-	-	(543,618)	(543,618)
Surplus on revaluation of land		-	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
Dividends to shareholders -						
2008/09 - final	12	-	-	-	(26,107)	(26,107)
2009/10 - interim	12	-	-	-	(26,107)	(26,107)
Profit for the year		-	-	-	248,297	248,297
<b>Balance as at 31st March 2010</b>		<b>182,500</b>	<b>1,135,612</b>	<b>319,290</b>	<b>563,526</b>	<b>2,200,928</b>

Company	Note	Stated Capital Rs. '000	Capital Reserve Rs. '000	Revenue Reserves		Total Rs. '000
				General Reserve Rs. '000	Retained Earnings Rs. '000	
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		-	-	-	(30,250)	(30,250)
Transfer from general reserve		-	-	(543,618)	543,618	-
Acquisition of Company's own shares	26	-	-	-	(543,618)	(543,618)
Surplus on revaluation of land		-	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
Dividends to shareholders						
2008/09 - final	12	-	-	-	(26,107)	(26,107)
2009/10 - interim	12	-	-	-	(26,107)	(26,107)
Profit for the year		-	-	-	189,202	189,202
<b>Balance as at 31st March 2010</b>		<b>182,500</b>	<b>1,135,612</b>	<b>229,464</b>	<b>423,215</b>	<b>1,970,791</b>

Figures in brackets indicate deductions.

The Notes to the Financial Statements from pages 141 to 164 form an integral part of these Financial Statements.

The Report of the Auditors is on page 135.

# CASH FLOW STATEMENTS

		Consolidated		Company	
For the year ended 31st March	Note	2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
<b>Operating Activities</b>					
Cash receipts from customers		10,281,514	9,755,196	9,292,718	9,180,476
Cash paid to suppliers and employees		(8,958,168)	(8,416,542)	(8,022,201)	(7,877,114)
Cash generated from operations		1,323,346	1,338,654	1,270,517	1,303,362
Interest paid		(364,453)	(572,199)	(353,514)	(538,354)
Income taxes paid	32	(112,060)	(140,803)	(98,166)	(130,772)
<b>Cash flows from operating activities</b>		<b>846,833</b>	<b>625,652</b>	<b>818,837</b>	<b>634,236</b>
<b>Investing Activities</b>					
Proceeds from disposal of property, plant & equipment		10,919	41,397	5,894	41,270
Investment in shares		-	(298)	-	(25,298)
Dividends received	7	101	1,713	3,475	1,713
Interest received	7	1,163	1,519	538	1,017
Proceeds from disposal of shares		-	75,684	-	75,684
Acquisition and construction of property, plant & equipment	13	(36,458)	(118,097)	(32,490)	(102,234)
<b>Cash flows from investing activities</b>		<b>(24,275)</b>	<b>1,918</b>	<b>(22,583)</b>	<b>(7,848)</b>
<b>Financing Activities</b>					
Acquisition of Company's own shares		-	(543,618)	-	(543,618)
Proceeds from long-term loans		-	350,000	-	350,000
Repayment of long-term loans	27.1	(235,993)	(181,826)	(235,993)	(181,826)
Repayment of finance lease obligations	27.2	(7,678)	(11,167)	(7,678)	(11,167)
Dividends paid		(52,214)	(30,250)	(52,214)	(30,250)
<b>Cash flows from financing activities</b>		<b>(295,885)</b>	<b>(416,861)</b>	<b>(295,885)</b>	<b>(416,861)</b>
<b>Net increase/(decrease) in cash &amp; cash equivalents</b>		<b>526,673</b>	<b>210,709</b>	<b>500,369</b>	<b>209,527</b>
<b>Cash &amp; cash equivalents at the beginning of the year</b>		<b>(1,792,728)</b>	<b>(2,003,437)</b>	<b>(1,743,514)</b>	<b>(1,953,041)</b>
<b>Cash &amp; cash equivalents at the end of the year (Note A)</b>		<b>(1,266,055)</b>	<b>(1,792,728)</b>	<b>(1,243,145)</b>	<b>(1,743,514)</b>
<b>Note A</b>					
<b>Analysis of Cash &amp; Cash Equivalents</b>					
Cash and bank balances	22	35,461	9,698	27,765	8,870
Short-term interest bearing loans and borrowings	33	(1,301,516)	(1,802,426)	(1,270,910)	(1,752,384)
Cash & cash equivalents		(1,266,055)	(1,792,728)	(1,243,145)	(1,743,514)

Figures in brackets indicate deductions.

The Notes to the Financial Statements from pages 141 to 164 form an integral part of these Financial Statements.

The Report of the Auditors is on page 135.

**Reconciliation of Operating Profit with Cash Flows from Operating Activities**

As at 31st March	Note	Consolidated		Company	
		2010 Rs. '000	2009 Rs. '000	2010 Rs. '000	2009 Rs. '000
Profit before Taxation from continuing Operations		<b>420,095</b>	175,082	<b>306,315</b>	107,879
Loss before Taxation from discontinued operations	10	<b>(32,427)</b>	(20,060)	–	–
<b>Profit before Taxation</b>		<b>387,668</b>	155,022	<b>306,315</b>	107,879
Interest cost		<b>354,962</b>	584,992	<b>344,041</b>	551,129
Interest and Dividend Income		<b>(1,264)</b>	(3,232)	<b>(4,013)</b>	(2,730)
Share of profit of equity accounted investee		<b>(8,236)</b>	177	–	–
Depreciation on property, plant & equipment	13	<b>94,252</b>	97,916	<b>86,459</b>	88,200
Amortisation of Intangible Assets and leasehold lands	14/15	<b>782</b>	782	<b>782</b>	782
Amortisation of Deferred Income	29	<b>(5,261)</b>	(915)	<b>(5,261)</b>	(915)
Movement of impairment on property, plant and equipment		<b>(5,959)</b>	6,594	<b>(6,594)</b>	6,594
Impairment of investment in jointly controlled entities		–	–	<b>1,323</b>	6,677
Gain on disposal of property, plant and equipment		<b>2,366</b>	(16,998)	<b>4,211</b>	(16,901)
Gain on disposal of investment		–	(34,720)	–	(34,720)
Provision for slow moving inventories	8.1	<b>46,704</b>	19,015	<b>30,979</b>	18,493
Provision for bad and doubtful debts	8.1	<b>115,662</b>	20,585	<b>90,826</b>	26,440
Provision for defined benefit plans	30	<b>28,224</b>	29,412	<b>25,108</b>	26,154
Operating profit before working capital changes		<b>1,009,900</b>	858,630	<b>874,176</b>	777,082
<b>Movement in Working Capital</b>					
(Increase)/decrease in inventories		<b>(33,230)</b>	840,942	<b>(27,557)</b>	864,776
(Increase)/decrease trade debtors & other receivables		<b>(434,604)</b>	444,023	<b>(368,860)</b>	469,872
Increase/(decrease) in trade creditors & other payables		<b>792,527</b>	(792,960)	<b>802,396</b>	(798,652)
Cash generated from operations		<b>1,334,593</b>	1,350,635	<b>1,280,155</b>	1,313,078
Interest Paid		<b>(364,453)</b>	(572,199)	<b>(353,514)</b>	(538,354)
Retirement benefits paid	30	<b>(11,247)</b>	(11,980)	<b>(9,638)</b>	(9,716)
Income Taxes paid	32	<b>(112,060)</b>	(140,804)	<b>(98,166)</b>	(130,772)
<b>Net cash flow generated from operating activities</b>		<b>846,833</b>	625,652	<b>818,837</b>	634,236

Figures in brackets indicate deductions.

The Notes to the Financial Statements from pages 141 to 164 form an integral part of these Financial Statements.

The Report of the Auditors is on page 135.

**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 2010 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 equity accounted investee and jointly controlled entity.

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

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

**1.1 Principal Activities and Nature of Operations****1.1.1 Group**

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

**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. 07 of 2007.

**2.2 Approval of Financial Statements by Directors**

The Financial Statements for the year ended 31st March 2010 were authorised for issue by the Board of Directors on 18th May 2009.

**2.3 Basis of Measurement**

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

- Land included in property, plant & equipment is stated at cost at the acquisition and subsequently at revalued amounts, less accumulated impairment losses, if any. Further details are explained in Note 13 to the Financial Statements.
- Assets held for sale are measured at lower of its carrying amount and fair value less cost to sell.

**2.4 Functional and Presentation Currency**

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

**2.5 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 134.

**2.6 Use of Estimates and Judgments**

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

Estimates and underlying assumptions are reviewed on an 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.

Information about significant areas in which estimates are made and critical judgments have been made, in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes.

**2.6.1 Income tax**

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

**2.6.2 Defined Benefit Obligation**

The present value of the defined benefit obligation depend on a number of assumptions made in doing actuarial valuation. Key assumptions used in determining the retirement benefit obligations are given in Note 30. Any changes in these assumptions will impact the carrying amount of retirement benefit obligation.

**2.6.3 Economic Useful Lives**

Economic useful lives of assets are estimated as follows:

	Years
Buildings	36-40
Plant & Machinery	08-13
Workshop Implements	03-04
Motor Vehicles	03-04
Furniture & Fittings	09-13
Office Equipment & Electrical	06-10
Computer Hardware & Software	03-04

### 3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these Consolidated Financial Statements, and have been applied consistently by the Group entities. Certain comparative amounts have been reclassified to conform to the current year's presentation.

The Directors have made an assessment of the Group's ability to continue as a going concern in the foreseeable future, and they do not intend to liquidate or to cease of trading.

#### 3.1 Basis of Consolidation

##### 3.1.1 Subsidiaries

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

A listing of the Group's subsidiaries is set out in Note 16 to the Financial Statements.

##### 3.1.2 Jointly Controlled Entities

Jointly controlled entities is an entities over whose activities the Company has joint control, established by contractual agreement and requiring unanimous consent for strategic, financial and operating decisions.

The Company recognises its interest in the Joint Venture using the line by line reporting format for proportionate consolidation method and is recognised initially at cost.

##### 3.1.3 Equity Accounted Investees

Equity Accounted Investees are those entities in which the Group has significant influence but not control over the financing and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of the entity. Equity Accounted Investee are accounted for using the equity method (equity accounted investees) and are recognised initially at cost. The consolidated financial statements include the Group's share of income and expenses and equity movements of equity accounted investees, from the date that significant influence commences until the date significant influence ceases. When the Group's share of losses exceeds its investment 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 the Groups has incurred obligations or has made payments on behalf of the investee.

A listing of the Group's equity accounted investee is set out in Note 18 to the Financial Statements.

#### 3.1.4 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.

#### 3.2 Foreign Currency

##### 3.2.1 Foreign Currency Transactions

Transactions in foreign currencies are translated to Sri Lanka Rupees at exchange rates at the dates of the transactions.

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

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

#### 3.3 Assets and Bases of their Valuation

##### 3.3.1 Property, Plant & Equipment

###### 3.3.1.1 Recognition and measurement

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

###### 3.3.1.2 Owned assets

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

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

A revaluation of land is carried out in every three years or when there is a substantial difference between the fair value and the carrying amount. Revaluation is undertaken by professionally qualified valuers.

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

**3.3.1.3 Leased assets**

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

**3.3.1.4 Subsequent costs**

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

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

**3.3.1.5 Derecognition**

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

**3.3.1.6 Depreciation**

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

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

Estimated useful economic lives of the assets are given in Note 2.6.3.

**3.3.1.7 Capital Work-in-Progress**

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

**3.3.2 Intangible Assets**

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

**3.3.2.1 Subsequent Expenditure**

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

**3.3.2.2 Amortisation**

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

**3.3.3 Investments****3.3.3.1 Long-Term Investments**

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

In the parent Company's financial statements, investments in subsidiaries, jointly controlled entity and Equity accounted investee are carried at cost under the parent Company accounting policy for long-term investments.

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

**3.3.4 Inventories**

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

- All inventory items and work-in-progress are measured at weighted average directly attributable cost.

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

**3.3.5 Trade and Other Receivables**

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

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

**3.3.6 Cash & 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.

**3.3.7 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 Income Statement.

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

### 3.3.8 Assets Held for Sale

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

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

### 3.4 Liabilities and Provisions

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

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

#### 3.4.1 Employee Benefits

##### 3.4.1.1 Defined Contribution Plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Employees are eligible for Employees' Provident Fund (EPF) contributions and Employees' Trust Fund (ETF) contributions in line with respective statutes and regulations. The companies contribute the defined percentages of gross emoluments of employees to approved funds and are recognised as an expense in Income Statement as they fall due.

##### 3.4.1.2 Defined Benefits Plans - Retiring Gratuity

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

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

The liability is not externally funded.

Provisions have been made for gratuities from the first year of service for all employees, in conformity with SLAS 16 (Revised 2006) on 'Retirement Benefit Costs'. However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

#### Actuarial Gains and Losses

Actuarial gains or losses are recognised immediately in Income Statement.

##### 3.4.1.3 Short-Term Benefits

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

#### 3.4.2 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

#### 3.4.3 Trade and Other Payables

Trade and other payables are stated at their costs.

#### 3.4.4 Capital Commitments and Contingencies

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

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

### 3.5 Deferred Income

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

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

### 3.6 Income Statement

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

#### 3.6.1 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 estimated goods can be reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably.

##### (b) Rendering of Services

Revenue from services rendered is recognised in Income Statement on the invoicing of the job after completion. In instances where the revenue from services spreads over a period of time, revenue is recognised in Income Statement 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 recognised on an accrual basis once the shipment is effected.

##### (d) Rent Income

Rent income is recognised in Income Statement as it accrues.

##### (e) Dividend Income

Dividend income is recognised in Income Statement on the date the entity's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

##### (f) Gains/(Loss) Disposal of Investments

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

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

#### 3.6.2 Expenses

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

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

#### 3.6.3 Operating Leases

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

#### 3.6.4 Borrowing Costs

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

#### 3.6.5 Finance Income and Expenses

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

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

#### 3.6.6 Income Tax Expense

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

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

Deferred tax is recognised using the Balance Sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. 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 is recognised as an expense in the Consolidated Income Statement at the same time as the liability to pay the related dividend is recognised.

### 3.7 Discontinued Operations

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

### 3.8 General

#### 3.8.1 Events Occurring after the Balance Sheet Date

All material post Balance Sheet events have been considered and where appropriate adjustments or disclosures have been made in the respective notes to the Financial Statements.

#### 3.8.2 Earnings per share

The Group presents basic and diluted earnings per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

### 3.9 Cash Flow Statement

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

Interest paid is classified as an operating cash flow. Dividend and interest income are classified as cash flows from investing activities.

Dividends paid are classified as financing cash flows.

### 3.10 Segment Reporting

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

The segment reporting is presented on the primary format, business segments, as per the Sri Lanka Accounting Standard 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.

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

Segmental capital expenditure is the total cost incurred during the period to acquire property, plant & equipment and intangible assets other than goodwill.

### 4. New Accounting Standards

The institute of Chartered Accountants of Sri Lanka has issued following new Accounting Standards, which becomes effective for annual periods that commence subsequent to the reporting date.

- Accounting period beginning on or after 1st January 2010
  - SLAS-39 - 'Share Based Payments'
- Accounting period beginning on or after 1st January 2011
  - Sri Lanka Accounting Standard 44 - 'Financial Instruments: Presentation'
  - Sri Lanka Accounting Standard 45 - 'Financial Instruments: Recognition' and Measurement

The Company is currently in the process of evaluating the potential effect of these Standards. However, the impact of the above requirements has not been quantified as at the Balance Sheet date.

## 5. Segment Information

The Group comprises the following main business segments:

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

	Vehicles		Vehicle Parts & Services		Lighting & Power Tools		Construction & Material Handling Machinery		Electro Mechanical & Bio Medical Engineering		Total	
<i>For the year ended 31st March</i>	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009*	2010	2009
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Restated Rs. '000	Rs. '000	Restated Rs. '000
<b>Business Segment Turnover &amp; Results</b>												
Total segment revenue	5,362,244	4,924,323	2,626,758	2,446,458	402,283	488,043	1,582,584	1,394,437	781,899	531,607	10,755,768	9,784,868
Inter-segment revenue	85,037	180,139	73,202	211,276	1,586	34,259	65,279	57,441	77	113,787	225,181	596,902
<b>Total external revenue</b>	<b>5,277,207</b>	<b>4,744,184</b>	<b>2,553,556</b>	<b>2,235,182</b>	<b>400,697</b>	<b>453,784</b>	<b>1,517,305</b>	<b>1,336,996</b>	<b>781,822</b>	<b>417,820</b>	<b>10,530,587</b>	<b>9,187,966</b>
Segment result	465,299	339,690	432,335	463,768	71,497	81,076	144,889	155,111	83,594	95,422	1,197,614	1,135,067
Unallocated income	-	-	-	-	-	-	-	-	-	-	44,244	68,023
Unallocated expenses	-	-	-	-	-	-	-	-	-	-	(464,253)	(442,340)
Finance cost - net	-	-	-	-	-	-	-	-	-	-	(365,746)	(585,491)
Income from equity accounted investee	-	-	-	-	-	-	-	-	-	-	8,236	(177)
Income tax expense	-	-	-	-	-	-	-	-	-	-	(141,842)	(72,054)
Discontinued operations	-	-	-	-	-	-	-	-	-	-	(29,956)	(13,584)
<b>Profit for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>248,297</b>	<b>89,444</b>
<b>Business Segment Assets &amp; Liabilities</b>												
Segment assets	1,545,673	1,309,766	1,285,993	1,203,789	187,496	208,955	595,287	363,276	268,313	297,751	3,882,762	3,383,537
Assets classified as held for sale	-	-	-	-	-	-	-	-	-	-	38,795	24,833
Unallocated assets	-	-	-	-	-	-	-	-	-	-	1,616,871	1,854,804
<b>Total assets</b>	<b>1,545,673</b>	<b>1,309,766</b>	<b>1,285,993</b>	<b>1,203,789</b>	<b>187,496</b>	<b>208,955</b>	<b>595,287</b>	<b>363,276</b>	<b>268,313</b>	<b>297,751</b>	<b>5,538,428</b>	<b>5,263,174</b>
Segment liabilities	549,889	978,157	142,107	441,855	21,503	145,701	116,042	108,925	36,731	53,506	866,272	1,728,144
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	2,471,228	1,530,185
<b>Total liabilities</b>	<b>549,889</b>	<b>978,157</b>	<b>142,107</b>	<b>441,855</b>	<b>21,503</b>	<b>145,701</b>	<b>116,042</b>	<b>108,925</b>	<b>36,731</b>	<b>53,506</b>	<b>3,337,500</b>	<b>3,258,329</b>
<b>Other Business Segment Information</b>												
Capital expenditure	5,009	30,781	7,879	7,723	697	1,297	4,619	997	2,327	15,449	20,531 *	56,247
Depreciation	9,915	14,683	37,507	35,540	553	793	4,035	6,028	5,724	7,153	57,734 *	64,197
Non-cash expenses other than depreciation	36,461	15,818	30,222	16,371	273	1,220	17,642	18,871	43,301	10,270	127,899	62,550

\* Represent capital expenditure and depreciation which are directly attributable to business segments.

For the year ended 31st March	Vehicles		Vehicle Parts & Services		Lighting & Power Tools		Construction & Material Handling Machinery		Electro Mechanical & Bio Medical Engineering		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009*	2010	2009*
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Restated Rs. '000	Rs. '000	Restated Rs. '000
<b>Business Segment Cash Flow</b>												
Operating activities	531,318	781,543	264,478	39,835	67,452	37,889	(91,720)	176,931	(720)	43,565	770,808	1,079,763
Investing activities	(4,355)	(30,781)	(10,462)	(7,723)	(697)	(1,297)	(4,799)	(997)	(720)	(15,449)	(21,033)	(56,247)
<b>Unallocated Cash Flows</b>												
Common cash flows											188,587	(313,307)
Income taxes paid											(112,060)	(140,804)
Proceeds from disposal of property, plant & equipment											10,919	41,397
Investment in shares											-	(298)
Proceeds from disposal of shares											-	75,684
Dividends received											101	1,713
Interest received											1,163	1,519
Acquisition of construction of property, plant & equipment											(15,927)	(61,850)
Acquisition of Company's own shares											-	(543,618)
Proceeds from long-term loan											-	350,000
Repayment of long-term loan											(235,993)	(181,826)
Repayment of finance lease obligations											(7,678)	(11,167)
Dividends paid											(52,214)	(30,250)
Net increase/(decrease) in cash & cash equivalents											526,673	210,709

Figures in brackets indicate outflows.

\* Comparative figures have been restated to reflect the results of discontinued operations as explained in Note 10 to the Financial Statements.

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.

## 6. Other Income/(Expenses)

	Consolidated		Company	
	2009/10 Rs. '000	2008/09 Rs. '000	2009/10 Rs. '000	2008/09 Rs. '000
Gain/(Loss) on disposal of property, plant & equipment	(2,366)	16,998	(4,211)	16,901
Incentives received from principals	3,727	2,733	3,727	2,733
Rent income	8,777	1,114	5,717	1,115
Hiring income	3,402	7,002	3,402	7,002
Amortisation of deferred income	5,261	915	5,261	915
Sundry income	25,443	4,541	16,238	5,268
Gain on disposal of investment	-	34,720	-	34,720
Impairment of investment in jointly controlled entity	-	-	(1,323)	(6,677)
	44,244	68,023	28,811	61,977

**7. Net Finance Cost**

	Consolidated		Company	
	2009/10	2008/09	2009/10	2008/09
	Rs. '000	Restated Rs. '000	Rs. '000	Rs. '000
<b>Financing Income</b>				
Dividend income	101	1,713	3,475	1,713
Interest income	1,163	1,519	538	1,017
Gain on translation of foreign currency	44	1,386	–	1,372
	<b>1,308</b>	<b>4,618</b>	<b>4,013</b>	<b>4,102</b>
<b>Financing Costs</b>				
Interest on long-term borrowings	(129,291)	(124,182)	(129,291)	(124,182)
Interest on short-term borrowings	(224,162)	(458,287)	(213,241)	(424,424)
Interest on finance lease	(1,509)	(2,523)	(1,509)	(2,523)
Loss on translation of foreign currency	(12,092)	(5,117)	(3,973)	–
	<b>(367,054)</b>	<b>(590,109)</b>	<b>(348,014)</b>	<b>(551,129)</b>
	<b>(365,746)</b>	<b>(585,491)</b>	<b>(344,001)</b>	<b>(547,027)</b>

**8. Profit Before Taxation**

	Consolidated		Company	
	2009/10	2008/09	2009/10	2008/09
	Rs. '000	Restated Rs. '000	Rs. '000	Rs. '000
<b>8.1 Profit before taxation is stated after charging all expenses including the following:</b>				
Directors' emoluments	54,628	48,776	35,743	42,145
Auditors' remuneration				
- Statutory audit	1,753	1,352	1,225	1,080
- Audit related services	164	433	164	232
- Non-Audit services	2,999	625	2,335	625
Depreciation on property, plant & equipment	94,252	97,916	86,459	88,200
Amortisation of intangible assets and leasehold property	782	782	782	782
Provision for bad & doubtful debts and write-off	115,662	59,053	90,826	50,327
Provision for slow moving inventories	46,704	19,015	30,979	18,493
Donations	1,166	860	806	787
Legal fees	9,760	9,597	9,354	9,277
Staff expense (Note 8.2)	596,437	575,692	528,137	496,125

**8.2 Staff Expense**

	Consolidated		Company	
	2009/10	2008/09	2009/10	2008/09
	Rs. '000	Restated Rs. '000	Rs. '000	Rs. '000
Defined contribution plan costs (EPF & ETF)	62,475	58,698	53,630	50,640
Defined benefit plan costs (Retiring gratuity)	28,224	29,412	25,108	26,154
Training expenses	11,935	14,810	7,293	7,765
Salaries & wages	493,803	472,772	442,106	411,566
	<b>596,437</b>	<b>575,692</b>	<b>528,137</b>	<b>496,125</b>
Average number of employees for the year	867	869	747	731

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.



## 9. Income Tax Expense

	Consolidated		Company	
	2009/10 Rs. '000	2008/09 Restated Rs. '000	2009/10 Rs. '000	2008/09 Rs. '000
<b>Current Tax Expense:</b>				
Income tax on current year profit (Note 9.1)	149,186	61,794	118,460	44,202
Under provision in respect of previous year	4,367	2,596	3,890	2,231
	153,553	64,390	122,350	46,433
<b>Deferred Tax Expense:</b>				
Origination and reversal of temporary differences (Note 28)	(14,182)	1,187	(5,237)	325
	139,371	65,577	117,113	46,758
Tax release*	2,471	6,477	-	-
<b>Total income tax expense</b>	<b>141,842</b>	<b>72,054</b>	<b>117,113</b>	<b>46,758</b>

## 9.1 Reconciliation of Accounting Profit to Income Tax Expense

	Consolidated		Company	
	2009/10 Rs. '000	2008/09 Rs. '000	2009/10 Rs. '000	2008/09 Rs. '000
<b>Profit before Taxation</b>				
Continuing operations	420,095	175,082	306,315	107,878
Discontinued operations	(32,427)	(20,060)	-	-
	387,668	155,022	306,315	107,878
Disallowable expenses	175,982	174,213	142,059	165,410
Allowable expenses	(111,831)	(117,998)	(103,878)	(105,272)
Tax losses for the year	-	6,154	-	-
Share of (profit)/loss of equity accounted investee	(8,236)	177	-	-
Income not liable to tax	(4,638)	(42,505)	(4,013)	(42,476)
<b>Taxable income</b>	<b>438,945</b>	<b>175,063</b>	<b>340,483</b>	<b>125,540</b>
Income tax				
Tax at 15%	866	294	590	294
Tax at 35%	146,115	60,587	116,120	43,255
Social Responsibility Levy (SRL) at 1.5%	2,205	913	1,750	653
<b>Income tax on profits for the year</b>	<b>149,186</b>	<b>61,794</b>	<b>118,460</b>	<b>44,202</b>
<b>Effective tax rate</b>	<b>38.48</b>	<b>39.86</b>	<b>38.67</b>	<b>40.97</b>

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

**9.2 Tax Losses Brought Forward and Utilised during the Year**

	Consolidated		Company	
	2009/10 Rs. '000	2008/09 Rs. '000	2009/10 Rs. '000	2008/09 Rs. '000
Tax Losses at the beginning of the year	19,861	9,443	-	-
Loss incurred during the year	-	6,154	-	-
Utilised during the year	(118)	-	-	-
Adjustment on asset held for sale	(7,035)	-	-	-
Adjustment to tax loss brought forward	97	4,264	-	-
<b>At the end of the year</b>	<b>12,805</b>	<b>19,861</b>	<b>-</b>	<b>-</b>

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

The tax liability on proposed final dividend is Rs. 3,480,955/-. The actual liability arises in year in which the dividend is paid hence no liability is recognised in these Financial Statements.

**10. Discontinued Operations**

In December 2009 the Group discontinued operations of Telecommunication Equipment Sales and Service which were included in Electro Mechanical & Bio Medical Engineering segment; the business was not a discontinued operation as at 31st March 2009 and the comparative income statement has been restated to show the discontinued operation separately from continuing operations.

**Results of Discontinued Operations**

	2009/10 Rs. '000	2008/09 Rs. '000
Revenue	40,305	86,138
Expenses	(72,732)	(106,198)
Loss before taxation	(32,427)	(20,060)
Income tax release	2,471	6,476
Losses for the period	(29,956)	(13,584)
Basic Losses per share	(3.44)	(1.42)
Diluted Losses per share	(3.44)	(1.42)
<b>Cash Flows from Discontinued Operations</b>		
Net cash flows from operating activities	11,779	(8,586)
Net cash from investing activities	-	(149)

### 11. 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		Company	
	2009/10	2008/09	2009/10	2008/09
<b>a. Basic Earnings Per Share</b>				
Profit attributable to ordinary shareholders (Rs. '000)	248,297	89,444	189,202	61,121
Weighted average number of ordinary shares (i)	8,702,389	9,551,792	8,702,389	9,551,792
<b>Basic earnings per ordinary share (Rs.)</b>	<b>28.53</b>	9.36	<b>21.74</b>	6.40
<b>Diluted earnings per ordinary share (Rs.)</b>	<b>28.53</b>	9.36	<b>21.74</b>	6.40
<b>B. Continuing Operations</b>				
Profit attributable to ordinary shareholders (Rs. '000)	278,253	103,028	189,202	61,121
Weighted average number of ordinary shares (i)	8,702,389	9,551,792	8,702,389	9,551,792
<b>Basic earnings per ordinary share (Rs.)</b>	<b>31.97</b>	10.79	<b>21.74</b>	6.40
<b>Diluted earnings per ordinary share (Rs.)</b>	<b>31.97</b>	10.79	<b>21.74</b>	6.40
(i) Qualifying ordinary shares at the beginning of the year	8,702,389	12,100,000	8,702,389	12,100,000
Acquisition of Company's own shares	-	(3,397,611)	-	(3,397,611)
Qualifying ordinary shares at the end of the year	8,702,389	8,702,389	8,702,389	8,702,389
Weighted average number of ordinary shares at the year end	8,702,389	9,551,792	8,702,389	9,551,792

There were no potentially dilutive ordinary shares outstanding at any time during the year/previous year.

### 12. Dividends

#### Calculation of Dividend per Share

	Company	
	2009/10 Rs. '000	2008/09 Rs. '000
Interim paid	26,107	-
Final proposed	34,810	26,107
	<b>60,917</b>	26,107
Dividend per share (Rs.)	<b>7.00</b>	3.00

Directors have approved the payment of final dividend of Rs. 4.00 per share for the year ended 31st March 2010 (2008/09 - Rs. 3.00 per share). In accordance with the SLAS 12 (Revised 2005) on 'Events after the Balance Sheet date', the proposed final dividend subsequent to the Balance Sheet date is not recognised as a liability in the Financial Statements as at 31st March 2010.

**13. Property, Plant & Equipment**

	Freehold Land Rs. '000	Buildings & Premises Rs. '000	Plant & Machinery Rs. '000	Tools & Implements Rs. '000	Motor Vehicles Rs. '000	Leased Motor Vehicles Rs. '000	Computer Hardware & Software Rs. '000	Electrical Fixtures, Fittings, & Office Equipment Rs. '000	Total	
									2010 Rs. '000	2009 Rs. '000
<b>a. Consolidated</b>										
<b>Cost or Valuation</b>										
Balance at the beginning of the year	1,374,289	589,190	209,421	122,765	160,855	6,825	104,897	161,903	<b>2,730,145</b>	1,831,033
Additions	-	3,229	10,313	3,455	11,711	-	5,491	2,688	<b>36,887</b>	118,097
Surplus on revaluation	-	-	-	-	-	-	-	-	-	824,090
Disposals	-	-	(14,816)	-	(6,538)	-	(1,720)	(269)	<b>(23,343)</b>	(43,075)
Transfer to assets classified as held for sale	-	(1,534)	(1,153)	(9)	-	-	-	(526)	<b>(3,222)</b>	-
Balance at the end of the year	<u>1,374,289</u>	<u>590,885</u>	<u>203,765</u>	<u>126,211</u>	<u>166,028</u>	<u>6,825</u>	<u>108,668</u>	<u>163,796</u>	<b>2,740,467</b>	2,730,145
<b>Depreciation</b>										
Balance at the beginning of the year	-	70,600	87,230	95,854	98,729	3,582	82,280	86,720	<b>524,995</b>	439,161
Charge for the year	-	19,351	12,637	11,210	29,166	1,327	10,946	9,615	<b>94,252</b>	97,916
On disposals	-	-	(3,856)	-	(4,329)	-	(1,612)	(261)	<b>(10,058)</b>	(18,676)
Transfer to assets classified as held for sale	-	(307)	(121)	(3)	-	-	-	(79)	<b>(510)</b>	-
Balance at the end of the year	<u>-</u>	<u>89,644</u>	<u>95,890</u>	<u>107,061</u>	<u>123,566</u>	<u>4,909</u>	<u>91,614</u>	<u>95,995</u>	<b>608,679</b>	518,401
<b>Impairment</b>										
Reversals of impairment loss	-	-	(6,594)	-	-	-	-	-	<b>(6,594)</b>	-
Impairment loss	-	-	-	-	-	-	-	635	<b>635</b>	6,594
<b>Accumulated depreciation and impairment</b>										
	<u>-</u>	<u>89,644</u>	<u>89,296</u>	<u>107,061</u>	<u>123,566</u>	<u>4,909</u>	<u>91,614</u>	<u>96,630</u>	<b>602,720</b>	524,995
<b>Capital work-in-progress</b>										
Carrying amount as at the end of the year	<u>1,374,289</u>	<u>501,241</u>	<u>114,469</u>	<u>19,150</u>	<u>42,462</u>	<u>1,916</u>	<u>16,419</u>	<u>67,801</u>	<b>2,137,747</b>	2,205,579
<b>b. Company</b>										
<b>Cost or Valuation</b>										
Balance at the beginning of the year	1,374,289	562,464	174,793	109,293	156,668	6,825	93,733	145,285	<b>2,623,350</b>	1,739,976
Additions	-	3,136	8,321	2,570	11,711	-	4,541	2,640	<b>32,919</b>	102,234
Revaluation	-	-	-	-	-	-	-	-	-	824,090
Disposals	-	-	(10,848)	-	(4,438)	-	(1,277)	(269)	<b>(16,832)</b>	(42,950)
Balance at the end of the year	<u>1,374,289</u>	<u>565,600</u>	<u>172,266</u>	<u>111,863</u>	<u>163,941</u>	<u>6,825</u>	<u>96,997</u>	<u>147,656</u>	<b>2,639,437</b>	2,623,350
<b>Depreciation</b>										
Balance at the beginning of the year	-	67,307	80,141	86,115	95,152	3,582	73,526	80,853	<b>486,676</b>	410,463
Charge for the year	-	18,757	10,263	9,382	28,825	1,327	9,618	8,287	<b>86,459</b>	88,200
On disposals	-	-	(3,068)	-	(2,229)	-	(1,169)	(261)	<b>(6,727)</b>	(18,581)
Balance at the end of the year	<u>-</u>	<u>86,064</u>	<u>87,336</u>	<u>95,497</u>	<u>121,748</u>	<u>4,909</u>	<u>81,975</u>	<u>88,879</u>	<b>566,408</b>	480,082
<b>Impairment</b>										
Reversal of impairment loss	-	-	(6,594)	-	-	-	-	-	<b>(6,594)</b>	-
Impairment loss	-	-	-	-	-	-	-	-	-	6,594
<b>Accumulated depreciation and impairment</b>										
	<u>-</u>	<u>86,064</u>	<u>80,742</u>	<u>95,497</u>	<u>121,748</u>	<u>4,909</u>	<u>81,975</u>	<u>88,879</u>	<b>559,814</b>	486,676
<b>Capital work-in-progress</b>										
Carrying amount as at the end of the year	<u>1,374,289</u>	<u>479,536</u>	<u>91,524</u>	<u>16,366</u>	<u>42,193</u>	<u>1,916</u>	<u>15,022</u>	<u>58,777</u>	<b>2,079,623</b>	2,137,103

**Notes**

i. The value of the freehold land owned by the Group was last assessed by an independent valuer as at 30th September 2008.

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

Location	Extent	Cost Rs. '000	Revalued Rs. '000	Pledged
No. 65 & 56, Jetawana Road, Colombo 14	2A-0R-33.29P	414	821,660	-
No. 61, Jetawana Road, Colombo 14	0A-1R-04.00P	18,014	132,000	-
No. 74, Jetawana Road, Colombo 14	0A-1R-14.56P	113,808	172,313	√
No. 135, Mahena Road, Siyambalape	7A-3R-05.90P	16,483	94,290	√
Kirindiwela Road, Weliweriya	16A-0R-36.31P	89,958	154,026	√
<b>Total</b>		<u>238,677</u>	<u>1,374,289</u>	

ii. Group property, plant & equipment with cost of Rs. 317 mn (2008/09 - Rs. 308 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. 296 mn (2008/09 Rs. - 288 mn).

iii. Group land and building with a carrying value of Rs. 821 mn (2009 - Rs. 821 mn), have been pledged as security for term loans obtained.

iv. There has been no permanent fall in the value of Property, Plant & Equipment which require a provision other than disclosed above.

**14. Leasehold Property**

	Consolidated		Company	
	2009/10 Rs. '000	2008/09 Rs. '000	2009/10 Rs. '000	2008/09 Rs. '000
<b>Cost</b>				
Balance at the beginning of the year	<u>2,400</u>	2,400	<u>2,400</u>	2,400
<b>Balance at the end of the year</b>	<u>2,400</u>	2,400	<u>2,400</u>	2,400
<b>Amortisation</b>				
Balance at the beginning of the year	<u>960</u>	880	<u>960</u>	880
Amortisation for the year	<u>80</u>	80	<u>80</u>	80
Balance at the end of the year	<u>1,040</u>	960	<u>1,040</u>	960
<b>Carrying amount at the end of the year</b>	<u>1,360</u>	1,440	<u>1,360</u>	1,440

The leasehold property represents leasehold land situated at Anuradhapura which is on a 30-year lease and expires in 2026.

**15. Intangible Assets**

	Consolidated		Company	
	2009/10 Rs. '000	2008/09 Rs. '000	2009/10 Rs. '000	2008/09 Rs. '000
<b>Cost</b>				
Balance at the beginning of the year	2,808	2,808	2,808	2,808
Balance at the end of the year	2,808	2,808	2,808	2,808
<b>Accumulated Amortisation</b>				
Balance at the beginning of the year	761	59	761	59
Amortisation for the year	702	702	702	702
Balance at the end of the year	1,463	761	1,463	761
Carrying amount at the end of the year	1,345	2,047	1,345	2,047

Computer software purchase cost has been classified as an Intangible Asset.

**16. Investment in Subsidiaries**

	Percentage of Holding	Company	
		2009/10 Rs. '000	2008/09 Rs. '000
<b>Unquoted Investment-Ordinary Shares</b>			
Dimo (Pvt) Ltd. - 25,000 (a)	100	250	250
Dimo Industries (Pvt) Ltd. - 2,300,500 (b)	100	23,050	23,050
Dimo Travels (Pvt) Ltd. - 500 (c)	100	50	50
		<b>23,350</b>	23,350

Principal activities of the subsidiaries include;

- (a) Sale and after sales service of bio medical equipment, power engineering solutions, building technologies, generating sets, diesel engines for marine propulsion and rail traction engines and fluid management systems.
- (b) Tyre retreading
- (c) Business of travel agency including provision of transportation facilities.

In the opinion of the Directors, the net realisable value of the unquoted investments are higher than their cost.

**17. Investment in Jointly Controlled Entity**

	Percentage of Holding	Company	
		2009/10 Rs. '000	2008/09 Rs. '000
<b>Unquoted Investments</b>			
DIMO-KLN Industries (Pvt) Ltd.	49	8,000	8,000
Provision for fall in value of investment in joint venture		(8,000)	(6,677)
		<b>-</b>	1,323



The Company formed a joint venture in collaboration with KLN Engineering Products ( Pvt ) Ltd. in India to manufacture filters for automobiles. The Company has made losses since its commencement of commercial operations in August 2007.

The management of Diesel & Motor Engineering PLC has decided to divest the investment in Dimo KLN Industries (Pvt) Ltd., a full provision has been made on investment in the Company since there is no recoverable value. Immediately before the divestment of investment the business activity was reported under Vehicle Parts and Services segment.

#### 18. Investments in Equity Accounted Investee

		Consolidated		Company	
	Percentage of Holding	2009/10 Rs. '000	2008/09 Rs. '000	2009/10 Rs. '000	2008/09 Rs. '000
<b>Unquoted Investments</b>					
Browns Dimo Industrial Products (Pvt) Ltd. 675,000 ordinary shares	45	<b>6,750</b>	6,750	<b>6,750</b>	6,750
Group share of net assets	19	<b>26,319</b>	18,083	-	-
Assets classified as held for sale (Note 23.2)		<b>(33,069)</b>	-	<b>(6,750)</b>	-
<b>Group investment in equity accounted investee</b>		<b>-</b>	24,833	<b>-</b>	6,750

#### 19. Other Long-Term Investments

	No. of Shares	Market Value Rs. '000	Consolidated		Company	
			2009/10 Rs. '000	2008/09 Rs. '000	2009/10 Rs. '000	2008/09 Rs. '000
Quoted Investments						
Ordinary Shares						
Hunas Falls Hotels PLC	900	47	14	14	7	7
Hatton National Bank PLC (Non-voting)	22,000	3,080	700	700	700	700
Ceylinco Insurance PLC (Non-voting)	1,700	393	298	298	298	298
			1,012	1,012	1,005	1,005

#### 20. Inventories

	Consolidated		Company	
	2009/10 Rs. '000	2008/09 Rs. '000	2009/10 Rs. '000	2008/09 Rs. '000
Stock in trade and work-in-progress	1,126,287	1,323,637	1,024,274	1,240,650
Provision for slow moving inventories	(115,717)	(69,013)	(92,908)	(61,930)
	1,010,570	1,254,624	931,366	1,178,720
Goods-in-transit	305,804	75,224	305,391	61,460
	1,316,374	1,329,848	1,236,757	1,240,180

**21. Trade and Other Receivables**

	Consolidated		Company	
	2009/10 Rs. '000	2008/09 Rs. '000	2009/10 Rs. '000	2008/09 Rs. '000
Trade receivables	2,127,344	1,673,333	1,891,120	1,465,151
Provision for bad and doubtful debts	(212,334)	(96,672)	(165,038)	(74,212)
	1,915,010	1,576,661	1,726,082	1,390,939
Deposits and pre payments	55,260	48,848	44,290	30,103
Other trade receivables	14,384	22,850	13,786	18,781
Loans to employees	3,488	4,169	3,275	3,943
	1,988,142	1,652,528	1,787,433	1,443,766

**22. Cash and Cash Equivalents**

	Consolidated		Company	
	2009/10 Rs. '000	2008/09 Rs. '000	2009/10 Rs. '000	2008/09 Rs. '000
Bank balances	28,684	3,982	21,314	3,379
Cash in hand	6,777	5,716	6,451	5,491
	35,461	9,698	27,765	8,870

**23. Assets Classified as Held for Sale**

**23.1** The management of Diesel & Motor Engineering PLC decided to divest its 49% holding in Dimo KLN Industries (Pvt) Ltd., to its Joint Venture Partner. The Share of assets and liabilities of Dimo KLN Industries (Pvt) Ltd. is given below:

**23.2** The Company holds 45% of shares in Browns Dimo Industrial Products (Pvt) Ltd. (BDIPL). As at the year end the management of Diesel & Motor Engineering PLC decided to divest the investment. Hence, the investment presented separately as assets classified as held for sale at the lower its carrying amount and fair value less cost to sell.

	Consolidated		Company	
	Dimo KLN Industries (Pvt) Ltd. Rs. '000	Browns Dimo Industrial Products (Pvt) Ltd. Rs. '000	2009/10 Rs. '000	2009/10 Rs. '000
<b>Assets Classified as Held for Sale</b>				
Non-current assets	2,712	-	2,712	-
Current assets	3,014	-	3,014	-
Investment in equity accounted investee (Note 23.2.1)	-	33,069	33,069	6,750
<b>Total assets</b>	<b>5,726</b>	<b>33,069</b>	<b>38,795</b>	<b>6,750</b>
<b>Liabilities directly associated with assets classified as held for sale</b>				
Non-current liabilities	6	-	6	-
Current liabilities	5,720	-	5,720	-
<b>Total liabilities</b>	<b>5,726</b>	<b>-</b>	<b>5,726</b>	<b>-</b>

**23.2.1 Group Investment in equity accounted investee is reported as follows:**

	2009/10 Rs. '000
Non-current assets	7,092
Current assets	103,419
<b>Total assets</b>	<b>110,511</b>
Non-current liabilities	6,215
Current liabilities	30,809
<b>Total liabilities</b>	<b>37,024</b>
<b>Net assets</b>	<b>73,487</b>
Share of net assets - 45%	33,069

**24. Stated Capital**

	Consolidated/ Company			
	2009/10 No. of shares	2009/10 Rs. '000	2008/09 No. of Shares	2008/09 Rs. '000
<b>Issued and Fully Paid Ordinary Shares</b>				
Balance at the beginning of the year	8,702,389	182,500	12,100,000	182,500
Acquisition of Company's own shares	-	-	(3,397,611)	-
<b>Balance at the end of the year</b>	<b>8,702,389</b>	<b>182,500</b>	<b>8,702,389</b>	<b>182,500</b>

The holders of the Ordinary Shares are entitled to receive dividend as declared from time to time and are entitled to one vote per share at the meeting from the Company.

**25. Capital Reserve**

	Consolidated		Company	
	2009/10 Rs. '000	2008/09 Rs. '000	2009/10 Rs. '000	2008/09 Rs. '000
Reserve on revaluation of land	1,135,612	1,135,612	1,135,612	1,135,612

**26. Revenue Reserve**

	Consolidated		Company	
	2009/10 Rs. '000	2008/09 Rs. '000	2009/10 Rs. '000	2008/09 Rs. '000
Balance at the beginning of the year				
Dividends to shareholders	686,733	1,163,129	515,691	1,021,007
- Final 2008/09	(26,107)	(30,250)	(26,107)	(30,250)
- Interim 2009/10	(26,107)	-	(26,107)	-
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	248,297	89,444	189,202	61,121
<b>Balance at the end of the year</b>	<b>882,816</b>	<b>686,733</b>	<b>652,679</b>	<b>515,691</b>

The Revenue Reserves represent reserves available for distribution.

**27. Long-Term Interest-Bearing Loans and Borrowings**

	Consolidated		Company	
	2009/10 Rs. '000	2008/09 Rs. '000	2009/10 Rs. '000	2008/09 Rs. '000
<b>a. Non-Current Interest Bearing Borrowings</b>				
Term loans (Note 27.1)	501,257	660,383	501,257	660,383
Finance lease obligations (Note 27.2)	1,472	2,586	1,472	2,586
Total non-current interest bearing borrowings	502,729	662,969	502,729	662,969
<b>b. Current Portion of the Interest Bearing Borrowings:</b>				
Term loans (Note 27.1)	161,626	238,493	161,626	238,493
Finance lease obligations (Note 27.2)	728	5,783	728	5,783
Total current portion of the interest bearing borrowings	162,354	244,276	162,354	244,276

**27.1 Term Loans**

	Consolidated		Company	
	2009/10 Rs. '000	2008/09 Rs. '000	2009/10 Rs. '000	2008/09 Rs. '000
<b>Non-Current</b>				
At the beginning of the year	898,876	730,702	898,876	730,702
Loans obtained during the year	-	350,000	-	350,000
	898,876	1,080,702	898,876	1,080,702
Repayments during the year	(235,993)	(181,826)	(235,993)	(181,826)
At the end of the year	662,883	898,876	662,883	898,876
Transferred to current liabilities (repayable within one year)	161,626	238,493	161,626	238,493
Long-term portion of long-term loans (repayable after one year)	501,257	660,383	501,257	660,383

	Commercial Bank PLC Rs. '000	Sampath Bank PLC Rs. '000	Hatton National Bank PLC Rs. '000	People's Bank Rs. '000	Total 2009/10 Rs. '000	Total 2008/09 Rs. '000
<b>Principal Amount of Loans</b>						
Loan - 1	350,000	150,000	120,000	150,000	770,000	820,000
Loan - 2	400,000	-	100,000	-	500,000	100,000
Loan - 3	-	-	200,000	-	200,000	200,000
	750,000	150,000	420,000	150,000	1,470,000	1,120,000
<b>Movement of Loans</b>						
Balance at the beginning of the year	445,710	15,000	288,166	150,000	898,876	730,702
Loans obtained during the year	-	-	-	-	-	350,000
Repayments during the year	(109,560)	(15,000)	(83,933)	(27,500)	(235,993)	(181,826)
Balance at the end of the year	336,150	-	204,233	122,500	662,883	898,876
<b>Analysis of Long-Term Borrowings</b>						
<b>By Year of Repayment</b>						
Payable within 1 year	59,360	-	72,266	30,000	161,626	238,493
Payable 2-5 years	199,800	-	131,967	92,500	424,267	503,473
Payable over 5 years	76,990	-	-	-	76,990	156,910
	336,150	-	204,233	122,500	662,883	898,876

**27.2 Finance Lease Obligations**

Principal Amount	Consolidated		Company	
	2009/10 Rs. '000	2008/09 Rs. '000	2009/10 Rs. '000	2008/09 Rs. '000
Gross liability at the beginning of the year	10,901	22,068	10,901	22,068
Repayments during the year	(7,678)	(11,167)	(7,678)	(11,167)
Net lease obligation at the end of the year	3,223	10,901	3,223	10,901
Finance charges unamortised	(1,023)	(2,532)	(1,023)	(2,532)
Net liability at the end of the year	2,200	8,369	2,200	8,369
Transferred to current liabilities (repayable within one year)	728	5,783	728	5,783
Non-current portion of finance lease obligations (repayable after one year)	1,472	2,586	1,472	2,586

**28. Deferred Tax Assets/(Liabilities)**

	Consolidated		Company	
	2009/10 Rs. '000	2008/09 Rs. '000	2009/10 Rs. '000	2008/09 Rs. '000
Balance at the beginning of the year	42,319	41,132	41,315	40,990
Origination and reversal of temporary differences	(14,182)	1,187	(5,237)	325
Balance at the end of the year	28,137	42,319	36,078	41,315
<b>Recognised Deferred Tax Assets and Liabilities</b>				
Property, plant & equipment	246,922	246,078	235,687	235,180
Defined benefit obligations	(142,048)	(125,167)	(132,607)	(117,137)
Provisions	(24,482)	–	–	–
Net temporary differences	80,392	120,911	103,080	118,043
Deferred tax liability (net) at the rate of 35%	28,137	42,319	36,078	41,315

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

	Consolidated		Company	
	2009/10 Rs. '000	2008/09 Rs. '000	2009/10 Rs. '000	2008/09 Rs. '000
Deferred tax assets	(7,941)	–	–	–
Deferred tax liabilities	36,078	42,319	36,078	41,315
	28,137	42,319	36,078	41,315
<b>Unrecognised deferred tax assets</b>				
Deferred tax assets have not been recognised in respect of the following items				
Tax losses as at 31 March 2010 (Note 9.2)	12,805	19,861	–	–
Unrecognised deferred tax asset	4,482	6,951	–	–

Deferred tax asset in respect of above has not been recognised because it is not probable that future taxable profit will be available.

**29. Deferred Income**

	Consolidated		Company	
	2009/10 Rs. '000	2008/09 Rs. '000	2009/10 Rs. '000	2008/09 Rs. '000
At the beginning of the year	363	1,222	363	1,222
Income deferred during the year	16,673	56	16,137	56
Amortised during the year	(5,261)	(915)	(5,261)	(915)
Balance at the end of the year	11,775	363	11,239	363

Income deferred during the year represents the market value of the telephone system received free of charge. This would be amortised on a systematic basis over the contract period with the supplier of the equipment.

**30. Defined Benefit Obligations**

	Consolidated		Company	
	2009/10 Rs. '000	2008/09 Rs. '000	2009/10 Rs. '000	2008/09 Rs. '000
<i>As at 31st March</i>				
Present value of unfunded obligation	142,138	125,167	132,607	117,137
Recognised liability for defined benefit obligations	142,138	125,167	132,607	117,137
Balance at the beginning of the year	125,167	107,735	117,137	100,699
Current service cost	10,344	9,325	9,210	8,292
Interest cost	18,774	17,238	17,571	16,111
Actuarial losses/(Gain)	(894)	2,849	(1,673)	1,751
Total charge for the year	28,224	29,412	25,108	26,154
Benefits paid by the plan	(11,247)	(11,980)	(9,638)	(9,716)
	142,144	125,167	132,607	117,137
Transfer to assets classified as held for sale	(6)	–	–	–
<b>Balance at the end of the year</b>	<b>142,138</b>	<b>125,167</b>	<b>132,607</b>	<b>117,137</b>

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

An actuarial valuation was carried out on 31st March 2010 by Messrs Actuarial & Management Consultants (Pvt) Ltd.

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

Rate of discount - 11%
Salary increase - 9.5%

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

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



Full provision has been made in the Financial Statements for retiring gratuity from the first year of service of the employees in conformity with SLAS 16 (Revised) - 'Employee Benefits'. However, according to the Payment of Gratuity Act No. 12 of 1983, the liability for gratuity to an employee arises only on completion of five years of continuous service. The liability as required by the Payment of Gratuity Act for the Group and the Company as at 31st March 2010 amounted to Rs. 157,257,591/- and Rs. 148,673,465/- respectively.

### 31. Trade and Other Payables

	Consolidated		Company	
	2009/10 Rs. '000	2008/09 Rs. '000	2009/10 Rs. '000	2008/09 Rs. '000
Trade payables	835,692	168,434	826,593	142,662
Advances received	8,610	9,656	-	9,656
Interest payable	8,008	19,008	8,008	18,990
Unclaimed dividend	2,669	1,791	2,669	1,791
Value Added Tax (VAT)/Turnover tax payable	52,385	57,211	48,860	53,348
Other payables and accrued expenses	252,265	124,709	188,747	93,894
	<b>1,159,629</b>	<b>380,809</b>	<b>1,074,877</b>	<b>320,341</b>

### 32. Income Tax Payable/(Recoverable)

	Consolidated		Company	
	2009/10 Rs. '000	2008/09 Rs. '000	2009/10 Rs. '000	2008/09 Rs. '000
At the beginning of the year	(36,189)	40,225	(34,367)	49,972
Income tax for the year - Net of deferred tax (Note 9)	153,553	64,390	122,350	46,433
	<b>117,364</b>	<b>104,615</b>	<b>87,983</b>	<b>96,405</b>
Tax paid during the year:				
Economic Service Charge	52,471	49,174	44,996	45,000
Income Tax and Social Responsibility Levy (SRL)	43,013	60,196	38,137	55,043
Payments pertaining to previous year	16,576	31,434	15,033	30,729
	<b>112,060</b>	<b>140,804</b>	<b>98,166</b>	<b>130,772</b>
<b>Net tax payable/(recoverable)</b>	<b>5,304</b>	<b>(36,189)</b>	<b>(10,183)</b>	<b>(34,367)</b>
Made up as follows:				
Income tax recoverable	(10,251)	(36,189)	(10,183)	(34,367)
Income tax payable	15,555	-	-	-
	<b>5,304</b>	<b>(36,189)</b>	<b>(10,183)</b>	<b>(34,367)</b>

**33. Short-Term Interest Bearing Borrowings**

	Consolidated		Company	
	2009/10 Rs. '000	2008/09 Rs. '000	2009/10 Rs. '000	2008/09 Rs. '000
Short-term bank loans	1,211,132	1,595,720	1,188,610	1,558,459
Bank overdrafts	90,384	206,706	82,300	193,925
	<b>1,301,516</b>	<b>1,802,426</b>	<b>1,270,910</b>	<b>1,752,384</b>

Unutilised bank facilities as at 31st March 2010 amounted to Rs. 2,606,428,606/- (2009 - Rs. 2,943,262,676/-). Inventories and book debts amounting to Rs. 95,000,000/- are pledged as securities for short-term interest bearing loans and borrowings.

**34. Related Party Disclosures**

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

**34.1 Parent and Ultimate Controlling Party**

The Company does not have an identifiable parent of its own.

**34.2 Transactions with Key Management Personnel (KMPs)**

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

As the Diesel & Motor Engineering PLC is the ultimate parent of its subsidiaries and the Board of Directors of the Company has the authority and responsibility for planning, directing and controlling the activities of the Group, the Directors of the Company have been identified as the KMPs of the Group.

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

The KMPs comprise of the Board of Directors of the reporting entity.

**34.2.1 The Compensation of Key Management Personnel - (KMPs)**

Compensation to Key Management Personnel of the Company are disclosed in Note 8 to the Financial statements.

**34.2.2** There are no long-term post-employment, terminal benefits and share-based payments made to the Directors during the year.

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

**34.2.4** No loans were given to Key Management Personnel during the year.

**34.2.5** The shareholding of the Key Management Personnel together with their close family members are disclosed on page 130 - Annual Report of the Board of Directors.

**34.2.6** The names of the Directors of Diesel & Motor Engineering PLC, who are also Directors of other companies are given on page 14 - Board of Directors.

**34.3 Transactions with Close Family Members**

Immediate family members are those family members 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.

No losses have been recorded against balances outstanding during the period with KMP and their immediate family members as at the Balance Sheet date.

**34.4 Dealings with Subsidiaries, Associates and Jointly Controlled Entities****34.4.1 Transactions with Fully Owned Subsidiaries and Jointly Controlled Entities**

Name of the Company	Dimo (Pvt) Ltd.	Dimo Industries (Pvt) Ltd.	Dimo Travels (Pvt) Ltd.	Dimo-KLN Industries (Pvt) Ltd.	
Relationship Shareholding	Subsidiary 100% Rs. '000	Subsidiary 100% Rs. '000	Subsidiary 100% Rs. '000	Jointly Controlled entity/49% Rs. '000	Total Rs. '000
<b>Opening balance as at 1st April 2009</b>	41,355	26,783	(375)	4,624	72,387
Sale of goods and services	2,044	-	-	-	2,044
Purchases of goods and services	(2,293)	(29)	-	-	(2,322)
Expense incurred - net	39,346	(1,119)	22	-	38,247
Fund transfers - net	(117,350)	(2,370)	-	(4,624)	(124,344)
<b>Closing balance as at 31st March 2010</b>	<b>(36,898)</b>	<b>23,265</b>	<b>(353)</b>	<b>-</b>	<b>(13,989)</b>

**34.4.2** The outstanding balances with related parties are not secured.

**34.4.3** The guarantees and letters of credit taken on behalf of Dimo (Pvt) Ltd., as at 31st March 2010 amounted to Rs. 88 mn (2008/09 Rs. 267 mn).

**34.4.4** No provisions were made for bad and doubtful debts nor write-off against any related parties.

**35. Warranties**

Warranties extended to products marketed by the Group are limited to those given by respective manufacturers.

**36. Commitments and Contingencies****36.1 Capital Expenditure Commitments**

There are no capital expenditure commitments as at 31st March 2010.

**36.2 Contingent Liabilities****Guarantees**

The contingent liability as at 31st March 2010 on guarantees given by Diesel & Motor Engineering PLC, in respect of bid bonds and performance bonds amounted to Rs. 588,578,269/- (2008/09 - Rs. 413,706,559/-).

**Litigation Against the Company**

a. The claims for lawsuits filed against the Company as at 31st March 2010 amounts to Rs. 27.5 mn. Although there can be no assurance, the Directors believe based on the information currently available that the ultimate resolution of such lawsuits are not likely to have a material effect on the results of operations, financial position or liquidity. Accordingly, no provision for any liability has been made in the Financial Statements.

**37. Events Occurring After the Balance Sheet Date**

Subsequent to the Balance Sheet date the Board of Directors of the Company approved the final dividend of Rs. 4/- per share for the year ended 31st March 2010. Details of the above dividend are disclosed in Note 12 to the Financial Statements.

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

Year ended 31st March	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	2010 Rs. '000
<b>Operating Results</b>										
Group turnover	2,686,939	1,843,662	3,404,734	4,796,905	7,565,327	10,512,326	12,989,916	12,687,289	9,187,966	<b>10,530,587*</b>
Profit before taxation	119,992	38,753	58,912	148,396	253,633	382,235	512,895	344,444	175,082	<b>420,095*</b>
Taxation	(46,102)	(10,523)	(20,119)	(48,131)	(76,431)	(117,062)	(211,118)	(139,351)	(72,054)	<b>(141,842)*</b>
Profit after taxation	<u>73,890</u>	<u>28,230</u>	<u>38,793</u>	<u>100,265</u>	<u>177,202</u>	<u>265,173</u>	<u>301,777</u>	<u>205,093</u>	<u>103,028</u>	<b>278,253*</b>
<b>Capital Employed</b>										
Stated capital	-	-	-	-	-	-	-	182,500	182,500	<b>182,500</b>
Share capital	48,000	48,000	48,000	90,000	90,000	90,000	121,000	-	-	-
Share premium	19,500	19,500	19,500	37,500	37,500	37,500	61,500	-	-	-
Revaluation reserves	182,301	182,301	182,301	182,301	311,522	311,522	311,522	311,522	1,135,612	<b>1,135,612</b>
Revenue reserves	<u>314,846</u>	<u>325,076</u>	<u>363,869</u>	<u>432,634</u>	<u>566,836</u>	<u>777,009</u>	<u>1,012,486</u>	<u>1,163,129</u>	<u>686,733</u>	<b>882,816</b>
Shareholders' Funds	564,647	574,877	613,670	742,435	1,005,858	1,216,031	1,506,508	1,657,151	2,004,845	<b>2,200,928</b>
Total borrowings (including both long-term and short-term borrowings)	<u>458,146</u>	<u>596,514</u>	<u>866,946</u>	<u>958,049</u>	<u>1,608,915</u>	<u>2,796,158</u>	<u>2,864,688</u>	<u>2,802,374</u>	<u>2,709,671</u>	<b>1,966,600</b>
<b>Net Capital Employed</b>	<u>1,022,793</u>	<u>1,171,391</u>	<u>1,480,616</u>	<u>1,700,484</u>	<u>2,614,773</u>	<u>4,012,189</u>	<u>4,371,196</u>	<u>4,459,525</u>	<u>4,714,516</u>	<b>4,167,528</b>
<b>Assets Employed</b>										
Non-current assets	480,468	517,030	528,826	559,752	734,720	775,323	1,005,370	1,463,068	2,234,911	<b>2,149,405</b>
Current assets	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	<b>3,389,023</b>
Total liabilities (excluding borrowings)	<u>(261,507)</u>	<u>(298,544)</u>	<u>(245,966)</u>	<u>(551,617)</u>	<u>(580,634)</u>	<u>(557,422)</u>	<u>(827,436)</u>	<u>(1,371,633)</u>	<u>(548,658)</u>	<b>(1,370,901)</b>
<b>Capital Employed</b>	<u>1,022,793</u>	<u>1,171,391</u>	<u>1,480,616</u>	<u>1,700,484</u>	<u>2,614,773</u>	<u>4,012,189</u>	<u>4,371,196</u>	<u>4,459,525</u>	<u>4,714,516</u>	<b>4,167,528</b>
<b>Cash Flow</b>										
From Operating activities	88,131	(102,684)	(153,014)	(39,915)	(587,299)	(990,433)	383,134	520,706	625,652	<b>846,833</b>
From Investing activities	(53,658)	(56,104)	(57,827)	(75,584)	(97,584)	(91,474)	(287,636)	(519,212)	1,918	<b>(24,275)</b>
From Financing activities	(201,671)	(12,640)	(17,488)	26,434	92,125	305,800	(49,458)	179,289	(416,861)	<b>(295,885)</b>
<b>Net Cash Inflow/(Outflow)</b>	<u>(167,198)</u>	<u>(171,428)</u>	<u>(228,329)</u>	<u>(89,065)</u>	<u>(592,758)</u>	<u>(776,107)</u>	<u>46,040</u>	<u>180,783</u>	<u>210,709</u>	<b>526,673</b>
<b>Key Indicators</b>										
Earnings per share (Rs.)	6.40	2.44	3.36	8.68	15.34	22.96	25.76	16.95	9.36	<b>28.53</b>
Net assets per share (Rs.)	94.11	95.81	102.28	82.49	100.59	121.60	124.50	136.95	230.39	<b>252.92</b>
Market value per share (Rs.)	38.00	30.00	50.00	53.00	103.00	138.50	120.00	88.75	60.25	<b>394.25</b>
Return on average shareholders' equity (%)	14.00	4.95	6.53	14.79	20.27	23.87	22.17	12.97	4.88	<b>11.80</b>
Dividends proposed/declared (Rs. '000)	24,000	18,000	18,000	31,500	50,000	60,000	72,600	48,400	26,107	<b>34,810</b>
Dividends cover (no. of times)	2.88	1.17	1.28	3.29	3.18	3.99	3.88	4.02	2.34	<b>3.11</b>
Price earnings ratio (no. of times)	5.94	12.27	14.89	6.11	6.71	6.03	4.66	5.24	6.44	<b>14.89</b>
Dividend per share (Rs.)	4.00	3.00	3.00	3.50	5.00	6.00	6.00	4.00	3.00	<b>7.00</b>
Annual sales growth (%)	79.74	(31.38)	84.67	40.89	57.71	38.95	23.57	(2.33)	(27.58)	<b>14.61</b>
Current ratio (no. of times)	1.24	1.16	1.16	1.20	1.24	1.33	1.30	1.26	1.31	<b>1.20*</b>
Turnover to capital employed (no. of times)	2.63	1.57	2.30	2.82	2.89	2.62	2.97	2.84	1.95	<b>2.53</b>
Equity to total assets ratio (%)	43.97	39.11	35.54	32.97	31.48	26.61	28.98	28.42	38.09	<b>39.78</b>
Interest Cover (no. of times)	2.66	1.39	1.53	2.54	2.73	2.43	2.11	1.67	1.31*	<b>2.20*</b>
Number of employees	564	572	595	613	627	714	820	866	869	<b>867</b>

\* Includes only continuing operations

## 1. Stock Exchange Listing

The issued ordinary shares of Diesel & Motor Engineering PLC, are listed on the main Board of the Colombo Stock Exchange (CSE) of Sri Lanka.

The unaudited interim Financial Statements for the first three quarters of 2009/10 were submitted to CSE within 45 days from the respective quarters end.

The audited interim Financial Statements for the fourth quarter of 2009/10 will be submitted to the CSE on or before 31st May 2010 as required by CSE Listing Rules.

The CSE ticker symbol for Diesel & Motor Engineering PLC's shares is 'Dimo. Noooo'

The audited Consolidated Income Statements for the year ended 31st March 2010 and the audited Balance Sheets at that date will be submitted to the Colombo Stock Exchange within three months of the Balance Sheet date.

## 2. Shareholders

The number of shareholders as at 31st March 2010 was 1,196 (1,212 as at 31st March 2009).

Number of Shares held	Residents			Non-Residents			Total		
	No. of Share- holders	No. of Shares	%	No. of Share- holders	No. of Shares	%	No. of Share- holders	No. of Shares	%
1 - 1,000	940	160,249	1.84	19	5,801	0.07	959	166,050	1.91
1,001 - 10,000	161	472,008	5.42	8	29,521	0.34	169	501,529	5.76
10,001 - 100,000	47	1,556,621	17.89	6	164,071	1.88	53	1,720,692	19.77
100,001 - 1,000,000	14	5,031,651	57.82	-	-	-	14	5,031,651	57.82
1,000,001 and Over	-	-	-	1	1,282,467	14.74	1	1,282,467	14.74
<b>Total</b>	<b>1,162</b>	<b>7,220,529</b>	<b>82.97</b>	<b>34</b>	<b>1,481,860</b>	<b>17.03</b>	<b>1,196</b>	<b>8,702,389</b>	<b>100.00</b>

Categories of Shareholders	31st March 2010			31st March 2009		
	No. of Share- holders	No. of Shares	%	No. of Share- holders	No. of Shares	%
Individuals	1,120	6,654,069	76.46	1,163	7,057,026	81.09
Institutions	76	2,048,320	23.54	49	1,645,363	18.91
<b>Total</b>	<b>1,196</b>	<b>8,702,389</b>	<b>100.00</b>	<b>1,212</b>	<b>8,702,389</b>	<b>100.00</b>

## 3. Market Value of Shares

The volume weighted average price published by the Colombo Stock Exchange as at 31st March 2010 is Rs. 394.25 (Rs. 60.25 as at 31st March 2009)

## 4. Dividend Payments Made during the Financial Year

	2010 Rs. mn	2009 Rs. mn
Interim dividend - Rs. 3/- per share	26.11	-
Final dividend - Rs. 4/- (Rs. 3/- 2008/09) per share	34.81	26.11
Final dividend was approved by the Board on 18th May 2010		
Final dividend to be payable on 9th June 2010		

## 5. Share Trading Information from 1st April 2009 to 31st March 2010

	2010	2009	2008	2007
Highest (Rs.)	<b>505.00 (26th Feb. 2010)</b>	160.00 (30th June 2008)	125.00 (16th April 2007) (19th April 2007)	155.00 (20th Jun. 2006)
Lowest (Rs.)	<b>60.00 (06th Apr. 2010)</b>	57.50 (07th Jan. 2009) (08th Jan. 2009)	78.00 (28th Dec. 2007)	100.00 (29th Dec. 2006)
Closing (Rs.) (last traded price)	<b>424.75 (30th March 2010)</b>	60.25 (26th March 2009)	88.75 (31st March 2008)	120.00 (27th March 2007)
No. of transactions	<b>3,677</b>	2,185	602	902
No. of shares traded (Rs.)	<b>2,794,300</b>	4,567,811	319,000	400,000
Value of shares traded (Rs.)	<b>582,666,450</b>	677,869,260*	30,051,050	50,471,950
No. of days traded	<b>201</b>	163	162	197
No. of market days	<b>240</b>	239	239	240
Liquidity (%)*	<b>32.11</b>	52.49	2.64	3.31
CSE All Share Price Index	<b>3,724.59</b>	1,638.06	2,550.50	2,789.80
Milanka Price Index	<b>4,270.73</b>	1,736.20	3,181.30	3,837.60
Motor Sector	<b>8,838.38</b>	3,250.90	2,873.21	3,360.90

\* This includes the share repurchase of 3,397,611 shares.

## 6. Public Shareholding

	2010	2009	2008	2007
Number of Shares	<b>3,769,203</b>	3,949,028	5,318,912	5,302,892
%	<b>43.31</b>	45.38	43.96	43.83

## 7. History of Share Issues

Year	Issue	No. of Shares	Price (Rs.)
2006/07	Rights (one share per every ten shares held)	1,100,000	55.00
2006/07	Scrip (one share per every ten shares held)	1,000,000	Nil
2004/05	Scrip (one share per every nine shares held)	1,000,000	Nil
2003/04	Rights (one share per every two shares held)	3,000,000	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	75.00
1991/92	Rights (one share per every three shares held)	500,000	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	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 2009/10

Name	As at 31.03.2009 Shares	Movement Shares	As at 31.03.2010 Shares	%
A.R. Pandithage	1,882,095	-	<b>1,882,095</b>	<b>21.63</b>
A.N. Algama	264,172	(2,300)	<b>261,872</b>	<b>3.01</b>
S.C. Algama	399,134	-	<b>399,134</b>	<b>4.59</b>
A.G. Pandithage	383,545	176,125	<b>559,670</b>	<b>6.43</b>
A.M. Pandithage	219,778	-	<b>219,778</b>	<b>2.53</b>
T.G.H. Peries	328,170	-	<b>328,170</b>	<b>3.77</b>
	<u>3,476,894</u>	<u>173,825</u>	<b><u>3,650,719</u></b>	<b><u>41.96</u></b>

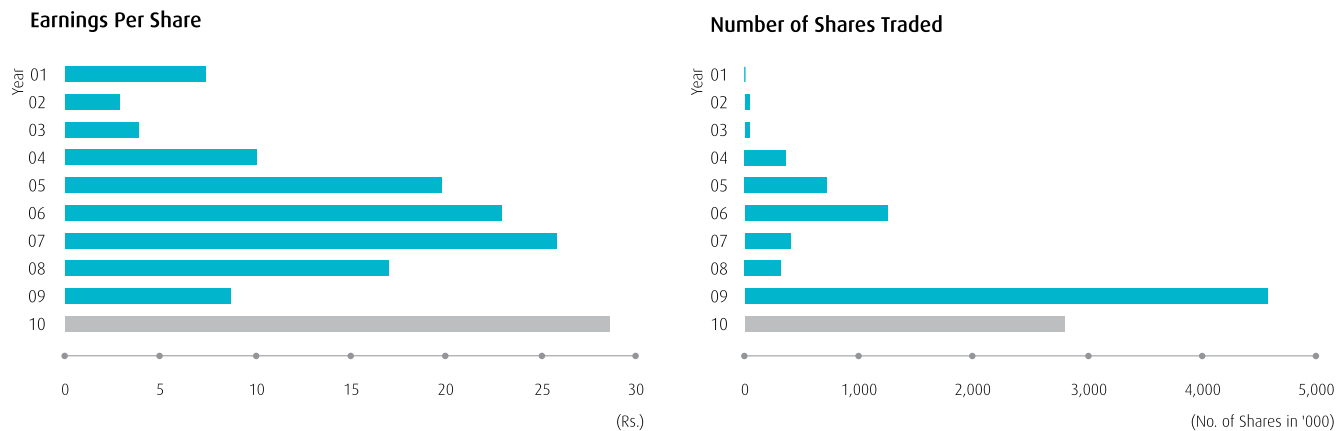


## 9. Top Twenty Shareholders

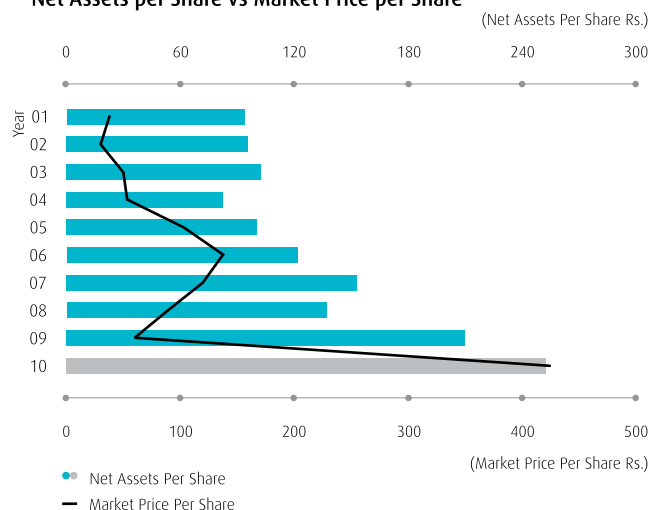
Name of Shareholder	31st March 2010		31st March 2009*	
	Shares	%	Shares	%
Thurston Investments Ltd.	1,282,467	14.74	1,276,467	14.67
Mr. A.R. Pandithage	971,798	11.17	971,798	11.17
Mrs. J.C. Pandithage	910,297	10.46	910,297	10.46
Mr. A.K. Pandithage	593,764	6.82	417,640	4.80
Mr. A.G. Pandithage	515,505	5.92	339,380	3.90
Mr. S.C. Algama	392,278	4.51	392,278	4.51
Employees' Trust Fund Board	311,800	3.58	-	-
Mr. A.N.Algama	261,872	3.01	264,172	3.04
Mr. T.G.H. Peries	191,284	2.20	191,284	2.20
Mr. A.M. Pandithage	178,745	2.05	178,745	2.05
The Estate of The Late A.A.C.A. Algama	164,376	1.89	164,376	1.89
Dr. D. Jayanntha	154,600	1.78	154,600	1.78
Mrs. M.S. Peries	136,886	1.57	136,886	1.57
Mr. L.P. Algama	131,931	1.52	131,931	1.52
Estate of the Late N.U. Algama	116,515	1.34	116,515	1.34
Mr. Y.S.H.I.K. Silva	81,994	0.94	81,994	0.94
Alliance Finance Company PLC	79,973	0.92	373	0.00
Mr. J.R. De Silva	75,001	0.86	1	0.00
Miss. R.N. Perera	73,097	0.84	73,097	0.84
Miss. T.R.N.C. Peries	72,011	0.83	72,011	0.83
	<b>6,696,194</b>	<b>76.95</b>	<b>5,873,845</b>	<b>67.50</b>

\* Comparative shareholdings as at 31st March 2009 of the twenty largest shareholders as at 31st March 2010.

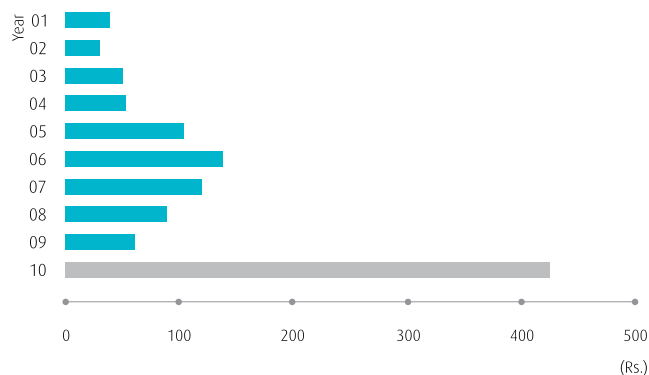
## 10. The Stated Capital Represents 8,702,389 Ordinary Shares.



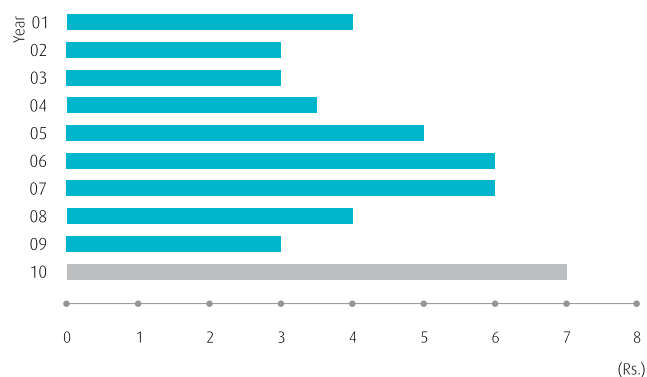
### Net Assets per Share vs Market Price per Share



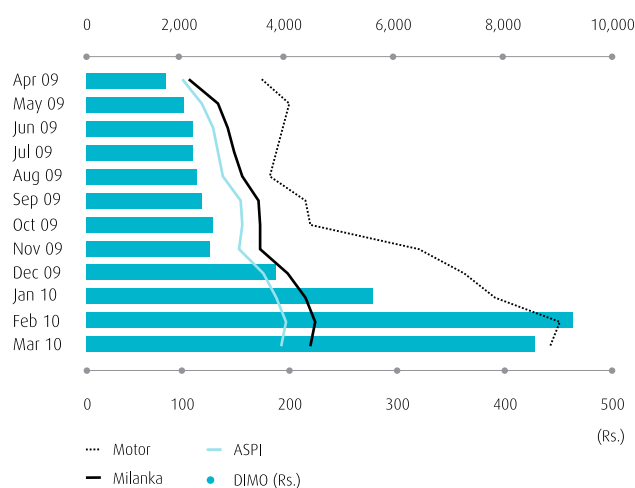
### Market Price per Share



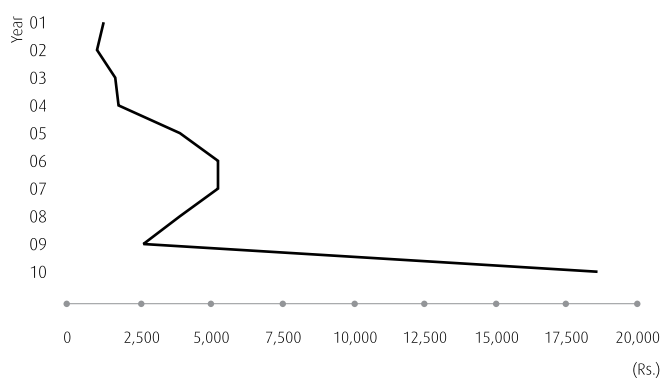
### Dividends Per Share



### All Share, Sensitive Price & Motor Sector Index Vs DIMO Share Price



### Value of Rs.1,000 Invested in 2001\*



\* Rights issue in years 2003/04 and 2006/07 ignored in calculating value of Rs. 1,000 invested in 2001.

# NETWORK OF BRANCHES, WORKSHOPS & SHOWROOMS

ANNUAL REPORT 2009/10

DIESEL & MOTOR ENGINEERING PLC



## Branches, Workshops and Showrooms

1. TATA Light, Commercial Vehicle Showroom  
61, Jethawana Road, Colombo 14.  
Telephone: 011-2449797
2. TATA Passenger Car Showroom & Workshop  
467, Sirimavo Bandaranaike Mawatha,  
Colombo 14.  
Telephone: 011-4741570
3. Mercedes-Benz & Chrysler Showroom  
378-385, R.A. De Mel Mawatha,  
Colombo 3.  
Telephone: 011-4527788
4. TATA Passenger Car Showroom  
385A, R.A. De Mel Mawatha, Colombo 3.  
Telephone: 011-4527799
5. Siyambalape Complex  
135, Mahena Road,  
Siyambalape, Biyagama.  
Telephone: 011-2400668
6. Kurunegala Branch  
27A, Colombo Road, Malpitiya,  
Boyagane, Kurunegala.  
Telephone: 037-4697800
7. Dima Mart  
50, 51, Jethawana Road, Colombo 14.  
Telephone: 011-4606800
8. Matara Branch  
401, Kumaratunga Munidasa Mawatha,  
Pamburana, Matara.  
Telephone: 041-4929378-9
9. Commercial & Heavy Machinery Workshop  
562/126, D.S. Senanayake Mawatha,  
Anuradhapura.  
Telephone: 025-2223025
10. Dima Logistics Centre  
Kirindiwela Road, Weliveriya.  
Telephone: 033-4674616

11. TATA Spare Parts Showroom  
74, 74/1, Jethawana Road, Colombo 14.  
Telephone: 011-4602100
12. Kandy Branch  
276 A, Katugasthota Road, Kandy.  
Telephone: 081-4940829
13. Jaffna Branch  
214, Stanly Road, Jaffna.  
Telephone: 021-4590478

## Display Points

14. TATA Vehicle Display Point  
32, Aluthgama, Bogamuwa, Yakkala.  
Telephone: 033-4674404
15. TATA Vehicle Display Point  
2H, New Road, Ambalangoda.  
Telephone: 091-4941158
16. TATA Vehicle Display Point  
56, Bandarawatte, Hidellana,  
Ratnapura.  
Telephone: 045-4928620
17. TATA Vehicle Display Point  
43, Jaffna Road, Vavuniya.  
Telephone: 024-4925009
18. TATA Vehicle Display Point  
800, Dambulgama, Damulla.  
Telephone: 066-4928283
19. TATA Vehicle Display Point  
345, Pallegama,  
Ratnapura Road, Embilipitiya.  
Telephone: 047-4931050



Diesel & Motor Engineering PLC (DIMO) is best known as the 'Benz Company'. This nomenclature describes well the spirit of its undertaking - a commitment to excellence. Over the past seven decades it has strengthened this commitment and fulfilled its promise as a company that is reputed for its trustworthiness.

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 a few mechanics. This was the beginning of DIMO. The founding fathers of DIMO were humble, ethical and down to earth people with human values.

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, 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.

The key attribute of DIMO is that as a company with a long history of over 70 years it has through its expansions always held true to the spirit of its founders and has spurned compromise. It takes pride in its historical situation as probably the oldest sole distributor for Mercedes Benz passenger and commercial vehicles in the Asian region.

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 over 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 Power Systems, 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 its first 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.

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 remote branches located at Anuradhapura, Kurunegala, Matara, Kandy and Jaffna. In addition Company established its owned six display points at Ambalangoda, Ampara, Puttalam, Ratnapura, Yakkala and Vauniya.

The Head office 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.

During 2006, the Company invested in tyre retreading under Dimo Industries (Pvt) Ltd. The retreading factory is located at Homagama.

The Company's logistical operations are being carried out from its own property at Weliveriya which is in the Gampaha district from 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. 10.4 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.



**France**

Carl Zeiss Meditec  
Carl Zeiss Meditec SAS  
Haulotte Group  
Michelin

**Germany**

Blaupunkt Werke GmbH  
Bomag GmbH  
Carl Zeiss Meditec  
Daimler AG  
DEMAG Cranes & Components GmbH  
Draeger Medical  
Fischer Werke GmbH  
KHD Humboldt Wedag AG  
KSB AG  
OSRAM GmbH  
Road Trains Tschutschu GMBH  
Robert Bosch Ew.  
Robert Bosch GmbH  
Rudolf Zimmermann  
Siemens AG  
SiTeco Lighting (M) Sdn Bhd  
Tognam GmbH  
Vossloh-Schwabe GmbH  
WOMA GmbH

**India**

Bimetal Bearings Ltd.  
Bosch Chassies Systems India Ltd.  
Bosch Ltd.  
Claas India Ltd.  
Fenner (India) Ltd.  
Gabriel India Ltd.  
India Pistons Ltd.  
Mahindra & Mahindra Ltd.  
MRF  
Rane Brake Linings Ltd.  
Rane Engine Valves Ltd.  
Schwing Stetter  
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.  
Komatsu Utility Co. Ltd.  
Zenoah

**Malaysia**

Davex Engineering (M) SDN Bhd.  
See Hau Global sdn bhd  
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.  
Power Source International Pte. Ltd.  
Tognum

**South Korea**

Everdigm  
Hanwa Company

**UK**

Interpower International Ltd.

**USA**

BF Goodrich  
Indo Marine Engineering Co., Pvt. Ltd.  
Snap-on Tools (Pvt) Ltd.  
WD 40 Company



## Principals Represented and Duration of Relationship

Name	Country	Brands	No. of Years
Daimler AG	Germany	Mercedes-Benz	71
Robert Bosch GmbH	Germany	Bosch	56
KHD Humboldt Wedag AG	Germany	KHD	50
Siemens AG	Germany	Siemens	50
Tata Motors Ltd.	India	Tata	49
Bosch Ltd.	India	Bosch-Mico	41
Komatsu Asia & Pacific Pte. Ltd.	Singapore	Komatsu	41
Komatsu Utility Co. Ltd.	Japan	Komatsu	41
Komatsu Ltd.	Japan	Komatsu	41
KSB AG	Germany	KSB	41
Bomag GmbH	Germany	Bomag	31
Bosch Automotive Systems Corporation	Japan	Zexel	26
Robert Bosch Ew.	Germany	Bosch	26
Carl Zeiss Meditec	Germany	Zeiss	25
Tognum	Singapore	Mtu/DDC	23
Tognum GmbH	Germany	Mtu/DDC	23
Mahindra & Mahindra Ltd.	India	Mahindra	20
Michelin	France	Michelin	17
OSRAM GmbH	Germany	OSRAM	16
DEMAG Cranes & Components GmbH	Germany	DEMAG	16
Rane Brake Linings Ltd.	India	Rane	16
WOMA GmbH	Germany	WOMA	16
Blaupunkt Werke GmbH	Germany	Blaupunkt	15
Daimler South East Asia Ptd. Ltd.	Singapore	Mercedes-Benz	15
India Pistons Ltd.	India	IPL	15
Fenner (India) Ltd.	India	Fenner/Pioneer	13
Rane Engine Valves Ltd.	India	EVL	13
Vossloh-Schwabe GmbH	Germany	VS	13
Bimetal Bearings Ltd.	India	Bimite	12
SiTeco Lighting (M) Sdn Bhd	Germany	SiTeco	11
BF Goodrich	USA	BF Goodrich	10
John Deere Asia (Pvt) Ltd.	Singapore	John Deere	9
MRF	India	MRF	9
Davex Engineering (M) Sdn Bhd	Malaysia	Davis	8
Draeger Medical	Germany	Draeger	8
Interpower International Ltd.	UK	Interpower	8
Power Source International Pte. Ltd.	Singapore	Europower	8
SSI Schaefer Systems International Pte Ltd.	Malaysia	Schaefer	8
Claas India Ltd.	India	CLAAS	7
Daimler Regional Logistic Centre	Singapore	Mercedes-Benz/Chrysler/Jeep	7
MHE- Demag (s) Ptc. Ltd.	Singapore	MHE-Demag	7
Chrysler South East Asia Pte. Ltd.	Singapore	Chrysler/Jeep	6
Everdigm	South Korea	Rhino	6
Schwing Stetter	India	Stetter	5
Zenoah	Japan	Zenoah	5
Bosch Chassis Systems India Ltd.	India	KBX	4
Carl Zeiss Meditec SAS	France	Zeiss	4
Fischer Werke GmbH	Germany	Fischer	4
Gabriel India Ltd.	India	Gabriel	4
Snap-on Tools (Pvt) Ltd.	USA	Hoffmann/JBC	4
Sri Bhavani Castings Ltd.	India	SBP	4
VE Commercial Vehicles Ltd.	India	Eicher Dem	4
Victor Gaskets India Ltd.	India	Victor	4
VM MOTORI S.P.A.	Italy	VM MOTORI	4
Hanwa Company	Korea	DonYang/Saehan Travis	3
Indo Marine Engineering Co. (Pvt) Ltd.	USA	GEHL	3
See Hau Global sdn bhd	Malaysia	Intraco pallet	2
Turbo Bearings (P) Ltd.	India	Turbo	1
Sri Ramadas Motor Transport Ltd.	India	SRMT	1
Rudolf Zimmermann	Germany	RZB (Lighting)	Just commenced
WD 40 Company	USA	WD 40	Just commenced
Haulotte Group	France	Haulotte	Just commenced
Road Trains TschuTschu GMBH	Germany	Road Trains Tschu-Tschu	Just commenced



This section of the Report presents a concise review of Sri Lanka, its physical features, demography and key economic indicators.

It also takes a brief look at the global economy during the period under review, which helps to place details of the Sri Lankan economy in context.

These details are presented to lend context and provide salient information about Sri Lanka to our readers, particularly our international audience.

Officially known as the Democratic Socialist Republic of Sri Lanka and also known as Ceylon, is located about 31 kilometres off the Southern coast of India. As a result of its location in the path of major sea routes, Sri Lanka is a strategic naval link between West Asia and South East Asia. Sri Lanka has also been a centre of Buddhism and culture from ancient times.

Sri Lanka is renowned for the production and export of tea, coffee, coconuts and rubber. It boasts a progressive and modern industrial economy with the third highest per capita income in South Asia. The natural beauty of the island's tropical forests, beaches and landscape, as well as its rich cultural heritage, places Sri Lanka high on the list of the world's top tourist destinations.

With the end of the 30-year bitter separatist war in May 2009 this island nation turns a new chapter in its history.

### Physical Features

Total area	65,610 Sq. km.
Land area	62,705 Sq. km.
Capital	Sri Jayawardhanapura
Commercial Capital	Colombo

### Demographics

	2009	2008	2007	2006	2005
Mid-year population (mn persons)	20.5	20.2	20.0	19.8	19.7
Labour force (mn persons)	8.1	7.5	7.4	7.5	8.1
Labour force participation rate (%)	48.7	50.2	49.8	51.2	48.3
Unemployment rate (% of labour force)	5.8	5.2	6.0	6.5	7.7

Source - Central Bank of Sri Lanka Annual Report 2009

### Global Economy

The global economy is recovering at a moderate rate from a financial and economic crisis. Government policy responses have helped to set in motion the recovery process from the crisis. Countries worldwide are recovering at varying speeds, tepidly in many advanced economies and solidly in most emerging and developing economies. Among the advanced economies, the United States is off to a better start than Europe and Japan. Of the developing economies, Asia is recovering remarkably, while many European and some Commonwealth of Independent States are lagging behind.

Global growth is projected to reach 4¼% in 2010 and 2011. Advanced economies are now expected to expand by 2¼% in 2010, and by 2½% in 2011, following a decline in output of more than 3% in 2009. Growth in emerging and developing economies is projected to be over 6¼% during 2010-11, following a modest 2½% in 2009.

Source: World Economic Outlook (April, 2010).

### Sri Lankan Economy

In the year 2009 Sri Lanka's economy grew by 3.5%. However further growth was hindered due to the spill-over effects of the global financial and economic crisis and the 30-year separatist war. The main contribution to this yearly growth rate is from the 6.2% growth rate of the final quarter. Also the second half of 2009 witnessed the end of the three-decades of war against LTTE. The return of investor confidence and a positive external outlook for the country, also contributed to this growth rate of 3.5%.

### Sectoral Composition and Increase in Gross Domestic Product (GDP)

	As a Share of GDP (%)			Rate of Change (%)		
	2009	2008	2007	2009	2008	2007
Agriculture Sector	12.0	12.1	11.9	3.2	7.5	3.4
Industrial Sector	28.6	28.4	28.5	4.2	5.9	7.6
Services Sector	59.4	59.5	59.6	3.3	5.6	7.1
Gross Domestic Product (GDP)	100.0	100.0	100.0	3.5	6.0	6.8

### Key Economic Indicators

	2009	2008	2007	2006	2005
GDP at Market Prices (Rs. bn)	4,769	4,312	3,540	2,898	2,423
GDP per capita (US \$)	2,053	2,014	1,617	1,421	1,241
GDP growth (%)	3.5	6.0	6.8	7.7	6.2
Colombo Consumers' Price Index (2002=100)					
Annual average	3.4	22.6	15.8	10.0	11.0
Colombo Consumers' Price Index (2002=100)					
Point-to-point-end period	4.8	14.4	18.8	13.5	7.4
Fiscal deficit (% of GDP)	-9.8	-7.0	-7.7	-8.0	-8.4
Current account balance (% of GDP)	-0.5	-9.3	-4.2	-5.3	-2.7

Source - Central Bank of Sri Lanka Annual Report 2009

The annual average rate of inflation which is measured by year-to-year change in Colombo Consumers' Price Index (CCPI) was 3.4% by the end of 2009 compared to 28.2% in June 2008. This is the lowest inflation rate recorded since 1985. The low inflation rate enabled Central Bank of Sri Lanka (CBSL) to relax its monetary policy stance to support the domestic economy. This is clearly evident by the gradually lowered policy interest rates during the year.

A further decline in market rates was observed following a request made by the Government in October 2009 to the state-owned banks to bring down their lending rates. The Average Weighted Prime Lending Rate (AWPR), the rate at which Licensed Commercial Banks (LCBs) lend to their prime customers, showed a marked decline of over 800 basis points to 11.12% at end December 2009. The Average Weighted Lending Rate (AWLR), has gradually declined during the year, with a marked decline observed in the final quarter of 2009.

### Interest Rates

	2009	2008	2007	2006	2005
(Percentage per annum at end-year)					
Treasury Bill rate -					
91 days	7.73	17.33	21.3	12.76	10.1
364 days	9.33	19.12	19.96	12.96	10.37
Commercial Banks -					
Weighted average - prime lending rate (AWPR)	10.91	18.5	17.95	15.19	12.2
Weighted average - deposit rate (AWDR)	8.01	11.63	10.31	7.60	6.2

Source - Central Bank of Sri Lanka Annual Report 2009

During the first 4 months of the year witnessed heavy foreign exchange outflows due to the critical stage of the internal conflict. This exerted pressure on the exchange rate. However, since May 2010 with the end of the conflict and improved investor confidence there was a large inflow into the country exerting pressure on the exchange rate to appreciate. The intervention strategy adopted by the Central Bank helped to maintain a stable exchange rate to a great extent.

## Exchange Rates

	2009	2008	2007	2006	2005	2004
Annual average Rs./US\$	114.94	108.33	110.62	103.96	100.50	101.19
End-year Rs./US\$	114.38	113.14	108.72	107.71	102.12	104.61

Source: Central Bank of Sri Lanka Annual Report 2009

The gross official external reserves increased to its highest level ever recorded of US\$ 5,097 mn by the end 2009. This was mainly due to the receipt of the first two tranches of the IMF-SBA facility amounting to US\$ 652 mn in June and November 2009. Further, the receipt of the proceeds from the second international sovereign bond issue of US\$ 500 mn in October 2009 was another contributory factor.

Standard & Poor's (S&P) and Fitch Ratings revised Sri Lanka's sovereign rating outlook from 'stable' to 'negative' within days of the end of the conflict, reversed it once again to 'stable' and further to 'positive' in October 2009. S&P affirmed the long-term foreign currency Issuer Default Rating (IDR) at 'B'.

The recovery of Sri Lankan economy was further evident from the significantly high surplus of the Balance of Payment (BOP) by US\$ 2,725 mn. This surplus was due to lower trade deficit which contracted to US\$ 3,122 mn in 2009 from US\$ 5,981 mn in 2008 by 47.8%. And substantially high financial flows like worker remittance which grew by 14.1% to US\$ 3,330 mn in 2009 compared to US\$ 2,918 mn in 2008.

After the end of 30-year long civil war, Colombo Stock Exchange (CSE) Indices increased rapidly creating new records. Market capitalisation at the Colombo Stock Exchange reached record high on 06th October 2009 as it reached the Rs. 1 tn mark for the first time in Sri Lanka's history. All Share Price Index (ASPI) closed the year at 3,385.6 points, the highest level recorded in CSE history. The ASPI recorded a growth of 125.3% for the year 2009. Milanka Price Index (MPI) closed the year at 3,849.4 points, the highest level reached by the MPI since May 2007. The index recorded a growth of 136% for the year 2009. The share market also achieved the highest turnover for a given year by generating Rs. 142.5 bn for the year 2009.

## Capital Markets

	2009	2008	2007	2006	2005
All Share Price Index	3,385.60	1,503	2,541	2,722.40	1,922.20
Milanka Price Index	3,849.40	1,631.30	3,291.90	3,711.80	2,451.10
Value of shares traded (Rs. mn)	142,463	101,454	104,985	105,154	114,599
Market capitalisation (Rs. bn)	1,092.10	488.8	820.7	834.8	584
Market capitalisation (% of GDP)	23	11	23	28	24

Source: Central Bank of Sri Lanka Annual Report 2009

## Sri Lankan Social Infrastructure Development

Sri Lanka's life expectancy and adult literacy rates which measure the social development are well ahead of the other countries at the same income levels. Between 1980 and 2007 Sri Lanka's Human Development Index (HDI) rose by 0.58% annually from 0.649 to 0.759 today. The HDI for Sri Lanka is 0.759, which gives the country a rank of 102nd out of 182 countries with data. Human Development Index (HDI) which looks beyond GDP to a broader definition of well-being. The HDI provides a composite measure of three dimensions of human development: life expectancy, adult literacy and purchasing power parity (PPP).

The life expectancy and adult literacy rates even when compared with the high income countries are well ahead. Although social infrastructure is not up to international standards, Government continues to support its long-standing policy of providing free health for the public in every Government hospital. The Governments' commitment to continue the free education system has provided Sri Lanka with a high literacy rate.

## Population and Vital Statistics

Age distribution (%) (2009) -	
0-14 years	26.3%
15-64 years	67.4%
65 years and over	6.3%
Population density (2009)	326 persons per sq. km.
Infant mortality rate (2006)	10.0 per 1,000 live births
Dependency ratio (2006)	48.3%

**Expectation of life at Birth (2007)**

Male	70.3 years
Female	77.9 years

**Literacy Rate (2008)**

Overall	91.30%
Male	92.80%
Female	90.00%

**Human Development Index (2007)**

Ranking among 182 countries	102
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**Poverty**

Population below US\$ 1 a day (1990 - 2005)	5.60%
Population below US\$ 2 a day (1990 - 2005)	41.60%

**Future of Sri Lanka**

The future of Sri Lanka looks very positive after the end of 30-year long civil war which hindered the development in this country. The Northern and the Eastern Provinces which were affected most carry two thirds of country's coastal and maritime resources and about one-third of the country's fertile land. There is tremendous potential for the development of the agriculture and fisheries activities and related industries in these areas. In order to rehabilitate and resettle Internally, Displaced Persons (IDPs) and to develop infrastructure in the said provinces the Government has initiated two province specific programmes; Nagenahira Navodaya (Eastern Revival) in the Eastern Province and Wadakkil Wasantham (Uthuru Wasanthaya/ Northern Spring) in the Northern Province.

With the increased investor confidence the Sri Lankan economy is anticipated to recover steadily. A higher growth of 7-8% is expected in the medium term which requires investment of around 30% of GDP. Although, the trade deficit is expected to widen in the medium term, the anticipated increase in migrant workers' remittance is expected to ease the deficit in the external current account.

Sri Lanka is amongst the 16 beneficiary countries of the GSP+ facility arrangement, which is a special arrangement granting duty free access to EU markets. The GSP+ facility allows businesses in Sri Lanka to export 7,200 items to the EU which is worth around 900 mn Euro to Sri Lanka in terms of export earnings. Further, the garment industry provides direct employment to nearly 300,000 people. In December 2008, Sri Lanka's eligibility for the next term beginning from 2009 was renewed subject to a review by the EU.

In February 2010, the EU member countries temporarily suspended the GSP+ facility to Sri Lanka effective after 6-month grace period.

However, recently the Government commenced engaging the EU in an effort to win back the withdrawn GSP+ facility. There is little doubt that the withdrawal of GSP+ will impact the garments sector.

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**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.

**Asset Turnover**

The Amount of sales generated for every Rupee worth of assets. It is calculated by dividing sales by assets.

**Basic Earnings per Share**

Profit attributable to ordinary shareholders dividend 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. These 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.

**Colombo Consumers' Price Index – (CCPI)**

Measure of the average price of consumer goods and services purchased by households, determined by measuring a standard group of goods & services meant to represent the typical basket of goods of a working class urban consumer. The percentage change in the CCPI is a measure of inflation.

**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.

**Debt/Equity Ratio**

Ratio between interest bearing borrowings and shareholders' equity.

**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 future date.

**Dividend Cover**

Profit attributable to ordinary shareholders divided by dividend. This measures the number of times dividend is covered by distributable profit.

**Dividend Pay out Ratio**

The percentage of earnings paid to shareholders in dividends.

**Dividend Yield**

The yield a company pays out to its shareholders in the form of dividends.

**EBIT**

Earnings before interest and tax.

**EBITDA**

Earnings before interest, taxes, depreciation and amortisation.

**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/settled in local currency during the year.

**Financial Leverage**

A measure of how an entity used its debt capital to finance its assets, calculated as Total Assets divided by total shareholders' equity.

**Gearing**

Borrowings to capital employed.

**Gross Domestic Product - GDP**

Market value of all finished goods and services produced within a country in a given period of time.

**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**

This indicates the ability of an entity to cover long-term and short-term interest expenses with EBIT. This is calculated as EBIT divided by long-term and short-term interest expenses.

**Key Performance Indicators (KPI)**

Are quantifiable measurements, agreed to before hand that reflect the critical success factors of a company.

**Market Capitalisation**

The number of ordinary shares issued multiplied by the market price of each share at a given date.

**Materiality**

The principle that Financial Statements should separately disclose items which are significant enough to affect evaluation or decision of users.

**Net Assets per Share**

Shareholders' funds divided by the weighted average number of ordinary shares in issue.

**Net Profit Margin**

Net profit as a percentage of net turnover.

**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 (ROACE)**

Reflects the returns that an entity received from its capital. Profit before tax plus net interest cost divided by average capital employed.

**Return on Equity (ROE)**

Net Profit as a percentage of shareholders' equity.

**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.

**Stated Capital**

Consists of issued 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.

**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.

**Weighted Average Cost of Capital**

Calculation of the cost of capital according to the capital (debt/equity) structure.

**Working Capital**

Capital required to finance the day-to-day operations computed as the excess of current assets over current liabilities.

**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

**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

**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](http://www.dimolanka.com)  
E-mail: [dimo@dimolanka.com](mailto:dimo@dimolanka.com)  
Facsimile: 0094-11-2449080

# NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Sixty-Fifth 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 Tuesday, 29th June 2010 at 10.00 a.m. and the business to be brought before the meeting will be:

## Agenda

1. To consider and adopt the Report of the Directors and the Statement of Accounts for the year ended 31st March 2010, with the Report of the Auditors thereon.
2. To re-elect Mr. A. N. Algama, who retires by rotation in terms of Article 66 of the Articles of Association as a Director of the Company.\*
3. To re-elect Mr. A. M. Pandithage, who retires by rotation in terms of Article 66 of the Articles of Association as a Director of the Company.\*
4. To re-elect Mr. T. G. H. Peries, who retires by rotation in terms of Article 66 of the Articles of Association as a Director of the Company.\*
5. To re-elect Mr. R. Seevaratnam, who retires by rotation in terms of Article 66 of the Articles of Association as a Director of the Company.\*
6. To reappoint KPMG Ford, Rhodes, Thornton & Co. as Auditors to the Company for the ensuing year & to authorise the Board of Directors to determine their remuneration.
7. To authorise the Directors to determine contributions to charities.
8. To consider, and if thought fit, pass the following resolution as a special resolution:

### Special Resolution

**IT IS HEREBY RESOLVED** that the Articles of Association of the Company be and are hereby amended as follows numbered accordingly;

**THAT** the following new Article numbered 19 (g) be inserted after Article 19 (f) of the Articles of Association of the Company numbered accordingly:

**"19 (g) Notwithstanding anything to the contrary contained in the Articles of Association of the Company, so long as the Company is listed on the Colombo Stock Exchange, the Company shall comply with the Rules of the Colombo Stock Exchange and the Central Depository System, which shall be in force from time to time."**

**THAT** the following new Article numbered 20 (a) be inserted after Article 20 of the Articles of Association of the Company numbered accordingly;

**"20 (a) The Company shall not register more than three persons as joint holders (including the principal holder) of any shares (except in the case of executors, administrators or heirs of a deceased member)."**

**THAT** the Article numbered 94 be deleted in its entirety and the following new Article be substituted therefor to the Articles of Association of the Company numbered accordingly:

**"94 (a) Any member whose registered address is not within Sri Lanka may name an address within Sri Lanka which for the purpose of notice, shall be considered as his registered address".**

**"94 (b) If a member has no registered address within the Island and has not supplied to the Company an address within the Island for the giving of notices to him, a notice advertised once in any leading Colombo Daily Newspaper shall be deemed to be duly given to him on the day on which the advertisement appears".**

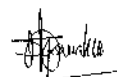
**"94(c) Where notice is given by an advertisement, such advertisement, shall be published in Sinhala, Tamil and English national daily newspapers".**

*\* The profiles of the Directors proposed for re-election are given on page 14 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  
18th May 2010



The creative approach we adopted for this Report ‘brought to life’ the ancient legendary character *Guttīla*... a major figure from the realm of the *Jātaka* stories of old. Our model, transformed via make up and regalia, leant visual basis to our concept. The *Jātaka* tale of *Guttīla* is narrated in all its glory in one of the most significant works of Sri Lankan poetry - the *Guttīla Kāvya* written some 500 years ago. In this story, *Guttīla*, the greatest *veena* player is challenged by his ungrateful pupil to a contest at the Court. To the surprise of everybody, *Guttīla* performed the most marvellous feats such as snapping off his *veena* strings till there was only one left, and yet produced such wonderful music and won the great contest. In our adaptation, we have presented the unbeatable Master *Guttīla* in the ultimate challenge; the challenge of competing with oneself.

# 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-Fifth Annual General Meeting of the Company to be held on Tuesday, 29th June 2010 and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof.

	For	Against
1. To consider and adopt the Report of the Directors and the Statement of Accounts for the year ended 31st March 2010, with the Report of the Auditors thereon. .	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect Mr. A.N. Algama, who retires by rotation at the Annual General Meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr. A.M. Pandithage, who retires by rotation at the Annual General Meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Mr. T. G. H. Peries, who retires by rotation at the Annual General Meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect Mr. R. Seevaratnam, who retires by rotation at the Annual General Meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
6. To reappoint KPMG Ford, Rhodes, Thornton & Co. as Auditors and authorise the 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"/>
8. To consider, and if thought fit, pass the special resolution.	<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 ..... 2010.

Witness:

.....  
.....

.....

Signature of Shareholder

1. A proxy need not be a member of the Company.
2. Instructions to fill the Form of Proxy (please see overleaf).



**Instructions as to Completion**

1. To be valid this Form of Proxy must be deposited at the Registered Office, No. 65, Jetawana Road, Colombo 14, not less than 48 hours before the time appointed for the holding of the meeting.
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. Please also delete if you do not wish your proxy to vote as he thinks fit on any other resolution brought before the meeting.
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.



