ANNUAL REPORT 2010/11

DIESEL & MOTOR ENGINEERING PLC

CES SES

Do you see yourself in us? We do, because we are all here together in the spirit of trusteeship, stewardship and accountability

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STRATEGY

* We Exist Because We

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

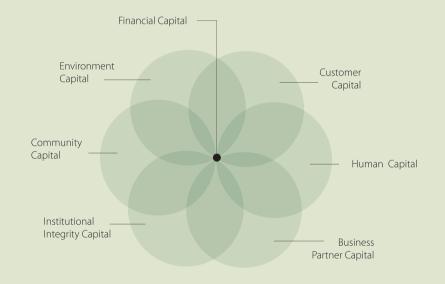
And these constitute our eight strategic imperatives.

* Our Overarching Strategy is Quite Simple

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

* The Other Side of the Coin - Building Capital

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





* Our first Integrated Annual Report

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

THIS IS DIMO

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

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

Vehicles

Business Segment

Passenger cars, SUVs, and a range of commercial vehicles from small 750kg trucks to large 40 Ton+ trucks to tippers and buses.



Principals Represented



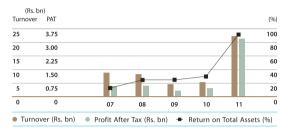






Number of vehicles sold increased by 207% while turnover increased by 319%. Dimo recorded a 90% market share in the high-end passenger sedan segment TATA commercial vehicles increased its market share to 43% of the brand new market from 35% in the previous year. Light and small commercial vehicles performed exceptionally well. However, TATA passenger cars did not meet budgets. Similarly sale of buses underperformed. Sales of Chrysler and Jeep passenger vehicles too did not meet sales budgets.

Performance Highlights of the Year



Political stability and consistent macroeconomic policies and the launch of several infrastructure development projects should drive commercial activity and economic growth. Coupled with the low interest rates and stable exchange rates that prevail,

Outlook for 2011/12

The introduction of the TATA Nano is very likely to open up a worthwhile new market segment for Dimo.

demand for our vehicles across the board should



Vehicle Parts & Service

Parts for the after-care markets of passenger vehicles, commercial vehicles and construction machinery including a range of Original Equipment Manufacturers (OEM) parts. Engine management systems, vehicle accessories, tyres and services.





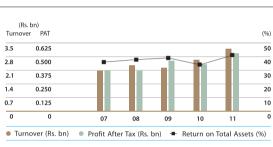








Mercedes-Benz parts section did particularly well. Commercial vehicle repair section performed below budget. The unit repairs section was upgraded with a Rs. 52 mn investment. Construction of a new Bosch Centre is underway.



The strengthening of our distribution network and a greater focus on the retail market should have a positive impact on sales of vehicle parts. The bottleneck for growth in vehicle service as well as repairs has been cleared with additional capacity already installed. The increase in the number of vehicles on the road plus the increased usage of vehicles along with our increased capacity augurs well for the outlook of both vehicle parts and services.



Lighting & Power Tools

A wide range of lamps, lighting fittings, lighting equipment and systems. Tailor-made lighting design service and energy audits. Industrial and domestic Power Tools.

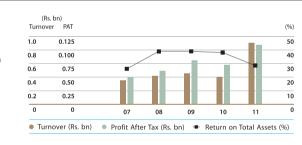






VZENORH **BTEC**

Sales increased by 183%. CFL lamps sales in particular did well boosting our market share to 9%. The lighting of the Pallakelle International Cricket Stadium and the rehabilitation of the lighting system at the R. Premadasa International Cricket Stadium were designed and installed by Dimo, Bosch Power Tools acquired market leadership with a share of 38% of the branded power tools market.



Opening up of markets in the North and the East, growth in the hotels sector and construction sector augurs well for the outlook of both lighting and



Construction, Agricultural & Material Handling Machinery

Construction and mining equipment, compaction and road building machinery, concrete machinery, fluid management systems, tractors, agri implements, forklifts, storage and racking systems, building cleaning and maintenance systems, aerial work platforms, parking systems and CLASS harvesters.







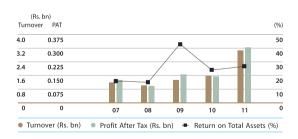






JOHN DEERE

Sales increased by 82%. Komatsu established as market leader in heavy machinery and equipment. Several other brands were established as the preferred choice in their respective niches. However, our fluid management systems sales were below budget.



Many new products catering to the specialised requirements of the growing infrastructure development projects sector are being introduced. These should augment our market leading position to drive growth in this sector.



Flectromechanical & Biomedical Engineering

Power solutions, building automation systems, fire detection, protection and suppression systems, CCTV and access control systems, public address systems, power systems for marine propulsion and rail traction, industrial refrigeration, and medica equipment.



SIEMENS Tonnum



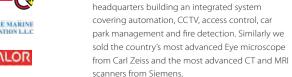


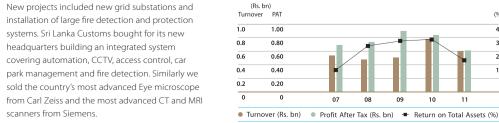












With all sectors that this segment caters to being poised for growth, we expect sales to improve.

A 360 DEGREE VIEW OF HIGHLIGHTS OF THE YEAR

Key Performance Area	Metric	Achievement	Ouantum of Change	A Forward Looking Note
		2010/11 2009/10		



FINANCIAL

\$		•	
Economic Value Added (Rs. mn)	1,762	56	1,706
Market Value Added (Rs. mn)	8,719	1,495	7,224
Net Assets Value per Share (Rs.)	482	253	229
Market Capitalisation (Rs. mn)	12,920	3,696	9,224
Employees (Rs. mn)	1,037	718	319
Government (Rs. mn)	5,571	1,520	4,051
Lenders (Rs. mn)	207	365	(158)
Community (Rs. mn)	30	9	21
Shareholders (Rs. mn)	122	52	70
: Return on Equity (%)	50.51	11.3	347%
Earnings per Share (Rs.)	243.81	28.53	215
Price Earnings Ratio (times)	6	15	(60%)
Dividend per Share (Rs.)	61	7	54
Shareholders' Funds (Rs. mn) - at the year end	4,200	2,200	2,000
: Gross Profit Ratio (%)	20.56	22.91	(10%)
Net Profit Ratio (%)	7.3	2.38	206.72
: Current Ratio (times) - at the year end	1.27	1.20	6%
Quick Assets Ratio (times) - at the year end	0.84	0.79	6%
Fixed Assets Turnover (times)	9.48	4.87	95%
: Debt/Equity (%) - at the year end	15.67	38.85	(60%)
Interest Cover (times)	17	2	15
	Market Value Added (Rs. mn) Net Assets Value per Share (Rs.) Market Capitalisation (Rs. mn) Employees (Rs. mn) Government (Rs. mn) Lenders (Rs. mn) Community (Rs. mn) Shareholders (Rs. mn) Return on Equity (%) Earnings per Share (Rs.) Price Earnings Ratio (times) Dividend per Share (Rs.) Shareholders' Funds (Rs. mn) - at the year end Gross Profit Ratio (%) Net Profit Ratio (%) Current Ratio (times) - at the year end Quick Assets Ratio (times) - at the year end Fixed Assets Turnover (times)	Market Value Added (Rs. mn) 8,719 Net Assets Value per Share (Rs.) 482 Market Capitalisation (Rs. mn) 12,920 Employees (Rs. mn) 1,037 Government (Rs. mn) 5,571 Lenders (Rs. mn) 207 Community (Rs. mn) 30 Shareholders (Rs. mn) 122 Return on Equity (%) 50.51 Earnings per Share (Rs.) 243.81 Price Earnings Ratio (times) 6 Dividend per Share (Rs.) 61 Shareholders' Funds (Rs. mn) - at the year end 4,200 Gross Profit Ratio (%) 20.56 Net Profit Ratio (%) 7.3 Current Ratio (times) - at the year end 1.27 Quick Assets Ratio (times) - at the year end 0.84 Fixed Assets Turnover (times) 9.48 Debt/Equity (%) - at the year end 15.67	Market Value Added (Rs. mn) 8,719 1,495 Net Assets Value per Share (Rs.) 482 253 Market Capitalisation (Rs. mn) 12,920 3,696 Employees (Rs. mn) 1,037 718 Government (Rs. mn) 5,571 1,520 Lenders (Rs. mn) 207 365 Community (Rs. mn) 30 9 Shareholders (Rs. mn) 122 52 Return on Equity (%) 50.51 11.3 Earnings per Share (Rs.) 243.81 28.53 Price Earnings Ratio (times) 6 15 Dividend per Share (Rs.) 61 7 Shareholders'Funds (Rs. mn) - at the year end 4,200 2,200 Gross Profit Ratio (%) 7.3 2.38 Current Ratio (times) - at the year end 1.27 1.20 Quick Assets Ratio (times) - at the year end 0.84 0.79 Fixed Assets Turnover (times) 9.48 4.87 Debt/Equity (%) - at the year end 15.67 38.85

Our focus on wealth creation will continue. Our target is to maintain a positive EVA

Retained profits are sufficient to fund capital expenditure planned. We should be able to better manage our working capital with less borrowings. Outlook on profitability is also positive.



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Customer service	Number of sales personnel		345	246	99	Enhancing the strength and capability
	Number of service personnel	:	442	428	14	of our customer service team is an
	Sales training man-hours		3,518	3,359	159	ongoing pursuit.
Customer convenience	Number of branches and customer interaction points		25	20	5	We plan to add a minimum of 2 additional branches/service point in the ensuing year.

Key Performance Area	Metric	Achievement		Quantum of Change	A Forward Looking Note
	1	2010/11	2009/10		1
Customer satisfaction	Weighted average customer satisfaction	į į	:		We are relentless in our pursuit of
	index	85.6	82.6	3%	pushing this index higher.
	Number of complaints received	201	180	21	Our CRM unit currently caters to the
	% of complaints resolved within				vehicles business. We plan to extend
	3 days - Vehicle Sales and Parts & Service				its scope to cover one more business
	Segments (%)	48	41	7	segment in the ensuing year.



EMPLOYEES

Team strength	Number of employees as at year end	:	1,019	864	155	
Gender distribution	% of female employees	:	10	9	17	Our target is to increase female employees to 15% by 2014.
Age distribution	% of employees below 40 years of age	:	76	72	4	We want to maintain this ratio of new blood to experience.
Knowledge and skills development	Number of training man hours Number of training hours per employee		11,105	8,936 10	2,169 1	
Employee satisfaction	% of employees who participated in the voluntary employee satisfaction survey Employee satisfaction index (%)		56 55	54 54	2	We expect employee satisfaction levels to improve with the various on-going programmes in place. Our target is to achieve a minimum response rate of 60% and a minimum satisfaction level of 65%.
Employee health & safety	Number of working man days lost due to Injuries Work-related fatalities		165 Nil	49 Nil	116 -	We are working towards obtaining Occupational Health and Safety Standard OHSAS 18001 certification.



BUSINESS PARTNERS					
Relationship with Principals	Length of longest relationship (years)	72	71	1	We will continue to partner with
	No. of relationships above 50 years	5	4	1	best-in-class Principals and develop
	No. of relationships between 25 to 50 years	10	11	(1)	enduring relationships. Whilst
	No. of relationships between 10 to 25 years	17	17	-	strengthening existing relationships,
	No. of relationships between 1 to 10 years	24	24	-	we will continuously seek to add new
	No. of new relationships commenced in	16	4	8	Principals to our fold.
	the year	•			•

Key Performance Area	Metric	Achievement	Quantum of Change	A Forward Looking Note
	'	2010/11 2009/10		'



GOVERNMENT

Contribution to Exchequer	· Tayor paid (Dr. mp)		5,571	1 5 20 .	4.051 :
Contribution to excheduer	· Taxes Dato (NS. IIIII)	the state of the s	3.371	1.370	4.001
			-,	. ,	



COMMUNITY

COMMONTY					
Development of youth	Number of students enrolled to Dimo				We will continue to support this
	Automobile Training School	32	16	16	training school both in Colombo and
	Number of vocational training students				in Jaffna and maintain the world-class
	accommodated from the top vocational				standard. The Dimo Technical Institute
	training institutes in Sri Lanka	101	52	49	to be opened in July 2011 will add
	•		•		a completely new dimension to our
					youth development activities.



Combating climate change	Carbon foot print. Kg's of CO ₃ e per one rupee of earnings		0.001	0.010	0.009	Our longterm goal is to become carbon neutral. In the meantime, several programmes are being continuously launched to bring down our greenhouse gas emissions as a percentage of earnings.
	Energy consumption. Revenue per Megajoule of energy consumed (Rs.)	:	906	379	527	Efforts are on-going to improve this ratio.
	Ground water recycled and reused as a percentage of total water consumption (%)	:	24	34	10	Our objective is to increase this to 40% by the end of the ensuing year.

Report Scope and Boundary

This report is aligned with Global Reporting Initiative (GRI) G3 Sustainability Guidelines, at a self-declared application level of A+. See GRI Index for complete list of GRI indicators. We have also got non-financial data in this Report verified and assured as per AA1000AS (2008) standard by Det Norske Veritas AS (DNV). The data in this Report cover Diesel & Motor Engineering PLC and all its subsidiaries in Sri Lanka.

This report covers a one year period commencing from 1st April 2010 to 31st March 2011.

There were no changes in the reporting scope and boundary from the previous report.

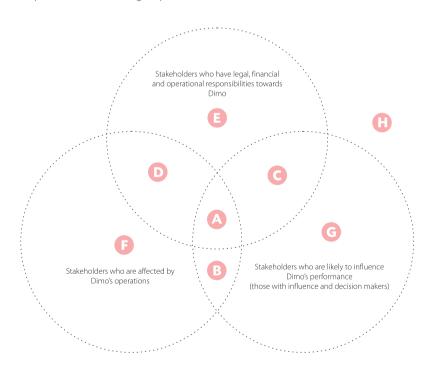
Information in this report pertaining to last year has not been restated.

Managing the Two Sides of the Coin

The coin analogy (refer Inner front cover) is useful to explain the concept that managing our seven strategic imperatives and managing capital formation are two sides of the same coin. However, when it comes to the actual management of these two sides, it is a seamless approach.

Stakeholder Identification

Our universe of stakeholders was recently mapped to identify the most important of them and ensure that the Company's seven strategic imperatives were not missing out any important stakeholder group.



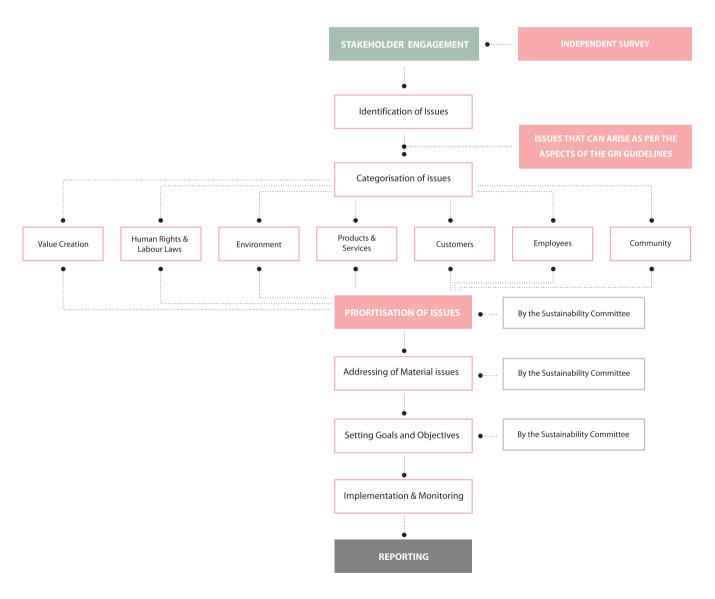
The stakeholders that were within the section marked 'A' were considered to be the most important stakeholders where engagement was a must. Those within the sections marked 'B', 'C' and 'D' are next most important group and are also considered for engagement. Stakeholders within the areas of 'E', 'F', 'G' and 'H' were not considered for the stakeholder engagement during the year, but will be considered in due course.

Stakeholder Engagement The following table depicts the various methods by which the Company engages with its important stakeholder groups.

Stakeholders	Process of Engagement						
Shareholders	One-to-one interviews (by independent parties)						
	 Annual General Meeting provides an opportunity to review the past year's performance and engage in discussions with the management 						
	Annual Report						
	Quarterly reports provide a quarterly review of performance						
	Company Website						
Customers	One-to-one interviews (by independent parties)						
	 Customer Relationship Management process (CRM) enables keeping in touch with the customer on a daily basis. It helps to respond to queries and problems from the customer. 'Problem solving' for challenges the customer faces is also done through the CRM process 						
	 A Customer Satisfaction Index maintained by each department provides an assessment of satisfaction levels and helps to improve problem solving capacities within the Company 						
	Dimo 'Fleet Owners Club - Customer Loyalty programme						
	Mercedes-Benz Club						
	• 24-hour roadside assistance						
Employees	One-to-one interviews (by independent parties)						
	Focus group discussions (by independent parties)						
	Employee Council meetings						
	Employee Portal of the Company network, accessible to every employee						
	Annual strategic planning meeting						
	• Company's 'Open Door' policy encourages direct dialogue						
	Annual Employee Surveys - voluntary and confidential						
	HR Clinics - biannually						
	Individual Performance Reviews - biannually						
	Employee Reward & Recognition						
Business Partners & Suppliers	One-to-one interviews (by independent parties)						
	Supplier Code of Conduct						
	 A high speed 24x7 on line link enables constant dialogue with principals. Issues discussed include product quality, marketing, customer satisfaction, 'problem solving' and motivation of the sales team 						
	• On site visits from principals and on site visits to principals' location facilitate engagement						
	• Principals' Reports - Compiled by Dimo annually and submitted to respective principals						
Regulatory and Government Agencies	One-to-One Interview (by independent parties)						

Stakeholders	Process of Engagement
Community	• One-to-one interviews (by independent parties)
	 Focus group discussions (by independent parties)
	Dialogue with Religious Dignitaries
	Written and oral communications initiated by stakeholders
	• Company website

Stakeholder Issue Management Process The following diagram illustrates the methodology we employ to manage stakeholder issues.



The issues identified were mapped according to their materiality as shown below. This was followed by short-term and long-term objective setting to address the issues. The sustainability committee meets on a quarterly basis to review progress.



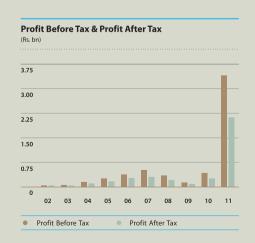
CURRENT OR POTENTIAL IMPACT ON THE GROUP

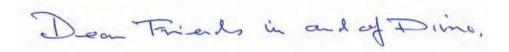
L - Low M - Medium H - High



Lower and stable interest rates, duty reductions, a strong GDP growth, and sector growth in commerce, industry and construction, provided Dimo the foundation for a new phase of growth during the past year. A continuation of this regime will ensure good prospects for the Company in the ensuing years.

An examination of our results over the past ten years would demonstrate protracted challenge punctuated with years of severe strife. Through all these years we systematically built on our intellectual capital, in the belief that the tide would turn





I make no bones about the focal point of what we are reporting, because it is not common for a business to increase profits tenfold in a single year. And that is precisely what Dimo has achieved. The Company posted a profit before tax of Rs. 3,369 mn as against last year's figure of Rs. 306 mn. Similarly, the Company's after tax profit stood at Rs. 2,104 mn, up from Rs. 189 mn last year. Group profit before and after tax were Rs. 3,396 mn and Rs. 2,122 mn respectively.

To say that I am delighted with these results is to make a gross understatement. I am truly ecstatic and so is everyone at Dimo. Nevertheless, it is not about basking in this glory. On the contrary, the key factors that contributed to this success have also brought about so much opportunity, that every corner of Dimo is a fresh hive of activity.

There were Two Main Factors that Led to this Phenomenal Growth

The first was the reduction in interest rates. This made it easier for customers to finance their purchases. The reduced interest rates also gave an additional impetus to the steadily increasing economic activity in all the sectors that we serve. This was on top of the already buoyant economic environment owing to the opening up of markets in the North and East of the Country and other infrastructural development projects that were underway.

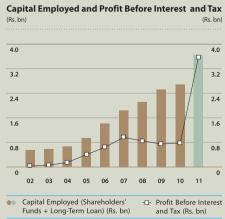
The second was the Government's decision to rationalise tariffs on imports, particularly, those of passenger motor vehicles. Motor car registrations which had shrunk by 75% in 2009 bounced back dramatically. Likewise, new registrations of all other segments of motor vehicles followed suit.

We were Fortunately Prepared to Benefit from this New Scenario

This is the central lesson we would like to carry into the future; because the economic cycle will always remain. Let me explain.

An examination of our results over the past ten years would demonstrate protracted challenge punctuated with years of severe strife. Through all these years we systematically built on our intellectual capital, in the belief that the tide would turn. I would like to draw your attention to the diagram in the inner front cover which depicts our view on financial value creation, through the dynamic interaction of our various forms of intellectual capital. It was as well a period where profits were reinvested to develop and maintain all our physical facilities in peak performing condition.







We have Adopted a New Structure in Our Annual Report

This structure brings to focus our different forms of intellectual capital and how we develop them. We have also reported on both sides of the coin concurrently.

What is the Other Side of the Coin?

The term capital, be it financial capital or intellectual capital implies ownership. Yes, this is true to a certain point; but not entirely so. Take financial capital for instance. Do we really own the financial resources at hand? As explained in the section titled financial value creation appearing on pages 18 to 32 we believe that we don't have the prerogative to sit on financial resources unless we create wealth in a sustainable manner. It is this conviction that prompted us ten years ago to adopt a management approach based on Economic Value Added (EVA).

Is It the same for Intellectual Capacity?

If the same yardstick was to be applied to intellectual capital, it would be seen that ownership plays little or no part at all. Instead trusteeship, stewardship and accountability come into play.

This leads me to reiterate our eight strategic imperatives:

- Creating financial value
- Refining the portfolio mix of our businesses continuously
- Earning the trust of customers so they keep coming back
- Nurturing people so they find it enjoyable and rewarding to work with us
- Having great relationships with best-of-breed business partners
- Playing by the rules
- Serving the community
- Being friendly towards the environment

We have in this Annual Report explained in detail how we live by these strategic imperatives. You will see that they form a holistic picture and are based on years of tacit insights passed down through generations. However, in the year under review we also commissioned an independent third party to engage with our various stakeholders and elicit additional insights. Thus, we are fine-tuning our act by understanding them even better and aligning our actions to serve them comprehensively.

We have a Large Number of Customers and Consumers Spread Across Our Five Business Segments

They comprise of individuals, businesses and the Government. However if one wonders who consumes our products, we are probably touching lives of the majority of the population in Sri Lanka. In service to them, in the ensuing months we will be opening a new Bosch Centre, which will be followed by a new Mercedes-Benz Centre, and an TATA passenger car sales and service facility. These projects represent a capital investment of over Rs. 1.0 bn. We will also be investing in a new facility for sale of TATA commercial vehicles and spare parts.

Just Over a 1,000 People Work at Dimo Now

Their knowledge and skills are constantly being honed with a comprehensive development programme. These efforts were recognised by the National Human Resource Management Awards in 2010. Dimo was one of the ten Gold Award Winners for best HR practices as well as the category winner in the 'Building HR Capacity' category.

A list of the prestigious principals that we represent appears on page 57 to 58 of this Annual Report. They represent the root of our value chain.

Youth are the Focal Point of Our Community Development Initiatives

Youth in different parts of the country, aspiring to make a career in one of the fields of engineering that we are engaged in has always been our focal point. Our Dimo Automobile Training School which has gained a world-class reputation, celebrated 21 years of service in the year under review. We recently opened the second Dimo Automobile Training School in Jaffna. We are also building a state-of-the-art technical training school at Sooriyawewa in Hambantota at a cost of Rs. 100 mn. This is scheduled to open in July 2011.

We were One of the First Companies to Report on Our Carbon Footprint

This exercise is now in its third consecutive year. Our long-term goal is to become carbon neutral. In the meantime, we are employing many measures to bring down our carbon footprint.

There is much Potential; and the Outlook is Positive

Lower and stable interest rates, duty reductions, a strong GDP growth, and sector growth in commerce, industry and construction during the past year provided Dimo the foundation for a new phase of growth. A continuation of this regime will ensure good prospects for the Company in the ensuing years.

Dimo will continue to develop its core business in automobiles and automobile parts and services. At the same time it will invest significantly in growing its businesses in lighting and power tools, construction, agricultural and material handling equipment and electro mechanical and bio-medical equipment. The Company is on the verge of entering into leisure-related transport in view of the burgeoning tourism industry. The Company will continue to lay emphasis on innovation and quality in the products and services it offers and in the aftercare it provides.

Solidarity with the People of Japan

I would like to use this opportunity to express my solidarity with the people of Japan. The Company is an agent for several products from Japan and we have always had warm relationships with the Japanese people. To them I say, our thoughts are with you at this moment and we have no doubt that you will rise even stronger from one of nature's cruelest strokes.

Acknowledgements

To our customers, I say 'thank you' for your patronage and the relationships we have built. Earning your trust means everything to us.

My warm thanks to our employees who 'drive' the Company with their 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 are touched by the faith you have placed in us and look forward to many more years of collaboration.

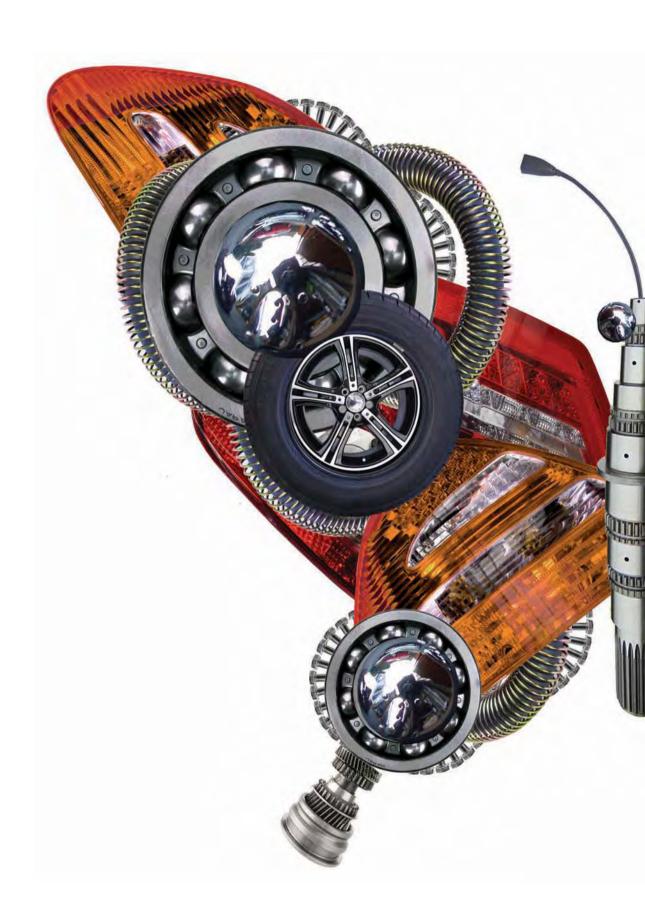
In keeping with the Company's performance, the Board has recommended a generous dividend of Rs. 61/- per share. This is unparalleled in the history of the Company. It is a way of saying thank you to our shareholders who continue to retain faith in our philosophy and business strategy.

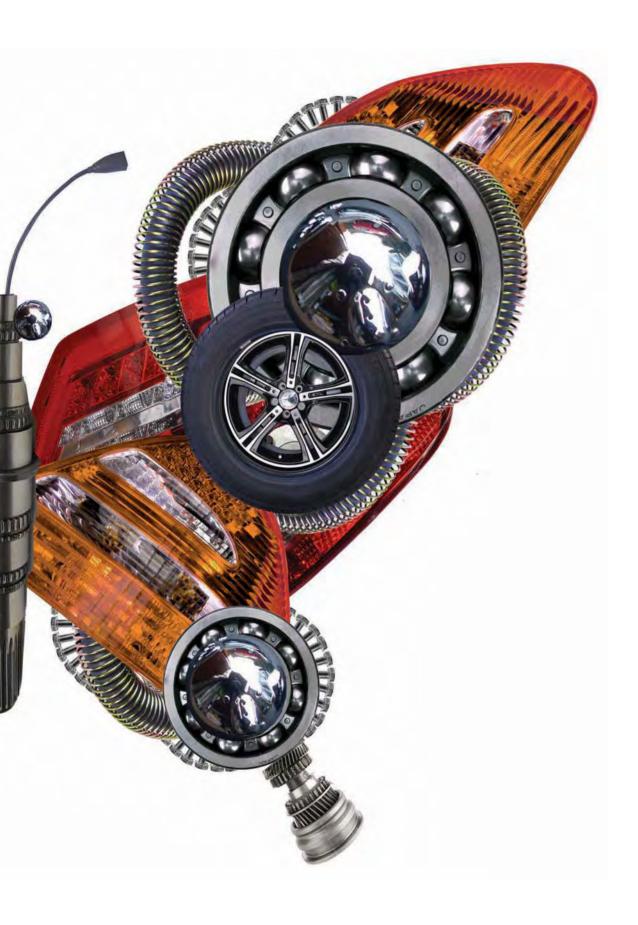
I warmly thank my colleagues on the Board. We have established a solid and dynamic team at Dimo and look forward to consolidating the new phase of growth the Company has just entered.

A. Ranjith Pandithage

Chairman, Managing Director/Chief Executive Officer

Colombo 3rd June 2011





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MANAGEMENT REPORT

Group strategy and the description of our portfolio of businesses together with their performance and prospects given in the inner front cover forms part of this Management Report. We have tried to leave out details that would dilute the most important points for a clear and comprehensive picture.

OPERATING ENVIRONMENT AND TRENDS

Global Economic Environment

The global economy recovered in 2010 from its deepest recession since the 1930s, with an estimated growth rate of 5.0%, as compared to its contraction by 0.6% in 2009. Having been less affected by the financial turmoil that preceded the recession in 2009, emerging economies continued to be the engine of recovery during the year under review. This was also apparent in the automotive industry, where a significant resurgence in demand in the emerging markets was witnessed.

Changes in the vehicle mix were also seen during the year, particularly the commercial take-off of hybrid and electric vehicles, including all mainstream vehicle manufacturers demonstrating concepts and announcing plans to launch models across vehicle segments. Further, the impact of the recent earthquake and tsunami in Japan, a leader in the automotive industry, is expected to be temporary.

The Sri Lankan Economy

2010 was the first full year of operation subsequent to the end of the three-decade long conflict. The new found peace helped to create an environment conducive to realising Sri Lanka's true potential. The economy recorded an impressive growth rate of 8%, the highest for the past three decades. The growth took place across all key sectors comprising agriculture, industry and services. The economy was characterised by moderate inflation, a lower interest rate regime, foreign exchange stability and positive Government initiatives to reduce taxation and further liberalise exchange control.

Currency (SL Rs.)	Vs Inflation						(%)
200							25
160							20
120							15
80					1		10
40							5
0		2006	2007	2008	2009	2010	0
-□- US\$ (Rs	s.) = EURO (Rs.)	-⊠- Inflation (%)	1				

The Transportation Sector

This sector impacts on the sale of passenger vehicles, commercial vehicles, special purpose vehicles, vehicle spares, accessories and tyres of the Dimo Group. The vehicles segment accounts for about 70% of the Group's business and hence merits further discussion.

Some key statistics of the sector are given below:

	Registration of Vehicles								
Class of Vehicles	2006	2007	2008	2009	2010				
Motor cars	27,578	22,603	20,237	5,762	23,072				
Three-Wheelers	64,466	43,068	44,804	37,364	85,648				
Motor Cycles	156,626	182,508	155,952	135,421	204,811				
Buses	3,346	2,637	1,180	739	2,491				
Dual-Purpose Vehicles	7,245	5,193	2,856	1,280	11,712				
Goods Transport Vehicles	20,436	18,408	14,038	8,225	11,845				
Land Vehicle	20,825	23,475	26,132	15,284	19,664				
Total	300,522	297,892	265,199	204,075	359,243				

Source - Central Bank of Sri Lanka.

OPERATING ENVIRONMENT AND TRENDS

The transportation sector demonstrated a noticeable improvement in 2010, seen predominantly in the road development sector. Construction of highways, expressways, bridges, rehabilitation of existing roads with special focus on roads in the Northern and Eastern Provinces and construction of rural roads under the 'Maga Neguma' programme continued in 2010.

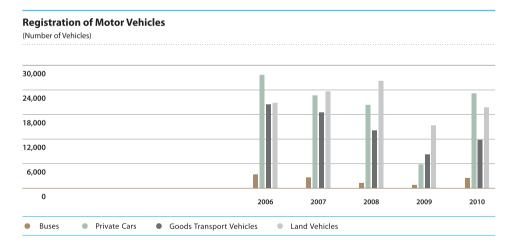
Road passenger transportation, rail and bus transportation, port services and air transportation also recorded impressive performance, reflecting the recovery in economic activities.

Public passenger transportation showed mixed performance in 2010. Although SLTB owned a fleet of 7,746 buses, the operated average number of buses in 2010 was 4,441 per day compared to the requirement of 7,131 buses. Refurbishment of buses and adding them to the fleet was a progressive step taken by SLTB to maintain the operative bus fleet. The number of buses owned by private operators increased by 6.1% to 19, 805 while the operated average number of buses increased to 15, 884 in 2010.

The vehicle import market recorded a 215% growth in value terms, increasing from Rs. 37 bn in 2009 to Rs. 117 bn in 2010, according to the Ceylon Chambers of Commerce. Vehicles from India continue to dominate the import market, with a share of over 50%.

A steep reduction in tax/duty on imported passenger vehicles in June 2010 served to inject life into the almost dead motor car trade, as can be seen from the statistics shown above.

Overall, the outlook for the Sri Lankan vehicle market is bright with consumers having a broad choice of brands and prices, a reasonable duty structure and stable petroleum prices. The continued lower interest rate regime, single digit inflation, a stable Rupee and balanced economic growth provide optimism for another good year.



Agriculture and Fishing

This sector impacts on the sale and service of earth moving equipment, agricultural machinery, industrial refrigeration industry and marine solutions.

Agriculture and Fishing account for about 11.9% of the GDP. It grew by 7.0% in 2010 compared to a 3.2% in the previous year, mainly due to the favourable growth in paddy, tea and minor export crops along with the significant improvement in the fisheries sector, particularly in the Northern and Eastern Provinces.

In parallel, the boat building industry showed signs of recovery. Demand for locally-manufactured commercial and leisure boats, small- and medium-scale luxury yachts increased during 2010. The emerging tourism industry, mainly in the sea fronts of Northern and Eastern Provinces, is expected to generate an increasing demand for leisure boats as well as vessels for sea excursions.

Industry and Services

This sector impacts on the sale of road construction machinery, forklifts, material handling machinery, racking systems, power tools and accessories, lamps, lighting fittings and accessories of the Group.

The Industry sector recorded a high growth of 8.4% in 2010, compared to the moderate growth of 4.2% in the previous year. All sub-sectors contributed favourably towards this impressive performance, with factory industry and construction being the major contributors.

The construction sector expanded with the acceleration of road development projects and power projects. Further, port development projects together with construction of houses and reconstruction work done in the North and East, boosted construction activity.

The hotels and restaurants sub-sector grew sharply by about 39.8% underpinned by the strong performance in tourism due to the post-conflict peaceful environment.

Economic and Social Infrastructure

This sector impacts on the sale of medical equipment, fluid management solutions, building technologies and power engineering solutions of the Group.

Power Sector

Electricity generation increased by 8.4% to 10,714 Gwh in 2010 reflecting the growth in economic activities and the lower base in 2009. The construction work of phase I of Norochcholai Coal Power Plant was completed in 2010 while the Upper Kotmale Hydro Power Project was nearing completion.

The electrification level in Sri Lanka is substantially high, compared to many other countries in the region. With the ongoing rural electrification projects, it is expected to achieve almost 100% electrification by end 2012.

Electricity demand is forecast to grow by 8-9 % per annum over the next decade, with about 10% of the total demand being met through renewable energy by 2015.

The energy labelling programme carried out by the Sustainable Energy Authority (SEA) was successful and the penetration of compact fluorescent lights (CFLs) has supported the achievement of an annual energy saving of 22 Gwh. The SEA has planned to extend the energy labelling programme to other products as well. The estimated annual energy saving due to enhanced use of energy efficient equipment through the labelling programme is 240 Gwh.

Simultaneously measures are being taken to promote renewable energy sources such as wind and solar power.

OPERATING ENVIRONMENT AND TRENDS

Water Supply

The demand for pipe borne water is growing continuously with the increased level of urbanisation, change in lifestyles and expansion of commercial and industrial activities. To meet the increasing demand, the National Water Supply and Drainage Board (NWS&DB) provided 87,245 new connections during the year, bringing the total to 1.35 mn connections, reflecting a 6.9% increase during the year.

Several major irrigation projects were in progress in 2010. The Uma Oya Multipurpose Development Project was in progress and is expected to irrigate 5,000 ha of new lands and provide for the drinking and industrial water requirements of the South-East dry zone. Some of the other projects implemented by the Irrigation Department include the Deduru Oya Reservoir Project, the Rambukkan Oya Reservoir Project, Weheragala Reservoir Project and the Lower Uva Minor Irrigation Project.

Health Sector

Sri Lanka's health sector standards continued to improve.

The potential for promoting health tourism in Sri Lanka is significant, considering the existing competitive advantages of the industry such as the highly skilled and trained workforce and strategic location.

Economic Outlook and Implications

The vision of the Government of Sri Lanka to double the country's per capita income to US dollars 4,000 by 2016 and to turn Sri Lanka into the 'Wonder of Asia' requires a growth rate of around 8.0% to be maintained over the years ahead.

The plan to transform Sri Lanka into a strategically important economic centre by developing five strategic hubs - a knowledge hub, a commercial hub, a naval/maritime hub, an aviation hub and an energy hub - is a balanced strategy that takes advantage of Sri Lanka's strategic location and resources.

The decline in poverty that surpasses the target set under Millennium Development Goals (MDGs) and the continuous decline in unemployment are commendable achievements. The Poverty Head-count Index halved from 15.2% in 2006/07 to 7.6% according to the first-round information from the Department of Census and Statistics.

The key challenge in the years ahead is to create an environment that continues to attract private sector investment and the timely completion of ongoing and planned infrastructure and reconstruction projects, while maintaining a low and stable rate of inflation.

However, the current geo-political tensions in the oil producing regions are likely to exert pressure on international crude oil prices as well as Sri Lanka's oil import bill, and thereby on the trade deficit. Therefore, the challenge for Sri Lanka is twofold; to maintain the growth momentum achieved in 2010, while at the same time being prepared to face the impact of adverse internal and external shocks.

In this section

- Value based management
- Working capital management
- Financial review

Value Based Management If a business is not profitable, it cannot continue to serve its stakeholders. It will be only a matter of time, and all stakeholders would be equally disadvantaged. To us, running the business profitably is the sine-qua-non of good management. Thus, financial value creation is deeply embedded into our management ethos.

> In assessing our financial value creation, we have embraced 'Economic Value Added' (EVA) as the ultimate measure of success. Pioneered by Stern Stewart, EVA is a measure that indicates the creation or the destruction of wealth by a business. We have been using EVA as a tool and reporting on it consistently over the past several years. EVA takes into account all the money that is working for the business (total invested capital), and calculates the economic cost of it. If the profit after tax is higher than this economic cost, it is said that the business has created that amount of wealth. If the profit after tax is lower than the economic cost, it is said that the business has destroyed that amount of wealth.

- The following table illustrates our computation of EVA In 2010/11, we have created Rs. 1,762 mn (Rs. 56 mn in 2009/10) of wealth.

Economic Value Added - EVA

As at 31st March	2010/11 Rs. ′000	2009/10 Rs. '000
Total Capital Supplied		
Equity	4,200,847	2,200,928
Long-Term Interest - bearing Loans & Borrowings	408,757	662,383
	4,609,604	2,863,31
Earnings		
Profit after Tax	2,121,752	248,29
Add: Interest on Long-Term Borrowings	60,658	129,29
Adjusted Earnings	2,182,410	377,588
Weighted Average Cost of Capital (%)	9.11	11.24
Economic Charge	419,947	321,83
Economic Value Added	1,762,463	55,752

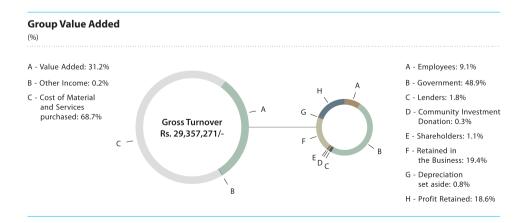
As at 31st March	Source	2010/11	2009/10
Average Risk Free Rate (Average Treasury Bill Rate)	Central Bank	7.50%	9.91%
Beta Factor - Dimo	CSE	0.85	0.87
Risk Premium	Assumed	2%	2%
All Share Price Index (ASPI)	CSE	7,217.00	3,724.60
Average Weighted Prime Lending Rate (AWPR)	Central Bank	9.84%	13.82%
Rate of Income Tax	Applicable Rate	35%	35%
Cost of Equity (Based on CAPM)	Computed	9.20%	11.65%
Cost of Debt (After Tax)	Computed	6.39%	8.98%

We also look at value added and the distribution thereof. Value added equals our revenue minus cost of goods and services purchased. It indicates the value that has been created by Dimo through the utilisation of its capacity, capital, manpower and other resources.

• The following chart illustrates the creation of our value added and the distribution thereof. Our value added has grown significantly from Rs. 3,008 mn in the previous year to Rs. 9,183 mn in the year under review. A great part of the value added in 2010/11 has been retained in the business enhancing the Group's investment capacity very significantly. Likewise, the value distributed among Government by way of customs duties and taxation, employees and shareholders has also increased whilst the value distributed to lenders has reduced owing to reduced interest rates as well as retiring certain long-term loans owing to the cash surplus experienced during the year.

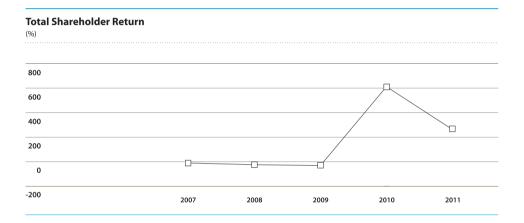
Statement of Value Added

		(Group			Co	mpany	
For the Period of	%	2010/11 Rs. '000	%	2009/10 Rs. '000	%	2010/11 Rs. '000	%	2009/10 Rs. '000
Gross turnover		29,357,271		10,530,587		28,662,124		9,556,752
Other income		48,742		44,244		51,245		28,81
Less: Cost of material and services bought in		(20,222,537)		(7,566,628)		(19,740,634)		(6,859,85
		9,183,476		3,008,203		8,972,735		2,725,71
Value Shared With								
Employees	11	1,037,261	24	717,616	11	945,365	23	626,95
Government	61	5,571,287	51	1,520,283	61	5,478,291	52	1,427,10
Lenders	02	207,674	12	365,746	02	207,184	13	344,00
Community Investment Donation	00	30,570	00	9,013	00	30,305	00	8,62
Shareholders	01	121,833	02	52,214	01	121,833	02	52,21
Retained in the business	24	2,214,851	11	343,331	24	2,189,757	10	275,44
Depreciation set aside	01	93,099	03	95,034	01	85,852	03	87,24
Profit retained	23	2,121,752	08	248,297	23	2,103,905	07	189,20
	100	9,183,476	100	3,008,203	100	8,972,735	100	2,725,71

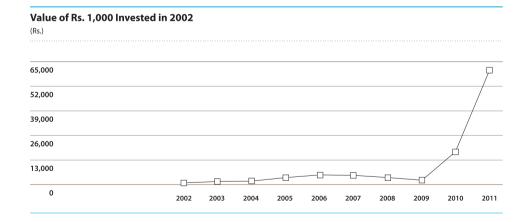


• The following table illustrates the calculation of Total Shareholder Return (TSR). It includes capital gains from increases in share price as well as dividends received. TSR in the year under review is 264%.

Total Shareholder Return (TSR)	2011	2010	2009	2008
Market Price Per Share (Rs.)	1,484.7	424.75	61.00	88.75
Dividend Per Share (Rs.)	61.00	7.00	3.00	4.00
Shareholders Total Return (%)	263.91	607.78	(27.88)	(22.7



Property - Rs. 1,000/- invested in 2002 in Diesel & Motor Engineering PLC shares is worth Rs. 60,487/- today as shown in the chart below:



Working Capital Management

The efficient management of working capital continues be a management prerogative and receives close attention of top management. There is a continuous monitoring of working capital based on certain internal KPI's that we have adopted.

Group Current Assets more than doubled from Rs. 3.38 bn to Rs. 7.84 bn during the year. Group Current Liabilities followed the same trend from Rs. 2.63 bn to Rs. 6.18 bn owing to the increased volume of trading. As a result, the Group's current ratio remained more or less unchanged at 1.27:1 as against 1.28:1 last year. The quick asset ratio however improved marginally from 0.79 to 0.84 from last year to the year under review. This is an indicator of a business's ability to satisfy its current liabilities with its most liquid assets and represents the current assets less inventories to current liabilities.

Inventories as at the year-end amounted to Rs. 2.64 bn compared to the Rs. 1.32 bn in the previous year. During the year under review, the Group's stocks residency period reduced from 60 days to 42 days. Debtors total as at year end was Rs. 3.32 bn compared to the 1.19 bn in the previous year.

During the year under review, the operational cash flow of the Group amounting Rs. 1.79 bn (Rs. 0.84 bn in 2009/10) was sufficient to finance working capital requirements.

Financial Review Overview

The year under review was one of the most successful years enjoyed by the Group during the recent history. A relatively lower interest rate regime and reduced tariff for passenger vehicles were two key driving factors for this performance. Favourable changes in the business environment experienced during the latter half of the previous financial year prompted the Group to welcome the financial year under review with a strengthened resource base in order to take advantage of the opportunities that were presented by the conducive business climate.

A phenomenal increase in turnover accompanied by a corresponding increase in net profit, generation of a significant amount of funds through operations, and investments made in working capital and property, plant & equipment (PPE) are key highlights for the financial year under review. Funds generated during the year leaves the Company with resources to provide the platform for future sustainable growth.

Financial Environment

Interest rates, economic growth, exchange rates and intensity of economic activity are some economic and financial aspects that influence the performance of the Group. The Group provides capital goods such as vehicles, equipment, machinery & infrastructure, which are often funded by the customers through borrowings. Borrowing rates is a key consideration that determines the demand for capital goods sold by the Group. On the other hand, borrowing rates make an impact on the net financing cost of the Group. Lower rates of interest, therefore, is a prerequisite to a successful performance.

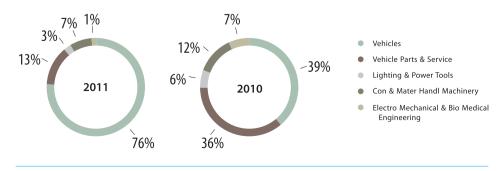
Table below provides the quarterly segment revenue and results turnover together with relevant key indicators of financial and economic environment.

Quarterly Performance and Economic Indicators

				2010/11 (Rs	. '000)				2009/10 (Rs	(000)	
Segment Performance	e	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Tota
Vehicle	Revenue	2,120,665	3,729,272	9,543,479	6,705,695	22,099,111	472,995	1,008,964	1,519,854	2,275,394	5,277,20
	Results	216,670	523,258	1,486,348	992,754	3,219,030	18,250	50,683	131,258	265,108	465,29
Vehicle Parts & Service	Revenue	659,831	650,758	729,590	781,563	2,821,742	537,992	678,138	590,380	747,046	2,553,55
	Results	(7,572)	216,490	68,486	252,343	529,747	90,618	150,812	100,416	90,489	432,33
Lighting & Power Tools	Revenue	112,519	143,705	373,178	268,731	898,133	66,394	109,138	106,862	118,303	400,69
	Results	277	32,454	44,123	31,931	108,785	9,083	17,682	27,012	17,720	71,49
Construction, Agricultural & Material Handling Machinery	Revenue	408,551	769,749	1,108,122	707,520	2,993,942	176,236	411,027	370,826	559,216	1,517,30
	Results	(25,470)	127,959	109,590	91,930	304,009	12,451	28,947	36,079	67,412	144,88
Electro - Mechanical and Bio Medical Engineering	Revenue	116,376	38,173	286,058	103,736	544,343	132,795	382,456	162,695	103,876	781,82
	Results	23,649	61,896	847	(25,392)	61,000	31,022	31,133	10,986	10,453	83,59
Total Revenue		3,417,942	5,331,657	12,040,427	8,567,245	29,357,271	1,386,412	2,589,723	2,750,617	3,803,835	10,530,58
Total Results		207,554	962,057	1,709,394	1,343,566	4,222,571	161,424	279,257	305,751	451,182	1,197,61
Economics Indicators		114.02	114.26	112.04	111.02		116.65	115.02	115.50	115.27	
(Quarter beginning)	US\$	114.82	114.36	112.84	111.82		116.65	115.83	115.59	115.27	
	Euro	155.8	140.03	154.86	149.55		154.76	163.07	169.82	165.9	
AWPLR (Quarter beginning) (%)		10.62	10.37	9.91	8.92		19.6	15.54	12.88	10.91	
Inflation (12 months moving average)		3.4	4.2	5.4	6.00		16.7	10.4	5.2	3.1	
GDP Growth (%)					8.00					3.50	

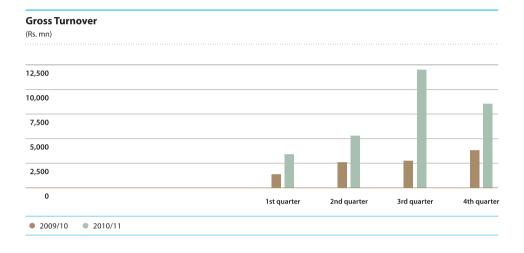


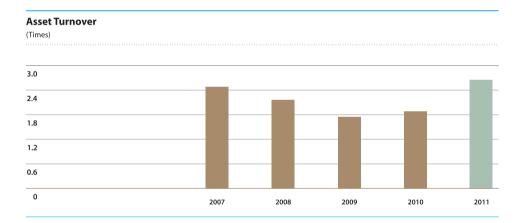
(%)



Financial Performance Turnover

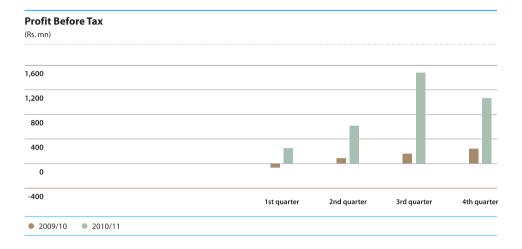
The Group turnover recorded an unprecedented growth of 179% increasing from Rs. 10.4 bn to 29.4 bn. This also represents an achievement of 61.05% over the budgeted turnover. Whilst the vehicles segment led the growth in turnover, vehicle parts and service, lighting and power tools, constructions and material handling machinery segments too contributed in a significant manner. The assets turnover ratio increased from 1.88 to 2.65 providing an indication of the manner in which the assets of the Company have been utilised in generating the turnover.





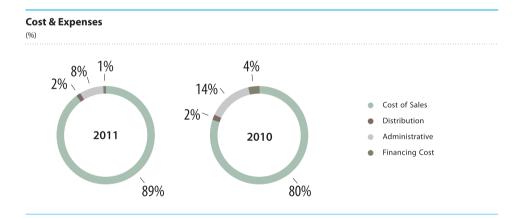
Profitability

The gross profit ratio reduced from 22.91% to 20.56%. Lower gross profit ratio in the vehicles segment was a key reason for the reduction in the overall gross profit ratio.

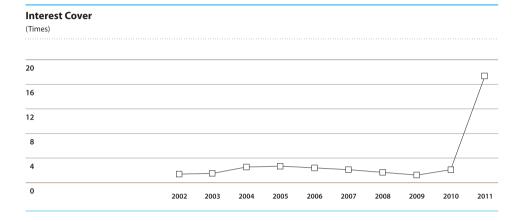


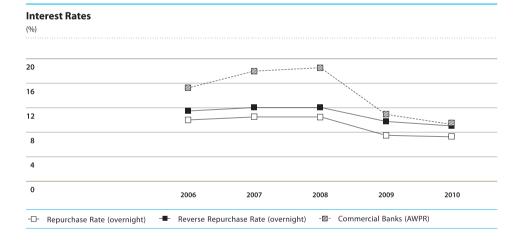
Administration and Distribution Expenses

Administration and distribution expenses have increased by 46% over the previous year. This expense increased with increase in turnover. Promotional costs and staff costs were two key components that accounted for the increase. The ratio between the above expense and turnover reduced from 15.87% to 8.32% this year.



Net Finance Cost Reduced interest rates and cash generated from operations helped to reduce net finance cost by 43%, resulting in a reduction in net finance cost from Rs. 365.8 mn to Rs. 207.7 mn. Increased net profit and reduced interest cost increased the interest cover from 2.15 to 17.35. Net financing cost which is usually a significant component of the cost structure of the Group was made less significant with the increase in profits.





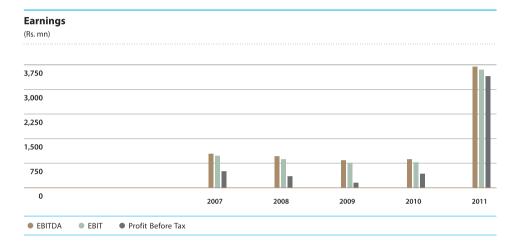
The income tax expenses increased from Rs. 141.8 mn to Rs. 1,274.2 mn, with the increase in net profit before tax. The Company and its subsidiary were liable for income tax at 35%. The rate of income tax has reduced to 28% with effect from 1st April 2011. The effective tax rate shows a reduction from 38.48% to 35.57% due to proportion of the disallowable expenses being less than previous year. The reconciliation between accounting profits and taxable income is available in Note 12.1 on page 178.

Deferred Taxation

The tax expense include a charge of Rs. 30.02 mn in respect of deferred tax. A summary of the deferred tax computation is available in Note 29 to the Financial Statements.

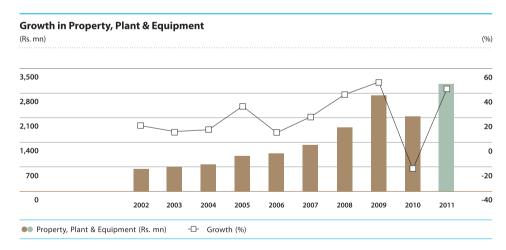
Earnings

Earnings before interest and tax (EBIT) increased from Rs. 785.9 mn to Rs. 3,603.7 mn. Net profit after tax also increased from Rs. 248.3 mn to Rs. 2,121.8 mn. Return on average capital employed increase was 39.86% compared to 13.83% last year. Earnings per share for the period under review was Rs. 239.03 compared to Rs. 27.97 last year. There was no changes in the number of shares in issue, during the year.



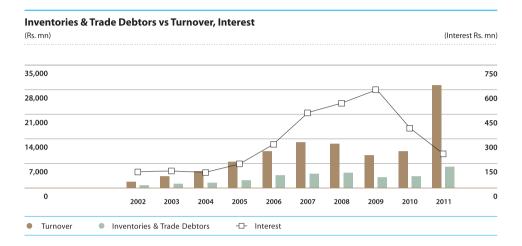
Financial PositionProperty, Plant and Equipment

The Group invested a total of Rs. 1,044.6 mn (2009/10 - Rs 36.9 mn) in property, plant & equipment. The Company acquired a property within the Colombo municipal limits and in close proximity to the head office investing Rs. 715.52 mn. The property is 614 perches in extent and has a warehousing complex covering an area of approximately 67,000 square feet. The total investment in plant & machinery amounted to Rs. 111.7 mn (2009/10 - Rs. 10.3 mn).



Working Capital

The increased level of activity has placed demands on management of working capital and is receiving due attention. Higher turnover also resulted higher levels of inventory and receivables, increasing current assets from Rs. 3,350 mn to Rs. 7,848 mn. Inventories increased by 100.1% from Rs. 1,316.3 mn in the previous year to Rs. 2,640 mn. Trade and other receivables too increased by 67.4% from Rs. 1,988 mn to Rs. 3,328.4 mn.



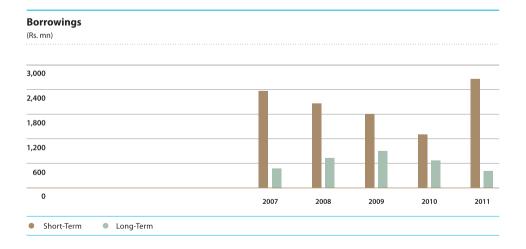
Borrowings

Borrowings consist of term loans, import loans, short-term loans and overdraft.

The total amount of term loans outstanding as at the year-end amounted to Rs. 408.8 mn. (2009/10 - Rs. 662.9 mn), indicating a reduction of approximately 38%. The term loans have been obtained for a five-year repayment period except for the loan obtained to finance the acquisition of Weliweriya complex, which has a repayment period of ten years.

Interest rates of overdrafts are reviewed periodically and rates charged on short term/import loans are determined based on money market rates. Group's interest bearing borrowings marginally decreased during the year.

More details on borrowings are available in Note 30 to the Financial Statements.

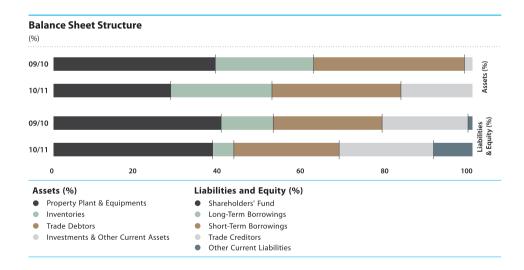


Solvency

Section 56 of the Companies Act No. 07 of 2007, requires that a solvency test be performed prior to the payment of dividends. In order to satisfy this requirement, the Company carried out solvency tests prior to payment of the two interim dividends. As per requirements of the above Act, the Company Auditors certified prior to payment of interim dividends that the Company has the ability to pay its debts as they become due in the normal course of business and that the value of the Company's assets is greater than the value of its liabilities and the Company's stated capital.

Given below is the computation of solvency for the Company as at the year-end.

As at 31st March	2011	201
	Rs. '000	Rs. '00
Non-Current Assets	3,073,840	2,106,683
Current Assets	7,476,574	3,092,15
Total Assets	10,550,414	5,198,836
Current Liabilities	6,041,877	2,545,392
Non-Current Liabilities	555,674	682,65
Total Liabilities	6,597,551	3,228,04
Assets Less Liabilities	3,952,863	1,970,79
Stated Capital	182,500	182,500
	3,770,363	1,788,29



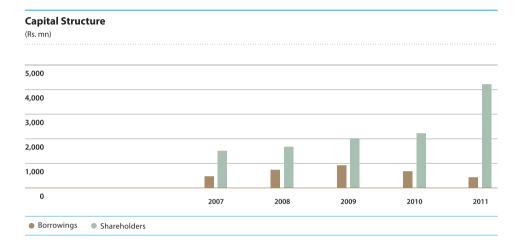
Cash Flow

The Group generated funds amounting to Rs. 1,794 mn (2009/10 - Rs. 846.8 mn) from operations during the year under review. This was after supporting an increase of inventory and receivables (net of payables) amounting to Rs. 1,409.8 mn. Funds amounting to Rs. 1,082.2 mn (2009/10 - Rs. 36.46 mn) was utilised for acquisition of property, plant & equipment during the year. Cash and cash equivalents increased by Rs. 478.48 mn (2009/10 - Rs. 526.67 mn) during the year.

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

Debt to Equity Ratio

The Group's debt to equity, which is calculated as a proportion of the total interest-bearing borrowings to equity decreased to 73.04% (2009/10 - 89.35%). Increase in the Shareholders' funds from Rs. 2,200.93 mn to Rs. 4,200.85 mn was the reason for the reduction in the Debt to Equity Ratio.



Shareholders' Funds

The shareholders' funds, propelled by the retained earnings for the year increased from Rs. 563.53 mn to Rs. 2,213.44 mn as at 31st March 2011. The details of the movement in shareholders' funds are given in the Statement of Changes in Equity on page 156.



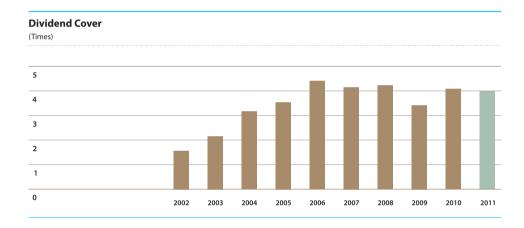
Retirement Benefits

The actuarial valuation of the gratuity liability carried out as at the year-end places the Group's liability at Rs. 182.3 mn compared to that of the previous year of Rs. 142 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 No. 28 to the Financial Statements. The charge to the Income Statement for the year on account of the gratuity liability is Rs. 57.7 mn, which was Rs. 28.2 mn for the year 2009/10.

Stakeholder Financial Implications

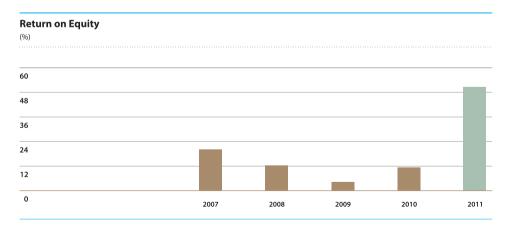
Shareholders - Dividends

The Company paid two interim dividends during the financial year. Each interim dividend was at Rs. 5/- per share (2009/10 - interim dividend Rs. 3/- and final dividend of Rs. 4/-). The total outflow for the dividend amounted to Rs. 121.83 mn. The Directors also approved a final dividend consisting of Rs. 23.10 per share cash dividend and a Rs. 27.90 per share scrip dividend, totalling to Rs. 51/- per share. The Company possessed necessary funds to finance the dividend payments and satisfied the solvency test requirement for payment of dividends as laid down in the Companies Act No. 07 of 2007.



Shareholders - Return on Equity

ROE increased to 50.51% (2009/10 - 11.28%) consequent to the higher profit after tax.



Market Value Added (MVA)

Market value added is the difference between the current market value of the Company and the capital contributed by the investors. i.e shareholders' equity. MVA is an indicator of shareholder wealth unlike EVA which is a performance measure. A positive MVA indicates the market's confidence in the future stream of EVAs.

The computation of MVA of the Company is shown below:

As at 31st March	2010/11 Rs. ′000	2009/10 Rs. '000
Market Capitalisation	12,920,437	3,696,340
Shareholders' Funds	(4,200,847)	(2,200,928)
Market Value Added	8,719,590	1,495,412

MVA as at year end showed a positive value of 8.72 bn. (2009/10- Rs. 1.49 bn.) This is mainly due to tremendous performance of market price of the shares.

Payment to local suppliers amounted Rs. 3.9 bn (2009/10 - Rs. 1.8 bn). Suppliers

Employees Rs. 1,037 mn (2009/10 - Rs. 717 mn) out of value added through operations was shared with the employees. This amounts to an increase of 45.5% (2009/10 -15.4%).

Society Expenditure incurred during the year for the direct benefit of the society was Rs. 30.5 mn (2009/10 - Rs. 9.01 mn).

Financial Operations 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 utilization of funds between Business Units.

Financial Market Risk

The Company is exposed to changes in financial market conditions such as fluctuations in interest rates and foreign currency exchange rates. Increases in interest rates could have a significant impact on the net finance cost. Forward exchange rate contracts may be entered into, on a selective basis.

Working at Dimo 47

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Accounting and Financial Reporting

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

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

Financial Priorities

The financial performance for the year under review, and the forecasts into the immediate future, directed the Company's priorities towards focusing on sustaining growth and managing the funds generated. These necessities have given rise to the following priorities.

- 1. Rational utilisation and investment of funds generated.
- 2. Prudent management of costs ensuring that inefficiencies do not get hidden in success.
- 3. Management of working capital in view of the demands placed by strong growth in turnover.

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.

Financial Outlook 2011

The relatively lower interest regime provided an enabling environment for a successful year. The reduction in tariff also provided the much needed kick start for the passenger vehicle sales. The present economic conditions do not suggest a reversal of fortunes in the near future although the Government Policy on tariff on motor vehicles is unclear.

Financial budgets for the year 2011/12 indicate another year of successful financial performance. Realisation of such a prospect would lead to further strengthening of the Group's financial position, with the ultimate beneficiaries being its stakeholders.

In this section

- Management Approach Customer Profile Customer Portals
 After-Sales Care
- Nurturing Customer Relationships
 Customer Health and Safety
 Customer Satisfaction
- Customer Complaint Handling Product Responsibility Customer Privacy

Management Approach

Our approach is centered around earning customers' trust and ensuring that we consistently meet customer expectations and requirements. We have set the bar very high as evidenced in our tag line 'Dimo Technology - Expect Perfection'. To enable this, we have instituted a comprehensive and continuous process of engagement with the customer.



Dimo technology 'expect perfection'



We are cognisant of the fact that our customers are spread across five business segments and range from individuals to businesses and Government. We employ a range of marketing strategies to reach and attract the multiplicity of these customer segments. Word of mouth is a key component of our marketing communications strategy. We are strong believers that a satisfied customer, whose trust we have earned, not only returns and remains but also brings in more customers as well as becomes a cross-customer across our business segments. The word of mouth process is catalysed by a customer relationship management programme which among other things includes service and educational campaigns and a whole host of social events. Advertising is done only for selected products, promotions and events at specific times; and always, sparingly. We believe that no amount of advertising can bring us better results than consistent after-sales service, honest interaction with customers and meaningful product augmentation.

Our policy of partnering with the world's best has enabled us to bring a portfolio of the best brands in their respective categories to the Sri Lankan customer.

The Group's Quality Management System is accredited with ISO 9001:2008 Certification.

Customer Profile

We have over 25,000 direct customers ranging from individuals to businesses and Government. These include large dealers. The dealers in turn serve several hundreds of thousands of consumers of our products. To serve and interact with our direct customers including our dealers, we have a team of 345 sales people and 442 service people.

The following table illustrates the distribution of our active customer base and their satisfaction levels.

Market Segment	B2C	B2B	B2G	Total	Weighted Average CSI (%)
Vehicles	2,525	15,119	159	17,803	82
Vehicle Parts & Services	2,631	1,028	232	3,891	88
Lighting & Power Tools	881	93	68	1,042	85
Construction, Agricultural and Material Handling Electro Mechanical and Bio Medical	941 264	1,099 8	132 103	2,172 375	87 86

Customer satisfaction does not stand still. It either goes up or comes down. Thus, our success depends on keeping an effective finger on the pulse of customer satisfaction and adapting and innovating in a timely and effective manner. We have many established methods of engaging with our customers. In the year under review we employed an independent third party to conduct a formal and structured customer engagement process and report their findings on customer expectations and satisfaction levels to us. The table on page 77 summarises our most recent findings and actions from our engagement process with customers. The learnings from these results have already been taken on board by the management.

Customer Portals We have over the years invested heavily to take Dimo with its multiple product and service offerings as close as possible to customers. These investments have enabled us to reach our diversified customers more effectively as well as to broaden and strengthen their base. We are also consistently opening up untapped markets. Our strategic alliances with top leasing and finance companies offering our customers special rates of interest, and tailor-made schemes to go with specific products are another boon to customers.







The following table lists our customer interaction points.

	Vehicle Sales	After-Sales Services	Display Points	Spare Parts
Head Office - 65, Jetawana Road, Colombo 14	X	×	X	X
Commercial Vehicle Showroom - 61, Jetawana Road, Colombo 14	X			×
Siyambalape Complex - 135, Mahena Road, Siyambalape, Biyagama		X		×
Kandy Branch - 276 A, Katugastota Road, Kandy	Х		X	×
TATA Passenger Car Showroom & Workshop - 467, Sirimavo Bandaranaike Mawatha, Colombo 14	Х	Х	×	Х
Mercedes-Benz & Chrysler Showroom - 378-385, R.A. De Mel Mawatha, Colombo 3	Х		X	
TATA Passenger Car Showroom - 385 A, R.A. De Mel Mawatha, Colombo 3	Х		X	
Kurunegala Branch - 27 A, Colombo Road, Malpitiya, Boyagane, Kurunegala	Х	Х	X	×
Dimo Mart - 50,51, Jetawana Road, Colombo 14			X	×
Matara Branch - 401, Kumaratunga Munidasa Mawatha, Pamburana, Matara	Х	Х	X	×
Commercial & Heavy Machinery Workshop - 562/126, D.S. Senanayake Mawatha, Anuradhapura		X		X
Dimo Logistics Centre - Kirindiwela Road, Weliweriya	Х	^		×
TATA Spare Parts Showroom - 74, 74/1, Jetawana Road, Colombo 14				X
Jaffna Branch - 214, Stanley Road, Jaffna	Х		X	
Yakkala Display point - 32, Aluthgama, Bogamuwa, Yakkala	Х		X	×
Ambalangoda Display point - 2H, New Road, Ambalangoda	Х		X	×
Ratnapura Display point - 56, Bandarawatte, Hidellana, Ratnapura	Х	X	X	×
Vavuniya Display point - 43, Jaffna Road, Vavuniya	Х		X	×
Dambulla Display point - 800, Dambulugama, Dambulla	Х		Х	
Embilipitiya Display point - 345, Pallegama, Ratnapura Road, Embilipitiya	Х		Х	
Ampara Branch - C/62, D.S. Senanayaka Street, Ampara	Х		Х	
Kandy Branch Work Shop - 671/A, Balagolla, Kengalla, Kandy		Х		Х
Welimada Display Point - 73, National Building, Badulla Road, Welimada	Х		Х	Х
Anuradhapura Branch - 562/100, Jayanthi Mawatha, Anuradhapura	Х		Х	
Akkaraipattu Display point - 61, Town 1, Main Street, Akkaraipattu	X		X	

 The following table illustrates the number of customers who are served by more than one business segment. It shows the effectiveness of our 'One Dimo concept'. Our customers spread across our five business segments are getting increasingly exposed to the total Dimo offering.

	Vehicles	Vehicle Parts and Service	Lighting and Power Tools	Construction Machinery
Electro - Mechanical and Bio Medical Engineering	11	44	23	4
Construction Machinery	183	145	61	
Lighting and Power Tools	61	146		
Vehicle Parts and Service	467			

• The following table illustrates how we have strengthened the base and skill level of our sales staff.

Category	No. of Programmes	No. of Sales Personnel Attended	Sales - Training Man Hours
In House Training	35	393	2,414
External Training	143	85	712
Foreign Training	30	11	392

• The BOSCH Diesel Centre under construction to be opened in 2011/12 will provide engine management solutions.



 The new Mercedes-Benz centre to be constructed will provide an enhanced customer experience.



• A 'knowledge sharing session'. We are investing in continuous training and exposure of our sales team in understanding the complete Dimo product range, so that they can effectively cross-sell and deliver total solutions as per our customers' requirements.



 - We are forging ahead in the medical equipment market.
 Two state-of-the-art Siemens MRI scanners were sold in the year under review.



After-sales Care Our after-sales facilities have consistently been cutting edge and innovative; and span across all our business segments.

> In our vehicles, vehicle parts and services, construction and agricultural machinery segments for instance, our efforts in reaching out are not just confined to customers but also include mechanics and technicians who provide a service to our customers. Whilst offering professional services such as advice and training on fleet management to fleet owners and delivering spare parts to our customers' doorsteps, we also provide safety equipment and technical training to garage owners and their employees.

In our electro mechanical and bio-medical engineering segment, we continue to invest on training our after sales team and keeping them abreast of our Principals' state-of-the-art technology. 95% uptime guarantees, 24-hour hot-lines, spares-to-site within 48-hours, on-line web-based monitoring (via our Principals' websites) of all running equipment to pre-alert on probable failures, are some of the features that distinguish Dimo after care in this business segment.

The technical team in our lighting and power tools segment is capable of conducting energy audits and providing expertise on energy saving in addition to designing highly sophisticated lighting systems for specialised applications.



TATA 'Mahagedara' is our flagship service centre and workshop that also provides accommodation facilities for outstation customers. A price menu helps customers to take speedy decisions and also improves transparency and clarity in pricing. The underlying philosophy of this concept is threefold. Viz. Due respect and due care to customers (known as 'Garu Selakili Mahagedara'), 24-hour on-line roadside assistance to customers (Hode Walawata Mahagedara), and of course customer safety and satisfaction through quality service (Arakshawata Mahagedara). Another industry- leading example from Dimo.

- Our mobile service unit equipped to trouble shoot and take care of minor repairs provides another dimension to customer convenience.



• Our unit repair section was upgraded to enhance capacity and improve service turn - around time. One of the key products delivered by this unit is known by the name 'adi Sathkara'.

As the name implies, the engine gets an 'intensive care' treatment. We are working towards a complete engine overhaul in 24-hours. A sum of Rs. 52 mn was invested in this section in the year under review. A further investment is planned in the coming years.



• We have built capabilities to provide total lighting solutions in highly specialised areas.

Picture depicts our lighting solution for the Pallakele International Cricket Stadium.



• Electronic mobile racking systems and a range of other innovative material handling and storage systems have been introduced to the market. These products are backed by expertise for customisation, on-line after-sales support and 24-hour spare parts delivery.



 Dimo continues to out perform regional averages in South East Asia. The table below illustrates Dimo's scores at the latest Mercedes-Benz Service Excellence Awards (SEA) which measure current levels of performance as well as process improvements.

Measures	SEA Score	CSI	FFV
	(Max 100)	(Max 1,000)	(Max 100%)
Region Average	75.8	729	83%
Dimo's Average	79.7	753	96%

FFV: First Fix Visit (diagnose problem on customer first visit) CSI: Customer Satisfaction Index SEA Score: The Service Excellence Award Score

Nurturing Customer Relationships

The sense of 'community' that we have built into the larger 'Dimo family' is constantly being nurtured across all business segments. Significant financial resources as well as top management time and attention are devoted towards this end. Understanding needs of various customer groups and innovation are once again the keys to success. We have, for instance, developed a range of express services where, through the employment of special processes, we are able to complete these services within a guaranteed time frame.

• The Mercedes-Benz Club of Sri Lanka is now in its 21st year with a membership of over 100 making it one of the oldest and largest clubs of its kind in the country. It is also one of the most active clubs in Sri Lanka. The Annual Mercedes-Benz pageant is a much sought after event for members and their families and friends. In 2010, the Mercedes-Benz Club celebrated its 20th anniversary & organised a special pageant which attracted over 160 Mercedes cars ranging from 1930 models to the very latest. It is a day of fun and camaraderie for the entire family.



- The Mercedes-Benz Annual Golf Tournament is now in its 20th year. It is organised by Dimo and is open to golfers who are Mercedes-Benz owners and resident in Sri Lanka. The 2010 tournament attracted 86 participants. Seven qualified for the regional tournament held in Australia and one qualified for the world finals held in Germany.



 TATA Fleet Owners Club members are entitled to certain privileges such as exclusive service offerings and special pricing schemes.



- In 2010 our service campaign for TATA customers spanned far and wide covering six major towns from Jaffna in the North to Yala in the South. These were very well patronised with some 342 TATA vehicles, 298 owners of TATA vehicles and 62 owners of garages that repair TATA vehicles. Participants were able to get the latest updates on the TATA brand, an updated handbook and get their technical problems solved by our technical experts. The major garages in these areas were visited by our technical teams and their owners and senior mechanics were briefed on TATA's technology updates as well as the advantages of using genuine spare parts.
- The woodworking community in Moratuwa celebrate the Sinhalese and Tamil New Year, courtesy of our Power Tools division. Technicians who use our power tools in major cities around the country, are provided free service campaigns for trouble shooting, training and solving their technical problems. Mobile service campaigns at customers' doorstep to minimise equipment downtime are planned in the future.

Customer Health & Safety

Life cycle stages of products are assessed for health and safety impact

Given that Dimo represents best-of-breed principals in their respective categories, all products come with the highest levels of safety. Dimo follows principals' guidelines and globally accepted best practices to ensure that in the process of after sales care, the highest levels of safety are afforded to our customers. In addition, all health and safety measures as per ISO accreditation guidelines are also employed.

Educational and communication programmes on the safe disposal of certain products have been planned for the future.

There was no material incidents reported relating to customer health and safety in the period under review.

Product and Service Labelling and User Manuals

All Dimo products are adequately labelled, have catalogue reference and if required, an accompanying user's manual. All labelling also conforms to statutory requirements in respect of providing diagrams and pictographs, "use-by" dates, standardisation code numbers, and information on possible environmental impact. The requisite quality certification stamps are also carried.

Marketing Communications

Dimo's marketing communications is fully based on transparency, honesty, ethical standards, and conformity with statutory requirements. Where applicable, we also adopt our principals' codes on the subject. All marketing campaigns are screened prior to release to ensure that Dimo does not engage in unethical marketing practice.

There were no breaches of this code during the year under review.

The same standards are promoted among all customer facing staff in every one of their communication with customers.

There were no instances of non-compliance with any regulation on marketing communication during the year.

Customer Satisfaction

Measuring and monitoring customer satisfaction and adapting accordingly are both a science and an art at Dimo. The art of it is deeply ingrained into our ethos and is one that has come down the generations in a process of continuous improvement. The science of it was instituted nearly a decade ago, when in 2002, we decided to conduct on-going customer satisfaction surveys and create an index of it as an important barometer for management.

Results of our formal surveys are documented. They form the basis of the continuous improvement programmes including training in every area from sales, to spares, and aftersales services across all business segments. Important innovations and improvements stemming from this exercise are instituted in the training and induction agenda and employee literature.

A central CRM unit is in operation and currently provides a monthly data analysis service to the vehicle segment. These details are forwarded to business units monthly. All other business segments analyse their data on a quarterly basis in consultation with senior management. Both these quarterly and monthly reports contain customer responses and complaints and enables the Company to continuously develop its problem solving capability with timely and effective alterations to the business process.

Dimo has the ability to attract new customers and attract repeat purchase in equal measure. Of the Mercedes-Benz vehicles sold in the year under review, 48% were new customers and 52% were repeat customers.

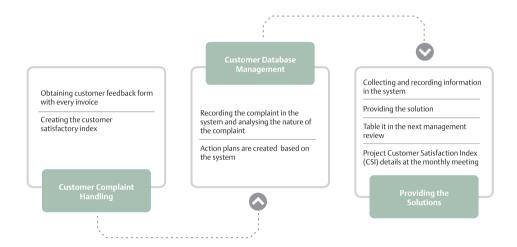
Customer Complaint Handling

Dimo's customer relationship management (CRM) department spearheads this activity. It ensures that, through a series of activities, it maintains regular contact with customers and has positioned itself to get effective and candid feedback. The CRM department plays a central role in problem solving as well.

Our CRM process ensures speedy response to customers' complaints. Any customer complaint is acknowledged on the same day and a solution is given within a maximum of three days. Complaints of customers in mission critical businesses receive greater priority. A customer complaint register is maintained in every location across our branch-network.

During the year under review the central CRM unit had reached 9,568 customers.

- The following diagram details our customer complaint handling process:



In the year under review, Dimo received 201 customer complaints. Of this, 96 were resolved within the stipulated 3-day time frame. All other complaints were eventually solved in a satisfactory manner.

 Dimo received a relatively higher number of customer complaints in the year under review, as depicted in the chart below:

Year	Customer Complaints
2006/2007	458
2007/2008	305
2008/2009	289
2009/2010	180
2010/2011	201

Product Responsibility

Our Principals, being category-leading global brands, produce some of the most responsible products in their respective categories. Hence, every product offered by Dimo is somewhat of a leader in the area of product responsibility. Dimo, on its part, is committed to keeping abreast of developments and offering the latest products and innovations of its Principals to the Sri Lankan market. Following are but a handful of examples from a lengthy list.

• Recently introduced Osram LED lighting is 80% more energy efficient than CFL technology, lasts 100-times longer and is less harmful to the environment when disposed.



 - Dimo was the first in Sri Lanka to introduce asbestos-free Brake Pads and wiper blades.



 Newly launched MRF radial tyres for commercial vehicles; giving longer life and consequently less industrial wastage.



• Dimo BATTA is a fuel-efficient model that has become very popular on Sri Lankan roads. The more fuel-thirsty models that it has replaced in its category helps to reduce carbon dioxide emissions.



Customer Privacy

Dimo's respect for customer privacy and its commitment to protecting customer data is enshrined in its policy. We have systems in place to contact our database of customers only with their explicit permission and in the channel of their choice.

Data-protection complaints are handled in the same manner as other customer complaints, as explained before.

No complaints pertaining to breeches of customer privacy or losses of customer data were received in the year under review and in the Post Balance Sheet period.

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

WORKING AT DIMO

In this section

- Management Approach Employee Statistics
- HR Activities • Labour Rights and Human Rights
- Occupational Health and Safety

Management Approach

Just over a 1,000 people work at Dimo. They represent the finest professionals in their respective fields. The Company's goal is to make work enjoyable and rewarding. A customerfirst policy has consistently driven the Dimo team over the years. Every employee living, this policy is central to the Company excelling at what it does. Thus, delivering value to customers and the value of customers is deeply ingrained into the work ethic; and drives the human resources development and management agenda. Board and the top management engagement with employees at all levels receive top priority. The engagement process has been instituted through several on-going initiatives including an Employees' Council, HR clinics, internal newsletter titled Dimo Handa, and an annual employee satisfaction survey. DIMO NET, the Company's intra-net has improved accessibility to a wide variety of corporate information including promotional campaigns, employment opportunities, employees' council minutes and corporate events.

In the year under review, a more specialised employee engagement initiative was employed covering environmental, economic and social criteria. An independent third party was commissioned to ascertain the true and honest feelings of employees at every level on the above criteria. Stemming from this survey, the Sustainability Committee has set out objectives in the ensuing year. These objectives are given in the table appearing on pages 77 to 81.

The Board ensures strict compliance with statutory requirements pertaining to all aspects of employees and employment, labour rights and human rights. The Board also ensures that freedom of association is not hindered and that Dimo remains an equal opportunity employer who treats all employees with respect and equality irrespective of gender, race, religion, social background, caste, old school ties or any other distinction. Employees have been provided with multiple channels to voice their concerns. Our concern for human rights goes beyond our own organisation. We are committed to promoting them in all external organisations that we engage with. In the year under review, 11% of training hours and 53% of employees received training in human rights pertaining to their operations (up from 2.2% and 11.6% respectively in the previous year).

'Buddy', employees' handbook that contains the Code of Conduct & Ethics is made available to every employee. Details of the Code of Conduct & Ethics are outlined in page 110 of the Corporate Governance Report of this Annual Report.



WORKING AT DIMO

• Given the nature of our business, the workforce is to a very large extent, male-dominant. However, the Company has decided to take action on this anomaly. The ten percent of females who made up the Dimo team as at the financial year end represented a one percent increase in composition over the previous year. Of the 369 new recruits in the year under review, 11 percent were females. Our target is to reach a figure of 15 percent female employees by 2014. This is not an easy task, as the percentage of applications from females for most of our technical positions is low, although we now have females in the roles of automobile mechanics and service advisors.



• - Dimo has a good balance of new blood and experience. Nearly 70% are below the age of 40 years; and they are well-distributed across all levels of the organisation.



Security and janitorial services are outsourced.



- Monthly, employee
discussions in an open
forum with top management
including CEO is the
cornerstone of Dimo's
regular and ongoing twoway communication with all
employees. Minutes of these
Employees' Council meetings
are made accessible to
every employee through the
Company's intra-net.



Our 1,000+ employees are dispersed in diverse locations. The concept of an HR clinic was launched to enable employees to get speedy resolutions to their issues through free and frank discussions at their own locations of work. HR personnel now visit all employees at their specific location, including the furthest location from Head Office.



- Dimo was one of the ten recipients of Gold Awards for overall excellence in human resources management in addition to being the category winner in the category of 'Building Capability' at the National HRM Awards 2010.



The following table illustrates the age and gender distribution of our 1,019 employees as at 31st March 2011:

	Executiv Directo			Senior Management																					Manual Non-Executive Total Contract		Non-Executive Contract		al
Age																													
< 20																1													
21-30				1	3	29	24	76	27	125		126	5	16	59	373													
31-40			4	7	5	50	11	114	2	87		60		5	22	323													
41-50		2		8	2	16	6	45	1	23		22	1	13	10	129													
51<		5		7	3	13	7	29		21		9	1	7	11	91													
	0	7	4	23	13	108	48	264	30	257	0	217	7	41	103	916													

Employee turnover in the year under review by gender, age and position is illustrated below:

	Executive Directors M			Senior Middle Management Management		Executives Clerical/ Supervisory			Manual		Non-Ex Contract			
Age						0								0
< 20														
21-30					2	7	3	20	5	34		19	6	16
31-40						5	1	11	1	10		6		
41-50			1	1		2		2		3		2		
51<				1		5		3		1		2		
	0	0	1	2	2	19	4	36	6	48	0	29	6	2

Gender representation of governance bodies

Committees	No.	%	No.	%	
Board of Directors	11	100	-		
Group Management Committee	12	92	1	8	
Sustainability Committee	10	83	2	17	
Health & Safety Committee	26	90	3	10	
Employees' Council	118	87	17	13	

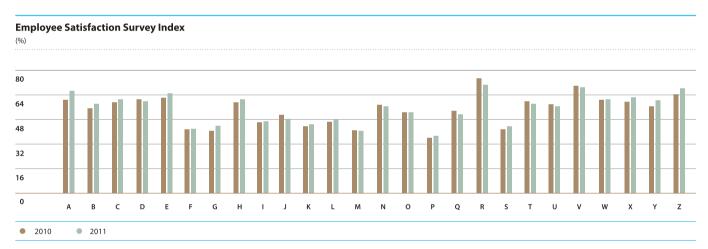




Employee turnover in the year under review by reason for separation is illustrated below:

Reason	Nos.
Voluntary	171
Voluntary Dismissals	4
Retirement	7
Death in Service	Nil

Employee satisfaction survey index stood at 55.06% in the year under review; up from 54.29% in the previous year. 56% of the employees (561 employees), participated in the survey as opposed to 54% who participated the previous year (481). This survey has been conducted annually over the past eight years. Survey results are discussed at Board level as well as in detail at Employee Council meetings to identify improvements and institute them through the corporate plan. Participation is the survey was voluntary and employees had the option of maintaining their anonymity by not disclosing their identity. New recruits are put through a formal induction programme so that they get to know their Company, its operations and values at the very outset.



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

The following list provides a snapshot of the recruitment activities at Dimo:

- If the expected qualifications and competencies are matched, priority will be given to existing staff for vacancies that arise, giving staff every opportunity to rise up in their careers.
- DATS and NAITA Trainees who undergo training with us have an opportunity to join our permanent cadre subject to recruitment need.
- Talented young engineering professionals are attracted through the 'Dimo Career Guidance Day' programme conducted at the Moratuwa University.
- Dimo participates in various career fairs to promote Dimo and to collect information from potential candidates interested in joining Dimo.
- Professionals are recruited as Management Trainees periodically.

Dimo's operations are currently limited to Sri Lanka. The senior management team and other team members being citizens of Sri Lanka, Dimo contributes towards creating employment opportunities for Sri Lankans.

lacktriangle - The following list gives and indication of the training and development activities at Dimo:

- Training needs identification follows an established process. Gaps are identified at the biannual evaluation process by the immediate supervisors and the employee. In addition Heads of departments would do so when ever needs arise. Occasionally it would be on the request of the employee.
- The Company implements a knowledge-sharing scheme where those employees who have undergone training are then required to share this training with co-workers in order to disseminate the knowledge gained to all levels of the organisation.
- Job-related educational expenses and subscriptions for memberships of professional associations and institutions are reimbursed by the Company in a bid to promote greater levels of knowledge acquisition.
- All employees are encouraged to participate in operational decision-making process.
- We recently launched 'E-Library' a web-based library for our employees.

🥊 - The total number of hours invested on training in the year under review is shown below:

		Exec	Non-Exe				
Employee Category	Directors	Senior Manager	Middle Manager	Executives	Clerical/ Supervisory	Other	Total
Total Employees	7	27	121	312	287	265	1,019
Total Training Hours	243	1,182	2,892	3,688	745	2,356	11,105
Per Employee Training Hour - 2010/11	34.7	43.8	23.9	11.8	2.6	8.9	10.9
Per Employee Training Hour - 2009/10	37.9	29.1	24.1	11.1	9.3	8.8	10.34

The following list provides a flavour of employee remuneration and benefits at Dimo:

- Employees' performance is evaluated by the business unit managers bi-annually.
- Employees are offered attractive remuneration packages on par with the best in the industry.
- The Company participates in benefit surveys to establish external parity and ensure that our employees' remuneration levels are on par or above the industry.
- No discrimination on remuneration, based on gender at Dimo.
- Long service is recognised and rewarded.
- We are offering much more than the minimum salary prescribed by law.
- Innovations and novel ideas are encouraged.
- 'Reward and recognition'scheme recognises exceptional individual and team contributions/ performances. 89 employees were awarded in the period under review.
- Each Business Unit conducts 'Monthly Meetings' to review performance against the set objectives and discuss any concerns /day-to-day operational issues.
- A Death Donation Fund is in operation in the Company. Employees and the Company contribute equally to this fund. Financial Assistance is given to the employee/member of employee's family in case of a death.
- Loans are granted at no interest or at concessionary rates of interest to employees.
- Meals are provided at subsidised rates to employees.
- Company employees are eligible for a defined benefit obligation plan under Payment of Gratuity Act No. 12 of 1983. Under this Act employees who have completed 5-years of continuous service are entitled for the equivalent of half a month's salary for each completed year in service.
- Contract employees are eligible for all benefits enjoyed by permanent employees.

• The following list is indicative of the employees' social activities at Dimo:

- An Annual Sports Meet is organised on yearly basis by the Sports Committee of the Company.
- Dimo Cricket team was the runners-up in the Mercantile Cricket Tournament 2010 organised by the MCA. Upcoming young talented Dinesh Chandimal, a Sri Lankan Cricket player, works for Dimo.
- The following figures illustrate the outcome of Dimo's Health and Safety measures currently in place. A Health and Safety Committee was established a year ago. It comprises 29 individuals representing every level and business sector of the Organisation. A groupwide health and safety audit is also carried out every year. Outcomes of this audit are discussed at the Group Management Committee with the view of implementing additional health and safety measures.

•	Manager representation	7 (24%)
•	Executive level representation	18 (62%)
•	Non-Executive level	4 (13.7%)

WORKING AT DIMO

Injuries/Diseases/Fatalities/	2010/11		2009/10	
Lost Day/Absenteeism	Total No.	Rate (%)	Total No.	Rate (%)
Injuries	26	2.5	7	0.74
Occupational Disease	Nil	Nil	No	Nil
Lost Working Days	165.5	0.065	49	5.2
Work-Related Fatalities	Nil	Nil	No	Nil

The employee absenteeism ratio reduced to 3.6% during the period under review from 6% in 2009/10.

- The following list is indicative of some of the employee health & safety measures at Dimo:

- The Company is working towards obtaining Occupational Health and Safety Standard- OHSAS 18001 certification.
- Significant incidents are reported and discussed/communicated at the appropriate forum in order to avoid/prevent such instances in other locations.
- The equipment in the Company's workshops is state-of-the-art and they are all equipped with modern safety mechanisms.
- Regular fire drills are conducted at all branches and all employees are educated on how to act in case of an emergency.
- Free-of-charge medical facilities A doctor visits the Colombo office and Siyambalape Workshop complex daily. Medical investigations and medicines are provided free-of-charge.
- Services of an In-house Nurse are available during the working hours.
- Education, training, counselling, prevention, and risk-control programmes are in place to assist workforce members, their families and communities regarding serious diseases
 - An Osteoporosis awareness programme was conducted.
 - A dengue awareness and prevention programme was carried out through e-mails and posters.
- Medical Insurance Cover is available for employees and their families.
- Other Insurance covers such as workmen compensation insurance, life insurance, and personal accident benefits are also available.

iggle g - United Nations declaration of labour rights and human rights are upheld by the Company.

- The investments during the year were mainly to acquire property, plant & equipment. The nature of these investments did not necessitate the inclusion of human rights clauses in any agreement related to these investments.
- We demand of our business partners the same standards that we uphold.
- Dimo respects the dignity of workers in the workplace and provides personal security, a safe, clean and healthy workplace and freedom from harassment or abuse of any kind. These issues are also addressed in the Company's Code of Conduct.
- Anti-discrimination is included in the DIMO HR ethic. The policy insists that in every aspect of
 employment, such as recruitment, training, compensation, promotion, transfer and termination,
 employees are treated according to their abilities to meet job requirements and all decisions are free
 from any form of discrimination, in particular, discrimination based on race, sex, age, nationality, religion
 and personal beliefs.
- 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.
- Employees are always given the opportunity to voice-up their opinion at the workers' council and are given the opportunity to speak to their senior managers through an open-door policy. The Company ensures that employees' rights are not at risk under any circumstances.
- There have been no breaches to the right to freedom of association or the right to collective bargaining available for employees.
- As Dimo understands the importance of the minimum notice period regarding operational changes, matters relating to operational changes are discussed at employee council meetings on a case by case basis.
- Dimo is strictly against the use of child labour.
- Child labour is addressed in the Company HR policy.
- It is our philosophy that all children under the age of 18 should remain in school and not at work.
- We work under the legislative framework established by the country.
- We have extended the same view towards all our out sourced services. As a new initiative we have prepared a supplier code for our suppliers/contractors and child labour is strictly addressed in this policy as well.
- Company does not allow forced or compulsory labour.
- The employees may be required to perform reasonable overtime in order to fulfill customer requirements. No incidents have been recorded of any forced or compulsory labour in the Company.
- The function of security has been outsourced. Our security service company has been briefed on Dimo's policy regarding human rights and labour rights.

OUR BUSINESS PARTNERS

In this section

- Management approach
- Principals' profile

Our business-partner network consists of principals of the leading brands that we represent, local and foreign suppliers of materials and the organisations that provide us various support services.

Our Principals constitute a very important part of our business. Our value chain begins with them and it could be said that we are only as good as our Principals. Our philosophy has always been to partner with the world's best. We are happy to bring the best products and services in their respective categories to our customers as well as to stretch ourselves to the top standards that Principals who are the best in breed would demand. These dual pursuits that our philosophy has driven has enabled Dimo to institute, over a period of more than seven decades, a whole host of attitudes, beliefs and practices...the quintessential Dimo Way.

If this 'Dimo Way' were to be summed up in a single word, that word would be trust...open and transparent communications with Principals and delivering on our promises, unfailingly, and over the years. These promises have included relentless investments in people, facilities and inventories in both good times and bad. We are proud of our record of bringing our Principals' brands to the helm of their respective markets in Sri Lanka. Many of them are clear market leaders by a very substantial margin.

We engage with our Principals in a methodical and regular manner. These engagements could range from one-to-one meetings at top level both in Sri Lanka as well as in our Principals' respective countries. They include familiarisation tours, training programmes and workshops for both our staff as well as for our Principals' representatives and formal reports from us as well as from our Principals. Through these engagements, we attempt to keep abreast of the developments and aspirations of our Principals' as well as keeping them posted on changing market conditions and the ever-evolving hopes and aspirations of customers. This two-way process has been the key to the enduring relationships that we have built with our prestigious Principals. The most recent formal and structured survey that we carried out through an independent third party, reaffirmed our Principals' expectations and also re-confirmed that we were very much on track.

We not only evaluate prospective Principals but do so also for our existing ones. In the former, the objective is to screen. In the latter, the objective is to provide constructive feedback, and this is done as a matter of routine, every year. On-going annual evaluation of Principals is based on the following seven performance criteria. Viz., Pricing, response time, quality, repair handling, credit terms, warranty handling and shipment periods.

Our Principals as well as our other suppliers of various materials and services, both international and local, are required to make a declaration on labour and human rights, health and safety, environmental impact and business ethics.

Some of the relationships with our Principals are as long as Dimo's own existence. At the same time, we have also been consistently adding new Principals who represent a good strategic fit. The table below illustrates the lengths of all our relationships with our respective Principals.

Principals Represented & Duration of Relationship

Name	Country	Brands	No. of Years of Relationship
Daimler AG	Germany	Mercedes-Benz	72
Robert Bosch GmbH	Germany	Bosch	57
KHD Humbldt Wedag AG	Germany	KHD	51
Siemens AG	Germany	Siemens	51
Tata Motors Ltd.	India	Tata	50
Bosch Ltd.	India	Bosch-Mico	42
Komatsu Asia & Pacific Pte. Ltd.	Singapore	Komatsu	42
Komatsu Utility Co. Ltd.	Japan	Komatsu	42
Komatsu Ltd.	Japan	Komatsu	42
KSB AG	Germany	KSB	42
York	Denmark	York	35
Bomag GmbH	Germany	Bomag	32
Bosch Automotive Systems Corporation	Japan	Zexel	27
Robert Bosch Ew.	Germany	Bosch	27
Carl Zeiss Meditec	Germany	Zeiss	26
Tognum	Singapore	Mtu/DDC	24
Mahindra & Mahindra Ltd.	India	Mahindra	21
Michelin	France	Michelin	18
OSRAM GmbH	Germany	OSRAM	17
DEMAG Cranes & Components GmbH	Germany	DEMAG	17
Rane Brake Linings Ltd.	India	Rane	17
WOMA GmbH	Germany	WOMA	17
Blaupunkt Werke GmbH	Germany	Blaupunkt	16
Daimler South East Asia Pte. Ltd.	Singapore	Mercedes-Benz	16
India Pistons Ltd.	India	IPL	16
Fenner (India) Ltd.	India	Fenner/Pioneer	14
Rane Engine Valves Ltd.	India	EVL	14
Vossloh-Schwabe GmbH	Germany	VS	14
Bimetal Bearings Ltd.	India	Bimite	13
SiTeco Lighting (M) Sdn Bhd	Germany	SiTeco	12
BF Goodrich	USA	BF Goodrich	11
John Deere Asia (Pvt) Ltd.	Singapore	John Deere	10
MRF	India	MRF	10
Davex Engineering (M) Sdn Bhd	Malaysia	Davis	9
Draeger Medical	Germany	Draeger	9
Schaefer Systems International Pte Ltd.	Malaysia	Schaefer	9
Claas India Ltd.	India	CLAAS	8

OUR BUSINESS PARTNERS

Principals Represented & Duration of Relationship

Name	Country	Brands	No. of Years of Relationship	
Daimler Regional Logistic Centre	Singapore	Mercedes-Benz/ Chrysler/Jeep	8	
MHE- Demag (s) Pte. Ltd.	Singapore	MHE-Demag	8	
Chrysler South East Asia Pte. Ltd.	Singapore	Chrysler/Jeep	7	
Everdigm	South Korea	Everdigm	7	
Schwing Stetter	India	Stetter	6	
Zenoah	Japan	Zenoah	6	
Carl Zeiss Meditec SAS	France	Zeiss	5	
Fischer Werke GmbH	Germany	Fischer	5	
Snap-on Tools (Pvt) Ltd.	USA	Hoffmann/JBC	5	
Sri Bhavani Castings Ltd.	India	SBP	5	
VE Commercial Vehicles Ltd.	India	Eicher Dem	5	
Victor Gaskets India Ltd.	India	Victor	5	
VM MOTORI S.P.A.	Italy	VM MOTORI	5	
Hanwa Company	Korea	Don Yang/Saehan Travis	4	
See Hau Global sdn bhd	Malaysia	Intraco pallet	3	
Turbo Bearings (P) Ltd.	India	Turbo	2	
Sri Ramadas Motor Transport Ltd.	India	SRMT	2	
RZB Rudolf Zimmermann	Germany	RZB (Lighting)	1	
WD 40 Company	USA	WD 40	1	
Haulotte Group	France	Haulotte	1	
Kumho Tires	Korea	Kumho	During the year	
Manitowoc Cranes	India	Manitowoc	During the year	
Metso Minerals	India	Metso	During the year	
Sany Port Machinery Company	China	Sany	During the year	
Shardlow Co Ltd.	India	Shardlow	During the year	
Adshead Ratcliffe & Co., Ltd.	UK	ARBO	During the year	
EC Smith & Sons (Marine Factors) Ltd.	UK	ecs	During the year	
Clements Engineering (St. Neots) Ltd.	UK	CLEMENTS	During the year	
AMT Marine Technologies Pvt. Ltd.	UK	AMT	During the year	
MIKALOR	Spain	Damesa	During the year	
Cathodic Protection Systems	Netherlands	MME	During the year	
Pratikel Ltd.	Turkey	Pratikel	During the year	
Voyage Marine Automation L.L.C.	UAE	VOYAGE	During the year	
Medtron AG	Germany	Medtron	During the year	
Siemens Ltd.	India	Siemens	During the year	
Trafo Electro Services	Italy	Trafo	During the year	

• We just celebrated 50 years of partnership with TATA. The picture below of Messers Deepak Rai, T.S. Narayan and G. Bhott of TATA with H. Algama and P.D. Alexander of Dimo.



Local Suppliers of Materials and Support Services

We have also have longstanding and enduring relationships with our local suppliers of materials and support services. To them we assure regular orders, prompt payments, technical expertise and cash advances whenever requested. From them, we demand not only high quality of product and delivery standards but also that they share in our high ideals in relation to sustainability. Thus, our existing and prospective suppliers are required to make a declaration on labour and human rights, health and safety, environmental impact and ethics.

GOVERNMENT, AUTHORITIES AND ASSOCIATIONS

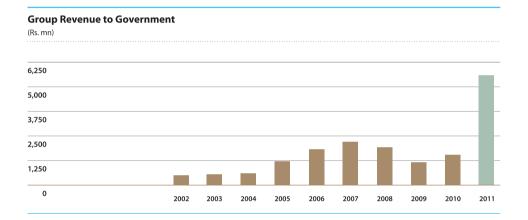
In this section

- Management Approach
- Sri Lanka Customs Department
- Department of Inland Revenue

- Department of Motor Traffic
 - Central Environment Authority

Dimo maintains excellent relationships with all Authorities. The ones that have the greatest impact on the operations of the Company are identified in this section of the Annual Report.

All statutory filings and payments are made in a timely manner; all standards and guidelines are strictly adhered to; and there are no pending issues unless they are reported hereunder. We have always operated under the principle that taxes due must be promptly and fully-paid, and that it is an important part of the Company's obligation towards society. At the same time, the Company also contributes towards the formulation of the tax system through its membership and participation in relevant professional and industry bodies.



In addition to the regular interactions that the Company has with the Authorities in the course of conducting its business, Dimo employed a formal study with the assistance of an independent third party.

Employees are promptly updated on regulatory changes applicable to the Group. Specialised training on aspects such as taxation, import procedures and changes in tariff structures is also provided from time to time.

Customs tariffs and the changes in their structure have a significant impact on the business volumes of the Group. The downward revision of tariffs in the year under review had a positive impact on business volumes and consequently on overall Group performance.

Dimo's contribution to the Exchequer stood at Rs. 5.5 bn (Rs. 1.5 bn in 2009/10) in the year under review and is depicted graphically in the value-added statement appearing on page 19 of this Annual Report.

GOVERNMENT, AUTHORITIES AND ASSOCIATIONS

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.

No financial assistance was received from the Government of Sri Lanka during the period under review.

Any penalties or non-monetary reprimands resulting from beaches of any rules or regulations have not been imposed on the Company.

Commitments to Membership on Associations

The Company remains a strong constituent of several key external associations. We have membership in the following associations:

- 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

COMMUNITY

In this section

- Management Approach
 Charity Begins at Home
- Charity Further Afield Anti-Corruption

• Anti-Competitive Behaviours Public Policy

> Our approach towards community is based on the popular adage 'charity begins at home'. Our 1,000+ employees and their families is the single largest 'community' in the Dimo scheme of things. This view is reflected in the lengths that we go to support them. The next group closest to home is the youth who aspire towards making a career or building a business in the fields of automobile engineering and the various other engineering fields that we are engaged in. Whilst our focus is on these two groups, we are always ready to lend a helping hand wherever we could. We are also deeply reticent about giving publicity to these activities. It is in the duality of this spirit that we present this section of our Annual Report; we have highlighted some of the salient initiatives along with examples of a few miscellaneous activities.

As part of our stakeholder engagement process, we commissioned an independent third party to report to us on the hopes and aspirations of our communities.

The local communities in the areas that we have operations in would like to see our greater involvement in the development of social and economic infrastructure in addition to our greater support towards education.

Our shareholders, lenders, employees, customers, regulatory agencies, business partners and suppliers did not seem to be aware of the various community development projects that we are involved in (we can't blame them!). Nor were they aware of the potential health hazards of indiscriminately disposing CFL lamps. They wanted to see us getting more engaged in providing technical training for the youth and in providing more assistance for education of under-privileged children.

We plan to institute projects and initiatives in the year under review to address these where possible. In the meantime, this is what we are doing for the moment.

Charity Begins at Home

- The Dimo Automobile Training School (DATS) is our flagship in the area of community development. Established 21 years ago, long before we started reporting on our community development projects, the objective was to provide talented youth a world-class automobile technology training course that will give them a passport to get into the best-of-breed automobile workshops anywhere in the world. It didn't matter to us if graduates of DATS joined our workforce or not. And we did not in any way bind them. Over the years, we have produced 290 DATS graduates. 96 of them found employment overseas. 108 of them found employment in other automobile establishments in Sri Lanka and 86 of them decided on their own accord to join the Dimo team. We now enroll a batch of 32 students every year. The training is completely free-of-charge in addition to providing free uniforms, subsidised meals and enrolment into the Company's medical and insurance schemes. Top performing trainees are also exposed to our Principals' high-tech environments in Germany.



• On the 3rd of May 2010, we took another major step in opening our second Dimo Automobile Training School (DATS) in Jaffna.

The first batch of students enrolled comprised sixteen talented youngsters. We are initially offering a 1-year Diploma to these students. The eight top performing students will be offered another year of training with DATS in Colombo.



COMMUNITY

- Vocational training students from almost all top vocational training institutes in the country are accommodated at Dimo. We hosted 101 students in the year under review (80 students in the previous year). Following is the list of Institutes accommodated in the year under review.
 - NAITA (National Apprentice & Industrial Training Authority
 - Ceylon German Technical Training Institute
 - University of Moratuwa
 - University of Peradeniya
 - University of Sri Jayewardenepura
 - University of Kelaniya
 - Vocational Training Authority of Sri Lanka
 - Automobile Engineering Training Institute
 - Ministry of Vocational & Technical Training
 - The Open University of Sri Lanka
 - CETRAC (Construction Equipment Training Centre)
 - Asian Aviation Centre (Pvt) Ltd.
- We are building a state-of-the-art driving and technical training school by the name and style of Dimo Technical Institute at Sooriyawewa, Hambantota. Complete with dormitory facilities for students, instructors' quarters and a training track, the total investment which exceeds Rs. 100 mn is being borne by Dimo. Our Principals have come forward to support us with training expertise to get the engines started. Theoretical and practical education will be offered in passenger and commercial vehicle driving, construction, earth moving equipment, material handling and agricultural machinery handling along with the maintenance and repair of these vehicles. Technical training in relation to several other streams of engineering will also be on offer. This project is scheduled to be opened in July 2011.
- Along with NDB Bank we launched the Dimo-NDB Automobile Service and Maintenance Programme at our branches in Jaffna and Ampara. Under this programme, we are offering technical training to youth at concessionary rates. 30 trainees can be accommodated every six months. Once trained, they will be assisted to venture out with financial assistance from NDB Bank by way of personal loans at a concessionary rate including a grace period.



• The Country's construction industry has initiated a programme with the assistance of the Government of the Federal Republic of Germany to train 5,000 craftsmen in the Eastern Province four core crafts. Viz. Masonry, carpentry, plumbing and electrical work. Dimo supported this initiative with a donation of Bosch Power Tools.



Dimo has in the year under review taken an active part in various career fairs organised by vocational training institutes as well as universities. These fairs provided the youth who participated in them with an opportunity to offer themselves for candidacy for a career with Dimo as well as to get acquainted with the career opportunities related to our fields.



Charity Further Afield

Our 'Smile Scholarship Programme' supports needy students selected from all over the Island for their Advanced Level education with 2-year scholarships to cover educational material, such as books and implements as well as career guidance, school uniforms and mentor-ship. Hundred students were enrolled in the year under review. Our Tyre Division contributes Rs. 100/- from every tyre sold to the Smile Fund.



• We launched a programme last October to uplift the knowledge of English among school children. The programme is appropriately titled Lassana Hetak, as it arms the recipients with much needed English language skills to get ahead in the future. The programme is aimed at both teachers and students in years 3 to 10 at underprivileged schools in rural areas. Our TATA commercial vehicles division contributes Rs. 500/- from every Dimo Batta sold towards this Fund.



• We made our own little contribution to a humble school in Nikaweratiya in commemoration of the 20th Anniversary of the Dimo Automobile Training School. Nelumgala Sri Dharmarama Kanishta Vidyalaya was provided with a safe drinking water solution, hygienic toilet facilities and shoes for all its students.

- We donated a sum of Rs. 15 mn to the Sri Lanka Army towards the construction of a swimming pool, which also can be used for hydrotherapy. This pool will be used by disabled soldiers who have sacrificed their limbs to liberate the country from the crutches of terrorism.

- Two Dimo Battas were donated in the year under review to the Na Sevana Foundation and the Foundation of Goodness.



- The OPD of the Jaffna General Hospital was given a little refurbishment with our compliments to commemorate our first anniversary in Jaffna.

Anti-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 Conduct & Ethics have highly specific prohibitive conditions covering a wide range of risks amongst all stakeholder groups. The Code was explained to all employees and they were asked to commit themselves to the principles and polices 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 Behaviours

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

Public Policy We work with regulatory and non regulatory authorities in different sectors to assist them in their sustainable development efforts in Sri Lanka.

> Also we hold memberships in several national and international associations that play an active thought leadership part concerning the different business sectors we are engaged in.

No contributions were made to political parties in cash or in kind, in the year under review.

ENVIRONMENT

In this section

- Management Approach
 Carbon Footprint
 Energy and Fuel Management
 Water Management
- Noise Emissions
 Air Emissions
 Waste Management
 Paper Management
 Material Usage
- Bio Diversity Products and Services Transportation Compliance Environmental Expenditure

Management Approach

We employ an integrated approach which encompasses all environmental implications at every stage of the process. The development and refinement of it is an ongoing process but we are confident that we have come a long way in this respect, especially over the past ten years. We now have in place a system to measure the impact of our operations on the environment and identify and implement the measures that we should take in order to reduce or minimise their impact. All our business activities are certified under ISO 14000. The Group was also certified under ISO 14001 in 2005. One of our key objectives is to reduce the direct impact on the environment by actively managing our wastes, greenhouse gas emissions and consumption of natural resources.

Six strategic areas have been identified for active management. They are: energy and fuel management, water management, noise emissions, air emissions, waste management and paper management. These constitute six well documented and managed areas.



We implement our environmental management process through the respective business units as well as through four 'Go-Green' teams that are made up of members from all business units. The four teams and their responsibilities are:

- Green Team 1 Flood Prevention To ensure that all measures are taken to prevent floods by ensuring that drainage systems are in place
- Green Team 2 Electricity Conservation To identify the Electricity consumption at all locations and eliminate unproductive electricity consumption
- Green Team 3 Waste Management To minimise land contamination due to garbage generated by the Company
- Green Team 4 Water Conservation To minimise water wastage as a result of unproductive consumption by employees

Climate change is a major global issue.

The Company has not identified any risks pertaining to climate change that could significantly impact the business in the short-term.

However, Sri Lanka is to a large extent dependant on hydro power which in turn is dependent on rainfall. Thus, climate change resulting in any significant reduction in rainfall could impact our power engineering business adversely. Conversely, such a situation could also necessitate setting up of additional and alternate sources of power generation; and could present an opportunity for this business segment as well.

• In respect of the environment too, we employed an independent third party to ascertain the expectations of our various stakeholder groups. They are summarised in the table appearing on pages 77 to 81 including the actions that the management has already taken or planned, after careful consideration.

There are no pending cases, or fines and penalties that have been imposed on the Company due to non-compliance with environmental laws and regulations.

Carbon Footprint

Among all our initiatives towards the environment, bringing down our carbon footprint is the one that we consider the most important. In this respect, we are happy of our record, and continue to invest more management time and attention towards the subject.

In the year under review, our total absolute greenhouse gas emissions increased by 587,685 kgs of CO_2 equivalent over the previous year. The reason for this increase is the additional capacity that we installed as well as utilised in the year to support the increase in business volumes as well as future demands arising from the growth trajectory.

What is most significant is however, that we have managed to bring down our greenhouse gas emissions per earnings by as much as 90% from 0.01 kgs in the previous year to 0.001 kgs in the year under review. This figure represents an important part of our environmental bottom line.

• We started reporting on our carbon footprint 3 years ago. The table below gives a breakdown of our emissions by source. We are using scopes 1 and 2 plus part of scope 3 of the WBCSD/WRI Greenhouse Gas Protocol's Standard to measure our emissions. Our head office and all our other offices, branches and workshops throughout the Island have been taken into the boundary. As our subsidiaries operate out of the Company's premises, we have taken the Company as the organisational boundary.

		2010/	2010/11 200		9/10	2008/09	
Source	Units	Emission of Consumption Co ₂ Equivalent Consumptio by Type Kgs by Typ		Consumption by Type	Emission of Co ₂ Equivalent Kgs	Emissic Consumption Co ₂ Equiva by Type	
Electricity	Kwh	1,890,897	1,285,816	1,630,474	1,108,722	1,687,202	1,147,29
Diesel for Vehicle	Lit	447,996	1,196,149	361,359	955,180	360,784	953,66
Diesel for Generator	Lit	8,192	22,033	3,088	8,163	202,339	466,73
Petrol for Vehicle	Lit	243,992	568,502	192,214	443,381	979,646	114,75
LP Gas	Kg	8,550	18,810	8,550	22,922	9,263	24,83
Travelling - international	Km	1,066,602	100,985	791,596	66,242	4,300	11,36
			3,192,295		2,604,610		2,718,64

Our long-term goal is to become carbon neutral. At this initial phase, our objective is to reduce our greenhouse gas emissions as much as possible.

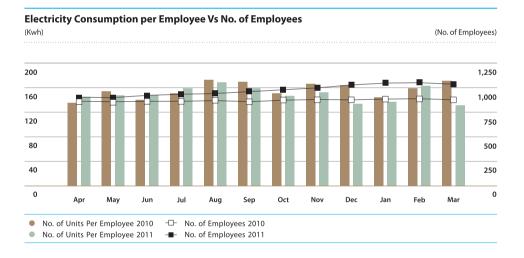
Energy and Fuel Management

• The following table gives the breakdown of the energy and the fuel that we consume directly. Our electricity is by and large from the national grid. The generators at every location are for standby supply only.

		Consumption		
Source	Units	2010/11	2009/10	2008/09
Diesel for Vehicles*	Megajoules	16,857,448	13,597,460	13,575,786
Diesel for Generators*	Megajoules	310,507	169,329	161,803
Petrol for Vehicles*	Megajoules	8,067,539	6,355,506	6,690,286
LP Gas*	Megajoules	220,521	220,521	238,911
Electricity**	Megajoules	6,807,229	5,868,162	6,073,927
		32,263,244	26,210,978	26,740,713

^{*} Direct energy consumption

^{**} Indirect energy consumption



• We are marketing the most fuel efficient Diesel Mini Truck in its segment in Sri Lanka. named 'Dimo Batta', We sold a record 8,353 units of this light commercial vehicle in the year under review. Up from 2,986 units sold in the previous year.

Our lighting division which is certified for energy diagnosis audits conducted eight energy audits for clients in the year under review. The energy saved as a result of implementing the recommendations arising from these audits are estimated at 632,019 Kwh.

In our own in-house facilities, energy use is constantly monitored with a view to reducing costs and making maximum use of the energy consumed. Power factor correction capacitor banks were installed in certain locations. Air-conditioners are regularly serviced and are set at a uniform 24 degrees Celsius. All machinery at all locations are operated at optimum energy levels.

Some of the miscellaneous practices around the group include: conversion to energy saving lamps, all computers being programmed to switch to standby mode after five minutes of non-use, specifications established to minimise electricity consumption as well as radiation for all new computers to be purchased, all staff made increasingly conscious to switch off extra lights and air-conditioners, policy for new buildings to be made as green as possible with measures such as using natural sunlight etc.

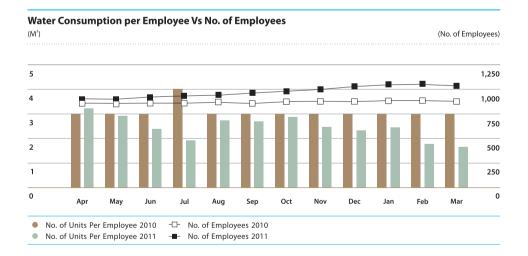
We are also creating awareness among school children and university students on the need to manage energy and fuel efficiently. A series of lectures on Mercedes-Benz's Blue Efficiency Technology was conducted in the year under review.

Water Management



The National Supply is our main source of water. However, we have managed to effectively use ground water sources at some of our locations. The table below gives the volume of water that we have used from these two sources and the volume that we have recycled and reused. Out of the ground water consumed, 24% has been recycled and reused. 10% out of total water consumption has been sourced from recycled water.

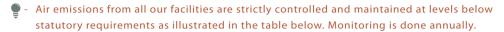
	Water U	Water Usage (M³)		Vater (M³)	Recycle percentage (%)	
Description	2011/10	2010/09	2011/10	2010/09	2011/10	2010/09
National Water Supply	28,479	25,666	-	=	-	-
Ground Water	17,929	11,906	4,281	3,991	24%	34 %
Total	46,408	37,572	4,281	3,991	10%	11%



Noise Emissions



Air Emissions



Emission Type Tolerance Level	SP 0.35 (n			O ₂		O_2		O ₂
Location	2010	2009	2010	2009	2010	2009	2010	2009
Colombo - 1	0.04	0.10	0.02	0.01	0.03	0.01	4.20	1.00
Anuradhapura	0.03	0.08	0.01	0.01	0.02	0.01	3.10	1.00
Siyambalape	0.03	0.10	0.02	0.01	0.03	0.01	2.80	1.00
Colombo - 2	0.04	0.12	0.02	0.01	0.03	0.01	3.80	1.00
Kurunegala	0.03	0.05	0.01	0.01	0.02	0.01	2.50	1.00

We do not produce ozone depleting substances (ODS) as a result of our activities. CFC free gases are used for air-conditioners as much as possible. These gases are not Ozone depleting. Where air-conditioning units produce ODS emissions, specialised equipment is used for their repairs to ensure that ODS do not leak into the environment.

Some miscellaneous initiatives:

- A Fresh Air validation system has been installed at our Unit Repairs Section. This helps to reduce the temperature level, CO₂ level and humidity level.
- All Company vehicles are subjected to a regular and stringent emission testing to ensure that they comply with the emission regulations under the National Environment Act.
- Exhaust gas & dust extractors to deal with gas emissions as well as harmful dust that emanates during cleaning of air filters and break assemblies.
- Paint booths are equipped with filtration systems to prevent release of toxic fumes and particles into the atmosphere.
- Air travel is reduced by the use of video conferencing.
- The Company ensures that exhaust extractors at all locations capture Carbon Dioxide (CO₂) and diesel fumes that are emitted. These fumes are extracted into a machine, and released to the environment within legally permissible limits.

Waste Management Where waste does arise, we make every effort to reuse and recycle as much as is technically and economically feasible. Waste management is an area that is receiving increasing focus at Dimo.

> We have taken extensive steps to prevent the discharge of untreated water into the national sewage system. Periodic checks are carried out by our staff at every location to ensure this. At some locations, checks are carried out as much as three times per day. Active oil separators have also been installed in all workshops. Picture depicts a Biological Water Treatment Plant at one of our workshop locations.



We have not been measuring the volume of waste-water discharged. This will be rectified soon with measuring meters installed at every waste-water discharge point. We are also not tracking the significant discharges to the waste-water by type. We are currently in the process of collecting baseline data to enable us to identify and track these. No water is discharged to water bodies.

We have a well-established system to segregate our solid wastes. In the absence of local councils not being able to handle garbage in a separated manner, we have found our own solutions as depicted in the table below. Originally established at our head office, we extended this system to five other major locations in the year under review. We plan to introduce this to all locations in the ensuing years.

	2010/11	2009/10		Method of Disposal
Waste Category	(Kgs) Year	No. of bins* (175 ltrs each) First Three Quarters	(Kgs) Last	
Organic	31,210	514	8,548	Handed over to third party as animal feed
Paper	4,719	620	1,135	
Polythene	987	232	212.5	Handed over to third party for recycling
Plastic	1,043	127	245	

^{*} During the period 01.04.2009 to 31.12.2009 the measurement was done in No. of bins. Measurement by weight commenced w.e.f. 01.01.2010.



• We contributed to recycling of some 200 toner cartridges during the year by sending them back to the manufacturer. The table below shows how we have managed e-waste.

Description of E-waste	Quantity	Disposal Method
Toner Cartridges	202	
Monitors	5	Handed over to authorised third
CPUs	3	party for recycling/reuse
Printers	1	
Lap tops	₁ J	

Chemical spillages at our workshops are virtually non-existent. In the event that they do, we have well-established and documented rules and guidelines for handling them. Employees at workshops are regularly trained on safe handling of chemicals. Oil suckers are used to minimise oil spillage at workshops and all oil-waste is disposed to the furnaces of authorised dealers. The table below identifies and quantifies the hazardous waste that we have disposed and the method of disposal employed in each case. No spillages were reported during the year or the Post Balance Sheet period. There were no fines or penalties imposed on Dimo due to non-compliance with environmental laws and regulations.

	Measured	Period		Method of Disposal	
Waste Category	Unit	2010/11	2009/10		
Waste Oil*	Ltrs	56,798	42,000	1	
Metal Scrap	Kgs	21,101	17,150		
Batteries	No	93	22		
Tyres	No	665	449	Handed over to	
Filters	No	21,957	-	}	
Metal Dust	Kgs	2,335	-	authorised third party	
Sludge	Kgs	56,859	-		
Paint Tins	No	1,664	-		
Thinner	Ltrs	440	J		

^{*}Waste oil includes - engine oil from serviced vehicles and kerosene oil

Paper Management

Our long-term goal is to create a paperless office. In the meantime, we have taken several steps to reduce the use of paper through inculcating such habits as discouraging printing of emails unless essential and using both sides of paper. We conduct regular awareness programmes and internal campaigns for this.

The paper that we use is well-segregated from other wastes and is handed over to a recycler. In the year under review we handed over 1,000 kgs of paper to the recyclers. It is estimated that this initiative would have saved the following resources:

Measurement	2010/11	2009/10
Кд	1,007	685
Nos	17	11
Ltrs	32,002	21,769
Ltrs	1,767	1,202
Kwh	4,028	2,740
M ³	3	2
	Kg Nos Ltrs Ltrs Kwh	Kg 1,007 Nos 17 Ltrs 32,002 Ltrs 1,767 Kwh 4,028

Material Usage

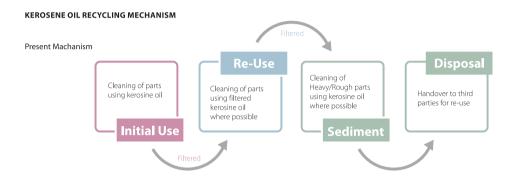


The following table identifies the materials and their quantities used in the course of conducting our business activities in all our locations:

		Quantity		
Type of Material Used	Measurement	2010/11	2009/10	
Paints	Ltrs	16,927	79,699	
Diesel	Ltrs	370,719	391,182	
Kerosene	Ltrs	25,667	17,919	
Lubricants	Ltrs	85,589	74,478	
Petrol	Ltrs	13,887	159,126	
No. of Tyres Retreaded	Nos.	4,865	7,161	
Floor Carpets	Nos.	37,000	_	
Cotton Waste	Kg	130,463	_	

ENVIRONMENT

- We have re-built nearly 5,000 used tyres and collected another 600 something used tyres and handed them over to a third party manufacturer for use as input raw material.
- We recycle kerosene oil for re-use at our Colombo and Siyambalape workshops. This has enabled us to reduce kerosene consumption by approximately 28%. Used kerosene oil is disposed of in an environmentally friendly manner through a subcontractor.



Biodiversity

Our activities are based in industrial and urban areas that do not form part of any high biodiversity or protected area. Hence, we do not consider biodiversity to be an issue. However, we will remain conscious not to establish new operations in sensitive areas.

Products and Services

The packing materials in our products have been designed by our principals to ensure minimum harm to the environment. We do not identify packaging material of any product that we sell, that requires reclaiming.

Transportation

Environmental impacts of transportation include fuel consumption, emissions, discharges, waste, noise and spills. Transportation could be for logistical purposes or transportation of members of our workforce not material to organisation. We assess the most significant environmental impacts of transportation to be the transport conditions on which we have a direct influence. In relation to transportation, only fuel consumption and CO_2 emissions are reported, as these are assessed to be the most significant parameters.

Compliance

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

Environmental Expenditure

Expenses incurred for maintenance of water treatment plants and water recycling process were Rs. 1,657,866/-.

ACTIONS AND OBJECTIVES STEMMING FROM

THE STAKEHOLDER ENGAGEMENT PROCESS

1. Customer

Objectives Set in 2009/10

bencourage Device a scheme that encourages users to return the lamps to our branches. The lamps to our branches weight EFL lamps urned by	: March 2011	a. Programmes to encourage dealers to return CFL's were carried out.b. Weighing of CFL's will commence from 2011/12.	a. More programmes to educate consumers. b. Weigh the CFL's returned.
t	the lamps to our branches. ps for safer posal. measure weight FL lamps	tomers to encourages users to return these the lamps to our branches. ps for safer posal. measure weight EFL lamps irned by	tomers to encourages users to return dealers to return CFL's were carried out. ps for safer posal. measure weight EFL lamps urned by

Current position (As at 31.03.2011)	Where we want to be	How we plan to get there	By when
Customer Complaint A dedicated Customer Relationship Management (CRM) unit is available for the vehicle segment.	Management To extend CRM for at least one more business segment.	To provide the necessary resources and set-up the processes.	: March 2012
Customer Convenien Dimo had 25 customer interaction points as at 31.03.2011.	To add at least two more interaction points during the year.	Invest on the required resources.	: March 2012

2. Employees

Objectives Set in 2009/10

Position as at then (As at 31.03.2010)	Where we wanted to be	How we planned to get there	By when	Status as at 31.03.2011	What next
Training and Develop	ment				
It is believed that the Company could play a more active role in providing career ending programmes for employees planning to retire.	To introduce career ending programmes for retiring employees.	 Identify training gaps. Identify training resources available. 	March 2011	Career ending advice was individually given for retiring employees during the reporting period. However, no structured programme was carried out.	To carry these programmers in a more structured manner.
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%.	To take more initiatives led by HR Division.	March 2011	In progress. Our current level of employee satisfaction is 55.06% and the response rate is 56%.	Target rate of 65% satisfaction level to be achieved at the end of the year. Response rate also to be improved to 60%.
Health and Safety					
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).	To prepare documentation necessary for certification, Conduct continuous. audits and plan continual improvements.	March 2011	Is in progress with the support of an external consultants for selected business units, for whom health and safety is a priority.	Certification to be obtained by March 2012.

Current position (As at 31.03.2011)	Where we want to be	How we plan to get there	By when
The ratio of female employees was 10% as at 31.03.2011	To improve the ratio to 15%.	Encourage females to apply, even for jobs in the workshops, where male dominance is present.	March 2014

3. Business Partner

Objectives Set in 2009/10

Position as at then (As at 31.03.2010)	Where we wanted to be	How we planned to get there	By when	Status 2010/11	What next
Supply Chain Manage	ement				
The Company introduced a Code of Conduct for the local suppliers and a declaration to the effect that they abide by the code.	To obtain the declaration from at least 50% of suppliers.	Include obtaining of the declaration in the processes of the Company.	March 2011	23% of suppliers have submitted the declaration.	To obtain the declaration from 60% of suppliers during 2011/12.

Objectives Set in 2010/11

Current position (As at 31.03.2011)	Where we want to be	How we plan to get there	By when

Supply Chain Management

awareness on the Code of Conduct for suppliers	awareness to all suppliers regarding the requirements	Provide adequate literature on the merits of adhering to the code.	Continuous
is relatively low.	of our code		

4. Government and Regulatory Bodies

Current position	Where we want	How we plan to	By when
(As at 31.03.2011)	to be	get there	
The Company's values and ethics require 100% compliance with Government regulations at all times.	To ensure 100% compliance.	 Non-tolerance of non-compliance. Educating new employees. A corporate culture that promotes the value of compliance with laws and regulations. 	Continuous.

5. Community

Objectives Set in 2009/10

Position as at then (As at 31.03.2010)	Where we wanted to be	How we planned to get there	By when	Status as at 31.03.2011	What next
Ethical Marketing P	ractices				
A code has been prepared on Ethical Marketing Communications.	Zero non- compliance.	The marketing communications division to ensure compliance with the code, prior to release of any marketing communications.	Continuous	100% achieved. Conducted an audit to check whether there is compliance with the code.	Continue monitoring.

Objectives Set in 2010/11

Current position (As at 31.03.2011)	Where we want to be	How we plan to get there	By when
Technical Education			
Supporting Technical/	Provide more	: Allocate necessary	: March 2012
Vocational education for	courses for training	resources.	•
Sri Lankans.	of Sri Lankan	•	
	youth either free		
	of charge or on a		
	subsidised basis.		

6. Environment

Position as at then (As at 31.03.2010)	Where we wanted to be	How we planned to get there	By when	Status as at 31.03.2011	What next
Energy Consumption					
We regularly measure our energy consumption. a. Turnover per and one Mega Joule (MJ) of energy consumed was Rs. 379.	To make an improvement in the ratio.	To implement the recommendations made by energy audit reports.	Continuous	 a. Implemented all recommendations contained in the energy audit of 2010/11 b. Ratio significantly increased to Rs. 906 per MJ of energy consumed 	a. To further improve the ratio. b. To derive a ratio that represents energy more appropriately.
Carbon Footprint					
The Company has been computing the carbon footprint. GHG emission Kg per one Rupee earned (profit attributable to shareholder). • 2009/10 - 0.010 Kgs	Reduction of GHC emission per earning by 5% from current level.	Adopting energy efficient initiatives for Scope 1 and Scope 2, which are discussed on page 69.	Continuous	Reduction achieved during the period. 2010/11 - 0.001 Kgs	 a. To further reduce the carbon footprint. b. To derive a ratio or an indicator that represents the degree of reduction in the carbon footprint in more representative manner. c. To embark on a programme to calculate the carbon footprint under Scope 3.

Objectives Set in 2009/10

(As at 31.03.2010)	Where we wanted to be	How we planned to get there	By when	Status as at 31.03.2011	What next
Solid Waste and Haza	ardous Waste				
Solid waste is segregated and handed over to selected third parties for recycling/reuse. The percentage covered is less than 70% by weight.	To improve this to 80%.	a. Approach a 3rd party approved by CEA for a total solution.b. To collect more items of solid waste.	: March 2011	Objective of 80% was achieved.	a. To further improve the recycled percentage to 85% within next two years b. To improve solid waste disposal system in all branches.
Water Consumption a	and Discharge To increase the	. ● Biological water	: March 2011	: The percentage of ground water	: Increase the ground water

Current position (As at 31.03.2011)	Where we want to be	How we plan to get there	By when
Material Consumption	and Energy		
The paper consumption is currently measured as paper consumption per employee 6 Kg in	To reduce on this ratio by to 10%.To arrive	a. Advice staff to reduce the consumption of A4 paper as much as possible.	Continuously.
2010/11.	at a more representative ratio.	b. Promote a paperless office concept.	





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STEWARDSHIP

This section is presented based on statutory requirements as well as best practices. It does not spare detail but is presented in a manner that makes reference easy.

Chairman's Message

Dimo philosophy perceives good governance as an uncompromising pursuit that provides assurance and comfort for growth in a sustainable manner; not as a set of controls that stifles growth. A healthy balance between value creation and resource utilisation (performance) and accountability and assurance (conformance) is the guiding principle of the accountability framework of the Company. I consider it my fervent duty to ensure that performance and conformance go hand in hand and the stakeholder expectations on these two dimensions are delivered.

The Board of Directors and the Group Management Committee proudly uphold the governance philosophy of the Company. They are conscious of the responsibilities placed on them by the stakeholders. The heritage of Dimo of being a mature corporate, creates a culture of accountability across all employees of the Company. How we create our stakeholder wealth matters to us, as much as how much we create.

The Code of Best Practices of Corporate Governance jointly issued by The Institute of Chartered Accountants of Sri Lanka and the Securities Exchange Commission serves well as a guideline to formalise our philosophy. The Corporate Governance Report that follows presents a detailed account of how the Company has institutionalised the recommendations of the code. I trust this Report will assist the readers in understanding the Dimo way of corporate governance.

As Chairman, I am duty bound to facilitate effective discharge of the responsibilities of the Board. Towards meeting this end, I make every endeavour to ensure that the Board meetings are conducted in a manner that encourages effective participation. I am thankful to the members of the Board for the important contribution they make to govern our Company.

As a Company, we are committed to upholding Dimo ethics uncompromisingly. As required by Section D.4.2, I confirm that I am not aware of any material violation of the Code of Business Conduct and Ethics of the Company.

Yours Sincerely,

A.R. Pandithage

Chairman

Colombo 3rd June 2011

Senior Independent Directors' Statement

'Code of Best Practice on Corporate Governance' (The Code) issued jointly by the Securities and Exchange Commission and The Institute of Chartered Accountants of Sri Lanka recommends that a Senior Independent Director be appointed in the event of the Chairman and CEO being one and the same person.

The presence of a SID provides a workable mechanism to review the role played by the Chief Executive Officer. Whilst the role of the Chairman entails providing leadership in observing best practices of corporate governance, my role as the SID calls for a review of the Board's effectiveness. The presence of the SID also adds emphasis to transparency in matters relating to governance.

Dimo is committed to principles of good governance and always strives to live by the Best Practices of Corporate Governance. The governance culture of the Company is strongly embraced by the Board of Directors. The Company follows a policy of strict compliance with laws, regulatory requirements and the Code of Ethics.

A Director is permitted to obtain independent professional advice that may be required in discharging his responsibilities, at the Company's expense.

As the SID, which role I have played since May 2009, I am consulted by the Chairman on major strategic and governance issues. As the SID, I make myself available to any Director to have any confidential discussions on the affairs of the Company, should the need arise. By virtue of being the Chairman of the Audit Committee, I also meet independent auditors and Internal Auditors and obtain their views on any matters of concern.

R. Seevaratnam

Senior Independent Director

Colombo 3rd June 2011

Corporate Philosophy on Governance

The governance practices of the Company are conceived out of the corporate philosophy of achieving sustainable growth through good governance. Whilst, being fully-compliant with demands of the laws and regulations the Company recognises that best practices provide a robust framework for sustainable growth and meeting stakeholder expectations. The Board perceives good governance as an uncompromising pursuit that provides the basis for growth in a sustainable manner; not as a set of controls that stifles growth. The disclosures that follow in this section, demonstrates the intensity at which principles of corporate governance are embraced.

Effective governance requires that governance policies, structures and processes are in place and are directed towards accountability, control and assurance (conformance), and value creation through formulation and implementation of a sound corporate strategy (performance). These two components together i.e., conformance and performance, form the accountability framework of the organisation.

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 place, and implements and monitors its effectiveness through Board Committees. The Company is committed to the highest standards of corporate and business ethics. In this regard, the organisation has clear lines of responsibility and accountability within the entire Group.

Integrating Values with Performance

The sustenance of corporate 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. Corporate 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 and in achieving the objectives of the Company. Performance is not encouraged at the cost of business principles and values. The Company leadership recognises the role played by Corporate Governance in Sustainability. Respecting the governance structure, understanding the importance of good governance, transparency, good conduct, sustainability, conformance to laws and regulations are some key values that fall within the governance culture. Performance, conformance, ethics, accountability, sustainability and risk management provide the building blocks of Company strategy.

Legislation and Regulation

There are many legislative enactments and regulations that lay down the laws and rules within which a company should operate. It is imperative that the Company operates strictly within these laws and regulations. However, the Companies Act No. 07 of 2007 and the Listing Rules of the Colombo Stock Exchange (Listing Rules) mandates many aspects in relation to corporate governance. The Articles of Association provides the internal regulations with regard to Governing the Company. Whilst, the Company strictly follows all provisions prescribed by the above, its Corporate Governance practices are guided by the 'Code of Best Practice on Corporate Governance' issued jointly by The Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka (The Code). The table spanning from pages 88 to 113 provide the extent to which the Company has complied with the requirements of The Code. The table appearing on pages 114 to 116 provide the level of compliance against the Corporate Governance measures mandated by the Listing Rules.

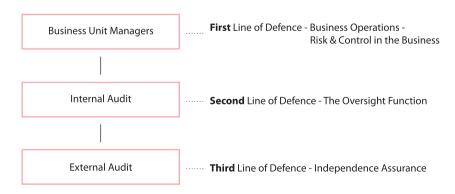
Obligations Towards Stakeholders

The Company's Quality Management System (QMS) and the Environmental Management System (EMS) provide a platform for engaging stakeholders with a view to discharging the Corporate Responsibility towards them. The GRI Index on page 223 to 231 provide the extent to which the Company has fulfilled its responsibility towards its stakeholders.

Governance Model The governance model of the Company given below depicts the framework that is in place to ensure good governance, the structure that implements and facilitates governance and the assurance initiatives, during which some aspects of governance gets reviewed.

REGULATION FRAMEWORK GOVERNANCE STRUCTURE ASSURANCE EXTERNAL BOARD OF DIRECTORS REGULATION • External Audit Code of best practice **Principal Board Committees** on corporate governance issued jointly by SEC and **ICASL** Remuneration Nomination Audit • Corporate governance Committee Committee Committee Internal Audit rules published by the CSE Companies Act No. 07 of 2007 INDEPENDENT **CERTIFICATION** INTERNAL **REGULATION** EMS Audit & Certification Articles of Association Sustainability • Employees' **Business Unit** Code of Ethic and Committee Council Managers Conduct OMS Audit & • GRI guidelines on Certification sustainability Environment Management Independent System (EMS) Assurance on the Non-Financial Quality Management Reporting System (QMS)

LINE OF DEFENCE WITHIN GOVERNANCE FRAMEWORK



Compliance with the Code $-\!\!\!\!-\!\!\!\!-$

SECTION 1: THE COMPANY

A. Directors
A.1 The Board
Main Principle:

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

Code Reference	Requirement of the Code	Compliance with the Code
A.1.1	The Board should meet regularly, at least once in every quarter	The Board members meet regularly in accordance with a preagreed plan, which includes at least a quarterly meeting, and additionally, as and when there are pressing corporate or commercial matters to be considered or decided upon. The Board met 7 times during the financial year. The dates of the Board meetings during the year are given on table 113 . Average attendance at Board meetings was 94%.
A.1.2	Board should be responsible for matters including:	
	Ensuring the formulation and implementation of a sound business strategy	The Board provides stewardship, vision and strategic direction to the Group and fosters a culture of integrity, transparency and accountability across the Group. A review of business, marketing and financial and other strategies and their implementation takes place during the Board meetings. The Board also meets the Group Management Committee at least once a year and discusses and provides direction on matters relating to strategy formulation. The Board approves all appointments to the Group Management Committee (GMC), which consists of the senior management. The Board takes into consideration the skills and experience of the members prior to their appointments in order to ensure the members suitability to hold the position in the GMC as well as his regular position in the managerial capacity of the Company.
	Ensuring that the CEO and the Management Team possess the skills, experience, and knowledge to implement strategy	One of the Board's responsibilities is to monitor the effectiveness of management policies and decisions, including the execution of its strategies. The Board ensures that the Chairman/ Chief Executive Officer and the Management Team posses the skills to implement the overall strategy. A brief resumé of Directors, including the Directors who offer themselves for re-election is available on pages 122 to 125. 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.
	Ensuring the adoption of an effective CEO and senior management succession strategy	Succession planning is given due recognition in the corporate culture. Effective succession planning is a criterion in the performance appraisals of the senior management. The Board with the assistance of the Nomination Committee reviews succession plans available for the senior management.

Code Reference

CORPORATE GOVERNANCE

	Requirement of the Code	Compliance with the Code
:	Ensuring effective systems to secure integrity of information, internal controls and risk management	Measures taken towards an effective internal control system is given under D.2.1
		Risk management framework is given in the Risk Management Report appearing from pages 128 to 137.
		The Board monitors and evaluates risks and performance, approves all important investment decisions and is also responsible for the installation of sound internal financial controls.
	Ensuring compliance with laws, regulations and ethical standards	The Board follows a policy of strict compliance with laws and regulatory requirements and ensures that stakeholder interests are considered in key corporate decisions.
	Ensuring all stakeholder interests are considered in corporate decisions	In addition to fulfilling its obligations for increased stakeholder 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.
	Ensuring that the Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations	'Never compromise on DIMO Ethics' is part of the Company's statement of values. A document containing the Company Values and Ethics is given to all employees. Whilst the Code of Ethics demands strict compliance, the Internal Auditors are expected to report to the Audit Committee on any non-compliance with laws and/or Ethics.
		The Statement of Directors' Responsibilities for the Financial Statements is available on page 151.
		The Chairman/MD/CEO's and Chief Financial Officer's Responsibility statement is available on page 117.
	Fulfilling such other Board functions as are vital, given the scale, nature and complexity of the business concerned	The size and the scale of the organisation demands expertise in diverse areas of business at the level of Board of Directors. The Directors bring on Board a wide range of skills, knowledge and experience. Expertise in Finance, Engineering, Law and Marketing is available in the present Board.

Code Reference	Requirement of the Code	Compliance with the Code
A.1.3	The Board collectively, and Directors individually, must act in accordance with the laws of the country and there should be a procedure agreed by the Board of Directors, to obtain independent professional advice where necessary, at the Company's expense.	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. Any Director may obtain independent professional advice that may be required in discharging his/her responsibilities effectively, at Company's expense.
A.1.4	All Directors should have access to the advice and services of the Company Secretary, who is responsible to the Board in ensuring, that the Board procedures are followed and that they applicable rules and regulations are complied with. Any question of the removal of the Company Secretary should be a matter for the Board as a whole.	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 access to the advice and services of the Company Secretary. The appointment and removal of the Company Secretary rests with the Board.
A.1.5	All Directors should bring independent judgment to bear on issues of strategy, performance, resources (including key appointments), and standards of business conduct.	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 on matters relating to strategy, performance, resources and business conduct. 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 laws & regulations
A.1.6	Every Director should dedicate adequate time and effort to matters of the Board and the Company, to ensure that the duties and responsibilities owed to the Company are satisfactorily discharged. It must be recognised that Directors have to dedicate sufficient time before a meeting to review Board papers and call for additional information and clarification and after a meeting to follow up on issues consequent to the meeting. This should be supplemented by a time allocation for familiarisation with business changes, operations, risks and controls.	The Chairman, Non-Executive and Executive Directors are committed to discharging their duties as Directors of the Company and ensure that adequate time and attention is given to make their contribution effective. The Non-Executive Directors may have follow up meetings with the Chairman, Executive Directors or members of the Group Management Committee to follow up on matters discussed at Board Meetings and provide their expertise. The Board papers and the agenda are received by the Directors, ahead of Board Meetings, enabling the Directors to review the papers and obtain clarifications ahead of the meetings. The papers contain financial and non-financial information. The regular Board papers include Financial Statements narratives on variances, working capital-related reports, reports on compliance with statutory requirements, capital expenditure reports, staff appointments, bank facilities and utilization and any other report

A.1.7

Every Director should receive appropriate training when first appointed to the Board of a company, and subsequently as necessary. Training curricula should encompass both general aspects of directorship and matters specific to the particular industry/company concerned. A Director must recognise that there is a need for continuous training and an expansion of the knowledge and skills required to effectively perform his duties as a Director.

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

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

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

A.2 Chairman and Chief Executive Officer (CEO)

Main 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.

Code Reference	Requirement of the Code	Compliance with the Code
A.2.1	A decision to combine the posts of Chairman and CEO in one person should be justified and highlighted in the Annual Report.	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 standards of business conduct. The presence of a Senior Independent Director adds more emphasis to transparency in governance affairs. The Audit, Nomination and Remuneration Committees are headed by Non-Executive Independent Directors. The composition of the above Board Committees are given on page 113. The performance of Chairman/MD and CEO's is reviewed by the Non-Executive Directors headed by Senior Independent Director.

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A.3. Chairman's Role

Main Principle:

The Chairman's role in preserving Good Corporate Governance is crucial. As the person responsible for running the Board, the Chairman should preserve order and facilitate the effective discharge of Board functions.

Code Reference	Requirement of the Code	Compliance with the Code
	The Chairman should conduct Board proceedings in a proper manner and ensure, inter-alia, that: The effective participation of both Executive and Non-Executive Directors is secured: All Directors are encouraged to make an effective contribution, within their respective capabilities, for the benefit of the Company; A balance of power between Executive and Non-Executive Directors is maintained; The views of Directors on issues under consideration are ascertained; and The Board is in complete control of the Company's affairs and alert to its obligations to all shareholders and other stakeholders.	Board meetings are conducted in an atmosphere that encourages, healthy debate by all members of the Board. The Chairman ensures that there is effective participation from all Directors, that their individual contribution and concerns are objectively assessed prior to making key decisions. The Chairman ensures that every Non-Executive Director and Executive Director is provided with an opportunity to present his view on matters discussed and both Executive and Non-Executive Directors have opportunities for effective participation. He also ensures that the Board is in complete control of the Company's affairs and that decisions made by the Board are implemented. 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 Board members are encouraged to take advantage of a variety of expertise available in the Board, in the areas such as finance, marketing, law and engineering in making decisions for the benefit of the Company.
		The Chairman and the Senior Independent Director satisfy themselves that the information available to the Board is sufficient to make an informed assessment of the Company's affairs as well as to discharge their duties to all stakeholders.

A.4 Financial Acumen

Main Principle:

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

Code Reference	Requirement of the Code	Compliance with the Code
A.4	Availability of sufficient financial acumen and knowledge.	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

Main 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.

Code Reference	Requirement of the Code	Compliance with the Code
A.5.1	The Board should include Non-Executive Directors of sufficient caliber and number for their views to carry significant weight in the Board's decisions. The Board should include at least two Non-Executive Directors or such number of Non-Executive Directors equivalent to one-third of total number of Directors, whichever is higher. In the event the Chairman and CEO is the same person, Non-Executive Directors should comprise a majority of the Board.	The composition of the Board of Directors meets the number of Non-Executive Directors required by this Code and the Listing Rules of the Colombo Stock Exchange. The brief resumé of Directors provided on pages 122 to 125 bears testimony to the caliber of the Non-Executive Directors, whose views significantly influence the decisions made by the Board. Four out of eleven Directors are Non- Executive Directors. There was no change in the number of Directors or in their status as Non-Executive or Independent Directors, during the period under review.
A.5.2	Where the constitution of the Board of Directors includes only two Non-Executive Directors, both such Non-Executive Directors should be 'independent'. In all other instances two or one third of Non-Executive Directors appointed to the Board of Directors, whichever is higher should be 'independent'.	Three out of the four Non-Executive Directors are 'independent', based on the criteria set by this Code and the Listing Rules of the Colombo Stock Exchange. The names of the Independent Non-Executive Directors are disclosed on page 113 of the Annual Report.
A.5.3	For a Director to be deemed independent such Director should be independent of management and free of any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgement.	When determining the independence of Non-Executive Directors the Board takes into accounts the factors set out in this section. The Nomination Committee also reviews the independence of Directors including actual, potential or perceived conflicts of interest. The Company maintains the 'Interest Register' required by the Companies Act No. 07 of 2007, which also shows details of Directors' interests in Contracts/Company. A disclosure on related party transactions is available on page 195.
A.5.4	Each Non-Executive Director should submit a signed and dated declaration annually of his/her independence or non-independence against the specified criteria set out in the Specimen in Schedule H.	The Non-Executive Directors submitted the requisite declaration, which was used for determining the independence of the Independent Directors.

Code Reference	Requirement of the Code	Compliance with the Code
A.5.5	The Board should make a determination annually as to the independence or non-independence of each non-executive Director based on such a declaration made of decided criteria and other information available to the Board, and should set out in the Annual Report the names of Directors determined to be 'independent'. The Board should specify the criteria not met and the basis for its determination in the Annual Report, if it determines that a Director is independent notwithstanding the existence of relationships or circumstances which indicate the contrary.	The Board has made an annual determination as to the independence or non-independence of each Non-Executive Director based on a declaration made by the Non-Executive Directors and as per criteria set out by the Colombo Stock Exchange Listing Rules. Based on the determination 1. Mr. R. Seevaratnam, 2. Dr. H. Cabral, and 3. Prof. U Liyanage are considered to be Independent Non-Executive Directors.
A.5.6	In the event, the Chairman and CEO is the same person, the Board should appoint one of the Independent Non-Executive Directors to be the 'Senior Independent Director' (SID) and disclose this appointment in the Annual Report.	Mr. R. Seevaratnam, an Independent Non-Executive Director, functions as the Senior Independent Director. The Senior Independent Director presides at Board Meetings in the absence of the Chairman.
A.5.7	The Senior Independent Director should make himself available for confidential discussions with other Directors who may have concerns which they believe have not been properly considered by the Board as a whole and which pertain to significant issues that are detrimental to the Company.	The Senior Independent Director is available for confidential discussions, should there be any concerns regarding governance or issues that may adversely affect the Company, inadequately addressed by the Board.
A.5.8	The Chairman should hold meetings with the Non-Executive Directors only, without the Executive Directors being present, as necessary and at least once each year.	Chairman meets with Non-Executive Directors, without the Executive Directors and discusses issues pertaining to functioning of the Company. In addition, the Chairman consults the Independent Directors to obtain their views on matters of importance, as and when a need arises.
A.5.9	Where Directors have concerns about the matters of the Company which cannot be unanimously resolved, they should ensure their concerns are recorded in the Board Minutes.	The Board Minutes are prepared by the Company Secretary. In the event of a matter not being unanimously adopted at a Board Meeting, the concerns expressed at such situations are recorded in the meeting minutes. Minutes of the Board meeting are circulated to all Directors and adopted at the subsequent Board meeting.

A.6 Supply of Information

Main Principle:

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

Code Reference	Requirement of the Code	Compliance with the Code
A.6.1	Management has an obligation to provide the Board with appropriate and timely information, but information volunteered by management may not be enough in all circumstances and Directors should make further inquiries where necessary. The Chairman should ensure all Directors are properly	A sophisticated management information system is in place and it 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.
	briefed on issues arising at Board meetings.	The Chairman ensures that the background is set for discussions at Board meetings by introducing the subject of discussion, if the Board members were not previously aware of the matter at hand.
A.6.2	The minutes, agenda and papers required for a Board meeting should ordinarily be provided to Directors at least seven (7) days before the meeting, to facilitate its effective conduct.	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

Main Principle:

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

Code Reference	Requirement of the Code	Compliance with the Code
A.7.1	A Nomination Committee should be established to make recommendations to the Board on all new Board appointments. Terms of Reference for Nomination Committees are set out in Schedule A of the Code.	The Board appoints the Directors based on the recommendations of the Nomination Committee. Nominations to the Boards of subsidiary companies and appointments to the Group Management Committee are also made based on the recommendations of the Nomination Committee.
	The Chairman and members of the Nomination Committee should be identified in the Annual Report.	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.

Code Reference	Requirement of the Code	Compliance with the Code
		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/CEO, who is also a member of the Nomination Committee, on matters of succession at senior management level.
		The Committee is entitled to obtain professional advice at the Company's expense.
		The Committee has specific terms of reference defining its scope and authority.
A.7.2	The Nomination Committee or in the absence of a Nomination Committee, the Board as a whole should annually assess board-composition to ascertain whether the combined knowledge and experience of the Board matches the strategic demands facing the Company. The findings of such assessment should be taken into account when new board appointments are considered and when incumbent directors come up for re-election.	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. The composition of the Nomination Committee is available on the table appearing on page 113. The Report of the Nomination Committee is given on pages 118 to 119.
A.7.3	Upon the appointment of a new Director to the Board, the Company should forthwith disclose to shareholders: a. A brief resume of the Director;	There were no new appointments to the Board of Directors during the year under review. However, new appointments to the Board, if any, are made known to the public through the Colombo Stock Exchange, in compliance with this section of the code.
	 b. The nature of his expertise in relevant functional area; c. The names of companies in which the Director holds Directorship or Membership in Board Committees; and d. Whether such Director can be considered 'independent'. 	

A.8 Re-Election Main Principle:

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

Code Reference	Requirement of the Code	Compliance with the Code
A.8.1	Non-Executive Directors should be appointed for specified terms subject to re-election and to the provisions in the Companies Act relating to the removal of a Director, and their reappointment should not be automatic.	In terms of the Articles of Association, one third of the Directors, except for the Managing Director, retire in rotation and may offer themselves for re-election at the AGM. By virtue of being the Managing Director, the Chairman/CEO is not required to make himself available for re-election as per the articles.
A.8.2	All Directors including the Chairman of the Board should be subject to election by shareholders at the first opportunity after their appointment, and to re-election thereafter at intervals of no more than three years. The	The Company's Articles of Association provides that any Director appointed by the Board to hold office until the next Annual Genera Meeting (AGM), may seek reappointment by the shareholders at the said AGM.
	names of Directors submitted for election or re-election should be accompanied by a resume minimally as set out in paragraph A.7.3	Based on the Articles and the current composition of the Board, a Director has to come forward for re-election, every three years.
	above, to enable shareholders to make an informed decision on their election.	A resume of the Directors coming up for re-election at the AGM - 2011 is available on pages 122 to 125.

A.9 Appraisal of Board Performance

Main Principle:

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

Code Reference	Requirement of the Code	Compliance with the Code
A.9.1	The Board should annually appraise itself on its performance in the discharge of its key responsibilities as set out in A.1.2.	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.
A.9.2	The Board should also undertake an annual self- evaluation of its own performance and that of its Committees.	The methodology of evaluation involves each Board member completing a checklist and providing a rating on each item covered in the checklist involving areas of appraisal.
A.9.3	The Board should state how such performance evaluations have been conducted, in the Annual Report.	 The appraisal covers areas such as - its 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 discharging its responsibilities.

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A.10 Disclosure of Information in respect of Directors Main Principle:

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

Code Reference	Requirement of the Code	Compliance with the Code
A.10.1	The Annual Report of the Company should set out the following information in relation to each Director:	
	Name, qualifications and brief profile;	Available on pages 122 to 125 Overview of Board of Directors.
	The nature of his/her expertise in relevant functional areas;	Available on pages 122 to 125 Overview of Board of Directors.
	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 pages 122 to 125 Overview of Board of Directors and on page 149 Annex to the Annual Report of the Board of Directors.
	Names of other companies in which the Director concerned serves as a Director, provided that where he/she 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/she holds other directorships in such companies;	Available on pages 122 to 125 Overview of Board of Directors.
	Number/percentage of Board meetings of the Company attended during the year;	Available on page 113.
	Names of Board Committees in which the Director serves as Chairman or a member; and	Available on page 113.
	Number/percentage of Committee meetings attended during the year.	Available on page 113.

A.11 Appraisal of Chief Executive Officer Main Principle:

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

Code Reference	Requirement of the Code	Compliance with the Code
A.11.1	At the commencement of every fiscal year, the Board in consultation with the CEO, should set, in line with the short, medium and long-term objectives of the Company, reasonable financial and non-financial targets that should be met by the CEO during the year.	At the commencement of every financial year, the Board in consultation with the Chairman/CEO and Executive Directors agree on the financial and non-financial targets, based on which the performance of Chairman/CEO and Executive Directors are evaluated.
A.11.2	The performance of the CEO should be evaluated by the Board at the end of each fiscal year to ascertain whether the targets set by the Board have been achieved and if not, whether the failure to meet such targets was reasonable in the circumstances.	Whilst the performance evaluation of the Chairman/Managing Director/ Chief Executive Officer 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 Non-Executive Directors in consultation with the Chairman/MD/CEO.

B. Directors' Remuneration

B.1 Remuneration Procedure

Main 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.

Code Reference	Requirement of the Code	Compliance with the Code
B.1.1	To avoid potential conflicts of interest, the Board of Directors should set up a Remuneration Committee to make recommendations to the Board, within agreed terms of reference, on the Company's framework of remunerating Executive Directors.	The Remuneration Committee is responsible for determining the framework and policy on remuneration of the Chairman/Chief Executive Officer, Deputy Chief Executive Officer, Executive Directors and Senior Management. The remuneration of the Chairman/MD/CEO and the Deputy CEO are decided based on the recommendations made by the Remuneration Committee.
	(These also include Post-Employment Benefits as well as Terminal Benefits.) Terms of Reference for Remuneration Committees are set out in Schedule C.	The Board of Directors appoints members to the Remuneration Committee.
	nemuleration committees are set out in scriedule e.	The Board of Directors has set the terms of reference of the Remuneration Committee.
		Attendance details of the members at Remuneration Committee meeting is disclosed in the table appearing on page 113.
		The report of the Remuneration Committee is available on page 120.

Code Reference	Requirement of the Code	Compliance with the Code
B.1.2	Remuneration Committees should consist exclusively of Non-Executive Directors, and should have a Chairman, who should be appointed by the Board.	The Chairman of the Remuneration Committee, who is appointed by the Board, is an Independent Non-Executive Director. The present Committee consists of three Independent Non-Executive Directors and one Non-Executive Director. The Chairman of the Remuneration Committee is Prof. U. Liyanage, an Independent Non-Executive Director. The composition of the Remuneration Committee meets the requirements of the CSE Listing Rules.
B.1.3	The Chairman and members of the Remuneration Committee should be listed in the Annual Report each Year.	Names of the members of the Remuneration Committee are available on page 113.
B.1.4	The Board as a whole, or where required by the Articles of Association the shareholders, should determine the remuneration of Non-Executive Directors, including members of the Remuneration Committee, within the limits set in the Articles of Association. Where permitted by the Articles, the Board may delegate this responsibility to a Sub-Committee of the Board, which might include the CEO.	The Board of Directors determines the Remuneration of Non-Executive Directors. The Non-Executive Directors do not participate in any discussion that involves fixing their remuneration.
B.1.5	The Remuneration Committee should consult the Chairman and/or CEO about its proposals relating to the remuneration of other Executive Directors and have access to professional advice from within and outside the Company, in discharging their responsibilities.	The remuneration of the Executive Directors is recommended by the Remuneration Committee in consultation with the Chairman/CEO. No Director is involved in deciding his own remuneration. The Committee is entitled to obtain professional advice at the Company's expense in discharging their responsibilities.

B.2 The level & make up of Remuneration Main 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.

Code Reference	Requirement of the Code	Compliance with the Code
B.2.1	The Remuneration Committee should provide the packages needed to attract, retain and motivate Executive Directors of the quality required but should avoid paying more than is necessary for this purpose.	The Company's remuneration policy aims to attract and retain high calibre executives by ensuring that their rewards are competitive and linked to both individual and business performance. Whilst recognising the market demands and the contribution of the Executives to the overall performance, the Company believes that the remuneration policy should at the same time be in congruence with shareholder interests.

Code Reference	Requirement of the Code	Compliance with the Code	
B.2.2	The Remuneration Committee should judge where to position levels of remuneration of the Company, relative to other companies. It should be aware what comparable companies are paying and should take account of relative performance, but should use such comparisons with caution, mindful of the risk that they can result in an increase of remuneration levels with no corresponding improvement in performance.	The Remuneration Committee in deciding the remuneration of the Directors takes into consideration the level of remuneration paid by the other comparable companies. By linking the remuneration levels to business and individual performance, the Committee ensures that any increase in the variable part of the remuneration corresponds to better performance. When required, the Remuneration Committee uses remuneration surveys to ascertain market levels of remuneration.	
B.2.3	The Remuneration Committee should be sensitive to remuneration and employment conditions elsewhere in the Company or Group of which it is a part, especially when determining annual salary increases.	Same criteria and measures adopted in B.2.2 formula are used for determination of remuneration of the senior management team, across the Group.	
B.2.4	The performance-related elements of remuneration of Executive Directors should be designed and tailored to align their interests with those of the Company and main stakeholders and to give these Directors appropriate incentives to perform at the highest levels.	Remuneration of Executive Directors consists of a fixed element as well as a variable element. The variable part (incentive scheme) is based on the performance of the individual as well as the Company.	
B.2.5	Executive share options should not be offered at a discount (i.e., less than market price prevailing at the time the exercise price is determined), save as permitted by the Listing Rules of the Stock Exchange.	There was no share option scheme in operation during the year under review.	
B.2.6	In designing schemes of performance-related remuneration, Remuneration Committees should follow the provisions set out in Schedule D.	The guideline provided by Schedule D has been followed in determining Directors' remuneration.	
B.2.7	Remuneration Committees should consider what compensation commitments (including pension contributions) their Directors' contracts of service, if any, entail in the event of early termination. Remuneration Committees should in particular, consider the advantages of providing explicitly for such compensation commitments to apply other than in the case of removal for misconduct, in initial contracts.	The compensation commitments of the Executive Directors are guided by their contracts of employment. This requirement is not applicable to Non-Executive Directors.	

Code Reference	Requirement of the Code	Compliance with the Code
B.2.8	Where the initial contract does not explicitly provide for compensation commitments, Remuneration Committees should, within legal constraints, tailor their approach in early termination cases to the relevant circumstances. The broad aim should be, to avoid rewarding poor performance while dealing fairly with cases where departure is not due to poor performance.	The Board is committed to acting fairly and in accordance with laws of the country, in the event of a termination. There was no termination of services of any Director during the year under review.
B.2.9	Levels of remuneration for Non-Executive Directors should reflect the time commitment and responsibilities of their role, taking into consideration market practices. Remuneration for Non-Executive Directors should not normally include share options. If exceptionally options are granted, shareholder approval should be sought in advance and any shares acquired by exercise of the options should be held until at least one year after the Non-Executive Director leaves the Board. Holding share options could be relevant to the determination of a Non-Executive Director's independence. (as set out in provision A.5.5)	Non-Executive Directors provide expert advice to the Board in their capacity as Directors. Time commitments and responsibilities of their role are taken into consideration when remuneration levels of Non- Executive Directors are determined. The Company does not have a share options scheme in operation for Non-Executive Directors.

B.3 Disclosure of Remuneration Main Principle:

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

Code Reference	Requirement of the Code	Compliance with the Code
B.3.1	The Annual Report should set out the names of Directors (or persons in the Parent Company's	The Remuneration Policy is available in the Report of the Remuneration Committee appearing on page 120.
	Committee in the case of a Group company) comprising the Remuneration Committee, contain a statement of remuneration policy and set out the	Total Directors' emoluments are disclosed in Note 11.1 on page 177.
	aggregate remuneration paid to Executive and Non- Executive Directors.	

C. Relations with Shareholders

C.1 Constructive use of Annual General Meeting (AGM) and Conduct of General Meetings Main Principle:

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

Code Reference	Requirement of the Code	Compliance with the Code	
C.1.1	Companies should count all proxy votes and should indicate the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands, except where a poll is called.	A Form of Proxy accompanies the Annual Report, when they are dispatched to the shareholders. The Chairman makes an announcement of the proxies received, at the commencement of a General Meeting.	
C.1.2	Companies should propose a separate resolution at the AGM on each substantially separate issue and should in particular propose a resolution at the AGM relating to the adoption of the report and accounts.	The Company proposes a separate resolution at the AGM on each substantial separate issue, including for the adoption of the financial statements. The Agenda for the AGM is given appearing on page 234.	
C.1.3	The Chairman of the Board should arrange for the Chairmen of the Audit, Remuneration and Nomination Committees to be available to answer questions at the AGM if so requested by the Chairman.	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.	
C.1.4	Companies should arrange for the Notice of the AGM and related papers to be sent to shareholders as determined by statute, before the meeting.	The Notice of Meeting and related documents is dispatched to the shareholders 15 working days prior to the AGM, as per Section 135 of the Companies Act No. 07 of 2007.	
C.1.5	Companies should circulate with every Notice of General Meeting, a summary of the procedures governing voting at General Meetings.	The Notice of Meeting outlines the procedure relating to voting at the Annual General Meeting. Every shareholder is entitled to one vote per share at a poll.	

C.2 Major Transactions

Main 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.

Code Reference	Requirement of the Code	Compliance with the Code
C.2.1	Prior to a company engaging in or committing to a 'Major Transaction', involving the acquisition, sale or disposition of greater than half of the net value of the Company's assets or that of a subsidiary which has a material bearing on the consolidated net assets of the Company, or a transaction which has or is likely to have the effect of the Company acquiring obligations and liabilities, Directors should disclose to shareholders all material facts of such transaction. It also includes transactions or series of related transactions which have the purpose of effect of substantially altering the nature of the business carried on by the Company.	There was no transaction during the year that fell within the definition of a major transaction defined by Section 185 of the Companies Act No. 07 of 2007. There were also no transactions during the year under review that would suggest a substantial alteration in the nature of the business carried out by the Company.

D. Accountability & Audit

D.1 Financial Reporting

Main Principle:

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

Code Reference	Requirement of the Code	Compliance with the Code		
D.1.1	The Board's responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports and reports to regulators, as well as to information required to be presented by statutory requirements.	In the preparing of annual and quarterly Financial Statements, Company complies with the requirements of the; Companies act No. 07 of 2007, Sri Lanka Accounting Standards, and Listing Rules of the Colombo Stock Exchange. The annual and interim Financial Statements are published within the time periods prescribed by the Listing Rules of the Colombo Stock Exchange. Given below is a table containing the dates on which the annual and interin Financial Statements were uploaded to the CSE website/dispatched to the shareholders, during the year under review.		
		Interim Report	Date of uploading/dispatch	Status
		Annual Report for the year ended 31st March 2010	05th June 2010	Compliant
		01st Quarter	12th August 2010	
				Compliant
		02nd Quarter	11th November 2010	Compliant Compliant
		02nd Quarter 03rd Quarter	11th November 2010 09th February 2011	·

Code Reference	Requirement of the Code	Compliance with the Code
D.1.2	The Directors' Report, which forms part of the Annual Report, should contain declarations by the Directors to the effect that:	The declarations by Directors required by this section have been made in the Annual Report of the Directors appearing from pages 141 to 148.
	The Company has not engaged in any activity which contravenes laws and regulations;	
	 The Directors have declared all material interests in contracts involving the Company and refrained from voting on matters in which they were materially interested; 	
	The Company has made all endeavours to ensure the equitable treatment of shareholders;	
	The business is a going concern, with supporting assumptions or qualifications as necessary; and	
	 They have conducted a review of the internal controls, covering financial, operational and compliance controls and risk management, and have obtained reasonable assurance of their effectiveness and successful adherence therewith, and, if it is unable to make any of these declarations, to explain why it is unable to do so. 	
D.1.3	The Annual Report should contain a statement setting out the responsibilities of the Board for the preparation and presentation of Financial	The Statement of Directors' Responsibilities for Financial Statements is available from pages 151 to 152.
	Statements, together with a statement by the Auditors about their reporting responsibilities.	The Auditors responsibilities regarding the Annual Financial Statements are outlined in the Report of the Auditors appearing on page 153.

Code Reference	Requirement of the Code	Compliance with the Code					
D.1.4	The Annual Report should contain a 'Management Discussion and Analysis', discussing, among other issues:	The Board endeavours to present a balanced and an objective assessment of the Company's position, performance and prospects. Information required by this section is included in Annual report as follows:					
	 Industry structure and developments; 						
	Opportunities and threats;Risks and concerns;	Information Discussion Report in the Annual Report Page Nos.					
	 Internal control systems and their adequacy; Social and environmental protection activities carried out by the Company; 	Industrial structure and Operating Environment/ 14-17, developments This is Dimo Inner Front Cover					
	Financial performance;	Opportunities and threats Enterprise Risk Management 130-137					
	Material developments in human resource/	Risks and concerns Enterprise Risk Management 130-137					
	industrial relations; andProspects for the future.	Internal control systems Corporate Governance 85-113 and their adequacy					
		Social and environmental Management Report 14-60 protection activities carried out by the Company					
		Financial performance Financial Review 21-32					
		Material developments in Working at Dimo 47-55 human resource					
		Prospects for the future Chairman/CEO's Letter, 8-11, strategy and This is Dimo Inner Front Cover					
D.1.5	The Directors should report that the business is a going concern, with supporting assumptions or qualifications as necessary. The matters to which the Board should give due consideration when adopting the going concern assumptions are set out in Schedule E to this Code.	Information on the Board's determination of the entity as a going concern is included in the Annual Report of the Board of Directors appearing from pages 151 to 152.					
D.1.6	In the event the net assets of the Company fall below 50% of the value of the Company's shareholders' funds, the Directors shall forthwith summon an Extraordinary General Meeting of the Company to notify shareholders of the position and of remedial action being taken.	This situation did not arise during the financial year under review.					

D.2 Internal Control

Main Principle:

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

Code Reference	Requirement of the Code	Compliance with the Code
D.2.1	The Directors should, at least annually, conduct a review of the effectiveness of the Group's system of internal controls, so as to be able to report to shareholders as required in D.1.2. This could be made the responsibility of the Audit Committee.	The Board has the overall responsibility for maintaining the systems of internal control of the Company and for monitoring their effectiveness, which has been delegated to the Audit Committee, whilst the implementation of internal control systems is the responsibility of the Group Management Committee. The Group's systems of internal control are designed to manage rather than eliminate the risk of failure in achieving the business objectives. It can also provide a reasonable assurance against material financial misstatement or loss. The Audit Committee is responsible for reviewing the financial reporting
		system and Financial Statements, to be published including compliance with relevant accounting standards and laws and company policies, and also for reviewing the effectiveness of the internal audit function.
		The Group Management Committee is expected to implement an effective system of internal control that addresses the following:
		Safeguarding of assets
		Maintaining proper accounting records
		Providing reliable financial information
		 Identifying and managing business risks
		Compliance with legislation and regulation
		Early detection of instances of non-compliance
		Identification and adoption of best practices
		The adequacy and effectiveness of the internal control system is reviewed by the Audit Committee with the Internal Auditors during the Audit Committee meetings, where Internal Auditors are invited to present their internal audit findings.
D.2.2	Companies which do not have an internal audit function should from time to time review the need for one.	The Company has outsourced the internal audit function, which has enhanced the independence required by the 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.

D.3 Audit Committee

Main 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.

Code Reference	Requirement of the Code	Compliance with the Code			
D.3.1	The Audit Committee should be comprised of a minimum of two independent Non-Executive Directors (in instances where a company has only two Directors on its Board) or exclusively by Non-Executive Directors, a majority of whom should be independent, whichever is higher. The Chairman of the Committee should be a Non-Executive Director, appointed by the Board.	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 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 113.			
		Mr. H.M.A. Jayesinghe, 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.			
D.3.2	The duties of the Audit Committee should include keeping under review the scope and results of the audit and its effectiveness, and the independence and objectivity of the Auditors. Where the Auditors also supply a substantial volume of non-audit services to the Company, the Committee should	The Audit Committee is a sub-committee of the Board and its main purpose is to assist the Board in the effective discharge of its responsibilities on financial reporting, risk management and corporate control. It assists the Board in monitoring compliance with applicable laws and other regulatory requirements.			
	keep the nature and extent of such services under review, seeking to balance objectivity, independence and value for money.	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:			
		 a. Clear Organisational structures with assigned responsibilities and set objectives; 			
		b. Representations from Executive Management;			
		c. Budgetary Control;			
		d. Approval Procedures for Capital Expenditure and Investments;			
		e. Review of information called for Board Meetings;			
		f. Discussions with External and Internal Auditors;			
		g. Review of Internal Audit Programmes and Reports;			
		h. Code of Ethics; and			
		i. Assessment of situations of potential conflict of interest, if any.			
		The Audit Committee makes recommendations with regard to appointment/reappointment of External Auditors. The Audit Committee may, if so required, recommend to the Board, the removal of Auditors.			

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Requirement of the Code

Compliance with the Code

The Committee also evaluates the performance of External Auditors, reviews the terms of engagement and fees of the Auditors for the audit. The Committee also reviewed fees paid to External Auditors on account of audit related services and non-audit services. Based on the provisions of section 3 of the Guideline for Appointment of Auditors of Listed Companies, issued by the Securities and Exchange Commission, the Audit Committee determined that the External Auditors possess the required independence to be the Auditors of the Company. The Audit 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 internal audit findings and to discuss effectiveness of internal controls and identify the levels of risk carried by the areas reviewed by the Internal Auditors. The Audit Committee also reviewed the fees paid to Internal Auditors.

D.3.3

The Audit Committee should have a written Terms of Reference, dealing clearly with its authority and duties.(As referred to in the Code)

Detailed guidance on the scope and functions of the Audit Committee can be found in the Code of Best Practice on Audit Committees issued by The Institute of Chartered Accountants of Sri Lanka in 2002.

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

The Board also considered the Code of Best Practice on Audit Committee of The Institute of Chartered Accountants of Sri Lanka in defining the terms of reference for the Audit Committee.

D.3.4 Disclosures

The names of Directors (persons in the Parent Company's Committee in the case of a group company) comprising the Audit Committee should be disclosed in the Annual Report.

The Committee should also make a determination of the independence of the Auditors and should disclose the basis of such determination in the Annual Report. The Annual Report should contain a report by the Audit Committee, setting out the manner of compliance by the Company, in relation to the above, during the period to which the Annual Report relates.

The names of the members of the Audit Committee are disclosed on page 113.

Committee meetings and the attendance of members is given in the table appearing on page 113.

The basis of determination of the independence of Auditors is given under the response to D.3.2.

The Chairman/Managing Director/ Chief Executive Officer, 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.

The report of the Audit Committee is available on pages 118 to 119.

D.4 Code of Business Conduct & Ethics Main Principle:

Companies must adopt a Code of Business Conduct & Ethics for Directors and members of the Senior Management team and must promptly disclose any waivers of the Code for Directors or others.

Code Reference	Requirement of the Code	Compliance with the Code
D.4.1	All Companies must disclose whether they have a Code of Business Conduct & Ethics for Directors and members of the Senior Management team and if they have such a Code, make an affirmative declaration in the Annual Report that all Directors and members of the Senior Management team have complied with such Code, and if unable to make that declaration, state why they are unable to do so. Each company may determine its own policies in the formulation of such a Code, but all Companies should address the following important topics in their respective Codes: Conflict of interest; Corporate opportunities; Fair dealing; Protection and proper use of company assets; Compliance with laws, rules and regulations (including insider trading laws); and Encouraging the reporting of any illegal or unethical behaviour.	The Company has a Code of Ethics applicable to Directors and 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. Compliance with laws and regulations is a strict requirement for directors and all employees.
	These aspects are expanded on, in Schedule G.	
D.4.2	The Chairman must affirm in the Company's Annual Report that he is not aware of any violation of any of the provisions of the Code of Business Conduct & Ethics.	Refer the Chairman' Message on Corporate Governance on page 84.

D.5 Corporate Governance Disclosures

Main Principle:

Directors should be required to disclose the extent to which the Company adheres to established principles and practices of good Corporate Governance.

Code Reference	Requirement of the Code	Compliance with the Code
D.5.1	The Directors should include in the Company's Annual Report a Corporate Governance Report, setting out the manner and extent to which the Company has complied with the principles and provisions of this Code.	The contents of this report deals with the extent to which established principles of good Corporate Governance have been adhered to and the requirements Code of Best Practices on Corporate Governance issued by the SEC and the ICASL have been complied with.
	: provisions of this code.	The Company has implemented the regulations of the Section 7.10 of the Listing Rules of Colombo Stock Exchange on Corporate Governance.

SECTION 2: THE SHAREHOLDERS

E. Institutional Investors

E.1. Shareholder Voting

Main 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.

Code Reference	Requirement of the Code	Compliance with the Code
E.1.1	A listed company should conduct a regular and structured dialogue with shareholders based on a mutual understanding of objectives. Arising from such dialogue, the Chairman should ensure the views of shareholders are communicated to the Board as a whole.	The Annual General Meeting provides the forum for shareholders to express their views. 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.

E.2 Evaluation of Governance Disclosures

Main 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.

Code Reference	Requirement of the Code	Compliance with the Code
E.2	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 Corporate Governance Report contains the Company's governance arrangements. Institutional investors are at liberty to provide any feed-back on the governance arrangements.

F. Other Investors

F.1 Investing/Divesting Decision

Main 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.

Code Reference	Requirement of the Code	Compliance with the Code	
F.1	Individual Shareholders	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 shareholder in carrying out adequate analysis when making their decisions.	

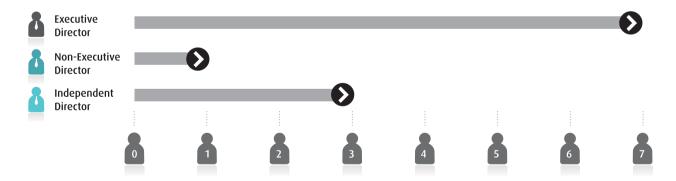
F.2 Shareholder Voting

Main Principle:

Individual shareholders should be encouraged to participate in General Meetings of companies and exercise their voting rights.

Code Reference	Requirement of the Code	Compliance with the Code
F.2	: Individual shareholders voting	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.

Composition of the Board of Directors



Composition of the Board and Board Committees and Attendance at Meetings for 2010/2011

					Committee Members						
Board Member	Date of Appointment to the Board		Board		Audit Committee		Nomination Committee		Remuneration Committee		
	First	Re-election	Position	Attendance	Position	Attendance	Position	Attendance	Position	Attendance	
A.R. Pandithage	June 1977	_	Chairman/MD/CEO	7/7	No	-	Member	1/1	No	-	
R. Seevaratnam	January 2007	June 2010	Senior Independent Director	7/7	Chairman	6/6	Member	1/1	Member	1/1	
Dr. H. Cabral	October 2006	June 2009	Independent Director	6/7	Member	5/6	Chairman	1/1	Member	1/1	
rof. U. Liyanage	October 2006	June 2009	Independent Director	7/7	Member	6/6	Member	1/1	Chairman	1/1	
A.N. Algama	November 1984	June 2010	Executive Director	7/7	No	=	No	-	No	-	
A.M. Panidithage	September 1982	June 2010	Non-Executive Director	7/7	Member	6/6	Member	1/1	Member	1/	
A.G. Pandithage	December 1995	June 2008	Director/Deputy CEO	6/7	No	=	No	-	No	-	
3.C.S.A.P. Gooneratne	April 2006	June 2009	Executive Director	7/7	No	-	No	-	No	-	
R.C. Weerawardane	June 2002	June 2008	Executive Director	6/7	No	-	No	-	No	-	
.C. Algama	November 1984	June 2009	Executive Director	6/7	No	-	No	-	No	-	
.G.H. Peries	August 1977	June 2010	Executive Director	7/7	No	_	No	_	No	_	

Dates of the Meeting

No.	Board Meeting	Audit Committee	Nomination Committee	Remuneration Committee
1.	7th April 2010	7th April 2010	18th May 2010	18th May 2010
2.	18th May 2010	4th May 2010		
3.	29th June 2010	18th May 2010		
4.	12th August 2010	12th August 2010		
5.	14th September 2010	11th November 2010		
6.	11th November 2010	9th February 2011		
7.	9th February 2011			

Compliance with the Listing Rules $-\!\!\!\bigcirc$

The following table shows the level of compliance with the Section 7.10 of Listing Rules of the Colombo Stocks Exchange, pertaining to Corporate Governance.

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	Name of independent Directors should be disclosed in the Annual report.	Compliant	Please refer page 113.
7.10.3.(b)	Independent Directors	The Board shall make a determination annually as to Independent or Non-Independence of each Non-Executive Director.	Compliant	The Board has carried out the determination as stated in the Governance Report. Please refer pages 84 to 113 (Board independence).
7.10.3.(c)	Disclosures relating to Directors	A brief résumé of each Director should be included in the Annual Report including the area of expertise.	Compliant	Please refer pages 122 to 125.
7.10.3.(d)	Appointment of new Directors	Provide brief résumé 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	Names of the members of the Remuneration Committee is available on page 113.

Rule No.	Subject	Applicable Requirement	Compliance Status	Details
7.10.5.(a)	Composition of Remuneration Committee	Shall comprise Non-Executive Directors, a majority of whom shall be independent.	Compliant	Remuneration Committee consists of four Non-Executive Directors of which three are independent. Chairman of Remuneration Committee is an independent Non-Executive Director.
7.10.5.(b)	Function of Remuneration 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 120.
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 page 113.
		b. Statement of Remuneration Policy.	Compliant	Please refer the Remuneration Committee Report on page 120 for a brief statement of policy.
		c. Aggregate remuneration paid to Executive and Non-Executive Directors.	Compliant	Please refer page 177.
7.10.6	Audit Committee	A listed company shall have an Audit Committee.	Compliant	Name of the members of the Audit Committee are available on pages 118 to 119.
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 the Audit Committee is a member of The Institute of Chartered Accountants of Sri Lanka and the Institute of Chartered Accountants of England & Wales.

Rule No.	Subject	Applicable Requirement		Compliance Status		Details
7.10.6.(b)	Function of Audit Committee	Should be as 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 pages 113.
		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 118 to 119.
		c. The Annual Report shall contain a Report of the Audit Committee setting out the manner of compliance of the functions.	:	Compliant	:	Please refer Audit Committee Report on pages 118 to 119.

CHAIRMAN/MANAGING DIRECTOR & 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. There are no departures from the prescribed Accounting Standards in their adoption. Comparative information has been reclassified wherever necessary to comply with the current presentation. The significant accounting policies and estimates that involved a high degree of judgment and complexity were discussed with the Audit Committee and our External Auditors.

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

Colombo 3rd June 2011 B.C.S.A.P. Gooneratne

Chief Financial Officer

REPORT OF THE AUDIT COMMITTEE

The Audit Committee is formally constituted as a sub-committee of the Main Board, to which it is accountable and it is wholly consisted of 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 and 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 2011.

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:

- Appropriateness and changes in Accounting Policies.
- Significant estimates and judgment made by the management.
- Compliance with relevant Accounting Standards and applicable regulatory requirements.
- Adequacy of provision against possible losses.
- Issues arising from the Internal and External 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 Regulations

The Audit Committee reviewed the reports submitted by the management and Internal Auditors on the state of compliance with applicable laws and regulations, and settlement 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 the Company's system of Internal Controls is evaluated through reports furnished by Management, Internal Auditors and External Auditors.

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 the Audit Committee quarterly and their reports are made available to External Auditors.

The Audit Committee monitors and reviews:

- The coverage of the annual audit plan.
- 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. 07 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 the period of engagement of External Auditors, by one year, and recommended to the Board their reappointment.

Meetings of Audit Committee

Six Audit Committee meetings were held during the year ended 31st March 2011. The attendance details are given on page 113 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's policies and that the Group's assets are properly accounted for and adequately safeguarded.

R. Seevaratnam

Chairman - Audit Committee

Colombo 3rd June 2011

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 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 the Chairman/CEO. No Director is involved in determining his own remuneration.

Our remuneration policy is designed to reward, motivate and retain the Company's executive team, with market competitive remuneration and benefits, to support the continued success of our business and the creation of shareholder value.

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.

All Non-Executive Directors receive a fee for serving at Board meetings and serving on sub-committees, special committees and/or subsidiary boards. They do not receive any performance or incentive payments.

The Directors' emoluments are disclosed on page 177.

The Committee meets as and when a need arises. The Remuneration Committee meetings and members attendance is given on page 113 under Corporate Governance Report.

Prof. U. Liyanage

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Chairman - Remuneration Committee

Colombo 3rd June 2011

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 on page 113 of the Corporate Governance Report.

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

The Committee met on one occasion in 2010/11 and the members' attendance record is set out in the Corporate Governance Report on page 113.

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 for succession planning to ensure that the Board has the correct balance of individuals to discharge its duties effectively. During the year, the Committee was briefed on succession planning issues relating to Executive Director and Group Corporate Management roles and satisfied itself that action plans are in place to deal with longer term and, as far as is practicable, unexpected short-term gaps or weaknesses in the executive team.

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

Dr. H. Cabral

Chairman - Nomination Committee

Colombo 3rd June 2011

BOARD OF DIRECTORS







A.R. PANDITHAGEChairman/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 Dip. Ing. from Germany. Member of the Institute of Engineers, Germany (VDI). Director, Dial Textiles Ltd. Chairman, Audit Committee of Dial Textiles Ltd.

A.G. PANDITHAGEDeputy 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.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.







S.C. ALGAMA

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

DR. H. CABRAL**

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

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 Jayewardenapura.







PROF. U. P. LIYANAGE**

Appointed to the Board in October 2006. Fellow of the Chartered Institute of Marketing. MBA and PhD from the Postgraduate Institute of Management (PIM), University of Sri Jayewardenapura. Director and Chairman of the Board of Management of PIM. Non-Executive Director of Chemenex PLC, Ceylon Cold Stores PLC, Arpico Plastics, Talawakelle Tea Estate PLC, Kuruwita Textile Mills PLC, Q&E Advertising & Commercial Bank of Ceylon PLC.

A.M. PANDITHAGE*

Appointed to the Board in September 1982. Chairman and Chief Executive of Hayleys PLC. Fellow of the Chartered Institute of Logistics & Transport.

Director of Sri Lanka Port Management & Consultancy Services Ltd. Member of the Presidential Committee on Maritime Matters. Committee Member of the Ceylon Chamber of Commerce. Council Member of the Employers' Federation of Ceylon.

T.G.H. PERIES

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





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, Tokyo Cement PLC, Hayleys MGT 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/Colombo Fort Land & Building Co. PLC.

R.C. WEERAWARDANE

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

^{*} Non-Executive Directors

^{**} Independent Non-Executive Directors

DIMO GROUP MANAGEMENT COMMITTEE MEMBERS



A.R. PANDITHAGEChairman



A.G. PANDITHAGEDeputy Chief Executive Officer



S.C. ALGAMA *Executive Director*



E.D.C. KODITUWAKKUGeneral Manager - Finance & Controlling



D. N. K. KURUKULASURIYAGeneral Manager - Human Resources
(Appointed w.e.f. 1st April 2011)



A. MAPALAGAMAGeneral Manager - Auto Components,
Power Tools and Outdoor Equipment



R.C. WEERAWARDANE *Executive Director*





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

A.C.G. DIAS General Manager - Tyres

B.C.S.A.P. GOONERATNE

Executive Director



N. MUDANNAYAKEGroup IT Manager
(Appointed w.e.f. 1st April 2011)



S.R.W.M. C. RANAWANAGeneral Manager - Construction and
Material Handling
(Appointed w.e.f. 1st April 2011)



W. PUSHPAWELAGeneral Manager - Power & Medical Engineering
(Appointed w.e.f. 1st April 2011)

ENTERPRISE RISK MANAGEMENT

Overview

The Group operates in a constantly evolving environment, which exposes it to risk factors and uncertainties brought about by the changing environment. In addition, the Group has to manage risks that arise from its operations. Thus, a need to identify and systematically manage risks. The systematic approach required for risk management calls for a framework that ensures that risks are identified on time, evaluated in terms of risk appetite of the Group and effective management and monitoring.

Uncertainty provides both risk and opportunity with a potential to erode or enhance value. The challenge for the management is to determine acceptable limits of such uncertainty. A carefully-designed risk management framework facilitates striking of a balance between risk and rewards in the context of the Group's risk appetite.

While the Group remains committed to increasing shareholder value by developing and growing our business within the Board-determined risk appetite, the Group is committed towards achieving this objective in line with the interests of all stakeholders.

Risk Management Framework

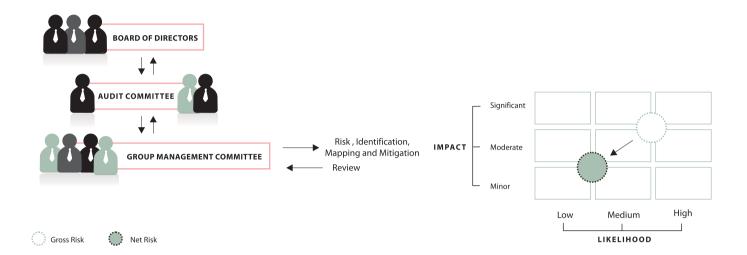
The effective risk management within the Group underpins the achievement of Group's objectives and sustained growth.

The Board is primarily responsible for ensuring that the risks are identified and appropriately managed across the Group. The Audit Committee has been delegated the responsibility for reviewing the effectiveness of the Group's Risk Management Framework, including the systems established to identify, assess, manage and monitor risks.

The Group Management Committee (GMC) is responsible for the identification of risks that the Group is exposed to and monitoring the risks identified. The GMC examines processes and events that expose the Company into situations that could seriously reduce earnings, impair its liquidity position and create legal, regulatory or reputation risks. The GMC also evaluates options available to mitigate risks and to identify risks that do not match the risk appetite of the Group.

All assessments of risk take in to account the likelihood of an event and its potential impact on the business. Impacts are quantified or assessed in terms of potential loss or damage. Risks are assessed both as gross risk and net risk. The assessment of gross risk involve the potential harm that a risk can cause without mitigating actions, whereas net risk assessment considers potential harm or loss after mitigating action is taken. Risks and their corresponding mitigating action plans are reviewed by the GMC.

RISK MANAGEMENT STRUCTURE AND PROCESS



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 forecasts.

 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.
- The risk exposure is identified at two different levels. Initially, the gross risk, where the exposure is looked at prior to mitigating actions. Secondly, the exposure is looked at after the planned mitigating actions, which is called the net risk.

Risk management action matrix: Upon identification of the likelihood and the impact of the risk, the following risk management action matrix is used to decide on further actions to be taken. The actions included in the matrix provide an indication of the intensity and frequency of managing/monitoring the relevant risks.

RISK MANAGEMENT ACTION MATRIX



LIKELIHOOD

Credit Risk

Description

Company extends credit facilities to customers during the course of business.

Potential Impact

What we are doing to manage it?

Poor credit management would lead to bad debts.



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.

	2010/11	2009/10	2008/09
Likelihood of Occurrence	M	M	M
Impact	M	M	

Obsolescence of Inventory

Description

Inventory items run the risk of being obsolete due to slow moving.

Potential Impact

What we are doing to manage it?

Obsolete inventory items affect profitability.



Effective inventory management processes have been employed for inventory ordering including approvals and periodic review of inventory positions by senior management, Age analysis of inventories is reviewed periodically with a view to taking special action against slow moving inventory. Timely action reduces the risk of obsolete inventory.

	2010/11	2009/10	2008/09
Likelihood of Occurrence	M	M	M
Impact	L	L	L

Fraud & Error

Description

The company is exposed to the risk of Fraud & Error.

Potential Impact

What we are doing to manage it?

Material fraud/misappropriation of funds would lead to losses.



Appropriate internal controls have been installed with a view to minimising fraud and error. A continuous internal audit is carried out by a firm of chartered accountants in order to verify the effective functioning of the internal controls and their adequacy. The internal audit findings are discussed at the Group Management Committee meetings and the Audit Committee meetings. The corporate governance report appearing on pages 84 to 116 provides more information on internal controls and the internal audit function.

2010/11	2009/10	2008/09
М	М	М
М	М	М
	М	M M

Information Technology/Data Security Risk

Description

The Company is heavily dependent on the IT systems as most of the processes are IT driven. The databases carry sensitive data of the business which should not be accessible to unauthorised personnel.

Potential Impact

Breach of information security could cause losses to the Company. Failure to manage the IT systems could result in a loss of critical business information. Such a situation may impact the Group's ability to fulfill its contractual obligations.



What we are doing to manage it?

The Company employs various measures such as regular back up of data to guard against data losses. Regular maintenance of our equipment ensures that the risk of system failure is minimised. Off-site storage of data backup is another measure taken to minimise risk. The Company has in place a disaster recovery plan as part of its information system management. Further, the Group has developed and rolled out formal information security standards. Significant investments have been made towards protecting the IT system from failures and security breaches.

	2010/11	2009/10	2008/09
Likelihood of Occurrence	М	L	L
Impact	S	S	S

ENTERPRISE RISK MANAGEMENT

Relationship with Principals

Description

The Company's main suppliers are foreign principals and an unhindered relationship is a key factor for mutual business growth.

Potential Impact

Disruptions to business relationships with principals could have negative effects on the performance and growth.



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 endeavor to ensure that requirements of principals and targets are met. Further, principals' evaluations are carried out periodically, with a view to ensuring their satisfaction. 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. A detailed account of our relationships with principals is given from pages 56 to 59.

	2010/11	2009/10	2008/09
Likelihood of Occurrence	L	L	L
Impact	S	S	S

Composition of Product Portfolio

Description

The vehicle and vehicle parts/services segments account for a significant share of the total portfolio. Changes to the fiscal policies namely: import tariff, global/local environmental standards have an impact on the local market.

Potential Impact

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 adopting a policy of gradually strengthening of businesses in the areas of marketing & distribution and in providing engineering solutions in power, water, building technologies and healthcare sectors.

	2010/11	2009/10	2008/09
Likelihood of Occurrence	H	L	L
Impact	S	S	S

Foreign Exchange Rate Fluctuations

Description

This risk arises from exposure to foreign currency positions.

Potential Impact

Losses can arise when foreign currency assets and liabilities are translated into local currency as at the balance sheet date or when transactions are carried out in foreign currency.



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 portfolio and losses that arose from foreign exchange rate fluctuations have been appropriately accounted for in the income statements.

	2010/11	2009/10	2008/09
Likelihood of Occurrence	L	Н	Н
Impact	M	М	Μ

Interest Rate Risk

Description

The Group is sensitive to interest rate changes.

Potential Impact

Increase in interest rates could impact demand for vehicles due to high cost of financing and at the same time increase the cost of borrowings of the Company 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 prudent treasury management are some of the measures taken by the Company in order to mitigate the impact. The Group finances itself through a combination of fixed and floating rate debt obligations. The treasury function makes every endeavour to constantly negotiate with banks in order to obtain favourable terms of borrowing.

	2010/11	2009/10	2008/09
Likelihood of Occurrence	L	М	М
Impact	S	S	S

ENTERPRISE RISK MANAGEMENT

Human Resources

Description

Company's Human resources are the most important asset as it is the backbone of the business, holding the company together. Therefore, the success of the Group depends on its ability to recruit and retain senior management and other key employees.

Potential Impact

Failure to recruit and retain appropriately skilled employees could adversely impact on the Group's ability to compete and grow.



What we are doing to manage it?

Reviews are undertaken to examine the role, competencies, performance level and potential of key personnel. In addition, the Group has a succession planning process in place to identify and develop high potential/caliber personnel to fill key roles. Appropriate remuneration and incentive packages are in place to attract and retain key employees. Monthly meetings of the employees 'council provide a forum to discuss employee concerns and help the management to respond and address them adequately. Regular training is provided to our employees to motivate them and also to expose them to state-of-the-art technology. More details on the Company's human resource is available from pages 47 to 55.

	2010/11	2009/10	2008/09
Likelihood of Occurrence	L	L	L
Impact	S	S	S

Sustainability Associated Risks

Description

Lack of corporate social responsibility would lead to stakeholders' non-acceptance of the Company as a responsible corporate citizen

Potential Impact

Non-acceptance of the Company as a responsible corporate citizen can lead to loss of confidence on the Company and consequently loss of business opportunities in the short term and long term, as well as depletion of the Company's image.



The Company follows a comprehensive framework on sustainability that is embedded in to its corporate strategy. Sustainability is a part of the decision making process in day to day operations & strategy formulation. The Company follows GRI guidelines on sustainability reporting. The GRI index is available on page 223 to 231.

	2010/11	2009/10	2008/09
Likelihood of Occurrence	L	L	L
Impact	M	M	M



Natural Disasters

Description

Damages from fire and floods have been identified as key disaster-related risks that the Company is exposed to.

Potential Impact

Disaster-related risks are situations that could cause losses and can adversely affect the continued operation of the business.

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.

	2010/11	2009/10	2008/09
Likelihood of Occurrence	L	L	L
Impact	S	S	S

Liquidity Risk

Description

The Group has to be liquid and solvent to carry out its operations smoothly.

Potential Impact

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 finance and treasury functions ensure that banking facilities are in place to cover its forecasted cash needs for at least a period of twelve months. The Group maintains a desired mixture of cash and cash equivalents to meet the cash requirements for Group's operational and trading activities. As at 31st March 2011, the Group had Rs. 1,801.4 mn in cash and cash equivalents.

	2010/11	2009/10	2008/09
Likelihood of Occurrence Impact	L	H	H
ППРАСС	3	3	3

ENTERPRISE RISK MANAGEMENT

Customer Relationships

Description

As a profit making entity, customers are sovereign to the Company. Maintaining positive relationships with customers is vital.

Potential Impact

Loss of customers or unhappy customers may result a financial loss to the Company. Such a situation could affect turnover and hinder the ability to acquire new customers.



What we are doing to manage it?

The Company's customer relationship management process helps to respond effectively and efficiently to customer complaints. The Company is constantly upgrading its level of aftercare and employees are periodically trained in this regard. Company promotes customer loyalty through a number of innovative schemes. Customer satisfaction levels are checked on an ongoing basis and indexes relating to customer satisfaction are reviewed periodically. The Group's quality management system has the ISO 9001: 2008 accreditation. A detailed report on the customers is available pages 33 to 46.

	2010/11	2009/10	2008/09
Likelihood of Occurrence	M	M	M
Impact	S	S	S

Industry Trends Risk

Description

Industry risks arise from sudden changes in the industry. These could be driven by new trends, entry of new/alternative products into the market. Legislation and tariff also can cause sudden changes to the industry.

Potential Impact

Loss of sales due to sudden changes in the industry would result in financial losses. A situation of continued loss of sales can result under utilisation of resources allocated.



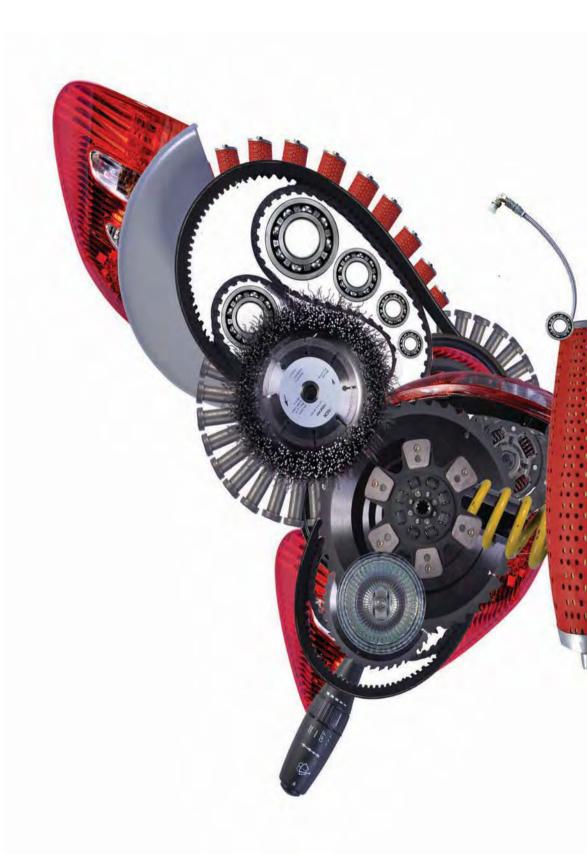
What we are doing to manage it?

With a view to minimising this risk, the Company closely monitors developments in its business domain, including competitor strategies. 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 constant technological innovations achieved by them, allowing the Company to offer superior products to the market with the strongly-positioned Dimo brand.

	2010/11	2009/10	2008/09
Likelihood of Occurrence	М	L	L
Impact	S	S	S

Early Warning Alarm System The Company has developed an early warning system. The following diagram depicts the warning indicators relied upon:

Key Risks	Early Warning Indicators
Credit Risk	Provision for Bad Debts-trend Average Debt Collection period-Business Unit-wise
Obsolescence of Inventory	Provision for slow moving inventory - trend Stock Holding Period-Business Unit-wise
Fraud & errors Information Technology/ Data Security Risk	Reported acts of fraud and error Record of failures in the IT system Security breaches.
Relationship with Principals	Principal's satisfaction Index Revenue trends by each principal Market Share (Percentage) Actual Sales Vs Budget
Composition of Product Portfolio	Segmental Information
Foreign Exchange Rate Risk	Foreign Exchange fluctuation-trends
Interest Rate Risk	Movement in Treasury Bill rates, Market Liquidity
Human Resource	Staff Turnover Ratio(Business Unite wise) Employees Satisfaction Index
Sustainability Associated Risks	Different indicators as set out in the management report and the GRI Index
Natural Disasters	Media announcements, Weather forecasts
Liquidity	Current ratio Quick assets ratio Unutilised banking facilities Cash and cash equivalents
Customer Relationship	Customer Satisfaction Index Repeat Customer Ratio Customer Complaints reports
Industry Trends	Industry performance reports Economic indicators





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FINANCIAL REPORTS

The Financial Reports that follow are prepared and presented in accordance with Sri Lanka Accounting Standards and also comply with the requirements of the Companies Act No. 07 of 2007.

FINANCIAL CALENDAR

Interim Financial Statements

Three months ended 30th June 2010 - 12th August 2010
Six months ended 30th September 2010 - 11th November 2010
Nine months ended 31st December 2010 - 9th February 2011
Twelve months ended 31st March 2011 - 12th May 2011

Dividends

1st Interim Dividend paid for 2010/11 - 2nd December 2010 2nd Interim Dividend paid for 2010/11 - 3rd March 2011 Final Dividend for 2010/11 - 9th June 2011

Annual Report - Financial year ended 31st March 2011 - **7th June 2011** 66th Annual General Meeting - **30th June 2011**

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 Group Financial Statements for the year ended 31st March 2011.

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 & sale of vehicle spares, components, accessories and lighting products.

There was no significant change in the nature of business of the Company or its subsidiaries 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 208.

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 Letter (pages 08 to 11), Financial Value Creations (pages 18 to 32), Management Report and in the section identified as 'This is Dimo' (inner front cover). These reports together with the Audited Financial Statements reflect the state of affairs of the Company and the Group.

Financial Statements

The Financial Statements of the Company and the Group appearing on pages 154 to 197 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 2011 certified by the General Manager - Finance and Controlling that they conform to the requirements of the Companies Act No. 07 of 2007, and duly signed by the Chairman and the Chief Financial Officer, are given on page 155, which form an integral part of the Annual Report of the Directors.

Auditors' Report

The Financial Statements for the year ended 31st March 2011 have been audited by Messrs KPMG Ford, Rhodes, Thronton & Co. (Chartered Accountants) and their Report is given on page 153.

Significant Accounting Policies

The Significant Accounting Policies adopted in the preparation of Financial Statements are given on pages 159 to 173 of the Annual Report.

There were no material changes in the Accounting Policies adopted with that of last year.

Impairment Assessment

The Board of Directors has evaluated impairment loss in relation to property, plant & equipment, intangible assets and long-term investments. Based on the assessment, Rs. 15 mn impairment loss had been recognised in relation to investment in Dimo Industries (Pvt) Ltd. and details are given in Note 19 to the Financial Statements.

Directorate

List of Directors

As at 31st March 2011, the Board of Directors of Diesel & Motor Engineering PLC consisted of eleven members. Qualifications and experience of the Directors are given on pages 122 and 125 of this Annual Report.

Following were the Directors of the Company at the end of the financial year:

- A.R. Pandithage (Chairman, Managing Director and 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)
- Prof. 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 2011.

Mr. A.N. Algama, Mr. A.M. Pandithage, Mr. T.G.H. Peries and Mr. R. Seevaratnam retired by rotation in 2009/10 and were reappointed to the Board in accordance with the Articles by re-election at the Annual General Meeting during the year.

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

Directors' Responsibilities for the 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 151 of this Annual Report.

Directors' Shareholdings

The Directors and their close family members held 3,563,299 (2009/10 - 3,650,719) ordinary shares of the Company, which amounts to 40.95% (2009/10 - 41.95%) of the ordinary shares issued as at 31st March 2011.

The shareholdings of Directors and their close family members as at 31st March 2011 are as follows:

As at 31st March	2011 Shareholding - No. of Shares			2010 Shareholding - No. of Shares				
	Director	Spouse & Children under 18	Total	Director	Spouse & Children under 18	Tota		
A.R. Pandithage	971,798	910,297	1,882,095	971,798	910,297	1,882,095		
A.N. Algama	258,372	-	258,372	261,872	-	261,872		
A.M. Pandithage	178,745	41,033	219,778	178,745	41,033	219,778		
A.G. Pandithage	515,505	44,165	559,670	515,505	44,165	559,670		
S.C. Algama	392,278	6,856	399,134	392,278	6,856	399,134		
T.G.H. Peries	189,284	54,966	244,250	191,284	136,886	328,170		
	2,505,982	1,057,317	3,563,299	2,511,482	1,139,237	3,650,719		

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 Annex to the Annual Report of the Board of Directors on page 149.

• Acquisition/Disposal of Shares by Directors

- (a) 3,500 shares were disposed by Mr. A.N. Algama during the year.
- (b) 2,000 shares were disposed by Mr. T.G.H. Peries during the year.

• Directors' Remuneration

Directors' remuneration in respect of the Group and the Company are given on Note 11.1 to the Financial Statements on page 177.

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 transactions 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 which comprise Board meetings, Audit Committee meetings, Nomination Committee meetings and Remuneration Committee meetings and the attendance of Directors at these meetings are given on page 113.

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 Enterprise Risk Management Report is available on pages 128 to 137.

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 118 to 121 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. 1.746 mn for the year ended 31st March 2011 (2009/10 - 1.753 mn) as audit fees by the Group. In addition, Auditors were paid Rs. 0.262 mn (2009/10 - Rs. 0.164 mn) for audit-related services and Rs. 2.469 mn (2009/10 - Rs. 2.990 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. 28,662 mn in 2010/11 (2009/10 - Rs. 9,557 mn). The Group turnover for 2010/11 is Rs. 29,357 mn (2009/10 - Rs. 10,531 mn).

Segment turnover and other segment information are available on pages 174 and 175.

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 and promote use of initiative and 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 1,019 (2009/10 - 864).

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. 9.47 mn (2009/10 - Rs. 14.76 mn).

Quality

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

Operational Results and Dividends of the Group

	2010/11 Rs. '000	2009/10 Rs. '000
Turnover		
Gross Turnover	29,357,271	10,530,587
Profit		
After making provision for bad and doubtful debts and all known liabilities and after charging a sum of Rs. 93.10 mn (2009/10 - Rs. 44.25 mn) for Depreciation of		
property, plant & equipment the profit made by the Group before tax was	3,395,980	420,095
Income tax expense	(1,274,228)	(141,842)
Group profit after taxation from continuing operations	2,121,752	278,253
Loss from discontinued operations	_	(29,956)
Group profit after taxation	2,121,752	248,297
Retained earnings brought forward	563,526	367,443
Appropriations		
Dividend paid	(121,833)	(52,214)
Transfers to general reserve	350,000	_
Available for appropriation	2,213,445	563,526

Dividends on Ordinary Shares

Two interim dividends of Rs. 5/- per share each were paid during the year 2010/11 (2009/10 interim dividend of Rs. 3 per share). Information on dividends is given in Note 15 to the Financial Statement on page 181.

The Directors approved a final dividend of Rs. 51/- per share (of which Rs. 23.10 per share is in the form of cash and Rs. 27.90 per share is in the form of scrip dividend) payable to the shareholders of the Company for the year ended 31st March 2011 (2009/10 Final cash dividend of Rs. 4/- per share).

The number of shares to be issued is 174,048 at a price of Rs. 1,395/- per share.

As required by Section 56 (2) of the Companies Act No. 07 of 2007, the Board of Directors determined that the Company has satisfied the solvency test in accordance with Section 57 of the Companies Act and obtained a certificate from the External Auditors for the same.

Income Tax

The income tax rate that was applicable to all companies in the Group for the financial year was 35%. Tax on export profit was 15%. The Government has announced a reduction in income tax rate to 28% with effect from 1st April 2011. It is the Group's policy to provide for deferred taxation on all known temporary differences.

Statutory Payments

The 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. 22.42 mn (2009/10 - Rs. 1.17 mn).

Property, Plant & Equipment

Group expenditure on property, plant & equipment during the year amounted to Rs. 1,082 mn (2009/10 - Rs. 37 mn). Information relating to movement in property, plant & equipment is given in Note 16 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 Note 16.a to the Financial Statements on page 183.

Group Investment/Divestment

There were no new equity investments made during the year.

During the accounting year under review, the Company has disposed the investments in Browns Dimo Industrial Products (Pvt) Ltd. and Dimo KLN Industries (Pvt) Ltd.

Changes to Business Operation

During the year, tire retreading business of the Dimo Industries (Pvt) Ltd. was transferred to the Diesel & Motor Engineering PLC.

Stated Capital

The stated capital of the Company as at 31st March 2011 was Rs. 182.5 mn (2009/10 - Rs. 182.5 mn). The number of shares in issue as at 31st March 2011 was Rs. 8.702.389 (2009/10 - 8.702.389).

Reserves

The total reserves as at 31st March 2011 stand at Rs. 4,018. mn (2009/10 - Rs. 2,018 mn), comprising capital reserves of Rs. 1,135.6 mn (2009/10 - Rs. 1,135.6 mn) and revenue reserves of Rs. 2,882.7 mn (2009/10 - Rs. 882.8 mn). The movement in reserves during the year is set out in the Statement of Changes in Equity on page 156.

Share Information

Information relating to shareholding, earnings and net assets per share, market value of shares, dividends and share trading are available on pages 201 to 205.

Shareholdings

There were 1,555 registered shareholders as at 31st March 2011. The percentage of shares held by the public as at 31st March 2011 was 49.72% of the issued shares. The twenty major shareholders as at 31st March 2011 and the number of shares held and their percentage shareholdings are given on page 203.

Equitable Treatment to Shareholders

The Company 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 in consultation with 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 197 Note 36.3 to the Financial Statements.

Events Occurring after the Balance Sheet Date

There were no material events that occurred subsequent to the date of the Balance Sheet, which require adjustments to or disclosure in the Financial Statements, except event is stated in Note 37 to the Financial Statements.

Contingencies and Commitments

Information on contingent liabilities and capital commitments as at 31st March 2011 is given in Note 36 to the Financial Statements.

Going Concern

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

Annual General Meeting

The Annual General Meeting will be held at the Registered Office of the Company, No. 65, Jetawana Road, Colombo 14 on 30th June 2011. The Notice of Annual General Meeting is given on page 234.

By order of the Board of Directors,

A.R. Pandithage

Chairman, Managing Director & Chief Executive Officer

R.C. Weerawardane

Director

B.C.S.A.P. Gooneratne

Secretary

Colombo

3rd June 2011

ANNEX 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.
Relationship	Subsidiary	Subsidiary	Subsidiary
Name of the Director			
Mr. A.R. Pandithage	✓	✓	✓
Mr. A.G. Pandithage	✓	✓	_
Mr. S.C. Algama	✓	✓	✓
Mr. B.C.S.A.P. Gooneratne	✓	✓	_
Mr. R.C. Weerawardane	✓	✓	_

Directors Interest in Contracts with the Company

The Company carries out transactions in the ordinary course of business at commercial rates with entities in which a Director of the Company is the Chairman or Director of such entities. The transactions with entities where a Director of the Company either has control or exercise significant influence, have been classified as related party transactions and are disclosed in Note 35 to these Financial Statements.

The transactions with entities where a Director of the Company neither have control nor exercise significant influence, but only hold directorship are disclosed below:

Business Transactions with other related entities by the Group

Name of the Company	Name of the Director	Nature of Transaction	Value (Rs.)
Ceylon Cold Stores PLC	Prof. U.P. Liyanage	Sales of Tyres, Spare Parts and Lighting Products	4,787,058
Dipped Products PLC	Mr. R. Seevaratnam	Repairing Forklifts	432,351
Hayleys Advantis Ltd.	Mr. R. Seevaratnam	Repairing and Servicing of Vehicles	783,639
Hatton National Bank PLC	Mr. R. Seevaratnam	Repairing and Servicing of Vehicles	543,632
Chemanex PLC	Prof. U.P. Liyanage	Repairing and Servicing of Forklifts	160,440

ANNEX TO THE ANNUAL REPORT OF THE BOARD OF DIRECTORS

Name of the Company	Name of the Director	Nature of Transaction	Value (Rs.)
Acme Packing Solutions (Pvt) Ltd.	Mr. R. Seevaratnam	Repairing and Servicing of Forklifts	10,273
Acme Printing & Packaging PLC	Mr. R. Seevaratnam	Repairing and Servicing of Forklifts	67,458
Haycarb Ltd.	Mr. R. Seevaratnam	Repairing and Servicing of Forklifts	12,790
Hayleys MGT Knitting Mills PLC	Mr. R. Seevaratnam	Repairing and Servicing of Forklifts	502,436
Kelani Valley Plantations Ltd.	Mr. R. Seevaratnam	Sales of Spare Parts, Repairing, Servicing of Vehicles and Forklifts	1,224,390
Metecno Lanka (Pvt) Ltd.	Mr. R. Seevaratnam	Sales of Power Tools	52,546
Nestlé Lanka PLC	Mr. R. Seevaratnam	Sales of Forklifts, Repairing and Servicing of Forklifts	24,350,315
Tokyo Super Cement Company Lanka (Pvt) Ltd.	Mr. R. Seevaratnam	Sales of Power Tools, Repairing and Servicing of Forklifts	3,625,040
Talawakelle Tea Estates PLC	Prof. U.P. Liyanage	Purchases of Gift Packs	20,520

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE 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 this Statement. As per the provisions 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 a true and fair view of the state of affairs of the Company and its Subsidiary as at the end of the financial year and which complies with the requirements of the Companies Act No. 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. Virtually in all circumstances, a fair presentation will be achieved by compliance with all applicable Sri Lanka Accounting Standards.

The Directors also have to ensure that:

- Appropriate Accounting Policies have been used in a consistent manner;
- Where necessary, prudent judgments and estimates have been made;
- Requirements of the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 have been followed;
- Requirements of the Listing Rules of the Colombo Stock Exchange are complied with.

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 to enable them to form their audit opinion.

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS

The responsibility of the Auditors in relation to the Financial Statements appears in the Report of the Auditors on page 153.

Messrs KPMG Ford, Rhodes, Thornton & Co., the Auditors of the Company have examined the Financial Statements and the related records and information. Their opinion on Financial Statements is given on page 153.

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 the Financial Statements.

By Order of the Board,

B.C.S.A.P. Gooneratne

Secretary

Colombo 3rd June 2011

INDEPENDENT AUDITORS' REPORT



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

Tel : +94 - 11 242 6426 +94 - 11 542 6426 Fax : +94 - 11 244 5872 +94 - 11 244 6058 +94 - 11 254 1249 +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 Company"), the consolidated financial statements of the Company and its subsidiary as at March 31, 2011 which comprise the balance sheet as at March 31, 2011, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 154 to 197 of this 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

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended March 31, 2011 and the financial statements give a true and fair view of the Company's state of affairs as at March 31, 2011 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs as at March 31, 2011 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 shareholders of the Company.

Report on Other Legal and Regulatory Requirements

Ford Rhoole Thoram & Co

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

03rd June 2011 Colombo

> 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 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 FCA S.T.D.L. Perera FCA Ms. M.P. Perera FCA T.J.S. Rajakarier FCA Ms. S.M.B. Jayasekara ACA G.A.U. Karunaratne ACA

Principals - S.R.I. Perera ACMA, LLB, Attorney-at-Law, H.S. Goonewardene ACA

INCOME STATEMENT

		(Group		Co	mpany	
For the year ended 31st March	Note	2011 Rs. '000	2010 Rs. '000	Change %	2011 Rs. '000	2010 Rs. '000	Change %
Continuing Operations							
Gross turnover	8	29,357,271	10,530,587	179	28,662,124	9,556,752	200
Sales taxes		(326,931)	(115,646)	183	(312,317)	(103,143)	203
Net turnover		29,030,340	10,414,941	179	28,349,807	9,453,609	200
Cost of sales		(23,061,237)	(8,028,818)	187	(22,608,804)	(7,362,013)	207
Gross profit		5,969,103	2,386,123	150	5,741,003	2,091,596	174
Other income	9	48,881	44,345	10	64,883	32,286	101
Distribution expenses		(388,723)	(336,692)	15	(344,677)	(295,977)	16
Administrative expenses		(2,025,607)	(1,316,070)	54	(1,885,340)	(1,174,114)	6
Results from operating activities		3,603,654	777,706	363	3,575,869	653,791	447
Finance income	10	95,407	1,207	7,804	93,866	538	17,347
Finance expenses	10	(303,081)	(367,054)	(17)	(301,050)	(348,014)	(13
Net finance cost		(207,674)	(365,847)	(43)	(207,184)	(347,476)	(40
Share of profit of equity accounted investee - net of income tax		-	8,236	(100)	_	-	
Profit before income tax	11	3,395,980	420,095	708	3,368,685	306,315	1,000
Income tax expense	12	(1,274,228)	(141,842)	798	(1,264,780)	(117,113)	980
Profit for the year from continuing operations		2,121,752	278,253	663	2,103,905	189,202	1,012
Discontinued Operations							
Loss from discontinued operations (net of income tax)	13	-	(29,956)		_	_	
Profit for the year attributable to equity holders of the Company		2,121,752	248,297		2,103,905	189,202	
Earnings per Share							
Basic earnings per share - (Rs.)	14	239.03	27.97		237.02	21.31	
Diluted earnings per share - (Rs.)	14	239.03	27.97		237.02	21.31	
Earnings per Share - Continuing Operations							
Basic earnings per share - (Rs.)		239.03	31.34		237.02	21.31	
Diluted earnings per share - (Rs.)		239.03	31.34		237.02	21.31	
Dividend per share - (Rs.)	15				61.00	7.00	

Figures in brackets indicate deductions.

BALANCE SHEET

		(Froup	Co	ompany
As at 31st March	Note	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	201 Rs. '00
Assets					
Non-Current Assets					
Property, plant & equipment	16	3,060,039	2,137,747	3,026,027	2,079,62
Leasehold property	17	37,756	1,360	37,756	1,36
Intangible assets	18	702	1,345	702	1,34
Investment in subsidiaries	19		_	8,350	23,35
Other long-term investments	20	1,012	1,012	1,005	1,00
Deferred tax assets	29	_	7,941		-
Total non-current assets		3,099,509	2,149,405	3,073,840	2,106,68
Current Assets					
Inventories	21	2,640,498	1,316,374	2,419,515	1,236,75
Trade and other receivables	22	3,328,428	1,988,142	3,255,689	1,787,43
Current tax assets	33	7,983	10,251	-	10,18
Amounts due from subsidiaries	35	-	- 25 461	-	23,26
Cash and cash equivalents	23	1,871,046	35,461	1,801,370	27,76
Assets classified as held for sale	24		38,795		6,75
Total current assets		7,847,955	3,389,023	7,476,574	3,092,15
Total assets		10,947,464	5,538,428	10,550,414	5,198,83
Equity and Liabilities					
Equity					
Stated capital	25	182,500	182,500	182,500	182,50
Capital reserve	26	1,135,612	1,135,612	1,135,612	1,135,61
Revenue reserves	27	2,882,735	882,816	2,634,751	652,67
Total equity attributable to the equity holders of the Company		4,200,847	2,200,928	3,952,863	1,970,79
Non-Current Liabilities					
Retirement benefit obligations	28	182,327	142,138	173,713	132,60
Deferred tax liabilities	29	58,157	36,078	57,155	36,07
Interest bearing borrowings	30	316,830	502,729	316,830	502,72
Deferred income	31	7,977	11,775	7,976	11,23
Total non-current liabilities		565,291	692,720	555,674	682,65
Current Liabilities					
Trade and other payables	32	2,422,220	1,159,629	2,181,728	1,074,87
Current portion of long-term interest bearing borrowings	30	93,015	162,354	93,015	162,35
Current tax liability	33	1,007,470	15,555	1,006,205	
Amount due to subsidiaries	35	-	-	113,705	37,25
Short-term interest bearing borrowings	34	2,658,621	1,301,516	2,647,224	1,270,91
Liabilities classified as held for sale	24	_	5,726	_	_
		6 101 226	2,644,780	6,041,877	2,545,39
Total current liabilities		0,101,320			
Total current liabilities Total liabilities		6,746,617	3,337,500	6,597,551	3,228,04

It is certified that the Financial Statements as set out on pages 154 to 197 have been prepared in accordance with the requirements of the Companies Act No. 07 of 2007 and give a true and fair view of the state of affairs of Diesel and Motor Engineering PLC and the Group as at 31st March 2011 and the profit for the year ended.



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

Sandelle

B.C.S.A.P. Gooneratne

Director

3rd June 2011 Colombo

Figures in brackets indicate deductions.

STATEMENT OF CHANGES IN EQUITY

				Reveni	ue Reserves	
		Stated	Capital	General	Retained	Tota
		Capital	Reserve	Reserve	Earnings	
Group	Note	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 1st April 2009		182,500	1,135,612	319,290	367,443	2,004,84
Dividends to shareholders -						
2008/09 - final		-	_	-	(26,107)	(26,10
2009/10 - interim		-	_	-	(26,107)	(26,10
Profit for the year		_	_	-	248,297	248,29
Balance as at 31st March 2010		182,500	1,135,612	319,290	563,526	2,200,928
Dividends to shareholders -						
2009/10 - final	15	_	-	_	(34,809)	(34,809
2010/11 - 01st interim	15	_	-	_	(43,512)	(43,512
2010/11 - 02nd interim	15	_	-	_	(43,512)	(43,51)
Transfer to general reserve		-	-	350,000	(350,000)	-
Profit for the year		_	_	-	2,121,752	2,121,75
Balance as at 31st March 2011		182,500	1,135,612	669,290	2,213,445	4,200,84

	Revenue Reserves								
		Stated Capital	Capital Reserve	General Reserve	Retained Earnings	Tota			
Company	Note	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000			
Balance as at 1st April 2009		182,500	1,135,612	229,464	286,227	1,833,803			
Dividends to shareholders -		_	-	-					
2008/09 - final		_	-	-	(26,107)	(26,10			
2009/10 - interim	15	-	-	-	(26,107)	(26,10			
Profit for the year		_	-	_	189,202	189,20			
Balance as at 31st March 2010		182,500	1,135,612	229,464	423,215	1,970,79			
Dividends to shareholders -									
2009/10 - final	15	-	-	-	(34,809)	(34,80			
2010/11 - 01st interim	15	-	-	-	(43,512)	(43,51			
2010/11 - 02nd interim	15	-	-	-	(43,512)	(43,51			
Transfer to general reserve		-	-	350,000	(350,000)	-			
Profit for the year		-	-	-	2,103,905	2,103,90			
Balance as at 31st March 2011		182,500	1,135,612	579,464	2,055,287	3,952,863			

Figures in brackets indicate deductions.

CASH FLOW STATEMENT

		G	iroup	Cor	mpany
For the year ended 31st March	Note	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Profit before taxation from continuing operations		3,395,980	420,095	3,368,685	306,315
oss before taxation from discontinued operations		-	(32,427)	-	_
Profit before taxation		3,395,980	387,668	3,368,685	306,315
Adjustments for					
Depreciation for property, plant & equipment	16	93,100	94,252	85,853	86,459
Amortisation of intangible assets and leasehold lands	17/18	1,785	782	1,785	782
Amortisation of net deferred income	31	(3,798)	(5,261)	(3,263)	(5,261
mpairment of property, plant & equipment		_	(5,959)	_	(6,594
mpairment loss on investment in subsidiary	19	_	_	15,000	_
(Profit)/loss on disposal of property, plant & equipment	9	(2,627)	2,366	(3,312)	4,211
nterest expenses	10	303,081	367,054	301,050	348,014
nterest income	10	(74,094)	(1,163)	(73,671)	(538
Dividend income	9	(139)	(101)	(13,638)	(3,475
Provision/(reversal) for bad and doubtful debts	22	1,413	115,662	(8,537)	90,826
Provision/(reversal) for obsolete stocks	21	(6,738)	46,704	7,782	30,979
Provision for retirement benefit obligations	28	57,667	28,224	55,951	25,108
Profit from disposal of equity accounted investee	9.1	(5,431)	_	(31,750)	_
Share of profit of equity accounted investee		_	(8,236)	_	_
Operating profit before working capital changes		3,760,199	1,021,992	3,701,935	876,826
(Increase)/decrease in inventory		(1,317,247)	(33,230)	(1,190,536)	(27,557
(Increase)/decrease in trade and other receivables		(1,341,698)	(446,696)	(1,459,723)	(421,007
(Increase)/decrease in amounts due from subsidiaries		-	-	23,265	49,497
ncrease/(decrease) in trade creditors and other payables		1,262,591	792,527	1,106,851	765,520
ncrease/(decrease) in amounts due to subsidiaries		-	-	76,454	36,876
Cash generated from operating activities		2,363,845	1,334,593	2,258,246	1,280,155
nterest paid		(302,494)	(364,453)	(300,463)	(353,514
Gratuity paid	28	(17,478)	(11,247)	(14,845)	(9,638
ncome tax paid	33	(250,025)	(112,060)	(227,315)	(98,166
Cash generated from operations		1,793,848	846,833	1,715,623	818,837
nvesting Activities					
Proceeds from disposal of property, plant & equipment		31,723	10,919	5,796	5,894
Proceeds from disposal of investment in equity accounted investee	9.1	38,500	. 0,5 . 5	38,500	3,33
Dividends received	9.1	139	101	13,638	- 3,475
nterest received	10	74,094	1,163	73,671	538
Acquisition and construction of property, plant & equipment	10	/ 1 ,034	1,103	73,071	230
requisition and construction of property, plant & equipment		((26.450)	(4.000.00)	(22.400
and leasehold property	16/17	(1,082,166)	(36,458)	(1,072,279)	(32,490

CASH FLOW STATEMENT

		(Group	Co	mpany
For the year ended 31st March	Note	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Financing Activities					
Repayment of long-term loans	30.1	(254,126)	(235,993)	(254,126)	(235,993
Dividends paid		(121,833)	(52,214)	(121,833)	(52,214
Repayment of finance lease obligations with interest	30.4	(1,699)	(7,678)	(1,699)	(7,678
Net cash flows used in financing activities		(377,658)	(295,885)	(377,658)	(295,885
Net increase in cash and cash equivalents		478,480	526,673	397,291	500,369
Cash and cash equivalents at the beginning of the year		(1,266,055)	(1,792,728)	(1,243,145)	(1,743,514
Cash and cash equivalents at the end of the year (Note A)		(787,575)	(1,266,055)	(845,854)	(1,243,145
Note A					
Analysis of Cash and Cash Equivalents					
Cash and bank balances	23	1,871,046	35,461	1,801,370	27,765
Short-term interest bearing loans and borrowings	34	(2,658,621)	(1,301,516)	(2,647,224)	(1,270,910
Cash and cash equivalents		(787,575)	(1,266,055)	(845,854)	(1,243,145

Figures in brackets indicate deductions.

1. Corporate Information

Reporting Entity

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

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

Group Financial Statements

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

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

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

1.1 Principal Activities and Nature of Operations

1.1.1 The Company

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

1.1.2 Subsidiaries

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

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

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

1.2 Approval of Financial Statements by the Board of Directors

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

1.3 Responsibilities for the Financial Statements

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

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

The Financial Statements include the following components:

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

2. Basis of Preparation

2.1 Statement of Compliance

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

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

2.2 Basis of Measurement

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

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

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

2.3 Functional and Presentation Currency

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

2.4 Significant Accounting Judgments, Estimates and Assumptions

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

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

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

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

2.5 Materiality and Aggregation

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

2.6 Offsetting

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

2.7 Rounding

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

2.8 Comparative Information

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

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

3. Significant Accounting Policies

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

3.1 Basis of Consolidation

3.1.1 Subsidiaries

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

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

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

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

3.1.2 Transactions Eliminated on Consolidation

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

3.1.3 Loss of Control

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

3.2 Foreign Currency Transactions and Balances

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

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

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

3.3 Assets and Bases of their Valuation

3.3.1 Property, Plant & Equipment

3.3.1.1 Recognition and Measurement

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

3.3.1.2 Cost Model

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

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

3.3.1.3 Revaluation Model

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

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

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

3.3.1.4 Leased Assets

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

3.3.1.5 Subsequent Costs

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

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

3.3.1.6 Derecognition

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

3.3.1.7 Depreciation

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

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

Economic useful lives of assets are estimated as follows:

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

3.3.1.8 Capital Work-in-Progress

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

3.3.2 Intangible Assets

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

3.3.2.1 Derecognition of Intangible Assets

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

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

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

3.3.2.2 Subsequent Expenditure

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

3.3.2.3 Amortisation of Intangible Assets

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

3.3.3 Investments

3.3.3.1 Long-Term Investments

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

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

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

3.3.4 Inventories

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

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

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

3.3.5 Trade and Other Receivables

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

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

3.3.6 Cash and Cash Equivalents

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

3.3.7 Investments Treasury Bills

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

3.3.8 Assets Held for Sale

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

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

3.3.9 Leasehold Property

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

3.3.10 Impairment of Assets

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

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

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

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

3.4 Liabilities and Provisions

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

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

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

3.4.1 Employee Retirement Benefits

3.4.1.1 Defined Contribution Plans

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

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

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

3.4.1.2 Defined Benefits Plans - Retiring Gratuity

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

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

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

The liability is not externally funded.

Actuarial Gains and Losses

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

3.4.1.3 Short-Term Benefits

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

3.4.2 Trade and Other Payables

Trade and other payables are stated at their costs.

3.4.3 Capital Commitments and Contingencies

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

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

3.5 Deferred Income

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

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

3.6 Dividend on Ordinary Shares

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

3.7 Income Statement

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

3.7.1 Revenue Recognition

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

(a) Sale of Goods

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

(b) Rendering of Services

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

(c) Service Support Income

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

(d) Rent Income

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

(e) Dividend Income

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

(f) Gains/(Loss) Disposal of Investments

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

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

3.7.2 Expenses

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

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

3.7.3 Operating Leases

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

3.7.4 Borrowing Costs

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

3.7.5 Finance Income and Expenses

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

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

3.7.6 Income Tax Expense

3.7.6. (a) Income Tax

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

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

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

3.7.6 (b) Deferred Taxation

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

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

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

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

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

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

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

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

3.7.6 (d) Value Added Tax (VAT)

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

3.7.6 (e) Social Responsibility Levy (SRL)

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

3.7.6 (f) Nation Building Tax (NBT)

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

3.7.6 (g) Turnover Tax (TT)

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

3.8 Discontinued Operations

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

3.9 Events Occurring after the Balance Sheet Date

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

3.10 Earnings Per Share

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

3.10.1 Basic EPS

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

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

3.10.2 Diluted Earnings Per Share

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

4. Cash Flow Statement

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

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

5. Segment Reporting

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

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

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

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

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

6. Changes to the Accounting Policies

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

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

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

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

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

8. Segment Information

The Group comprises the following main business segments:

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

	Ve	Vehicles		Vehicle Parts & Services		Lighting & Power Tools		Construction, Agricultural & Material Handling Machinery		Electro Mechanical & Bio Medical Engineering		Total	
For the year ended 31st March	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	201 Rs. '00	
Business Segment Turnover and Results													
Total segment revenue	22,213,122	5,362,244	3,202,570	2,626,758	905,103	402,283	3,060,699	1,582,584	602,448	781,899	29,983,942	10,755,76	
Inter-segment revenue	(114,011)	(85,037)	(380,828)	(73,202)	(6,970)	(1,586)	(66,757)	(65,279)	(58,105)	(77)	(626,671)	(225,18	
Total external revenue	22,099,111	5,277,207	2,821,742	2,553,556	898,133	400,697	2,993,942	1,517,305	544,343	781,822	29,357,271	10,530,58	
Segment results	3,219,030	465,299	529,747	432,335	108,785	71,497	304,009	144,889	61,000	83,594	4,222,571	1,197,61	
Unallocated income	_	_	_	_	_	_	_	_	_	_	48,881	44,34	
Unallocated expenses	-	-	-	-	_	-	_	-	-	_	(667,798)	(464,25	
Finance cost - net	-	-	-	-	-	-	-	-	-	_	(207,674)	(365,84	
ncome from equity accounted investee	_	_	_	_	_	_	_	_	_	_	_	8,2	
ncome tax expense	-	-	-	-	-	-	-	-	-	_	(1,274,228)	(141,8	
Discontinued operations											-	(29,9	
Profit for the year	-	-	-	=	-	-	-	=	-	-	2,121,752	248,29	
Business Segment Assets and Liabilities													
Segment assets	3,512,544	1,545,673	1,293,490	1,285,993	379,888	187,496	1,135,332	595,287	323,946	268,313	6,645,200	3,882,7	
Assets classified as held for sale	-	-	_	=	-	=	-	=	-	=	-	38,7	
Unallocated assets	-	-	-	-	-	-	-	-	-	-	4,302,264	1,616,8	
Total assets	3,512,544	1,545,673	1,293,490	1,285,993	379,888	187,496	1,135,332	595,287	323,946	268,313	10,947,464	5,538,4	
Segment liabilities Unallocated liabilities	1,320,460 –	549,889 –	140,842 –	142,107 –	44,068 –	21,503 –	181,221 –	116,042 –	72,421 –	36,731 –	1,759,012 9,188,452	866,2 4,672,1	
Total liabilities	1,320,460	549,889	140,842	142,107	44,068	21,503	181,221	116,042	72,421	36,731	10,947,464	5,538,4	
Other Business Segment Information													
Capital expenditure	65,590	5,009	150,562	7,879	2,658	697	21,395	4,619	7,376	2,327	247,581	20,5	
Depreciation	9,560	9,915	34,723	37,507	675	553	3,673	4,035	5,615	5,724	54,246	57,7	
Non-cash expenses other than depreciation	37,940	36,461	74,651	30,222	18,023	273	36,646	17,642	(9,202)	43,301	158,058	127,8	

8.1 Segment Cash Flow

For the year ended 31st March	Vehicles			Vehicle Parts & Services		Lighting & Power Tools		Construction, Agricultural & Material Handling Machinery		Electro Mechanical & Bio Medical Engineering		Total	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	
Business Segment Cash Flow													
Operating activities	1,585,652	531,318	613,014	264,478	(120,853)	67,452	(549,983)	(91,720)	(122,414)	(720)	1,405,416	770,8	
Investing activities	(9,560)	(4,355)	(34,723)	(10,462)	(675)	(697)	(3,674)	(4,799)	(5,615)	(720)	(54,247)	(21,03	
Unallocated Cash Flows													
Common cash flows											731,204	209,1	
Income Taxes paid											(250,025)	(112,06	
Proceeds from disposal of property, plant & equipment											31,723	10,9	
Dividends received											139	1	
Interest received											74,094	1,1	
Acquisition and construction of property, plant & equipment											(1,082,166)	(36,45	
Repayment of long-term loan											(254,126)	(235,99	
Repayment of finance lease obligations											(1,699)	(7,67	
Dividends paid											(121,833)	(52,21	
Net Increase in cash and cash equivalents											478,480	526,67	

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

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

9. Other Income/(Expenses)

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

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

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

10. Net Finance Costs

	Gr	oup	Company		
For the year ended 31st March	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	
Finance Income					
Interest income	74,094	1,163	73,671	538	
Gain on translation of foreign currency	21,313	44	20,195	-	
Total finance income	95,407	1,207	93,866	538	
Finance Costs					
Interest on long-term borrowings	(60,658)	(129,291)	(60,658)	(129,29	
Interest on short-term borrowings	(240,571)	(224,162)	(238,540)	(213,24	
Interest on finance lease	(1,852)	(1,509)	(1,852)	(1,509	
Loss on translation of foreign currency	_	(12,092)	-	(3,973	
Total finance cost	(303,081)	(367,054)	(301,050)	(348,01	
Net finance cost	(207,674)	(365,847)	(207,184)	(347,476	

11. Profit Before Income Tax

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

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

11.2 Staff Expenses

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

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

12. Income Tax Expense

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

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

12.1 Reconciliation of Accounting Profit to Income Tax Expense

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

12.2 Tax Losses Brought Forward and Utilised during the Year

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

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

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

13. Discontinued Operations

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

Results of Discontinued Operations

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

14. Earnings per Share

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

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

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

15. Dividends

Calculation of Dividend Per Share

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

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

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

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

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

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

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

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

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

16. Property, Plant & Equipment

	Freehold Land	Buildings & Premises	Plant & Machinery	Tools & Implements	Motor Vehicles	Leased Motor Vehicles	Computer Hardware &	Electrical Fixtures, Fittings, &	as at	Total 31st March
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Software Rs. '000	Office Equipment Rs. '000	2011 Rs. '000	2010 Rs. '000
a. Group										
Cost or Valuation										
Balance at the beginning										
of the year	1,374,289	590,885	203,765	126,211	166,028	6,825	108,668	163,796	2,740,467	2,730,14
Additions	641,519	74,799	111,725	23,376	117,804	-	44,722	30,683	1,044,628	36,88
Disposals	-	(26,002)	(17,170)	(5,605)	(12,466)	(1,075)	(9,020)	(10,000)	(81,338)	(23,34
Transfer to assets classified as held for sale	_	_	_	-	-	-	_	-	-	(3,22
Balance at the end of the year	2,015,808	639,682	298,320	143,982	271,366	5,750	144,370	184,479	3,703,757	2,740,46
Depreciation										
Balance at the beginning										
of the year	-	89,644	89,296	107,061	123,566	4,909	91,614	96,630	602,720	524,99
Charge for the year	-	19,595	13,574	10,641	27,213	1,121	11,440	9,516	93,100	94,25
On disposals	_	(4,553)	(10,459)	(5,878)	(12,017)	(1,075)	(8,992)	(9,128)	(52,102)	(10,05
Transfer to assets classified as held for sale	_	_	_	_	_	_	_	_	_	(51
Balance at the end of the year	-	104,686	92,411	111,824	138,762	4,955	94,062	97,018	643,718	608,67
Impairment										
Reversals of impairment loss	_	_	_	_	_	_	_	_	_	(6,59
Impairment loss	_	_	_	_	_	_	_	_	_	63
Accumulated depreciation and impairment	-	104,686	92,411	111,824	138,762	4,955	94,062	97,018	643,718	602,72
Carrying amount as at the end of the year	2,015,808	534,996	205,909	32,158	132,604	795	50,308	87,461	3,060,039	2,137,74
b. Company										
Cost or Valuation										
Balance at the beginning	1 274 200	565.600	172.266	111.062	162.041	6.025	06.007	1.47.656	2 620 427	2 622 25
of the year Additions	1,374,289	565,600	172,266	111,863	163,941	6,825	96,997	147,656	2,639,437	2,623,35
Revaluation	641,519	74,799 –	107,129	22,716	115,468	_	42,802	30,308	1,034,741 –	32,91
Disposals	_	(4,005)	(8,410)	(4,984)	(11,765)	(1,075)	(8,216)	(7,651)	(46,106)	(16,83
Balance at the end of the year	2,015,808	636,394	270,985	129,595	267,644	5,750	131,583	170,313	3,628,072	2,639,43
,		<u> </u>	·	<u> </u>	<u> </u>		<u> </u>			
Depreciation										
Balance at the beginning of the year	_	86,064	80,742	95,497	121,748	4,909	81,975	88,879	559,814	486,67
Charge for the year	_	19,130	10,779	8,889	26,930	1,121	10,278	8,726	85,853	86,45
On disposals	_	(2,441)	(7,806)	(5,388)	(11,279)	(1,075)	(8,198)	(7,435)	(43,622)	(6,72
Balance at the end of the year	_	102,753	83,715	98,998	137,399	4,955	84,055	90,170	602,045	566,40
mpairment		,	,	/	- 1	-,	,	,	,	. ==, '
Reversal of impairment loss	_	_	_	-	-	-	_	-	_	(6,59
Accumulated depreciation and impairment	-	102,753	83,715	98,998	137,399	4,955	84,055	90,170	602,045	559,81
Carrying amount as at the end of the year	2,015,808	533,641	187,270	30,597	130,245	795	47,528	80,143	3,026,027	2,079,62

Notes

16.a Revaluation of Freehold Land and Building

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

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

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

16.b Fully Depreciated but still in Use

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

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

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

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

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

16.e Title Restriction on Property, Plant & Equipment

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

16.f Assessment of Impairment

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

17. Leasehold Property

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

17.1 Details of Leasehold Property

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

18. Intangible Assets

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

18.1 Assessment of Impairment

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

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

19. Investment in Subsidiaries

Impairment loss		(15,000)	_
		23,350	23,350
Dimo Travels (Pvt) Ltd 500 ordinary shares	100	50	50
Dimo Industries (Pvt) Ltd 2,305,000 ordinary shares	100	23,050	23,050
Dimo (Pvt) Ltd 25,000 ordinary shares	100	250	250
Unquoted investment-ordinary shares			
	Holding	Rs. '000	Rs. '000
As at 31st March	Percentage of	2011	2010
As at 31st March	Percentage of	Company 2011	20

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

20. Other Long-Term Investments

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

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

21. Inventories

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

22. Trade and Other Receivables

	Group		Company	
As at 31st March	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Trade receivables	3,375,558	2,127,344	3,266,457	1,891,120
Provision for bad and doubtful debts	(213,747)	(212,334)	(156,501)	(165,038
	3,161,811	1,915,010	3,109,956	1,726,082
Deposits and prepayments	137,033	55,260	121,705	44,290
Other trade receivables	15,378	14,384	9,955	13,786
Loans to employees	14,206	3,488	14,073	3,27
	3,328,428	1,988,142	3,255,689	1,787,433

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

23. Cash and Cash Equivalents

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

24. Assets Classified as Held for Sale

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

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

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

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

25. Stated Capital

As at 31st March	20			
		2011		
	No. of shares	Rs. '000	No. of Shares	Rs. '000
Issued and fully paid ordinary shares				

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

26. Capital Reserve

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

26.1 Revaluation Reserves

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

27. Revenue Reserves

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

The Revenue Reserves represent reserves available for distribution.

28. Retirement Benefit Obligations

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

NOTES TO THE FINANCIAL STATEMENTS

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

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

Rate of discount - 10.5% Salary increase - 9.5%

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

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

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

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

29. Deferred Tax Assets/(Liabilities)

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

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

29.1 Deferred Tax Assets/(Liabilities) - Reconciliation

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

29.2 Movement in Temporary Differences during the Year

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

29.3 Impact Due to Corporate Income Tax Rate Change

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

30. Long-Term Interest-Bearing Borrowings

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

30.1 Term Loans

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

30.2 Principal Amounts of Long-Term Borrowings

	Cor	mpany		
Lender	2011 Rs. '000	2010 Rs. '000	Cocuritios	Repayments
Lender	RS. 000	KS. 000	Securities	kepayments
Commercial Bank of Ceylon PLC				
Loan - 1	350,000	350,000		Fully settled during the year.
Loan - 2	400,000	400,000	$\sqrt{}$	Repayable in 120 Instalments commencing from February 2008
Total	750,000	750,000		
Hatton National Bank PLC				
Loan - 1	120,000	120,000		Repayable in 60 Instalments commencing from September 200
Loan - 2	100,000	100,000		Fully settled during the year.
Loan - 3	200,000	200,000	$\sqrt{}$	Repayable in 60 Instalments commencing from March 2009
Total	420,000	420,000		
People's Bank				
Loan - 1	150,000	150,000	√	Fully settled during the year.
Total	150,000	150,000		
Total	1,320,000	1,320,000		

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

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

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

30.4 Finance Lease Obligations

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

31. Deferred Income

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

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

32. Trade and Other Payables

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

33. Current Tax Asset/Liability

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

34. Short-Term Interest-Bearing Borrowings

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

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

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

35. Related Party Disclosures

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

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

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

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

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

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

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

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

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

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

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

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

35.1 (c) Transactions with Close Family Members

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

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

35.2 Transactions with Subsidiaries

Name of the Company	Dimo (Pvt) Ltd.	Dimo Industries (Pvt) Ltd.	Dimo Travels (Pvt) Ltd.	
Relationship Shareholding	Subsidiary 100%	Subsidiary 100%	Subsidiary 100%	Tota
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Opening balance as at 1st April 2010	(36,900)	23,265	(353)	(13,988
Sale of goods and services	(93,402)	(653)	-	(94,055
Purchases of goods and services	3,171	_	-	3,17
Expense incurred - net	34,624	1,265	26	35,915
Fund transfers - net	(12,333)	(32,415)	-	(44,748
Balance at the end of the year	(104,840)	(8,538)	(327)	(113,705

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

35.3 Transactions with Other Related Entities

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

36. Commitments and Contingencies

36.1 Capital Expenditure Commitments

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

36.2 Contingent Liabilities

Guarantees

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

36.3 Litigation Against the Company

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

37. Events Occurring After the Balance Sheet Date

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

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

38. Directors' Responsibility to the Financial Statements

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





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ANNEXES

TEN YEAR SUMMARY

	2010/11 Rs. '000	2009/10 Rs. '000	2008/09 Rs. '000	2007/08 Rs. '000	2006/07 Rs. '000	2005/06 Rs. '000	2004/05 Rs. '000	2003/04 Rs. '000	2002/03 Rs. '000	2001/0 Rs. '00
Operating Results										
Group turnover	29,357,271	10,530,587*	9,187,966	12,687,289	12,989,916	10,512,326	7,565,327	4,796,905	3,404,734	1,843,66
Profit before taxation	3,395,980	420,095*	175,082	344,444	512,895	382,235	253,633	148,396	58,912	38,75
Taxation	(1,274,228)	(141,842)*	(72,054)	(139,351)	(211,118)	(117,062)	(76,431)	(48,131)	(20,119)	(10,52
Profit after taxation	2,121,752	278,253*	103,028	205,093	301,777	265,173	177,202	100,265	38,793	28,23
Capital Employed										
Stated capital	182,500	182,500	182,500	182,500	-	-	-	-	-	-
Share capital	_	_	-	-	121,000	90,000	90,000	90,000	48,000	48,00
Share premium	_	_	_	_	61,500	37,500	37,500	37,500	19,500	19,50
Revaluation reserves	1,135,612	1,135,612	1,135,612	311,522	311,522	311,522	311,522	182,301	182,301	182,30
Revenue reserves	2,882,735	882,816	686,733	1,163,129	1,012,486	777,009	566,836	432,634	363,869	325,07
Shareholders' Funds	4,200,847	2,200,928	2,004,845	1,657,151	1,506,508	1,216,031	1,005,858	742,435	613,670	574,87
Total borrowings (including										
both long-term and short-term borrowings)	3,068,466	1,966,600	2,709,671	2,802,374	2,864,688	2,796,158	1,608,915	958,049	866,946	596,51
Net Capital Employed	7,269,313	4,167,528	4,714,516	4,459,525	4,371,196	4,012,189	2,614,773	1,700,484	1,480,616	1,171,39
Assets Employed										
Non-current assets	3,099,509	2,149,405	2,234,911	1,463,068	1,005,370	775,323	734,720	559,752	528,826	517,03
Current assets	7,847,955	3,389,023	3,028,263	4,368,090	4,193,262	3,794,288	2,460,687	1,692,349	1,197,756	952,90
Fotal liabilities (excluding borrowings)	(3,678,151)	(1,370,901)	(548,658)	(1,371,633)	(827,436)	(557,422)	(580,634)	(551,617)	(245,966)	(298,54
Capital Employed	7,269,313	4,167,528	4,714,516	4,459,525	4,371,196	4,012,189	2,614,773	1,700,484	1,480,616	1,171,39
c 1 51										
Cash Flow	4 702 040	0.45.022	605.650	500 706	202424	(000 433)	(507.000)	(20.045)	(4.52.04.4)	(4.00.56
From Operating activities	1,793,848	846,833	625,652	520,706	383,134	(990,433)	(587,299)	(39,915)	(153,014)	(102,68
From Investing activities	(937,710)	(24,275)	1,918	(519,212)	(287,636)	(91,474)	(97,584)	(75,584)	(57,827)	(56,10
From Financing activities	(377,658)	(295,885)	(416,861)	179,289	(49,458)	305,800	92,125	26,434	(17,488)	(12,64
Net Cash Inflow/(Outflow)	478,480	526,673	210,709	180,783	46,040	(776,107)	(592,758)	(89,065)	(228,329)	(171,42
Key Indicators										
Earnings per share (Rs.)**	239.03	27.97	9.36	16.95	25.76	22.96	15.34	8.68	3.36	2.4
Net assets per share (Rs.)	482.72	252.92	230.39	136.95	124.50	121.60	100.59	82.49	102.28	95.8
Market value per share (Rs.)	1,484.70	394.25	60.25	88.75	120.00	138.50	103.00	53.00	50.00	30.0
Dividend per share (Rs.)	61.00	7.00	3.00	4.00	6.00	6.00	5.00	3.50	3.00	3.0
				48,400	72,600	60,000	50,000	31,500	18,000	18,00
Dividends proposed/declared (Rs. '000)	443,822	34,810	26,107	10, 100						
(Rs. '000)	443,822 178.78	34,810 14.61	26,107 (27.58)	(2.33)	23.57	38.95	57.71	40.89	84.67	(31.3
(Rs. '000) Annual sales growth (%)					23.57 28.98	38.95 26.61	57.71 31.48	40.89 32.97	84.67 35.54	
(Rs. '000) Annual sales growth (%) Equity to total assets ratio (%)	178.78	14.61	(27.58)	(2.33)						39.
(Rs. '000) Annual sales growth (%) Equity to total assets ratio (%) Dividends cover (No. of times) Price earnings ratio	178.78 38.37 3.96	14.61 39.78 3.11	(27.58) 38.09 2.34	(2.33) 28.42 4.02	28.98 3.88	26.61 3.99	31.48 3.18	32.97 3.29	35.54 1.28	39.1 1.1
(Rs. '000) Annual sales growth (%) Equity to total assets ratio (%) Dividends cover (No. of times) Price earnings ratio (No. of times)	178.78 38.37 3.96 6.08	14.61 39.78 3.11 14.89	(27.58) 38.09 2.34 6.44	(2.33) 28.42 4.02	28.98 3.88 4.66	26.61 3.99 6.03	31.48 3.18 6.71	32.97 3.29 6.11	35.54 1.28 14.89	39. ⁻ 1. ⁻ 12. ⁻
Annual sales growth (%) Equity to total assets ratio (%) Dividends cover (No. of times) Price earnings ratio (No. of times) Current ratio (No. of times)	178.78 38.37 3.96 6.08 1.27	14.61 39.78 3.11 14.89 1.20*	(27.58) 38.09 2.34 6.44 1.31	(2.33) 28.42 4.02 5.24 1.26	28.98 3.88 4.66 1.30	26.61 3.99 6.03 1.33	31.48 3.18 6.71 1.24	32.97 3.29 6.11 1.20	35.54 1.28 14.89 1.16	39.1 1.1 12.2 1.1
(Rs. '000) Annual sales growth (%) Equity to total assets ratio (%) Dividends cover (No. of times) Price earnings ratio (No. of times) Current ratio (No. of times)	178.78 38.37 3.96 6.08	14.61 39.78 3.11 14.89	(27.58) 38.09 2.34 6.44	(2.33) 28.42 4.02	28.98 3.88 4.66	26.61 3.99 6.03	31.48 3.18 6.71	32.97 3.29 6.11	35.54 1.28 14.89	(31.3 39.1 1.1 12.2 1.1 1.5

^{*} Includes only continuing operations.

** The impact of the approved scrip dividend explained in Notes 14 and 15 to the Financial Statements has not been adjusted in the EPS calculation prior to 2009/10.

1. Stock Exchange Listing

The issued ordinary shares of Diesel & Motor Engineering PLC, are listed with the Colombo Stock Exchange of Sri Lanka. The audited Group Income Statements for the year ended 31st March 2011 and the audited Balance Sheets at that date have been submitted to the Colombo Stock Exchange within three months of the Balance Sheet date.

2. Shareholders

The number of shareholders as at 31st March 2011 was 1,556 (1,196 as at 31st March 2010).

Shareholder Distribution as at 31st March 2011

Total	1,519	8,114,450	93.24	37	587,939	6.76	1,556	8,702,389	100.00
1,000,001 and Over	-	-	-	-	-	-	_	-	0.00
100,001 - 1,000,000	15	5,891,229	67.70	1	514,267	5.91	16	6,405,496	73.61
10,001 - 100,000	50	1,354,234	15.56	2	43,871	0.50	52	1,398,105	16.06
1,001 - 10,000	211	643,309	7.39	5	19,513	0.23	216	662,822	7.62
1 - 1,000	1,243	225,678	2.59	29	10,288	0.12	1,272	235,966	2.7
	holders		%	holders		%	holders		9
Shares held	Share-	Shares		Share-	Shares		Share-	Shares	
Number of	No. of	No. of		No. of	No. of		No. of	No. of	
		Residents			Non-Resident	S		Total	

Over 90% of the shares issued is held by residents of Sri Lanka.

	A	As at 31st Marc	h 2011	A	As at 31st March	1 2010
Categories of Shareholders	No. of Share- holders	No. of Shares	%	No. of Share- holders	No. of Shares	9
Individuals	1,428	6,363,057	73.12	1,120	6,654,069	76.46
Institutions	128	2,339,332	26.88	76	2,048,320	23.54
Total	1,556	8,702,389	100.00	1,196	8,702,389	100.00

3. Market Value of Shares

The market value of an ordinary share of Diesel & Motor Engineering PLC as at 31st March 2011 was Rs. 1,484.70 (Rs. 394.25 as at 31st March 2010).

4. Dividend Payments

	2011	2010
	Rs. '000	Rs. '000
nterim dividend - Rs. 3/- per share	-	26,107
st Interim dividend - Rs. 5/- per share	43,512	
2nd Interim dividend - Rs. 5/- per share	43,512	
Final dividend declared and payable	443,822	34,809
Final dividend to be payable on 9th June 2011		

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5. Share Trading Information for the Period 1st April 2010 to 31st March 2011

	2010/11		2009/10		2008/09		2007/08	
Highest (Rs.)	1,900.00	(15th Feb. 2011)	505.00	(26th Feb. 2010)	160.00	(30th June 2008)	125.00	(16th April 2007 (19th April 2007
Lowest (Rs.)	400.00	(7th May 2010)	60.00	(6th April 2009)	57.50	(7th Jan. 2009) (8th Jan. 2009)	78.00	(28th Dec. 2007
Closing (Rs.)	1,484.70	(31st March 2011)	424.75	(30th March 2010)	60.25	(26th March 2009)	88.75	(31st March 2008
No. of transactions	5,610		3,677		2,185		602	
No. of shares traded	3,578,100		2,794,300		4,567,811*		319,000	
Value of shares traded (Rs.)	3,479,167,355		582,666,450		677,869,260*		30,051,050	
No. of days traded	228		201		163		162	
No. of market days	238		240		239		239	
Liquidity (%)	41.12		32.11		52.49		2.64	
CSE All Share Price Index	7,226.12		3,724.59		1,638.06		2,550.50	
Milanka Price Index	6,874.74		4,270.73		1,736.20		3,181.30	
Motor Sector Index	26,787.33		8,838.38		3,250.90		2,873.21	

^{*} This includes the share repurchase of 3,397,611 shares.

6. Public Shareholding

As at 31st March	2011	2010	2009	2008	
Number of Shares	4,326,396	3,769,203	3,949,028	5,318,912	
%	49.72	43.31	45.38	43.96	

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	Ni
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	Ni
1995/96	Scrip (one share per every three shares held)	1,200,000	Ni
1994/95	Scrip (one share per every five shares held)	600,000	Ni
1992/93	Rights (one share per every five shares held)	500,000	75.0
1991/92	Rights (one share per every three shares held)	500,000	30.0
1991/92	Scrip (one share per every four shares held)	500,000	Ni
1989/90	Rights (one share per every two shares held)	500,000	10.0
1987/88	Scrip (one share per every share held)	500,000	Ni
1980/81	Scrip (one share per every share held)	250,000	Ni

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8. Changes in Shareholdings of directors and their spouses during 2010/11

Name	Shareholding %	As at 31.03.2011 Shares	Movement Shares	As at 31.03.2010 Shares
A.R. Pandithage	21.63	1,882,095	_	1,882,095
A.N. Algama	2.97	258,372	(3,500)	261,872
S.C. Algama	4.59	399,134	-	399,134
A.G. Pandithage	6.43	559,670	-	559,670
A.M. Pandithage	2.53	219,778	_	219,778
T.G.H. Peries	2.80	244,250	(83,920)	328,170
	40.95	3,563,299	87,420	3,650,719

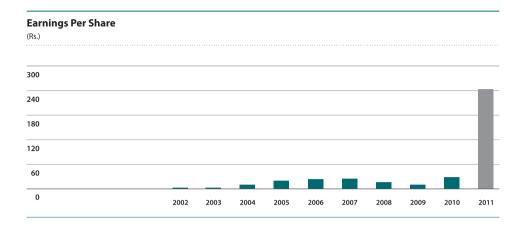
9. Top Twenty Shareholders

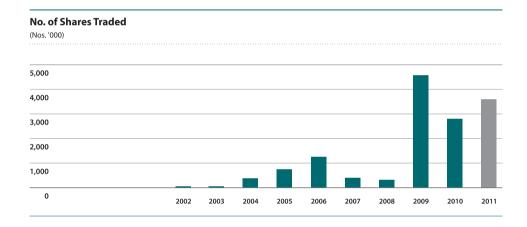
	As at 31st N	March 2011	As at 31st March 2010	
Name of Shareholder	Shares	%	Shares	%
Mr. A.R. Pandithage	971,798	11.17	971,798	11.17
Mrs. J.C. Pandithage	910,297	10.46	910,297	10.46
Employees' Provident Fund	899,100	10.33	_	_
Mr. A.K. Pandithage	593,764	6.82	593,764	6.82
Thurston Investments Ltd.	514,267	5.91	1,282,467	14.74
Mr. A.G. Pandithage	515,505	5.92	515,505	5.92
Mr. S.C. Algama	392,278	4.51	392,278	4.51
Almar Trading Co. (Pvt) Ltd.	294,964	3.39	64	0.00
Mr. A.N. Algama	258,372	2.97	261,872	3.01
Mr. T.G.H. Peries	189,284	2.18	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. Jayantha	154,600	1.78	154,600	1.78
Mr. L.P. Algama	131,921	1.52	131,931	1.52
Employees Trust Fund Board	119,700	1.38	311,800	3.58
Estate of the Late N.U. Algama	116,515	1.34	116,515	1.34
Mr. Y.S.H.I.K. Silve	81,997	0.94	81,994	0.94
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
Mr. M. Radhakrishnan	68,420	0.79	68,420	0.79
	6,701,011	77.00	6,472,818	74.38

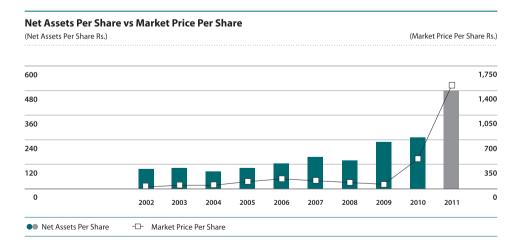
^{*} Comparative shareholdings as at 31st March 2010 of the twenty largest shareholders as at 31st March 2011.

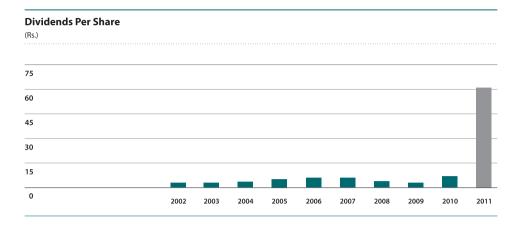
10. The Stated Capital represents 8,702,389 Ordinary Shares.

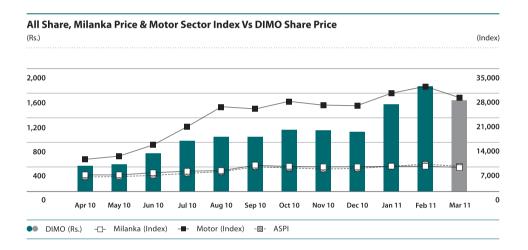
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OUR HERITAGE



Diesel & Motor Engineering PLC (DIMO) is best known as the 'Benz Company' in Sri Lanka. This nomenclature describes well the spirit of its undertaking a commitment to excellence. DIMO which was established over seven decades ago, 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 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.

By 1949, Mr. Heller became an active partner of DIMO via Lohmann & Company Breman 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 workshop was opened for business.

The first notable achievement for the Company came in 1959, when over 200 Mercedes Benz buses were supplied to the then 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.

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 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 and this association was discontinued in 2008.

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.

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 fifteen kilometres away from Colombo city limits. The workshop complex is equipped with state-of-the-art machinery and equipment.

In 2008, the Company commenced its logistical operations from Weliweriya which is in the Gampaha District.

In 2010, Dimo opened its second automobile training school in Jaffna. Youth of the North who were deprived of quality technical training facilities for over 30 years, have now been offered an opportunity of high quality technical education.

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.

The Head office is conveniently and spaciously 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.

The Company continues to serve its expanding customer base by expanding its branch network in addition to the Company's own display points.

Since its modest beginning, the Company has grown in size as well as in scope, and presently has a workforce of over 1,000. 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. DIMO has laid the foundation towards achieving world class status.

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GROUP STRUCTURE

Name of the Company / Reg No. / No. of Division Segment **Products & Services** Directors Year of Incorporation / % Holding Directors A.R. Pandithage (Chairman & CEO) **★ DIESEL & MOTOR ENGINEERING PLC** Vehicles Sales of brand new Passenger Vehicles A.G. Pandithage (Deputy CEO) Inc.1945 Reg. PQ 146 4WD Vehicles A.N. Algama Commercial Vehicles S.C. Algama AUTOMOBILE Special Purpose Vehicles & Dr. H. Cabral Pre-owned Passenger Vehicles B.C.S.A.P. Gooneratne Prof. U.P. Liyanage Repair Passenger & Commercial Vehicles Sale of Vehicle Spare Parts Vehicle T.G.H. Peries parts & services R. Seevaratnam Accessories R.C. Weerawardane Components & Tyres Lighting & Sales of Power Tools & Accessories power tools Lamps Lighting Fittings and Lighting Accessories **MARKETING & PROJECTS** Sales & Service of Earth Moving Machinery Construction Road Construction Machinery Agricultural & Forklifts, Material Handling Machinery Material Handling **Racking Systems** Machinery Agri Machinery Pumps and Dock Levellers A.R. Pandithage (Chairman) **★** DIMO TRAVELS (PVT) LTD. S.C. Algama 100% Inc.1975 M.V. Bandara Reg. No. - PV1256 E.D.C. Kodituwakku A.R. Pandithage (Chairman) ★ DIMO (PVT) LTD. S.C. Algama (Managing Director) Sales & Service of Medical Equipment Electro Mechanical **INDUSTRIAL** 100% Generating sets INC.1980 R.H. Fernando & Bio Medical **SOLUTIONS** B.C.S.A.P. Gooneratne Reg. No. - PV2317 Engineering Diesel Engines for Marine Propulsion A.G. Pandithage Rail Traction W. Pushpawela **Building Technologies** C. Ranawana Industrial Refrigeration R.C. Weerawardane Power Engineering Vehicle Tyre Retreading A.R. Pandithage (Chairman) **★** DIMO INDUSTRIES (PVT) LTD. parts & services S.C. Algama Transferred operations to the parent company during the financial year. A.C.G. Dias 100% B.C.S.A.P. Gooneratne A.G. Pandithage Inc. 1979 R.C. Weerawardane Reg. No. - PV1260 **★ BROWNS DIMO INDUSTRIAL** Divested the holding during the period under review PRODUCTS (PVT) LTD. * KLN INDUSTRIES(PVT) LTD. Divested the holding during the period under review

AWARDS

Date received	Award	Place	Year	Awarded institute
April 2010	Top 100 Annual Reports of 2009	Ranking # 61	2009	League of American Communications Professional
	Most Engaging - Asia Pasific Region	Gold	2009	League of American Communications Professiona
	Annual Report - Business Services Category	Gold	2009	League of American Communications Professiona
May 2010	HRM award Capacity Building	Gold	2010	The Association of Human Resources Professional
May 2010	Best Practices in Capability Building - Category Award	Top Ten	2010	The Association of Human Resources Professional
September 2010	Overall - Engineered Industrial Product Category	Gold	2009/10	MerComm, Inc in New York
September 2010	Cover Photo/Design - Engineered Industrial Products Category	Gold	2009/10	MerComm, Inc in New York
September 2010	Photography - Engineered Industrial Products Category	Gold	2009/10	MerComm, Inc in New York
September 2010	Printing & Production - Engineered Industrial Products Category	Silver	2009/10	MerComm, Inc in New York
September 2010	Financial Data - Engineered Industrial Products Category	Silver	2009/10	MerComm, Inc in New York
September 2010	Chairman's Letter - Engineered Industrial Products Category	Bronze	2009/10	MerComm, Inc in New York
October 2010	Best international Brand of the year (DIMO Batta)	Bronze	2010	Sri Lanka Institute of Marketing
October 2010	Best product brand of the year (DIMO Batta)	Silver	2010	Sri Lanka Institute of Marketing
November 2010	Annual Report- up to 5 subsidiaries	Gold	2009/10	The Institute of Chartered Accountants of Sri Land
November 2010	Corporate Social Responsibility Reporting	Silver	2009/10	The Institute of Chartered Accountants of Sri Lanl
November 2010	The Diversified group of companies	Category winner	2010	National Chamber of Commerce of Sri Lanka
January 2011	Mercantile 'D' Division Cricket Championship	Runners-up	2010	Mercantile Cricket Association
January 2011	Two Digit growth in Power Tools-Growth Award for Sri Lanka	Bronze	2010	Robert Bosch GMBH-Germany
January 2011	Business Today Top 20	Top 20	2010	Business Today
February 2011	ACCA Sustainability Reporting - Medium Scale	Joint winner	2009/10	The Association of Chartered Certified Accountar
February 2011	Sri Lanka's Corporate Accountability Ratings	Platinum	2010	Sting Consultants and LMD

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COUNTRY REPORT



This section of the Report aims to lend our readers, particularly the international audience an insight into Sri Lanka.

This section of the Report provides an overview of Sri Lanka's physical features, demography and key economic indicators. It also presents the global economy during the period under review, which helps to bring the Sri Lankan economy into perspective.

Ceylon which is officially known as Democratic Socialist Republic of Sri Lanka is located approximately 31 Km off the Southern coast of India. Sri Lanka is a strategic naval link between West Asia and South East Asia as a result of its location in the part of major sea routes and has been a centre of Buddhism and culture from ancient times.

Sri Lanka is placed high on the list of world's top tourist destinations as a result of the natural beauty of the Island's topical forest, beaches and landscape, as well as its rich cultural heritage. The country is renowned for the production and export of tea, coffee, coconut and rubber. Sri Lanka also boasts of a progressive and modern industrial economy with the third highest per capita income in South Asia.

Physical Features

Total area	65,610 Sq. km.
Land area	62,705 Sq. km.
Capital	Sri Jayewardenapura
Commercial Capital	Colombo

Demographics

	2010	2009	2008	2007	2006
Mid-year population (mn persons)	20.65	20.5	20.2	20.0	19.8
Labour force (mn persons)	8.11	8.1	7.5	7.4	7.5
Labour force participation rate (%)	48.1	48.7	50.2	49.8	51.2
Unemployment rate (% of labour force)	4.9	5.8	5.2	6.0	6.5

Source - Central Bank of Sri Lanka Annual Report 2010

Sri Lankan Economic Performance

Highlights

Achieving 8% GDP growth rate in 2010, highest in the last thirty year history

Sri Lanka achieved an outstanding growth rate of 8.0% in 2010, the highest annual rate of growth in the last three decades. This growth was supported by the restoration of peace which created a conducive environment for expansion in economic activity, a strong macroeconomic environment, increased domestic demand, development of infrastructure facilities, improved external demand consequent to the gradual recovery in the global economy and favourable domestic weather conditions.

Sectorial Composition and Increase in Gross Domestic Product (GDP)

		As a Share of GDP (%)				Rate of Change (%)		
	2010	2009	2008	2007	2010	2009	2008	
Agriculture Sector	11.9	12.0	12.1	11.9	7.0	3.2	7.5	
Industrial Sector	27.8	28.6	28.4	28.5	8.4	4.2	5.9	
Services Sector	59.3	59.3	59.5	59.6	8.0	3.3	5.6	
Gross Domestic Product (GDP)	100.0	100.0	100.0	100.0	8.0	3.5	6.0	

Key Economic Indicators

	2010	2009	2008	2007	2006
GDP at Market Prices (Rs. bn)	5,602	4,769	4,312	3,540	2,898
GDP per capita (US \$)	2,399	2,057	2,014	1,617	1,421
GDP growth (%)	8.0	3.5	6.0	6.8	7.7
Colombo Consumers' Price Index (2002=100) Annual average	5.9	3.4	22.6	15.8	10
Colombo Consumers' Price Index (2002=100) Point-to-point-end period	6.9	4.8	14.4	18.8	13.5
Fiscal deficit (% of GDP)	-7.9	-9.8	-7	-7.7	-8
Current account balance (% of GDP)	-2.9	-0.5	-9.3	-4.2	-5.3

Source - Central Bank of Sri Lanka Annual Report 2010

Stable Inflation Rate at 5.9% at end of year 2010

Inflation was contained at a low and at a mid-single digit during 2010. The annual average inflation as measured by the Colombo Consumers' Price Index (CCPI) (2002=100), which has been in the declining trend since November 2008, reached a low of 3.1% in February 2010 and increased gradually to 5.9% in December 2010. The stable level of inflation during the year was consequent to the improved domestic supply conditions, supportive fiscal policies aided by the adjustment in import duties, and downward revisions in administered prices as well as the prudent monetary policy stance. The relatively stable exchange rate and improved productivity also helped to lower the inflation rate.

Sri Lanka was graduated to middle-income status

International Monetary Fund (IMF) graduated Sri Lanka to middle-income status from the list of Poverty Reduction and Growth Trust (PRGT) eligible countries, in January 2010. The strong economic performance in recent years lifted Sri Lanka's per capita income while the relatively stable exchange rate and improved productivity lowered the price pressures during the year. A country is graduated from the PRGT eligibility category when the nation's per capita income is well above the International Development Association (IDA) threshold for a sustainable period, has the capacity for durable and substantial access to international financial markets and does not face serious short-term vulnerabilities, such as a sharp drop in per capita income and loss of market access.

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Interest Rates

	2010	2009	2008	2007	2006
(Percentage per annum at end-year)					
Treasury Bill rate -					
91 days	7.24	7.73	17.33	21.3	12.76
364 days	7.55	9.33	19.12	19.96	12.96
Commercial Banks -					
Weighted average - prime lending rate (AWPR)	9.27	11.12	18.5	17.95	15.19
Weighted average - deposit rate (AWDR)	6.23	8.01	11.63	10.31	7.6

Source - Central Bank of Sri Lanka Annual Report 2010

Treasury Bill (365 days) Rate stood at 7.55%

In response to the easing of the Central Bank's monetary policy stance, market interest rates adjusted downwards in 2010. The Central Bank relaxed its monetary policy stance further, in July and August 2010, with a view to providing further impetus to revive economic activity, following the significant downward adjustment of its policy rates in 2009. The Repurchase rate and the Reverse Repurchase rate were reduced by 25 basis points each in July 2010 while the Reverse Repurchase rate was reduced by a further 50 basis points in August 2010. Sequentially, benchmark yield rates on Treasury Bills adjusted downwards, leading other market interest rates on a downward sloping path.

AWPR declined to 9.27%

In 2010, the declining trend in the interest rates charged by long-term lending institutions continued. The monthly average weighted prime lending rate (AWPLR) which reflects the rates applicable to loans and advances granted by commercial banks to their prime customers, declined from 11.12% in December 2009 to 9.27% by December 2010.

SL Rupee continued to appreciate against US\$

Maintaining stability in the domestic foreign exchange market was the focus of the exchange rate policy in 2010. In the face of significant inflows during the first nine months of the year, the Rupee continued to appreciate gradually against the US Dollar. To avoid excessive Rupee appreciation and building up of reserves, the Central Bank purchased foreign exchange from the domestic foreign exchange market. However, in the last quarter of 2010, to ensure adequate foreign exchange liquidity in the face of large outflows arising from the settlement of petroleum bills, the Central Bank supplied foreign exchange to the domestic foreign exchange market. The recent announcement by the Central Bank to implement major relaxations of foreign exchange controls would promote financial openness, attract more financing and investments for the private sector and enhance the overall competitiveness of the economy.

Exchange Rates

	2010	2009	2008	2007	2006	2005
Annual average Rs./US\$	113.06	114.94	108.33	110.62	103.96	100.5
End-year Rs./US\$	110.95	114.38	113.14	108.72	107.71	102.12

Source: Central Bank of Sri Lanka Annual Report 2010

External Reserves reached a record high level of US\$ 7,173 mn equivalent to 6.7 months of imports

Gross official reserves excluding ACU receipts, increased substantially to US\$ 6,610 mn end 2010 (equivalent to 5.9 months of imports), compared to US\$ 5,097 mn end-2009. Disbursements under the foreign funded projects, the proceeds of the third international sovereign bond, the receipt of three tranches under the IMF-SBA facility, and inflows to the private sector mainly contributed to the building up of foreign reserves in 2010.

Fitch Ratings Long-term Foreign Currency rating was raised to B+

International rating agencies raised their ratings of the country in 2010. The Fitch Ratings Agency affirmed the long-term foreign and local currency Issuer Default Rate at 'B+' and revised the outlook to 'Positive' from 'Stable.' The Standard and Poor's (S&P) raised the long-term foreign currency rating from 'B' to 'B+' and the local currency rating from 'B'+ to 'BB-.' Further, Moody's Investor Services, covering Sri Lanka for the first time, assigned a 'B1' sovereign rating with a 'Stable 'outlook.

Colombo Stock Market recorded highest performance in year 2010

The Colombo Stock Exchange (CSE) emerged as one of the best performing stock exchanges in the world as the activity at the CSE rose to historically high levels in 2010. The All Share Price Index (ASPI) rose by 96% while the Milanka Price Index (MPI) increased by 83% in 2010. The number of shares traded quadrupled while the average daily turnover tripled. The market price earnings ratio reached 25.2 in 2010 compared to 16.6 in 2009. The market capitalisation of the CSE, which more than doubled in 2009, doubled again in 2010 to reach Rs. 2.2 tn by end-2010.

Capital Markets

	2010	2009	2008	2007	2006
All Share Price Index	6,635.9	3,385.60	1,503	2,541	2,722.40
Sensitive Price Index	7,061.5	3,849.40	1,631.30	3,291.90	3,711.80
Value of shares traded (Rs. mn)	570.3	142.5	101.4	105.0	105.1
Market capitalisation (Rs. bn)	2,210.5	1,092.10	488.8	820.7	834.8
Market capitalisation (% of GDP)	39.4	23	11	23	28

Source: Central Bank of Sri Lanka Annual Report 2010

Indicators of Sri Lankan Social Infrastructure Development

Population and Vital Statistics

	2010
Age distribution (%) (2010) -	
0-14 years	26.30%
15-64 years	67.40%
65 years and over	6.30%
Population density (2009)	329 persons per sq. km.
Infant mortality rate (2007)	8.5 per 1,000 live births
Dependency ratio (2010)	48.40%
Human Development Index (2010)	0.658
Ranking Among 169 Countries	91

Expectation of life at Birth (2007)

	2010
Male	70.3 years
Female	77.9 years

Literacy Rate (2009)

Overall	91.40%
Male	92.80%
Female	90.00%

Poverty

Population below US\$ 1 a day (1990 - 2005)	5.60%
Population below US\$ 2 a day (1990 - 2005)	41.60%

Recent Significant Changes to Tax Law

- Personal income tax liability was reduced from 35% to a maximum limit of 24%.
- Individual Tax Free Allowance was increased up to Rs. 500,000/-.
- Company maximum tax rate was set at 28%.
- The tax rate for partnerships was set at 8%.
- Companies which were previously eligible to a concessionary tax rate of 15% were made liable to a reduced tax rate of 12%.
- For the purpose of deemed dividend tax, the minimum dividend distribution requirement of a company out of its distributable profit was reduced to 10% from 25%. However, the deemed dividend tax liability was maintained at 15%.
- NBT rate was reduced to 2% from 3% with effect from 1st January 2011.
- Debits tax was removed with effect from 1st April 2011.
- $\bullet\,$ VAT on luxury vehicles was reduced to 12% from 20% with effect from 23rd November 2011.
- Social Responsibility Levy (SRL) was removed with effect from 1st April 2011.
- Motor vehicle allowance/benefit to the employees up to Rs. 50,000/- per month, was exempted from PAYE Tax.
- WHT on interest income on individuals up to Rs. 500,000/- level of income is exempt from WHT deduction; interest income between Rs. 500,000/- and Rs. 1.5 mn will be subject to 2.5% WHT deduction and any excess amount was made subject to 8% WHT deduction. This amendment had been implemented with effect from 1st April 2011.

Recent changes to Custom Tariff applicable to automotive industry

- Total duty on hybrid cars with engine capacities below 2,000cc was increased from 38% to almost 50% while total duty on hybrids between 2,000cc to 3,000cc reached nearly 75% and vehicles above 3,000cc to 100%.
- The excise duty on small hybrids was raised by 8% but total duty increased by a larger amount when added.
- Taxes on petrol cars with engine capacities below 1,000cc increased from 95% to 120% while taxes on vehicles with 1,000cc to 1,600cc increased from 119% to 128%.
- Tax on petrol three-wheelers increased from 38% to 50% while tax on diesel three-wheelers increased to 60%.

The Central Bank of Sri Lanka has forecast the following outlook for 2011

- The medium-term outlook for Sri Lanka's economy is encouraging, supported by post-conflict optimism and strengthening global demand. The economy is expected to grow by 8% 9% per annum in the medium term, following the 8.0% real growth in the economy in 2010. Expansion in the agriculture sector with a larger contribution coming from the Northern and Eastern provinces, greater capacity utilisation with the development of infrastructure facilities, improved productivity, product and market diversification, expansion of industries, trade and services sectors including tourism, ports, transportation, banking and insurance, are expected to provide the required impetus for realising the higher growth prospects.
- Inflation is expected to be maintained at a mid single digit level in the medium term. Credit flows to the private sector and the claims of the banking system on the Government and public corporations will be closely monitored to contain the build-up of excessive demand pressures. Along with prudent demand management policies supply-side improvements are expected to continue.
- Higher levels of foreign inflows to the Government and private sector are expected with the relaxation
 of exchange controls focused fiscal incentives and improved macroeconomic environment. The
 Government had a cumulative financial commitment of approximately US\$ 7.1 bn by end-2010 from
 Sri Lanka's development partners, compared to US\$ 6.6 bn at end-2009. These commitments which
 has a project implementation duration of 2-5 years are mainly for infrastructure projects which would
 facilitate the development process and earning sources of people.
- The movements in international commodity prices during the latter part of 2010, particularly the price of crude oil would pose challenges to macroeconomic stability.
- Tourism sector is expected to be a key driver of economic activity. In this context, tourism-related infrastructure and facilities around the country would need to be expanded to cater to the influx of 2.5 mn tourists envisaged in 2016. Activities in the periphery of the main tourism attractions would ensure tourists spending more time and money in these areas, thus expanding the income-generating potential of the industry.

GLOSSARY OF FINANCIAL TERMS

Accounting Policies

Specific principles, bases, conventions, rules and practices adopted by an enterprise in preparing and presenting Financial Statements.

Accrual Basis

The principle that revenues and costs are matched with one another, irrespective of the period of receipt or payment.

Amortisation

The systematic allocation of the depreciable amount of an intangible asset over its useful life.

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 and 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.

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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 Per Share (DPS)

The Dividend Per Share is the total dividends to ordinary shareholders during a specific period divided by the number of ordinary shares outstanding.

Dividend Yield

The yield a company pays out to its shareholders in the form of dividends.

FRIT

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.

Earnings Per Share (EPS)

Profit attributable to Equity Holders of the Company divided by weighted average number of ordinary shares in issue.

EPS Growth

Percentage of increase in the EPS over the previous year.

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.

General Reserve

Reserves available for distributions and investment.

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 interest expenses on long-term and short-term borrowings.

Key Performance Indicators (KPI)

Quantifiable measurements, agreed to before hand that reflect the critical success factors of a company.

Market Value per Share

The price at which an ordinary share can be purchased in the stock market.

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 (ROCE)

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.

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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 capital.

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.

Turnover per Employee

Consolidated turnover of the Company for the year divided by the number of employees at the year end.

Unrealised Gain

A profit that results from holding on to an asset rather than cashing it in and using the funds.

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.

INDEPENDENT ASSURANCE STATEMENT ON THE

NON-FINANCIAL REPORTING



Introduction

Det Norske Veritas AS (DNV) has been commissioned by the management of Diesel & Motor Engineering PLC (or the company) to carry out an assurance engagement on the non financial data (economic, environmental and social indicators) in its Integrated Report 2010 -11 (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)).

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 toward any people interviewed. DNV expressly disclaims any liability or co-responsibility for any decision a person or entity would make based on this Assurance Statement.

The intended users of this assurance statement are the readers of company's Integrated Report 2010-11. The management of Diesel & Motor Engineering PLC is responsible for all information provided in the Report as well as the processes for collecting, analyzing and reporting the information. DNV's responsibility regarding this verification is to the Diesel & Motor Engineering PLC only and in accordance with the agreed scope of work. The assurance engagement is based on the assumption that the data and information provided to us is complete and true.

The reporting boundary is as set out in the report and during the assurance process; we did not come across limitations to the scope of the assurance engagement. The verification was carried out in May 2011.

Scope of Assurance

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

- The external verification of the non financial data prepared using the GRI G3 guidelines, covering economic, environmental and social indicators for the period 1st April 2010 to 31st March 2011, covering the Diesel & Motor Engineering PLC and its subsidiaries;
- The 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;
- The evaluation of the additional principles of Completeness and Neutrality, as set out in DNV's Protocol for Verification of Sustainability Reporting;
- Confirmation of adherence to the requirements for GRI Application Level A+.

Verification Methodology

This assurance engagement was planned and carried out in accordance with the AA1000AS (2008) and the DNV Protocol for Verification of Sustainability Reporting¹. The report has been evaluated against the following criteria:

- Adherence to the principles of Inclusivity, Materiality and Responsiveness as set out in the AA1000AS
 (2008); the Reliability of specified sustainability performance information, as required for a Type 2 and
 moderate level assurance engagement,
- · Adherence to the additional principles of Completeness and Neutrality as set out in DNV's Protocol, and
- The principles and requirements of the GRI G3 for an application level A +.

www.dnv.com/services/assessment/corporate_responsibility/services_solutions/sustainabilityreporting/order/

INDEPENDENT ASSURANCE STATEMENT ON THE NON-FINANCIAL 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 certified financial statements.

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:

- Further strengthening the materiality determination process (i.e. the risk evaluation done by the Group Management committee and the issues identified by the sustainability committee needs to be merged) and linking them to sustainability drivers will help to improve the organisation's sustainability performance, including timely detection of emerging issues and opportunities;
- The present objectives and targets are focused on environment and needs to cover the broader sustainability topics and need to establish long term and mid-term objective and goals (3-5 years) for key material aspects;
- Implementing a systematic quality assurance procedure for data management will help improve the reporting process.

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 A+.

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 engaged with selected stakeholders during the year, through the channels as listed in the report. The Company has engaged an external organization to conduct the stakeholder engagement and documented the process;



Materiality: Acceptable. The company identifies issues from the stakeholder's feedback and expectations; these are mapped to GRI indicators and prioritized by the sustainability Committee. However the linkage between these issues and the risks emerging from the Group Management Committee is not clearly presented in the report. The relative materiality of issues which have changed in the reporting period with respect to last year needs to be explained to further enhance the clarity;

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

Additional Parameters as per DNV's Protocol

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 key material issues identified and is also committed to improve the disclosures in future.

Neutrality: Acceptable. The company has reported sustainability issues, in a balanced manner, in terms of content and tone. Challenges and limitations may be stated with commitments to future improvements.

In our opinion, and based on the scope of this assurance engagement, the Diesel & Motor Engineering PLC Integrated Report 2010-2011, provides a fair representation of the Company's sustainability policies, objectives, management approach and performance during the reporting year.

In accordance with the AA1000AS (2008) requirements for a Type 2, moderate level assurance engagement, we conclude that the specified sustainability data and information presented in the Report is generally reliable. The Report contains data that is measured and estimated and some of the errors in data compilation, which were attributable to transcription and aggregation, were corrected.

DNV confirms that the Report meets the requirements for GRI application level A+. The core GRI indicators are responded to either fully or partially, or their omission is explained, with due regard to the Materiality principle.

For Det Norske Veritas AS

Nandkumar Vadakepatth

Lead Verifier
Head-Sustainability & Business Excellence Services
(South India)
Det Norske Veritas AS Bangalore, India

Bangalore, 3rd June, 2011



Antonio Astone

Global Manager, CR Services Det Norske Veritas AS, Centro Direzionale Colleoni Palazzo Sirio 2, Italy

GRI G3 CONTENT INDEX

	Application Level	A+		Assured by Det Norske Veritas
Profile Disclosure	Description	Reported	Cross-reference/ Direct answer	If applicable, indicate the part not reported/Reason for omission
	Disclosures Part I: Profile Disclosures v and Analysis			
1.1	Statement from the most senior decision-maker of the organisation.	Fully	8-11	
1.2	Description of key impacts, risks and opportunities.	Fully	8-11,127-137	
2. Organis	ational Profile			
2.1	Name of the organisation.	Fully	4	
2.2	Primary brands, products, and/or services.	Fully	Inner front cover	
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries and joint ventures.	Fully	208	
2.4	Location of organisation's headquarters.	Fully	223	
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.	Fully	4	
2.6	Nature of ownership and legal form.	Fully	224	
2.7	Markets served (including geographic breakdown, sectors served and types of customers/beneficiaries).	Fully	Inner front cover	
2.8	Scale of the reporting organisation.	Fully	21-32	
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	Full	4	
2.10	Awards received in the reporting period.	Fully	209	
3. Report I	Parameters			
3.1	Reporting period (e.g., fiscal/calendar year) for information provided.	Fully	4	
3.2	Date of most recent previous report (if any).	Fully	2009/2010	
3.3	Reporting cycle (annual, biennial, etc.)	Fully	Annual	
3.4	Contact point for questions regarding the report or its contents.	Fully	Dimo@dimolanka.com	
3.5	Process for defining report content.	Fully	4-7	
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers). See GRI Boundary Protocol for further guidance.	Fully	4-7	
3.7	State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope).	Fully	4-7	
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.	Fully	WBCSD/WRI	
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. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols.	Fully	4-7	

	Application Level	A+		Assured by Det Norske Veritas
Profile Disclosure	Description	Reported	Cross-reference/ Direct answer	If applicable, indicate the part not reported/Reason for omission
3.10	Explanation of the effect of any restatements of information provided in earlier reports, and the reasons for such restatement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods).	Fully	4	
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	Full	4	
3.12	Table identifying the location of the Standard Disclosures in the report.	Fully	This GRI Table 223-231	
3.13	Policy and current practice with regard to seeking external assurance for the report.	Fully	220-222	
4. Governa	ance, Commitments and Engagement			
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.	Fully	87	
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	Fully	91	
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.	Fully	93	
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	Fully	49, 103	
4.5	Linkage between compensation for members of the highest governance body, senior managers and executives (including departure arrangements), and the organisation's performance (including social and environmental performance).	Fully	99	
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	Fully	110	
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.	Fully	122	
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.	Fully	110	
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.	Fully	87	
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental and social erformance.	Fully	97	
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation.	Fully	137	
4.12	Externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or endorses.	Fully	86	

	Application Level	A+		Assured by Det Norske Veritas
Profile Disclosure	Description	Reported	Cross-reference/ Direct answer	If applicable, indicate the part not reported/Reason for omission
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organisations in which the organisation: • Has positions in governance bodies; • Participates in projects or committees; • Provides substantive funding beyond routine membership dues; or • Views membership as strategic.	Fully	61	
4.14	List of stakeholder groups engaged by the organisation.	Fully	5-6	
4.15	Basis for identification and selection of stakeholders with whom to engage.	Fully	4	
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	Fully	4-5	
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.	Fully	4-7	
G3 DMA	Description	Reported	Cross-reference/ Direct answer	If applicable, indicate the part not reported/Reason for omission
Standard	Disclosures Part II: Disclosures on Management Approach (DMAs)			
DMA EC	Disclosure on Management Approach EC			
Aspects	Economic performance	Fully	18	
	Market presence	Fully	18	
	Indirect economic impacts	Fully	18	
DMA EN	Disclosure on Management Approach EN			
Aspects	Materials	Fully	75	
	Energy	Fully	70	
	Water	Fully	71	
	Biodiversity	Fully	76	
	Emissions, effluents and waste	Fully	73	
	Products and services	Fully	76	
	Compliance	Fully	76	
	Transport	Fully	76	
	Overall	Fully	68	
DMA LA	Disclosure on Management Approach LA			
Aspects	Employment	Fully	47	
	Labor/management relations	Fully	47	
	Occupational health and safety	Fully	54	
	Training and education	Fully	52	
	Diversity and equal opportunity	Fully	47	

G3 DMA	Description	Repo	orted	Cross-reference/ Direct answer	If applicable, indicate the part not reported/Reason for omission
DMA HR	Disclosure on Management Approach HR				
Aspects	Investment and procurement practices	Fully		55	
	Non-discrimination	Fully		55	
	Freedom of association and collective bargaining	Fully		55	
	Child labour	Fully		55	
	Forced and compulsory labour	Fully		55	
	Security practices	Fully		55	
	Indigenous rights	Not			Not Applicable
DMA SO	Disclosure on Management Approach SO				
Aspects	Community	Fully		62	
:	Corruption	Fully		67	
	Public policy	Fully		67	
	Anti-competitive behaviour	Fully		67	
	Compliance	Fully		60	
DMA PR	Disclosure on Management Approach PR				
Aspects	Customer health and safety	Fully		42	
	Product and service labelling	Fully		42	
:	Marketing communications	Fully		43	
:	Customer privacy	Fully		46	
	Compliance	Fully		46	
Performance Indicator	e Description		Reported	Cross-reference/ Direct answer	If applicable, indicate the part not reported/Reason for omission
Standard D	bisclosures Part III: Performance Indicators				
Economic F	Performance				
EC1	Direct economic value generated and distributed, including revenues, operatic costs, employee compensation, donations and other community investments retained earnings, and payments to capital providers and Governments.		Fully	19	
EC2	Financial implications and other risks and opportunities for the organisation' activities due to climate change.	S	Fully	68	
EC3	Coverage of the organisation's defined benefit plan obligations.		Fully	53	
EC4	Significant financial assistance received from Government.		Fully	61	
Market Pre	sence				
EC5	Range of ratios of standard entry level wage compared to local minimum wa at significant locations of operation.	age	Fully	53	
EC6	Policy, practices and proportion of spending on locally-based suppliers at significant locations of operation.		Fully	31	

Performance Indicator	Description	Reported	Cross-reference/ Direct answer	If applicable, indicate the part not reported/Reason for omission
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	Fully	52	
Indirect Econ	nomic Impacts		,	
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	Fully	62-67	
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	Fully	62-67	
Environment	tal			
Materials				
EN1	Materials used by weight or volume.	Fully	75	
EN2	Percentage of materials used that are recycled input materials.	Fully	76	
Energy				
EN3	Direct energy consumption by primary energy source.	Fully	70	
EN4	Indirect energy consumption by primary source.	Fully	70	
EN5	Energy saved due to conservation and efficiency improvements.	Fully	70-71	
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	Fully	70-71	
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	Fully	70-71	
Water				
EN8	Total water withdrawal by source.	Fully	71	
EN9	Water sources significantly affected by withdrawal of water.	Fully	71-73	
EN10	Percentage and total volume of water recycled and reused.	Fully	71	
Biodiversity				
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Fully	78	
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	Fully	78	
EN13	Habitats protected or restored.	Fully	78	
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	Fully	78	
EN15	Number of IUCN Red List species and national conservation list species with habitats in .areas affected by operations, by level of extinction risk.	Fully	78	
Emissions, Ef	fluents and Waste			
EN16	Total direct and indirect greenhouse gas emissions by weight.	Fully	71	
EN17	Other relevant indirect greenhouse gas emissions by weight.	Fully	71	
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	Fully	72	
EN19	Emissions of ozone-depleting substances by weight.	Fully	72	

Performance Indicator	Description	Reported	Cross-reference/ Direct answer	If applicable, indicate the part not reported/Reason for omission
EN20	NOx, SOx, and other significant air emissions by type and weight.	Fully	72	
EN21	Total water discharge by quality and destination.	Fully	73	
EN22	Total weight of waste by type and disposal method.	Fully	73-75	
EN23	Total number and volume of significant spills.	Fully	74	
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII and percentage of transported waste shipped internationally.	Not	78	Not applicable No hazardous waste transport.
EN25	Identity, size, protected status and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff.	Fully	76	
Products and	Services			
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	Fully	75	
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	Fully	76	
Compliance		•		
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	Fully	76	
Transport				
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce.	Fully	76	
Overall				
EN30	Total environmental protection expenditures and investments by type.	Fully	76	
Social: Labo	r Practices and Decent Work	•	•	
Employment				
LA1	Total workforce by employment type, employment contract and region.	Fully	50	
LA2	Total number and rate of employee turnover by age group, gender, and region.	Fully	50	
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	Fully	53	
Labor/Manag	gement Relations	<u>:</u>		
LA4	Percentage of employees covered by collective bargaining agreements.	Fully	55	
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	Fully	55	
Occupationa	l Health and Safety			
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes.	Fully	53	
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.	Fully	54	

Performance Indicator	Description	Reported	Cross-reference/ Direct answer	If applicable, indicate the part not reported/Reason for omission
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	Fully	54	
LA9	Health and safety topics covered in formal agreements with trade unions.	Not		Not applicable - no trade union
Training and	Education			
LA10	Average hours of training per year per employee by employee category.	Fully	52	
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Fully	78	
LA12	Percentage of employees receiving regular performance and career development reviews.	Fully	53	
Diversity and	t Equal Opportunity	•		
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	Fully	50	
LA14	Ratio of basic salary of men to women by employee category.	Fully	53	
Social: Huma	an Rights	•		
Diversity and	Equal Opportunity			
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	Fully	55	
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	Partially	55	Supplier COC implement on last year
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.	Fully	55	
Non-Discrim	ination	:		
HR4	Total number of incidents of discrimination and actions taken.	Fully	55	
Freedom of A	Association and Collective Bargaining			
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.	Fully	55	
Child Labour				
HR6	Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour.	Fully	55	
Forced and C	: Compulsory Labour			
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of forced or compulsory labour.	Fully	55	
Security Prac	tices			
HR8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations.	Fully	55	

Performance Indicator	Description	Reported	Cross-reference/ Direct answer	If applicable, indicate the part not reported/Reason for omission
Indigenous rig	ghts			
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	Not		Not applicable
Social Societ	ty			
Community				
SO1	Nature, scope and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities, including entering, operating and exiting.	Fully	62-67	
Corruption				
SO2	Percentage and total number of business units analysed for risks related to corruption.	Fully	67	
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures.	Fully	67	
SO4	Actions taken in response to incidents of corruption.	Fully	67	
Public Policy				
SO5	Public policy positions and participation in public policy development and lobbying.	Fully	67	
SO6	Total value of financial and in-kind contributions to political parties, politicians and related institutions by country.	Fully 67		
Anti-Compet	citive Behaviour			
SO7	Total number of legal actions for anti-competitive behaviour, anti-trust and monopoly practices and their outcomes.	Fully	Fully 67	
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	Fully	61	
Social: Produ	uct Responsibility			
Customer He	ealth and Safety			
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.	Fully	42	
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.	Fully	42	

Performance Indicator	Description	Reported	Cross-reference/ Direct answer	If applicable, indicate the part not reported/Reason for omission
Product and S	Service Labelling			
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	Fully	42	
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes.		42	
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction		42	
Marketing Co	mmunications			
PR6	Programmes for adherence to laws, standards and voluntary codes related to marketing communications, including advertising, promotion and sponsorship.	Fully	43	
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.	Fully	43	
Customer Priv	vacy			
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	Fully	46	
Compliance				
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	Fully	46	

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CORPORATE INFORMATION

Name of the Company

Diesel & Motor Engineering PLC

Registered Office

P.O. Box 339,

No. 65, Jetawana Road, Colombo 14, Sri Lanka. Telephone: 0094-11-2449797, 0094-11-2338883

http://www.dimolanka.com E-mail: dimo@dimolanka.com Facsimile: 0094-11-2449080

Legal Form

A public limited company incorporated in 1945 under the Laws of the Democratic Socialist Republic of Sri Lanka. The Company was re-registered under the Companies Act No. 07 of 2007 on 9th May 2008.

Company Registration Number

PO 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, No. 32 A, Sir Mohamed Macan Markar Mawatha, Colombo 3, 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

Commercial Bank of Ceylon PLC
Citibank
DFCC Vardhana Bank
Hatton National Bank PLC
Hongkong & Shanghai Banking Corporation Ltd.
Nations Trust Bank PLC
NDB Bank PLC
People's Bank
Sampath Bank PLC

Company Secretary

B.C.S.A.P. Gooneratne, F.C.A., M.B.A. (Sri J.)

Company Registrars

Corporate Services Ltd. No. 216, De Saram Place, Colombo 10, Sri Lanka

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Sixty-Sixth Annual General Meeting of Diesel & Motor Engineering PLC will be held at the Registered Office of the Company, No. 65, Jetawana Road, Colombo 14, on Thursday, 30th June 2011 at 2.30 p.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 2011, with the Report of the Auditors thereon.
- 2. To re-elect Dr. H.Cabral, who retires by rotation in terms of Article 66 of the Articles of Association as a Director of the Company.*
- 3. To re-elect Mr. B.C.S.A.P. Gooneratne, who retires by rotation in terms of Article 66 of the Articles of Association as a Director of the Company.*
- 4. To re-elect Mr. A.G. Pandithage, who retires by rotation in terms of Article 66 of the Articles of Association as a Director of the Company.*
- 5. To re-elect Mr. R.C.Weerawardane, who retires by rotation in terms of Article 66 of the Articles of Association as a Director of the Company.*
- 6. To reappoint KPMG Ford, Rhodes, Thornton & Co. as Auditors to the Company for the ensuing year and to authorise the Board of Directors to determine their remuneration.
- 7. To authorise the Directors to determine contributions to charities.
 - * The profiles of the Directors proposed for re-election are given on pages 122 to 125 of the Annual Report.

NOTE

A member is entitled to appoint a proxy to attend and vote instead of himself/herself and a proxy need not be a member of the Company. A Form of Proxy is enclosed for this purpose. The instrument appointing a proxy must be deposited at the Registered Office, No. 65, Jetawana Road, Colombo 14, not less than forty-eight hours before the time fixed for the Meeting.

By Order of the Board, **Diesel & Motor Engineering PLC**Company Registration No. PQ-146

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B.C.S.A.P. Gooneratne

Secretary

Colombo 3rd June 2011

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Notice of Meeting 234

1/\	Ve,			
	ing a member/members of DIESEL & MOTOR ENGINEERING PLC hereby appoint:			
1.				
	Holder of NIC No			
2.	ASOKA RANJITH PANDITHAGE (Chairman of the Company) of Colombo or, failing him, one of the Directors of the Company a my/our proxy to vote as indicated hereunder for me/us and on my/our behalf at the Sixty-Sixth Annual General Meeting of the Company to be held on Thursday, 30th June 2011 and at every poll which may be taken in consequence of the aforesaic 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 2011, with the Report of the Auditors thereon.			
2.	To re-elect Dr. H. Cabral, who retires by rotation at the Annual General Meeting, a Director.			
3.	To re-elect Mr. B.C.S.A.P. Gooneratne, who retires by rotation at the Annual General Meeting, a Director.			
4.	To re-elect Mr. A.G. Pandithage, who retires by rotation at the Annual General Meeting, a Director.			
5.	To re-elect Mr. R. C.Weerawardane, who retires by rotation at the Annual General Meeting, a Director.			
6.	To reappoint KPMG Ford, Rhodes, Thornton & Co. as Auditors and authorise the Directors to determine their remuneration.			
7.	To authorise the Directors to determine contributions to charities.			
Th	e proxy may vote as he/she thinks fit on any other resolution brought before the meeting.			
Dā	ited this			
Wi	tness:			
	Signature of Sharehol			

- 1. A proxy need not be a member of the Company.
- 2. Instructions to fill the Form of Proxy (please see overleaf).

FORM OF PROXY

Instructions as to Completion

- 1. To be valid this Form of Proxy must be deposited at the Registered Office, No. 65, Jetawana Road, Colombo 14, 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/her discretion will vote as he/she thinks fit. Please delete if you do not wish your proxy to vote as he/she 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.

