

as integrated as *Dimo* ...

DIESEL & MOTOR ENGINEERING PLC
Annual Report | 2011/12



* Our Second Integrated Annual Report

Our first, last year, turned out to be the first for Asia as well. Heartened by the overwhelming response from all our stakeholders, we made yet another attempt. We have once again structured this Annual Report based on our eight strategic imperatives; Highlights of the Year, Management Report, Enterprise Governance Report and Risk Management Report illustrate and discuss our position and response in holding true to them. As much as this 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.

Our business segments;
performance and prospects

we are in this together...for the long haul...
in the spirit of trusteeship, stewardship and
accountability

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(Detailed contents are given on inner back cover flap)

THIS IS DIMO

Diesel & Motor Engineering PLC, better known as Dima is a public quoted company listed on the Colombo Bourse. Founded in 1939, Dima 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, Dima has an extensive network of sales and after-sales facilities spread throughout the Island and a team of over 1,360 employees. 2011/12 has been a year of exceptional all round performance. These highlights as well as the outlook for the ensuing year are 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.

Business Segment		Principals Represented		Performance Highlights of the Year		Outlook for 2012/13																											
	Vehicles Passenger cars, SUV and a range of commercial vehicles from small 750kg trucks to large 40 Ton+ trucks to tippers and buses.		Number of vehicles sold and turnover increased by 65% and 32% respectively. TATA passenger vehicle sales increased by 16 times mainly on account of the launch of the TATA Nano. TATA commercial vehicles increased market share from 43 to 50% of the brand new commercial vehicles segment. Heavy/medium commercial vehicles sales increased by 115% while light and small commercial vehicles sales increased by 37%. Mercedes-Benz, Chrysler and Jeep performed below expectations.	 <table><tr><th>(Rs. bn)</th><th>Turnover</th><th>PAT</th><th>(%)</th></tr><tr><td>35</td><td>4.0</td><td></td><td>100</td></tr><tr><td>28</td><td>3.2</td><td></td><td>80</td></tr><tr><td>21</td><td>2.4</td><td></td><td>60</td></tr><tr><td>14</td><td>1.6</td><td></td><td>40</td></tr><tr><td>7</td><td>0.8</td><td></td><td>20</td></tr><tr><td>0</td><td>0</td><td></td><td>0</td></tr></table>	(Rs. bn)	Turnover	PAT	(%)	35	4.0		100	28	3.2		80	21	2.4		60	14	1.6		40	7	0.8		20	0	0		0	Recent upward revision of tariffs and duties together with the upward movement in exchange rates could challenge sales, particularly of our high end products. We nevertheless continue to invest on strengthening infrastructure and reach. Particular emphasis is on increasing our customer contact points. Overall, we remain cautiously optimistic.
(Rs. bn)	Turnover	PAT	(%)																														
35	4.0		100																														
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7	0.8		20																														
0	0		0																														
	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.		Sales of TATA as well as OEM parts increased by 34% and 17% respectively, while sales of Mercedes-Benz, Chrysler and Jeep parts dropped by 14% and sales of Bosch parts dropped by 7%. Tyre sales performed below expectation owing to poor supplies. Growth momentum in vehicle service continued during the year with Vehicle Service Hours Sold rising sharply from 118,430 to 208,768 along with Vehicle Throughput rising from 22,392 to 45,281.	 <table><tr><th>(Rs. bn)</th><th>Turnover</th><th>PAT</th><th>(%)</th></tr><tr><td>3.5</td><td>0.625</td><td></td><td>50</td></tr><tr><td>2.8</td><td>0.500</td><td></td><td>40</td></tr><tr><td>2.1</td><td>0.375</td><td></td><td>30</td></tr><tr><td>1.4</td><td>0.250</td><td></td><td>20</td></tr><tr><td>7</td><td>0.125</td><td></td><td>10</td></tr><tr><td>0</td><td>0</td><td></td><td>0</td></tr></table>	(Rs. bn)	Turnover	PAT	(%)	3.5	0.625		50	2.8	0.500		40	2.1	0.375		30	1.4	0.250		20	7	0.125		10	0	0		0	The investments currently underway to upgrade and expand our service and repair facilities, the rapid increase in the vehicle population in recent years, and the expansion of our Dima outlets plus dealer network augurs well for growth in this division. The new brand of tyres, 'KHUMO', the tyre retail service and repair centres to be launched during the year and the increase in the tyre dealer network should improve tyre sales.
(Rs. bn)	Turnover	PAT	(%)																														
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7	0.125		10																														
0	0		0																														
	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.		Sales were adversely affected due to non-availability of CFL lamp supplies. Bosch power tools recorded a 38% increase in sales, retaining market leadership with a 36% share of the branded market. Growth in the construction sector, focus on the end user, enhancing our island-wide authorised dealer network and a 90% availability of spare parts contributed to this growth. Lighting business unit systems were certified to provide LEED consultancy.	 <table><tr><th>(Rs. bn)</th><th>Turnover</th><th>PAT</th><th>(%)</th></tr><tr><td>1.0</td><td>0.125</td><td></td><td>50</td></tr><tr><td>0.8</td><td>0.100</td><td></td><td>40</td></tr><tr><td>0.6</td><td>0.075</td><td></td><td>30</td></tr><tr><td>0.4</td><td>0.050</td><td></td><td>20</td></tr><tr><td>0.2</td><td>0.025</td><td></td><td>10</td></tr><tr><td>0</td><td>0</td><td></td><td>0</td></tr></table>	(Rs. bn)	Turnover	PAT	(%)	1.0	0.125		50	0.8	0.100		40	0.6	0.075		30	0.4	0.050		20	0.2	0.025		10	0	0		0	Opening up of markets in the North and East, growth in hotels and construction sectors as well as our own expansion of the distribution network should turn a worthwhile result.
(Rs. bn)	Turnover	PAT	(%)																														
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	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 harvesters.		Market leadership status in heavy machinery and equipment that Komatsu rose to last year was retained in the year under review. However, downscaling of Komatsu forklift operation by the principal led to a loss of market share in the forklift market. Fluid management systems recorded a 35% increase in turnover owing to several projects that were hitherto on hold coming on stream. The Agri Business witnessed a turnover growth of 4%.	 <table><tr><th>(Rs. bn)</th><th>Turnover</th><th>PAT</th><th>(%)</th></tr><tr><td>5.0</td><td>0.35</td><td></td><td>50</td></tr><tr><td>4.0</td><td>0.28</td><td></td><td>40</td></tr><tr><td>3.0</td><td>0.21</td><td></td><td>30</td></tr><tr><td>2.0</td><td>0.14</td><td></td><td>20</td></tr><tr><td>1.0</td><td>0.070</td><td></td><td>10</td></tr><tr><td>0</td><td>0</td><td></td><td>0</td></tr></table>	(Rs. bn)	Turnover	PAT	(%)	5.0	0.35		50	4.0	0.28		40	3.0	0.21		30	2.0	0.14		20	1.0	0.070		10	0	0		0	Launch of innovative new products together with the expansion of our regional service network and growth in hotels and construction sectors should enable us to augment our market leading position to drive growth in this sector.
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	Electromechanical & 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 medical equipment.		Highlight of the year was winning the first ever Supervisory Control and Data Acquisition/ Distribution Management System (SCADA/DMS) project of the Ceylon Electricity Board. The Country's largest fire detection project was also awarded to Dima. Several high profile projects were successfully completed during the year. Medical solutions division recorded a 70% increase in turnover. Power systems division secured an order of 23 locomotive engines although overall performance of this division was below expectations.	 <table><tr><th>(Rs. bn)</th><th>Turnover</th><th>PAT</th><th>(%)</th></tr><tr><td>1.0</td><td>0.15</td><td></td><td>35</td></tr><tr><td>0.8</td><td>0.12</td><td></td><td>28</td></tr><tr><td>0.6</td><td>0.09</td><td></td><td>21</td></tr><tr><td>0.4</td><td>0.06</td><td></td><td>14</td></tr><tr><td>0.2</td><td>0.03</td><td></td><td>7</td></tr><tr><td>0</td><td>0</td><td></td><td>0</td></tr></table>	(Rs. bn)	Turnover	PAT	(%)	1.0	0.15		35	0.8	0.12		28	0.6	0.09		21	0.4	0.06		14	0.2	0.03		7	0	0		0	With key sectors such as hotels, construction and health-care poised for growth, this division is expected to continue its growth momentum.
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*** We Exist Because We**

1. Refine the portfolio mix of our business continuously
2. Create financial value
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

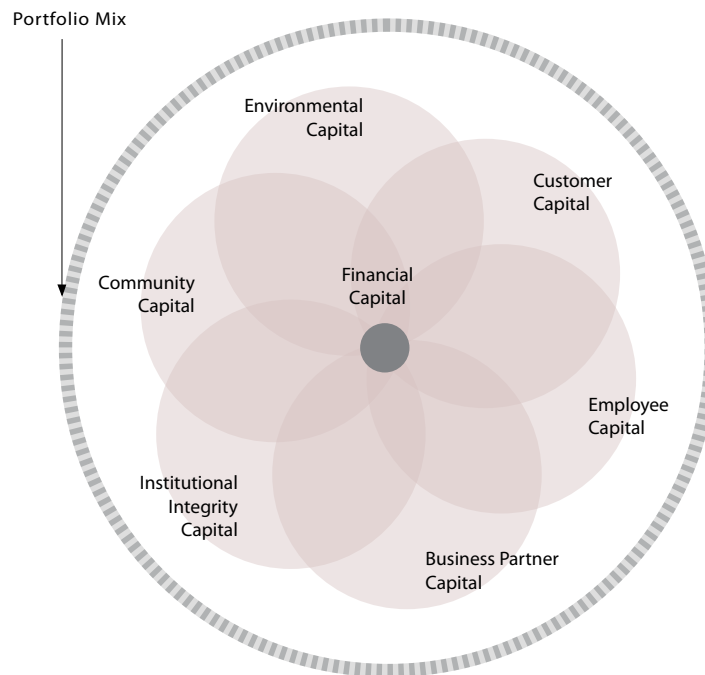
And these constitute our eight strategic imperatives.

*** 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:



CONTEXT





A 360 DEGREE VIEW OF HIGHLIGHTS OF THE YEAR

Key Performance Area	Metric	Achievement		Change	A Forward Looking Note
		2011/12	2010/11		
<div>CREATING FINANCIAL VALUE</div>					
Wealth creation	Economic Value Added (Rs. mn)	1,905	1,762	8%	Several investments are already underway to enhance capacity, competency and reach. These investments amounting to Rs. 5 bn during the three-year period ending 31st March 2014 are expected to support revenue growth from the ensuing year onwards. For details, refer column on outlook for 2012/13 given in inner front cover.
	Market Value Added (Rs. mn)	1,253	8,719	(86%)	
	Net Assets Value per Share (Rs.)	841	473	78%	
	Market Capitalisation (Rs. mn)	8,718	12,920	(33%)	
Wealth distribution	Employees (Rs. mn)	1,372	1,037	32%	Relentless focus on working capital management will continue. We will challenge the current market norms of 60-day credit periods and 60-day stock residence times and gradually set new standards for them.
	Government (Rs. mn)	6,062	5,571	9%	
	Lenders (Rs. mn)	253	207	22%	
	Community (Rs. mn)	51	30	70%	
	Shareholders (Rs. mn)	554	122	354%	
Shareholder return	Return on Equity (%)	36.13	50.51	(28%)	We are focused on improving gross profit margin by at least 2%, greater efficiencies in managing expenses, higher value addition and productivity improvement in order to improve profitability. Our budget for 2012/13 envisages a stable performance rather than a substantial growth in profits. We are confident of maintaining our record of creating positive EVAs.
	Earnings per Share (Rs.)	303.87	239.03	27%	
	Price Earnings Ratio (times)	3.23	6.21	(48%)	
	Dividend per Share (Rs.)	40.00	61.00	(34%)	
	Shareholders' Funds (Rs. mn) - at the year end	7,465	4,201	78%	
Profitability	Gross Profit Ratio (%)	18.23	20.56	(11%)	
	Net Profit Ratio (%)	6.81	7.31	(7%)	
Working capital management	Current Ratio (times) - at the year end	1.55	1.27	22%	
	Quick Assets Ratio (times) - at the year end	0.34	0.84	(60%)	
Asset utilisation	Fixed Assets Turnover (times)	8.49	9.37	(9%)	
Capital structure	Debt/Equity (%) - at the year end	13.4	9.76	37%	
	Interest Cover (times)	15.64	17.35	(10%)	

A 360 DEGREE VIEW OF HIGHLIGHTS OF THE YEAR / CONTEXT

Key Performance Area	Metric	Achievement		Change	A Forward Looking Note
		2011/12	2010/11		
<div> EARNING THE TRUST OF CUSTOMERS SO THAT THEY KEEP COMING BACK</div>					
Customer service	Number of sales personnel	362	345	5%	In the ensuing months we should see a change in the face of our customer relationship management (Refer pages 56 to 58 for details). Major investments and initiatives to improve customer service and customer convenience are underway. We are strengthening our island-wide presence at strategic locations. Several new investments in state-of-the-art facilities will set a new benchmark in the sectors that we operate in. While strengthening our existing customer portfolio, new customer segments will be attracted particularly owing to the Bosch Centre launched in the year under review which attracts all popular makes of vehicles and the expansion of our 'Tyre Plus' network that kicked off during the year under review.
	Number of service personnel	481	442	9%	
	Training man hours -				
	Sales personnel	4,044	3,518	15%	
Customer convenience	Number of branches and customer interaction points	40	25	60%	
Customer satisfaction	Weighted average customer satisfaction index	89.2	85.6	4%	
	Number of complaints received	261	201	30%	
	Number of complaints resolved within 3 days in Vehicle Sales and Parts & Service Segments	128	48	167%	
<div> NURTURING PEOPLE SO THAT THEY FIND IT ENJOYABLE AND REWARDING TO WORK WITH US</div>					
Team strength	Number of employees as at year end	1,339	1,019	31%	Statistics suggest an increase in 'Y' generation employees. The human resources function is increasingly gearing itself to address their needs. We are on track towards increasing our percentage of female employees to 15% by 2014. We have budgeted to invest on at least 10 hours of training per employee per annum. We expect the employee satisfaction score to move further up from the current level of 62.6%. An upgrade of our current system for managing employee health and safety as well as OHSAS 18001 accreditation has been planned for the ensuing year.
Gender distribution	% of female employees	11	10	10%	
Age distribution	% of employees below 40 years of age	81	76	7%	
Knowledge and skills development	Number of training man hours	18,106	11,105	63%	
Employee satisfaction	% of employees who participated in the voluntary employee satisfaction survey	86.4	54	60%	
	Employee satisfaction index (%)	62.6	55	14%	
Employee health & safety	Expenses incurred for employee health & safety (Rs. mn)	25.1	9.47	165%	
	Work-related fatalities	Nil	Nil	Nil	

CONTEXT / A 360 DEGREE VIEW OF HIGHLIGHTS OF THE YEAR

Key Performance Area	Metric	Achievement		Change	A Forward Looking Note
		2011/12	2010/11		
<div> HAVING GREAT RELATIONSHIPS WITH BEST-OF-BREED BUSINESS PARTNERS</div>					
Relationship with Principals	Length of longest relationship (years)	73	72	1	Our focus will remain on nurturing the relationships with our existing Principals while seeking new relationships that represent a strategic fit.
	No. of relationships above 50 years	5	5	—	
	No. of relationships between 25 to 50 years	9	9	—	
	No. of relationships between 10 to 25 years	16	17	(1)	
	No. of relationships between 1 to 10 years	40	24	16	
	No. of new relationships commenced during the year	8	16	(8)	
<div> PLAYING BY THE RULES</div>					
Contribution to Exchequer	Taxes paid (Rs. mn)	6,062	5,571	8.8%	Substantial amounts of duties/taxes will be paid. Refer pages 18 to 22 for macroeconomic scenario.
<div> SERVING THE COMMUNITY</div>					
Development of youth	Number of students enrolled to Dimo Automobile Training School	36	32	12.5%	Our focus will remain on youth development.
	Number of vocational training students accommodated from the top vocational training institutes in Sri Lanka	168	148	13.5%	
<div> BEING FRIENDLY TOWARDS THE ENVIRONMENT</div>					
Combating climate change	Carbon footprint. tCO ₂ e per Rs. 1 mn of Group net turnover	0.1674	0.1064	57.3%	We are intent on reducing our greenhouse gas emissions for every Rs. 1 mn of Group net turnover by 5% and improving our ground water reuse percentage by 1% per annum.
	Energy consumption. Revenue per Megajoule of energy consumed (Rs.)	511	906	(43.6%)	
	Ground water recycled and reused as a percentage of total water consumption (%)	15	24	(37.5%)	

REPORT PARAMETERS...THE BIG PICTURE / CONTEXT

Overview Departing from past practice, we introduced our first ever integrated annual report last year for the financial year ending 31st March 2011. We are adopting the same approach this year too, based on our eight strategic imperatives that builds capital, both financial as well as non-financial. The latter also known as intellectual capital, encompasses our customers, human resources, business partners, institutional integrity, community and environment, which taken together represent Dimo's drivers of sustainable value.

Report Scope and Boundaries Non-financial information in this Annual Report is aligned with the Global Reporting Initiative (GRI) G3.1 Sustainability Reporting Guidelines at a self-declared application level 'A+'. The GRI Index given on page 258 provides a complete list of indicators with cross references for details found elsewhere. The non-financial information has been subject to independent verification and an assurance is provided by Det Norske Veritas AS (DNV) as per AccountAbility Assurance Standard AA1000AS (2008). Financial information has been subject to the usual independent assurance and is fully dealt with in the Financial Reports section of this Annual Report.

This integrated annual report covers the activities of Diesel & Motor Engineering PLC and its subsidiaries (Dimo Group) over the 12-month period ended 31st March 2012 (also referred to as 'year under review' or 'current year'). There are no changes in the reporting scope and boundary from the previous report. Information in this report pertaining to the previous year has not been restated.

This report also serves as a progress report on Dimo's implementation of the ten principles of the UN Global Compact, and takes into consideration the Blueprint for Corporate Sustainability Leadership - an action plan initiated as part of the Global Compact Platform. The Global Compact Index on page 258 provides an overview of the topics covered.

As for future reporting, our objective is to increasingly align our external reporting with good-practice guidelines, such as the upcoming GRI G4 Guidelines, as well as Integrated Reporting. Dimo, along with about 65 global organisations, is presently participating in a Pilot Programme of the International Integrated Reporting Committee (IIRC) that will facilitate in the development of an International Integrated Reporting Framework. The Pilot Programme encourages experimentation and innovation among member companies through individual meetings, webinars, regional and sector networks, conferences and through a dedicated Pilot Programme community website. The Pilot Programme covers a two-year period ending October 2013, after which a draft Framework is expected to be published.

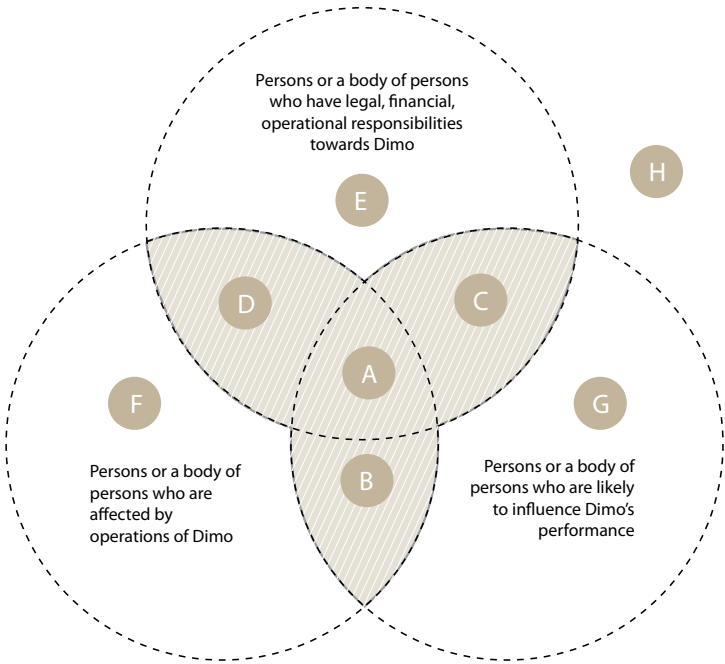
To support our ongoing activities as well as the above initiatives a Sustainability Committee was set up within Dimo during the last two years. It comprises senior management drawn from across our operations.

Stakeholder Identification

Mapping Our universe of stakeholders was mapped in the context of our eight strategic imperatives, and checked against the following three non-mutually exclusive characteristics:

- Stakeholders who have legal, financial or operational responsibilities towards Dimo
- Stakeholders who are likely to influence Dimo's performance
- Stakeholders who are affected by Dimo's operations.

Stakeholder Identification Mechanism for Engagement



Basis for Engagement Stakeholders were then identified for engagement as follows:

- Those who exhibited all three of the above characteristics were considered to be the most important, where engagement is a priority
- Those who exhibited any two of the above characteristics were regarded as the next important group, and also identified for engagement
- Those who exhibited only one or none of the said characteristics were not to be considered for engagement in general. However, the Sustainability Committee may decide to include any party in the engagement process on a case by case basis.

Stakeholder Engagement

The following table depicts the various methods by which we engage with our important stakeholder groups.

Stakeholders	Process of Engagement
Shareholders	<ul style="list-style-type: none"> • One-to-one interview (by an independent third party on behalf of the Company) • 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	<ul style="list-style-type: none"> • One-to-one interviews (by an independent third party) • Customer Relationship Management (CRM) process 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 Business unit 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 • Dimo call centre
Employees	<ul style="list-style-type: none"> • One-to-one interviews (by an independent third party) • Focus group discussions (by an independent third party) • Employee Council meetings • Employee Portal 'Dimo net' of the Company, 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 Rewards & Recognition • Product knowledge sharing session with employees
Business Partners and Suppliers	<ul style="list-style-type: none"> • One-to-one interviews (by an independent third party) • Supplier Code of Conduct • A high speed 24x7 on line link enables constant dialogue with principals. Issues discussed include product quality, marketing, customer satisfaction and, 'problem solving' • On site visits from principals and on site visits to principals' locations facilitate engagement • Principals' Reports - Compiled by Dimo annually and submitted to respective principals

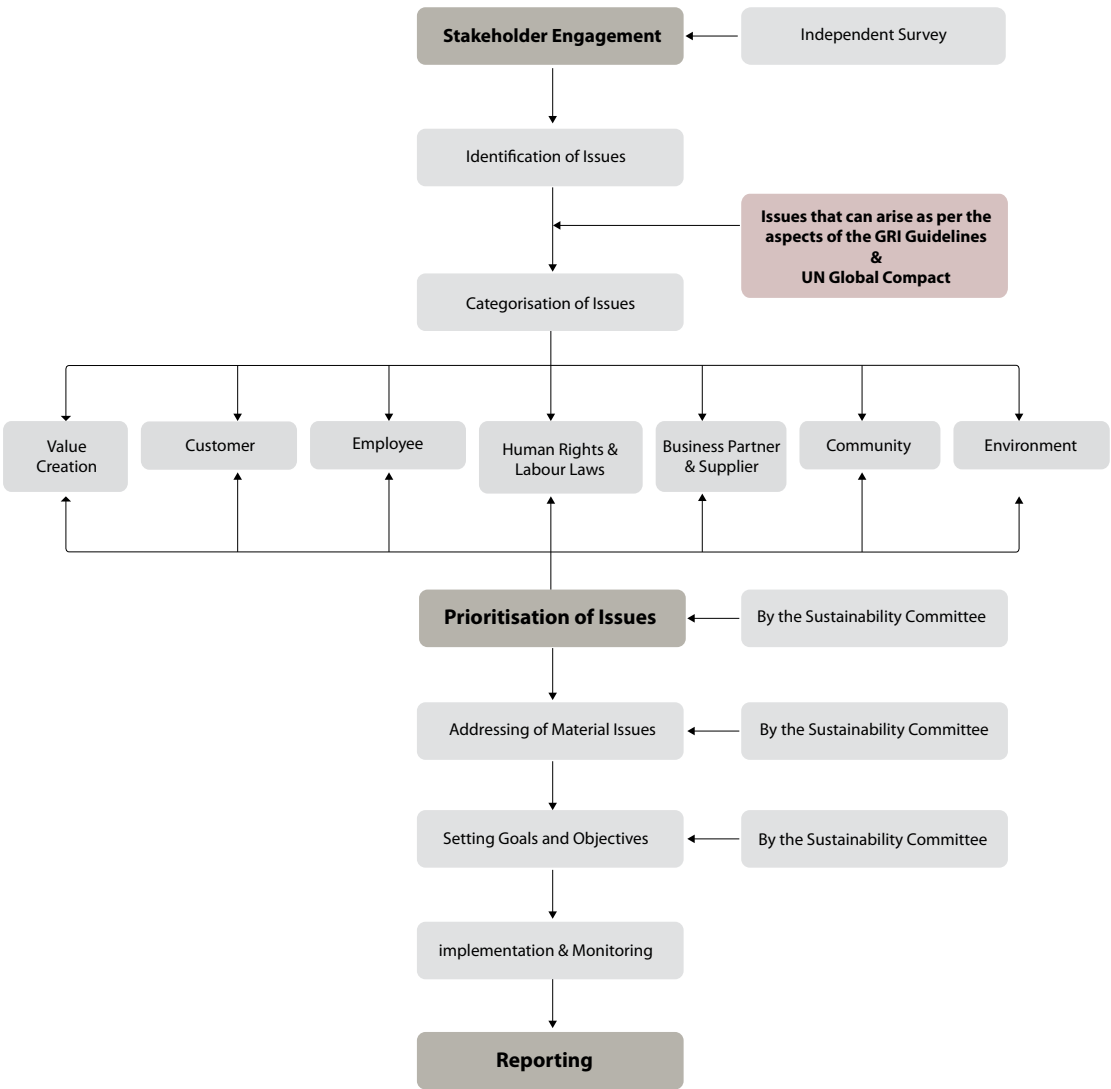
CONTEXT

REPORT PARAMETERS...THE BIG PICTURE

Stakeholders	Process of Engagement
Regulatory and Government Agencies	<ul style="list-style-type: none">One-to-one Interview (by an independent third party)
Community	<ul style="list-style-type: none">One-to-one interviews (by an independent third party)Focus group discussions (by an independent third party)Dialogue with Religious DignitariesWritten and oral communications initiated by stakeholdersCompany website

Management of Stakeholder Issues

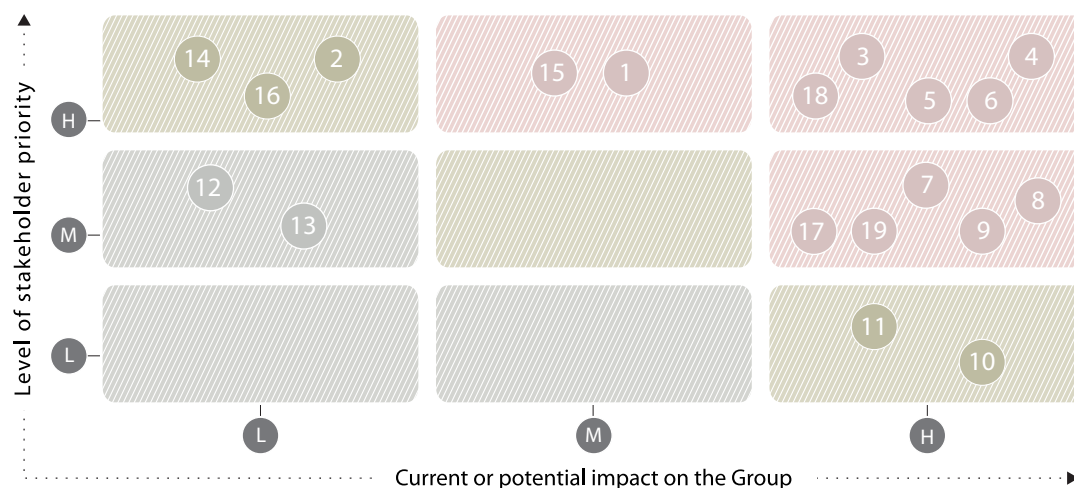
The following diagram illustrates the methodology we employ to manage stakeholder issues.



REPORT PARAMETERS...THE BIG PICTURE / CONTEXT

Materiality of Stakeholder Issues

The issues identified were mapped according to their materiality as shown in the diagram below. Materiality was assessed as being high, medium or low along two dimensions, namely, (i) significance of economic, environmental and social impacts, and (ii) influence on stakeholder assessments and decisions, and hence stakeholder priority.



Issues indicated in this area are of high significance and impact for both stakeholders and the organisation. All indicators shown in this area are fully discussed in the report.

Issues indicated in this area have a relatively moderate impact on our business. They too were addressed during the reporting period and are fully or partially reported.

Issues found in this area of the grid have only a minor impact and are thus not reported on.

- | | |
|--|--------------------------------------|
| 1. Emissions, Effluents and Waste | 2. Technical Education for Youth |
| 3. Customer Health and Safety | 4. Economic Performance |
| 5. Employee Training and Education | 6. Occupational Health and Safety |
| 7. Equal Remuneration for Women and Men | 8. Labour/Management Relations |
| 9. Compliance | 10. Materials & Energy Usage |
| 11. Corruption | 12. Diversity and Equal Opportunity |
| 13. Investment and Procurement Practices for Local suppliers | 14. Anti-Competitive Behaviour |
| 15. Customer Privacy | 16. Ethical Marketing Communications |
| 17. Local Communities | 18. Carbon Footprint |
| 19. Mutually beneficial relationships with suppliers | |

CONTEXT / **CHAIRMAN'S LETTER**





The year 2012 will be one that will test our mettle. We have experienced difficult times in our long history. We look back on them with pride and satisfaction, having overcome the hardships while holding true to the Dima ethos.

Riding on the favourable macroeconomic environment and duty regime of the previous year, the year under review too is an all-time best for both Dima and the Group. Dima's gross turnover grew by 36% to Rs. 39,899 mn and profit after tax by 27% to Rs. 2,697 mn. The Group results too mirrored these exemplary results.

In a nutshell, it was an excellent performance all round. The management report that follows provides a discussion on our performance, supported by sections on stewardship, financial performance and supplementary information.

Let me now bring you up to speed on our strategic thinking for the future. The business cycle is getting shorter. While we conclude another year with outstanding results, we are entering an era of challenge.

As I had mentioned in my previous letter, we were - and are - mindful of the two main factors that contributed to our phenomenal growth in 2010/11; the decline in interest rates and the reduction of duty on imported motor vehicles. A relatively stable exchange rate that prevailed during the first three quarters also favoured this scenario.

We were well positioned to benefit from such an economic climate. However, there was also a downside. The resulting surge in imports and increased consumption led to the overheating of the economy in the second half of 2011. In response to the widening deficit in the balance of payments the Central Bank of Sri Lanka intervened with corrective measures that included the depreciation of the Rupee, a hike in policy rates and a curb on credit expansion by financial institutions. March 2012 saw an upward revision of the duty structure.

While these may well be early warning signals, they also serve to prepare us to face the future with grit and determination.

The year 2012 will be one that will test our mettle. We have experienced difficult times in our long history. We look back on them with pride and satisfaction, having overcome the hardships while holding true to the Dima ethos. The real challenge during such periods is to shield our customers and employees from the adverse situations arising from the business cycle. Our customers' businesses and livelihoods are dependent on our unfailing service. The quality of life of the families that are dependent on our employees cannot be compromised. As such, Dima has to be consistent in its delivery of value to them. They in turn will drive Dima's value creation. We work simultaneously to keep our principals' brands alive. Thus, while grappling with the demands that are before us, we will not yield to short-term measures that would compromise our ongoing commitment to our stakeholders.

CONTEXT / CHAIRMAN'S LETTER

Last year we produced what is now acclaimed as Asia's first integrated annual report. That maiden effort has been enhanced this year. Let me once again reiterate our eight strategic imperatives as they form the basis for all our plans and actions; and naturally the structure of our report. Our six forms of non-financial or intellectual capital - customers, employees, business partners, regulatory authorities, community and concern for the environment - are in dynamic interaction to create financial value for Dimo, our seventh form of capital. That's only one side of the coin in economic value creation. The other side is the value that Dimo delivers to each of the six forms of intellectual capital. Encompassing the seven forms of capital is our business domain or portfolio mix - and managing this is our eighth strategic imperative.

I would like to say more on this eighth imperative.

It is prudent to consider diversity when selecting an investment portfolio in order to reduce the risk. The individual components of the portfolio should bring about synergies. They should also build on the strengths of the Group and forge new pathways for sustainable development and growth.

Where do we stand in relation to the above concepts and principles?

What is most obvious is Dimo's heavy concentration in the motor vehicles segment. That too with high dependence on a select few, albeit prestigious, principals. All five business segments of Dimo, being import-dependent, are exposed to the vagaries of the exchange rate and the tariff structure. Both can change overnight, as we have seen in the recent past - with positive and negative implications.

These prompt us to further our thinking.

Our priority is to deliver value to our customers, who are becoming more sophisticated and demanding. We need to provide services at the customers' doorstep, so to speak. With the post-war development that is taking place in the entire country, we must reach out and have an island wide presence at strategic locations. Coming all the way to Colombo for service is not an option, especially for commercial vehicles.

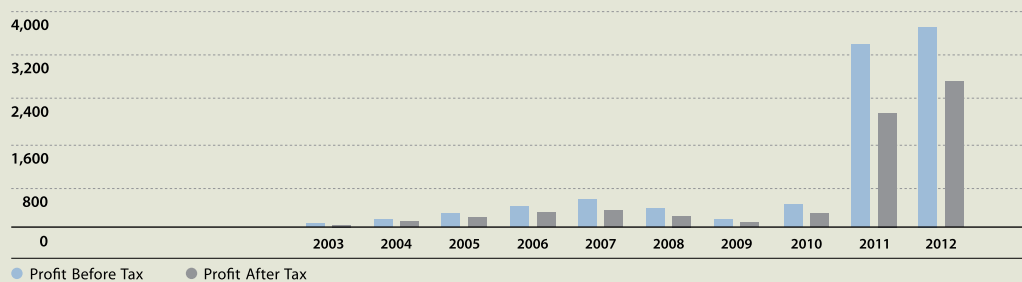
During the year under review we established Dimo Customer Contact Points in many parts of the country. The Siyambalape workshop facility was expanded, and the state-of-the-art Bosch Centre which accommodates all popular vehicle makes and modern diesel injection systems was commissioned.

Starting from Matara, we are introducing a new experience in vehicle tyre sales and service under the banner 'Tyre Plus'. Work is in progress on the construction of the TATA and Mercedes-Benz Centres; sales and service centres in Jaffna, Trincomalee and Kurunegala; and the Dimo Technical Institute in Sooriyawewa. These are major long-term investments. We are targeting investments totalling Rs. 5 bn over the three years ending 2013/14.

Ups and downs are a fact of life, as seen by the points scattered all over the graphs. Yet, the 'Line of Best Fit' is moving upwards over the years. That heartens us all.

Profit Before Tax & Profit After Tax

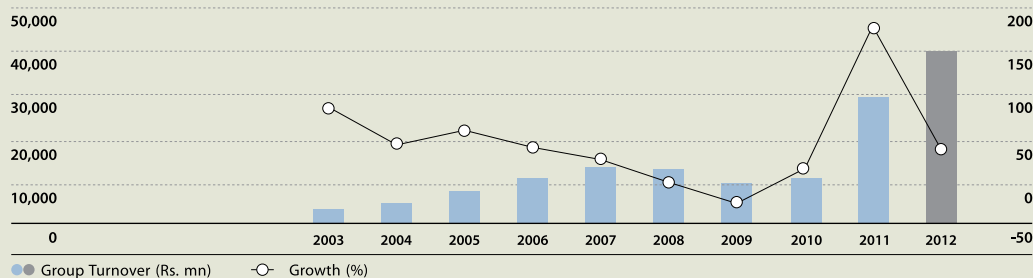
(Rs. mn)



Group Turnover

(Rs. mn)

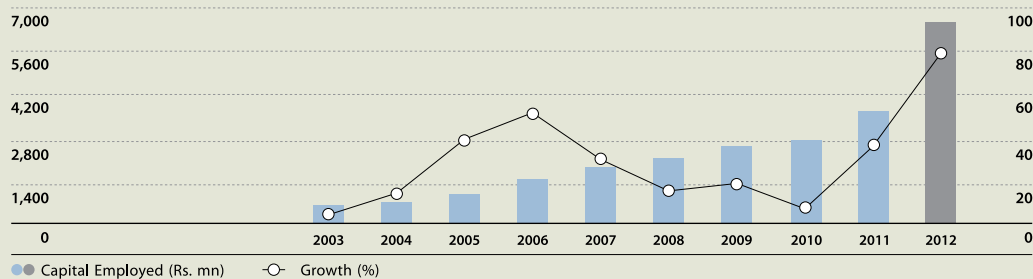
(%)



Capital Employed and Growth

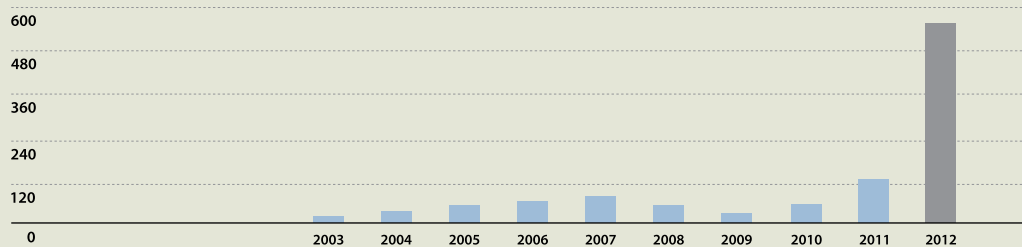
(Rs. mn)

(%)



Dividend Paid

(Rs. mn)



CONTEXT / CHAIRMAN'S LETTER

Customer Relationship Management (CRM) also received considerable attention during the year. Results of our annual customer satisfaction surveys provide the basis for continuous improvement in all areas. A dedicated CRM Division is in operation that presently serves our vehicles segment. Its scope will be expanded to cover other business segments in the near future. In September 2011 we launched a Call Centre to manage inquiries and complaints in a more systematic and structured manner. Service standards and procedures are monitored, as we strive harder to raise the bar on customer satisfaction through convenience, superior service and technical excellence.

We continue to invest in people through training and development; not only our employees, but also those in the localities where we operate through voluntary programmes and the Dimo Automobile Training Schools. We embarked on a large recruitment drive during the year that saw 567 persons joining the Dimo Group to enhance our expanding business.

But that is not all. We must also proactively manage the risks inherent in our portfolio mix. We need to hedge the dual risks of tariff revisions and the depreciation of the currency. One option is to create greater value addition locally. We are currently negotiating with our principals to assemble passenger vehicles in Sri Lanka. Another option is to look at backward integration into component manufacture where we see fit.

Dimo is closely studying its business domain, or playing field, to manage its future in a sustainable manner. Times change, and we with them. Business boundaries can expand or contract, or undergo a paradigm shift.

Dimo has withstood the test of time. Good times and bad. The golden thread that kept the fabric of our enterprise together through its seventy three-year history was, and is, our reputation. We call it institutional integrity in accounting for our intellectual capital. This is our mainstay in an ever changing business world.

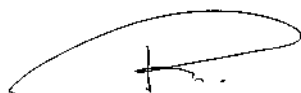
I thank our customers for their valuable patronage and the fruitful relationships we have built. To earn and retain their trust is of utmost importance to us.

To the Dimo Team - our own distinctive 'Tribe' - I congratulate you wholeheartedly for delivering yet another year of splendid performance. I look forward to your continued commitment, dynamism and effort as we move into challenging times.

As for our principals, we are honoured and touched by the confidence they have placed in us, some going back half a century or more. We look forward to many more years of mutually beneficial collaborations.

In keeping with the performance of the Company, the Board has recommended that we reward our shareholders with a final dividend of Rs. 27.50 per share, which inclusive of the two previous interim dividends, amounts to a total dividend payout of Rs. 40.00 per share for the year. We are encouraged by the faith our shareholders have placed in our stewardship in driving the Company forward.

My colleagues on the Board continue to provide valuable guidance and counsel. We work as an effective and dynamic team. While warmly thanking them I also look forward to their continued support in what is sure to be a challenging, yet exciting year ahead.



A. Ranjith Pandithage
Chairman/Managing Director

Colombo
30th May 2012

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MANAGEMENT REPORT

Group strategy given on page 1 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.



MANAGEMENT REPORT / THE OPERATING ENVIRONMENT...AND TRENDS



Global Economic Environment

The year 2011 was by far one of the most challenging years for the global economy as it continued to witness recession and stagnant economies in the developed world, sovereign debt crises in Europe and political turmoil in the Middle East and North African regions. The growth rate in 2011 is estimated at 2.7% (2010 - growth was 4.1%), the global economy is forecasted to grow by 2.5% and 3.1% in 2012 and 2013 respectively.

Economies in developing Asia fared better, posting an average 7.9% growth, though it is a decline over the strong recovery of 9.5% in 2010.

The Automotive Industry

The global auto industry is highly concentrated. The top-10 global automakers account for roughly 80% of the worldwide production and nearly 90% of total vehicles sold in the U.S. The global economic crisis that was triggered in 2008 led to a significant structural change in the industry. As a result, the global auto industry is now expected to be ruled by automakers and suppliers based in the six major auto markets, namely, China, India, Japan, Korea, Western Europe and the U.S.

Automakers continue to shift their production facilities from high-cost regions such as North America and Europe to lower-cost regions such as China, India and South America. Asian countries, especially China and India, are expected to account for 40% of growth in the auto industry over the next five to seven years.

//////////////////////////////////////
 "One of the most powerful qualities in life and business is Truth. In its purest form there is nothing more potent...beyond it lies nothing...it cannot be bettered."

RANJITH PANDITHAGE

Chairman/Managing Director

THE OPERATING ENVIRONMENT...AND TRENDS / MANAGEMENT REPORT

The role of Governments is highly significant. Governments in all major countries have become active auto industry players. Their energy and environmental policies will strongly influence the auto industry in the coming years.

Rising fuel prices and global warming have turned attention to the auto industry to either rely less on traditional fossil fuels or to use renewable sources of energy. Thus, 'green' alternatives such as fuel-efficient electric vehicles (EVs) and hybrid vehicles will attract consumers in the affluent countries while flex-fuels such as ethanol and natural gas will be in high demand in the emerging auto markets due to their suitability with the local climate and resource base.

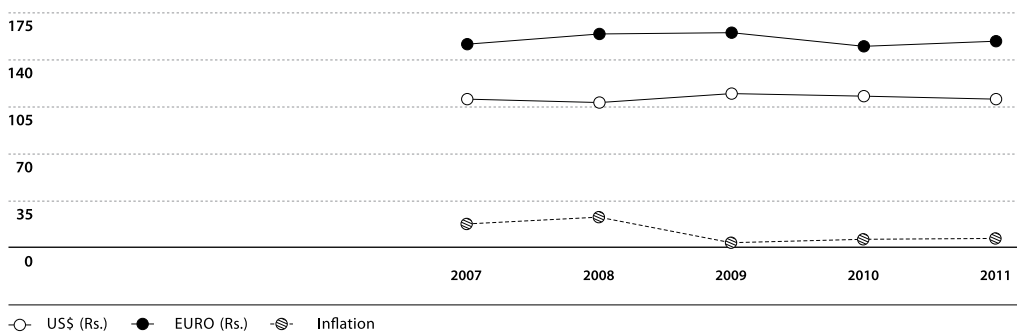
Some recent trends also show that automakers are concentrating on offering more optional fuel efficient features even on the small and less gas-guzzler vehicles in order to attract buyers. The sale of optional features is helping them offset lower profit margins for small cars relative to large trucks.

The Sri Lankan Economy

The economy grew 8.3% in 2011, the highest in Sri Lanka's post-independence history, sustaining a growth momentum of over 8% for the first time in two consecutive years. The 2011 performance was largely driven by the consumption and investment boom following the restoration of peace. Inflation remained subdued at a single digit level for the third consecutive year. Nevertheless, systemic pressures during the second half of 2011 characterised by a widening deficit and a deteriorating balance of payments position led to the Central Bank of Sri Lanka introducing some corrective measures. These measures included a depreciation of the Rupee, a hike in policy rates and the introduction of ceilings on credit expansion, which in turn may result in a somewhat lower rate of GDP growth in 2012.

Fluctuation of Exchange Rate vs Inflation

(SL Rs.)



Transportation Sector

Government fiscal policies on vehicle imports have a direct and significant impact on the sale of new passenger vehicles, commercial vehicles, special purpose vehicles, vehicle spares, accessories and tyres of the Dima Group. The vehicle segment accounts for over 75% of the Group's business and hence merits further discussion. Some key statistics of the sector are given below:

MANAGEMENT REPORT / THE OPERATING ENVIRONMENT...AND TRENDS

Registration of Motor Vehicles in Sri Lanka

Class of Vehicle	2006	2007	2008	2009	2010	2011
Motor cars	27,578	22,603	20,237	5,762	23,072	57,886
Three-wheelers	64,466	43,068	44,804	37,364	85,648	138,426
Motor cycles	156,626	182,508	155,952	135,421	204,811	253,331
Buses	3,346	2,637	1,180	739	2,491	4,248
Dual purpose vehicles	7,245	5,193	2,856	1,280	11,712	33,518
Goods transport vehicles	20,436	18,408	14,038	8,225	11,845	14,818
Land vehicle	20,825	23,475	26,132	15,284	19,664	23,194
Total	300,522	297,892	265,199	204,075	359,243	525,421

Source: Department of Motor Traffic

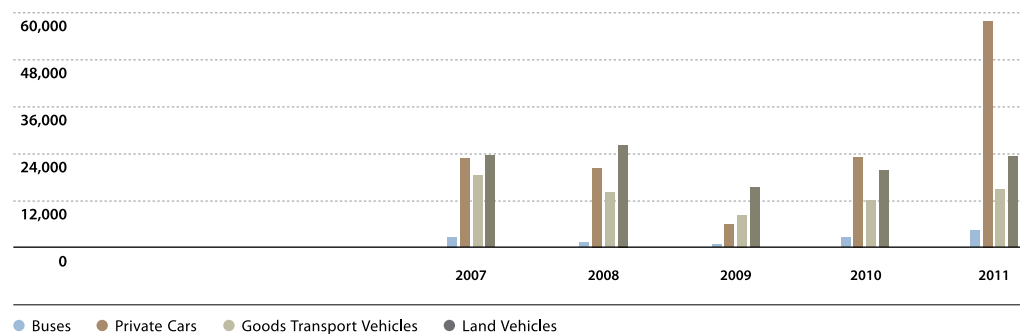
Remarkable progress was seen in the transportation sector during 2011, particularly in road development. The construction of highways, expressways, bridges, rehabilitation of existing roads with special focus on roads in the Northern and Eastern Provinces, and construction of rural roads under the 'Maga Neguma' programme continued throughout the year.

The public passenger transportation sector [road and rail] recorded a moderate growth in 2011. The Sri Lanka Transport Board continued with its programme of refurbishing buses and adding them back to the fleet. The number of buses owned by private operators decreased marginally by 4.3%, although the average operational bus fleet countrywide increased by 3.9% in 2011.

Registration of new vehicles increased substantially during 2011. The number of buses registered increased by 71%, mainly due to replacements in existing fleets. The number of motor cars registered increased by 151% due to import duties that were lowered in 2010, increased real income levels, the continuation of a low interest rate regime and the granting of permits to public servants to import motor vehicles at concessionary rates of tax.

Registration of Motor Vehicles

(Number of Vehicles)



THE OPERATING ENVIRONMENT...AND TRENDS / MANAGEMENT REPORT

Agriculture and Fishing The performance of the Agriculture and Fishing sector impacts on the Dimo Group's sales and service of earth moving equipment, agricultural machinery, industrial refrigeration equipment and marine solutions.

Extreme weather conditions experienced in the first quarter of the year, which negatively affected agricultural production, resulted in Agriculture and Fishing recording a low growth of 1.5% in 2011 compared to the 7.0% growth of the previous year. However, supported by a bountiful Yala harvest in paddy and other food crops in the second half of the year and the expansion of fishing and livestock throughout the year along with the recovery in coconut production helped the sector to maintain a 11.2% share of GDP, which is a marginal decline from the 11.9% share of the previous year.

Industry and Services The performance of Industry and Services sectors have a direct impact on the sale of road construction machinery, forklifts, material handling machinery, racking systems, power tools and accessories, and lamps, lighting fittings and accessories of the Group.

The Industry sector, which accounts for about 29.3% of GDP grew by 10.3% in 2011, following a 8.4% growth in 2010. Reflecting the continued favourable environment for industries that prevailed during the year, all sub-sectors contributed positively towards this impressive performance. The higher growth in factory industry sub-sector, together with the 14.2% expansion in construction were the major contributors to growth in the Industry sector.

Growth in the Construction sector was largely driven by public sector infrastructure development projects (particularly ports, electricity and transportation) as well as private sector involvement in construction activities.

Services, which is by far the largest sector of the economy that accounts for about 59.5% of GDP, grew by 8.3% during the year compared to a growth of 8% in 2010. Riding on the post-war resurgence in tourism, the hotels and restaurants sub-sector recorded a commendable growth of 26.4% in 2011 following a growth of 39.8% in the previous year.

Economic and Social Infrastructure This sector impacts on the sale of medical equipment, pumps, building technologies and power engineering solutions of the Dimo Group.

Power and Energy Electricity generation increased by 7.5% to 11,521 GWh in 2011 reflecting the expansion of economic activities. In terms of capacity addition, the first phase (300 MW) of the Norochcholai Coal Power Plant was added to the national grid on a permanent basis in July 2011, while construction work on the second phase was in progress during the year. Construction of the Upper Kotmale Hydro Power Plant was also in progress while the Uma Oya Hydro Power Project is in the initial stages of construction.

The ongoing rural electrification projects will bring the country closer to achieving its target of 100% electrification by end 2013, which includes off-grid renewable energy solutions.

MANAGEMENT REPORT / THE OPERATING ENVIRONMENT...AND TRENDS

The Sustainable Energy Authority seeks to increase the share of renewable energy from non-conventional sources to 10% by 2015 and 20% by 2020. It is noteworthy that independent power producers who have hitherto focused on mini hydro power are now venturing into other renewable energy technologies such as wind and biomass. The energy labelling programme of the Sustainable Energy Authority continued to gain momentum in respect of Compact Fluorescent Lamps (CFL). Plans are afoot to extend energy labelling to other products as well.

Water Supply The demand for pipe borne water continues to grow with urbanisation, changes in lifestyles and the expansion of commercial and industrial activities. The total number of connections provided by the National Water Supply and Drainage Board increased 7.1% during the year, bringing the total to 1.4 mn connections countrywide. In tandem, several water supply projects were in progress during 2011, while rain water harvesting is also implemented as an alternative approach where appropriate.

Health Healthcare in Sri Lanka continued to develop, with the private sector playing an increasingly significant role. Further, 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 the country's strategic location.

Economic Outlook and Implications

The Sri Lankan economy is projected to grow at a slower rate of 7.2% in 2012 compared to the over 8% growths of the two previous years. The increase in policy interest rates, limiting of domestic credit expansion, and rising domestic fuel and electricity prices are likely to somewhat dampen economic activity, and also have a direct impact on the sale of vehicles. As a direct measure to curb the importation of vehicles, Government increased tariffs on most types of vehicles with effect from 31 March 2012. Small petrol cars of less than 1000 cc capacity were among those that were most severely affected.

Other key challenges in 2012 would be in managing the numerous risks arising from global developments, as clear signs of global recovery are yet to be seen while geopolitical tensions in some oil-producing countries continue to remain unresolved. Meanwhile, adverse weather conditions and higher demand from emerging economies would continue to keep energy and other commodity prices in the international market elevated.

As for Dima, our primary principals in terms of business volume are based in Germany and India, and it is comforting to note that both countries have been relatively unaffected by the global economic crisis and its aftermath.

Increased economic activity locally has contributed to a continued low rate of unemployment, and further tightening of labour market conditions may pose challenges to economic and price stability as well as social stability.

Sri Lanka's tourism industry is poised to grow rapidly, and presents opportunities centred on tourism infrastructure development and services.

Overall, following the many notable achievements during the past two years, the Sri Lankan economy is likely to experience a year of consolidation in 2012.

REFINING OUR PORTFOLIO...AND REINVENTING OUR FUTURE / MANAGEMENT REPORT

Selecting an investment portfolio is essentially all about diversification. The strategic objective is to select a mix of assets that collectively has a lower risk than any individual asset.

Different types of assets often change in value in opposite ways.

Therefore, from a risk management perspective assets in an investment portfolio should not be selected individually, each on its own merit. Rather, we should consider how the return on each asset changes in value relative to others in the portfolio under different scenarios. By holding different assets whose returns are not perfectly positively correlated we seek to reduce the risk, or more precisely the expected variance of the portfolio return.

That brings us to the concept of trade-off. In general, assets with higher expected returns are riskier, and vice versa. Investing is a trade-off between risk and expected return.

Having defined our level or appetite for risk, we also look for synergies in selecting and refining our portfolio. We seek businesses that build on Group strengths. We balance the short-term with the long-term.

So, refining the Dima portfolio entails a continuous process of finding an optimum portfolio strategy... and reinventing our business domain to ensure a sustainable future.

Some thoughts on the subject are discussed in the Chairman's Letter.

“Dima is proud to ‘own’ a great heritage featuring great customers... great staff...great shareholders...great principals. Importantly we match the greatness of these assets with equally great culture and spirit... ethics...products. This is Dima’s unique strength.”

GAHANATH PANDITHAGE

Chief Executive Officer



MANAGEMENT REPORT / FINANCIAL VALUE CREATION

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 2011/12, we have created Rs. 1,904 mn (Rs. 1,762 mn in 2010/11) of wealth. /

Economic Value Added (EVA)

As at 31st March	2011/12 Rs. '000	2010/11 Rs. '000
Total Capital Supplied		
Equity	7,465,332	4,200,847
Long-term Interest Bearing Loans & Borrowings	1,000,163	408,757
	8,465,495	4,609,604
Earnings		
Profit After Tax	2,697,325	2,121,752
Add: Interest on Long-term Borrowings	59,738	60,658
Adjusted Earnings	2,757,063	2,182,410
Weighted Average Cost of Capital (%)	10.07	9.11
Economic Charge	852,475	419,935
Economic Value Added	1,904,588	1,762,475

As at 31st March	Source	2011/12	2010/11
Average Risk Free Rate (Avg. Treasury Bill Rate) (%)	Central Bank	7.86	7.50
Beta Factor - Dimeo	CSE	1.17	0.85
Risk Premium (%)	Assumed	2	2
All Share Price Index (ASPI)	CSE	5,420.2	7,217.00
Average Weighted Prime Lending Rate (AWPR) (%)	Central Bank	10.02	9.84
Rate of Income Tax (%)	Applicable Rate	28	35
Cost of Equity (Based on CAPM) (%)	Computed	10.20	9.20
Cost of Debt (After Tax) (%)	Computed	7.21	6.40

FINANCIAL VALUE CREATION / MANAGEMENT REPORT

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 Dima through the utilisation of its capacity, capital, manpower and other resources.

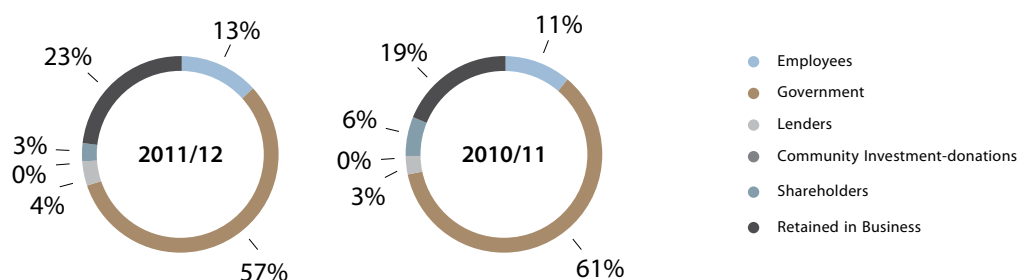
Statement of Value Added

For the Period of	Group				Company			
	%	2011/12 Rs. '000	%	2010/11 Rs. '000	%	2011/12 Rs. '000	%	2010/11 Rs. '000
Gross Turnover		39,898,589		29,357,271		38,936,764		28,662,124
Other Income		60,521		48,742		43,968		51,245
Less: Cost of Materials and Services Bought in		(29,386,650)		(20,344,370)		(28,789,832)		(19,862,467)
Value Added		10,572,460		9,061,643		10,190,900		8,850,902
Value Shared with								
Employees	13	1,372,494	11	1,037,261	12	1,211,045	11	945,365
Government	57	6,062,532	61	5,571,287	59	5,977,377	62	5,478,291
Lenders	04	253,890	03	207,674	03	267,900	02	207,184
Community Investment - Donations	00	51,055	00	30,570	00	50,526	00	30,305
Shareholders	03	355,057	06	530,846	03	355,057	06	530,846
Retained in the Business	23	2,477,432	19	1,684,005	23	2,328,994	19	1,658,911
Depreciation set aside	01	135,164	01	93,099	01	129,965	01	85,852
Profit Retained	22	2,342,268	18	1,590,906	22	2,199,029	18	1,573,059
	100	10,572,460	100	9,061,643	100	10,190,900	100	8,850,902

- The above table illustrates the creation of our value added and the distribution thereof. Our value added has grown from Rs. 9,062 mn in the previous year to Rs. 10,572 mn in the year under review. A great part of the value added in 2011/12 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 and employees has also increased. /

Group Value Added

(%)



MANAGEMENT REPORT / FINANCIAL VALUE CREATION

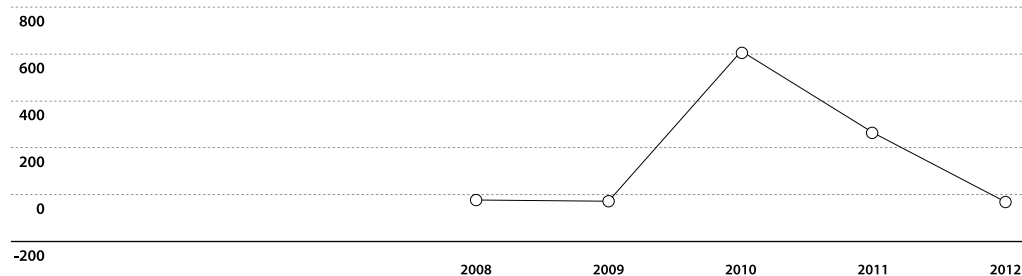
Total Shareholder Return (TSR)

The following table illustrates the calculation of Total Shareholder Return (TSR). It includes capital gains from increases in share price as well as dividend received. TSR in the year under review is (36.54%). This is mainly attributable to reduction in market price of a share in the year concerned. /

Total Shareholder Return	2012	2011	2010	2009
Market Price per Share (Rs.)	982.20	1,484.70	424.75	61.00
Dividend per Share (Rs.)	40.00	61.00	7.00	3.00
Total Shareholder Return (%)	(36.54)	263.91	607.78	(27.88)

Total Shareholder Return

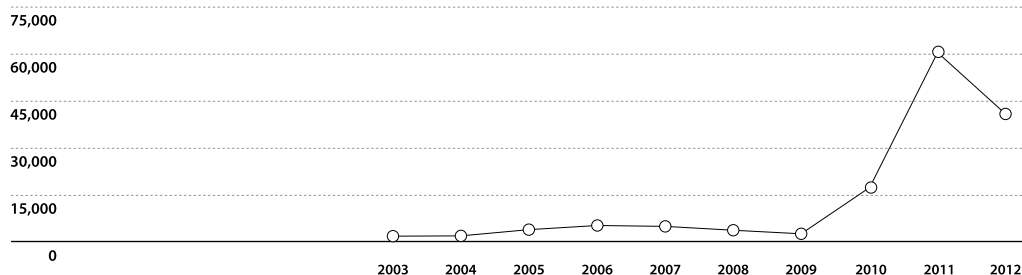
(%)



Rs. 1,000 invested in 2003 in Diesel & Motor Engineering PLC shares is worth Rs. 40,810 today as shown in the chart below: /

Value of Rs. 1,000 Invested in 2003

(Rs.)



FINANCIAL VALUE CREATION / MANAGEMENT REPORT

Working Capital Management

The efficient management of working capital continues to be a management prerogative and receives close attention of the top management. There is a continuous monitoring of working capital based on certain internal KPI's in place.

Group current assets increased by 37.7% over the previous year from Rs. 7.84 bn to Rs. 10.79 bn. However, group current liabilities increased only by a marginal 12.9% from Rs. 6.17 bn to Rs. 6.97 bn. As a result, the Group's current ratio improved to 1.5:1 from 1.27:1 last year. The quick asset ratio on the other hand deteriorated to 0.34 compared to 0.84 in the previous year. 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 increased sharply to Rs. 8.4 bn compared to the Rs. 2.64 bn in the previous year. Similarly, during the year under review the Group's stocks residency period has increased from 31 days to 62 days over the year. Nevertheless, average debt collection period improved from 33 days to 25 days enabling debtors' total as at year end to be contained at Rs. 2.0 bn compared to the Rs. 3.3 bn in the previous year.

During the year under review, the Group's cash out flow on operating activities amounted to Rs. 55 mn as against an inflow of Rs. 2,364 mn in the previous year. Funds generated together with borrowings were sufficient to finance working capital requirements.



“The challenge to Dima comes not from without, but from within. Our constant strivings to ‘raise the bar’ require us to overcome internal factors such as self doubt and overly cautious thinking.”

AJITH ALGAMA

Director

MANAGEMENT REPORT / FINANCIAL VALUE CREATION

Financial Review

Overview

Dimo delivered another solid financial performance for the year under review. The results demonstrate the underlying potential of Dimo to create financial value. The year's performance was a further improvement to the excellent results recorded in the previous year. Improved revenues supported by a lower rate of income tax drove up the Group Profit after Tax by 27%. As in the previous years, the Auto-related businesses dominated the revenue streams and profits.

Financial Environment

The GDP growth of 8.3% recorded for the year 2011 was a key factor that provided the impetus for the year's achievement. A decline in the conducive business environment that prevailed during the first half of the year occurred during the third quarter with interest rates moving upwards and the trend continuing into the last quarter to be joined by a markedly depreciating Rupee. The Sri Lankan Rupee depreciated 17.40% during the year and is one of the highest rates of depreciation during the recent times. 12.78% of the depreciation came in the fourth quarter. The AWPLR which stood at 9.22% at the beginning of the year was 12.80% at the end of the year. This caused the lease rentals to increase which had an impact on the automobile sales towards the end of the 4th Quarter. Overall, what was considered to be an excellent business environment at the commencement of the year changed towards the end of the year.

Table below provides the quarterly turnover and profit after tax of the Group together with relevant key indicators of financial and economic environment.

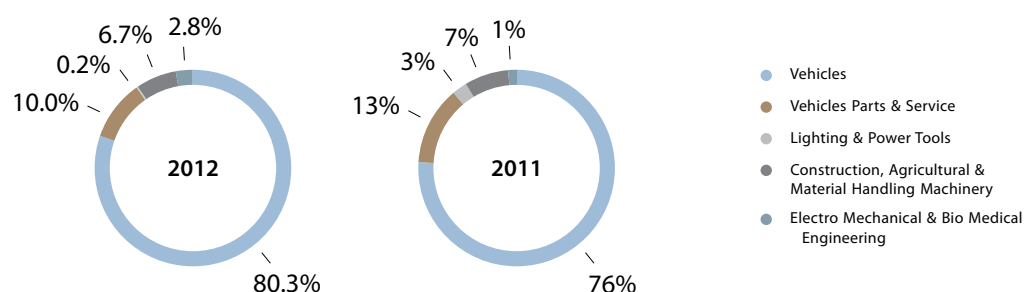
Quarterly Performance & Economic Indicators

Segment Performance		2011/12 (Rs. '000)					2010/11 (Rs. '000)				
		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Vehicles	Revenue	5,404,789	8,394,255	8,399,064	9,323,772	31,521,880	2,120,665	3,729,272	9,543,479	6,705,695	22,099,111
	Results	752,766	1,115,131	977,196	942,748	3,787,841	216,670	523,258	1,486,348	992,754	3,219,030
Vehicle Parts & Service	Revenue	723,157	658,366	791,116	682,344	2,854,983	659,831	650,758	729,590	781,563	2,821,742
	Results	123,309	155,814	135,070	53,406	467,599	(7,572)	216,490	68,486	252,343	529,747
Lighting & Power Tools	Revenue	165,974	194,569	174,241	152,652	687,436	112,519	143,705	373,178	268,731	898,133
	Results	308	(5,034)	(19,630)	31,952	7,596	277	32,454	44,123	31,931	108,785
Construction, Agricultural & Material Handling Machinery	Revenue	793,329	1,276,887	989,891	905,625	3,965,732	408,551	769,749	1,108,122	707,520	2,993,942
	Results	79,858	149,701	65,751	15,194	310,504	(25,470)	127,959	109,590	91,930	304,009
Electro - Mechanical and Bio Medical Engineering	Revenue	157,426	245,642	231,708	233,782	868,558	116,376	38,173	286,058	103,736	544,343
	Results	63,186	41,491	41,451	(15,809)	130,319	23,649	61,896	847	(25,392)	61,000
Total Revenue		7,244,675	10,769,689	10,585,912	11,298,313	39,898,589	3,417,942	5,331,657	12,040,427	8,567,245	29,357,271
Total Results		1,019,427	1,457,103	1,199,838	1,027,491	4,703,859	207,554	962,057	1,709,394	1,343,566	4,222,571
Economic Indicators											
Exchange Rate (Quarter beginning)	US\$	110.36	111.05	114.88	129.57		114.82	114.36	112.84	111.82	
	Euro	160.8	151.38	149.59	173.87		155.8	140.03	154.86	149.55	
AWPLR %		9.22	9.13	10.77	12.80		10.62	10.37	9.91	8.92	
Inflation (CCPI 2006/07 = 100)		6.60	7.00	7.10	6.50		3.4	4.2	5.4	6.00	
GDP Growth (%) - Calendar Year				8.30					8.00		

FINANCIAL VALUE CREATION / MANAGEMENT REPORT

Composition of Gross Profit by Segment

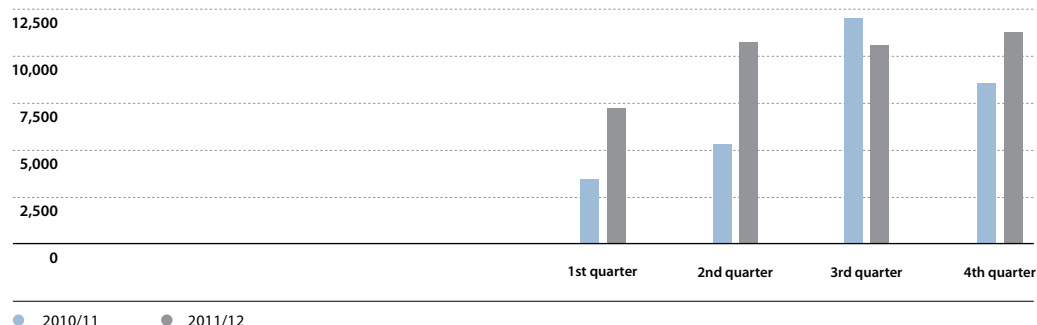
(%)

**Financial Performance**
Turnover

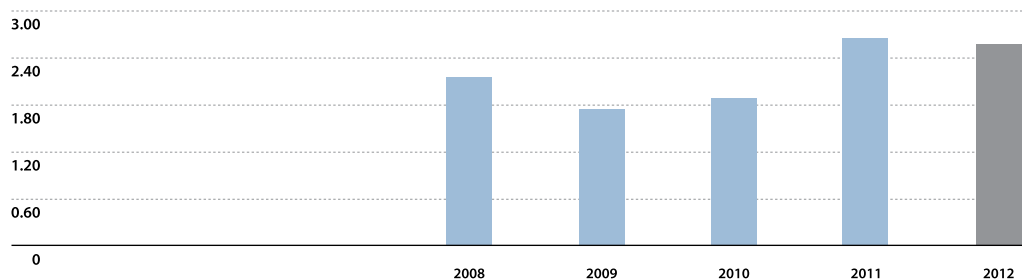
The Group Turnover grew 36% (2010/11 - 179 %) from Rs. 29.4 bn to Rs. 39.9 bn, which is a 10.54 bn (2010/11 - Rs. 18.83 bn) increase. The Group turnover represents a 99% (2010/11 - 161.05%) achievement of the budgeted turnover. Vehicles segment contributed 89.39% (2010/11 - 89.35%) to the increase in turnover. Turnover of the Vehicles segment grew by 42.63% (2010/11 - 31.9%). The 213.6% [2010/11 (27.03%)] increase in the Electromechanical and Biomedical Engineering Segment augurs well for the strategy of growing the non-auto sector in order to reduce the dependence on the auto sector. The assets to turnover ratio reduced from 2.65 previous year to 2.55 for the year under review.

Gross Turnover

(Rs. mn)

**Asset Turnover**

(Times)

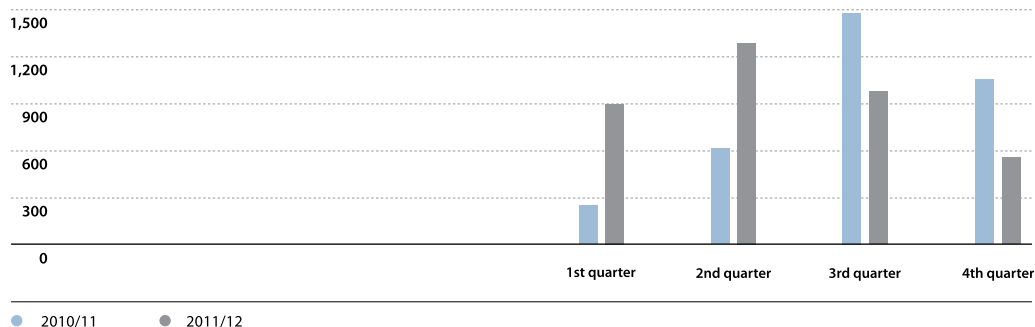


MANAGEMENT REPORT / FINANCIAL VALUE CREATION

Profitability The gross profit ratio reduced from 20.56% to 18.23%. Lower gross profit ratio in the vehicles segment was a key reason for the reduction in the overall gross profit ratio.

Profit Before Tax

(Rs. mn)

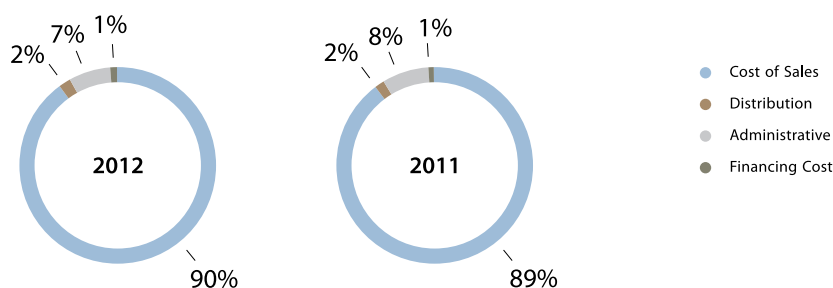


Administration and Distribution Expenses

Administration expenses and distribution expenses together increased by 34.18% (2010/11 - 46%) over the previous year. Administrative expenses increased from Rs. 2,025.6 mn in the previous year to Rs. 2,557.3, which is a 26% increase (54% in 2010/11). Increase in staff-related costs from Rs. 962.3 mn to Rs. 1,059.8 mn was a contributor to the increase in administrative expenses. Increase in the number of employees in order to supplement the increase in sales volumes was a key reason for the increase in staff-related expenses. The competitive nature of the vehicles sales business necessitated investments in promotional costs. This coupled with other distribution expenses driven by higher sales volumes increased the Distribution costs by 76% (2010/11 - 15%). The ratio between the administration and distribution expenses and turnover was 8.18% in the year under review compared to 8.32% reported in the previous year.

Cost & Expenses

(%)



Non-payment for services for installation and upgrading of the flood lighting systems at Pallekelle International Cricket Stadium and R. Premadasa International Cricket Stadium, coupled with an aggressive provisioning policy drove provision for doubtful debts to Rs. 181.18 mn (2010/11 - Rs. 1.4 mn).

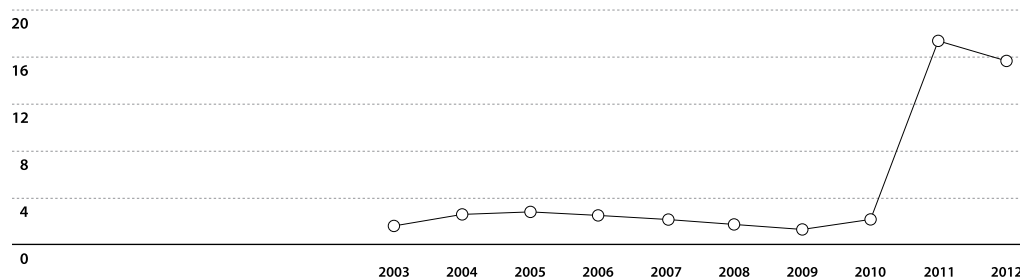
FINANCIAL VALUE CREATION / MANAGEMENT REPORT

Other Income/Expenses The demolition of existing buildings to give way to construction of the proposed Mercedes Benz Centre at Sirimavo Bandaranaike Mawatha, Colombo 14, necessitated derecognition of the demolished buildings, the written down value of which stood at Rs. 72.5 mn. The overall loss on disposal of property, plant & equipment for the year was Rs. 67.84 mn (2010/11 - a gain of Rs. 2.63 mn).

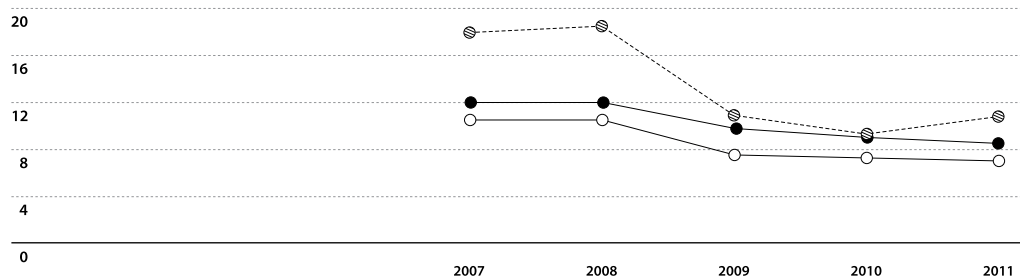
Net Finance Cost The increase in short-term borrowings to support the increased volume of business and the gradual increase in interest rates during the second half of the financial year caused finance expenses to increase by 49% (Decreased by 17% - 2010/11) from Rs. 303 mn in the previous year to Rs. 451 mn. The interest cover was 15.64 times (2010/11 - 17.35 times). Interest cost on long-term borrowings remained at the same levels while interest cost on short-term borrowings increased from Rs. 241 mn in the previous year to Rs. 390 mn in the year under review.

Interest Cover

(Times)

**Interest Rates**

(%)



○ Repurchase Rate (overnight) ● Reverse Repurchase Rate (overnight) -●- Commercial Banks (AWPR)

MANAGEMENT REPORT / FINANCIAL VALUE CREATION

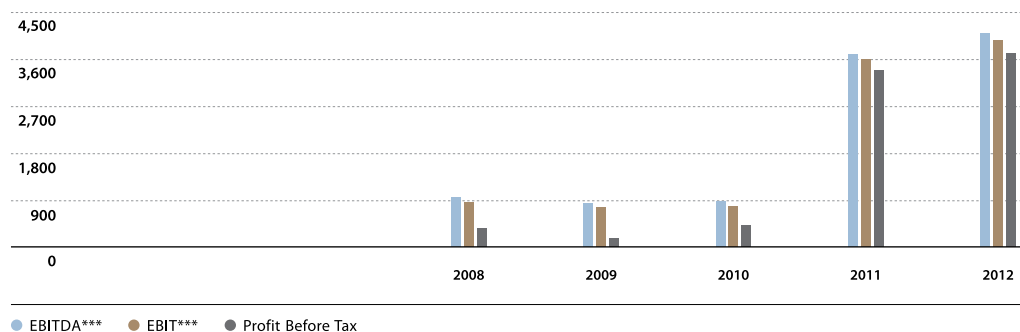
Taxation The rate of income tax applicable to the Company and its subsidiaries reduced from 35% to 28% with effect from 1st April 2011. This led to a reduction in the income tax expense from Rs. 1,274.2 mn in the previous year to Rs. 1,018.7 mn in the year under review, despite an increase in the Profit Before Tax from Rs. 3,396 mn to 3,716 mn. The effective tax rate was 28.57% (2010/11 - 35.57%). Taxable income on export profits was Rs. 80 mn on which a lower income tax rate of 12% was applicable. The reconciliation between accounting profits and taxable income is available in Note 12.1 on page 185. The Social Responsibility Levy that was applicable during the financial year 2010/11 was abolished with effect from 1st April 2011.

Deferred Taxation The tax expenses include a reversal of Rs. 29.8 mn (a charge of Rs. 30 mn in 2010/11) in respect of deferred tax. A summary of the deferred tax computation is available in Note 12 to the Financial Statements on page 185.

Earnings Earnings before interest & tax (EBIT) increased from Rs. 3,604 mn to Rs. 3,970 mn. Net profit after tax for the year also increased to Rs. 2,697.33 mn from Rs. 2,121.75 mn in the previous year. Return on average capital employed decreased to 46% compared to 66% in the previous year.

Earnings

(Rs. mn)



*** Earnings Before Interest, Tax, Depreciation and Amortisation

Basic Earnings per share (EPS) for the period under review was Rs. 303.87 compared to Rs. 239.03 achieved last year. The number of shares issued increased by 174,048 shares during the year consequent to the scrip dividend in May 2011. The computation of Basic EPS is available in Note 13 to the Financial Statements appearing on page 186.

Financial Position Property, Plant & Equipment

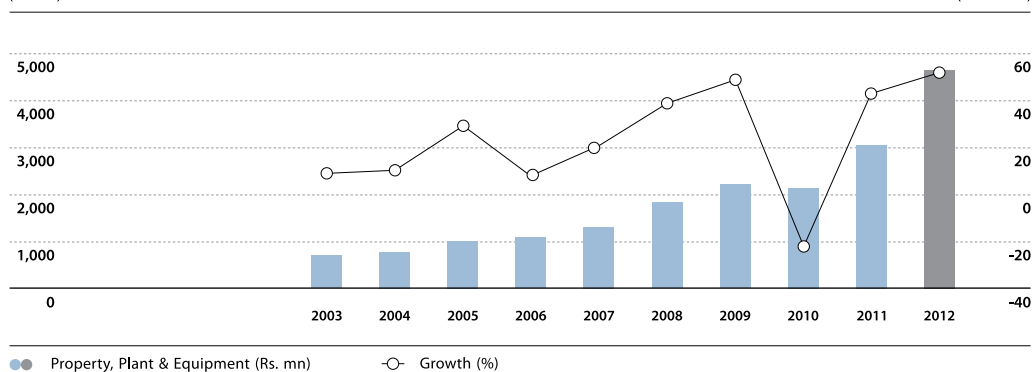
The additions to property plant & equipment (PP&E) during the year was Rs. 790.62 mn (2010/11 - Rs. 1,044.63). Capital Work-in-Progress as at 31st March 2012 was Rs. 156.74 mn (2011/12 - Nil). The Company acquired 186 perches of land for Rs. 301.6 mn in close proximity to the proposed Mercedes Centre to develop a showroom and a workshop dedicated to Tata Vehicles. In addition, two lands were purchased to construct a showroom and a workshop at Kurunegala and Jaffna. The construction work is scheduled to commence during the current financial year. The Bosch Centre at the Head Office premises and the new showroom and workshop at Anuradhapura were completed during the financial year. Capital Work-in-Progress includes expenditure incurred on the Mercedes Centre and the Technical Institute being constructed in Suriyawewa. The amount capitalised on account of Buildings and Premises during the year was Rs. 136.7 mn (Rs. 74.8 mn - 2010/11).

FINANCIAL VALUE CREATION / MANAGEMENT REPORT

Growth in Property, Plant & Equipment

(Rs. mn)

(Growth %)

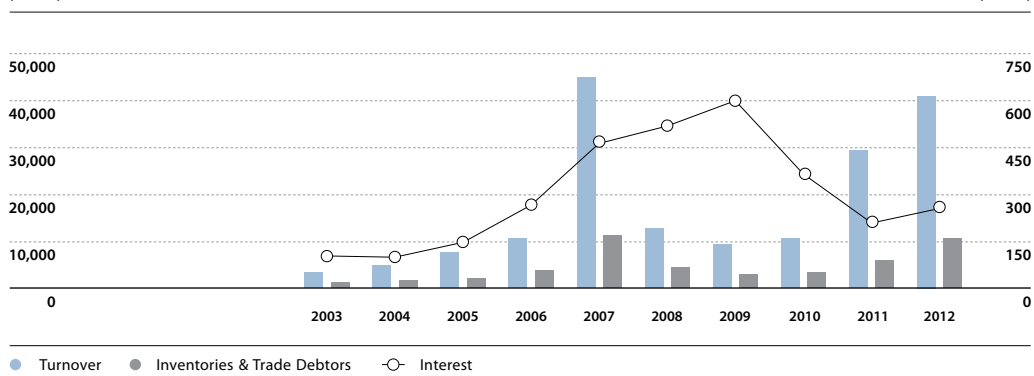


Working Capital The increased volumes in vehicle sales resulted in a significant increase in inventory, which stood at Rs. 8,401.34 mn (2010/11 - Rs. 2,640.5 mn) as at 31st March 2012, which could be attributed to the increase in the stock of vehicles and tractors. Group trade and other receivables which amounted to Rs. 3,328.43 mn as at the end of the previous year reduced to Rs. 2,078.27 mn as at the end of the year under review, as a result of controls exercised in recovery of debts. The current ratio as at 31st March 2012 was 1:1.55 (2010/11 - 1:1.27). Quick assets ratio as at the year-end was 1:0.34 (2010/11 - 1:0.84).

Inventories & Trade Debtors vs Turnover, Interest

(Rs. mn)

Interest (Rs. mn)

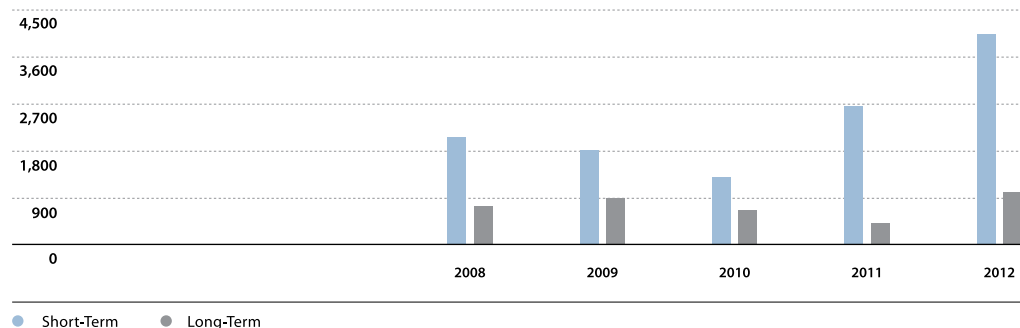


Borrowings Increase in working capital requirements caused short-term borrowings to increase from Rs. 2,658.62 mn as at the end of the previous year to Rs. 4,045.67 mn as at the end of the year under review. The long-term borrowings too increased from Rs. 408.76 mn to Rs. 1,000 mn during the same period. The increase in Group's interest-bearing borrowings as at the year was Rs. 1,977.36 mn (2010/11 - Rs. 1,101.9 mn). Details of long-term borrowings are available in Note 28 appearing on page 196. Interest rates on overdrafts are reviewed periodically and rates charged on short term/ import loans are determined based on money market rates.

MANAGEMENT REPORT / FINANCIAL VALUE CREATION

Borrowings

(Rs. mn)



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 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.

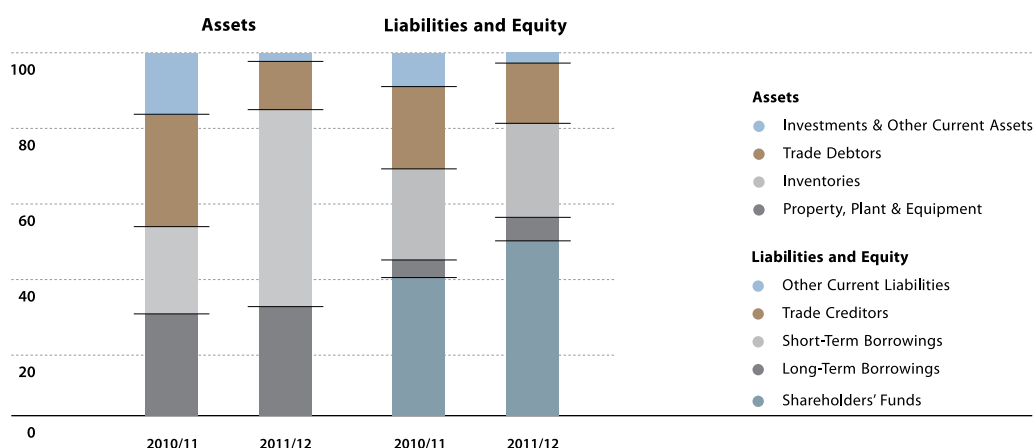
Following is computation of solvency criteria for the Company as at the year-end:

As at 31st March	2011/12 Rs. '000	2010/11 Rs. '000
Non-Current Assets	4,671,534	3,073,840
Current Assets	10,068,585	7,476,574
Total Assets	14,740,119	10,550,414
Non-Current Liabilities	1,019,065	555,674
Current Liabilities	6,646,945	6,041,877
Total Liabilities	7,666,010	6,597,551
Assets Less Liabilities	7,074,109	3,952,863
Stated Capital	425,297	182,500

FINANCIAL VALUE CREATION / MANAGEMENT REPORT

Balance Sheet Structure

(%)



Cash Flow The operating profit before working capital changes increased from Rs. 3,760.2 mn in the previous year to Rs. 4,602.24 mn in the year under review. However, the increase in working capital resulted in a cash outflow from operating activities amounting to Rs. 55.66 mn. Cash outflow on account of capital expenditure amounted Rs. 947.36 mn (Rs. 1,082.17 mn - 2010/11). The net decrease in cash and cash equivalents during the year was Rs. 2,941 mn (Net increase of Rs. 478.48 mn - 2010/11).

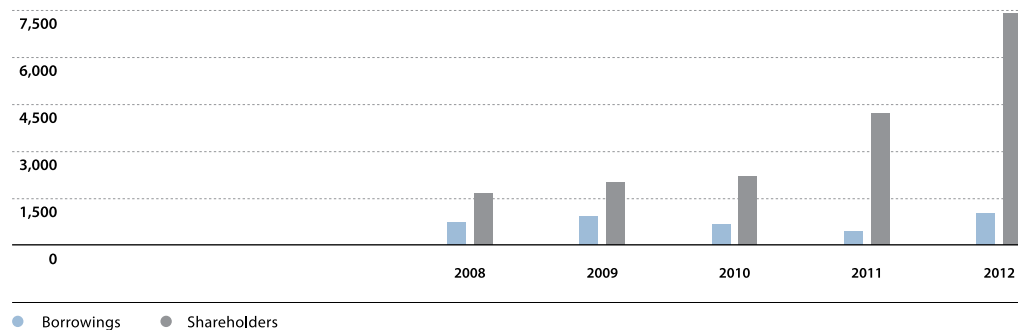
The Group possesses the necessary banking facilities to support its operations. Cash generation from operations and available banking are adequate to finance working capital, capital expenditure, dividends and statutory payments.

Debt to Equity Ratio The Group's debt to equity, which is calculated as a proportion of the long-term interest bearing borrowings to equity increased to 13.40% (2010/11 - 9.76%). The Group secured term loans amounting to Rs. 750 mn during the year (2010/11 - Nil), which was the main reason for the increase in the Debt to Equity Ratio.

MANAGEMENT REPORT / FINANCIAL VALUE CREATION

Capital Structure

(Rs. mn)



Equity The scrip dividend in May 2011 increased the stated capital by Rs. 242.80 mn during the year. Capital Reserves increased during the year by Rs. 879.14 mn consequent to the revaluation of land in September 2011. An amount of Rs. 1,648 mn was transferred from retained earnings to general reserve during the year. The details of the movement in shareholders' funds are given in the Statement of Changes in Equity on page 164.

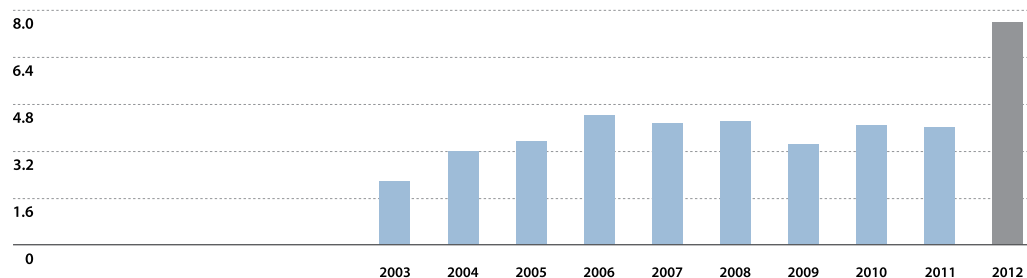
Retirement Benefits The actuarial valuation of the gratuity liability carried out as at the year-end places the Group's liability at Rs. 224.43 mn compared to that of the previous year of Rs. 182.32 mn. This liability has been recorded in the Financial Statements accordingly. Details of the assumptions made in carrying out the actuarial valuation are set out in Note 26 to the Financial Statements appearing on page 194. The charge to the Income Statement for the year on account of the gratuity liability is Rs. 56.1 mn, which was Rs. 57.67 mn for the year 2010/11.

Stakeholder Financial Implications
Shareholders - Dividends The Company paid two interim dividends during the financial year in addition to the final dividend of Rs. 51.00 paid for the previous financial year consisting of a cash dividend of Rs. 23.10 and a scrip dividend of Rs. 27.90 per share. The two interim dividends paid for the current year amounted to Rs. 5.00 per share and Rs. 7.50 per share paid in December 2011 and March 2012 respectively. The total outflow on account of dividend payments for the year amounted to Rs. 312 mn while the scrip dividend resulted capitalisation of profits amounting to Rs. 242.8 mn.

FINANCIAL VALUE CREATION / MANAGEMENT REPORT

Dividend Cover

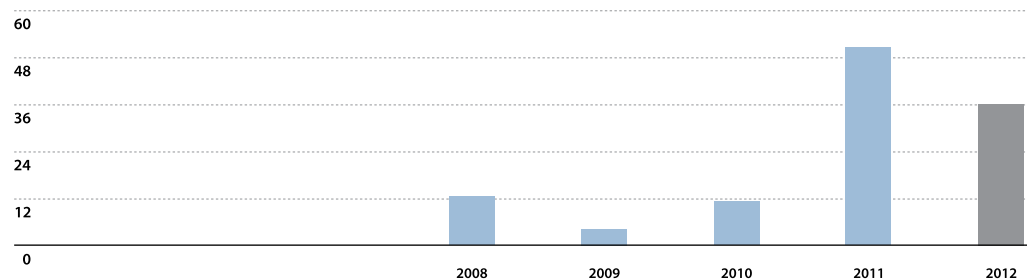
(Times)

**Shareholders -
Return on Equity**

Return on Equity (ROE) was 36.13% compared to a ROE of 50.51% for the preceding year.

Return on Equity

(%)

**Suppliers** Payments to local suppliers amounted to Rs. 4.51 bn (2010/11 - Rs. 3.9 bn).**Employees** Rs. 1,372 mn (2010/11 - Rs. 1,037 mn) out of value added through operations was shared with the employees. This amounts to an increase of 32.3% (2009/10 - 45.5%) and 12% of the total value added. Employee-related costs to the Company for the year was Rs. 1,059.81 mn (Rs. 962.26 mn - 2010/11).

MANAGEMENT REPORT / FINANCIAL VALUE CREATION



Society Expenditure incurred during the year for the direct benefit of the society was Rs. 51 mn (2010/11 - Rs. 30.5 mn).

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

Financial Market Risk The Company is exposed to 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.

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

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

////////////////////////////////////
 "When you get right down to it, a good employer must meet and exceed the basic requirements of its employees...food, clothing and shelter...a means of realising self worth and life advancement...and a defined role for each individual...Dimo is a 'complete' employer."

SARATH ALGAMA
Executive Director

Financial Priorities The financial priorities remain unchanged from the previous financial year. As in the previous year, the forecasts into the immediate future, demands focus 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 the 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 Corporate Strategy. The following are the Group's financial priorities that drive the Group's financial strategy:

- Financial investment in capacity building in order to drive growth.
- Striking a balance between growth and immediate profitability in allocating financial resources.
- Optimising profitability through efficient utilisation of resources particularly through prudent working capital management.
- Maintaining a healthy Balance Sheet.

Financial Outlook 2012/13 The Group achieved its budgeted profit before tax for the year under review. The second half of the year witnessed some macro economic developments that adversely affected the vehicles segment. Among the adverse factors are increases in interest rates, depreciation of the Rupee and duty increases in passenger vehicles. Further continuation of these negative factors is likely to hinder growth. However, investments made in building capacity and competencies could partially off-set these adverse effects. In this background, the budgets prepared for the financial year 2012/13, does not envisage a substantial growth in profits, although a stable performance is expected.

MANAGEMENT REPORT / DELIVERING VALUE TO CUSTOMERS...AND THEIR VALUE TO US

Management Approach

Our approach is centred around earning the 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.

Our customers are spread across five business segments and range from individuals and businesses to Government. We employ a range of marketing strategies targeting these segments which comprise -

- Vehicles
- Vehicle Parts and Service
- Lighting & Power Tools
- Construction, Agricultural and Material Handling Machinery
- Electromechanical and Biomedical Engineering

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 with us but also brings in more customers, as well as becoming a facilitator for cross-selling across our business segments. The word of mouth process is catalysed by a customer relationship management programme which includes service and educational campaigns and a 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 35,000 direct customers - individuals, businesses and Government plus an island wide dealer network. This dealer network in turn serves several thousands of consumers of our products. To serve and interact with our direct customers including our dealer network, we have a team of 362 sales (345 in 2010/11) and 481 service (442 in 2010/11) people working with us.

— The following table illustrates the distribution of our active customer base considering last financial year, and their satisfaction levels measured by a Customer Satisfaction Index (CSI). /

Market Segment	B2C		B2B		B2G		Total		Weighted Average Customer Satisfaction Index (CSI) (%)	
	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11
Vehicles	3,077	2,525	18,433	15,119	146	159	21,656	17,803	88	82
Vehicle Parts & Service	2,841	2,631	1,912	1,028	228	232	4,981	3,891	90	88
Lighting & Power Tools	954	881	730	93	71	68	1,755	1,042	86	85
Construction, Agricultural & Material Handling Machinery	1,001	941	771	1,099	148	132	1,920	2,172	88	87
Electromechanical & Biomedical Engineering	282	264	19	8	105	103	406	375	94	86

DELIVERING VALUE TO CUSTOMERS...AND THEIR VALUE TO US / **MANAGEMENT REPORT**

Customer satisfaction does not stand still. It can go up or come down. Thus, our success depends on keeping a 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.

Customer Portals

Over the years we have invested heavily to take the Dima Group 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 our customer base. In the process we keep 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 Mega *Riyapola* promotional campaigns were carried out covering all the provinces to support our market penetration and customer awareness drive for TATA commercial vehicles. Further, to support small scale entrepreneurs a special discount scheme was made available for *Samurdhi* recipients. /**



In order to give solutions to pavement hawkers who lost their traditional business locations, tailor-made (suitable for salons, groceries and bakery items) Dima Batta concept was introduced. It was welcome by the society and most of low income families have received many benefits from the concept. This concept was utilised in '*Divineguma* Project'. We introduced the concept of 'customer contact points' as a new way of reaching potential customers, the first such contact point was established in Piliyandala in December 2011 followed by points in Mannar, Nikeweratiya, Matala, Ambalanthota, Horana, Hatton and Padaviya towns.

MANAGEMENT REPORT / DELIVERING VALUE TO CUSTOMERS...AND THEIR VALUE TO US

A Dimeo Lighting Studio was opened during the year to educate customers on the fundamentals of lighting and demonstrate lighting effects and technologies. Following a positive market response, the concept was further developed into a Dimeo Lighting Centre to provide comprehensive lighting solutions under one roof. Features of the Centre include a display of lighting products and information on design, supply, installation, trouble shooting and research & development. The Centre also disseminates information through workshops and seminars. /



DELIVERING VALUE TO CUSTOMERS...AND THEIR VALUE TO US / MANAGEMENT REPORT

The following table lists our customer interaction points: /

Branches	Sales	After Sales Services	Display Points	Spare Parts Sales	Customer Contact Point
1. Head Office No. 65, Jetawana Road, Colombo 14	X	X	X	X	X
2. TATA Colombo Branch No. 61, Jetawana Road, Colombo 14	X		X		X
3. TATA Passenger Car Showroom and Workshop No. 467, Sirimavo Bandaranaike Mawatha, Colombo 14	X	X	X	X	X
4. Mercedes-Benz & Chrysler Showroom No. 378-385, R.A. De Mel Mawatha, Colombo 3	X		X		X
5. TATA Passenger Car Showroom No. 385 A, R.A. De Mel Mawatha, Colombo 3	X		X		X
6. Dima Mart No. 50, 51, Jetawana Road, Colombo 14	X		X	X	X
7. TATA Spare Parts Showroom No. 74,74/1, Jetawana Road, Colombo 14				X	X
8. Agri Machinery & Construction Spare Parts Sale Centre No. 661, Sirimavo Bandaranaike Mawatha, Colombo 14	X			X	X
9. Medical Engineering & Power Engineering Solutions No. 60/7, Horton Place, Colombo 07	X	X		X	X
10. Total Marine Solutions No. 15/2, Tickelle Road, Borella, Colombo 08	X			X	X
11. Tyres & Power Tools Corporate Centre and Bosch Power Tools Service Centre No. 180, Deans road, Colombo 10	X	X	X	X	X
12. Bosch Service Centre 56, K, Cyril C. Perera Mawatha, Colombo 13		X		X	X
13. Siyambalape Complex No. 135, Mahena Road, Siyambalape, Biyagama		X		X	X
14. Dima Logistics Centre Kirindaiwela Road, Weliweriya.				X	X
15. Piliyandala - Customer Contact Point No. 329/3, Colombo road, Piliyandala			X		X
16. Horana - Customer Contact Point No. 275, Rathnapura Road, Horana			X		X
17. Matale - Customer Contact Point No. 185B, Kandy Road, Kohombiliwela, Matale.			X		X
18. Welimada - TATA Display Point No. 73, National Building, Badulla Road, Welimada	X		X	X	X
19. Hatton - Customer Contact Point No. 162/81, Dimbulla Road, Hatton			X		X
20. Kandy Branch Work Shop No. 671/A, Balagolla, Kengalla, Kandy		X		X	X
21. Kandy Branch No. 276 A, Katugasthota Road, Kandy	X		X	X	X

MANAGEMENT REPORT / DELIVERING VALUE TO CUSTOMERS...AND THEIR VALUE TO US

Branches	Sales	After Sales Services	Display Points	Spare Parts Sales	Customer Contact Point
22. Kurunegala Branch No. 27 A, Colombo Road, Malpitiya, Boyagane, Kurunegala	X	X	X	X	X
23. TATA Vehicle Display Point No. 56, Bandarawatte, Hidellana, Ratnapura	X	X	X	X	X
24. TATA Vehicle Display Point No. 32, Aluthgama, Bogamuwa, Yakkala	X		X	X	X
25. Matara Branch No. 401, Kumaratunga Munidasa Mawatha, Pamburana, Matara	X	X	X	X	X
26. TATA Vehicle Display Point No. 2H, New Road, Ambalangoda	X		X	X	X
27. TATA Vehicle Display Point No. 345, Pallegama, Ratnapura Road, Embilipitiya	X		X		X
28. Padaviya - Customer Contact Point Opposite the school Padavi-Parakramapura			X		X
29. Anuradhapura Branch No. 562/100, Jayanthi Mawatha, Anuradhapura	X	X	X	X	X
30. TATA Workshop No. 562/126, D.S. Senanayake Mawatha, Anuradhapura		X		X	X
31. TATA Vehicle Display Point No. 61, Town 1, Main Street, Akkaraipattu	X		X		X
32. Vehicle Display Point No. 786, Madawelana, Debarawewa, Tissamaharama	X		X	X	X
33. TATA Vehicle Display Point No. 542/1, Colombo Road, Thilladiya, Puttalam	X		X		X
34. Mannar - Customer Contact Point Thalvupadu Road, Eluthur, Mannar			X		X
35. Nikaweratiya - Customer Contact Point No. 222, Opposite Police Station, Nikaweratiya			X		X
36. Ambalantota - Customer Contact Point Tissapura, Walawa, Ambalantota			X		X
37. TATA Vehicle Display Point No. 43, Jaffna Road, Vavuniya	X		X	X	X
38. TATA Vehicle Display Point No. 800, Dambulgama, Dambulla	X		X	X	X
39. Ampara Branch No. C 62, D.S. Senanayaka Street, Ampara	X		X		X
40. Jaffna Branch No. 214, Stanley Road, Jaffna	X		X		X

DELIVERING VALUE TO CUSTOMERS...AND THEIR VALUE TO US / MANAGEMENT REPORT

The Total Dimeo Experience Many of our customers are served by more than one business segment. It shows the effectiveness of our 'One Dimeo' concept that exposes them to the total Dimeo product and service offering. The following table illustrates the number of customers who are served by more than one business segment. /

Market Segment	Vehicles		Vehicle Parts & Service		Lighting & Power Tools		Construction Machinery	
	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11
Electromechanical & Biomedical Engineering	22	11	60	44	31	23	32	4
Construction Machinery	136	183	175	145	81	61	–	–
Lighting & Power Tools	65	61	157	146	–	–	–	–
Vehicle Parts & Service	661	467	–	–	–	–	–	–

Developing Our Sales Team Continuous training and development are part of our human resource development strategy. The following table gives details on the training provided to our sales team during the year, which averages to 11.17 (2010/11 - 10.2) man hours per sales staff member. /

Type of Training	No. of Programmes		No. of Participants		Sales Training Man Hours		Average Training Man Hours per Sales Staff	
	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11
In-house	54	35	424	393	1,773	2,414	4.9	7
External, local	36	143	145	85	1,151	712	3.2	2.1
External, foreign	19	30	19	11	1,120	392	3.1	1.1

A New Experience in Vehicle Care

The Bosch Diesel and Car Service Centre

The state-of-the-art Bosch Diesel Centre, located at No. 56, K. Cyril C. Perera Mw, Colombo 14, was inaugurated in January 2012. It is a Rs. 145 mn investment that will take Dimeo into top gear with unmatched customer care in our vehicles segment. /



The Bosch Diesel Centre is equipped with the most advanced testing technology and equipment manufactured by Bosch. As one of the largest manufacturers of diesel fuel injection systems in the world, the Bosch test equipment commissioned at the Centre can test, calibrate, diagnose faults and repair most makes of the new generation electronically controlled diesel fuel injection systems, including common rail.

The Bosch Car Service is an ultra-modern workshop facility that can accommodate up to 20 vehicles of all popular makes. Services include fault diagnosis, troubleshooting, repairs and exhaust emission testing, particularly for the new generation of motor vehicles that employ advanced electromechanical technologies.

DELIVERING VALUE TO CUSTOMERS...AND THEIR VALUE TO US / MANAGEMENT REPORT

The Upcoming Mercedes-Benz Centre

The ground breaking ceremony for the new Mercedes-Benz Centre was held in October 2011 under the patronage of the President and CEO of Daimler South East Asia Pte Ltd., Mr. Wolfgang Huppenbauer and Chairman of Dimo, Mr. Ranjith Pandithage. /

This facility, located at Sirimavo Bandaranaike Mawatha, Colombo 14, will further enhance the quality of services to customers, and as set by our principals, it will be no different to other centres found in Germany. In addition to a fully-equipped service and repair centre, other facilities and features will include a Mercedes-Benz museum and café, a 300-seat auditorium and recreational terraces.

Our new Mercedes-Benz website www.mercedes-benz.com.lk displays upcoming models that are available for our customers, as well as Dimo's new services and highlights of events.

**Our Landmark Projects**

Some of the landmark projects undertaken during the year that demonstrate Dimo's technical knowledge and product range are highlighted in the paragraphs that follow, while more information can be found at our dedicated projects website www.dimolanka.com/projects

- **Colombo City Electricity Distribution Development Project**

The Ceylon Electricity Board introduced a Supervisory Control and Data Acquisition/Distribution Management System (SCADA/DMS) technology to the Colombo City electricity distribution in order to control and supervise their network of substations more reliably and effectively. Dimo, partnering with Siemens, is proud to have undertaken the implementation of the SCADA/DMS solution which includes implementation of SCADA/DMS system at the Distribution Control Centre; installation, testing and commissioning of 9 master Remote Telemetry Units (RTU) at Colombo City Primary Stations and more than a hundred RTUs and mini RTUs at substations; and the modification of existing 11 kV panels.

- **10 MW Wind Power Plant, Mampuri, Puttalam**

The first private sector-owned wind power plant in Sri Lanka was installed by Senok Wind Power (Pvt) Ltd., and Dimeo is proud to be a part of this benchmark renewable energy project. Dimeo Power Solutions Division undertook the task of installation of the balance of plant, which included the earthing networks of eight wind masts (1,250 kW each) and the installation, testing and commissioning of eight step up substations (0.6 kV/33 kV, 1,500 kVA) at each wind mast.

- **Forging ahead in the medical equipment market.**

The Magnetom Skyra 3.0 Tesla MRI Scanner from Siemens Healthcare provides a new level of seamless image quality with unprecedented acquisition speed and ease of use. It has several features that are a first for Sri Lanka that ensure excellent image quality and quick patient positioning, leading to shorter scan times. /



- **Transmission System Strengthening Grid Substations Project**

The Ceylon Electricity Board has undertaken to strengthen their transmission network in order to improve the access of clean energy to their network. Under this project, three new grid substations will be constructed at Naula (132/33 kV, 31.5 kVA), Maho (132/33 kV, 31.5 kVA) and Pallekelle (132/33 kV, 2 x 31.5 kVA), and augmentation of existing grid substations at Habarana, Panadura, Matara, Puttalam and Galle to be done in a period of two years. Siemens with Dimeo secured these large scale projects, and work has already commenced. The scope of work for Dimeo includes the civil sub-contract for the augmentation of five grid substations, and important roles in project implementation such as installation, testing and commissioning and defect liability services.

- **Mattala International Airport Project**

Dimeo provided pumps for the Fire Hydrant & Sprinkler System at the Mattala International Airport that is under construction. It will have the country's largest fire detection system that consists of 21 fire detection panels networked through fibre optics. The Gomaco concrete paving machine that we introduced is another first for Sri Lanka. It is being used in building the access roads for the Mattala Airport.

DELIVERING VALUE TO CUSTOMERS...AND THEIR VALUE TO US / MANAGEMENT REPORT



— • Other Projects

Dima provided building management solutions to Sri Lanka Customs Head Quarters Building, Sri Lanka Ports Authority administration complex at Hambantota, Emperor Residencies, National Archives Department Headquarters, International Convention Centre at Hambantota and Chaaya Tranz Hotel at Hikkaduwa. /

After-Sales Care

Our after-sales facilities have consistently been cutting edge and innovative; and span across all our business segments. For instance in our vehicles, vehicle parts and services, and construction and agricultural machinery segments our efforts in reaching out are not just confined to customers but also include mechanics and technicians who provide services. 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 repair garage owners and their employees.

In our electromechanical and biomedical engineering segment, we continue to invest on training our after-sales team and keeping them abreast of our principals' state-of-the-art technology. With 95% uptime guarantees, 24-hour hot-line (0114607111) is the first ever service hotline that was introduced for medical equipment in Sri Lanka, spares-to-site within 48 hours, remote diagnosis systems, and regional support centres in Germany, USA, Japan, China, Singapore, Dubai and India are some of the features that distinguish and differentiate Dima in this business segment. Our technical team consists of factory trained engineers for each product, and they are trained continuously in line with new developments.

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



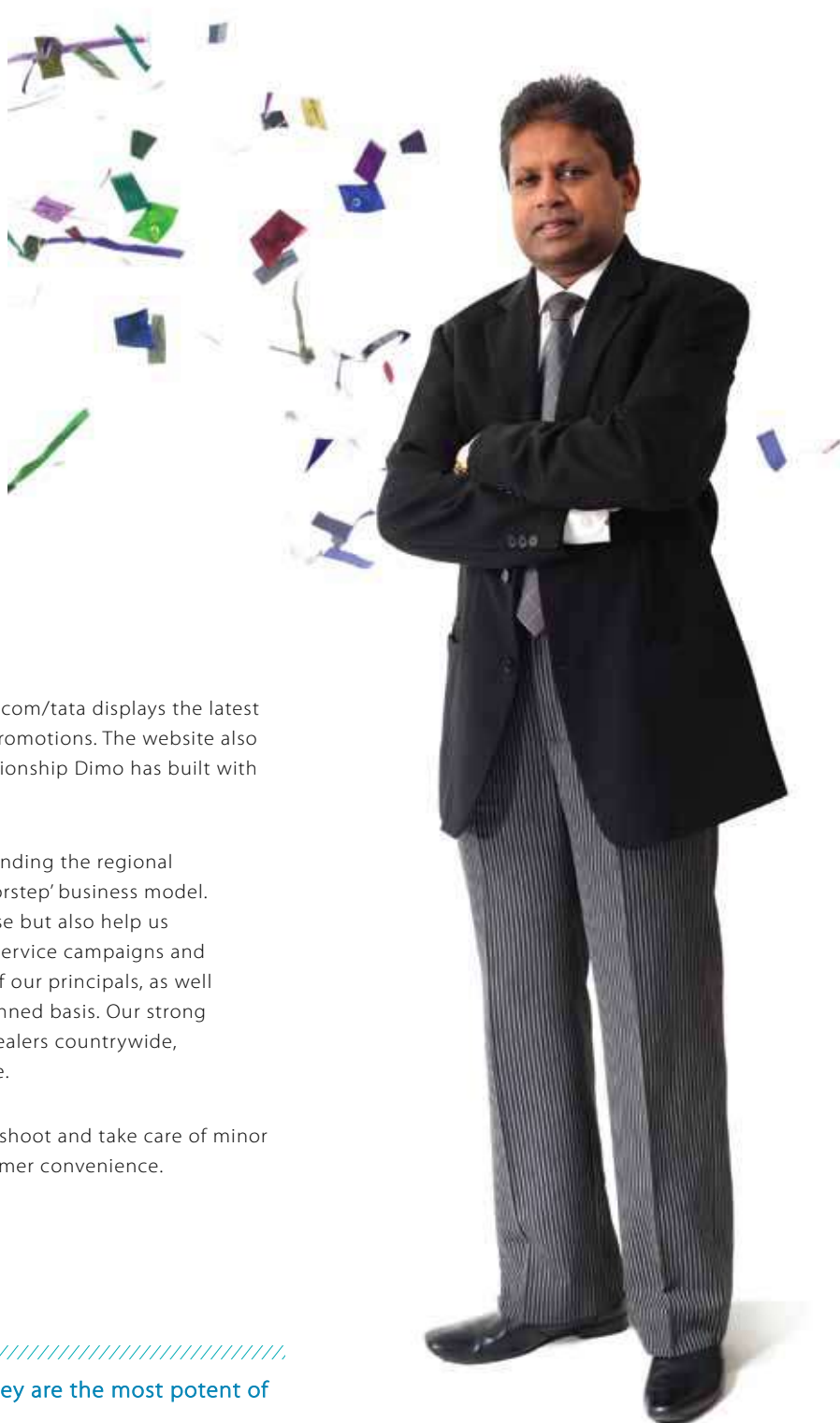
- TATA Mahagedara is our flagship service centre and workshop that also provides accommodation facilities for provincial customers. A price menu helps customers to take speedy decisions and also improves transparency and clarity in pricing. The underlying philosophy of this concept is threefold, namely, due respect and due care to customers (*Garu Selakili Mahagedara*), a 24-hour online roadside assistance to customers (*Honda Welawata Mahagedara*), and of course customer safety and satisfaction through quality service (*Arakshawata Mahagedara*). This is another industry- leading example from Dima. /

The TATA Mahagedara was further developed during the year:

- The number of wash bays was increased from six to ten to speed up washing and greasing services.
- The number of bays in the accident repair section was increased from twenty seven to thirty six and the number of hangars increased from two to three; likewise the number of tinkers and mechanics were also increased.
- Five vehicles were added to the 24-hour vehicle breakdown service to improve response time.

TATA Mahagedara launched an engine overhaul scheme with the promise of completing the task within five days by using our expert knowledge and TATA genuine parts.

DELIVERING VALUE TO CUSTOMERS...AND THEIR VALUE TO US / MANAGEMENT REPORT



Our dedicated TATA website www.dimolanka.com/tata displays the latest models together with news and upcoming promotions. The website also provides a look at the foundation of the relationship Dima has built with TATA and what the future holds.

The Vehicle Parts Division is working on expanding the regional service network through a 'service to the doorstep' business model. This will not only enhance our service promise but also help us better understand customer needs. Further, service campaigns and demonstrations along with representatives of our principals, as well as regular customer meets are done on a planned basis. Our strong distribution network, including authorised dealers countrywide, also contribute to our competitive advantage.

Our mobile service unit, equipped to troubleshoot and take care of minor repairs, provides another dimension to customer convenience.

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"The wise decision...the wise choice. They are the most potent of attributes a Company may aspire to."

DR. HARSHA CABRAL

Director

Our unit repair section was upgraded to enhance capacity and improve service turnaround 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 within 24 hours.

- 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, online after sales support and 24-hour spare parts delivery. /



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 the needs of various customer groups and innovation are once again the keys to success. For instance, we have 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.

Mercedes-Benz Club of Sri Lanka

The Club is now in its 22nd year with a membership of over 120, making it one of the oldest, most active and largest clubs of its kind in the country. During the year the Club conducted a classic car enthusiast forum, to advise and educate owners of classic cars on restoration and maintenance. Over 50 classic car owners participated in the event.



- The Annual Mercedes-Benz pageant is a much sought after event for members, their families and friends. This year we celebrated the 125th Anniversary of the Automobile at the pageant. A special Mercedes-Benz Motor show was held with pre-World War era cars and all the current models being displayed at the event. The highlight of the event was the launch of the SLS AMG Gullwing which amazed all those who were present. /

A test drive day was organised in Kandy to give the Mercedes-Benz Experience. This was well-received with over 50 customers making use of the opportunity.

The Mercedes-Benz Annual Golf Tournament 2011 was held in April 2011 at the Victoria Golf Club in Kandy. The tournament attracted over 80 participants. Seven winners qualified for the regional tournament held in Australia, and one qualified for the world finals held in Germany.

As a CSR initiative the Club undertook to refurbish the girls' dormitory in the Sandagala special school in Kurunegala.

TATA Fleet Owners Club With a membership of over 45 fleet owners, the Club provides certain privileges such as exclusive service offerings and special pricing schemes.

- Our service campaign for TATA customers spanned far and wide during the year, covering six major towns from North to South. These were very well patronised with some 946 owners of TATA vehicles and 71 owners of motor garages that repair TATA vehicles. Participants were able to get the latest news on the TATA brand, an updated handbook and get their problems solved by our technical experts. The major motor 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 Electricians' Club This Club was formed by the Dimo Lighting Solutions Division, the main objectives being to educate members on energy saving methods and create better product awareness. It has over 510 members and customer awareness programmes are organised once a month islandwide.

Dimo Bosch Power Tools The Dimo Power Tools Division celebrated the Sinhalese and Tamil New Year 2011 with the woodworking community of Moratuwa. Technicians who use our power tools in major cities around the country are provided free service campaigns for troubleshooting, training and solving their technical problems. Dimo Power Tools provides customers with a response time not exceeding 48 hours with the slogan 'Uninterrupted work at your site with Bosch'. A special Tool Clinic for corporate customers, appointment of authorised Service Agents in the Eastern and Southern Provinces, implementation of 120 mobile service campaigns and customer educational programmes countrywide were the key after sales care initiatives. A 'Loan Tool' scheme was also introduced to provide a backup tool to customers in situations requiring excessive repair time.

DELIVERING VALUE TO CUSTOMERS...AND THEIR VALUE TO US / MANAGEMENT REPORT

Our product responsibility**Life Cycle stages of products are assessed for health and safety impact**

All products marketed by Dimo 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 employed.

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

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

Product and Service Labelling, User Manuals

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

Ethical Communications

Dimo's marketing communications are 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 against a checklist prior to release to ensure that Dimo does not engage in unethical marketing practices.

There were no breaches of this code during the year under review. The same standards are promoted among all customer facing staff in their communications with customers. There were no instances of non-compliance with any regulation on marketing communications during the year.

Checklist

- Consistency in corporate image
- Logo and branding guideline
- Product claim (product features)
- Accuracy and credibility of information
- Creative ideas
- Standards and credibility of contents
- Remarks on and comparison with competitors

Customer Satisfaction**Customer Relationship Management (CRM)**

Measuring and monitoring customer satisfaction and adapting accordingly are both a science and an art at the Dimo Group. 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 ongoing customer satisfaction surveys and create an index for measurement and 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 after sales services across all business segments. Important innovations and improvements stemming from this exercise are instituted in the training and induction agenda and employee literature.

MANAGEMENT REPORT

DELIVERING VALUE TO CUSTOMERS...AND THEIR VALUE TO US

**Voice of the Customer**

A centralised Customer Relationship Management (CRM) Division 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 that enable the Group to continuously develop its problem solving capability with timely and effective modifications to business processes when warranted. Having recognised the importance of CRM, we are taking steps to widen its scope to cover other divisions as well.

During the year under review, the CRM unit engaged with 21,048 (9,568 in 2010/11) customer interactions by various kinds of activities.

The Dimeo Group has the ability to attract new customers and attract repeat purchase in equal measure. For example, of the Mercedes-Benz vehicles sold during the year under review, 48% were new customers and 52% were repeat customers.

Dimeo's CRM conducts a series of activities to maintain regular contact with customers and has positioned itself to get effective and candid feedback. It plays a central role in problem solving as well. Our CRM process ensures speedy response to customers' complaints. Customer complaints are 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.

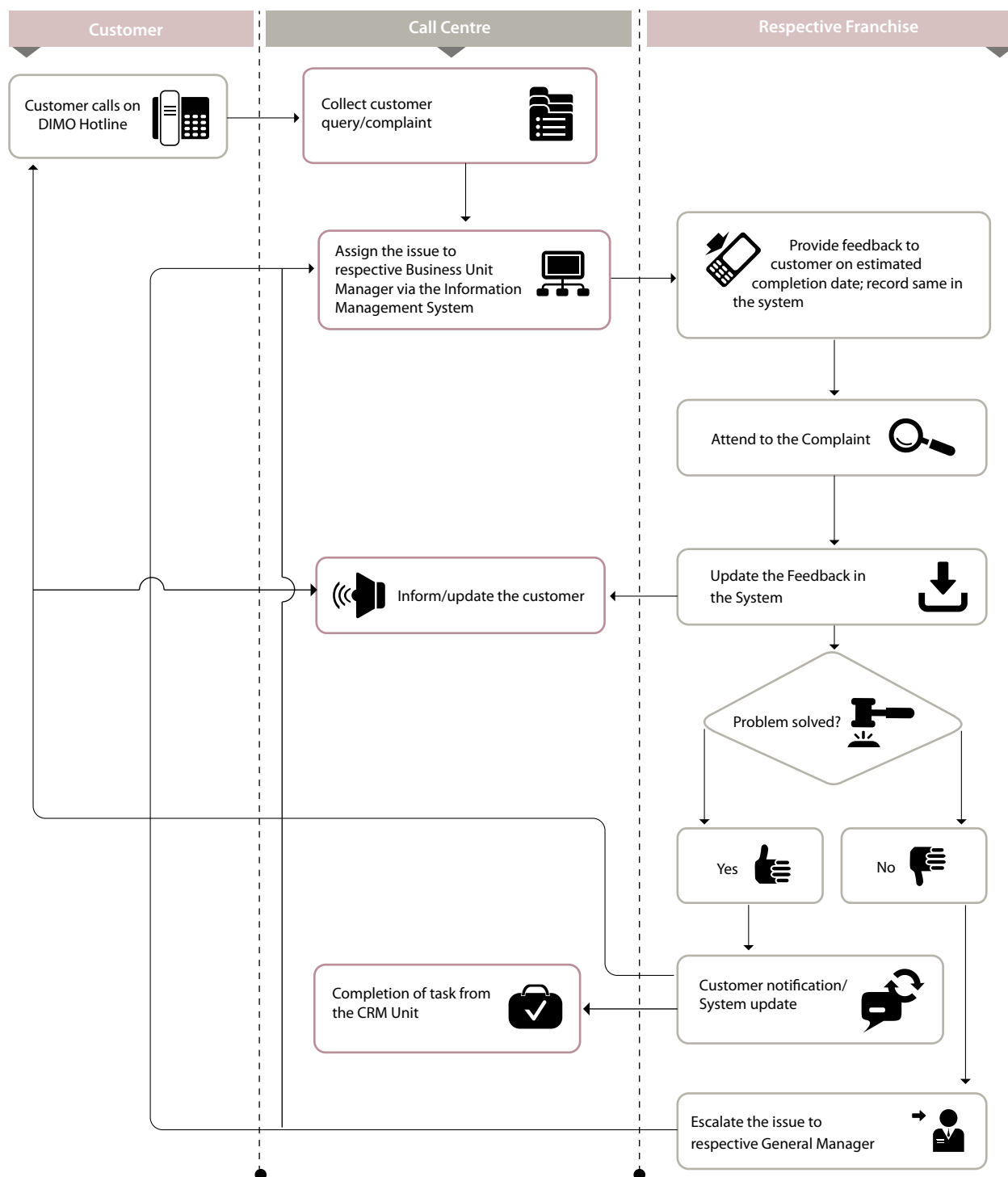
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 "Numbers can tell us the story...to the last decimal.
 But it's foresight that really makes the story".

SURESH GOONERATNE

Executive Director

DELIVERING VALUE TO CUSTOMERS...AND THEIR VALUE TO US / MANAGEMENT REPORT

The following diagram details our customer complaint handling process:



MANAGEMENT REPORT / DELIVERING VALUE TO CUSTOMERS...AND THEIR VALUE TO US

- In the year under review Dimo received 261 (201 in year 2010/11) customer complaints. Of these, 128 (48 in year 2010/11) were resolved within the stipulated 3-day time frame. All other complaints were eventually solved in a satisfactory manner. The table below indicates statistics on complaints over the past five years: /

Year	No. of Customer Complaints	No. of Complaints per Rs. bn Gross Turnover
2007/2008	305	36.6
2008/2009	289	61
2009/2010	180	34
2010/2011	201	9
2011/2012	261	8.3

Customer Inquiries During the year we received a total of nearly 30,000 customer inquiries, of which about one-third were floor inquiries related vehicle purchase, repair, usage and the like. Dimo takes swift action to handle inquiries through the sales team, branch network and through our website. /

Source	No. of Inquiries
Floor Inquiry	
Branches	6,025
Display Points	3,946
Customer Contact Points	1,263
Sub Total	11,234
Response to Newspaper Advertisement	7,504
Telephone	11,193
Total	29,931

DELIVERING VALUE TO CUSTOMERS...AND THEIR VALUE TO US / MANAGEMENT REPORT



Call Centre A call centre was launched where all inquiries and complaints can be managed in a more structured manner. This also facilitates recording, and immediate action on all customer inquiries and grievances. /

Customer Information Protection Dima's respect for customer privacy and its commitment to protecting customer data is enshrined in its corporate 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 breaches of customer privacy or loss of customer data were received in the year under review.

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

**Environmental-friendly
Product Responsibility**

Our principals, representing leading global brands, produce some of the most responsible products in their respective categories. Hence, every product offered by Dimeo is somewhat of a leader in the area of product responsibility. Dimeo, 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. The following are but a handful of some examples:

- **Osram LED lighting and RZB LED luminaires have the following eco-friendly features:**
Up to 90% energy savings compared to conventional incandescent and halogen lamps; mercury-free production; up to 45,000 hours service life; up to 100,000 switching cycles; very high impact and vibration resistance. /



DELIVERING VALUE TO CUSTOMERS...AND THEIR VALUE TO US / MANAGEMENT REPORT

- Dimeo was the first in Sri Lanka to introduce asbestos-free brake pads for vehicles. /



Mercedes-Benz 'Blue efficiency' models are up to Euro 5 environmental norms (a European environmental standard).

- Dimeo has introduced new models in the small commercial vehicle range such as the *Batti*, *Lokka* and *Batta*. The Dimeo *Batta*, with its best in class fuel efficiency and low GHG emissions, has fast become one of the most popular light commercial vehicles on Sri Lankan roads. We have just introduced another to the commercial vehicle range - the stripped down version of the 207 DIEX single cab pickup truck, branded as the Dimeo 207 Bullet. It is also one of the most fuel efficient vehicles in its class. /

Dimeo Energy Management Services provides capacitor bank design and installation services for industrial customers who wish to reduce their electricity consumption through power factor correction. By partnering with Electronicon, a reputed German manufacturer, we are in a position to assure our customers the highest quality and reliability of all installations.



MANAGEMENT REPORT / WORKING AT DIMO...ENJOYABLE AND REWARDING

Management Approach

Just over a 1,300 people work at the Dimo Group. They represent the finest of professionals in their respective fields. The Group's goal is to make work 'enjoyable and rewarding' while maintaining a customer-first policy. Every employee living this policy is central to the Group excelling at what it does. Thus, delivering value to customers and the value of customers to the Dimo Group are deeply ingrained in our work ethic that drives our human resources development agenda.

High priority is given by the Board and the top management for engaging with employees at all levels. The engagement process has been instituted through several ongoing initiatives including one-to-one interviews (conducted by an independent third party), focus group discussions (conducted by an independent third party), an Employees' Council, HR clinics, an internal newsletter '*Dimo Handa*' and an annual employee satisfaction survey. DimoNet, the Group's intranet, has improved access to a wide range of corporate information including promotional campaigns, employment opportunities, Employees' Council minutes of meetings and corporate events.

As in the previous year, employee feedback on economic, environmental and social criteria was obtained through an independent third party, the objective being to ascertain the true and honest feelings of employees at every level on the above criteria. Stemming from this survey, the Sustainability Committee set out objectives for the ensuing year. These objectives are given in the table appearing on pages 112 to 113.

The Dimo 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 that 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. We also promote them in all external organisations that we engage with.

During 2011/12, the Dimo Group spent Rs. 1,164 mn (Rs. 962 mn in 2010/11) on salaries and wages, defined contribution plan costs (EPF, ETF), retirement benefit plan costs (retiring gratuity) and training.

The Dimo Approach to Labour, Environment and Human Rights

THE VALUES THAT GUIDE US

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

WORKING AT DIMO...ENJOYABLE AND REWARDING

MANAGEMENT REPORT



Dimo's policy is to produce sustainable and rewarding outcomes for the people within the organisation. Our goal is to make work enjoyable, rewarding and productive and to create a work space that is enriching and innovative.

The 'One Dimo' concept aims to enhance teamwork among the Dimo family. Employees are given a good understanding of all our business activities; which in turn make them business partners of all businesses that we are engaged in.

Employees are encouraged to invest in their own professional development by developing an Individual Development Plan.

We recognise that employees are the most valuable asset of the Dimo Group. Their well-being and development are given top priority. The value placed on employees is well-reflected in our investment in training and development, monetary and non-monetary benefits and in the accolades received for our human resource practices.

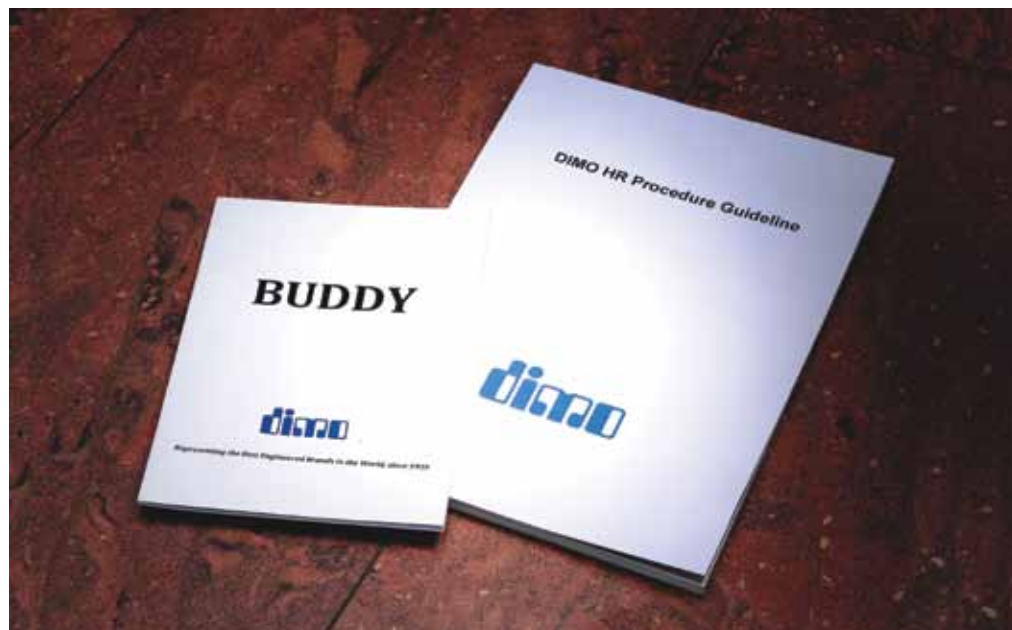
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"The challenge for any individual or organisation is to create value in terms of what it offers, following a set of values and guidelines and in the process creating wealth for itself."

PROF. UDITHA LIYANAGE

Director

MANAGEMENT REPORT / WORKING AT DIMO...ENJOYABLE AND REWARDING

Code of Business and Ethics Dimo maintains a written code of business ethics for employees. They are embodied in a handbook, 'Buddy', which is made available to every employee. Salient features of the Code are outlined on page 229 of the Enterprise Governance Report of this Annual Report. /



Employee Statistics

Diversity Our total workforce as at 31st March 2012 stood at 1,339, an increase of 31% over the 1,019 employees of the previous year. Some pertinent figures, which show the diversity of our employees in terms of age and gender, are given below: /

Age Group	Executive Directors		Senior Management		Middle Management		Executives		Clerical/ Supervisory		Manual		Non-Executive/ Contract		Total	
	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F
<20	–	–	–	–	–	–	–	–	14	1	6	–	2	–	22	1
21-30	–	–	2	–	36	5	124	24	225	56	174	–	19	3	580	88
31-40	–	–	15	3	56	5	124	11	104	3	67	–	8	–	374	22
41-50	2	–	10	–	16	2	48	5	23	–	21	–	11	1	131	8
51<	5	–	5	–	16	4	28	7	17	–	11	–	20	–	102	11
Total	7	–	32	3	124	16	324	47	383	60	279	–	60	4	1,209	130

At present 11% of our staff are female, compared to 10% in the previous year. Of the 567 employees recruited during the year, 9.3% were females. We are making an effort to increase the composition of female employees to 15% by 2014.

WORKING AT DIMO...ENJOYABLE AND REWARDING / MANAGEMENT REPORT

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

Age Group	Executive Directors		Senior Management		Middle Management		Executives		Clerical/ Supervisory		Manual		Non-Executive/ Contract		Total	
	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F
<20	—	—	—	—	—	—	—	—	3	—	—	—	1	—	4	0
21-30	—	—	—	—	10	3	29	8	47	7	34	—	11	—	131	18
31-40	—	—	1	2	15	1	24	—	14	—	4	—	3	—	61	3
41-50	—	—	—	—	6	—	2	—	2	2	1	—	2	1	13	3
51<	—	—	2	—	4	—	2	—	1	—	4	—	2	1	15	1
Total	—	—	3	2	35	4	57	8	67	9	43	—	19	2	224	25

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

Reason	Gender	No.	Total	Percentage of Category	Percentage of Total Turnover
Voluntary	Male	217	242	96.88%	97.19%
	Female	25	—	100.00%	—
Dismissal	Male	3	3	1.34%	1.20%
	Female	—	—	0.00%	—
Retirement	Male	2	2	0.89%	0.80%
	Female	—	—	0.00%	—
Death	Male	2	2	0.89%	0.80%
	Female	—	—	0.00%	—
Total		249	249		100.00 %

Some types of jobs or trade typically have high turnover rates. Sales is one of them. Of the 567 new recruits during the year, 199 or 35% were direct sales staff. Likewise, 45% of those who left us during the year were from sales, of which about 60% were young entry level persons with a 3-6 month exposure at Dimo. While we are inclined to believe that such a group use Dimo as a spring board to move elsewhere, we are taking measures to better understand the issue and refine our recruitment processes accordingly.

MANAGEMENT REPORT / WORKING AT DIMO...ENJOYABLE AND REWARDING

Outsourced Services Limited operational activities such as janitorial services, transportation for identified purposes and security are outsourced through contracts. The activities of service providers are covered under our Supplier Code of Conduct.

Employee Engagement

Internal Communication Dimo continues to find ways of improving dialogue with its employees as it is very vital for the success of our organisation. Dialogue builds trust and enhances transparency. The Employees' Council, HR Clinics, the intranet and the newsletter *Dimo Handa* are some of the internal communication methods that we employ for the purpose.

Employees' Council The Employees' Council is an open forum where employees discuss their concerns with the top management - including the Chairman/Managing Director - of the Company. All Executive Directors, General Managers, Business Unit Managers and a representative from each business unit participate at these meetings, which are conducted monthly. Minutes of the meetings are published in the Company's intranet and can be viewed by any employee.

HR Clinics The main objective of the HR Clinic is to provide speedy solutions to employee concerns and issues. The clinic is conducted at their respective places of work. This process involves HR personnel visiting the employee at site, and initiating a free and frank discussion on any issue or suggestion. These clinics have now been held for the third consecutive year. /





Company Intranet *Working@Dimo* is a new programme on the Company intranet for employees to express their views and feelings. Each week an employee is given the opportunity to publish his or her work-related experience on the intranet. The initial focus has been on providing recognition for senior employees, typically those with more than 10 years at Dimo. /

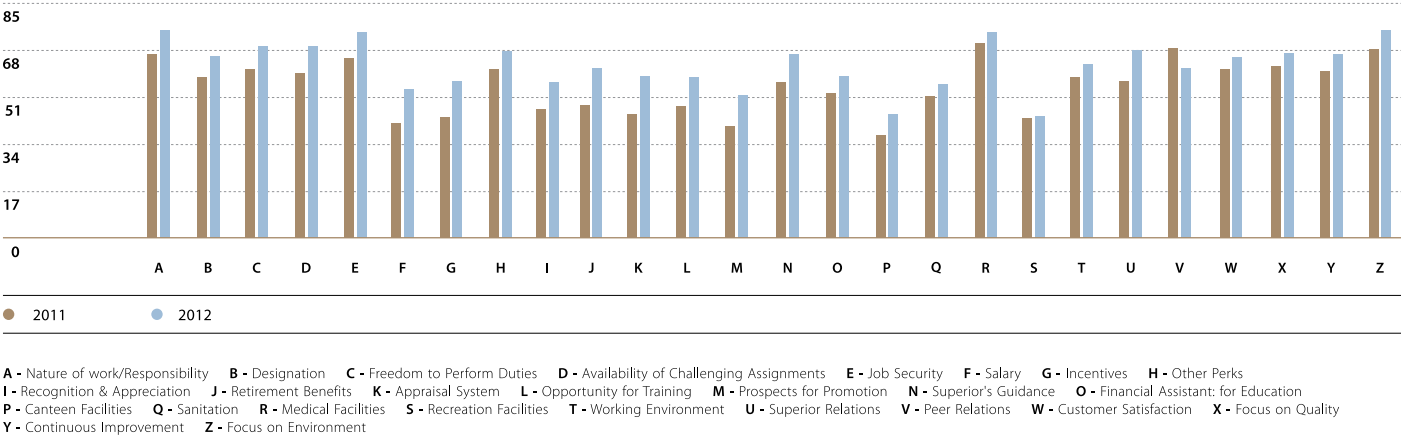
The intranet DimoNet was developed to improve access by employees to a wide variety of corporate information including promotional campaigns, vacancies, Employees' Council minutes, e books library, e news papers, Company Internal policies & procedures and other corporate events.

Employee Satisfaction Survey The Human Resource Department carries out an annual Satisfaction Survey of all employees. It is voluntary and the respondent may choose to remain anonymous. The survey provides a useful feedback based on perceptions and attitudes related to employee satisfaction, commitment and advocacy. Survey results are discussed at the highest level of the Company, and in detail at the Employees' Council meetings and Business Unit Managers meetings. Any suggestions and solutions made at these meetings are implemented following the approval of the Group Management Committee.

MANAGEMENT REPORT / WORKING AT DIMO...ENJOYABLE AND REWARDING

- A significant 86% of employees responded to the questionnaire survey in 2011/12 compared to the 54% in 2010/11. The overall satisfaction index too improved to 62.7% from the previous year's figure of 55.1%. Details of survey results tracked over a two-year period are shown below: /

Employee Satisfaction Survey Index (%)



Independent Survey on Employees' Expectations

Unbiased and transparent reporting of employee concerns is important for management to provide solutions. Towards this end we engaged an independent party to carry out a survey in the previous year. The survey covered the economic, environmental and social expectations and concerns of the employees, and the major issues and concerns identified were discussed by the Sustainability Committee. The objectives and strategies to address these concerns are summarised on pages 112 to 113.

Human Resource Activities

Key Elements of Our Recruitment Process

- We give priority to organic growth. If the expected qualifications and competencies are matched, preference is given to existing staff for the vacancies that arise. This gives internal candidates every opportunity to rise up in their careers.
- DATS (Dimo Auto Training School), NAITA (National Apprentice & Industrial Training Authority) and other vocational 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 that we conduct at the Universities of Moratuwa and Peradeniya.
- Dimo participates at various trade and youth fairs to promote Dimo and gather information from potential candidates interested in joining the Company.
- A transparent process is in place for recruitment, and new employees follow an induction programme before taking up responsibilities.
- Young professionals are recruited as Management Trainees periodically.

WORKING AT DIMO...ENJOYABLE AND REWARDING / MANAGEMENT REPORT

Recruitment During the Year

Our total staff strength increased by 31% to 1,339 during the year. The net increase comprised a total of 567 new recruits, offset by the 249 who left us during the year. The ratio between new recruitments and the year end workforce is 42%. These movements posed some challenges in terms of business continuity and recruitment. The high intake of new staff was necessitated to offset attrition as well as to support business growth and the new projects being undertaken by the Group.

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.

— The table below provides details of employees recruited during the year: /

Age Group	Executive Directors		Senior Management		Middle Management		Executives		Clerical/ Supervisory		Manual		Non-Executive/ Contract		Total		
	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F	Total
<20	—	—	—	—	—	—	—	—	16	2	6	—	3	—	25	2	27
21-30	—	—	—	—	14	3	65	7	163	34	82	—	23	2	347	46	493
31-40	—	—	4	1	19	1	33	—	36	1	11	—	9	—	112	3	115
41-50	—	—	—	—	6	—	2	—	2	1	1	—	10	1	21	2	23
51>	—	—	—	—	4	—	—	—	—	—	—	—	5	—	9	—	9
Total	—	—	4	1	43	4	100	7	217	38	100	—	50	3	514	53	567

— Dinesh Chandimal Test Cricket player in the National Team is employed at Dimo and is our Brand Ambassador. /



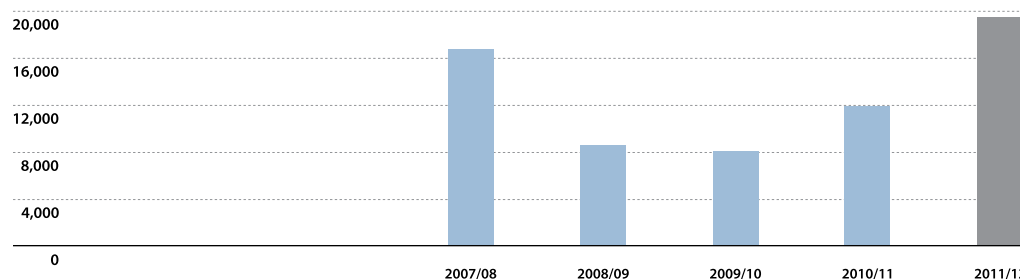
MANAGEMENT REPORT / WORKING AT DIMO...ENJOYABLE AND REWARDING

Training and Development

- The identification of training needs follows an established process. They are identified at the bi-annual performance evaluations by the employee and the immediate supervisor, in addition to any training that the Head of Department may deem necessary. Employees too may make ad hoc requests if the situation so warrants.
- A Group level training calendar is prepared at the beginning of each year based on the training needs identified.
- Training is provided in-house as well as externally, either in Sri Lanka or overseas.
- The effectiveness of the training is assessed through participants' feedback and subsequent evaluations.
- Knowledge sharing sessions are conducted to enhance the awareness of the Dimeo product range. 13 such sessions were organised during the year. Knowledge sharing also occurs when employees who have undergone training share their experience with others.
- Job-related educational expenses and subscriptions for membership in professional bodies are reimbursed by the Company in a bid to promote knowledge acquisition and personal development.
- Employees are encouraged to participate in various operational decisions-making processes such as preparing budgets etc.
- A web based e-library was launched last year for the benefit of employees.
- Employees also have web access to daily newspapers.
- The average investment on training per employee in the year under review is illustrated below:

Average Investment on Training Per Employee

(Rs.)



WORKING AT DIMO...ENJOYABLE AND REWARDING / MANAGEMENT REPORT

— Training hours by category and gender is analysed as below: /

Category	Gender	No. of Persons	Training Hours	Training Hours per Person 2011/12	Training Hours per Person 2010/11
Board of Directors	Male	7	330.50	47.21	
	Female	–	–	–	
	Total	7	330.50	47.21	34.7
Senior Management	Male	32	1,412.00	44.12	
	Female	3	370.50	123.5	
	Total	35	1,782.50	50.93	43.8
Middle Management	Male	124	4,183.00	33.73	
	Female	16	196.00	12.25	
	Total	140	4,379.00	31.28	23.9
Executives	Male	324	4,597.00	14.18	
	Female	47	754.00	16.04	
	Total	371	5,351.00	114.42	11.8
Clerical/Supervisory	Male	383	2,965.00	7.74	
	Female	60	484.00	8.06	
	Total	443	3,449.00	7.70	2.6
Manual/Contract	Male	339	2,813.50	8.30	
	Female	4	–	–	
	Total	343	2,813.50	8.2	8.9
Total	Male	1,209	16,301.00	13.48	
	Female	130	1,804.50	13.88	
	Total	1,339	18,105.50	13.52	10.9

MANAGEMENT REPORT / WORKING AT DIMO...ENJOYABLE AND REWARDING



**Performance Review,
Remuneration and Benefits**

- We deal fairly and honestly with our employees regarding wages, benefits and other conditions of employment and recognise the freedom of association as a human right.
- Employees’ performance is evaluated by the business unit managers bi-annually, and this scheme presently covers 66% of employees in the Dimo Group. The balance 34% employees represented new employees who are on probation, whose performance is monitored on an ongoing basis.
- Employees are offered attractive remuneration packages based on performance and on par with the best in the industry. Individual salaries are much more than the minimum prescribed by law.
- Business units conduct monthly meetings to review performance against targets and discuss issues.
- The Company conducts benefit surveys to establish external parity and ensure that our employees’ remuneration levels are on par or above the industry.
- There is no discrimination on remuneration based on gender.
- Innovations and new ideas are encouraged.
- Company employees are eligible for a benefit plan under payment of Gratuity Act No. 12 of 1983. Under this Act, an employee who has completed 5 years of continuous service is entitled to the equivalent of half a month’s salary for each completed year in service.
- Employees are recognised for a long service award upon completion of 25 years in service.

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“We strive every day to do the things we do, to the best of our ability. If we are honest in this effort, success will follow.”

MOHAN PANDITHAGE
Director

Employee Rewards and Recognition

Dimo recognises and rewards extraordinary commitment and performance over and above expected standards. With a variable compensation scheme, we allow employees to share in the Company's success, and also be rewarded for their individual performance. During the year, Dimo introduced a new rewards and recognition policy, which includes: Bright Idea Award, Customer Service Award, Safety Award, Employee of the Year Sales, Technical and Support Services Category. During the year 2011/12, 32 employees were recognised and rewarded of their extraordinary commitment and performance. /

**Creating an Employer Brand**

The achievement of our goals is dependent on the quality of our people. It is therefore vital that we continue to attract the best to Dimo while developing those who are already working with us. In 2011, Dimo launched a People Framework, which describes how we aspire to manage our employees. Creating an 'employer brand' is one such initiative. Becoming an employer of choice is our prime objective, and we have taken several initiatives to realise this dream, underpinned by our promise 'making work enjoyable and rewarding'. We also created a Careers Facebook page 'Career@Dimo'.

MANAGEMENT REPORT / **WORKING AT DIMO...ENJOYABLE AND REWARDING**

— Participation in committees by gender and age group is analysed below: //

Committees	Gender	Age Group		Age Group		Age Group		Total	
		<30 years		31-50 years		>51		No.	%
		No.	%	No.	%	No.	%	No.	%
Board of Directors (Executive Directors)	Male	–	–	2	100	5	100	7	100
	Female	–	–	–	–	–	–	–	–
	Total	–	–	2	–	5	–	7	–
Group Management Committee	Male	–	–	7	88	5	100	12	92
	Female	–	–	1	12	–	–	1	8
	Total	–	–	8	–	5	–	13	–
Sustainability Committee	Male	–	–	4	80	6	100	10	83
	Female	1	100	1	20	–	–	2	17
	Total	1	–	5	–	6	–	12	–
Health and Safety Committee	Male	6	75	13	87	6	100	25	86
	Female	2	25	2	13	–	–	4	14
	Total	8	–	15	–	6	–	29	–
Employees' Council	Male	17	68	67	91	18	86	102	85
	Female	8	32	7	9	3	14	18	15
	Total	25	–	74	–	21	–	120	–

Inauguration of the Dimo Toastmasters Club

The Dimo Toastmasters Club was inaugurated in June 2011 with the participation of Toastmasters from various other companies, followed by the first Speechcraft session for our members. The programme continued for two months. The primary objectives of the club are to help members to communicate more effectively, improve social networking skills, increase their leadership potential and become more successful in their careers.

WORKING AT DIMO...ENJOYABLE AND REWARDING / MANAGEMENT REPORT

Employee Grievance Handling

Dimo has an open-door policy and employees may discuss grievances or submit suggestions, and even have access to the Chairman. Employees also have the opportunity of bringing forward their grievances at the monthly Employees' Council meetings. On formal lodgements, it is Company policy to reply to the person within 10 working days. A total of 24 reports and suggestions were submitted during the year and they were satisfactorily addressed. /

Category	Total No. of Grievances		Grievances related to Human Rights only		Total No. of Grievances resolved		Total No. of Grievances resolved related to Human Rights only	
	M	F	M	F	M	F	M	F
Internal stakeholders	23	1	-	-	21	1	-	-

Other Welfare and Social Activities

An awareness programme on investment planning (management of retirement benefits) was held for those employees reaching retirement age. The programme, conducted by the International Institute of Development Training, explained the different savings and investment options available, their risk and reward structure as well as cash flows, so that one could select the most suitable mix-based on personal requirements.

A Death Donation Fund is in operation. Employees and the Company contribute equally to this Fund, which is used to provide financial assistance to the affected family of the employee or to the employee in the event of a death of an immediate family member.

An annual Christmas Party is organised by the Sports Committee for the children of employees. In addition, school books and accessories are given away to the children of employees. An Art Competition for the children of employees was conducted during the year on the theme 5S/Health and Safety.

Loans to employees are granted at concessionary rates, while meals at the cafeteria are subsidised. The annual excursion is another welfare measure that also promotes camaraderie and bonding among employees.

The Company provides encouragement and support for employees to participate in sports. The Dimo Sports Meet is an annual event organised by the Sports Committee of the Company. We are proud of our cricket team that was the runner-up at the Mercantile Cricket Association Tournament 'C' Division - 2012. By virtue of being the runner-up, the cricket team qualified to compete in 'B' Division next year.

The annual Dimo Dinner Dance was yet another successful event on the social agenda during the year under review.

We have a standardised process for employees returning to work from extended child care leave and career coaching specially-tailored to female employees.

MANAGEMENT REPORT / WORKING AT DIMO...ENJOYABLE AND REWARDING

The table below shows employees maternity leave structure during the year 2011/12:

No. of Female employees	No. of employees entitled for maternity leave	No. of employees took maternity leave	No. of employees returned to work after maternity leave	No. of Employees who are still employed for the last 12 months after the return from maternity leave	Return to work rate	Retention rate
130	9	9	8	7	89%	78%

Occupational Health and Safety

Activities

Health and safety of our employees is a core concern at Dimo and the Group is working towards obtaining Occupational Health and Safety Standard - OHSAS 18001 Certification. Some of the key activities conducted during the year under review are summarised below:

- We launched a banner campaign /



WORKING AT DIMO...ENJOYABLE AND REWARDING / MANAGEMENT REPORT

- A health and safety risk identification audit was conducted by the National Institute of Safety and Health, and their recommendations are being implemented.
- A 29-member Health and Safety Committee has been established. It comprises representatives from management (7 members), executives (18 members) and non-executives (4 members).
- All new constructions are designed with the required safety features.
- Special protective clothing along with eyewear, helmets, gloves and footwear are provided to employees as needed. Employees are regularly educated on safety practices and the importance of wearing safety clothing and accessories.

— The table below shows our track record on health and safety at work: /

Cause	2011/12		2010/11		2009/10	
	Total No.	Rate %	Total No.	Rate %	Total No.	Rate %
Injuries	22	1.6	26	2.5	7	0.7
Occupational disease	—	—	—	—	—	—
Lost working days	129	4.8	165.5	0.1	49	5.2
Work-related fatalities	—	—	—	—	—	—

The employee absenteeism ratio reduce to 0.6% during the period under review from 3.6% in 2010/11.

Key Procedures

- Significant incidents are reported, discussed and communicated at the appropriate forums in order to prevent a repetition.
- Plant and machinery in the workshops are all equipped with modern safety mechanisms. They undergo regular maintenance.
- Training provided on plant operations includes safety aspects.
- Regular fire drills are conducted at all locations and employees are educated on how to act in case of an emergency.
- A doctor visits the Colombo office and the Weliweriya and Siyambalape workshops daily for consultations. No charge is levied for medicines and tests, as our objective is to ensure the good health of all our employees. An in-house nurse is also available during working hours.
- A First Aid training session was conducted for employees selected from each business unit. First Aid Boxes are available at all required places.
- Education, training, counselling and risk-control programmes are in place to assist employees, their families, and community members regarding serious diseases. An Osteoporosis awareness programme was conducted for employees, while a dengue awareness and prevention programme was carried out through e-mails and posters during the year.
- A Medical Insurance Cover is available for employees. Other insurance covers such as Workmen's Compensation and Group Term Life Insurance are also available.
- Accountability and strict compliance with safety measures are in place, including penalties for non-compliance.

MANAGEMENT REPORT / WORKING AT DIMEO...ENJOYABLE AND REWARDING

Biggest Loser Wellness Competition



- A competition organised during the year to identify the team that can shed those extra pounds and become healthier! Health is Wealth. /

Compliance with Laws and Regulations

The Dimeo Group strictly follows all statutory requirements with regard to employee remuneration, health and working environment. More details are discussed in the management Report - Regulatory Authorities.

Labour Rights and Freedom of Association

We are committed to complying with all applicable labour laws in the country and best practices of the industry. Employees are given the opportunity to voice their opinion at the Employees' Council and HR clinics, and also directly with any officer at any level of management through our open door policy. We ensure that employees' rights are not at risk under any circumstances, and we have not been involved in any activity that hinders the freedom of association.

The employees' council provides a forum to discuss any issues that may arise when operational changes such as change in location of business takes place.

Human Rights

- The Dimeo Group is committed to all the rights contained in international conventions on human rights and those rights contained in the Constitution of Sri Lanka.
- We are deeply committed to advancing the rights of all those working within the organisation as well as all other stakeholders with whom we engage. We take action to ensure that our suppliers, dealers and other business partners also respect and espouse human rights within the scope of their own businesses.
- We do not tolerate discrimination in any form.
- We respect the dignity of our employees and we work to ensure our associates' right to personal security, a safe, clean and healthy workplace and freedom from harassment or abuse of any kind. These issues are also addressed in the Dimeo Code of Conduct.
- The Code of Conduct, to which all employees are adherent, incorporates the tenets of human rights and compliance.
- We undertake to create awareness on sexual harassment among our employees at all levels. It is our policy to treat all complaints of sexual harassment seriously and confidentially. During the year, HR Department conducted an awareness session on Harassment in the Workplace.

Investment and Procurement Practices

There were no significant investment agreements entered into during the reporting period. In the event of an investment in the ensuing year, employee related issues would be addressed at the employees' council. Dimeo has in place a Supplier Code of Conduct and Declaration for supplier screening.

WORKING AT DIMO...ENJOYABLE AND REWARDING / MANAGEMENT REPORT

Training on Human Rights

Details on employee training on policies and procedures concerning aspects of human rights that are relevant to operations are given below: /

Method of training	2011/12 %	2010/11 %	2009/10 %
Hours devoted to training on human rights policies and procedures as a percentage of total training hours	6.2	11	2.2
Percentage of employees who received training on human rights policies and procedures	42	53	11.6

Non-Discrimination

Dimo is an equal opportunity employer and we ensure that all employees are treated with respect and equality. Equal opportunities are provided to all within the Company irrespective of sex, social background, caste, old school ties or other distinction.

The Dimo human resource policy lays down 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.

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

Promotions are strictly on merit and potential. Dimo's employment practices have generated a high degree of loyalty: 32% of our employees have been in service for over five years and 18% for over 10 years.

Child Labour

Dimo is strictly against the use of child labour, as addressed in the Company HR policy, and is in full compliance with the laws of the country. We have extended the same view towards all our outsourced services. As a new initiative we have prepared a Supplier Code for our suppliers and contractors, and child labour is addressed in this document as well.

Forced and Compulsory Labour

Dimo does not tolerate forced or compulsory labour. It is also a significant aspect of our HR Policy. However, employees may be required to perform reasonable overtime work in order to fulfil customer requirements. No incidents have been recorded of any forced or compulsory labour in the Company.

Security Training Practice

Dimo does not employ in-house security staff. All security-related activities are provided by a specialised company. The quality of their service level is monitored regularly.

MANAGEMENT REPORT / OUR BUSINESS PARTNERS...A SYMBIOTIC RELATIONSHIP

Management Approach

Our business partner network comprises principals of the brands that we represent, local and foreign suppliers of materials and organisations that provide various support services. Our value creation begins with the products and services provided by them. Delivering the highest quality requires consistent execution - by us, our principals, our suppliers, our distributors and our agents. Because quality, in all its manifestations, is at the very core of our business, the success of our business partners is essential to our very own.

As a standard setter in many of the market segments we serve, Dimeo believes in partnering with the world's best. We serve our customers with the best of products and services in their respective categories, and stretch ourselves to the highest standards that our principals expect of us - without compromising on quality, ethics and trust.

In today's economic environment, achieving lower costs, improving quality and managing a sustainable business require an unprecedented level of co-operation with suppliers and the maintenance of strong supplier relationships. We engage with our principals in a systematic manner, and deliver on our promise, year after year. The long lasting relationships that we have nurtured have held us in good stead. We continue to receive competitive prices for supplies. Our transparency and accountability in our business approach remains another differentiator that has helped to blossom many mutually beneficial relationships.



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"It is a fine line that lies between Management and Leadership. Good management sees things done right. Good leadership sees the right things done, always."

GLADWIN PEIRIS

Director

OUR BUSINESS PARTNERS...A SYMBIOTIC RELATIONSHIP / **MANAGEMENT REPORT**

**Expectations of
Our Business Partners**

Representing some of the world's best brands comes with its obligations. Our service delivery too is required to be on par with the global brand image. Through regular supplier engagement we stay abreast of developments and the expectations of our principals, while keeping them informed on changing market conditions and the ever-evolving demands of customers.

These expectations include relentless investment in people, facilities and inventories in both good times and bad.

The availability of products at any time with easy access to customers is a main concern of suppliers. Meeting sales targets, maintaining superior after sales service, attracting new customers while retaining existing ones, and introducing new products are other key expectations of suppliers. It also means keeping and growing our market share in a sustainable manner.

**Keeping
Our Promise**

We understand these expectations. During the year, we invested heavily on establishing state-of-the-art product display points countrywide, and moved on to upgrade our service stations beyond the standards set by our principals.

We continued to invest in training and development of our employees, both locally and abroad, to bring them on par with international standards. We also introduced measures to keep our technical and support staff updated on technological developments.

To benchmark ourselves, we conduct research, surveys and face to face interviews with stakeholders from time to time. These are usually carried by independent specialist organisations. The valuable insights we gain as a result help us initiate further improvements on the products and services we offer. We share these findings and our response with our principals.

Dimo is a market leader in many of the market segments that it serves. Remaining there requires continuous improvement and innovation as we strive to meet sales targets while growing our market share.

Strategic Fit

Some of our relationships with our principals are as long as Dimo's own existence. At the same time, we seek new business avenues based on emerging opportunities and our core competencies, and as a result we have also been adding new principals who represent a strategic fit.

Conflict Resolution

We maintain open two-way channels of communication with our suppliers, and procedures are in place to voice any issue. The business unit managers also provide regular feedback to principals in order to keep them aware of changing conditions.

MANAGEMENT REPORT

OUR BUSINESS PARTNERS...A SYMBIOTIC RELATIONSHIP

Relationship Building

We value the lasting relationships with our suppliers, some of them going back more than 50 years. As a Company that uses the cutting edge technology of our principals as a key market differentiator, the development of our human capital plays an important role in our success. Thus, a major part of Dimo's training and development inputs come from our principals.

- We engage with our principals in a methodical and regular manner. These engagements could range from one-to-one meetings at the top level, both in Sri Lanka as well as in the principals' home countries. Engagement also takes the form of familiarisation tours, training programmes and workshops for our staff as well as for representatives of principals. Discussions may include performance, economic and market trends, competitor issues, targets, training needs, resource utilisation and other processes.

Through these engagements we keep abreast of the developments and aspirations of our principals, while keeping them posted on changing market conditions and the ever-evolving needs of our customers. /



OUR BUSINESS PARTNERS...A SYMBIOTIC RELATIONSHIP

/

MANAGEMENT REPORT

Feedback from Principals

We conducted a supplier survey in order to obtain feedback on our approach. The results of the survey reflect how we have performed on topics such as planning, relationship management and compliance with environmental and ethical standards.

Suppliers interviewed have been associated with the Dimo Group for several years, and represent large and respected organisations globally. They have strong bonds with us and see the potential in the country for their products. The results of the recent survey reaffirmed our principals’ expectations and also reconfirmed that we were very much on track. Our foreign suppliers perceive Dimo to be an exemplary corporate citizen that contributes significantly to the well-being of its employees and society.

We continued with our ongoing corporate social responsibility (CSR) programmes to empower unemployed youths, and also initiated new activities with the assistance of our principals. Another facet of our corporate responsibility is exemplified by our actions on energy efficiency and conservation. The investments made towards energy saving methods and the commitment by top management has been appreciated by our principals.



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“We consciously built the ‘business edifice’ of Dimo around people. We wanted people to want to work for Dimo. Our success in this endeavour has made Dimo an employer of choice.”

RANJAN SEEVARATNAM
Director

**Supplier
Evaluation Process**

Embedding sustainability throughout the supply chain is clearly not something Dimeo can do alone. As well as working with our own suppliers, we engage with others in our industry to promote a wider action through joint activities. As a responsible corporate citizen we support the development of a cross industry approach to improve our accountability as an industry.

At Dimeo, supplier evaluation is a continuous process by all our supply chain management units. Both new and existing suppliers are selected and evaluated not only on the basis of economic criteria, but also on standards for environmental protection, occupational safety and social responsibility. Our Code of Conduct for suppliers is based on internationally recognised guidelines which is the driving force in selecting, retaining and sustaining the most appropriate business partners. It includes environmental protection and compliance with human rights and labour laws, as well as anti-discrimination and anti-corruption policies. Our key criteria are noted below:

- Pricing of products
- Response time
- Quality of product
- Repair handling
- Credit terms
- Warranty handling
- Shipment period

“Excellence can often be measured by the degree to which one has challenged the status quo...and it’s worth noting that it is through challenge that one achieves the highest degree of self worth.”

CHANNA WEERAWARDANE

Executive Director

OUR BUSINESS PARTNERS...A SYMBIOTIC RELATIONSHIP / MANAGEMENT REPORT

In addition to the criteria noted above, we also review the supplier's standards and practices, particularly in respect of compliance with environmental laws, Dimo's Code of Conduct on business ethics and working conditions of employees. This approach has helped improve the sustainability of our supply chain and has led to long-term relationships with suppliers.

Openness and trust are important aspects when working together with suppliers and driving compliance and performance improvements. We find that some suppliers have well-developed corporate responsibility programmes, while others need more support.

Our existing and prospective suppliers are required to make a declaration on four principles, namely: (i) labour and human rights, (ii) health and safety at work, (iii) sound environmental practices, and (iv) business ethics when dealing with workers, suppliers and customers.

Our Key Principals

Name	Country	Brands	No. of Years of Relationship
Daimler AG	Germany	Mercedes-Benz	73
Robert Bosch GmbH	Germany	Bosch/Dremel	58
KHD Humboldt Wedag AG	Germany	KHD	52
Siemens	Germany/India	Siemens	52
Tata Motors Ltd.	India	Tata	51
Bosch Ltd.	India	Bosch	43
Komatsu Asia & Pacific Pte. Ltd.	Singapore	Komatsu	43
Komatsu Ltd.	Japan	Komatsu	43
KSB AG	Germany	KSB	43
Johnson Controls (S) Pte. Ltd.	Singapore	York/Sabroe/Star/Frick	35
Bomag GmbH	Germany	Bomag	33
Bosch Automotive Systems Corporation	Japan	Zexel	28
Robert Bosch Ew	Germany	Bosch	28
Carl Zeiss Meditec	Germany	Zeiss	27
Tognum Asia Pte. Ltd.	Singapore	MTU/DDC	25
Mahindra & Mahindra Ltd.	India	Mahindra	22
Michelin	France	Michelin	19
OSRAM GmbH	Germany	OSRAM	18
DEMAG Cranes & Components GmbH	Germany	DEMAG	18
Rane Brake Linings Ltd.	India	Rane	18
WOMA GmbH	Germany	WOMA	18
Blaupunkt GmbH	Germany	Blaupunkt	17
Daimler South East Asia Pte. Ltd.	Singapore	Mercedes-Benz	17
India Pistons Ltd.	India	IPL	17
Fenner (India) Ltd.	India	Fenner/Pioneer	15

MANAGEMENT REPORT

OUR BUSINESS PARTNERS...A SYMBIOTIC RELATIONSHIP

Name	Country	Brands	No. of Years of Relationship
Vossloh-Schwabe GmbH	Germany	VS	15
Bimetal Bearings Ltd.	India	Bimite	14
SiTeco Lighting (M) Sdn Bhd	Malaysia	SiTeco	13
John Deere Asia (Pvt) Ltd.	Singapore	John Deere	11
MRF	India	MRF	11
Davex Engineering (M) Sdn Bhd	Malaysia	Davis	10
Draeger Medical	Germany	Draeger	10
Schaefer Systems International Pte. Ltd.	Malaysia	Schaefer	10
Claas India Ltd.	India	CLAAS	9
MHE-Demag (s) Pte. Ltd.	Singapore	MHE-Demag	9
Chrysler Group LLC	USA	Chrysler/Jeep	8
Everdigm Corp.	South Korea	Everdigm	8
Schwing Stetter (India) Pvt Ltd.	India	Stetter	7
Zenoah	Japan	Zenoah	7
Fischer Werke GmbH	Germany	Fischer	6
Snap-on Tools (Pvt) Ltd.	USA	Hoffmann/JBC	6
Sri Bhavani Castings Ltd.	India	SBP	6
VE Commercial Vehicles Ltd.	India	Eihcer Dem	6
Victor Gaskets India Ltd.	India	Victor	6
See Hau Global Sdn Bhd	Malaysia	Intraco Pallet	4
Turbo Bearings (P) Ltd.	India	Turbo	3
Sri Ramadas Motor Transport Ltd.	India	SRMT	3
RZB Rudolf Zimmermann	Germany	RZB	2
WD 40 Company	USA	WD 40	2
Haulotte Group	France	Haulotte	2
Auto & Construction Equipment Corp.	India	Jabsco, Rule, Flojet, Yamada	2
Technology Ventures Middle East FZC	UAE	Technology Ventures	2
Fujiwa Corporation	Japan	Fujiwa	2
Kumho Tires	Korea	Kumho	1
Manitowoc Cranes	India	Manitowoc/Potain/Grove	1
Sany Port Machinery Company	China	Sany	1
Shardlow Co. Ltd.	India	Shardlow	1
EC Smith & Sons (Marine Factors) Ltd.	UK	ecs	1

OUR BUSINESS PARTNERS...A SYMBIOTIC RELATIONSHIP / MANAGEMENT REPORT

Name	Country	Brands	No. of Years of Relationship
Clements Engineering (St. Neots) Ltd.	UK	CLEMENTS	1
AMT Marine Technologies (Pvt) Ltd.	India	AMT	1
Damesa	Spain	MIKALOR	1
Pratikel Ltd.	Turkey	Pratikel	1
Voyage Marine Automation L.L.C.	UAE	VOYAGE	1
Medtron AG	Germany	Medtron	1
Trafo Electro Services	Italy	Trafo	1
Goltens Co. Ltd.	UAE	Goltens	1
Samudra Shipyard (P) Ltd.	India	Samudra Shipyard	1
VULKAN Technologies Pvt. Ltd.	Germany	VULKAN	1
EBS-RAY PUMPS PTY. LIMITED	Australia	EBS	1
ITW India Ltd.	India	ITW	1
Kaeser Kompressoren GmbH	Germany	Kaeser	During the year
Gomaco International Ltd.	USA	Gomaco	During the year
STILL GmbH	Germany	STILL	During the year
Electronicon Kondensatoren GmbH	Germany	Electronicon	During the year
Chicago Pneumatic	USA	Chicago Pneumatic	During the year
Power Systems Conex GmbH	Germany	Conex	During the year
Leader Marine (China) Co. Ltd.	China	Leader Marine	During the year
Mopar Auto Parts (Shanghai) Trading Co. Ltd.	China	Chrysler/Jeep	During the year

MANAGEMENT REPORT / REGULATORY AUTHORITIES...PLAYING BY THE RULES

Management Approach

Dimo maintains excellent relationships with all applicable authorities. The ones that have the greatest impact on the operations of the Company and the Group are discussed below.

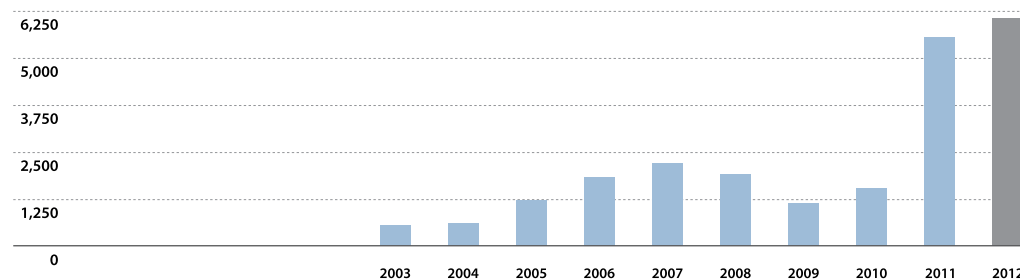
All statutory filings and payments are made in a timely manner; all standards and guidelines are strictly adhered to; and there are no pending issues unless they are reported hereunder. We have always operated under the principle that taxes due must be promptly and fully-paid, and that it is an important part of Dimo's obligation towards society.

At the same time, we also contribute towards the formulation of tax policies through our membership and participation in relevant professional and industry bodies.

- **Dimo's contribution to Government by way of taxes for 2011/12 amounted to Rs. 6.06 bn (Rs. 5.5 bn in 2010/11).** /

Group Revenue to Government

(Rs. mn)



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.

Dimo is fully compliant with all environmental laws prevailing in the country. Particular attention is paid to waste disposal, and natural resources are used with utmost care to obtain optimum benefit. All new buildings are designed with energy efficiency in mind. Employees too are aware of the importance of protecting the environment, and to foster their greater participation we established the 'Dimo Nature Club' during the year. The Club is mapping out its plans and will embark on suitable projects shortly.

As a leading corporate citizen that operates countrywide, Dimo conforms strictly with all rules and regulations pertaining to the environment, product standards, tax regulations, local authorities and all other requirements for conducting business. No penalties or non-monetary reprimands resulting from breaches of any rules or regulations have been imposed on the Company or the Group during the period under review.

REGULATORY AUTHORITIES...PLAYING BY THE RULES / MANAGEMENT REPORT



Further, no financial assistance was received from the Government of Sri Lanka during the period under review.

Any changes in applicable regulations will have a significant impact on our performance. As such we have given due consideration to these factors in our risk management process, discussed on page 128 of this Annual Report.

Membership in 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
- National Chamber of Commerce
- Chamber of Construction Industry
- Sri Lanka - Australia and 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 - Maldives Bilateral Business Council
- Sri Lanka - China Business Council
- Ceylon Motor Traders Association
- Sri Lanka Tyre Importers Association
- Engine Builders Association

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"We're as diversified as one can get, but at Dimo, we're really just ONE team...with ONE purpose...just ONE desire... to WIN!"

VIJTIHA BANDARA
General Manager - Sales and Service, Commercial Vehicles

MANAGEMENT REPORT / OUR COMMUNITY...LIVE AND LET LIVE



Management Approach

Our 1,300+ employees and their families represent the single largest 'community' that we interact with on a daily basis. Our engagement with them was discussed in a previous section of the Annual Report. The next group or community closest to the Dimo Group is the local youth who aspire to making a career in the field of automotive engineering or the various other fields that we are engaged in. Whilst these two communities receive our primary focus, we are always ready to engage with others in the localities where we operate and partner mutually beneficial relationships.

What Our Communities Expect of Us

Following an independent stakeholder engagement process in the previous year, we learned that the local communities would like to see our greater involvement in the development of social and economic infrastructure as well as education. These aspects have been discussed regularly by the Group Sustainability Committee, and we have already embarked on projects that are discussed below as well as taken initiatives to set objectives and targets (for more details refer pages 112 to 113).

Impact Assessment of Community

The group has business locations spread across the country. These business locations interact with local communities at different levels and given below are some of the interactive sessions held.

- Siyambalpe Workshop - TATA Commercial workshop - Meeting with members of Village society (*Eksath Annoyadara Samithiya*) in order to repair the access road to the workshop and village.
- Kandy Workshop - Participating in transportation sector infrastructure development lobby organised by the Central Provincial Council.
- Kurunegala Workshop - Support extended to Dengue prevention programmes.
- Matara Workshop - Participation in streamlining the garbage collection process.

Special emphasis has also been placed on waste disposal, air, water and noise emissions at these locations. They are also constantly monitored to keep them at permissible levels.

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 "Brain and brawn can help you offer the best product solution to your customer...but it's when you add heart that you put environmental and societal consciousness 'on the same page' as core business."

ANURADHA DIAS

General Manager - Tyres

OUR COMMUNITY...LIVE AND LET LIVE / MANAGEMENT REPORT

Our Objectives

Arising from the above, our broad aim is to make a positive impact on the communities where we operate through sustainable initiatives that bring about long-term benefits. This translates into three action areas, namely:

- Supporting the technical and vocational education of youth
- Developing the social and physical infrastructure of the community
- Enhancing the quality of life of the local community

The pages that follow highlight some of the key projects being implemented by the Dimo Group in the aforesaid areas.

Supporting Technical and Vocational Education**Dimo Automobile Training School**

The Dimo Automobile Training School (DATS) is our flagship programme in respect of community development. Our first school was established in 1990 at our workshop at Siyambalape, and the second set up in Jaffna in 2010. Each school enrolls 16 students per batch following an examination. Students at DATS follow a two-year world class comprehensive diploma course that covers all aspects of the automobile industry. The curriculum includes an exposure to brands such as Mercedes-Benz, TATA and Bosch. During the training period students receive subsidised meals, uniforms and footwear at Dimo's cost. They are also entitled to free medical facilities and insurance cover. /



MANAGEMENT REPORT / OUR COMMUNITY...LIVE AND LET LIVE

The two-year course ends with a competitive examination. The Dimeo certificate is well recognised by the Sri Lankan and overseas engineering community. The DATS programme offers the additional advantage of giving trainees the opportunity of spending time with our principals in Germany and being exposed to a high-tech environment. Depending on the availability of vacancies, DATS diploma holders are offered a position at Dimeo. However, there is no obligation to accept such employment, and they are free to make any other career choice.

Over the years DATS has produced 291 diploma holders, while 53 students are currently undergoing training. A total of 87 were recruited by the Dimeo Group, while the others have found employment in other establishments in Sri Lanka or are employed in companies overseas.

Expenditure incurred on the two schools during the year 2011/12 totalled Rs. 16.6 mn compared to Rs. 10.0 mn in the year 2010/11.

Vocational Training

As a benefit to society Dimeo provides students from selected institutions training on motor mechanism and repairs. As practical knowledge is a requirement for students following diploma and degree courses as well, they too seek training in our facilities. The duration of these programmes range from less than one year to four years, as they cater to a wide range of beneficiaries with differing needs. We provide all such training on a voluntary basis. A total of 168 students were enrolled during the year 2011/12, while the corresponding figure was 148 in 2010/11.

The following are the institutions that were accommodated during the year under review:

- NAITA (National Apprentice & Industrial Training Authority)
- Ceylon-German Technical Training Institute
- Vocational Training Authority of Sri Lanka
- Automobile Engineering Training Institute
- Ministry of Vocational & Technical Training
- CETRAC (Construction Equipment Training Centre)
- Asian Aviation Centre (Pvt) Ltd.
- University of Moratuwa
- University of Peradeniya
- University of Sri Jayewardenepura
- University of Kelaniya
- The Open University of Sri Lanka

Developing the Social and
Physical Infrastructure

The Sinahawa ('Smile')
Scholarship Programme -
A Pilot Project

Sinahawa or Smile is a scholarship programme launched by the Tyre Division of Dimo aimed at underprivileged GCE Advanced Level students. Initiated in 2009, the pilot project supports the educational needs of 100 students over a 24 month period. The applicants were short-listed through criteria developed by the Smile Team and students were selected from all parts of the country. The fields of study pursued by the students are Biological Science/Mathematics (69%), Commerce (18%) and Arts (13%). The project will be completed in August 2012 when these students sit the GCE Advanced Level Examination. /



Objectives of the Project	The project was initiated and based on the value of the triple bottom line - to demonstrate the linkages and balance between profits, people and the planet towards building a sustainable future for our stakeholders. In the short-term, the scholarships provide immediate financial support to students who are unable to carry on with their education. In the longer term, it is anticipated that the beneficiaries will be more gainfully employed and help in uplifting quality of life of family members and their communities, while also being a potential target for recruitment by Dimo.
The Dimo Smile Team	The Smile Team driving the project consists of five members from diverse units - Tyre, CSR, Human Resources, Finance and Workshop. They volunteer their time and effort to develop and implement the project.
Resources	Funds were raised by allocating Rs. 100/- per tyre sold to a separate account from August 2009. During the year 2011/12 tyre dealers too came forward to contribute to the fund, donating Rs. 50/- or Rs. 20/- per tyre purchased by them.

MANAGEMENT REPORT / OUR COMMUNITY...LIVE AND LET LIVE



Project Implementation Initially all employees were educated on the Smile scholarship programme at the Employees' Council meeting. We next created awareness among our tyre dealers and customers through a poster campaign at our dealer networks, Dimo branches and display points. Sales teams extended their support by spreading the word and also visited rural schools in their areas to distribute application forms, posters and leaflets.

Expected Outcomes The outcome of the project will be evaluated after the students complete their examinations and the results are known. Nevertheless, in the short term we are targeting a 100% attendance at all six end-of-term examinations conducted by the respective schools and for all scholarship students to obtain a minimum 80% average score in each subject stream. For the longer term we are aiming for a minimum 80% pass rate at the GCE Advanced Level Examination in each subject stream with at least 30% of students being eligible for university admission.

Benefits to Students Financial support is provided through a grant of Rs. 1,500/- per month per student over a two-year period. Non-financial benefits include school bags, books and stationery, knowledge and skills on career development and prospects for seeking employment at Dimo.

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 "My team and I do a fair amount of 'number crunching' each day to keep our business on course. My take on this 'course of business' is not getting ahead of others...but getting ahead of ourselves...challenging and exceeding our own goals."

CHANDENA KODITUWAKKU

General Manager - Finance & Controlling

OUR COMMUNITY...LIVE AND LET LIVE / MANAGEMENT REPORT

Continuity of the Project Results to date are encouraging. Funding is adequate for project completion, more so with the support we are getting from tyre dealers. Since the Smile Team is drawn from different departments there is transparency and commitment from the whole organisation. Hence, following an evaluation at the end of the project, there are good prospects of expanding this into an ongoing programme with due improvements where necessary. As for promising students, opportunities will be offered at DATS to pursue a technical career or they may be considered for possible placements within the Dimo Group.

Lessons Learnt so Far Selecting the most deserving students was the biggest challenge. Even though criteria were in place, the credibility of the information furnished was doubtful, even with third party assurance provided by Grama Sevakas. This was overcome through random checks, particularly by our sales teams who operate in the vicinity.

We are glad to add that the above project received a certificate of recognition at the Best Corporate Citizen Awards Ceremony organised by Ceylon Chamber of Commerce, Sri Lanka.

**Lassana Hetak -
'English for Everyone in 2012'**

Dimo Batta Lassana Hetak is another educational project of Dimo. This project, launched in 2010 by Dimo's TATA Commercial Vehicles Division, aims to teach English among students who do not have the facilities or necessary resources to learn the language. /



The school selected, Vijaya Kumaratunga Vidyalaya in the Ratnapura District, is a mixed school with over 470 students. It is located about 5 km from our Kuruwita display point, which makes progress monitoring easy.

MANAGEMENT REPORT / OUR COMMUNITY...LIVE AND LET LIVE

Lacking the required expertise to handle this project by ourselves, we enlisted the support of the British Council, Colombo in this venture. The British Council helped us in (i) conducting a needs assessment in the school to find out the current standard of English, (ii) selecting and training a group of teachers for the project, (iii) developing an additional language curriculum for the school, and (iv) developing the course materials.

The project targets students from Grades 3 to 10. A total of 18 teachers were recruited from the Ratnapura District, including the two current English language teachers at the school. Following an aptitude test for both teachers and students, the British Council proceeded with curriculum development and teacher training. Currently the students follow English classes twice a week after school hours, which will continue till October 2012.

Objectives of the Project	Knowledge of English in both speech and writing is an important requirement in today's corporate world. In the short term, our goal is to enable all students of the school to speak English by end 2012. In the longer term, this will open new avenues for the students to better their prospects as well as those around them, while also having a demonstration effect for other schools to emulate.
Resources	A sum of Rs. 500 from every Dimeo Batta vehicle sold is allocated to the project fund. In addition, employees have voluntarily provided labour to refurbish the school.
Project Implementation	The Dimeo Team created awareness among all employees through presentations at the Employees' Council meetings as well as through internal branding. The next step was to create awareness among our customers. Branding was done in all customer contact points (Dimeo branches) and the Dimeo Batta product leaflets carried the message. Sales teams extended their support by spreading the word in their respective areas. The project is managed by the TATA Commercial Vehicles Division with full support from senior management and employees.
Expected Outcomes	The project is ongoing, and its effectiveness will be measured after completion in October 2012. For the short term, we are targeting a 95% attendance at the English classes. For the longer term, our goal is to achieve a 100% pass rate at the oral examination to be administered at the end of two years.
Benefits	The immediate beneficiaries are the students (as well as some parents who attend these classes) and the 18 teachers selected for the project. Further, as 16 teachers are from other schools in the district, the teaching methods learnt are shared with their own schools as well, which leads to a multiplier effect.
Continuity	The specially designed training modules have been handed over to the Provincial Education Ministry for continuing with the project. Teachers from other schools who were trained on the project are expected to share the knowledge gained in their respective schools. Promising students will be considered for employment at Dimeo later on.
Lessons Learnt so Far	We were uncertain about student participation, as many of them attend tuition classes after school and help parents with their work. So we first ran an awareness creation programme for both students and parents and explained the pros and cons of the project in detail. Transparency and determining genuine demand were essential. The response was positive, and so we decided to go ahead - a bold decision then, now vindicated, with a near 100% attendance at the two-hour English classes that are held after school twice a week.

OUR COMMUNITY...LIVE AND LET LIVE / MANAGEMENT REPORT

Dimo Technical Institute - Sooriyawewa, Hambantota

As part of the *Naa Sevena* Community Development Project in Sooriyawewa, Dimo is setting up a state-of-the-art driving and technical training school. The school will also have accommodation facilities for students and instructors, and a training track. This over Rs. 100 mn facility funded by Dimo will offer theory and practical education in the driving and operation of passenger and commercial vehicles, construction and earth moving equipment, material handling and agricultural machinery as well as their maintenance and repair.

Dimo's principals will assist in the design, development and delivery of the various training modules, as our objective is to meet international standards. The Dimo Technical Institute is expected to open in August 2012.

Enhancing the Quality of Life of the Local Community**Nikaweratiya School Development Project**

This is an ongoing project where we continue to make our own little contribution to a humble school in Nikaweratiya. During the year we put up window grills for four class rooms and also provided the children with school bags and books necessary for the new calendar year.

Dimo-NDB Automobile Service and Maintenance Programme

This too is an ongoing programme that Dimo partners with NDB Bank to provide training to youth in our Ampara and Jaffna branches. The technical training is offered at concessionary rates, and accommodates 30 trainees at each branch every six months. The curriculum covers automotive repair and maintenance with a focus on commercial vehicles and tractors. Once trained, they will be assisted by NDB Bank by way of concessionary personal loans to venture out.

Donations and Sponsorships for Community Development

Two Dimo Battas were donated during the year to the Seva Vanitha Army Branch and the Southern Youth Development Foundation. Regarding the latter, the vehicle will be used to transport disabled students in Hambantota, and serve as a mobile library during weekends. Dimo staff members have also donated books for this mobile library.

- Dimo also participates in the *Divi Neguma* Programme, a national countrywide initiative that utilises the community participation methodology. The Dimo Group provided 500 Dimo Batta light trucks at concessionary rates through the Ministry of Economic Development for use in several community development projects. /



MANAGEMENT REPORT / OUR COMMUNITY...LIVE AND LET LIVE



Dimo was the main sponsor of the Murunkan - Mannar Exhibition 2011 that focused on agriculture, livestock technology and machinery, a co-sponsor of the East Expo 2011 held in Trincomalee, the platinum sponsor of the Jaffna Trade Fair 2012 and platinum sponsor for the Centenary Walk 2012 of the Deaf and Blind School.

Cash donations amounting to Rs. 4 mn to the Jetavanarama Viharasta Building Fund and Rs. 20 mn to the Brave Hearts Project of the Seva Vanitha Army Branch were also made during the year under review.

Career Fairs and Visits

Dimo continues to actively participate in career fairs organised by various bodies as well as carries out independent visits to institutions to meet with prospective candidates. Dimo participated in the following events during the year under review:

- Career fair organised in Colombo by the Women in Management - Sri Lanka, targeting graduates and undergraduates
- Visit to Dimo by students from the Automobile Engineering Training Institute - Orugodawatta
- Interviews at the Ceylon - German Technical Training Institute - Moratuwa
- Career Fair organised by the University of Sri Jayewardenepura
- Batticaloa International Trade Exhibition
- Interviews at the Mirijjawila Technical College
- Interviews at the Aruppana Technical College
- Visit to Dimo by students of the Vocational Training Centre - Hambantota
- Careers Fair organised by the University of Moratuwa - 2011
- Careers Fair organised by the District Vocational Training Centre - Marawila

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 "You don't design the person to fit the process...you design the process to fit the person. One of the most criminal errors one can commit is to kill talent to comply with process."

DILRUKSHI KURUKULASURIYA

General Manager - Human Resources

OUR COMMUNITY...LIVE AND LET LIVE / MANAGEMENT REPORT

Corporate Conduct**Anti-Corruption**

Dimo espouses a zero tolerance policy on corruption. Likewise, Dimo does not tolerate ethically unsound or corrupt practices on the part of our business partners either. The Group's Code of Conduct and Ethics contain specific clauses covering a wide range of situations that could arise when dealing with different types of stakeholders. The Code is understood by employees and they are required to commit themselves to the principles and policies contained therein.

The Dimo Group maintains vigilance across all its constituents. There were no incidents of corruption reported during the year under review.

Anti-Competitive Behaviour

Dimo does not engage in anti-competitive behaviour. No legal action has been instituted against the Dimo Group regarding this.

Public Policy

We work closely with regulatory and non-regulatory authorities in different sectors to support them in their development efforts. We also hold memberships in several national and international associations that play an important thought leadership role concerning the different business sectors we are engaged in.

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

Donations and Sponsorships

Including the projects discussed above, the Dimo Group spent a total of Rs. 51 mn during the year 2011/12 (Rs. 30 mn in 2010/11) on CSR projects and charitable causes countrywide. This represents 1.9% of profit after tax. Some of the funds were matched with voluntary fund raising by employees. A summary is given below: /

Type of Service	Amount Rs.	%
Science	75,000	0.15
Social Projects	20,211,486	39.59
Culture	4,000,000	7.83
Sports	10,000	0.02
Education	26,748,877	52.39
Other sponsorships	10,000	0.02
Total	51,055,363	100.00

Compliance**Product Responsibility**

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

Environment

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

Society

As a responsible corporate citizen the Dimo Group conforms strictly with all applicable laws, regulations and local customs in the conduct of its business. It has not been subject to any penalties or warnings resulting from any breaches thereof.

MANAGEMENT REPORT

THE ENVIRONMENT...NOW AND FOR GENERATIONS YET UNBORN

Management Approach

QUALITY and ENVIRONMENT POLICY

- "We at Dimo are committed to:
- Continuously improving our systems and processes
 - Total customer satisfaction
 - Develop human resources
 - Conservation of resources
 - Reducing waste
 - Compliance with legal, statutory and principals' requirements.

We employ an integrated approach towards quality and environmental management at every stage of our business processes. Group Management Committee and the Sustainability Committee ensure that Group guidelines and policies are adhered to and practised. In addition, senior management staff have specific responsibility for managing environmental as well as occupational health and safety issues related to their respective business units.

Our systems and processes are continuously reviewed, and revised as appropriate. Significant risk factors are identified and managed closely. The Environmental Management System (EMS) enables us to measure and monitor the impact of our operations on the environment, which in turn leads to suitable mitigation measures being put in place.

Our EMS is guided by the Triple R concept: reduce, reuse and recycle. Dimo obtained the ISO 14001 certification in 2005. Our Environmental Management System is accredited with ISO 14001 (2004), which is a leading global standard for managing environmental issues.



THE ENVIRONMENT...NOW AND FOR GENERATIONS YET UNBORN / MANAGEMENT REPORT

Six strategic areas have been identified for active environmental management, namely:

(i) management of atmospheric emissions and climate change, (ii) energy and fuel management, (iii) water management, (iv) waste management, (v) materials management, and (vi) noise management. These are translated into action through the respective business units as well as through four Go Green Teams that are made up of members drawn from the Dimo Group. The four Go Green Teams are:

- **Green Team 1: Flood Prevention.** To prevent flooding by ensuring that drainage systems are in place and they are regularly maintained
- **Green Team 2: Electricity Conservation.** To identify electricity consumption of all key locations and eliminate waste or unproductive use
- **Green Team 3: Waste Management.** To minimise land contamination due to garbage generated by the Group
- **Green Team 4: Water Conservation.** To minimise water wastage as a result of unproductive consumption by processes and employees

In addition, the **Dimo Nature Club** was set up during the year as a voluntary initiative for protecting the environment. It is open to all members of the Dimo Group. The Club aims to undertake projects that will address both internal and external environmental concerns. Two meetings were convened during the year to plan the Club's agenda and operating mechanism for the period ahead.

Stakeholder Expectations

As reported last year, we continue to be guided by the results of an independent third party assessment of stakeholder expectations on environmental issues. They are summarised in the table appearing on pages 8 to 9 including the actions that we have already taken or are planning to take.

Atmospheric Emissions and Climate Change

Carbon Footprint

Among our several initiatives towards environmental protection, the mitigation of climate change is one of high priority. Measuring and managing our direct and indirect greenhouse gas (GHG) emissions, or carbon footprint, is one such initiative, now in its fourth consecutive year.

The table on page 102 gives a breakdown of our carbon footprint over the last three financial years, measured using the WBCSD/WRI Greenhouse Gas Protocol's Corporate Standard (revised edition). The organisational boundary comprises the Dimo Group, i.e., Dimo and its subsidiaries including operations in all parts of the country. Reporting is under Scopes 1 and 2, together with some aspects of the optional Scope 3 based on data availability.

MANAGEMENT REPORT / THE ENVIRONMENT...NOW AND FOR GENERATIONS YET UNBORN

GHG Emissions by Source

Emission Source	2011/12			2010/11		2009/10	
	Units	Consumption	Emissions tCO ₂ e	Consumption	Emissions tCO ₂ e	Consumption	Emissions tCO ₂ e
Scope 1							
Diesel for generators	litre	3,389	8.96	8,192	22.03	3,088	8.16
Diesel for vehicles	litre	471,923	1,247.43	447,996	1,196.15	361,359	955.18
Petrol for vehicles	litre	378,114	872.20	243,992	568.50	192,214	443.38
Diesel for vehicle delivery to customer and service processes	litre	1,030,789	2,724.68	–	–	–	–
Petrol for vehicle delivery to customer and service processes	litre	40,298	92.96	–	–	–	–
LPG	kg	7,138	15.55	8,550	18.81	8,550	22.92
Scope 2							
Purchased electricity	kWh	2,227,384	1,514.62	1,890,897	1,285.82	1,630,474	1,108.72
Scope 3							
International air travel	km		119.29	1,066,602	100.99	791,596	66.24
Fuel utilized by outsourced party - Diesel	litre	62,889	167.91	–	–	–	–
Fuel utilized by outsourced party - Petrol	litre	6,804	15.85	–	–	–	–
Total tCO ₂ e			6,779.45		3,192.30		2,604.60

It will be seen that direct GHG emissions from diesel for vehicles and vehicle delivery and service processes amounted to 3,972 tCO₂e. At 59% of the total, this was the single largest contributor to our carbon footprint during the year (37% in the previous year). This increase was largely due to extending our calculation to include delivery of vehicles to customers, service processes and company vehicles.

During the year under review our total GHG emissions increased by 3,587 tonnes carbon dioxide equivalent (tCO₂e). The increase was primarily due to capacity expansion and business growth as well the inclusion of new categories of indirect emissions that were not measured earlier.

When compared against an activity level, our GHG emissions during the year 2011/12 increased to 0.1674 tCO₂e per Rs. 1 mn of Group net turnover, compared to the 0.1064 tCO₂e per Rs. 1 mn in the previous year. This increase is largely due to direct GHG emission from diesel as discussed above.

Further, as can be seen in the above table, the current year figures include fuel consumed for product delivery operations by an outsourced party. This is an optional item coming under Scope 3 that was not measured in previous years. It accounted for an additional 183 tCO₂e in the current year (3% of the total). As a pioneer in reporting our carbon footprint in the country, we will continue to refine and expand our scope of reporting in the years to come.

THE ENVIRONMENT...NOW AND FOR GENERATIONS YET UNBORN / MANAGEMENT REPORT

**Management
of Atmospheric
Emissions**

All Dimo Group and rented vehicles are subject to emission tests for compliance with national standards. Going further, our vehicles are also required to comply with our own standards which are more stringent than national standards.

Exhaust gas and dust extractors are installed in vulnerable locations to deal with emissions typically emanating from engine testing and the cleaning of air filters and brake assemblies. Paint booths are equipped with filtration systems to prevent the release of toxic fumes and particles into the atmosphere. A fresh air validation system was installed in the Repair Business Unit to monitor temperature, humidity and CO₂ levels.

To curb indirect GHG emissions from air travel, alternative approaches such as tele and video conferencing are used where appropriate.

Dimo's activities do not result in the emission of ozone depleting substances. CFC-free gases are used for air conditioning (buildings and vehicles), and they are captured in specialised equipment and recycled when units are serviced.

Monitoring is done annually for compliance with tolerance levels stipulated by the Central Environmental Authority.



////////////////////////////////////
 "Too many of us are afraid to be ourselves...we give up too easily on our dreams...we are too ready to 'follow the herd'. We need to get 'outrageously energetic and madly alive' in fashioning a life of true fulfilment."

ANANDA MAPALAGAMA

General Manager - Auto Components, Power Tools and Outdoor Equipment

MANAGEMENT REPORT / THE ENVIRONMENT...NOW AND FOR GENERATIONS YET UNBORN

Dimo's Emissions vs Tolerance Levels

Emission type	SPM			SO ₂			NO ₂			CO ₂		
Tolerance level	0.35 mg/m ³			0.12 mg/m ³			0.15 mg/m ³			9 ppm		
Location	2011/12	2010/11	2009/10	2011/12	2010/11	2009/10	2011/12	2010/11	2009/10	2011/12	2010/11	2009/10
Colombo - 1	0.06	0.04	0.10	0.04	0.02	0.01	0.10	0.03	0.01	4.4	4.20	1.0
Colombo - 2	0.05	0.04	0.12	0.03	0.02	0.01	0.06	0.03	0.01	4.2	3.80	1.0
Anuradhapura	0.06	0.03	0.08	0.01	0.01	0.01	0.01	0.02	0.01	3.2	3.10	1.0
Siyambalape	0.04	0.03	0.10	0.05	0.02	0.01	0.05	0.03	0.01	4.6	2.80	1.0
Kurunegala	0.06	0.03	0.05	0.02	0.01	0.01	0.02	0.02	0.01	3	2.50	1.0
Matara	0.06	-	-	0.01	-	-	0.02	-	-	2.6	-	-
Weliweriya	0.06	-	-	0.03	-	-	0.07	-	-	3	-	-
Kandy	0.07	-	-	0.04	-	-	0.04	-	-	3.2	-	-
Ratnapura	0.02	-	-	0.02	-	-	0.04	-	-	2.6	-	-

Energy and Fuel Management

The Dimo Group's main sources of energy are purchased electricity, diesel, petrol and liquefied petroleum gas (LPG), the last three fuels being used mainly in company vehicles. The bulk of our electricity is purchased from the national grid (Ceylon Electricity Board) while a relatively small amount is self-generated through in house generator sets when required. Likewise, a relatively small quantity of LPG is also used in our staff cafeteria and workshops.

Details of energy consumption over the last four years are given in the section on Carbon Footprint discussed previously.

Source	Units	Consumption		
		2011/12	2010/11	2009/10
Diesel for Vehicles*	MJ	55,858,112	16,857,448	13,597,460
Diesel for Generators*	MJ	81,654	310,507	169,329
Petrol for Vehicles*	MJ	13,834,681	8,067,539	6,355,506
LP Gas*	MJ	328,732	220,521	220,521
Electricity**	MJ	8,081,582	6,807,229	5,868,162
		78,184,761	32,263,244	26,210,978

* Direct Energy Consumption

** Indirect Energy Consumption

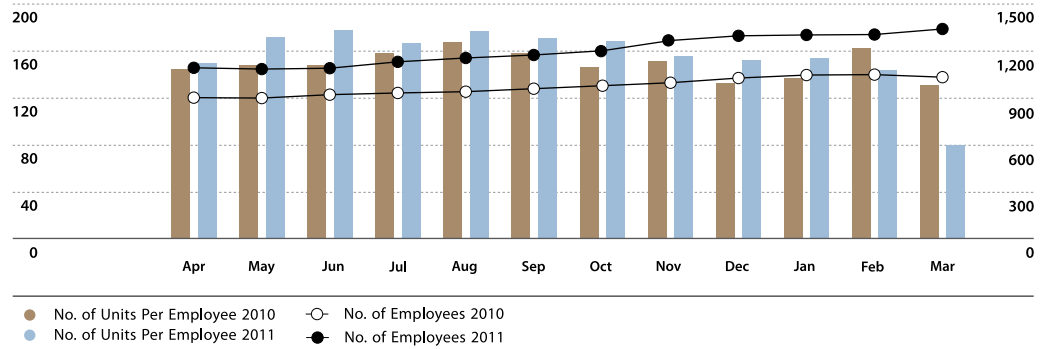
The energy consumption increased due to high volume of diesel consumption for vehicles delivered to customers, which represents 71% (2010/11 - 52%) from total energy consumption.

THE ENVIRONMENT...NOW AND FOR GENERATIONS YET UNBORN / MANAGEMENT REPORT

Electricity Consumption

(Kwh)

(No. of Employees)



Energy Audit

As a certified Company for energy diagnosis and audit (accredited by the Sri Lanka Sustainable Energy Authority), Dima conducts both in-house as well as external energy audits as an ongoing exercise. The latter is conducted as an energy management consultancy service. During the year we conducted five external energy audits for clients, leading to the implementation of our recommendations for improving energy efficiency and conservation.

The energy saved as a result of implementing the recommendations arising from these audits are estimated at 400,000 kWh per annum (632,019 kWh per annum in 2010/11).



MANAGEMENT REPORT / THE ENVIRONMENT...NOW AND FOR GENERATIONS YET UNBORN

Energy Efficiency and Conservation

Internal energy audits are carried out regularly throughout the Dima Group, and these serve to highlight areas for minimising waste as well as improving energy efficiency. Measures include the use of capacitor banks for power factor correction, replacement of incandescent light bulbs with energy saving CFL bulbs and LED lighting technologies, programming computers to revert to standby mode within five minutes of idling, setting thermostats of air conditioning systems to 24°C for optimum comfort, and developing a culture of 'switching off' lights and appliances when not in use. New constructions make maximum use of natural light and adopt energy efficient building codes. Dima is also considering investments in renewable energy technologies for power generation.

Energy Efficient Products

In addition to practising energy efficiency and conservation internally, the Dima Group is also mindful of applying the same principles to the products that it markets.

In the vehicles sector, the Dima Batta light truck and the newly introduced TATA Nano subcompact passenger car are excellent examples of fuel efficiency. The same could be said even in the luxury range, exemplified by Mercedes-Benz's Blue Efficiency technology. Our Lighting Division markets the energy efficient Osram CFLs that are gaining acceptance and popularity in the local market.

Water Management

The national supply is our main source of water. Ground water is also tapped in some of our locations, while rainwater harvesting is being introduced where feasible. Water is mainly used for vehicle repairs and servicing as for well as for domestic purposes. /

Description	Water usage (m ³)			Reused water (m ³)			Reused percentage		
	2011/12	2010/11	2009/10	2011/12	2010/11	2009/10	2011/12	2010/11	2009/10
Municipal Water	42,329	28,479	25,666	—	—	—	—	—	—
Ground Water	33,151	17,929	15,897	4,863	4,281	3,991	15%	24%	25%
Rain Water Harvesting	160	—	—	—	—	—	—	—	—
Total	75,640	46,408	41,563	4,863	4,281	3,991	6%	10%	10%

Total Water Consumed and Recycled and Reused

The above table shows the volume of water consumed from these three sources and the amount reused. It will be seen that 6% (10% in 2010/11) of the total water consumption was reused during the year under review. All water that is released to the environment is subject to treatment, recycle and monitoring on a continuous basis.

THE ENVIRONMENT...NOW AND FOR GENERATIONS YET UNBORN / MANAGEMENT REPORT

Waste Management

Where waste does arise, we make every effort to reuse and recycle as much as is technically and economically feasible. Waste management, including its final disposal, is an area that is driven by the *Go Green Team 3* with the active support from the business units at Dimo. All waste is first categorised into either non-hazardous or hazardous; they are then further subdivided into different groups based on the type of treatment they are subject to.

Waste Water Treatment

Dimo has in place processes to prevent the discharge of untreated water into the sewage system. For instance discharge from all workshops pass through oil separators and the pH level is monitored to ensure compliance with legal limits. We measure the volume of waste water discharged at selected workshop locations at present, and plan to expand the number of locations covered in the future. We are presently collecting baseline data to track discharges to get a better understanding of the situation.

It will be noted that no water is discharged into water bodies.

The water consumption increased due to high volumes consumed at Siyambalape and Weliveriya for service and washing of new vehicles. Expansion of operations in Kuruwita and Kandy also contributed to the increase.

Dimo operates biological water treatment and recycling plants at Siyambalape commercial workshop, passenger car workshop, Colombo 14, Anuradhapura workshop, Kandy workshop and the logistics centre at Weliweriya. Recycled water is used for industrial applications and not for domestic purposes.

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"If the evolution and rapid development of the 'IT Super Highway' has taught me anything, it is that adaptability to change will be a required quality of life for many years to come."

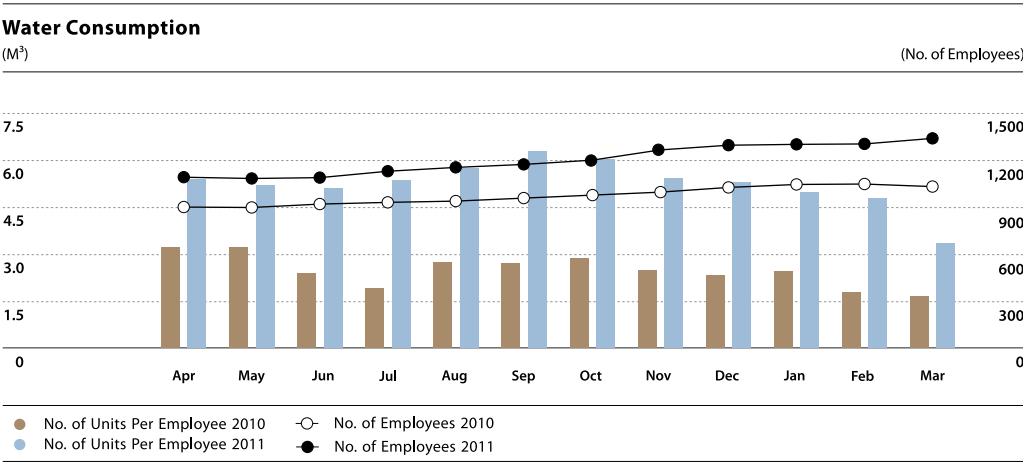
NISHANTHA MUDANNAYAKE

Group IT Manager



MANAGEMENT REPORT

THE ENVIRONMENT...NOW AND FOR GENERATIONS YET UNBORN



Non-Hazardous Solid Waste Management

We have an established system to segregate non-hazardous solid waste into organic, paper, polythene and plastic under the Go Green Project. Colour coded bins are provided in dining areas to segregate food from wrapping materials, as waste food is given to a third party for use as animal feed. As the Local Authorities are not yet equipped to handle segregated waste, we have found our own solutions. During the year we signed an MOU with a Central Environmental Authority-accredited third party - Holcim Geocycle - to provide a total waste management solution for our hazardous and non-hazardous waste.

The table below gives statistics on our non-hazardous solid waste management. /

Waste Category	Quantity, Kg		Method of Disposal
	2011/12	2010/11	
Organic	48,033	–	To third party as animal feed
Paper - A4	621	31,210	
Contaminated paper	5,390	–	
Cardboard boxes	2,576	4,719	To third party for recycling
Polythene	2,577	987	To third party for recycling
Plastic	1,062	1,043	Collected as garbage by Local Authority
Pallet racks	5,730	–	To third party for recycling

Hazardous Waste Management

Chemical spillages at our workshops are virtually non-existent. In the event they do, we have well documented rules and guidelines in place to respond. Employees are regularly trained on safe practices and the proper handling of materials. Suitable equipment is in place in the event of an accident, such as oil suckers to clean up a spillage. Waste is handed over to authorised third parties for recycling (e.g. lead in batteries), reuse (e.g. tyre retreading) or safe disposal.

THE ENVIRONMENT...NOW AND FOR GENERATIONS YET UNBORN / MANAGEMENT REPORT

- The table below indicates the main types of hazardous waste disposed during the year under review with comparative figures for the previous year. /

Type of Waste	Units	Quantity Disposed		Method of Disposal
		2011/12	2010/11	
Waste oil*	litre	104,762	56,798	Handover to authorised third party for recycling
Thinner	litre	1,243	440	
Sludge	kg	57,454	56,859	Collected as garbage by local authority
Metal scrap	kg	34,605	21,101	Handover to authorised third party for recycling
Metal dust	kg	2,189	2,335	
Paint cans	No.	933	1,664	
Filters	No.	20,447	21,957	
Batteries	No.	218	93	
Tyres	No.	493	665	

* Includes engine oil from serviced vehicles and kerosene oil

The amount of waste oil has increased significantly due to the growth in volume of operations in the Siyambalape workshop and the expansions in Kandy and Kuruwita workshops during the year under review.

No spillages were reported during the year under review. Likewise, no fines or penalties were imposed on Dimo due to non-compliance with environmental laws and regulations during the said period.

Materials Management

Materials Usage

The main materials consumed by the Dimo Group is given below: /

Type of Materials	Unit of Measure	Quantity		
		2011/12	2010/11	2009/10
Paints	litre	2,281	4,102	79,699
Kerosene	litre	48,619	25,667	17,919
Lubricants*	litre	209,769	85,589	74,478
No. of tyres retreaded	Nos.	1,449	4,865	7,161
Floor Carpets/Paper	Nos.	45,200	37,000	N/M
Cotton Waste	kg	145,645	148,334	N/M
Lacquer	litre	452	N/M	N/M
Thinner	litre	7,492	N/M	N/M
Putty	kg	142,632	N/M	N/M
Filler	litre	191	N/M	N/M

* N/M - Not measure

MANAGEMENT REPORT / THE ENVIRONMENT...NOW AND FOR GENERATIONS YET UNBORN

Kerosene oil consumption showed an increase in the year under review as the data capturing mechanism was extended to TATA passenger workshop in Colombo. This data was not available in the previous reporting period. The expansions in Kandy and Kuruwita workshops too have contributed to this increase in consumption. Consumption of lubricants has drastically increased by 70% due to high usage in Siyambalape and regional workshops located in Kandy, Kuruwita, Matara and Kurunegala. Data relating to TATA passenger car workshop and Bosch Diesel Centre were also taken into account.

Recycling and Reuse Reusing Kerosene Oil

Kerosene oil is used as a solvent to clean or degrease components or assemblies before they are dismantled for repairs. Dimo operates a kerosene oil recycling process in the Colombo and Siyambalape workshops where once-used oil is collected and filtered for a second and possible third use where permissible. Such reuse reduces kerosene consumption by about 28%. Used kerosene and sludge are disposed of in an environmentally accepted manner through a third party.

Retreading Tyres

We retread used but undamaged tyres for subsequent use in the secondary market, while we also collect damaged tyres for a third party. During the year under review we retreaded 1,449 tyres (4,865 in the previous year).

Disposal of Office Equipment and Components (E-waste)

Used computer equipment, accessories and consumables are sent to authorised third parties for reuse, recycling or safe disposal.

Items	2011/12	2010/11	Method of Disposal
CPUs/UPSs	22	3	Handedover to authorised third party for recycling/reuse
Laptop	7	1	
Monitors	18	5	
Printers	14	1	
Toners/Cartridges	97	202	

Paper Management

Dimo's long-term goal is to create a paperless environment. In the meantime we continue to take steps to reduce our consumption of paper, particularly for internal communications and information sharing, through the use of emails, intranet and the web. We conduct regular awareness programmes for all staff on this aspect, thus making them think twice before printing any document or message.

Paper consumption by the Dimo Group is given below: /

Type of Paper Consumed	Consumption, kg		Consumption per Average Number of Employees, kg/emp.	
	2011/12	2010/11	2011/12	2010/11
A4, A3	16,698	14,126	14.16	15.00

THE ENVIRONMENT...NOW AND FOR GENERATIONS YET UNBORN / MANAGEMENT REPORT

Paper Recycling All waste paper is sent to an accredited recycler. An estimate of resources saved as a result is given below: /

	Unit of Measure	2011/12	2010/11	2009/10
Quantity of paper sent for recycling:	kg	621	1007	685
Description of saving:				
Trees	Nos.	10	17	11
Water	litre	19,735	32,002	21,769
Oil	litre	1,090	1,767	1,202
Electricity	kWh	2,484	4,028	2,740
Land Fill	m ³	2	3	2

Packaging Materials Packing materials used in our products have been designed to ensure easy disposal with minimum harm to the environment. As such, there is no requirement to have a reclaiming process to recover the packaging material used on the products that we sell.

Noise Management Noise emitted by Dima facilities is strictly controlled to ensure that people in the vicinity are not disturbed. Noise intensities at several locations are measured by the Central Environmental Authority and they have been found to be far below the tolerance levels.

Biodiversity Dima's facilities are mostly located in industrial and urban areas that do not form part of any natural habitat requiring special protection. Hence, we do not consider biodiversity as a significant issue. However, we will continue to be vigilant regarding this aspect when establishing new operations in sensitive areas.

Transportation The main environmental impacts of transportation include emissions from fuel combustion, noise, waste and spillage or leaks. We currently monitor fuel consumption and atmospheric emissions of all vehicles owned or controlled by us, as these are the most important and relevant areas in the context of our EMS. Nevertheless, we take into consideration these same factors when selecting our logistics partners.

Compliance Dima has not been fined or penalised for non-compliance with any legislation pertaining to environmental or social safeguards during the year under review. All statutory requirements are regularly monitored and have been complied with.

Environmental Expenditure Expenses incurred in respect of operation and maintenance of our water treatment and recycling plants, environmental management system and emission management system during the year amounted to Rs. 3.06 mn (Rs. 1.66 mn in 2010/11).

MANAGEMENT REPORT / SUSTAINABILITY PERFORMANCE OBJECTIVES...IN 2011/12

Strategic Imperatives	Objective	Term	Achievement		
			2011/12	2010/11	
1. Refining the portfolio mix of our businesses continuously	Reduce dependence on vehicle business by increasing the turnover & segment result of Non-vehicle business at least by 15% per annum.	Long	Partially achieved	Partially achieved	Non-vehicle segment turnover increased by 34% compared with 2010/11 segment results only increased by 11% for the same period.
2. Creating financial value	ROE to be more than annual AWDR+3%.	Long/Short	Achieved	Achieved	The AWDR +3% for 2011/12 was 13.94%. The ROE for the same period was 37.5%. The ROE for 2010/11 was 50.5% against the target of 12.55%.
	EVA To be positive.	Long/Short	Achieved	Achieved	During 2011/12 the EVA was 1,865 mn and in 2010/11 EVA was 1,762 mn
	Value added to increase every year at a rate more than the (rate of inflation +5%).	Long/Short	Achieved	Achieved	The value added has increased by 21% in 2011/12 over the previous year, thereby achieving the objective of 10.9%. Similarly the increase in value added in 2010/11 over the previous year was 205% against an objective of 11.1%.
3. Earning the trust of customers so that they keep coming back	To ensure continuity of a customer centric Quality Management system with suitable accreditation.	Long	Achieved	Achieved	The Group has a quality Management system accredited with ISO 9001: 2008.
	Number of training hours for sales personnel- at least 10% increase from the previous year.	Long/Short	Achieved	Achieved	There was a 33% increase during the period under review.
	Increase customer contact points by at least 3 locations per annum.	Short	Achieved	Achieved	During the year under review 15 customer contact points were established, and in 2010/11 there were 3 new contact points created.
	To achieve a weighted average customer satisfaction index score of more than 85%.	Short	Achieved	Achieved	During the year under review a weighted average customer satisfaction index score of 89.2% was achieved. In 2010/11 this was 85.6%.
4. Nurturing people so that they find it enjoyable and rewarding to work with us	To achieve employee satisfaction index score of more than 60%.	Short	Achieved	Not achieved	The employee satisfaction index score has increased from 56% (2010/11) to 62% in 2011/12.
	Average training hours per employee to more than 10 hours.	Short Per annum	Achieved	Achieved	Average Training hours per employee was 13.52 hours in 2011/12. The corresponding figure for 2010/11 was 10.9 Hours.
	Improve the ratio of female to male employees in the workshop by 1% every year.	Long	Achieved	Achieved	The ratio of female to male employee in the workshop increased from 10% in 2010/11 to 11% 2011/12.

SUSTAINABILITY PERFORMANCE OBJECTIVES...IN 2011/12 / MANAGEMENT REPORT

Strategic Imperatives	Objective	Term	Achievement		
			2011/12	2010/11	
5. Having great relationships with best-of-breed business partners	To carry out a performance evaluation of at least twenty foreign principals for a year.	Short	Achieved	Achieved	The annual principal performance evaluation process made it possible.
	To obtain the declaration from at least 50% of suppliers that they will abide by the Dima supplier code.	Short	Achieved	Not achieved	The Code of Conduct for the local suppliers and a declaration that they abide by the code was obtained from 65% of the local suppliers in 2011/12. In 2010/11 this was 35%.
6. Playing by the rules	100% compliance with Government regulations at all times.	Short	Achieved	Achieved	The Company's Code of Business Ethics require total compliance with laws and regulation at all times. No non-compliances were reported during the year.
7. Serving the community	Invest at least 0.05% of turnover on community development activities.	Short	Achieved	Achieved	In 2011/12 Dima invested 0.14% of the turnover on community development activities. In 2010/11 this was 0.11%. During the year under review expenditure on community development activities was Rs. 55 mn (Rs. 31 mn in 2010/11).
8. Being friendly towards the environment	To provide vocational training to youth. No. of persons trained per & the average No. annum to be more than 5% of employees.	Long/Short	Achieved	Achieved	The number of vocational trainees who registered for training in 2011/12 was 14.24% of the average number of employees for that year. This was 15.71% in 2010/11.
	Keep the Percentage of Ground water reused at more than 20%.	Long	Not Achieved	Achieved	We were unable to achieve our target of 20% in 2011/12 due to increase in the number of vehicles sold and serviced. However, we will improve on this ratio to achieve our targeted level.
	Waste is segregated and handed over to selected third parties for recycling/ reuse to be more than 90% of total solid waste.	Short	Achieved	Not achieved	In 2011/12, the Company signed agreements with 3rd parties who were approved by the Central Environmental Authority. These parties were capable of providing a total solution for waste management.
	Carbon footprint for every Rs. 1.0 mn of turnover to reduce 5 %.	Short	Not Achieved	Achieved	Carbon footprint for every Rs. 1 mn of turnover in 2011/12 was 0.1674 tCO ₂ e. The corresponding figure for 2010/11 was 0.1064 tCO ₂ e. The increase in the measure (carbon footprint) was mainly due to the sharp increase in the consumption of diesel. This will be critically analysed in order to take mitigating action.



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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.



STEWARDSHIP / ENTERPRISE GOVERNANCE

Chairman's Message It's all in our Strategic Imperatives.

The spirit of stewardship, trusteeship and accountability form the nucleus of the governance philosophy of Dimo. One does not have to reach far into corporate literature of Dimo to find evidence of this spirit. It is embedded in the eight strategic imperatives. The Board of Directors and the Group Management Committee are conscious of the governance - related responsibilities placed upon them by the strategic imperatives. How we create our stakeholder wealth matters to us, as much as how much we create.

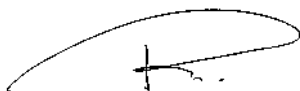
The Strategic Imperatives provide the path to enterprise governance. Conformance and performance aspects of each strategic imperative are considered when formulating and executing measures relating to enterprise governance. The same approach has been adopted in reporting too.

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 effective manner in which they contribute to govern our Company.

As a company, we are committed to upholding Dimo ethics uncompromisingly. As required by Section D.4.2 of the Code of Best Practices of Corporate Governance issued jointly by the Securities Exchange Commission and The Institute of Chartered Accountants of Sri Lanka, I confirm that I am not aware of any material violation of the Code of Business Ethics of the Company.

The Enterprise Governance Report that follows presents a detailed account of as to how the Company has institutionalised governance. I trust that the Report will assist the readers in understanding governance at Dimo via strategic imperatives.

Yours Sincerely,



A. Ranjith Pandithage
Chairman/Managing Director

Colombo
30th May 2012

**Senior Independent
Director's Statement**

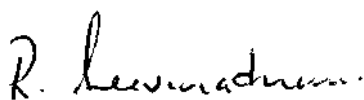
'Code of Best Practice on Corporate Governance' (The Code) issued jointly by the Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka recommends that a Senior Independent Director (SID) be appointed in the event of the Chairman heading the executive function of the Company.

The presence of SID provides a workable mechanism to review the role played by the Chairman. 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 provides 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 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
30th May 2012

STEWARDSHIP

ENTERPRISE GOVERNANCE

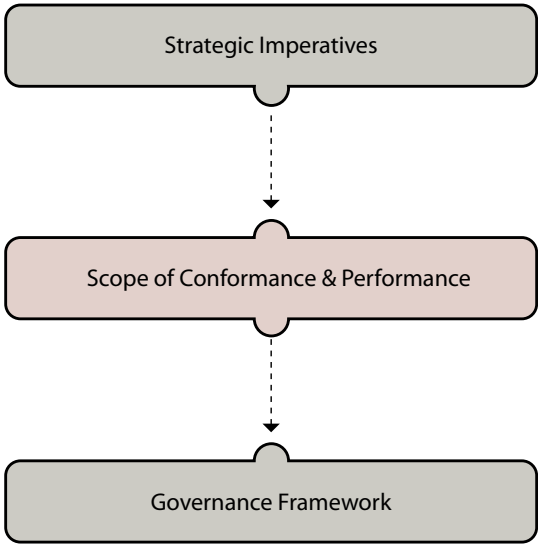
Enterprise Governance

Philosophy Enterprise governance is in the core of the corporate philosophy of Dimo. It perceives good governance as an uncompromising pursuit that provides the platform for growth in a sustainable manner; not as a set of controls that stifles growth.

Governance Policy Dimo is committed to a policy of transparent, accountable and responsible governance. In doing so, the Board accepts the position of trusteeship, stewardship and accountability that is placed upon it. The Board’s objective is to deliver superior returns to all stakeholders and it is done in conformity with the eight strategic imperatives.

Governance Model The Board identifies the scope of enterprise governance through its eight strategic imperatives. This signifies that the conformance and performance aspects of Governance should be identified through the strategic imperatives. Duties of responsible trusteeship, faithful stewardship and uncompromising accountability underpin the manner in which Dimo is committed to good governance through its eight strategic imperatives, in its pursuit of creating value for the stakeholders and accumulating financial and non-financial wealth for its stakeholders. Conformance and performance requirements demand a robust enterprise governance framework.

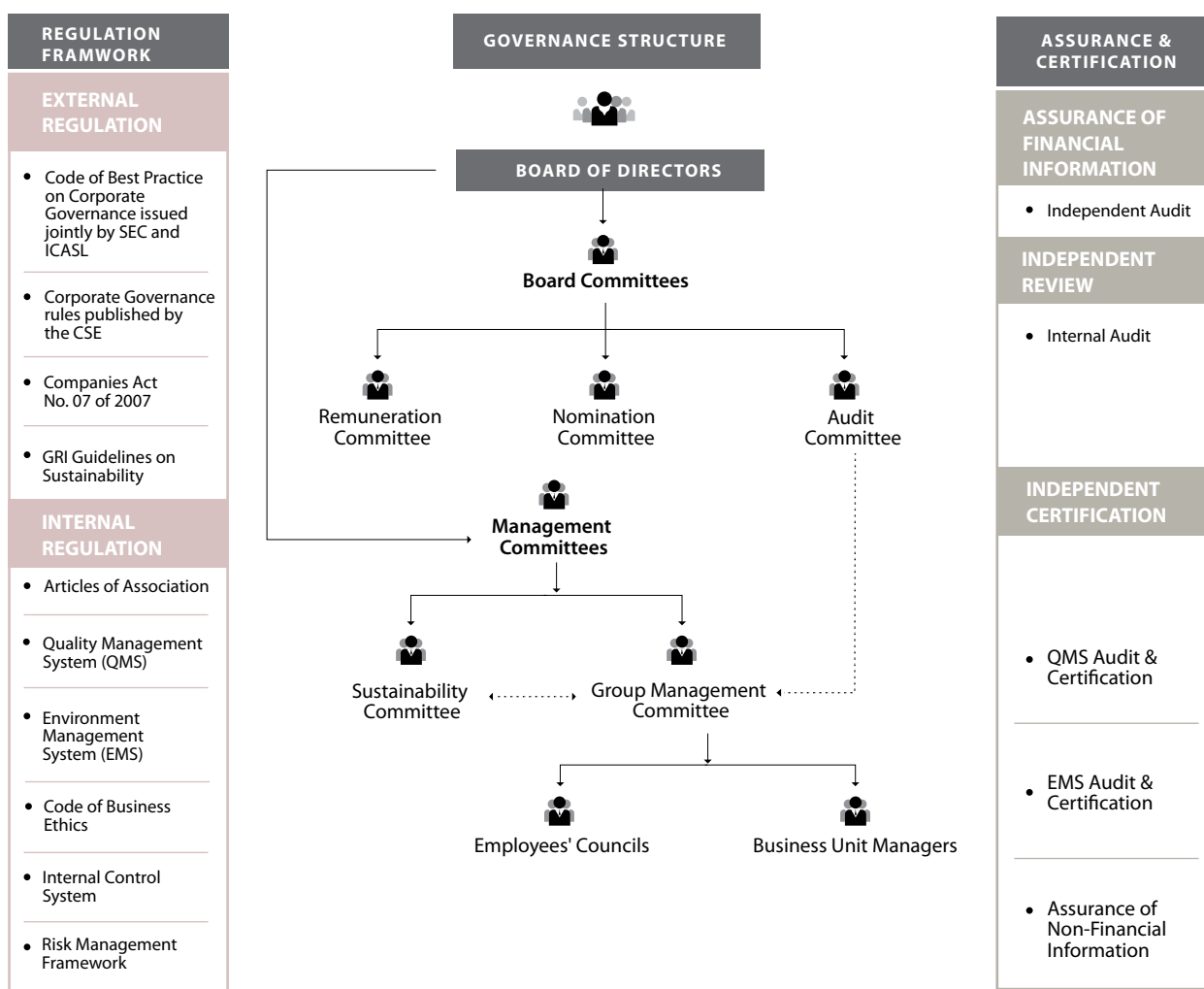
Enterprise Governance Model of Dimo



Governance Framework The ultimate responsibility for good governance rests with the Board of Directors. In order to effectively fulfil this responsibility, the Board has in place a governance structure and a process to monitor its effectiveness. The Audit Committee, the Remuneration Committee and the Nomination Committee together with the Group Management Committee play a leading role in ensuring effective enterprise governance.

The governance framework is designed taking into consideration the demands placed by the aspects of conformance and performance along with legislative and regulatory requirements and best practices of enterprise governance. It includes a governance structure, regulatory framework and sources of assurance.

GOVERNANCE FRAMEWORK



STEWARDSHIP

ENTERPRISE GOVERNANCE



Conformance and Performance

Despite there being many laws, regulations, best practices and expectations that shape conformance and performance dimensions of governance, it is trusteeship, stewardship and accountability that drive them. Arising from the responsibilities placed upon it, the Board endeavors to meet the demands through the structures and the processes that are in place.

The table below shows some conformance and performance aspects that strategic imperatives of Dimo give rise to and the point of reference through which they are addressed and reported. The point of reference is the source that provides guidance for conformance or performance. A point of reference could be a code of best practice, guideline, standard, system, process or even a body of persons that could provide guidance and direction.

////////////////////////////////////

“Apart from allowing one to ‘construct’ a fruitful career, Dimo really is an exemplary ‘enabler’...all of us have ample scope to work freely and innovatively, knowing we have the full support of the Company. How great is that?”

CHAMINDA RANAWANA
General Manager - Construction and Material Handling

ENTERPRISE GOVERNANCE / STEWARDSHIP

Conformance and Performance Aspects Based on Strategic Imperatives

Strategic Imperative	Conformance		Performance	
	Key Conformance Aspects	Point of Reference	Key Performance Aspects	Point of Reference
1. Refining the portfolio mix of our businesses continuously	<ul style="list-style-type: none"> • Meet regulatory standards with regard to products and services and its delivery. • Product responsibility 	<ul style="list-style-type: none"> • Quality Management System • Code of Business Ethics • Quality Management System 	<ul style="list-style-type: none"> • Managing the product and service portfolio 	<ul style="list-style-type: none"> • Quality Management System
2. Creating financial value	<ul style="list-style-type: none"> • Internal Control • Internal Audit • Uncertainty Management • Assurance 	<ul style="list-style-type: none"> • Audit Committee • Group Management Committee • Audit Committee • Risk Management Framework • Audit Committee • Independent Auditors 	<ul style="list-style-type: none"> • Business Strategy Formulation • Operational Excellence 	<ul style="list-style-type: none"> • Strategic Imperatives • Group Management Committee • Quality Management System • Environmental Management System
3. Earning the trust of customers so that they keep coming back	<ul style="list-style-type: none"> • Customer Health and Safety • Customer Privacy 	<ul style="list-style-type: none"> • Quality Management System • Quality Management System • Code of Business Ethics 	<ul style="list-style-type: none"> • Customer Satisfaction • Meeting Customer Expectations • Customer Relationship Management • Customer Complaint Handling 	<ul style="list-style-type: none"> • Quality Management System • Quality Management System • Quality Management System • Quality Management System
4. Nurturing people so that they find it enjoyable and rewarding to work with us	<ul style="list-style-type: none"> • Employee safety • Employee Rights • Equal opportunities • Comply with legislation and regulations relating to employees 	<ul style="list-style-type: none"> • Quality Management System • UN Global Compact Principles • Code of Business Ethics • UN Global Compact Principles • Code of Business Ethics 	<ul style="list-style-type: none"> • Employee Satisfaction • Training and development • Retention • Employee Engagement 	<ul style="list-style-type: none"> • HR Scorecard • HR Scorecard • HR Scorecard • HR Scorecard

STEWARDSHIP / ENTERPRISE GOVERNANCE

Strategic Imperative	Conformance		Performance	
	Key Conformance Aspects	Point of Reference	Key Performance Aspects	Point of Reference
5. Having great relationships with best-of-breed business partners	<ul style="list-style-type: none"> • Compliance with Principals' requirements of ethical practices • Honour Agreements with Principals 	<ul style="list-style-type: none"> • Quality Management System • Quality Management System 	<ul style="list-style-type: none"> • Expectation Management 	<ul style="list-style-type: none"> • Quality Management System
6. Playing by the rules	<ul style="list-style-type: none"> • Meet the requirements of the Legislative enactments applicable to the Group. • Meet the requirements of the Code of Best Practice on Corporate Governance jointly issued by The Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka • Comply with all regulatory requirements of the Colombo Stock Exchange • Comply with Articles of Association • To publicly report on matters relating to Sustainability on a voluntary basis 	<ul style="list-style-type: none"> • Code of Business Ethics • Code of Best Practice on Corporate Governance jointly issued by SEC and ICASL • CSE Listing Rules • Articles of Association • GRI G3.1 Guidelines 	Not applicable	
7. Serving the community	<ul style="list-style-type: none"> • Anti-corruption 	<ul style="list-style-type: none"> • Code of Business Ethics • UN Global Compact Principles 	<ul style="list-style-type: none"> • Benevolence and Philanthropy • Social development 	<ul style="list-style-type: none"> • Sustainability Committee • Sustainability Committee

ENTERPRISE GOVERNANCE / STEWARDSHIP

Strategic Imperative	Conformance		Performance	
	Key Conformance Aspects	Point of Reference	Key Performance Aspects	Point of Reference
8. Being friendly towards the environment	<ul style="list-style-type: none"> • Comply with all requirements of the Environment Management System • Meet Legal and Regulatory requirements regarding Environment 	<ul style="list-style-type: none"> • Environmental Management System • UN Global compact principles • Environmental Management System • UN Global Compact Principles • Code of Business Ethics 	<ul style="list-style-type: none"> • Carbon foot-print Management • Water Management • Waste Management • Material Usage • Noise and Air Emissions • Recycle and Reuse 	<ul style="list-style-type: none"> • Environmental Management System

Level of Compliance and Adherence of Point of Reference

Point of Reference	Aspect of Regulation	Status
The Code of Best Practices on Corporate Governance jointly issued by the Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka (The Code)	Best practices of Corporate Governance	Requirements of the code and the compliance level is given on the table laid out from pages 206 to 235.
Listing Rules of the Colombo Stock Exchange	Listing rules to be followed by Listed companies in Sri Lanka including on Corporate Governance relating to: <ul style="list-style-type: none"> - Non-Executive Directors - Independent Directors - Disclosures relating to Directors - Remuneration Committee - Audit Committee 	Complied. The compliance level is given on the table laid out from pages 233 to 234.
Legislative enactments applicable to the Group	Legal requirements that the Group is subject to	The Code of Business Ethics specifically requires that all employees comply with all applicable laws. Employees sign a declaration to the effect that they will follow the Code of Business Ethics.
Articles of Association	Requirements prescribed by the Articles of Association	Complied

STEWARDSHIP / ENTERPRISE GOVERNANCE

Point of Reference	Aspect of Regulation	Status
Code of Business Ethics	Compliance requirements applicable to all employees	All employees signed declarations to the effect that all requirements in the Code will be complied with.
Global Reporting Initiative (GRI) guidelines on Sustainability Reporting.	To report on Sustainability-related performance in a complete and generally accepted manner, as specified by GRI G3.1 guidelines.	Complied. GRI index at an A+ is available on page 258. The Report on the Independent Assurance obtained on Non-Financial Reporting is available from page 255 to 257.
Environment Management System (EMS)	Meet the requirements of the Group's Environmental Management System.	Complied. The Group's Environmental Management System is accredited with ISO 14001:2004 with accreditation provided by Det Norske Veritas AS (DNV).
Quality Management System (QMS)	Meet the requirements of the Group's Quality Management System.	Complied. The Group's QMS is accredited with ISO 9001: 2008, accreditation provided by Det Norske Veritas AS (DNV)
UN Global Compact Ten Principles	To comply with the requirements of the declaration made on UN Global Compact Ten Principles covering Human Rights, Labour, Environment and Anti- Corruption.	Communication in progress is available on page 258.
HR Scorecard	Specifies the KPI's to be attained with regard to HR- related objectives that include objectives relating to Employee Satisfaction, Training and Development, Retention and Engagement	HR scorecard is compiled every month and actual KPI's are compared with targets.
Audit Committee	Among other responsibilities, to review effectiveness of Internal Control, Internal Audit and Independent Assurance	Effectiveness of internal controls is reviewed with Internal Auditors and Independent Auditors. Performance of Internal Auditors and Independent Auditors is also reviewed by the Audit Committee. Where necessary, members of the Group Management Committee is called upon to explain matters relating to internal controls.
Group Management Committee	Among other responsibilities, to install and review effectiveness of internal controls and to work towards operational excellence	Effectiveness of internal controls is reviewed by the Group Management Committee from the feed-back received internally and from internal audit findings. Performance standards are set through KPIs and Objectives set for Business Units and Support Service Units. Performance levels are reviewed periodically.
Sustainability Committee	To carry out the Group's sustainability efforts as per its terms of reference	Initiatives are planned and progress is reviewed by the Sustainability Committee. Key sustainability initiatives are reported in the Annual Report.

Managing Conformance and Performance

Upon deciding the aspects of conformance and performance, a point of reference or points of reference are established for each aspect with a view to providing guidance on what is expected or what is to be complied with. Once the point of reference is identified, guidance for execution or compliance will be provided by the point of reference so identified. The points of reference for each aspect of conformance and performance are given in the table on pages 121 to 123.

Adherence

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 laws and regulations relating to corporate governance, the Company recognises that best practices provide a robust framework for sustainable growth and meeting stakeholder expectations.

Enterprise Governance requires high levels of commitment across the organisation and it is essential that an enabling governance culture is created. This envisages creation of awareness at all levels. All employees are expected to respect the strategic imperatives in achieving their own objectives and the objectives of the Company. Financial value creation is not encouraged at the cost of any strategic imperative. In fact, financial value creation is encouraged through subscribing towards strategic imperatives. The sustenance of enterprise governance principles is facilitated by aligning the strategic imperatives into its value adding process, and making a conscious effort to continually improving the governance framework and processes.

“Being passionate about all we do; adding value towards improving the quality of life of society through offering the best products we can; being one with the Dima value system - these help me enjoy working at Dima”.

WIJITH PUSHPAWELA

General Manager - Power & Medical Engineering



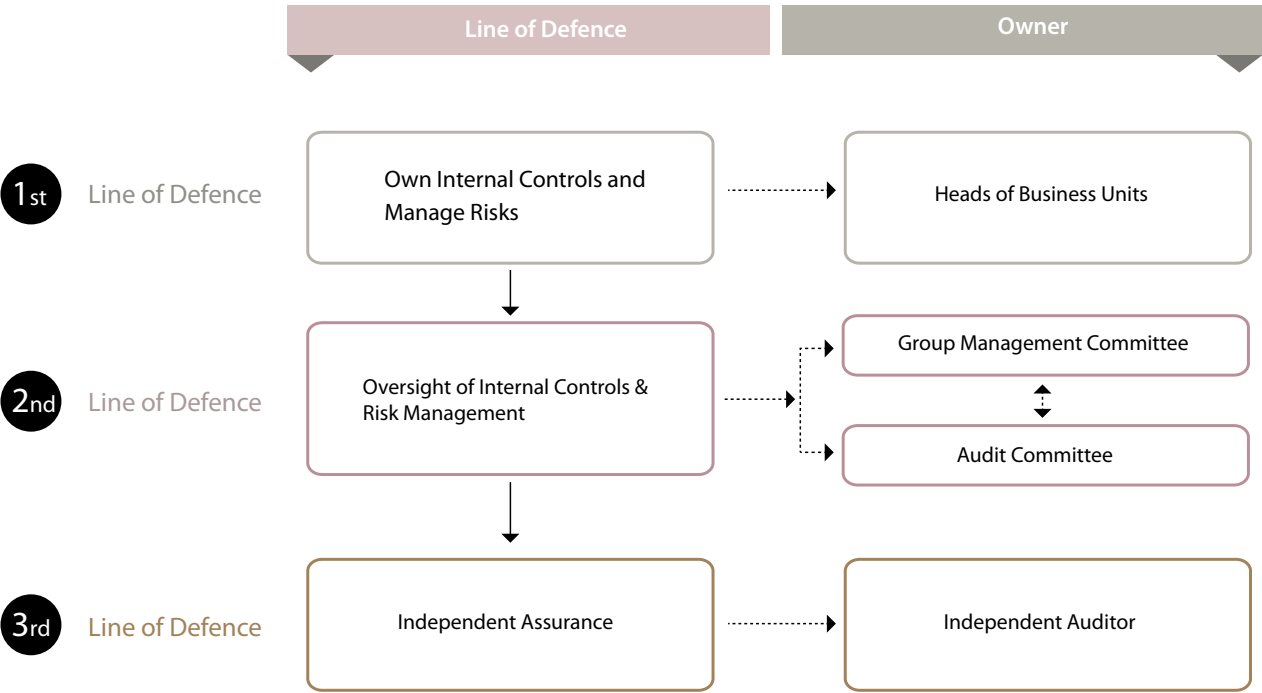
STEWARDSHIP

ENTERPRISE GOVERNANCE

Compliance Compliance is monitored through the monitoring of the points of reference. In the event of the point of reference being a code of best practice, guideline, legislation or a rule, the compliance is monitored through ascertainment of compliance with the point of reference. On the other hand where the point of reference is a body of persons such as a Management Committee, the compliance is monitored by comparing the stated expectations or goals of such committee with the actual status.

Assurance and Comfort Independent assurance, independent review, oversight and independent certification are key sources of assurance and comfort with regard to integrity and due functioning of the enterprise governance framework. This is depicted in the governance framework appearing on page 119. The Three Lines of Defence approach, which is described below, provides comfort on the effective implementation of internal controls and risk management.

Lines of Defence The comfort level derived from assurance is reliant upon on the internal controls that are in place. Whilst the internal controls focus on the current operations and decisions, the risk management process focuses on the uncertainties that the Group is exposed to. The 'Three Lines of Defence' model given below depicts the approach followed in ensuring effective implementation of the internal controls and risk management.



Internal Control Internal control covers all policies, processes, procedures and organisational structures in the Group that help management and ultimately the Board to ensure that the Company is achieving its objectives; that the business conducted is ethical and in compliance with all applicable laws and regulations; and that the Company's assets including its brand are safeguarded. The Board has delegated the oversight function of the internal controls to the Audit Committee. Implementation of suitable internal controls rests with the Group Management Committee (GMC). The Group Management Committee regularly assesses the adequacy and effectiveness of the Company's internal control systems and risk management process. The Audit Committee is responsible for overseeing the financial reporting process.

The Audit Committee and the GMC has the services of the internal audit function to review the internal controls, which is currently outsourced to Messrs SJMS Associates - Chartered Accountants. The internal audit findings include areas requiring improvements in internal controls and instances of any non-compliance. In addition, the Independent Auditors present their findings with regard to possible improvements to the internal controls and instances of non-compliance that they come across during their engagement. The Independent Auditors and Internal Auditors present their findings to the Audit Committee.

Index to Supplement

Subject Matter	Page Reference
Compliance with 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	Annex to Enterprise Governance from pages 206 to 235.
Corporate Governance disclosure as per Section 7.10 of the Listing Rules of the Colombo Stock Exchange	Annex to Enterprise Governance from pages 233 to 234.
Composition of the Board of Directors	Annex to Enterprise Governance from page 232.
Board Committees and Attendance at Meetings	Annex to Enterprise Governance from page 232.
Dates of Meetings	Annex to Enterprise Governance from page 232.

STEWARDSHIP / RISK MANAGEMENT

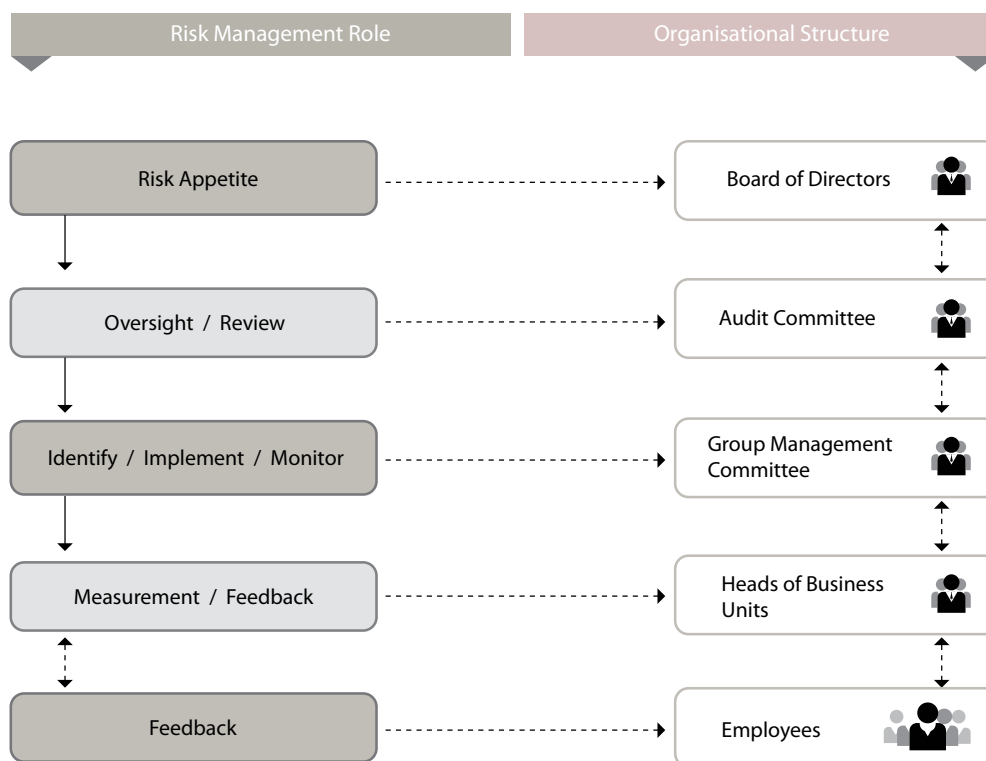
Overview Taking risks is an integral part of entrepreneurship. Uncertainty provides both risk and opportunity with a potential to erode or enhance value. The challenge for the management is to determine acceptable limits of uncertainty. Striking a balance between risk and opportunity in the context of the Group's risk appetite is the cornerstone of the performance aspect of Corporate Governance. A well structured risk management process encourages management to take risks in a controlled manner resulting benefits to the Group. While the Group remains committed to increasing shareholder value by developing and growing the business within the Board-determined risk appetite, the Group is committed towards achieving this objective in line with the interests of all stakeholders.

The constantly evolving environment and the interactions with our stakeholders present the Company with risks and opportunities. In addition, the Group has to manage risks that arise from its operations. Thus, a need arises 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 mechanisms are installed.

Risk Management Structure 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 Internal Audit function also plays a key role in risk identification.

The Group Management Committee (GMC) takes the lead at the implementation level in identifying risks. A bottom-up approach is taken by the GMC in the process of risk identification. The GMC examines processes and events that expose the Company into situations that could seriously reduce earnings, impair its liquidity position or 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. Monitoring of risk management measures is a responsibility that rests with the GMC.

Heads of Business Units provide useful information and feed back to the GMC for risk management with the assistance of the employees of the Group.



Risk Management Framework

All assessments of risk take into 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 involves the potential harm it can cause without mitigating actions, whereas net risk assessment considers potential harm or loss when mitigating action is taken. Risks and their corresponding mitigating action plans are reviewed by the GMC.

STEWARDSHIP / RISK MANAGEMENT

- Risk Mapping**
- Risk mapping is carried out in order to assess the likelihood of occurrence and consequences of an event /set of events.
- Likelihood of occurrence is assessed on the basis of past experience and the preventive measures in place. A ranking of high, medium and low in terms of the probability of occurrence is assigned for each risk.
 - The impact of the event is assessed by determining the loss it would cause and the extent of the impact. By considering these two factors, the impact is then categorised as low, moderate and significant.

Upon assessment of the likelihood of occurrence and the extent of the impact of each risk, it is subjected to the following matrix in order to derive the nature and intensity of action required.

RISK MANAGEMENT ACTIONS



Risk Management Actions


The table given below sets out an assessment of risks that the strategic imperatives were subject towards the year-end and risk mitigating actions that were/are in place.


Strategic Imperatives and Associated Risks


Principal Risk Factors and Uncertainties	Risk Implication	Key Controls and Mitigating Actions	Early Warning Alert Indicators												
Strategic Imperative 1: Refining the portfolio mix of our businesses continuously															
Composition of Product Portfolio The vehicle and vehicle parts/services segments account for a significant share of the total portfolio. Changes to the fiscal policies have an impact on their market.	A significant alteration to the portfolio could have a considerable impact on results in the short-term and in the long-term.	<ul style="list-style-type: none"> The Group is adopting a policy of gradually strengthening of businesses in the areas of marketing and distribution and in providing engineering solutions in power, water, building technologies and healthcare sectors Regular performance evaluations. 	<ul style="list-style-type: none"> Segmental Information 												
		Risk Assessment <table> <tr> <th></th><th>2011/12</th><th>2010/11</th><th>2009/10</th></tr> <tr> <td>Likelihood of Occurrence</td><td>M</td><td>M</td><td>M</td></tr> <tr> <td>Impact</td><td>S</td><td>S</td><td>S</td></tr> </table>		2011/12	2010/11	2009/10	Likelihood of Occurrence	M	M	M	Impact	S	S	S	
	2011/12	2010/11	2009/10												
Likelihood of Occurrence	M	M	M												
Impact	S	S	S												


Strategic Imperative 2: Creating Financial Value															
Credit Risk Company extends credit facilities to customers during the course of business. Adverse economic conditions and poor credit management could lead to bad debts.	Could result in losses to the Group by way of bad debts. Delayed debts result in an increase in finance cost.	<ul style="list-style-type: none"> Implementation of Group Credit Policy Evaluation of Customers prior to granting credit Periodic review of receivables by the Group Management Committee Credit suspension on overdue accounts and legal procedures for recovery of long overdue receivables 	<ul style="list-style-type: none"> Provision for bad debts Average debt collection period 												
		Risk Assessment <table> <tr> <th></th><th>2011/12</th><th>2010/11</th><th>2009/10</th></tr> <tr> <td>Likelihood of Occurrence</td><td>M</td><td>M</td><td>M</td></tr> <tr> <td>Impact</td><td>L</td><td>L</td><td>L</td></tr> </table>		2011/12	2010/11	2009/10	Likelihood of Occurrence	M	M	M	Impact	L	L	L	
	2011/12	2010/11	2009/10												
Likelihood of Occurrence	M	M	M												
Impact	L	L	L												

STEWARDSHIP / RISK MANAGEMENT

Principal Risk Factors and Uncertainties	Risk Implication	Key Controls and Mitigating Actions	Early Warning Alert Indicators												
Interest Rate Risk The Group is sensitive to interest rate changes. 	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.	<ul style="list-style-type: none">• Cautious management of working capital and prudent treasury management activities• Maintain an appropriate combination of fixed and floating rate debt• Constantly negotiate favourable terms of borrowing Risk Assessment <table><tr><th></th><th>2011/12</th><th>2010/11</th><th>2009/10</th></tr><tr><td>Likelihood of Occurrence</td><td>H</td><td>L</td><td>M</td></tr><tr><td>Impact</td><td>S</td><td>S</td><td>S</td></tr></table>		2011/12	2010/11	2009/10	Likelihood of Occurrence	H	L	M	Impact	S	S	S	<ul style="list-style-type: none">• Movement in Treasury Bill rates• Market liquidity Reports
	2011/12	2010/11	2009/10												
Likelihood of Occurrence	H	L	M												
Impact	S	S	S												

Foreign Exchange Rate Fluctuations This risk arises from exposure to foreign currency positions. 	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.	<ul style="list-style-type: none">• Hedging through forward contracts, where desirable• In addition to the above, 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 Risk Assessment <table><tr><th></th><th>2011/12</th><th>2010/11</th><th>2009/10</th></tr><tr><td>Likelihood of Occurrence</td><td>H</td><td>L</td><td>H</td></tr><tr><td>Impact</td><td>M</td><td>M</td><td>M</td></tr></table>		2011/12	2010/11	2009/10	Likelihood of Occurrence	H	L	H	Impact	M	M	M	<ul style="list-style-type: none">• Foreign exchange fluctuation trends• Government Policy
	2011/12	2010/11	2009/10												
Likelihood of Occurrence	H	L	H												
Impact	M	M	M												


Principal Risk Factors and Uncertainties	Risk Implication	Key Controls and Mitigating Actions	Early Warning Alert Indicators												
Liquidity Risk The Group has to be liquid and solvent to carry out its operations smoothly. 	Unavailability of sufficient funds may interrupt the smooth functioning of the Company's day-to-day operations.	<ul style="list-style-type: none"> 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 Risk Assessment <table border="1"> <thead> <tr> <th></th><th>2011/12</th><th>2010/11</th><th>2009/10</th></tr> </thead> <tbody> <tr> <td>Likelihood of Occurrence</td><td>L</td><td>L</td><td>M</td></tr> <tr> <td>Impact</td><td>S</td><td>S</td><td>S</td></tr> </tbody> </table>		2011/12	2010/11	2009/10	Likelihood of Occurrence	L	L	M	Impact	S	S	S	<ul style="list-style-type: none"> Current ratio Quick assets ratio Unutilised banking facilities Cash in hand and cash equivalents
	2011/12	2010/11	2009/10												
Likelihood of Occurrence	L	L	M												
Impact	S	S	S												

IT systems and infrastructure/Data Security Risk 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. 	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 fulfil its contractual obligations.	<ul style="list-style-type: none"> Extensive controls and reviews to maintain integrity and efficiency of IT infrastructure and data Regular maintenance of equipment & Software Regular back up of data & Off-site storage of data backup system Disaster recovery plan Significant investments have been made towards protecting the IT system from failures and security breaches Risk Assessment <table border="1"> <thead> <tr> <th></th><th>2011/12</th><th>2010/11</th><th>2009/10</th></tr> </thead> <tbody> <tr> <td>Likelihood of Occurrence</td><td>L</td><td>L</td><td>L</td></tr> <tr> <td>Impact</td><td>S</td><td>S</td><td>S</td></tr> </tbody> </table>		2011/12	2010/11	2009/10	Likelihood of Occurrence	L	L	L	Impact	S	S	S	<ul style="list-style-type: none"> Record of failures in the IT system and security breaches.
	2011/12	2010/11	2009/10												
Likelihood of Occurrence	L	L	L												
Impact	S	S	S												



STEWARDSHIP / RISK MANAGEMENT

Principal Risk Factors and Uncertainties	Risk Implication	Key Controls and Mitigating Actions	Early Warning Alert Indicators												
<div>Obsolescence of Inventory</div> <div>Inventory items run the risk of being obsolete due to slow moving.</div> <div></div>	<div>Obsolete inventory items affect profitability.</div>	<div><ul style="list-style-type: none">• Leverage the Information Technology to manage inventory• Periodic review of inventory age analysis• Timely action reduces the risk of obsolete inventory</div> <div>Risk Assessment</div> <table><tr><td></td><td>2011/12</td><td>2010/11</td><td>2009/10</td></tr><tr><td>Likelihood of Occurrence</td><td>M</td><td>M</td><td>M</td></tr><tr><td>Impact</td><td>L</td><td>L</td><td>L</td></tr></table>		2011/12	2010/11	2009/10	Likelihood of Occurrence	M	M	M	Impact	L	L	L	<div><ul style="list-style-type: none">• Provision for slow moving inventory• Stock age</div>
	2011/12	2010/11	2009/10												
Likelihood of Occurrence	M	M	M												
Impact	L	L	L												
<div>Natural Disasters</div> <div>Damages from fire and floods have been identified as key disaster-related risks that the Company is exposed to.</div> <div></div>	<div>Disaster-related risks are situations that could cause losses and adversely affect the continued operation of the business.</div>	<div><ul style="list-style-type: none">• Indemnity from insurance policies• Preventive measures of safety are taken to minimise damage to people and property• The Company has a disaster recovery plan in place</div> <div>Risk Assessment</div> <table><tr><td></td><td>2011/12</td><td>2010/11</td><td>2009/10</td></tr><tr><td>Likelihood of Occurrence</td><td>L</td><td>L</td><td>L</td></tr><tr><td>Impact</td><td>S</td><td>S</td><td>S</td></tr></table>		2011/12	2010/11	2009/10	Likelihood of Occurrence	L	L	L	Impact	S	S	S	<div><ul style="list-style-type: none">• Media announcements• Weather forecasts</div>
	2011/12	2010/11	2009/10												
Likelihood of Occurrence	L	L	L												
Impact	S	S	S												

RISK MANAGEMENT / STEWARDSHIP

Principal Risk Factors and Uncertainties	Risk Implication	Key Controls and Mitigating Actions	Early Warning Alert Indicators												
Reputational Risk The stakeholders of the Group could negatively react to a loss of reputation of the Group. 	Loss of reputation may make the companies in the Group lose its stakeholders including customers, suppliers and employees.	<ul style="list-style-type: none"> • The Company adopts the code of corporate governance jointly issued by the Securities and Exchange Commission and The Institute of Chartered Accountants of Sri Lanka • The Code of Business Ethics of the Company prescribes ethical practices that the Company employees are subject to. All employees are required to provide a written affirmation on following the Code of Business Ethics • 'Dimo Buddy' provides guidance for employees on their conduct • An exercise is carried out to identify stakeholder expectations and this provides guidance as to whether the Company has necessary processes to deliver their expectations • The sustainability framework of the Group addresses the economic, social and environmental impact of Company's operations 	<ul style="list-style-type: none"> • Negative reactions from stakeholders • Breaches in Code of Business Ethics 												
Risk Assessment <table> <tr> <th></th><th>2011/12</th><th>2010/11</th><th>2009/10</th></tr> <tr> <td>Likelihood of Occurrence</td><td>M</td><td>M</td><td>M</td></tr> <tr> <td>Impact</td><td>S</td><td>S</td><td>S</td></tr> </table>					2011/12	2010/11	2009/10	Likelihood of Occurrence	M	M	M	Impact	S	S	S
	2011/12	2010/11	2009/10												
Likelihood of Occurrence	M	M	M												
Impact	S	S	S												


STEWARDSHIP / RISK MANAGEMENT


Principal Risk Factors and Uncertainties	Risk Implication	Key Controls and Mitigating Actions	Early Warning Alert Indicators												
Frauds and Errors The Company is exposed to the risk of frauds and errors. 	As the business grows in size and geographical coverage, the potential for fraud and dishonest activity increases.	<ul style="list-style-type: none"> • Implementation of effective internal controls • Analytical review of management information • Internal audit function • Independent Assurance Risk Assessment <table border="1"> <thead> <tr> <th></th><th>2011/12</th><th>2010/11</th><th>2009/10</th></tr> </thead> <tbody> <tr> <td>Likelihood of Occurrence</td><td>M</td><td>M</td><td>M</td></tr> <tr> <td>Impact</td><td>M</td><td>M</td><td>M</td></tr> </tbody> </table>		2011/12	2010/11	2009/10	Likelihood of Occurrence	M	M	M	Impact	M	M	M	<ul style="list-style-type: none"> • Internal Audit findings
	2011/12	2010/11	2009/10												
Likelihood of Occurrence	M	M	M												
Impact	M	M	M												
Technological Obsolescence It is vital that the Group is up-to-date with technology its offering and also in business support functions. 	Non availability of latest technology will expose Group companies to lose business to competition and also be less efficient.	<ul style="list-style-type: none"> • The Group makes regular investments in new technology in providing after sales services and in IT infrastructure • Staff are consistently exposed to new technology and trained to handle them • The Group is backed by world renowned brands, some of whom are technology leaders. Therefore, technology is leveraged to compete with others. Risk Assessment <table border="1"> <thead> <tr> <th></th><th>2011/12</th><th>2010/11</th><th>2009/10</th></tr> </thead> <tbody> <tr> <td>Likelihood of Occurrence</td><td>L</td><td>L</td><td>L</td></tr> <tr> <td>Impact</td><td>M</td><td>M</td><td>M</td></tr> </tbody> </table>		2011/12	2010/11	2009/10	Likelihood of Occurrence	L	L	L	Impact	M	M	M	<ul style="list-style-type: none"> • Sales: Introduction of technology by competition. • Service: Repeat jobs in repair of Hi-Tech products.
	2011/12	2010/11	2009/10												
Likelihood of Occurrence	L	L	L												
Impact	M	M	M												

Principal Risk Factors and Uncertainties	Risk Implication	Key Controls and Mitigating Actions	Early Warning Alert Indicators												
Strategic Imperative 3: Earning the trust of customers so that they keep coming back															
Loosing Customer Relationships As a profit making entity, customers are sovereign to the Company. Maintaining positive relationships with customers is vital.	Loss of customers or unhappy customers may result in a financial loss to the Company. Such a situation could affect turnover and hinder the ability to acquire new customers.	<ul style="list-style-type: none"> Quality Management System accredited with ISO 9001:2008 Customer Relationship Management led by a dedicated unit Continuous training of employees on customer care and aftercare Inclusion of customer care and customer satisfaction index in employees' and business unit objectives <p>A detailed narrative on delivering value to customers is available from pages 40 to page 61.</p>	<ul style="list-style-type: none"> Customer satisfaction index Repeat customer ratio Customer complaints 												
Risk Assessment															
<table border="1"> <thead> <tr> <th></th><th>2011/12</th><th>2010/11</th><th>2009/10</th></tr> </thead> <tbody> <tr> <td>Likelihood of Occurrence</td><td>M</td><td>M</td><td>M</td></tr> <tr> <td>Impact</td><td>S</td><td>S</td><td>S</td></tr> </tbody> </table>					2011/12	2010/11	2009/10	Likelihood of Occurrence	M	M	M	Impact	S	S	S
	2011/12	2010/11	2009/10												
Likelihood of Occurrence	M	M	M												
Impact	S	S	S												

Industry Trends Risk Industry risks arise from sudden changes in the industry. These could be driven by new trends, entry of new/alternative products into the market.	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.	<ul style="list-style-type: none"> Closely monitoring developments in its business domain, including competitor strategies Explore every available opportunity for the introduction of new and innovative products The Company represents global leaders and is in a position of advantage through technologically evolving innovative products 	<ul style="list-style-type: none"> Reports from Principals Introduction of new products by competitors 												
Risk Assessment															
<table border="1"> <thead> <tr> <th></th><th>2011/12</th><th>2010/11</th><th>2009/10</th></tr> </thead> <tbody> <tr> <td>Likelihood of Occurrence</td><td>M</td><td>M</td><td>L</td></tr> <tr> <td>Impact</td><td>S</td><td>S</td><td>S</td></tr> </tbody> </table>					2011/12	2010/11	2009/10	Likelihood of Occurrence	M	M	L	Impact	S	S	S
	2011/12	2010/11	2009/10												
Likelihood of Occurrence	M	M	L												
Impact	S	S	S												

STEWARDSHIP / RISK MANAGEMENT


Principal Risk Factors and Uncertainties	Risk Implication	Key Controls and Mitigating Actions	Early Warning Alert Indicators												
<p>Strategic Imperative 4: Nurturing people so that they find it enjoyable and rewarding to work with us</p> <p>Sourcing and Retaining Human Resources</p> <p>Failure to recruit and retain appropriately skilled employees.</p> 	<p>Unavailability of appropriately skilled employees can adversely impact the Company's ability to compete and grow.</p>	<ul style="list-style-type: none">• Due importance given to the Human Resources Management function of the Group• Top management involvement in talent management led by the Human Resources Department• Adoption of Best Practices in Human Resources Management• Conducting employee satisfaction surveys• Heavy investment in training and development• Policy of Competitive Remuneration• More employee related information is available from pages 62 to page 79. <p>Risk Assessment</p> <table><tr><th></th><th>2011/12</th><th>2010/11</th><th>2009/10</th></tr><tr><td>Likelihood of Occurrence</td><td>L</td><td>L</td><td>L</td></tr><tr><td>Impact</td><td>S</td><td>S</td><td>S</td></tr></table>		2011/12	2010/11	2009/10	Likelihood of Occurrence	L	L	L	Impact	S	S	S	<ul style="list-style-type: none">• Staff turnover ratio (business unite wise)• Employees satisfaction index
	2011/12	2010/11	2009/10												
Likelihood of Occurrence	L	L	L												
Impact	S	S	S												


<p>Labour Relations</p> <p>Healthy industrial relations is required for uninterrupted operations.</p> 	<p>Industrial disputes could cause lower productivity/ output and lower employee engagement.</p>	<ul style="list-style-type: none">• An 'Open door policy' is in place to discuss grievances with superiors• An employee council meets every month to provide for employee representation• HR clinics are held at all locations where representatives from HR department visit every location to listen to employee grievances. <p>Risk Assessment</p> <table><tr><th></th><th>2011/12</th><th>2010/11</th><th>2009/10</th></tr><tr><td>Likelihood of Occurrence</td><td>L</td><td>L</td><td>L</td></tr><tr><td>Impact</td><td>S</td><td>S</td><td>S</td></tr></table>		2011/12	2010/11	2009/10	Likelihood of Occurrence	L	L	L	Impact	S	S	S	<ul style="list-style-type: none">• Increases in number of grievances.• Unresolved disputes between management and employees.
	2011/12	2010/11	2009/10												
Likelihood of Occurrence	L	L	L												
Impact	S	S	S												

Principal Risk Factors and Uncertainties	Risk Implication	Key Controls and Mitigating Actions	Early Warning Alert Indicators												
Strategic Imperative 5: Having great relationships with best of breed business partners															
Relationship with Principals The Company's main suppliers are foreign principals and an unhindered relationship is a key factor for mutual business growth.	Disruptions to business relationships with principals could have negative effects on the performance and growth.	<ul style="list-style-type: none"> The Company has focused on developing a mutually beneficial relationship with principals in an effort to minimise the risk Independent survey on expectations of principals Emphasis on meeting expectations of principals Periodic evaluation of Principals' satisfaction levels A detailed account of our relationships with principals is given from pages 80 to 87.	<ul style="list-style-type: none"> Non-attainment of targets set by principals Non-achievement of expectations of principals 												
Risk Assessment															
<table border="1"> <thead> <tr> <th></th><th>2011/12</th><th>2010/11</th><th>2009/10</th></tr> </thead> <tbody> <tr> <td>Likelihood of Occurrence</td><td>L</td><td>L</td><td>L</td></tr> <tr> <td>Impact</td><td>S</td><td>S</td><td>S</td></tr> </tbody> </table>					2011/12	2010/11	2009/10	Likelihood of Occurrence	L	L	L	Impact	S	S	S
	2011/12	2010/11	2009/10												
Likelihood of Occurrence	L	L	L												
Impact	S	S	S												

Principal Risk Factors and Uncertainties	Risk Implication	Key Controls and Mitigating Actions	Early Warning Alert Indicators												
Strategic Imperative 6: Playing by the rules															
Non-Compliance with Laws and Regulations: Every officer or employee is required to comply with all laws and regulations that the Group's companies are subjected to.	Non-compliance with laws and regulations is unacceptable corporate behavior and exposes the Company to litigation and financial losses.	<ul style="list-style-type: none"> The Code of Business ethics of the Group requires that all employees comply with laws and regulations A written undertaking is obtained from every employee, that the Code of Business Ethics will be followed by him/her. The Code requires that all employees comply with all laws applicable to the Group. Internal and independent assurance provides comfort on compliance with laws and regulations. 	<ul style="list-style-type: none"> Breaches in the Code of Business Ethics 												
Risk Assessment															
<table border="1"> <thead> <tr> <th></th><th>2011/12</th><th>2010/11</th><th>2009/10</th></tr> </thead> <tbody> <tr> <td>Likelihood of Occurrence</td><td>L</td><td>L</td><td>L</td></tr> <tr> <td>Impact</td><td>S</td><td>S</td><td>S</td></tr> </tbody> </table>					2011/12	2010/11	2009/10	Likelihood of Occurrence	L	L	L	Impact	S	S	S
	2011/12	2010/11	2009/10												
Likelihood of Occurrence	L	L	L												
Impact	S	S	S												

RISK MANAGEMENT / STEWARDSHIP

Principal Risk Factors and Uncertainties	Risk Implication	Key Controls and Mitigating Actions	Early Warning Alert Indicators												
Strategic Imperative 7: Serving the community															
Societal Risk Social acceptance of the Group as being a responsible Company is important for sustainability of the Group. 	Social rejection could cause damage to the reputation and make stakeholders less interested in transacting with the companies in the Group.	<ul style="list-style-type: none"> Engagement in various community related activities, including community development Philanthropy Developing the social and physical infrastructure of the community Upholding of the principles of Global Compact relating to social development. <p>More details on interactions with the community are available on pages 90 to 99.</p>	<ul style="list-style-type: none"> Negative reactions from stakeholders. 												
Risk Assessment															
<table border="1"> <thead> <tr> <th></th><th>2011/12</th><th>2010/11</th><th>2009/10</th></tr> </thead> <tbody> <tr> <td>Likelihood of Occurrence</td><td>L</td><td>L</td><td>L</td></tr> <tr> <td>Impact</td><td>M</td><td>M</td><td>M</td></tr> </tbody> </table>					2011/12	2010/11	2009/10	Likelihood of Occurrence	L	L	L	Impact	M	M	M
	2011/12	2010/11	2009/10												
Likelihood of Occurrence	L	L	L												
Impact	M	M	M												

Strategic Imperative 8: Being friendly towards the environment															
Adverse Impacts on Environment due to operations The Group is expected to demonstrate that it is a good corporate citizen by taking necessary steps to minimise the impact on the environment due to its operations. 	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.	<ul style="list-style-type: none"> Sustainability is a part of the decision making process in day to day operations and strategy formulation Existence of a Sustainability Committee to manage sustainability related issues The Group's Environmental Management System is accredited with ISO 14001:2004 The Company follows GRI guidelines on sustainability reporting. The GRI index is available on page 258. More details on the impact of the Group's operations on the environment, including its Carbon Footprint is available from pages 100 to page 111. 	<ul style="list-style-type: none"> GRI index Carbon Footprint 												
Risk Assessment															
<table border="1"> <thead> <tr> <th></th><th>2011/12</th><th>2010/11</th><th>2009/10</th></tr> </thead> <tbody> <tr> <td>Likelihood of Occurrence</td><td>L</td><td>L</td><td>L</td></tr> <tr> <td>Impact</td><td>M</td><td>M</td><td>M</td></tr> </tbody> </table>					2011/12	2010/11	2009/10	Likelihood of Occurrence	L	L	L	Impact	M	M	M
	2011/12	2010/11	2009/10												
Likelihood of Occurrence	L	L	L												
Impact	M	M	M												

CHAIRMAN/MANAGING DIRECTOR AND CHIEF FINANCIAL OFFICER'S RESPONSIBILITY STATEMENT

STEWARDSHIP

The Financial Statements are prepared in compliance with the requirements of the followings;

- 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. 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.

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 on any system of internal controls and accounting.

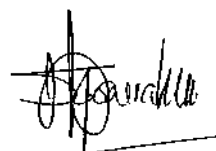
The Financial Statements were audited by Messrs KPMG, the Independent Auditors.

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

Colombo
30th May 2012



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

STEWARDSHIP / REPORT OF THE AUDIT COMMITTEE

The Audit Committee is formally constituted as a Sub-committee of the Board, to which it is accountable and consists 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, compliance with legal and regulatory requirements and review of performances of independent and internal Audit functions.

Compliance with Financial Reporting

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

The review included:

- Appropriateness and changes in Accounting Policies.
- Significant estimates and judgments 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 Company's system of Internal Controls is evaluated through reports provided by Management, Internal Auditors and Independent Auditors.

REPORT OF THE AUDIT COMMITTEE / STEWARDSHIP

Internal Auditors The internal audit function is outsourced to Messrs SJMS Associates, a firm of Chartered Accountants. Internal Auditors directly submitted their findings to Audit Committee quarterly and their reports are made available to Independent 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 programmes and results of the internal audit process.
- Effectiveness of the internal audit function.

Independent Auditors The Audit Committee reviewed the independence and objectivity of the Independent Auditors Messrs KPMG, Chartered Accountants. The Audit Committee has met with the External Auditors to review the annual audit plan and Financial Statements during the annual audit.

The Committee has received a declaration from the Independent 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 Independent Auditors.

The Audit Committee has approved the extension of period of engagement of Independent Auditors, by one year, and recommended to the Board their reappointment.

Meetings of Audit Committee Seven Audit Committee meetings were held during the year ended 31st March 2012. The attendance details are given on page 232. The Internal Auditors attend the meetings quarterly.

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



R. Seevaratnam

Chairman - Audit Committee

Colombo
30th May 2012

STEWARDSHIP / 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/Managing Director, Chief Executive Officer and the Executive Directors.

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

The Chairman attends the Committee meetings by invitation. He does not participate in any discussion pertaining to his remuneration. The decisions on matters relating to remuneration of Executive Directors and Senior Members of the management team were arrived at in consultation with Chairman/Managing Director. No Director is involved in determining his own remuneration.

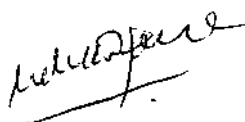
Our remuneration policy is designed to reward, motivate and retain the Company's executive team, with market competitive remuneration and benefits to support the continued success of our business and the creation of stakeholder value.

The remuneration packages which are linked to individual performances are aligned with the Company's short-term and long-term strategy. The Committee makes every endeavor to maintain remuneration levels that are sufficient to attract and retain Executive Directors and Members of the Senior Management team.

All Non-Executive Directors receive a fee for serving on the Board meetings and on sub-committees. They do not receive any performance-based incentive payments.

The Directors' emoluments are disclosed on page 184.

The Committee meets as and when a need arises. The Remuneration Committee meetings and members attendance is given on page 232.



Prof. U.P. Liyanage

Chairman - Remuneration Committee

Colombo
30th May 2012

REPORT OF THE NOMINATION COMMITTEE / STEWARDSHIP

Introduction The main purpose of the Committee is to assist the Board by keeping the composition of the Board under review and conducting a rigorous and transparent process when making or renewing appointments of Directors to the Board. It also advises the Board on issues of Directors' conflicts of interest and independence. The Chairman and the members of the Nomination Committee are appointed by the Board of Directors.

Committee Composition and its Key Activities The Committee composition and their attendance details are given in page 232 of Corporate Governance Report.


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

The Committee met on one occasion in 2011/12 and the members' attendance record is set out in the Enterprises Governance report on page 232.

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

- Review the structure, size and composition of the Board.
- Evaluate the independence and effectiveness of the Non-Executive Directors.
- Review the process for succession planning to ensure that the Board has the correct balance of individuals to discharge its duties effectively.
- Evaluate performance of Executive Directors.

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



Dr. H. Cabral
Chairman - Nomination Committee

Colombo
30th May 2012



Topics	Page
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Annex to the Annual Report of the Board of Directors	157
Statement of Directors' Responsibilities for the Financial Statements	159
Independent Auditors' Report	161
Income Statement	162
Balance Sheet	163
Statement of Changes in Equity	164
Cash Flow Statement	165
Notes to the Financial Statements	167

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 2011 - **9th August 2011**

Six months ended 30th September 2011 - **27th October 2011**

Nine months ended 31st December 2011 - **13th February 2012**

Twelve months ended 31st March 2012 - **30th May 2012**

Dividends

1st Interim Dividend paid for 2011/12 - **6th December 2011**

2nd Interim Dividend paid for 2011/12 - **5th March 2012**

Final Dividend for 2011/12 - **20th June 2012**

Annual Report - Financial year ended 31st March 2012 - **30th May 2012**

67th Annual General Meeting - **29th June 2012**

ANNUAL REPORT OF THE BOARD OF DIRECTORS / FINANCIAL REPORTS

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 2012.

Principal Activities

The principal activities of the Company/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, 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 246.

Business Review and Future Developments

A review of financial and operational performance and future business developments of the Group is contained in the Chairman's Letter (pages 10 to 15), Management Report (pages 1 to 113) and in the section identified as 'This is Dima' (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 162 to 203 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 2012 which have been 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/Managing Director and the Chief Financial Officer, are given on page 163, which form an integral part of the Annual Report of the Directors.

Auditors' Report

The Financial Statements for the year ended 31st March 2012 have been audited by Messrs KPMG, (Chartered Accountants) and their Report is given on page 161.

Significant Accounting Policies

The Significant Accounting Policies adopted in the preparation of Financial Statements are given on pages 167 to 180 of the Annual Report.

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

FINANCIAL REPORTS / ANNUAL REPORT OF THE BOARD OF DIRECTORS

Impairment Assessment

The Board of Directors has evaluated impairment loss in relation to property, plant & equipment, intangible assets and long-term investments.

Based on an assessment of impairment carried out by the Board of Directors as at 31st March 2012, a reversal of Rs. 2.795 mn was made in respect of investments in subsidiaries, the details of which are given in Note 18.1 of the Financial Statements appearing on page 191.

Directorate

List of Directors

As at 31st March 2012, the Board of Directors of Diesel & Motor Engineering PLC consisted of eleven members. Qualifications and experience of the Directors are given on page 235. 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 2012.

Mr. A.G. Pandithage, Director, was appointed the Chief Executive Officer with effect from 1st April 2012. Mr. A.R. Pandithage will hold the position of Chairman/Managing Director with effect from 1st April 2012.

Dr. H. Cabral, Mr. B.C.S.A.P. Gooneratne, Mr. A.G. Pandithage and Mr. R.C. Weerawardane retired by rotation at the Annual General Meeting held on 30th June 2011 and were reappointed to the Board in accordance with the Articles by re-election at the same meeting.

Mr. A.N. Algama, Mr. S.C. Algama, Mr. A.M. Pandithage and Prof. U.P. Liyanage retire by rotation in accordance with the Articles of Association and being eligible offer themselves for re-election at the forthcoming 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 pages 159 and 160 of this Annual Report.

ANNUAL REPORT OF THE BOARD OF DIRECTORS / FINANCIAL REPORTS

Directors' Shareholdings

The Directors and their close family members held 3,752,421 (2010/11 - 3,563,299) ordinary shares of the Company, which amounts to 42.27% (2010/11 - 40.95%) of the ordinary shares issued as at 31st March 2012.

The shareholdings of Directors and their close family members as at 31st March 2012 are as follows:

As at 31st March	2012			2011		
	Shareholding - No. of Shares			Shareholding - No. of Shares		
	Director	Spouse & Children under 18	Total	Director	Spouse & Children under 18	Total
A.R. Pandithage	991,233	928,502	1,919,735	971,798	910,297	1,882,095
A.N. Algama	213,739	–	213,739	258,372	–	258,372
A.M. Pandithage	182,319	41,853	224,172	178,745	41,033	219,778
A.G. Pandithage	525,814	45,048	570,862	515,505	44,165	559,670
S.C. Algama	567,786	6,993	574,779	392,278	6,856	399,134
T.G.H. Peries	193,069	56,065	249,134	189,284	54,966	244,250
	2,673,960	1,078,461	3,752,421	2,505,982	1,057,317	3,563,299

Dr. H. Cabral, Mr. B.C.S.A.P. Gooneratne, Prof. U.P. Liyanage, Mr. R. Seevaratnam and Mr. R.C. Weerawardane who are Directors of the Company did not hold any shares of the Company as at 31st March 2012.

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**

Director's interests in contracts as disclosed on page 157.

- Acquisition/Disposal of Shares by Directors**

(a) 49,800 shares were disposed by Mr. A.N. Algama during the year.

(b) 167,663 shares which belong to the estate of the late A.A.C.A. Algama were transmitted to Mr. S.C. Algama.

The shareholdings of Directors have increased proportionately due to the scrip issue held during the year.

- Directors' Remuneration**

Directors' remuneration in respect of the Group and the Company are given in Note 11.1 to the Financial Statements on page 184.

- 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.

FINANCIAL REPORTS / ANNUAL REPORT OF THE BOARD OF DIRECTORS

During the year, there were no instances pertaining to the voting on matters on which Directors had a material interest.

Board and Board Committee 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 232.

Internal Control System and Risk Management

The Board considers that strong internal controls are integral to sound management of the Company and is committed to maintaining 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.

The Enterprise Risk Management Report is available on pages 128 to 140.

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 142 to 145 of this Annual Report.

Auditors

The Company's Independent Auditors during the period under review were Messrs KPMG, Chartered Accountants.

The Auditors were paid Rs. 1.928 mn for the year ended 31st March 2012 (2010/11 - 1.746 mn) as audit fees by the Group. In addition, Auditors were paid Rs. 0.991 mn (2010/11 - Rs. 0.262 mn) for audit-related services and Rs. 2.272 mn (2010/11 - Rs. 2.470 mn) for non-audit services, by the Group.

ANNUAL REPORT OF THE BOARD OF DIRECTORS / FINANCIAL REPORTS

Based on the declaration made by Messrs KPMG, 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, (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. 38,937 mn in 2011/12 (2010/11 - Rs. 28,662 mn). The Group turnover for 2011/12 was Rs. 39,899 mn (2010/11 - Rs. 29,357 mn).

Segment turnover and other segment information are available on pages 181 and 182.

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 translating 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 principle 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 1,339 (2010/11 - 1,019).

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. 25.1 mn (2010/11 - Rs. 9.47 mn).

Quality

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

FINANCIAL REPORTS / ANNUAL REPORT OF THE BOARD OF DIRECTORS

Operational Results and Dividends of the Group

	2011/12 Rs. '000	2010/11 Rs. '000
Turnover		
Gross Turnover	39,898,589	29,357,271
Profit		
After making provision for bad and doubtful debts and all known liabilities and after charging a sum of Rs. 135.164 mn (2010/11 - Rs. 93.100 mn) for Depreciation of property, plant & equipment the profit made by the Group before tax was	3,716,034	3,395,980
Income tax expense	(1,018,709)	(1,274,228)
Group profit after taxation	2,697,325	2,121,752
Retained earnings brought forward	2,213,445	563,526
Appropriations		
Dividend paid (Cash and Scrip dividend)	(554,777)	(121,833)
Transfers to general reserve	(1,648,000)	(350,000)
Available for appropriation	2,707,993	2,213,445

Dividends on Ordinary Shares

Two interim dividends of Rs. 5.00 and Rs. 7.50 per share were paid during the year 2011/12 (2010/11 - Two interim dividend of Rs. 5.00 per share each). Information on dividends is given in Note 14 to the Financial Statements on page 187.

The Directors approved a final dividend of Rs. 27.50 per share payable to the shareholders of the Company for the year ended 31st March 2012 (2010/11 Final dividend of Rs. 51.00 per share of which Rs. 23.10 per share was a cash dividend and Rs. 27.90 in the form of a scrip dividend).

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 Independent Auditors to this effect, prior to payment of dividends.

Income Tax

It is the Group's policy to provide for deferred taxation on all known temporary differences under liability method, as permitted by Sri Lanka Accounting Standard No. 14 on 'Income Taxes'. The income tax rate that was applicable to all companies in the Group for the financial year was 28%. Tax on export profit was 12%. Information on Income Tax Expense and Deferred Taxes of the Group and the Company is given in Notes 12 and 27 to the Financial Statements on pages 185, 186, 195 and 196 respectively.

Statutory Payments

The Directors, to the best of their knowledge and belief, confirm that all statutory payments due to the Government, other regulatory institutions and related to employees have been made on time during the financial year.

Donations

The Donations made during the year amounted to Rs. 27.10 mn (2010/11 - Rs. 22.42 mn).

ANNUAL REPORT OF THE BOARD OF DIRECTORS / FINANCIAL REPORTS

Property, Plant & Equipment

Group investment on property, plant & equipment, capital work in progress and intangible assets during the year amounted to Rs. 951 mn (2010/11 - Rs. 1,082 mn). Information relating to movement in property, plant & equipment is given in Notes 15, 16 and 17 to the Financial Statements.

Market Value of Freehold Land

A qualified independent valuer carried out a revaluation of the Company's freehold land on 30th September 2011 and the carrying value of the freehold land has been adjusted accordingly. The details of the freehold land owned by the Company are given in Note 15.a to the Financial Statements on page 189.

Group Investment

There were no new equity investments made during the year. Information relating to investments other than in subsidiaries is available in Notes 19 to the Financial Statement on page 192.

Changes to Business Operations

There were no significant changes in the nature of the principal activities of the Company and the Group during the financial year under review.

Stated Capital

The stated capital of the Company as at 31st March 2012 was Rs. 425.3 mn (2010/11 - Rs. 182.5 mn). The number of shares in issue as at 31st March 2012 was 8,876,437 (2010/11 - 8,702,389). The increase in stated capital and number of shares in issue was due to the scrip dividend in May 2011.

Reserves

The total reserves as at 31st March 2012 stood at Rs. 7,040 mn (2010/11 - Rs. 4,018.3 mn), comprising capital reserves of Rs. 2,014.8 mn (2010/11 - Rs. 1,135.6 mn) and revenue reserves of Rs. 5,025.3 mn (2010/11 - Rs. 2,882.7 mn). The movement in reserves during the year is set out in the Statement of Changes in Equity on page 164.

Share Information

Information relating to shareholding, earnings, net assets per share, market value of shares, dividends and share trading is available on pages 237 to 240.

Shareholding

There were 1,865 registered shareholders as at 31st March 2012. The percentage of shares held by the public as at 31st March 2012 was 44.29% of the issued shares. The twenty major shareholders as at 31st March 2012 and the number of shares held and their percentage shareholdings are given on page 240.

Equitable Treatment to Shareholders

The Company at all times ensures that all shareholders are treated equitably.

Compliance with Laws and Regulations

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

FINANCIAL REPORTS / ANNUAL REPORT OF THE BOARD OF DIRECTORS

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 litigation against the Company are given in Note 34.3 to the Financial Statements on page 203.

Convergence with SLFRS/LKAS

The Institute of Chartered Accountants of Sri Lanka has issued a new volume of Sri Lanka Accounting Standards which has become applicable for financial periods beginning on or after 1st January 2012. These Sri Lanka Accounting Standards comprise Accounting Standards prefixed both SLFRS (Corresponding to IFRS) and LKAS (corresponding to IAS). Accordingly, the Company/Group will be reporting under the new financial reporting framework with SLFRS and LKAS, from the next financial year. The Company/Group has evaluated the potential impact on adoption of the new reporting framework and based on the assessment of the management, there will be no significant impact on 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 what is stated in Note 35 to the Financial Statements on page 203.

Commitments and Contingencies

Information on contingent liabilities and capital commitments as at 31st March 2012 is given in Note 34 to the Financial Statements on page 203.

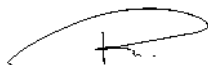
Going Concern

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 29th June 2012. The Notice of Annual General Meeting is given on page 261.

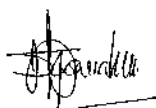
By order of the Board of Directors,



A.R. Pandithage
Chairman/Managing Director



A.G. Pandithage
Director/Chief Executive Officer



B.C.S.A.P. Gooneratne
Director/Secretary

Colombo
30th May 2012

ANNEX TO THE ANNUAL REPORT OF THE BOARD OF DIRECTORS / FINANCIAL REPORTS

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 on commercial terms, with entities in which a Director of the Company is the Chairman or a 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 33 (pages 201 and 202) to these Financial Statements.

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

Business Transactions with Other Related Entities by the Group

(a) Trading Transactions

Name of the Company	Name of the Director	Nature of Transaction	Value (Rs.'000)
Hayleys PLC	Dr. H. Cabral	Repairing and servicing of vehicles	919
Richard Pieris Distributors Ltd.	Dr. H. Cabral	Purchasing of office furniture	1,261
Tokyo Cement Co. (Lanka) PLC	Dr. H. Cabral/Mr. R. Seevaratnam	Sale of spare parts, vehicles, servicing of forklifts.	55,103
Acme Printing & Packaging PLC	Mr. R. Seevaratnam	Repairing and servicing of forklifts	136
Hayleys Advantis Ltd.	Mr. R. Seevaratnam	Sale of vehicle, repairing and servicing of vehicles	10,613
Kelani Valley Plantations PLC	Mr. R. Seevaratnam	Sale of spare parts, repairing and servicing of forklifts	145
Nestle Lanka PLC	Mr. R. Seevaratnam	Sale of forklifts, repairing and servicing of forklifts	11,238
Omega Line Ltd.	Mr. R. Seevaratnam	Repairing and servicing of forklifts	881
Metecno Lanka (Pvt) Ltd.	Mr. R. Seevaratnam	Sale of vehicle & spare parts.	3,664
Ceylon Cold Stores PLC	Prof. U.P. Liyanage	Sale of tyres, spare parts and lighting products	1,887
Richard Pieris & Co. PLC	Prof. U.P. Liyanage	Sale of spare parts, vehicles, lighting products and servicing of forklifts	13,218
Talawakelle Tea Estates PLC	Prof. U.P. Liyanage	Sale of spare parts and vehicles	1,591

FINANCIAL REPORTS / ANNEX TO THE ANNUAL REPORT OF THE BOARD OF DIRECTORS

(b) Banking Facilities

Name of the Bank	Name of the Director	Nature of Transaction	Banking Facilities	
			Limit (Rs. '000)	Outstanding as at 31st March 2012 (Rs. '000)
Commercial Bank of Ceylon PLC	Prof. U.P. Liyanage	Long-term loan	400,000	236,830
		Import loan	1,675,000	462,256
		Letter of Credit facility	1,725,000	497,219
		Overdraft facility	65,000	51,940
		Guarantee facility	700,000	81,689
		Shipping guarantee/Advance documents	800,000	218,434

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

FINANCIAL REPORTS

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 Annual 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 Subsidiaries as at the end of the financial year.

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 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;
- 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.

The responsibility of the Auditors in relation to the Financial Statements appears in the Report of the Auditors on page 161.

FINANCIAL REPORTS / STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

Messrs KPMG, Chartered Accountants, the independent auditors of the Company have examined the Financial Statements and the related records and information. Their opinion on Financial Statements is given on page 161.

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 2013 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
30th May 2012

INDEPENDENT AUDITORS' REPORT / FINANCIAL REPORTS



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

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+94 - 11 230 7345
Internet : www.lk.kpmg.com

TO THE SHAREHOLDERS OF DIESEL & MOTOR ENGINEERING PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Diesel & Motor Engineering PLC ("Company"), the consolidated financial statements of the Company and its subsidiaries as at March 31, 2012 which comprise the balance sheet as at March 31, 2012, 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 162 to 203 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, 2012 and the financial statements give a true and fair view of the Company's state of affairs as at March 31, 2012 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, 2012 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

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

30th May 2012
Colombo

KPMG, 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.

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

P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyratne ACA
R.M.D.B. Rajapakse ACA

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

FINANCIAL REPORTS / INCOME STATEMENT

For the year ended 31st March	Note	Group			Company		
		2012 Rs. '000	2011 Rs. '000	Change %	2012 Rs. '000	2011 Rs. '000	Change %
Gross turnover	8	39,898,589	29,357,271	36	38,936,764	28,662,124	36
Sales taxes		(315,199)	(326,931)	(4)	(305,139)	(312,317)	(2)
Net turnover		39,583,390	29,030,340	36	38,631,625	28,349,807	36
Cost of sales		(32,366,521)	(23,061,237)	40	(31,790,017)	(22,608,804)	41
Gross profit		7,216,869	5,969,103	21	6,841,608	5,741,003	19
Other income/(expenses)	9	(7,327)	48,881	(115)	(23,915)	64,883	(137)
Distribution expenses		(682,283)	(388,723)	76	(674,244)	(344,677)	96
Administrative expenses		(2,557,335)	(2,025,607)	26	(2,359,372)	(1,885,340)	25
Results from operating activities		3,969,924	3,603,654	10	3,784,077	3,575,869	6
Finance income		196,778	95,407	106	179,653	93,866	91
Finance expenses		(450,668)	(303,081)	49	(447,553)	(301,050)	49
Net finance cost	10	(253,890)	(207,674)	22	(267,900)	(207,184)	29
Profit before income tax	11	3,716,034	3,395,980	9	3,516,177	3,368,685	4
Income tax expense	12	(1,018,709)	(1,274,228)	(20)	(962,091)	(1,264,780)	(24)
Profit for the year attributable to equity holders of the Company		2,697,325	2,121,752	27	2,554,086	2,103,905	21
Earnings per share - (Rs.)	13	303.87	239.03		287.74	237.02	
Dividend per share - (Rs.)	14				40.00	61.00	

Figures in brackets indicate deductions.

The Notes to the Financial Statements from pages 167 to 203 form an integral part of these Financial Statements.

BALANCE SHEET / FINANCIAL REPORTS

As at 31st March	Note	Group		Company	
		2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Assets					
Non-Current Assets					
Property, plant & equipment	15	4,658,274	3,060,039	4,620,754	3,026,027
Leasehold property	16	35,551	37,756	35,551	37,756
Intangible assets	17	3,079	702	3,079	702
Investment in subsidiaries	18	–	–	11,145	8,350
Long-term investments	19	1,012	1,012	1,005	1,005
Total non-current assets		4,697,916	3,099,509	4,671,534	3,073,840
Current Assets					
Inventories	20	8,401,338	2,640,498	8,075,867	2,419,515
Trade and other receivables	21	2,078,274	3,328,428	1,813,722	3,255,689
Cash and cash equivalents	22	317,090	1,871,046	178,996	1,801,370
Total current assets		10,796,702	7,839,972	10,068,585	7,476,574
Total assets		15,494,618	10,939,481	14,740,119	10,550,414
Equity and Liabilities					
Equity					
Stated capital	23	425,297	182,500	425,297	182,500
Capital reserve	24	2,014,752	1,135,612	2,014,752	1,135,612
Revenue reserves	25	5,025,283	2,882,735	4,634,060	2,634,751
Total equity attributable to the equity holders of the Company		7,465,332	4,200,847	7,074,109	3,952,863
Non-Current Liabilities					
Employee benefits	26	224,434	182,327	216,824	173,713
Deferred tax liabilities	27	28,357	58,157	27,252	57,155
Interest bearing borrowings	28	770,203	316,830	770,203	316,830
Deferred income	29	36,746	7,977	4,786	7,976
Total non-current liabilities		1,059,740	565,291	1,019,065	555,674
Current Liabilities					
Trade and other payables	30	2,569,805	2,422,220	2,251,841	2,181,728
Interest bearing borrowings	28	229,960	93,015	229,960	93,015
Current tax liabilities	31	124,115	999,487	95,902	1,006,205
Short-term interest bearing borrowings	32	4,045,666	2,658,621	3,970,625	2,647,224
Amounts due to subsidiaries	33	–	–	98,617	113,705
Total current liabilities		6,969,546	6,173,343	6,646,945	6,041,877
Total liabilities		8,029,286	6,738,634	7,666,010	6,597,551
Total equity and liabilities		15,494,618	10,939,481	14,740,119	10,550,414

It is certified that the Financial Statements as set out on pages 162 to 203 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 & Motor Engineering PLC and the Group as at 31st March 2012 and the profit for the year ended.

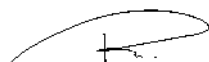


E.D.C. Kodituwakku

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

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

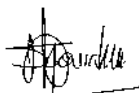
Signed for and on behalf of the Board,



A.R. Pandithage

Chairman, Managing Director

30th May 2012
Colombo



B.C.S.A.P. Gooneratne

Director/Chief Financial Officer

Figures in brackets indicate deductions.

The Notes to the Financial Statements from pages 167 to 203 form an integral part of these Financial Statements.

FINANCIAL REPORTS / STATEMENT OF CHANGES IN EQUITY

Group	Note	Revenue Reserves				Total Rs. '000
		Stated Capital Rs. '000	Capital Reserve Rs. '000	General Reserve Rs. '000	Retained Earnings Rs. '000	
Balance as at 1st April 2010		182,500	1,135,612	319,290	563,526	2,200,928
Dividends to shareholders -						
2009/10 - Final		-	-	-	(34,809)	(34,809)
2010/11 - First interim		-	-	-	(43,512)	(43,512)
2010/11 - Second interim		-	-	-	(43,512)	(43,512)
Transfer to the general reserve		-	-	350,000	(350,000)	-
Profit for the year		-	-	-	2,121,752	2,121,752
Balance as at 31st March 2011		182,500	1,135,612	669,290	2,213,445	4,200,847
Dividends to shareholders -						
2010/11 - Final - Cash dividend	14	-	-	-	(201,025)	(201,025)
- Scrip dividend	14	242,797	-	-	(242,797)	-
2011/12 - First interim	14	-	-	-	(44,382)	(44,382)
2011/12 - Second interim	14	-	-	-	(66,573)	(66,573)
Surplus on revaluation of land		-	879,140	-	-	879,140
Transfer to general reserve		-	-	1,648,000	(1,648,000)	-
Profit for the year		-	-	-	2,697,325	2,697,325
Balance as at 31st March 2012		425,297	2,014,752	2,317,290	2,707,993	7,465,332

Company	Note	Revenue Reserves				Total Rs. '000
		Stated Capital Rs. '000	Capital Reserve Rs. '000	General Reserve Rs. '000	Retained Earnings Rs. '000	
Balance as at 1st April 2010		182,500	1,135,612	229,464	423,215	1,970,791
Dividends to shareholders -						
2009/10 - Final		-	-	-	(34,809)	(34,809)
2010/11 - First interim		-	-	-	(43,512)	(43,512)
2010/11 - Second interim		-	-	-	(43,512)	(43,512)
Transfer to general reserve		-	-	350,000	(350,000)	-
Profit for the year		-	-	-	2,103,905	2,103,905
Balance as at 31st March 2011		182,500	1,135,612	579,464	2,055,287	3,952,863
Dividends to shareholders -						
2010/11 - Final - Cash dividend	14	-	-	-	(201,025)	(201,025)
- Scrip dividend	14	242,797	-	-	(242,797)	-
2011/12 - First interim	14	-	-	-	(44,382)	(44,382)
2011/12 - Second interim	14	-	-	-	(66,573)	(66,573)
Surplus on revaluation of land		-	879,140	-	-	879,140
Transfer to general reserve		-	-	1,600,000	(1,600,000)	-
Profit for the year		-	-	-	2,554,086	2,554,086
Balance as at 31st March 2012		425,297	2,014,752	2,179,464	2,454,596	7,074,109

Figures in brackets indicate deductions.

The Notes to the Financial Statements from page 167 to 203 form an integral part of these Financial Statements.

CASH FLOW STATEMENT / FINANCIAL REPORTS

For the year ended 31st March	Note	Group		Company	
		2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Profit before taxation		3,716,034	3,395,980	3,516,177	3,368,685
Non-cash adjustment to reconcile profit before tax to net cash flows					
Depreciation on property, plant & equipment	15	135,164	93,100	129,855	85,853
Amortisation of intangible assets and leasehold property	16/17	3,364	1,785	3,364	1,785
Deferred income net of amortisation	29	28,769	(3,798)	(3,190)	(3,263)
Impairment loss/(reversal) on investment in subsidiary	18.1	–	–	(2,795)	15,000
(Profit)/loss on disposal of property, plant & equipment	9	67,847	(2,627)	67,883	(3,312)
Interest expenses	10	450,668	303,081	447,553	301,050
Interest income	10	(136,648)	(74,094)	(135,290)	(73,671)
Dividend income	9	(165)	(139)	(3,765)	(13,638)
Provision/(reversal) for bad and doubtful debts		181,129	1,413	201,941	(8,537)
Provision/(reversal) for slow moving inventories		99,989	(6,738)	105,092	7,782
Provision for employee benefits	26	56,087	57,667	56,656	55,951
Profit from disposal of equity accounted investee	9.1	–	(5,431)	–	(31,750)
Operating profit before working capital changes		4,602,238	3,760,199	4,383,481	3,701,935
Working capital adjustments:					
(Increase)/decrease in inventories		(5,860,829)	(1,317,247)	(5,761,444)	(1,190,536)
(Increase)/decrease in trade and other receivables		1,069,025	(1,341,698)	1,240,026	(1,459,723)
(Increase)/decrease in amounts due from subsidiaries		–	–	–	23,265
Increase/(decrease) in trade creditors and other payables		133,910	1,262,591	56,438	1,106,851
Increase/(decrease) in amounts due to subsidiaries		–	–	(15,088)	76,454
Cash generated from/(used in) operating activities		(55,656)	2,363,845	(96,587)	2,258,246
Interest paid		(436,557)	(302,494)	(433,442)	(300,463)
Gratuity paid	26	(13,980)	(17,478)	(13,545)	(14,845)
Income tax paid	31	(1,923,881)	(250,025)	(1,902,297)	(227,315)
Net cash generated from/(used in) operations		(2,430,074)	1,793,848	(2,445,871)	1,715,623
Cash Flow from Investing Activities					
Proceeds from disposal of property, plant & equipment		25,257	31,723	25,222	5,796
Proceeds from disposal of investment in equity accounted investee		–	38,500	–	38,500
Dividend received	9	165	139	3,765	13,638
Interest received	10	136,648	74,094	135,290	73,671
Acquisition and construction of property, plant & equipment and capital work-in-progress	15	(947,363)	(1,044,628)	(938,547)	(1,034,741)
Acquisition of leasehold property	16	–	(37,538)	–	(37,538)
Acquisition of intangible assets	17	(3,536)	–	(3,536)	–
Net cash used in investing activities		(788,829)	(937,710)	(777,806)	(940,674)

FINANCIAL REPORTS / CASH FLOW STATEMENT

For the year ended 31st March	Note	Group		Company	
		2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Cash Flow from Financing Activities					
Proceeds from long-term loans	28.1	750,000	–	750,000	–
Repayment of long-term loans	28.1	(158,594)	(254,126)	(158,594)	(254,126)
Dividend paid		(311,980)	(121,833)	(311,980)	(121,833)
Payment of finance lease rentals	28.4	(1,524)	(1,699)	(1,524)	(1,699)
Net cash from/(used in) financing activities		277,902	(377,658)	277,902	(377,658)
Net increase/(decrease) in cash and cash equivalents		(2,941,001)	478,480	(2,945,775)	397,291
Cash and cash equivalents at the beginning of the year		(787,575)	(1,266,055)	(845,854)	(1,243,145)
Cash and cash equivalents at end of the year (Note A)		(3,728,576)	(787,575)	(3,791,629)	(845,854)
Note A					
Analysis of Cash and Cash Equivalents					
Cash and bank balances	22	317,090	1,871,046	178,996	1,801,370
Short-term interest bearing loans and borrowings	32	(4,045,666)	(2,658,621)	(3,970,625)	(2,647,224)
Cash and cash equivalents		(3,728,576)	(787,575)	(3,791,629)	(845,854)

Figures in brackets indicate deductions.

The Notes to the Financial Statements from pages 167 to 203 form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS / FINANCIAL REPORTS

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 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 2012 is 1,222 (2010/11 - 920).

Consolidated Financial Statements

The Consolidated Financial Statements of Diesel & Motor Engineering PLC as at and for the year ended 31st March 2012 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, import & 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. - sale and after sales services of biomedical equipment, power engineering solutions, building technologies, generator sets, diesel engines for marine propulsion, rail traction and fluid management systems.
- Dimo Travels (Pvt)Ltd. - Provision of transportation facilities.
- Dimo Industries (Pvt) Ltd. - retreading of tyres. Business operations of the Company was ceased and its business activities were transferred to Diesel & Motor Engineering PLC in December 2010.

Activities of the Group are described in more detail in the 'Group Structure' on page 246.

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.

FINANCIAL REPORTS / NOTES TO THE FINANCIAL STATEMENTS

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 have been prepared and presented in accordance with 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 accounting treatment which did not comply with the requirements of Sri Lanka Accounting Standards and Companies Act No. 07 of 2007 governing the preparation and presentation of the Financial Statements.

2.2 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 pages 159 to 160, 149 to 158 and 163 respectively, of this Annual Report.

The Financial Statements include following components:

- **Income Statement** providing information on the financial performance of the Company and the Group for the year end.
- **The Balance Sheet** providing information on the financial position of the Company and the Group as at the year end.
- **The Statement of Changes in Equity** providing 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 information to the users, on generating cash and cash equivalent and utilisation of the same.
- **Notes to the Financial Statements** comprising accounting policies and other notes.

2.3 Approval of Financial Statements by the Board of Directors

The Financial Statements for the year ended 31st March 2012, were authorised for issue by the Board of Directors on 30th May 2012.

2.4 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. More details are given in Note 15 to these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS / FINANCIAL REPORTS

2.5 Functional and Presentation Currency

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

2.6 Significant Accounting Judgments, Estimates and Assumptions

The preparation of Financial Statements in conformity with SLAS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. 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 and in any future periods affected.

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 3.3.1.7 - Economic useful lives of property, plant & equipment
- Note 3.3.9 - Assessment of impairment
- Note 3.4.1.2 - Measurement of employee benefits
- Note 3.4 & 3.4.3 - Provisions and contingencies
- Note 3.7.5 (b) - Deferred taxation-utilisation of tax losses

2.7 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'.

2.8 Offsetting

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

2.9 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'.

FINANCIAL REPORTS / NOTES TO THE FINANCIAL STATEMENTS

3. Significant Accounting Policies

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

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 list of the Group's subsidiaries is set out in Note 18 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 a consistent 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, long-term investment or equity accounted investee depending on the level of influence.

3.2 Foreign Currency Transactions and Balances

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates applicable on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate ruling at that date. Foreign currency differences arising on translation are recognised in Income Statement.

NOTES TO THE FINANCIAL STATEMENTS / FINANCIAL REPORTS

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 revaluation in the case of land) less accumulated depreciation and accumulated impairment loss.

3.3.1.2 Cost

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 land is 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 freehold lands 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 a professionally qualified valuer.

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

3.3.1.4 Cost Model

Items of property, plant & equipment excluding land are recognised at cost less accumulated depreciation and accumulated impairment loss.

3.3.1.5 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.

3.3.1.6 Subsequent Costs

Subsequent expenditure is capitalised only when it is probable that in the future economic benefits associated with the expenditure will flow to the Group/Company. Ongoing repair and maintenance expenses are recorded in Income Statement.

FINANCIAL REPORTS / NOTES TO THE FINANCIAL STATEMENTS

3.3.1.7 Derecognition

An item of property, plant & equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Income Statement when the asset is derecognised.

3.3.1.8 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.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset 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 fittings	06-10
Computer hardware & software	03-04

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

3.3.1.9 Capital Work-in-Progress

Capital expenditure incurred during the year, which is not completed as at the Balance Sheet date is 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 when no future economic benefits are expected from its use. Gains or losses arising from derecognition of 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.

NOTES TO THE FINANCIAL STATEMENTS / FINANCIAL REPORTS

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 17 to the Financial Statements on Page 190 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 intangible assets included in the Financial Statements represent cost of computer software. 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 Company's Financial Statements, investments in subsidiaries are carried at cost in accordance with the parent company's 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 as follows.

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 but excluding borrowing costs.

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 with an original maturity of three months or less. Bank overdrafts and short-term borrowings that are repayable on demand and forming 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.

FINANCIAL REPORTS / NOTES TO THE FINANCIAL STATEMENTS

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 Leasehold Property

Leasehold property is stated at cost less accumulated amortisation. Such carrying amounts are amortised over the remaining lease period or useful life of the leasehold property whichever is shorter. Details of leasehold property are given in Note 16 to the Financial Statements.

3.3.9 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 asset and asset groups.

An impairment loss 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 losses 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.

NOTES TO THE FINANCIAL STATEMENTS / FINANCIAL REPORTS

3.4.1 Employee Benefits**3.4.1.1 Defined Contribution Plans**

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

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

The Group contributes to the Employees' Trust Fund at 3% of the Gross Salary 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 34 to the Financial Statements.

FINANCIAL REPORTS / NOTES 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 a 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 trade discounts. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be reliably estimated, 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 is 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.

NOTES TO THE FINANCIAL STATEMENTS / FINANCIAL REPORTS

(e) Dividend Income

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

(f) Gains/(Loss) on 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 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 of property, plant & equipment in which case they are capitalised as part of the cost of that asset.

3.7.4 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.

3.7.5 Income Tax Expense

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.

3.7.5 (a) Current Tax

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.

FINANCIAL REPORTS / NOTES TO THE FINANCIAL STATEMENTS

3.7.5 (b) Deferred Taxation

Deferred tax is provided using liability method on temporary difference at the Balance Sheet date between the tax written down value and their carrying amounts in financial reporting, 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.

3.7.5 (c) Withholding Tax on Dividends, Distributed by the Company and Group

Withholding Tax (WHT) on dividend arising from the distribution of dividends 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 the liability to pay the related dividend is recognised.

3.7.5 (d) Value Added Tax (VAT)

As per provision of the VAT Act No. 14 of 2002 (and amendments thereto), VAT is charged on taxable supply of goods and services at the rate of 12%. Company is registered as a Registered Identified Supplier (RIS) under the Simplified Value Added Tax (SVAT) scheme and hence VAT at the rate of 12% is suspended on the taxable supply of goods and services for Registered Identified Purchaser (RIP). Disallowed value added tax is charged to the Income Statement in determining the profits for the period.

3.7.5 (e) Nation Building Tax (NBT)

Nation Building Tax has been calculated at the rate of 2% on the liable turnover, for services and items imported and supplied and at the effective rate of 1% on liable turnover of wholesale and retail supplies, in terms of the Nation Building Tax Act No. 09 of 2009 and subsequent amendment Act No. 10 of 2011.

3.8 Events Occurring after the Balance Sheet Date

Events after the Balance Sheet date are those events that 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.

NOTES TO THE FINANCIAL STATEMENTS / FINANCIAL REPORTS

3.9 Earnings Per Share (EPS)

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.

4. Cash Flow Statement

The Cash Flow Statement has been prepared using the 'indirect method' in accordance with Sri Lanka Accounting Standard No. 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 under operating cash flow. Dividends received and interest income are classified under cash flows from investing activities. Dividends paid are classified under cash flow from financing activities.

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 Sri Lanka Accounting Standard No. 28 - 'Segment Reporting'. Inter-segment pricing is determined on an arm's length basis. Segment information includes revenue, segment result, assets, liabilities and cash flows.

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, borrowings, income tax assets & liabilities, investment related revenue and borrowing related expenses.

Segmental capital expenditure is the total cost incurred during the period to acquire property, plant & equipment and intangible assets other than goodwill.

6. Comparative Information

Comparative 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 periods Financial Statements and to enhance the inter period comparability.

FINANCIAL REPORTS / NOTES TO THE FINANCIAL STATEMENTS

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 2012.

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 has completed the assessment on identifying potential impact on the Financial Statements on adoption of SLFRS with effect from 1st April 2012 and is in the process of quantifying the impact on the net assets as at 31st March 2012, the reported net profits after tax for the year then ended and disclosure requirements arising from the following areas.

LKAS 39 - Financial Instruments - Recognition and Measurement

According to LKAS 39, trade receivable (debt instrument) is impaired if there is an objective evidence of impairment exist or a loss event has occurred and it has an impact on the estimated future cash flows.

The present provisioning policy considers non-recoverability of the debt which would give different results from what is envisaged by LKAS 39.

The Company/Group is in the process of quantifying the impact on the Financial Statements.

SLFRS 8 - Operation Segments

According to SLFRS 8, the operating segments are identified based on the way in which financial information is organised and reported to the Chief Operating Decision-Maker. The Group is in the process of identifying reportable segments under SLFRS 8.

The management is of the view that the implications arising from other are not significant.

NOTES TO THE FINANCIAL STATEMENTS / FINANCIAL REPORTS

8. Segment Information

The Group comprises the following main business segments:

Segment	Products and Services
Vehicles	- Sale of Brand new Passenger Vehicles, Four-Wheel Drive 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, Forklifts, Material Handling Machinery, Racking Systems, Agri Machinery, Pumps, Dock Levellers and Car Parking Systems.
Electro Mechanical and Biomedical Engineering	- Sale, Installation, Commissioning and Maintenance of Medical Equipment, Generating Sets, Diesel Engines for Marine Propulsion, Rail Traction, Building Management Systems, Industrial Refrigeration Systems and Power Engineering Equipment and Systems.

8.1 Segmental Results and Assets/Liability

Group

	Vehicles		Vehicle Parts & Services		Lighting & Power Tools		Construction, Agricultural & Material Handling Machinery		Electro Mechanical & Biomedical Engineering		Total	
For the year ended 31st March	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Business Segment Turnover and Results												
Total segment revenue	31,593,226	22,213,122	3,308,443	3,202,570	733,848	905,103	3,983,618	3,060,699	868,895	602,448	40,488,030	29,983,942
Inter-segment revenue	(71,346)	(114,011)	(453,460)	(380,828)	(46,412)	(6,970)	(17,886)	(66,757)	(337)	(58,105)	(589,441)	(626,671)
Total external revenue	31,521,880	22,099,111	2,854,983	2,821,742	687,436	898,133	3,965,732	2,993,942	868,558	544,343	39,898,589	29,357,271
Segment results	3,787,841	3,219,030	467,599	529,747	7,596	108,785	310,504	304,009	130,319	61,000	4,703,859	4,222,571
Unallocated other income/ (expenses)	-	-	-	-	-	-	-	-	-	-	(7,327)	48,881
Unallocated expenses	-	-	-	-	-	-	-	-	-	-	(726,608)	(667,798)
Finance cost - net	-	-	-	-	-	-	-	-	-	-	(253,890)	(207,674)
Income tax expense	-	-	-	-	-	-	-	-	-	-	(1,018,709)	(1,274,228)
Profit for the year	-	-	-	-	-	-	-	-	-	-	2,697,325	2,121,752
Business Segment Assets and Liabilities												
Segment assets	6,340,362	3,512,544	1,813,653	1,293,490	363,022	379,888	1,238,625	1,135,332	565,170	323,946	10,320,832	6,645,200
Unallocated assets	-	-	-	-	-	-	-	-	-	-	5,173,786	4,294,281
Total assets	6,340,362	3,512,544	1,813,653	1,293,490	363,022	379,888	1,238,625	1,135,332	565,170	323,946	15,494,618	10,939,481
Segment liabilities	4,776,532	1,320,460	119,156	140,842	2,258	44,068	248,358	181,221	39,035	72,421	5,185,339	1,759,012
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	2,843,947	4,979,622
Equity	-	-	-	-	-	-	-	-	-	-	7,465,332	4,200,847
Total equity and liabilities	4,776,532	1,320,460	119,156	140,842	2,258	44,068	248,358	181,221	39,035	72,421	15,494,618	10,939,481
Other Information												
Capital expenditure	21,142	65,590	73,136	150,562	5,825	2,658	11,195	21,395	7,455	7,376	118,753	247,581
Unallocated capital expenditure	-	-	-	-	-	-	-	-	-	-	832,146	834,585
Depreciation	10,345	9,560	46,354	34,723	999	675	7,555	3,673	6,981	5,615	72,234	54,246
Unallocated depreciation	-	-	-	-	-	-	-	-	-	-	66,294	40,639
Non-cash expenses other than depreciation	85,932	37,940	72,954	74,651	3,126	18,023	55,906	36,646	131,033	(9,202)	348,951	158,058

FINANCIAL REPORTS / NOTES TO THE FINANCIAL STATEMENTS

8.2 Segment Cash Flow

	Vehicles		Vehicle Parts & Services		Lighting & Power Tools		Construction, Agricultural & Material Handling Machinery		Electro Mechanical & Biomedical Engineering		Total	
For the year ended 31st March	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Business Segment Cash Flow												
Cash generated from/ (used in) operations	(1,612,360)	1,585,652	(76,748)	613,014	226,034	(120,853)	(315,387)	(549,983)	(409,612)	(122,414)	(2,188,073)	1,405,416
Net cash flows from/ (used in) investing activities	(21,142)	(9,560)	(29,285)	(34,723)	(3,650)	(675)	(9,771)	(3,674)	(13,580)	(5,615)	(77,428)	(54,247)
Unallocated Cash Flow												
Common cash flow - net inflow											1,759,308	731,204
Income tax paid											(1,923,881)	(250,025)
Proceeds from disposal of property, plant & equipment											25,257	31,723
Dividend received											165	139
Interest received											136,648	74,094
Acquisition and construction of property, plant & equipment and capital work-in-progress											(947,363)	(1,044,628)
Acquisition of leasehold property											-	(37,538)
Acquisition of intangible asset											(3,536)	-
Proceeds from long-term loans											750,000	-
Repayment of long-term loans											(158,594)	(254,126)
Repayment of finance lease rentals											(1,524)	(1,699)
Dividend paid											(311,980)	(121,833)
Net increase/(decrease) in cash and cash equivalents											(2,941,001)	478,480

The primary segment reporting format is determined to be business segment as the Group's risk and return are affected predominantly by differences in the products and services offered.

The operating business are organised and managed separately according to the nature of the products and services provided, in each segment representing a strategic business unit that offers different products and services to different markets.

NOTES TO THE FINANCIAL STATEMENTS / FINANCIAL REPORTS

9. Other Income/(Expenses)

For the year ended 31st March	Group		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Rent income	10,210	10,541	2,983	3,105
Amortisation of deferred income (Note 29)	3,190	4,004	3,190	3,469
Gain on disposals of investments (Note 9.1)	–	5,431	–	31,750
Sundry income	46,955	26,139	34,030	9,609
Dividend income	165	139	3,765	13,638
Gain/(loss) on disposal of property, plant & equipment	(67,847)	2,627	(67,883)	3,312
	(7,327)	48,881	(23,915)	64,883

9.1 Gain on Disposals of Investments

For the year ended 31st March	Group		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Sales proceeds	–	38,500	–	38,500
Less: Net assets	–	(33,069)	–	(6,750)
Gain from disposals	–	5,431	–	31,750

The Company divested its 45% of shareholding in Browns Dimo Industrial Products (Pvt) Ltd. in 2010/11.

10. Net Finance Cost

For the year ended 31st March	Group		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Finance Income				
Interest income	136,648	74,094	135,290	73,671
Exchange gain on translation of foreign currency	60,130	21,313	44,363	20,195
Total finance income	196,778	95,407	179,653	93,866
Finance Costs				
Interest on long-term borrowings	(59,738)	(60,658)	(59,738)	(60,658)
Interest on short-term borrowings	(390,461)	(240,571)	(387,346)	(238,540)
Interest on finance lease	(469)	(1,852)	(469)	(1,852)
Total finance cost	(450,668)	(303,081)	(447,553)	(301,050)
Net finance cost	(253,890)	(207,674)	(267,900)	(207,184)

FINANCIAL REPORTS / NOTES TO THE FINANCIAL STATEMENTS

11. Profit Before Income Tax

11.1 Profit before Income Tax is Stated after Charging/(Reversing) the following:

For the year ended 31st March	Group		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Directors' emoluments	100,587	82,039	90,542	67,036
Auditors' remuneration				
- Audit services	1,928	1,746	1,575	1,421
- Audit related services	991	262	826	214
- Non-audit services	2,272	2,469	1,830	1,344
Depreciation on property, plant & equipment	135,164	93,100	129,855	85,853
Amortisation of intangible assets and leasehold property	3,364	1,785	3,364	1,785
Provision/(reversal) for bad and doubtful debts and write-off	181,129	1,413	201,941	(8,537)
Provision/(reversal) for slow moving inventories	99,989	(6,738)	105,092	7,782
Donations	27,105	22,422	26,576	22,158
Legal fees	5,958	9,764	5,833	9,435
Staff expenses (Note 11.2)	1,059,813	962,260	953,011	884,783

11.2 Staff Expenses

For the year ended 31st March	Group		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Defined contribution plan costs (EPF and ETF)	119,202	88,488	105,983	78,515
Defined benefit plan costs (Retiring gratuity)	56,087	57,667	56,656	55,951
Training expenses	31,920	16,385	27,918	12,185
Salaries and wages	852,604	799,720	762,454	738,132
	1,059,813	962,260	953,011	884,783
Average number of employees for the year	1,179	942	1,077	827

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

NOTES TO THE FINANCIAL STATEMENTS / FINANCIAL REPORTS

12. Income Tax Expense

For the year ended 31st March	Group		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Current Tax Expense:				
Current tax on profit for the year (Note 12.1)	1,061,576	1,207,796	1,004,332	1,201,613
Under/(over) provision in respect of previous year	(13,067)	36,412	(12,338)	42,090
	1,048,509	1,244,208	991,994	1,243,703
Deferred Tax Expense:				
Origination/(reversal) of temporary differences (Note 27)	(29,800)	30,020	(29,903)	21,077
Total income tax expense	1,018,709	1,274,228	962,091	1,264,780

12.1 Reconciliation of Accounting Profit to Income Tax Expense

For the year ended 31st March	Group		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Profit before taxation	3,716,034	3,395,980	3,516,177	3,368,685
Disallowable expenses	382,267	287,752	364,826	262,460
Allowable expenses	(302,138)	(301,513)	(290,662)	(243,097)
Tax losses utilised during the year (Note 12.2)	–	(3,226)	–	–
Taxable income	3,796,163	3,378,993	3,590,341	3,388,048
Income tax				
Tax at 12% (2010/11 @ 15%)	1,013	1,525	723	1,471
Tax at 28% (2010/11 @ 35%)	1,060,563	1,188,422	1,003,609	1,182,384
*Social Responsibility Levy (SRL) at 1.5%	–	17,849	–	17,758
Current tax on profits for the year	1,061,576	1,207,796	1,004,332	1,201,613
Effective tax rate (%)	28.57	35.57	28.56	35.67

* The Social Responsibility Levy (SRL) was abolished with effect from 1st April 2011.

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 28%. The tax on export profits is 12%.

Withholding tax on proposed final dividend is Rs. 24.41 mn. The actual liability arises in year in which dividend is paid. Hence no liability is recognised in these Financial Statements.

FINANCIAL REPORTS / NOTES TO THE FINANCIAL STATEMENTS

12.2 Tax Losses Brought Forward and Utilised During the Year

For the year ended 31st March	Group		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Tax losses at the beginning of the year	9,580	12,805	–	–
Loss incurred during the year	966	1	–	–
Utilised during the year	–	(3,226)	–	–
Tax losses at the end of the year	10,546	9,580	–	–

As explained in Note 27.3 the loss arising from Dimo Industries (Pvt) Ltd. has not been recognised for deferred tax computation.

13. Earnings Per Share

13.1 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 No. 34 - 'Earnings per Share'.

13.2 Calculation of Earnings Per Share

For the year ended 31st March	Group		Company	
	2012	2011	2012	2011
Profit attributable to ordinary shareholders (Rs. '000)	2,697,325	2,121,752	2,554,086	2,103,905
Weighted average number of ordinary shares	8,876,437	8,876,437	8,876,437	8,876,437
Earnings per ordinary share (Rs.)	303.87	239.03	287.74	237.02
Movement of Number of Shares during the year 2011/12				
Number of shares held as at beginning of the year	8,702,389			
Issue of Scrip Dividend - May 2011	174,048			
Number of shares held as at end of the year	8,876,437			

As explained in Note 14 to the Financial Statements, during the year, the Company issued shares as a scrip dividend which resulted 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 No. 34 - 'Earnings Per Share', the EPS for the prior year has already been adjusted to reflect the said increase in number of ordinary shares.

NOTES TO THE FINANCIAL STATEMENTS / FINANCIAL REPORTS

14. Dividends

Calculation of Dividend Per Share

For the year ended 31st March	Company	
	2012 Rs. '000	2011 Rs. '000
Interim dividend paid - First interim	44,382	43,512
- Second interim	66,573	43,512
Final dividend approved - Cash dividend	244,102	201,025
- Scrip dividend	-	242,797
	355,057	530,846
Dividend per share (Rs.)	40.00	61.00

Two interim dividends of Rs. 5.00 and Rs. 7.50 per share were paid in December 2011 and March 2012 respectively to the shareholders of the Company. This amounted to a total interim dividend of Rs. 12.50 (2010/11 - Rs. 10 per share) per share for the Financial Year 2011/12.

14.1 Approved Final Dividend

The Board of Directors of the Company has approved the payment of a final dividend of Rs. 27.50 per share for the year ended 31st March 2012 (2010/11 - Rs. 51.00 per share which consisted of a cash dividend of Rs. 23.10 per share and a scrip dividend of Rs. 27.90 per share). In accordance with the SLAS 12 (revised 2005) on 'Event After the Balance Sheet Date', this final dividend, has not been recognised as a liability in the Financial Statement as at 31st March 2012.

14.2 Compliance with Section 57 of Companies Act No. 07 of 2007

The Board of Directors was satisfied that the Company would meet the solvency requirements immediately after the interim dividends were paid in December 2011 and March 2012, and after payment of the final dividend. The Board provided the Statements of Solvency to the Auditors and obtained Certificates of Solvency from them in respect of each dividend payment, as required by the Companies Act No. 7 of 2007.

FINANCIAL REPORTS / NOTES TO THE FINANCIAL STATEMENTS

15. Property, Plant & Equipment

	Freehold Land	Buildings & Premises	Lease hold Buildings & Premises	Plant & Machinery	Tools & Implements	Motor Vehicles	Leased Motor Vehicles	Computer Hardware & Software	Electrical Fixtures, Fittings, & Office Equipment	Total	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	2012 Rs. '000	2011 Rs. '000
a. Group											
Cost or Valuation											
Balance at the beginning of the year	2,015,808	617,259	22,423	298,320	143,982	271,366	5,750	144,370	184,479	3,703,757	2,740,467
Revaluation	879,140	—	—	—	—	—	—	—	—	879,140	—
Additions	403,162	136,698	—	14,658	18,818	135,626	—	33,905	47,755	790,622	1,044,628
* Transfers	—	—	—	—	—	5,750	(5,750)	—	—	—	—
Disposals	—	(82,760)	—	—	—	(48,765)	—	—	—	(131,525)	(81,338)
Balance at the end of the year	3,298,110	671,197	22,423	312,978	162,800	363,977	—	178,275	232,234	5,241,994	3,703,757
Depreciation											
Balance at the beginning of the year	—	95,516	9,170	92,411	111,824	138,762	4,955	94,062	97,018	643,718	602,720
Charge for the year	—	15,145	3,628	20,105	14,197	52,022	795	16,482	12,790	135,164	93,100
* Transfers	—	—	—	—	—	5,750	(5,750)	—	—	—	—
On disposals	—	(4,272)	—	—	—	(34,149)	—	—	—	(38,421)	(52,102)
Balance at the end of the year	—	106,389	12,798	112,516	126,021	162,385	—	110,544	109,808	740,461	643,718
Carrying amount before capital work-in-progress as at end of the year	3,298,110	564,808	9,625	200,462	36,779	201,592	—	67,731	122,426	4,501,533	3,060,039
Capital work-in-progress at cost	—	152,951	—	202	—	—	—	—	3,588	156,741	—
Carrying amount as at 31st March 2012	3,298,110	717,759	9,625	200,664	36,779	201,592	—	67,731	126,014	4,658,274	—
Carrying amount as at 31st March 2011	2,015,808	521,743	13,253	205,909	32,158	132,604	795	50,308	87,461	—	3,060,039
b. Company											
Cost or Valuation											
Balance at the beginning of the year	2,015,808	613,971	22,423	270,985	129,595	267,644	5,750	131,583	170,313	3,628,072	2,639,437
Additions	403,162	136,648	—	10,627	18,318	135,665	—	29,948	47,438	781,806	1,034,741
Revaluation	879,140	—	—	—	—	—	—	—	—	879,140	—
* Transfers	—	—	—	—	—	5,750	(5,750)	—	—	—	—
Disposals	—	(82,760)	—	—	—	(48,657)	—	—	—	(131,417)	(46,106)
Balance at the end of the year	3,298,110	667,859	22,423	281,612	147,913	360,402	—	161,531	217,751	5,157,601	3,628,072
Depreciation											
Balance at the beginning of the year	—	93,583	9,170	83,715	98,998	137,399	4,955	84,055	90,170	602,045	559,814
Charge for the year	—	15,055	3,628	18,705	13,353	51,453	795	15,113	11,753	129,855	85,853
* Transfers	—	—	—	—	—	5,750	(5,750)	—	—	—	—
On disposals	—	(4,272)	—	—	—	(34,040)	—	—	—	(38,312)	(43,622)
Balance at the end of the year	—	104,366	12,798	102,420	112,351	160,562	—	99,168	101,923	693,588	602,045
Carrying amount before capital work-in-progress as at end of the year	3,298,110	563,493	9,625	179,192	35,562	199,840	—	62,363	115,828	4,464,013	3,026,027
Capital work-in-progress at cost	—	152,951	—	202	—	—	—	—	3,588	156,741	—
Carrying amount as at 31st March 2012	3,298,110	716,444	9,625	179,394	35,562	199,840	—	62,363	119,416	4,620,754	—
Carrying amount as at 31st March 2011	2,015,808	520,388	13,253	187,270	30,597	130,245	795	47,528	80,143	—	3,026,027

* During the year, leased motor vehicles were transferred to motor vehicles upon expiration of the lease contracts.

NOTES TO THE FINANCIAL STATEMENTS / FINANCIAL REPORTS

Notes:

15.a Revaluation of Freehold Land

Company revalued its freehold land as at 30th September 2011 by Mr. K. Arthur Perera, A.M.I.V. (Sri Lanka) who is 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. 879.14 mn was credited to the capital reserve account.

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

Location	Extent	Original Cost Rs. '000	Revalued Rs. '000	Pledged	Mortgaged to
No. 65, Jetawana Road, Colombo 14 and No. 56, K. Cyril C. Perera Mawatha, Colombo 14	2A-0R-33.29P	414	1,349,135	—	—
No. 61, Jetawana Road, Colombo 14	0A-1R-04.00P	18,014	220,000	—	—
No. 74, Jetawana Road, Colombo 14	0A-1R-14.56P	113,808	252,640	√	Hatton National Bank
No. 800, Sirimawo Bandaranaike Mawatha, Colombo 14	3A-3R-14.00P	641,519	659,388	—	—
No. 135, Mahena Road, Siyambalape	7A-3R-05.90P	16,483	222,660	√	Hatton National Bank
Kirindiwela Road, Weliweriya	16A-0R-36.31P	89,958	191,125	√	Commercial Bank
Total		880,196	2,894,948		

15.b Fully Depreciated but still in Use

Property, plant & equipment with cost of Rs. 400 mn (2011 - Rs. 370 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. 373 mn (2011 - Rs. 344 mn).

15.c Property, Plant & Equipment Pledged as Security against Long-Term Bank Loan

Land and buildings with a carrying value of Rs. 666 mn (2011 - Rs. 421 mn) have been pledged as security against term loans obtained.

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

There is no permanent fall in the value of property, plant & equipment which require a provision.

15.e Title Restriction on Property, Plant & Equipment

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

15.f Assessment of Impairment

The Board of Directors has assessed the need for a potential impairment provision as at 31st March 2012. Based on the assessment, no provision was required to be made into the Financial Statements as at Balance Sheet date.

15.g Finance Lease Liability

There was no finance lease liability outstanding as at 31st March 2012 (2010/11 - Rs. 1.52 mn).

FINANCIAL REPORTS / NOTES TO THE FINANCIAL STATEMENTS

16. Leasehold Property

As at 31st March	Group		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Cost				
Balance at the beginning of the year (Note 16.1)	39,938	2,400	39,938	2,400
Additions during the year	–	37,538	–	37,538
Balance at the end of the year	39,938	39,938	39,938	39,938
Accumulated Amortisation				
Balance at the beginning of the year	2,182	1,040	2,182	1,040
Amortisation for the year	2,205	1,142	2,205	1,142
Balance at the end of the year	4,387	2,182	4,387	2,182
Carrying amount at the end of the year	35,551	37,756	35,551	37,756

16.1 Details of Leasehold Property

Location	Lease Amount Rs. '000	Duration
i. No. 562/126, D.S. Senanayake Mawatha, Anuradhapura	2,400	Commenced from April 1997 to August 2021
ii. No. 562/100, Jayanthi Mawatha, Anuradhapura	37,538	Commenced from October 2010 to May 2028
	39,938	

17. Intangible Assets

As at 31st March	Group		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Cost				
Balance at the beginning of the year	2,808	2,808	2,808	2,808
* Additions during the year	3,536	–	3,536	–
Balance at the end of the year	6,344	2,808	6,344	2,808
Accumulated Amortisation				
Balance at the beginning of the year	2,106	1,463	2,106	1,463
Amortisation for the year	1,159	643	1,159	643
Balance at the end of the year	3,265	2,106	3,265	2,106
Carrying amount at the end of the year	3,079	702	3,079	702

*Additions consist of Rs. 3.5 mn invested on upgrading human resource information system software.

NOTES TO THE FINANCIAL STATEMENTS / FINANCIAL REPORTS

17.1 Assessment of Impairment

Computer 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 Board of Directors as at 31st March 2012, no provision was required to be made in the Financial Statements as at the year end.

18. Investment in Subsidiaries

As at 31st March	Percentage of Holding	Company 2012 Rs. '000	2011 Rs. '000
Unquoted investment-ordinary shares			
Dimo (Pvt) Ltd. - 25,000 ordinary shares	100%	250	250
Dimo Industries (Pvt) Ltd. - 2,305,000 ordinary shares	100%	23,050	23,050
Dimo Travels (Pvt) Ltd. - 500 ordinary shares	100%	50	50
		23,350	23,350
Impairment provision (Note 18.1)		(12,205)	(15,000)
		11,145	8,350

18.1 Impairment Provision

As at 31st March	Company 2012 Rs. '000	2011 Rs. '000
Balance as at beginning of the year	15,000	–
Impairment provision/(reversal)	(2,795)	15,000
Balance as at end of the year	12,205	15,000

Impairment assessment had been carried out as at 31st March 2012 and it was concluded that all the investments included under unquoted investments exceed net realisable value over its carrying value except for Dimo Industries (Pvt) Ltd. In the opinion of the Board of Directors, impairment loss of Rs. 12.2 mn (2010/11 - Rs. 15 mn) had been recorded in the Financial Statements in relation to investment in Dimo Industries (Pvt) Ltd. Accordingly the remaining Rs. 2.79 mn was reversed to Income Statement. The Board of Directors decided to transfer the operation of Dimo Industries (Pvt) Ltd. to Diesel & Motor Engineering PLC with effect from 31st December 2010.

FINANCIAL REPORTS / NOTES TO THE FINANCIAL STATEMENTS

19. Long-Term Investments

As at 31st March	No. of Shares	Market Value (per share)	Market Value	Group Cost	Company Cost		
				2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Quoted investments							
Ordinary shares							
Hunas Falls Hotels PLC	900	59.60	54	14	14	7	7
Hatton National Bank PLC (Non-voting)	33,000	94.50	3,119	700	700	700	700
Ceylinco Insurance PLC (Non-voting)	1,700	304.30	517	298	298	298	298
			3,690	1,012	1,012	1,005	1,005

20. Inventories

As at 31st March	Group		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Stock-in-trade (at cost)	7,078,120	2,111,435	7,053,690	2,070,522
Work-in-progress (at cost)	342,639	202,429	54,381	22,690
Provision for slow moving inventories	(208,968)	(108,979)	(205,782)	(100,690)
	7,211,791	2,204,885	6,902,289	1,992,522
Goods-in-transit (at cost)	1,189,547	435,613	1,173,578	426,993
Total inventories at the lower of cost and net realisable value	8,401,338	2,640,498	8,075,867	2,419,515

21. Trade and Other Receivables

As at 31st March	Group		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Trade receivables	2,196,274	3,375,558	1,924,220	3,266,457
Provision for bad and doubtful debts	(394,876)	(213,747)	(358,442)	(156,501)
	1,801,398	3,161,811	1,565,778	3,109,956
Deposits and prepayments	159,426	137,033	136,751	121,705
Other receivables	100,204	15,378	94,012	9,955
Loans to employees	17,246	14,206	17,181	14,073
	2,078,274	3,328,428	1,813,722	3,255,689

21.1 Trade debtors jointly with inventories are pledged as securities for short-term interest bearing loans and borrowings up to a limit of Rs. 95 mn (2010/11 - Rs. 95 mn) as shown in Note 32.

21.2 Terms of the Financial Assets

Trade receivables are non-interest bearing and are generally on 30-90 days terms.

NOTES TO THE FINANCIAL STATEMENTS / FINANCIAL REPORTS

22. Cash and Cash Equivalents

As at 31st March	Group		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Bank balances	297,973	310,781	160,480	241,706
Investment in Treasury Bills	–	1,549,133	–	1,549,133
Cash in hand	19,117	11,132	18,516	10,531
	317,090	1,871,046	178,996	1,801,370

Investments in treasury bills are made for varying periods of between one week and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective treasury bill rates.

23. Stated Capital

As at 31st March	Group		Company	
	No. of shares	Rs. '000	No. of Shares	Rs. '000
Ordinary shares				
Issued and fully-paid ordinary shares				
Balance at the beginning of the year	8,702,389	182,500	8,702,389	182,500
Scrip dividend during the year	174,048	242,797	–	–
Balance at the end of the year	8,876,437	425,297	8,702,389	182,500

The increase in Stated Capital represents the scrip dividends paid in May 2011.

24. Capital Reserve

As at 31st March	Group		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Balance at the beginning of the year	1,135,612	1,135,612	1,135,612	1,135,612
Revaluation surplus	879,140	–	879,140	–
Balance at the end of the year	2,014,752	1,135,612	2,014,752	1,135,612

24.1 Revaluation Surplus

Cost and revalued amounts relating to revaluation of freehold land are depicted in Note 15 (a) to the Financial Statements.

FINANCIAL REPORTS / NOTES TO THE FINANCIAL STATEMENTS

25. Revenue Reserves

As at 31st March	Group		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Balance at the beginning of the year	2,882,735	882,816	2,634,751	652,679
Dividend to shareholders				
2010/11 Final - Cash dividend	(201,025)	(34,809)	(201,025)	(34,809)
- Scrip dividend	(242,797)	-	(242,797)	-
2011/12 - First interim	(44,382)	(43,512)	(44,382)	(43,512)
2011/12 - Second interim	(66,573)	(43,512)	(66,573)	(43,512)
Profit for the year	2,697,325	2,121,752	2,554,086	2,103,905
Balance at the end of the year	5,025,283	2,882,735	4,634,060	2,634,751

The revenue reserves represent reserves available for distribution.

26. Employee Benefits

As at 31st March	Group		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Present value of unfunded obligation	224,434	182,327	216,824	173,713
Balance at the beginning of the year	182,327	142,138	173,713	132,607
Current service cost	15,375	13,058	14,257	11,674
Interest cost	19,144	15,626	18,240	14,586
Actuarial losses/(gain)	21,568	28,983	24,159	29,691
Total charge for the year	56,087	57,667	56,656	55,951
Paid during the year	(13,980)	(17,478)	(13,545)	(14,845)
Balance at the end of the year	224,434	182,327	216,824	173,713

An actuarial valuation for gratuity liability was carried out as at 31st March 2012 by Mr. M. Poopalanathan, AIA of 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 No. 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 Escalation Rate	-	10.0%

NOTES TO THE FINANCIAL STATEMENTS / FINANCIAL REPORTS

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

Normal retirement age of an executive employee is assumed to be 60 years while non-executive employee is assumed to retire at the age of 55 years.

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 2012 amounted to Rs. 220 mn and Rs. 214 mn respectively.

27. Deferred Tax Liabilities

As at 31st March	Group		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Summary of Net Deferred Tax Liabilities				
Balance at the beginning of the year	58,157	28,137	57,155	36,078
Origination/(reversal) of temporary differences	(29,800)	30,020	(29,903)	21,077
Balance at the end of the year (Note 27.1)	28,357	58,157	27,252	57,155

27.1 Reconciliation of Net Deferred Tax Liabilities

As at 31st March	Group		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Temporary difference of property, plant and equipment	325,708	390,030	314,154	377,839
Temporary difference of defined benefit obligations	(224,433)	(182,327)	(216,824)	(173,713)
Net temporary differences	101,275	207,703	97,330	204,126
Net deferred tax liability at the end of the year	28,357	58,157	27,252	57,155

27.2 Movement in Temporary Differences during the Year

	Group			Company		
	Balance as at 01.04.2011 Rs. '000	Recognised in Income Statement Rs. '000	Balance as at 31.03.2012 Rs. '000	Balance as at 01.04.2011 Rs. '000	Recognised in Income Statement Rs. '000	Balance as at 31.03.2012 Rs. '000
Property, plant & equipment	109,208	(18,010)	91,198	105,795	(17,832)	87,963
Retirement benefit obligation	(51,051)	(11,790)	(62,841)	(48,640)	(12,071)	(60,711)
	58,157	(29,800)	28,357	57,155	(29,903)	27,252

FINANCIAL REPORTS / NOTES TO THE FINANCIAL STATEMENTS

27.3 Unrecognised Deferred Tax Assets

Income tax loss of Rs. 10.5 mn (2011 - Rs. 9.5 mn) in respect of Dimo Industries (Pvt) Ltd. has not been recognised as a deferred tax asset as it is not probable that future taxable profits will be available against which the Company can utilise the benefit therefrom.

28. Interest Bearing Borrowings

As at 31st March	Group		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
a. Non-Current Portion of the Interest Bearing Borrowings				
Term loans (Note 28.1)	770,203	316,830	770,203	316,830
Total non-current interest bearing long-term borrowings	770,203	316,830	770,203	316,830
b. Current Portion of the Interest Bearing Borrowings				
Term loans (Note 28.1)	229,960	91,927	229,960	91,927
Finance lease obligations (Note 28.4)	–	1,088	–	1,088
Total current portion of interest bearing long-term borrowings	229,960	93,015	229,960	93,015

28.1 Term Loans

As at 31st March	Group		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
At the beginning of the year	408,757	662,883	408,757	662,883
	408,757	662,883	408,757	662,883
Loans obtained during the year	750,000	–	750,000	–
Repayments during the year	(158,594)	(254,126)	(158,594)	(254,126)
At the end of the year	1,000,163	408,757	1,000,163	408,757
Transferred to current liabilities (repayable within one year)	229,960	91,927	229,960	91,927
Long-term portion of long-term loans (repayable after one year)	770,203	316,830	770,203	316,830

NOTES TO THE FINANCIAL STATEMENTS / FINANCIAL REPORTS

28.2 Principal Amounts of Long-Term Borrowings

Lender	Company		Balance Outstanding as at 31st March 2012	Pledged	Repayments Tenure
	2012 Rs. '000	2011 Rs. '000			
Commercial Bank of Ceylon PLC					
Loan - 1	400,000	400,000	236,830	√	Repayable in 120 Instalments commencing from February 2008
Total	400,000	400,000	236,830		
Hatton National Bank PLC					
Loan - 1	120,000	120,000	–		Fully-settled during the year.
Loan - 2	200,000	200,000	80,000	√	Repayable in 60 Instalments commencing from March 2009
Total	320,000	320,000	80,000		
DFCC Bank					
Loan - 1	250,000	–	208,333		Repayable in 60 Instalments commencing from June 2011
Total	250,000	–	208,333		
Bank of Ceylon					
Loan - 1	500,000	–	475,000		Repayable in 60 Instalments commencing from January 2012
Total	500,000	–	475,000		
Total	1,470,000	720,000	1,000,163		

Details of land which were pledged against above bank loan facilities are disclosed in Note 15 (a).

FINANCIAL REPORTS / NOTES TO THE FINANCIAL STATEMENTS

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

	Commercial Bank of Ceylon PLC	Hatton National Bank PLC	DFCC Bank	Bank of Ceylon	Total 2012 Rs. '000	Total 2011 Rs. '000
Movement of Loans						
Balance at the beginning of the year	276,790	131,967	–	–	408,757	662,883
Loans obtained during the year	–	–	250,000	500,000	750,000	–
Repayments during the year	(39,960)	(51,967)	(41,667)	(25,000)	(158,594)	(254,126)
Balance at the end of the year	236,830	80,000	208,333	475,000	1,000,163	408,757
Analysis of Long-Term Borrowings by Year of Repayment						
Long-term loan repayable within 1 year from year end	39,960	40,000	50,000	100,000	229,960	91,927
Long-term loan repayable between 2 and 5 years from year end	159,840	40,000	158,333	375,000	733,173	239,840
Long-term loan repayable later than 5 years from year end	37,030	–	–	–	37,030	76,990
	236,830	80,000	208,333	475,000	1,000,163	408,757

28.4 Finance Lease Obligations

As at 31st March	Group		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Finance lease liability at the beginning of the year	1,524	3,223	1,524	3,223
Payment during the year	(1,524)	(1,699)	(1,524)	(1,699)
Gross lease obligation at the end of the year	–	1,524	–	1,524
Interest in suspense	–	(436)	–	(436)
Net liability at the end of the year	–	1,088	–	1,088

NOTES TO THE FINANCIAL STATEMENTS / FINANCIAL REPORTS

29. Deferred Income

As at 31st March	Group		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Balance at the beginning of the year	7,977	11,775	7,976	11,239
Income deferred during the year	31,959	206	–	206
Amortised during the year	(3,190)	(4,004)	(3,190)	(3,469)
Balance at the end of the year	36,746	7,977	4,786	7,976

Deferred income represents the value of telephone system received free of charge and the income for annual maintenance agreements on which revenues accrue beyond the current financial year. Deferred income from the telephone systems would be amortised on a systematic basis over the contract period with the supplier of equipment. Income from annual maintenance agreements will be amortised during the validity period of the contract.

30. Trade and Other Payables

As at 31st March	Group		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Trade payables	1,487,608	1,558,804	1,446,635	1,500,568
Advances received	232,617	96,898	232,617	96,898
Interest payable	13,675	9,914	13,675	9,914
Unclaimed dividend	3,493	2,289	3,493	2,289
Value Added Tax (VAT)/Turnover tax payable	–	64,818	–	64,889
Other payables and accrued expenses	832,412	689,497	555,421	507,170
	2,569,805	2,422,220	2,251,841	2,181,728

30.1 Terms of the Financial Liabilities:

Trade payables are non-interest bearing and have an average term of 60 days.

Other payables are non-interest bearing and have an average term of three months excluding unclaimed dividends.

VAT payable and interest payable are normally settled monthly throughout the financial year.

FINANCIAL REPORTS / NOTES TO THE FINANCIAL STATEMENTS

31. Current Tax Asset/Liability

As at 31st March	Group		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
At the beginning of the year	999,487	5,304	1,006,205	(10,183)
Current tax for the year (Note 12)	1,048,509	1,244,208	991,994	1,243,703
	2,047,996	1,249,512	1,998,199	1,233,520
Tax paid during the year:				
Economic Service Charge	129,525	126,707	120,000	121,227
Income tax, Social Responsibility Levy (SRL) & WHT	1,791,306	123,318	1,782,115	106,088
Payments/adjustments pertaining to previous year	3,050	—	182	—
	1,923,881	250,025	1,902,297	227,315
Current tax liability	124,115	999,487	95,902	1,006,205
Made up as follows:				
Current tax asset	(1,374)	(7,983)	—	—
Current tax liability	125,489	1,007,470	95,902	1,006,205
	124,115	999,487	95,902	1,006,205

32. Short-Term Interest Bearing Borrowings

As at 31st March	Group		Company	
	2012 Rs. '000	2011 Rs. '000	2012 Rs. '000	2011 Rs. '000
Short-term bank loans	3,728,542	2,588,594	3,698,892	2,588,594
Bank overdrafts	317,124	70,027	271,733	58,630
	4,045,666	2,658,621	3,970,625	2,647,224

Unutilised bank facilities as at 31st March 2012 amounted to Rs. 6,564.0 mn (2011 - Rs. 2,087.8 mn).

Details of inventories and book debts which were pledged against above short-term loan facilities are disclosed in Note 21.1.

NOTES TO THE FINANCIAL STATEMENTS / FINANCIAL REPORTS

33. Related Party Disclosures

The Company carried out transactions in the ordinary course of its business 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:

33.1 (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 (Executive and Non-Executive Directors) have been classified as KMPs.

Officers who are employees of Diesel & Motor Engineering PLC are Directors of the subsidiaries and not of the Company have been classified as KMPs of the respective subsidiary only.

33.1 (b) The Compensation Paid to Key Management Personnel - (KMPs)

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.

Compensation to Key Management Personnel of the Company are as follows:

	Company	
	2012	2011
	Rs. '000	Rs. '000
Short-term employee benefits	90,542	67,036
Post-employment benefits	39,267	24,117
Total compensation applicable to key management personnel	129,809	91,153

In addition to their salaries, the Company also provides non-cash benefits to KMPs and contributes to a post employment defined benefit plan on behalf of the Executive Directors.

FINANCIAL REPORTS / NOTES TO THE FINANCIAL STATEMENTS

33.1 (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.

33.2 Transactions with Subsidiaries

Name of the Company	Dimo (Pvt) Ltd.	Dimo Industries (Pvt) Ltd.	Dimo Travels (Pvt) Ltd.	
Shareholding	100% Rs. '000	100% Rs. '000	100% Rs. '000	Total Rs. '000
Balance due to subsidiaries at the beginning of the year	(104,840)	(8,538)	(327)	(113,705)
Sale of goods and services	57,173	–	–	57,173
Purchase of goods and services	(51,012)	–	–	(51,012)
Expense incurred on behalf of subsidiaries	49,468	–	–	49,468
Fund transfers - net	(39,641)	(900)	–	(40,541)
Balance due to subsidiaries at the end of the year	(88,852)	(9,438)	(327)	(98,617)

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. 377 mn on behalf of Dimo (Pvt) Ltd. as at the Balance Sheet date.

33.3 Transactions with Companies Significantly Influenced by Key Management Personnel (KMP)

Mr A.M. Pandithage who is a Director of the Company is the Chairman of Hayleys PLC. The transactions with Hayleys Group companies during the year ended 31st March 2012 are as follows:

The Group purchased goods and services from the Hayleys Group to the value of Rs. 13.6 mn during the year. Hayleys Group purchased goods and services from Dimo Group companies during the year to the value of Rs. 14.5 mn.

The balances due to and due from Hayleys Group of companies as at 31st March 2012 are as follows.

	Rs. '000
Balance due to Hayleys Group of Companies	–
Balances due from Hayleys Group of Companies	208

Terms and Conditions of Transactions with the companies which have significant influence by KMPs

Outstanding balances at the year-end relating to the Companies which have significant influence by KMPs, are unsecured, interest free and all related party dues are on demand. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31st March 2012, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2010/11 - Rs. Nil).

NOTES TO THE FINANCIAL STATEMENTS / FINANCIAL REPORTS

34. Commitments and Contingencies

34.1 Capital Expenditure Commitments

Capital expenditure committed by the Board of Directors for which provision has not been made in the accounts amounts to approximately Rs. 993.2 mn (2010/11 - Rs. 123.4).

34.2 Contingent Liabilities

Guarantees

The contingent liability as at 31st March 2012 on guarantees given by Diesel & Motor Engineering PLC, in respect of bank guarantees, bid bonds and performance bonds amounted to Rs. 623.0 mn (2010/11 - Rs. 672.3 mn).

34.3 Litigation Against the Company

The claims for lawsuits filed against the Company as at 31st March 2012 amount to Rs. 30.4 mn (2011 - 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 a liability has been made in the Financial Statements.

35. Events Occurring After the Balance Sheet Date

Subsequent to the Balance Sheet date the Board of Directors of the Company approved a final dividend of Rs. 27.50 per share for the year ended 31st March 2012. Details of the above dividend are disclosed in Note 14 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.

36. Capital Management

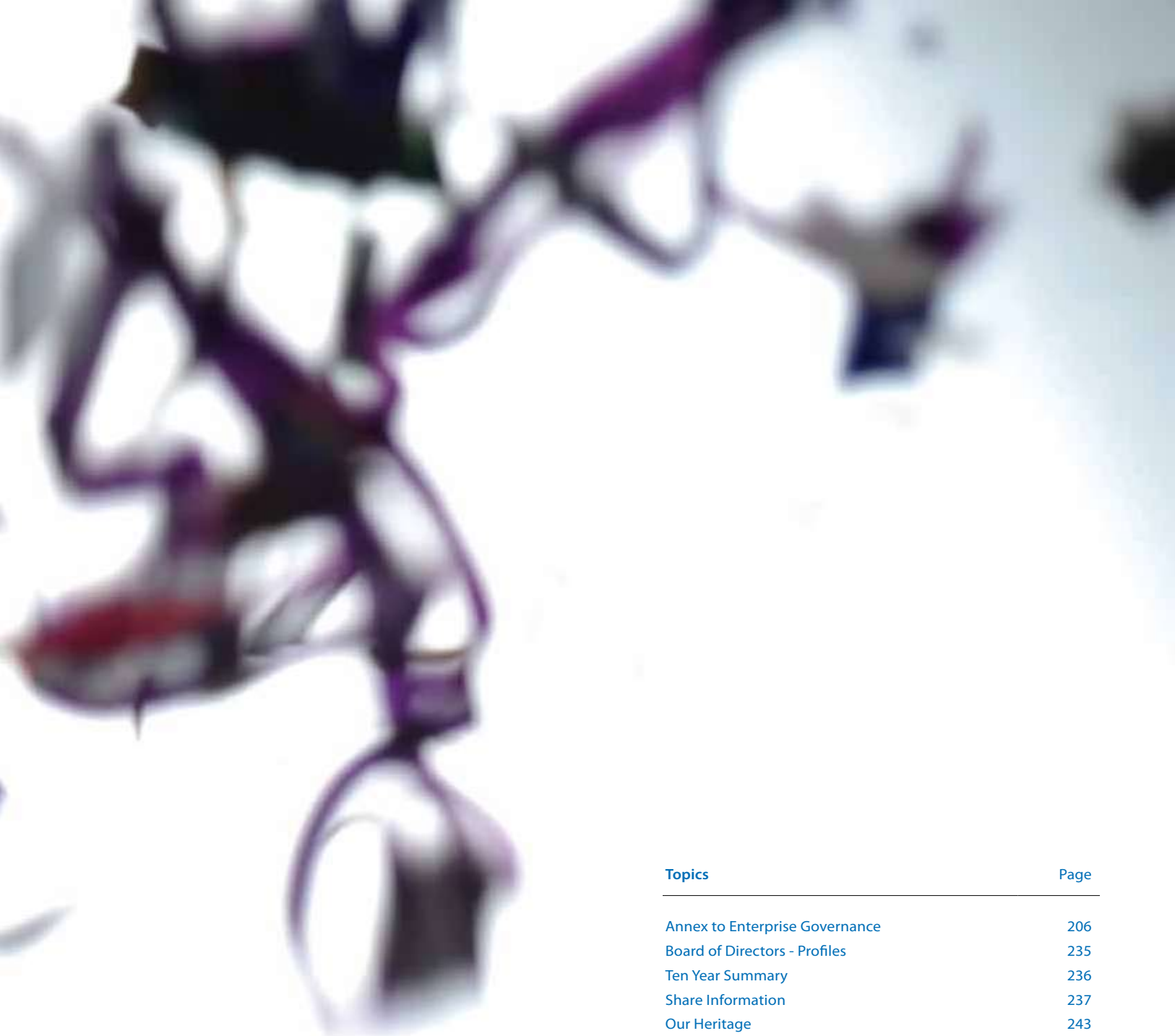
The primary objective of the Group's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

	2012 Rs. '000	2011 Rs. '000
Long-term Interest bearing loans and borrowings (Note 28)	1,000,163	409,845
Equity	7,465,332	4,200,847
Total equity and long-term loans	8,465,495	4,610,692
Gearing ratio	12%	9%

37. Directors' Responsibility to the Financial Statements

The Board of Directors of the Company is responsible for the preparation and presentation of the Financial Statements.





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APPENDICES / ANNEX TO ENTERPRISE GOVERNANCE

Table of Compliance with the Code of Best Practices on Corporate Governance jointly issued by the Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka (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 pre-agreed 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 9 times during the financial year. The dates of the Board meetings during the year are given on table 232 Average attendance at Board meetings was 97%.
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 stakeholder centric approach is adopted in strategy formulation. 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.
	Ensuring that the CEO and the Management Team possess the skills, experience, and knowledge to implement strategy	<p>The Directors are from diverse backgrounds and bring to bear a wide range of experience and competencies that facilitates the effective discharging of Board's responsibilities. The Board ensures that the Chairman/MD, CEO, Executive Directors and the Management Team possess the skills to implement the overall strategy.</p> <p>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/her regular position in the managerial capacity of the Company.</p> <p>A brief résumé of Directors, including the Directors who offer themselves for re-election is available on pages 234, 235 and 261.</p>

ANNEX TO ENTERPRISE GOVERNANCE / APPENDICES

Code Reference	Requirement of the Code	Compliance with the Code
	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.
	Ensuring effective systems to secure integrity of information, internal controls and risk management	<p>The Board monitors and evaluates risks and performance, approves all important investment decisions and oversees installation of sound internal financial controls.</p> <p>Measures taken towards an effective internal control system is given under D.2.1.</p> <p>Risk management framework is given in the Risk Management Report appearing from pages 128 to 140.</p>
	Ensuring compliance with laws, regulations and ethical standards	<p>The Board follows a policy of strict compliance with laws and regulatory requirements.</p> <p>'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.</p>
	Ensuring all stakeholder interests are considered in corporate decisions	<p>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.</p> <p>Interactions with stakeholders are dealt with in more detail in the Management Report from pages 18 to 113.</p>
	Ensuring that the Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations	The Code of Business Ethics requires compliance with laws, regulations and corporate policies at all times. This ensures that prescribed accounting policies, accounting standards and other regulations are adhered to.
	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.

APPENDICES / ANNEX TO ENTERPRISE GOVERNANCE

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.	<p>Stewardship, Trusteeship and Accountability underpin the role of the Board. In assuming this role, the Board mandates that the Group adheres to the laws of the jurisdictions within which it operates, observing high ethical standards. This is an active, not a passive role played by the Board.</p> <p>The Directors individually and collectively are committed to conducting themselves, upholding the values of fair and good business practices ensuring confidentiality and fair dealing.</p> <p>Any Director may obtain independent professional advice that may be required in discharging his responsibilities effectively, at Company's expense.</p>
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 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.	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 matters relating to strategy, performance, resources and business conduct.
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.	<p>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.</p> <p>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 utilisation and any other report as required.</p>

ANNEX TO ENTERPRISE GOVERNANCE / APPENDICES

Code Reference	Requirement of the Code	Compliance with the Code
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.	<p>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.</p> <p>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.</p> <p>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.</p>

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.	<p>The Chairman continues to be the Chairman/Managing Director of the Company after appointment of Mr. A.G. Pandithage as CEO w.e.f. 1st April 2012. The functions of Chairman and CEO were vested with the same person up to 31st March 2012. The appointment of the CEO w.e.f. 1st April 2012 will enable sharing of responsibilities of the Chief Executive function.</p> <p>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.</p> <p>The Audit, Nomination and Remuneration Committees are headed by Non-Executive Independent Directors.</p> <p>The composition of the above Board Committees is given on page 232.</p> <p>The performance of Chairman/MD and CEO's is reviewed by the Non-Executive Directors headed by Senior Independent Director.</p>

APPENDICES / ANNEX TO ENTERPRISE GOVERNANCE

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
A.3.1	<p>The Chairman should conduct Board proceedings in a proper manner and ensure, <i>inter alia</i>, that:</p> <p>the effective participation of both Executive and Non-Executive Directors is secured;</p> <ul style="list-style-type: none"> • 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. 	<p>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.</p> <p>The Chairman ensures that every Non-Executive Director and Executive Director is provided with an opportunity to present his view on matters discussed and that 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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>The table on page 232 contains the attendance details of Directors at Board Meetings.</p>

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	<p>Availability of sufficient financial acumen and knowledge.</p>	<p>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.</p>

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.	<p>The composition of the Board of Directors meets the number of Non-Executive Directors required by the Listing Rules of the Colombo Stock Exchange. The brief résumé of Directors provided on page 235 bears testimony to the calibre of the Non-Executive Directors, whose views significantly influence the decisions made by the Board.</p> <p>Four out of eleven Directors are Non-Executive Directors.</p> <p>There was no change in the number of Directors or in their status as Non-Executive or Independent Directors, during the period under review.</p>
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'.	<p>Three out of the four Non-Executive Directors are 'independent', a composition that satisfies the criteria set by this Code and the Listing Rules of the Colombo Stock Exchange.</p> <p>The names of the Independent Non-Executive Directors are disclosed on page 232 of the Annual Report.</p>
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 judgment.	<p>The Independent Directors match the criteria set by this section.</p> <p>The Board determines the Non-Executive Directors' independence, based on the criteria set out in the code and the declaration submitted by them.</p> <p>The Company maintains the 'Interest Register' required by the Companies Act No. 07 of 2007, which shows details of Directors' interests.</p> <p>A disclosure on related party transactions is available on pages 201 to 203.</p>
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.

APPENDICES / ANNEX TO ENTERPRISE GOVERNANCE

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.P. 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 briefed on issues arising at Board meetings.	<p>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.</p> <p>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.</p>
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 require follow-up.

APPENDICES / ANNEX TO ENTERPRISE GOVERNANCE

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	<p>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.</p> <p>The Chairman and members of the Nomination Committee should be identified in the Annual Report.</p>	<p>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.</p> <p>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.</p> <p>The Nomination Committee is entitled to obtain professional advice at the Company's expense.</p> <p>The Nomination Committee has specific terms of reference defining its scope and authority.</p> <p>The Nomination 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.</p> <p>The composition of the Nomination Committee is available on the table appearing on page 232.</p> <p>The Report of the Nomination Committee is given on page 145.</p>
A.7.2	<p>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.</p>	<p>The Committee's main role is to nominate suitable candidates as and when vacancies occur on the Board. The Committee is responsible for succession planning at Board and Senior Management level and in ensuring smooth management transitions. It reviews the size and structure of the Board on a continuing basis and constantly reviews the balance of skills, knowledge and experience of the Board of Directors. The Committee also reviews the independence of Directors including actual, potential or perceived conflicts of interest.</p>

ANNEX TO ENTERPRISE GOVERNANCE / APPENDICES

Code Reference	Requirement of the Code	Compliance with the Code
A.7.3	<p>Upon the appointment of a new Director to the Board, the Company should forthwith disclose to shareholders:</p> <ol style="list-style-type: none"> A brief résumé of the Director; The nature of his expertise in relevant functional area; The names of companies in which the Director holds Directorship or Membership in Board Committees; and Whether such Director can be considered 'independent'. 	<p>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.</p>

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	<p>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.</p>	<p>In terms of the Articles of Association, one-third of the Directors including Non-Executive 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 is not required to make himself available for re-election as per the articles.</p>
A.8.2	<p>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 names of Directors submitted for election or re-election should be accompanied by a résumé minimally as set out in paragraph A.7.3 above, to enable shareholders to make an informed decision on their election.</p>	<p>The Company's Articles of Association provides that any Director appointed by the Board to hold office until the next Annual General Meeting (AGM), and to seek reappointment by the shareholders at the said AGM.</p> <p>Based on the Articles and the current composition of the Board, a Director excluding the Managing Director has to come forward for re-election, every three years.</p> <p>The names of the Directors coming up for re-election at the AGM - 2012 is given in the Notice of Meeting appearing on page 261 Their résumé is available on page 235.</p>

APPENDICES / ANNEX TO ENTERPRISE GOVERNANCE

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 table.
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.	<p>The appraisal covers areas such as -</p> <ul style="list-style-type: none"> • 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.

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 page 235.
	The nature of his/her expertise in relevant functional areas;	Available on page 235.
	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.

ANNEX TO ENTERPRISE GOVERNANCE / APPENDICES

Code Reference	Requirement of the Code	Compliance with the Code
	Names of listed companies in Sri Lanka in which the Director concerned serves as a Director;	Available on pages 157, 158 & 235.
	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 157, 158 & 235.
	Number/percentage of Board meetings of the Company attended during the year;	Available on page 232.
	Names of Board Committees in which the Director serves as Chairman or a member; and	Available on page 232.
	Number/percentage of Committee meetings attended during the year.	Available on page 232.

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/Managing Director, CEO and Executive Directors are evaluated.

APPENDICES / ANNEX TO ENTERPRISE GOVERNANCE

Code Reference	Requirement of the Code	Compliance with the Code
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 is done by the Non-Executive Directors led by the Senior Independent Director, the performance appraisal of the CEO and Executive Directors will be carried out by the Non-Executive Directors in consultation with the Chairman/MD.

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. (These also include Post-Employment Benefits as well as Terminal Benefits.) Terms of Reference for Remuneration Committees are set out in Schedule C.	<p>The Remuneration Committee is responsible for determining the remuneration policy and the remuneration of the Chairman/Managing Director, Chief Executive Officer, Executive Directors and Senior Management.</p> <p>The Board of Directors appoints members to the Remuneration Committee.</p> <p>The Board of Directors has set the terms of reference of the Remuneration Committee.</p> <p>Attendance details of the members at Remuneration Committee meeting is disclosed in the table appearing on page 232.</p> <p>The report of the Remuneration Committee is available on page 144.</p>
B.1.2	Remuneration Committees should consist exclusively of Non-Executive Directors, and should have a Chairman, who should be appointed by the Board.	<p>The Chairman of the Remuneration Committee, who is appointed by the Board, is an Independent Non-Executive Director.</p> <p>The present Committee consists of three Independent Non-Executive Directors and one Non-Executive Director. The Chairman of the Remuneration Committee is Prof. U.P. Liyanage, an Independent Non-Executive Director. The composition of the Remuneration Committee meets the requirements of the CSE Listing Rules.</p>

Code Reference	Requirement of the Code	Compliance with the Code
B.1.3	The Chairman and members of the Remuneration Committee should be listed in the Annual Report each year.	Names of the Chairman and members of the Remuneration Committee are available on page 232.
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 Subcommittee 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.	<p>The remuneration of the Executive Directors is recommended by the Remuneration Committee in consultation with the Chairman/MD. No Director is involved in deciding his own remuneration.</p> <p>The Committee is entitled to obtain professional advice at the Company's expense in discharging their responsibilities.</p>

B.2 The level and 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.

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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.	<p>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.</p> <p>When required, the Remuneration Committee uses remuneration surveys to ascertain market levels of remuneration.</p>
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 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.	<p>Remuneration of Executive Directors consists of a fixed element as well as a variable element.</p> <p>The variable part (incentive scheme) is based on the performance of the individual as well as the Company.</p>
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. There is no share option scheme available to the Directors.
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.

ANNEX TO ENTERPRISE GOVERNANCE / APPENDICES

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.

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 Committee in the case of a Group company) comprising the Remuneration Committee, contain a statement of remuneration policy and set out the aggregate remuneration paid to Executive and Non-Executive Directors.	The Remuneration Policy is available in the Report of the Remuneration Committee appearing on page 144. Total Directors' emoluments are disclosed in Note 11 on page 184.

APPENDICES / ANNEX TO ENTERPRISE GOVERNANCE

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 on page 261.
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.

ANNEX TO ENTERPRISE GOVERNANCE / APPENDICES

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.	<p>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.</p> <p>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.</p>

D. Accountability and 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.	<p>In the preparing of annual and quarterly Financial Statements, Company complies with the requirements of the-</p> <ul style="list-style-type: none"> Companies Act No. 07 of 2007, Sri Lanka Accounting Standards, and Listing Rules of the Colombo Stock Exchange. <p>The annual and interim Financial Statements are published within the time periods prescribed by the Listing Rules of the Colombo Stock Exchange.</p> <p>Given below is a table containing the dates on which the annual and interim Financial Statements were uploaded to the CSE website/ dispatched to the shareholders, during the year under review.</p> <table> <tr> <th>Interim Report</th><th>Date of uploading/dispatch</th><th>Status</th></tr> <tr> <td>Annual Report for the year ended 31st March 2011</td><td>5th June 2010</td><td>Compliant</td></tr> <tr> <td>1st Quarter</td><td>9th August 2011</td><td>Compliant</td></tr> <tr> <td>2nd Quarter</td><td>27th October 2011</td><td>Compliant</td></tr> <tr> <td>3rd Quarter</td><td>13th February 2012</td><td>Compliant</td></tr> <tr> <td>4th Quarter</td><td>30th May 2012</td><td>Compliant</td></tr> </table>	Interim Report	Date of uploading/dispatch	Status	Annual Report for the year ended 31st March 2011	5th June 2010	Compliant	1st Quarter	9th August 2011	Compliant	2nd Quarter	27th October 2011	Compliant	3rd Quarter	13th February 2012	Compliant	4th Quarter	30th May 2012	Compliant
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Code Reference	Requirement of the Code	Compliance with the Code
D.1.2	<p>The Directors' Report, which forms part of the Annual Report, should contain declarations by the Directors to the effect that:</p> <ul style="list-style-type: none"> • 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. 	<p>The declarations by Directors required by this section have been made in the Annual Report of the Directors appearing from pages 149 to 158.</p>
D.1.3	<p>The Annual Report should contain a statement setting out the responsibilities of the Board for the preparation and presentation of Financial Statements, together with a statement by the Auditors about their reporting responsibilities.</p>	<p>The Statement of Directors' Responsibilities for Financial Statements is available from pages 159 to 160.</p> <p>The Auditors' responsibilities regarding the Annual Financial Statements are outlined in the Report of the Auditors appearing on page 161.</p>

ANNEX TO ENTERPRISE GOVERNANCE / APPENDICES

Code Reference	Requirement of the Code	Compliance with the Code																											
D.1.4	<p>The Annual Report should contain a 'Management Discussion and Analysis', discussing, among other issues:</p> <ul style="list-style-type: none"> • Industry structure and developments; • Opportunities and threats; • Risks and concerns; • Internal control systems and their adequacy; • Social and environmental protection activities carried out by the Company; • Financial performance; • Material developments in human resource/ industrial relations; and • Prospects for the future. 	<p>The Board endeavours to present a balanced and an objective assessment of the Company's position, performance and prospects.</p> <p>Information required by this section is included in the Annual Report as follows:</p> <table> <tr> <th>Information Discussion</th><th>Report in the Annual Report</th><th>Page Nos.</th></tr> <tr> <td>Industrial structure and developments</td><td>Operating Environment</td><td>18 to 22</td></tr> <tr> <td>Opportunities and threats</td><td>Chairman's Letter, Risk Management Report</td><td>10 to 15 128 to 140</td></tr> <tr> <td>Risks and concerns</td><td>Risk Management Report</td><td>128 to 140</td></tr> <tr> <td>Internal control systems and their adequacy</td><td>Enterprises Governance</td><td>118 to 127</td></tr> <tr> <td>Social and environmental protection activities carried out by the Company</td><td>Management Report - Community/Environment</td><td>90 to 111</td></tr> <tr> <td>Financial performance</td><td>Financial Value Creation</td><td>24 to 39</td></tr> <tr> <td>Material developments in Human Resources</td><td>Management Report - Working at Dima</td><td>62 to 79</td></tr> <tr> <td>Prospects for the future</td><td>Chairman's Letter, Financial Review, Management Report</td><td>10 to 113</td></tr> </table>	Information Discussion	Report in the Annual Report	Page Nos.	Industrial structure and developments	Operating Environment	18 to 22	Opportunities and threats	Chairman's Letter, Risk Management Report	10 to 15 128 to 140	Risks and concerns	Risk Management Report	128 to 140	Internal control systems and their adequacy	Enterprises Governance	118 to 127	Social and environmental protection activities carried out by the Company	Management Report - Community/Environment	90 to 111	Financial performance	Financial Value Creation	24 to 39	Material developments in Human Resources	Management Report - Working at Dima	62 to 79	Prospects for the future	Chairman's Letter, Financial Review, Management Report	10 to 113
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Material developments in Human Resources	Management Report - Working at Dima	62 to 79																											
Prospects for the future	Chairman's Letter, Financial Review, Management Report	10 to 113																											
D.1.5	<p>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.</p>	<p>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 149 to 158.</p>																											
D.1.6	<p>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.</p>	<p>This situation did not arise during the financial year under review.</p>																											

APPENDICES / ANNEX TO ENTERPRISE GOVERNANCE

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.	<p>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.</p> <p>The Audit Committee is responsible for reviewing the financial reporting system and Financial Statements to be published, including compliance with relevant accounting standards, laws and company policies, and also for reviewing the effectiveness of the internal audit function.</p> <p>The Group Management Committee is expected to implement an effective system of internal control that addresses the following:</p> <ul style="list-style-type: none"> • 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 <p>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.</p>
D.2.2	Companies which do not have an internal audit function should from time to time review the need for one.	<p>The Company has outsourced the internal audit function, which has enhanced the independence required by the function.</p> <p>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.</p> <p>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.</p>

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.	<p>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.</p> <p>The composition of the Audit Committee is available in the table appearing on page 232.</p> <p>Mr. H.M.A. Jayasinghe, who has previously served on the Board and as the Chairman of the Audit Committee, functions as an Independent Consultant to the Committee offering valuable insight.</p>
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 keep the nature and extent of such services under review, seeking to balance objectivity, independence and value for money.	<p>The Audit Committee is a subcommittee of the Board and its main purpose is to assist the Board in the effective discharge of its responsibilities on financial reporting, risk management and corporate control. It assists the Board in monitoring compliance with applicable laws and other regulatory requirements.</p> <p>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:</p> <ol style="list-style-type: none"> Clear Organisational structures with assigned responsibilities and set objectives; Representations from Executive Management; Budgetary Control; Approval Procedures for Capital Expenditure and Investments; Review of information called for Board meetings; Discussions with External and Internal Auditors; Review of Internal Audit Programmes and Reports; Code of Ethics; and Assessment of situations of potential conflict of interest, if any. <p>The Audit Committee makes recommendations with regard to appointment/reappointment of Independent Auditors. The Audit Committee may, if so required, recommend to the Board, the removal of Auditors.</p>

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Code Reference	Requirement of the Code	Compliance with the Code
		<p>The Committee also evaluates the performance of Independent Auditors, reviews the terms of engagement and fees of the Auditors for the audit. The Committee also reviewed fees paid to Independent 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 Independent Auditors possess the required independence to be the Auditors of the Company. The Audit Committee met the Independent Auditors prior to recommendation of Financial Statements to the Board.</p> <p>The Audit Committee encourages the Independent Auditors to communicate with the Internal Auditors.</p>
D.3.3	<p>The Audit Committee should have a written Terms of Reference, dealing clearly with its authority and duties. (As referred to in the Code)</p> <p>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.</p>	<p>Terms of Reference of the Committee clearly sets out its responsibilities and authority.</p> <p>The Board also considered the Code of Best Practice on Audit Committees of The Institute of Chartered Accountants of Sri Lanka in defining the terms of reference for the Audit Committee.</p>
D.3.4	<p>Disclosures</p> <p>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.</p> <p>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.</p>	<p>The names of the members of the Audit Committee are disclosed on page 232.</p> <p>Committee meetings and the attendance of members is given in the table appearing on page 232.</p> <p>The basis of determination of the independence of Auditors is given under the response to D.3.2.</p> <p>The Chairman/Managing Director, Chief Executive Officer and the Director/Chief Financial Officer attend Audit Committee meetings, unless otherwise determined by the Audit Committee. Any member of the Board may attend the Committee meetings by invitation.</p> <p>The report of the Audit Committee is available on pages 142 and 143.</p>

D.4 Code of Business Conduct and Ethics

Main Principle:

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

Code Reference	Requirement of the Code	Compliance with the Code
D.4.1	<p>All companies must disclose whether they have a Code of Business Conduct and 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:</p> <ul style="list-style-type: none"> • Conflict of interest; • Corporate opportunities; • Confidentiality; • 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. <p>These aspects are expanded on, in Schedule G.</p>	<p>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.</p> <p>There were no reported cases of non-compliance to Code of Business Ethics by any Director or a Member of the Senior Management Team.</p>
D.4.2	<p>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 and Ethics.</p>	<p>Refer the Chairman's letter on pages 10 to 15.</p>

APPENDICES / ANNEX TO ENTERPRISE GOVERNANCE

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.	<p>The Report on Enterprise Governance is prescribed on page 116 to page 127 and to Annexes from page 206 to page 235.</p> <p>The contents of this Report deals with the extent to which established principles of good Corporate Governance have been adhered to and the requirements of the Code of Best Practices on Corporate Governance issued by the SEC and the ICASL have been complied with.</p> <p>The Company has implemented the regulations of the Section 7.10 of the Listing Rules of Colombo Stock Exchange on Corporate Governance.</p>

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 Annual 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, investing directly in shares of companies should be encouraged to carry out adequate analysis or seek independent advice in investing or divesting decisions.	The Company's communications with the shareholders, including the Annual Report, provides information that enables shareholders to make informed judgments or to seek advice on their investment decisions. The extensive nature of the information given would facilitate the shareholders in carrying out adequate analysis when making their decisions.

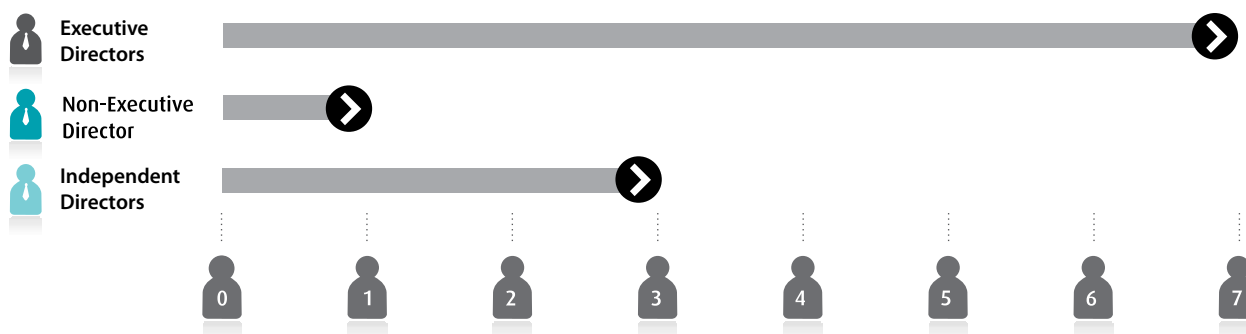
F.2 Shareholder Voting**Main Principle:**

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 should be encouraged to participate in General Meetings of companies and exercise their voting rights.	The shareholders are encouraged to participate at General Meetings and cast their votes. Instructions with regard to appointing a proxy and the manner in which a Proxy Form should be completed are available in the Proxy Form circulated with the Annual Report.

APPENDICES / ANNEX TO ENTERPRISE GOVERNANCE

Composition of the Board of Directors



Composition of the Board and Board Committees and Attendance at Meetings for 2011/12

Board Member	Date of Appointment to the Board		Board Position	Attendance	Audit Committee		Committee Members		Remuneration Committee	
	First	Re-election			Position	Attendance	Position	Attendance	Position	Attendance
A.R. Pandithage	June 1977	–	Chairman/MD/CEO	9/9	No	–	Member	1/1	No	–
R. Seevaratnam	January 2007	June 2010	Senior Independent Director	8/9	Chairman	7/7	Member	1/1	Member	3/3
Dr. H. Cabral	October 2006	June 2011	Independent Director	9/9	Member	7/7	Chairman	1/1	Member	3/3
Prof. U. Liyanage	October 2006	June 2009	Independent Director	9/9	Member	7/7	Member	1/1	Chairman	3/3
A.N. Algama	November 1984	June 2010	Executive Director	9/9	No	–	No	–	No	–
A.M. Pandithage	September 1982	June 2010	Non-Executive Director	9/9	Member	7/7	Member	1/1	Member	3/3
A.G. Pandithage	December 1995	June 2011	Director/Appointed CEO w.e.f. 1st April 2012	8/9	No	–	No	–	No	–
B.C.S.A.P. Gooneratne	April 2006	June 2011	Executive Director	9/9	No	–	No	–	No	–
R.C. Weerawardane	June 2002	June 2011	Executive Director	9/9	No	–	No	–	No	–
S.C. Algama	November 1984	June 2009	Executive Director	9/9	No	–	No	–	No	–
T.G.H. Peries	August 1977	June 2010	Executive Director	8/9	No	–	No	–	No	–

Dates of the Meetings

No.	Board Meeting	Audit Committee	Nomination Committee	Remuneration Committee
1.	4th April 2011	3rd May 2011	12th May 2011	12th May 2011
2.	12th May 2011	12th May 2011		20th May 2011
3.	20th May 2011	30th June 2011		17th June 2011
4.	30th June 2011	9th August 2011		
5.	9th August 2011	15th August 2011		
6.	27th October 2011	27th October 2011		
7.	16th November 2011	26th January 2012		
8.	13th February 2012			
9.	21st March 2012			

ANNEX TO ENTERPRISE GOVERNANCE / APPENDICES

Compliance with the Listing Rules —○

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 Director should submit a declaration of independence/non-independence.	Compliant	Non-Executive Directors have submitted the declaration in the prescribed format.
7.10.3.(a)	Disclosures relating to Directors	Names of Independent Directors should be disclosed in the Annual Report.	Compliant	Please refer page 232.
7.10.3.(b)	Independent Directors	The Board shall make a determination annually as to Independence or Non-Independence of each Non-Executive Director.	Compliant	The Board has carried out the determination as stated in the Enterprise Governance Report. Please refer pages 206 to 231 (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 page 235.
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 232.
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 144.

APPENDICES / ANNEX TO ENTERPRISE GOVERNANCE

Rule No.	Subject	Applicable Requirement	Compliance Status	Details
7.10.5.(c)	Disclosure in the Annual Report relating to Remuneration Committee	The Annual Report should set out:	Compliant	Please refer page 144.
		a. Names of Directors comprising the Remuneration Committee.		
		b. Statement of Remuneration Policy.	Compliant	Please refer the Remuneration Committee Report on page 144 for a brief statement of policy.
		c. Aggregate remuneration paid to Executive and Non-Executive Directors.	Compliant	Please refer page 184.
7.10.6	Audit Committee	A listed company shall have an Audit Committee.	Compliant	Names of the members of the Audit Committee are available on page 232.
7.10.6.(a)	Composition of Audit Committee	Shall comprise Non-Executive Directors, a majority of whom shall 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.
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 page 232.
		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 142 and 143.
		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 142 and 143.

BOARD OF DIRECTORS - PROFILES / APPENDICES

A.R. PANDITHAGE

Chairman/Managing Director

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. PANDITHAGE

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 and appointed as CEO w.e.f. 1st April 2012.

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 Examiner-University of Wales, University of Colombo and Sri Lanka Law College, Vice-President - BRIPASL (Business Recovery & Insolvency Practitioners' Association of SL). Member - Academic Board of Studies - The Institute of Chartered Accountants of Sri Lanka. Director Hayleys PLC, Union Bank PLC, Tokyo Cement PLC, Lanka Orix Finance PLC, Tokyo Super Lanka (Pvt) Ltd., Fugli Lanka (Pvt) Ltd., Tokyo Power Lanka (Pvt) Ltd., Richard Pieris Distributors Ltd., Commercial Leasing & Finance Ltd., Hambana Petrochemicals Ltd.

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. Non-Executive Director of Hunas Falls PLC.

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 PLC, Talawakelle Tea Estate PLC, Kuruwita Textile Mills PLC & Commercial Bank of Ceylon PLC, Richard Pieris & Co. PLC.

A.M. PANDITHAGE*

Appointed to the Board in September 1982. Chairman and Chief Executive Officer 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. Director of 123 companies under the Hayleys Group including the following listed companies, Dipped Products PLC, Haycarb PLC, Hayleys exports PLC, Hayleys PLC, Hayleys-Mgt Knitting Mills PLC, Hotel Services (Ceylon) PLC, Hunas Falls Hotels PLC, Kelani Valley Plantations PLC, Talawakelle Tea Estates PLC. He is also a Director of 11 Companies under the Delmege Forsyth Group.

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 Knitting Mills PLC, Hayleys Advantis Ltd., Shaw Wallace & Hedges PLC, Shaw Wallace Marketing PLC, Kelani Valley Plantations PLC, Lanka Aluminium Industries PLC, Metecno Lanka (Pvt) Ltd., Classic Teas (Pvt) Ltd., Green Farms (Pvt) Ltd., Nestlé Lanka PLC and Colombo Fort Land Investments PLC/Colombo Fort Land & Building Co. PLC, Omega Line Ltd.

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 Director **
*Independent Non-Executive Director ***

The Board of Directors' photographs: in the spirit of integration, these photographs have been randomly interspersed along with those of the Group Management Committee from pages 16 to 145 in this Annual Report.

APPENDICES / TEN YEAR SUMMARY

Year ended 31st March	2011/12 Rs. '000	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
Operating Results										
Group turnover	39,898,589	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
Profit before taxation	3,716,034	3,395,980	420,095	175,082	344,444	512,895	382,235	253,633	148,396	58,912
Taxation	(1,018,709)	(1,274,228)	(141,842)	(72,054)	(139,351)	(211,118)	(117,062)	(76,431)	(48,131)	(20,119)
Profit after taxation	2,697,325	2,121,752	278,253	103,028	205,093	301,777	265,173	177,202	100,265	38,793
Capital Employed										
Stated capital	425,297	182,500	182,500	182,500	182,500	—	—	—	—	—
Share capital	—	—	—	—	—	121,000	90,000	90,000	90,000	48,000
Share premium	—	—	—	—	—	61,500	37,500	37,500	37,500	19,500
Capital reserves	2,014,752	1,135,612	1,135,612	1,135,612	311,522	311,522	311,522	311,522	182,301	182,301
Revenue reserves	5,025,283	2,882,735	882,816	686,733	1,163,129	1,012,486	777,009	566,836	432,634	363,869
Shareholders' Funds	7,465,332	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
Total borrowings (including both long-term and short-term borrowing)	5,045,829	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
Capital Employed	12,511,161	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
Net Assets Employed										
Non-current assets	4,697,916	3,099,509	2,149,405	2,234,911	1,463,068	1,005,370	775,323	734,720	559,752	528,826
Current assets	10,796,702	7,839,972	3,389,023	3,028,263	4,368,090	4,193,262	3,794,288	2,460,687	1,692,349	1,197,756
Total liabilities (excluding borrowings)	(2,983,457)	(3,670,168)	(1,370,901)	(548,658)	(1,371,633)	(827,436)	(557,422)	(580,634)	(551,617)	(245,966)
Net Assets Employed	12,511,161	7,269,313	4,167,527	4,714,516	4,459,525	4,371,196	4,012,189	2,614,773	1,700,484	1,480,616
Cash Flows										
Net cash generated from/ (used in) operating activities	(2,430,074)	1,793,848	846,833	625,652	520,706	383,134	(990,433)	(587,299)	(39,915)	(153,014)
Net cash from/(used in) investing activities	(788,829)	(937,710)	(24,275)	1,918	(519,212)	(287,636)	(91,474)	(97,584)	(75,584)	(57,827)
Net cash from/(used in) financing activities	277,902	(377,658)	(295,885)	(416,861)	179,289	(49,458)	305,800	92,125	26,434	(17,488)
Net increase/(decrease) in cash & cash equivalents	(2,941,001)	478,480	526,673	210,709	180,783	46,040	(776,107)	(592,758)	(89,065)	(228,329)
Key Indicators										
Earnings per share (Rs.)	303.87	239.03	27.97	9.36	16.95	25.76	22.96	15.34	8.68	3.36
Net assets per share (Rs.)	841.03	473.26	252.92	230.39	136.95	124.50	121.60	100.59	82.49	102.28
Market value per share (Rs.)	982.20	1,484.70	394.25	60.25	88.75	120.00	138.50	103.00	53.00	50.00
Dividend per share (Rs.)	40.00	61.00	7.00	3.00	4.00	6.00	6.00	5.00	3.50	3.00
Dividends approved (Rs. '000)	244,102	443,822	34,810	26,107	48,400	72,600	60,000	50,000	31,500	18,000
Annual sales growth (%)	35.91	178.78	14.61	(27.58)	(2.33)	23.57	38.95	57.71	40.89	84.67
Equity to total assets ratio (%)	48.18	38.40	39.78	38.09	28.42	28.98	26.61	31.48	32.97	35.54
Dividend cover (No. of times)	7.60	4.00	3.11	2.34	4.02	3.88	3.99	3.18	3.29	1.28
Price earnings ratio (No. of times)	3.23	6.21	14.89	6.44	5.24	4.66	6.03	6.71	6.11	14.89
Current ratio (No. of times)	1.55	1.27	1.20	1.31	1.26	1.30	1.33	1.24	1.20	1.16
Turnover to capital employed (No. of times)	3.19	4.04	2.53	1.95	2.84	2.97	2.62	2.89	2.82	2.30
Interest Cover (No. of times)	15.64	17.35	2.20	1.31	1.67	2.11	2.43	2.73	2.54	1.53
Average No. of employees	1,179	942	867	869	866	820	714	627	613	595

SHARE INFORMATION / APPENDICES

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/Company Income Statements for the year ended 31st March 2012 and the audited Balance Sheets at that date will be submitted to the Colombo Stock Exchange within three months of the Balance Sheet date.

2. Shareholders

The number of shareholders as at 31st March 2012 was 1,865 (1,556 as at 31st March 2011).

Shareholder Distribution as at 31st March 2012

Number of Shares Held	No. of Share-holders	Residents		No. of Share-holders	Non-Residents		No. of Share-holders	Total	
		No. of Shares	%		No. of Shares	%		No. of Shares	%
1 - 1,000	1,532	198,239	2.23	28	7,932	0.09	1,560	206,171	2.32
1,001 - 10,000	234	625,420	7.04	3	8,341	0.09	237	633,761	7.13
10,001 - 100,000	51	1,406,739	15.85	2	44,594	0.51	53	1,451,333	16.36
100,001 - 1,000,000	14	5,392,466	60.75	—	—	0.00	14	5,392,466	60.75
1,000,001 and Over	1	1,192,706	13.44	—	—	0.00	1	1,192,706	13.44
Total	1,832	8,815,570	99.31	33	60,867	0.69	1,865	8,876,437	100.00

Over 95% of the shares issued is held by residents of Sri Lanka.

Categories of Shareholders	As at 31st March 2012			As at 31st March 2011		
	No. of Share-holders	No. of Shares	%	No. of Share-holders	No. of Shares	%
Individuals	1,758	5,886,444	66.32	1,428	6,363,057	73.12
Institutions	107	2,989,993	33.68	128	2,339,332	26.88
Total	1,865	8,876,437	100.00	1,556	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 2012 was Rs. 982.20 (Rs. 1,484.70 as at 31st March 2011).

APPENDICES / SHARE INFORMATION

4. Dividend Payments

	2012 Rs. '000	2012 Rs. '000
First Interim dividend - Rs. 5.00 per share	–	43,512
Second Interim dividend - Rs. 5.00 per share	–	43,512
Final dividend declared and paid	–	443,822
First Interim dividend - Rs. 5.00 per share	44,382	–
Second Interim dividend - Rs. 7.50 per share	66,573	–
Final dividend - Rs. 27.50 per share	244,102	–

5. Share Trading Information from 1st April 2011 to 31st March 2012

	2011/12		2010/11		2009/10		2008/09
Highest (Rs.)	1,780.00	(18th April 2011)	1,900.00	(15th Feb. 2011)	505.00	(26th Feb. 2010)	160.00 (30th June 2008)
Lowest (Rs.)	920.00	(23rd March 2012)	400.00	(7th May 2010)	60.00	(6th April 2009)	57.50 (7th Jan. 2009) (8th Jan. 2009)
Closing (Rs.)	982.20	(30th March 2012)	1,484.70	(31st March 2011)	424.75	(30th March 2010)	60.25 (26th March 2009)
No. of transactions	4,483		5,610		3,677		2,185
No. of shares traded	2,338,038		3,578,100		2,794,300		4,567,811*
Value of shares traded (Rs.)	3,367,918,063		3,479,167,355		582,666,450		677,869,260*
No. of days traded	228		228		201		163
No. of market days	240		238		240		239
Liquidity (%)	26.34		41.12		32.11		52.49
CSE All Share Price Index	5,420.20		7,226.12		3,724.59		1,638.06
Milanka Price Index	4,891.6		6,874.74		4,270.73		1,736.20
Motor Sector Index	20,420.0		26,787.33		8,838.38		3,250.90

* This includes the share repurchase of 3,397,611 shares.

6. Public Shareholding

As at 31st March	2012	2011	2010	2009
Number of Shares	3,931,310	4,239,990	3,769,203	3,949,028
%	44.29	48.72	43.31	45.38

7. History of Share Issues

Year	Issue	No. of Shares	Price (Rs.)
2011/12	Scrip (one share per every fifty shares held)	174,048	1,395.00
2006/07	Rights (one share per every ten shares held)	1,100,000	55.00
2006/07	Scrip (one share per every ten shares held)	1,000,000	Nil
2004/05	Scrip (one share per every nine shares held)	1,000,000	Nil
2003/04	Rights (one share per every two shares held)	3,000,000	20.00
2000/01	Scrip (one share per every four shares held)	1,200,000	Nil
1995/96	Scrip (one share per every three shares held)	1,200,000	Nil
1994/95	Scrip (one share per every five shares held)	600,000	Nil
1992/93	Rights (one share per every five shares held)	500,000	75.00
1991/92	Rights (one share per every three shares held)	500,000	30.00
1991/92	Scrip (one share per every four shares held)	500,000	Nil
1989/90	Rights (one share per every two shares held)	500,000	10.00
1987/88	Scrip (one share per every share held)	500,000	Nil
1980/81	Scrip (one share per every share held)	250,000	Nil

8. Changes in Shareholdings of Directors and Their Spouses during 2011/12

Name	Shareholding as at 31.03.12 %	As at 31.03.2012 Shares	Net Movement of Shares	As at 31.03.2011 Shares
A.R. Pandithage	21.63	1,919,735	37,640	1,882,095
A.N. Algama	2.41	213,739	(44,633)	258,372
S.C. Algama	6.47	574,779	175,645	399,134
A.G. Pandithage	6.43	570,862	11,192	559,670
A.M. Pandithage	2.52	224,172	4,394	219,778
T.G.H. Peries	2.81	249,134	4,884	244,250
	42.27	3,752,421	189,122	3,563,299

APPENDICES / SHARE INFORMATION

9. Top Twenty Shareholders

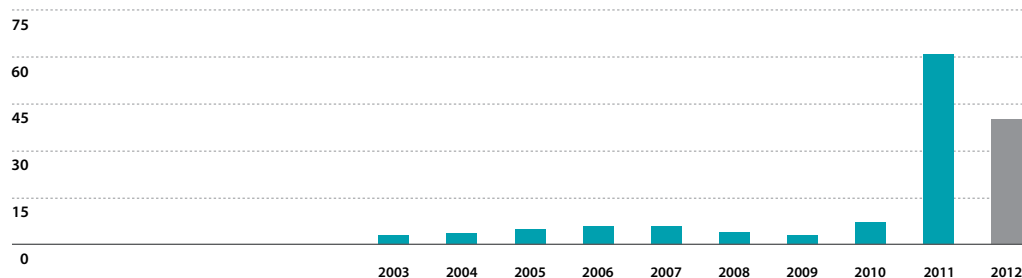
Name of Shareholder	As at 31st March 2012		As at 31st March 2011*	
	Shares	%	Shares	%
Employees' Provident Fund	1,192,706	13.44	899,100	10.33
Mr. A.R. Pandithage	991,233	11.17	971,798	11.17
Mrs. J.C. Pandithage	928,502	10.46	910,297	10.46
A & G Investments (Pvt) Ltd.	608,939	6.86	–	–
Mr. S.C. Algama	567,786	6.40	392,278	4.51
Mr. A.G. Pandithage	525,814	5.92	515,505	5.92
Sri Lanka Insurance Corporation Ltd. - Life Fund	315,466	3.55	–	–
Almar Trading Co. (Pvt) Ltd.	306,476	3.45	294,964	3.39
Mr. A.N. Algama	213,739	2.41	258,372	2.97
Mr. T.G.H. Peries	193,069	2.18	189,284	2.18
Mr. A.M. Pandithage	182,319	2.05	178,745	2.05
Dr. D. Jayantha	157,700	1.78	154,600	1.78
Miss. T.R.N.C. Peries	148,009	1.67	72,011	0.83
Mr. L.P. Algama	134,569	1.52	131,921	1.52
Estate of the Late Mr. N.U. Algama	118,845	1.34	116,515	1.34
Mr. M. Radhakrishnan	69,788	0.79	68,420	0.79
Almar International (Pvt) Ltd.	62,861	0.71	294,964	3.39
Employees' Trust Fund Board	58,494	0.66	119,700	1.38
Mrs. M.S. Peries	56,065	0.63	54,966	0.01
United Motors Lanka PLC	50,300	0.57	–	–
	6,882,680	77.56	5,623,440	64.02

* Comparative shareholdings as at 31st March 2011 of the twenty largest shareholders as at 31st March 2012.

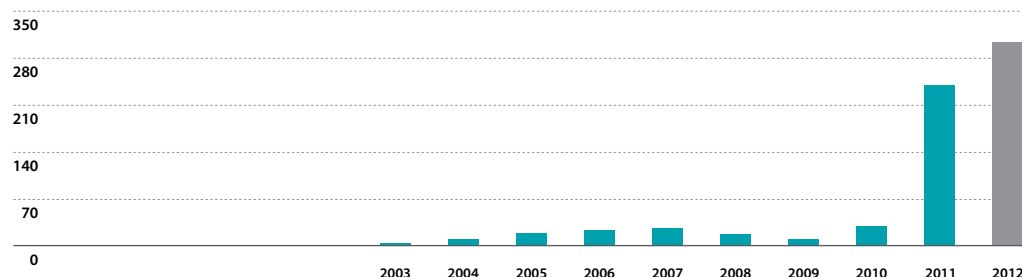
10. The Stated Capital represents 8,876,437 Ordinary Shares.

Dividends Per Share

(Rs.)

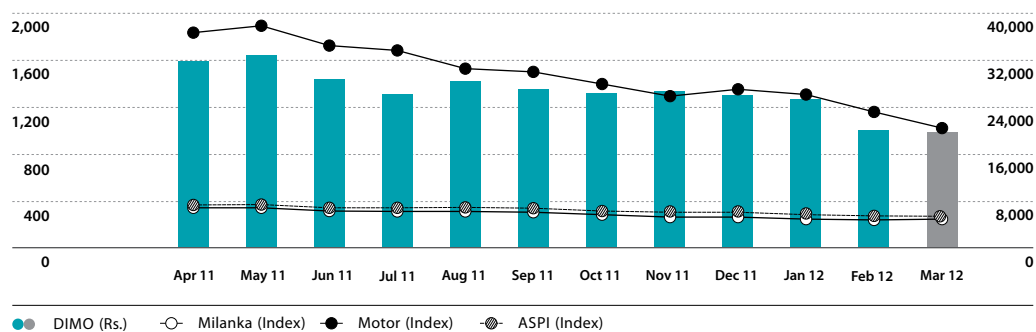
**Earnings Per Share**

(Rs.)

**All Share Price Index (ASPI), Milanka Price Index, Motor Sector Index Vs DIMO Share Price**

(Rs.)

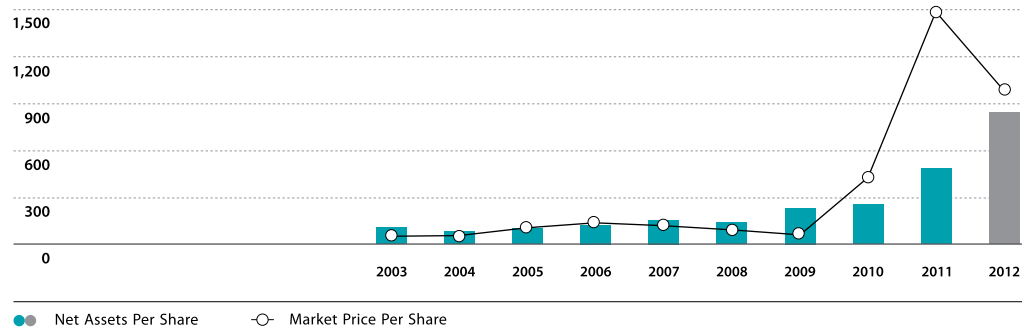
(Index)



APPENDICES / SHARE INFORMATION

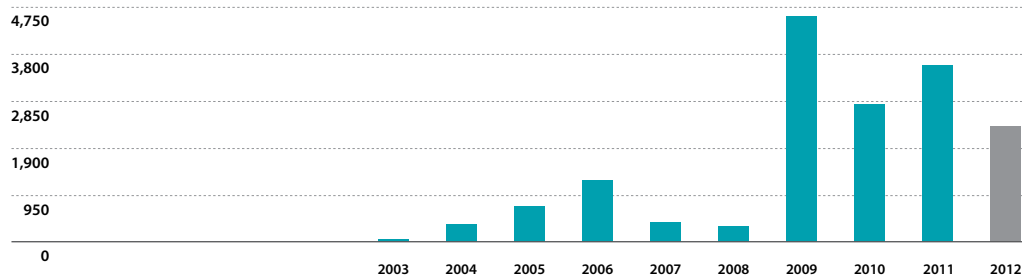
Net Assets Per Share vs Market Price Per Share

(Rs.)



Number of Shares Traded

(No. '000)



OUR HERITAGE / APPENDICES



Diesel & Motor Engineering PLC is best known as the 'Benz Company' in Sri Lanka. This nomenclature describes well the spirit of its undertaking a commitment to excellence. Dimeo which was established over seven decades ago, has through its commitment to continuous improvement and customer service 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 national, in 1939 when World War broke out, the business of Mr. Heller was acquired by the Government.

The same year, four youths Messrs Stephen Peries, Pandithage Don Alexander, Cyril Algama and Harold Algama employed at 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 Dimeo. The founding fathers of Dimeo were humble, ethical and down to earth people with humane 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 volumes expanded, the business diversified to sale of electrical parts, fittings for motor vehicles and engine parts etc.

The four youths began humbly, but had great ambition to excel. Their vision was to achieve the status of a world-class in the products and services offered. This 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 Dimeo 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.

APPENDICES / OUR HERITAGE

By 1949, Mr. Heller became an active partner of Dimo via Lohmann & Company Bremen Germany. In order to expand the activities, the business was relocated to Jethawana Road, from where it still operates. In 1952, a showroom, stores and workshop was opened for business.

The first notable achievement for Dimo 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-sub-sidiaries in the early 70s. Dimo Industries (Pvt) Ltd., was established to manufacture automobile parts, while Dimo (Pvt) Ltd., was for the sale and service of Power Systems, Power Engineering and Medical Equipment.

In 1986, the Hayleys Group acquired a stake in the equity capital making Dimo one of its associate Companies, 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 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 ten kilo metres 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 Weliwariya 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.











In 2011, the state-of-the-art Bosch Service Centre was commissioned. This workshop can accommodate 20 vehicles of all makes. With a majority of working bays being fitted with vehicle lifts and exhaust emission systems, the Bosch Service Centre is equipped with state-of-the-art diagnostic equipment and test equipment which is tailor-made for advanced and new generation, electronically controlled vehicles.

Dimo commenced the construction of the new Mercedes-Benz Sales and aftercare centre at Srimavo Bandarenaike, Mawatha Colombo 14. This will be in line with the Principals standards ensuring enhance customer service and will deliver the Mercedes-Benz experience. This centre will centralise sales, service and spare parts under one roof.

The Head Office is conveniently and spaciouly remains located in an area of approximately 10,000 sq. metres in a central commercial sector in Colombo. The complex houses the Company's administrative and sales offices, passenger car and automotive workshops with its showrooms. The Company continues to serve its expanding customer base by expanding its branch network in addition the to the Company's owned display points.

Since its modest beginning, the Company has grown in size as well as in scope, and presently has a workforce of over 1,300. 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.

APPENDICES / GROUP STRUCTURE

Name of the Company / Reg No. / Year of Incorporation / % Holding	Division	Segment	Products & Services	No. of Directors	Directors
★ DIESEL & MOTOR ENGINEERING PLC Inc. 1945 Reg. PQ 146	AUTOMOBILE	 Vehicles	Sales of brand new Passenger Vehicles Four Wheel Drive Vehicles Commercial Vehicles Special Purpose Vehicles and Pre-owned Passenger Vehicles		A.R. Pandithage (Chairman/MD) A.G. Pandithage (CEO) A.N. Algama S.C. Algama Dr. H. Cabral B.C.S.A.P. Gooneratne Prof. U.P. Liyanage A.M. Pandithage T.G.H. Peries R. Seevaratnam R.C. Weerawardane
		 Vehicle Parts & Services	Repair of Passenger & Commercial Vehicles Sale of Vehicle Spare Parts Accessories Components and Tyres & Retreaded Tyres		
		 Lighting & Power Tools	Sales of Power Tools & Accessories Lamps Lighting Fittings and Accessories		
		 Construction Agricultural & Material Handling Machinery	Sales & Service of Earth Moving Machinery Road Construction Machinery Forklifts, Material Handling Machinery Racking Systems Agri Machinery Pumps, Dock Levellers and Car Parking Systems		
★ DIMO TRAVELS (PVT) LTD. Inc. 1975 Reg. No. - PV1256	100%	TRAVELLING	 Provision of Transportation Facilities		A.R. Pandithage (Chairman) S.C. Algama M.V. Bandara E.D.C. Kodituwakku
★ DIMO (PVT) LTD. INC. 1980 Reg. No. - PV2317	100%	INDUSTRIAL SOLUTIONS	 Electro Mechanical & Bio Medical Engineering		A.R. Pandithage (Chairman) S.C. Algama (MD) R.H. Fernando B.C.S.A.P. Gooneratne A.G. Pandithage W. Pushpawela C. Ranawana R.C. Weerawardane
★ DIMO INDUSTRIES (PVT) LTD. Inc. 1979 Reg. No. - PV1260	100%		Operations of the Company were transferred to Diesel & Motor Engineering PLC w.e.f. 31st December 2010		A.R. Pandithage (Chairman) S.C. Algama A.C.G. Dias B.C.S.A.P. Gooneratne A.G. Pandithage R.C. Weerawardane

AWARDS / APPENDICES

Awarded Date	Award	Place	Year	Awarding Institute
July 2011	Top 50 Annual Reports in the Asia-Pacific Region	Ranking # 16	2010/11	League of American Communications Professionals
July 2011	Top 100 Annual Reports Worldwide	Ranking # 62	2010/11	League of American Communications Professionals
July 2011	For excellence within its industry on the Developments of the Annual Report	Platinum	2010/11	League of American Communications Professionals
July 2011	Most Engaging Annual Report - Asia Pacific Region	Gold	2010/11	League of American Communications Professionals
September 2011	Annual Report Design	Gold	2010/11	ARC Awards in New York
November 2011	Annual Report- up to 5 subsidiaries	Gold	2010/11	The Institute of Chartered Accountants of Sri Lanka
November 2011	Corporate Social Responsibility Reporting in the overall category	Gold	2010/11	The Institute of Chartered Accountants of Sri Lanka
November 2011	Overall Winner	Gold	2010/11	National Chamber of Commerce of Sri Lanka
November 2011	Extra Large Category Winner	Gold	2010/11	National Chamber of Commerce of Sri Lanka
November 2011	Diversified Group of Companies Sector Winner	Gold	2010/11	National Chamber of Commerce of Sri Lanka
November 2011	Excellence in Business & Financial Performance	Gold	2010/11	National Chamber of Commerce of Sri Lanka
November 2011	Best Performance Management Practices	Gold	2010/11	National Chamber of Commerce of Sri Lanka
November 2011	Special Project on Corporate Social Responsibility Award 2011	Certificate of Merit	2011	The Ceylon Chamber of Commerce
December 2011	Business Today Top 20	Ranking # 12	2010/11	Business Today
January 2012	Double Digit growth in Power Tools Award for Sri Lanka	Silver	2011	Robert Bosch GMBH-Germany
February 2012	ACCA Sustainability Reporting - Large Scale	Runner Up	2010/11	The Association of Chartered Certified Accountants
February 2012	Mercantile 'C' Division Cricket Championship	Runners-up	2012	Mercantile Cricket Association
February 2012	Sri Lanka Corporate Accountability Ratings	Platinum	2011	Sting Consultants and LMD
February 2012	KSB's All India dealer's conference (Under export category)	3rd	2011	KSB India

APPENDICES

COUNTRY REPORT



This section of the report is addressed especially to our international audience, with a view to providing them with an insight into Sri Lanka.

We will provide an overview of Sri Lanka’s physical features, demography and key economic indicators. We feature global economic trends during the year under review too, enabling us to bring the Sri Lankan economy into perspective.

Democratic Socialist Republic of Sri Lanka, known as Ceylon before 22nd May 1972, is positioned approximately 31 km off the Southern coast of India. Sri Lanka forms a strategic naval link between West Asia and South East Asia, as a result of it being located in the path of major sea routes.

Sri Lanka has been classified among top six destinations for international travelers in 2012 by National Geographic Traveler magazine, focusing on the island’s hill country, heritage sites and pristine beaches. A nation with a tropical weather, where the original soul of Buddhism still flourishes, its natural beauty is extant, abundant and undamaged.

Compared to South Asian region, Sri Lanka has had strong economic growth rates in recent years. Tea, rubber, coconut and apparel exports contribute substantially to the Country’s economy. Agricultural products show a marked increase in the export market. In addition to these economic sectors, overseas employment brings in sizeable foreign exchange earnings.

Physical Features

Total area	65,610 Sq. km.
Land area	62,705 Sq. km.
Capital	Sri Jayawardenapura
Commercial Capital	Colombo

Demographics

	2011	2010	2009	2008	2007
Mid-year population (Persons in mn)	20.87	20.65	20.5	20.2	20.0
Labour force (Persons in mn)	8.2	8.11	8.1	7.5	7.4
Labour force participation rate (%)	48.2	48.1	48.7	50.2	49.8
Unemployment rate (% of labour force)	4.2	4.9	5.8	5.2	6.0

Source - Central Bank of Sri Lanka Annual Report 2011

Unemployment rate dropped to its lowest 4.2%

The unemployment receded to its lowest level reaching 4.2% in 2011 from 4.9% in 2010. This commendable improvement was achieved by broad based economic growth, complemented by unprecedented infrastructure development projects during 2011/2012. Changes were observed in contribution to overall composite chart of employment among major industry groups in 2011. Accordingly, Agriculture and Industry sectors’ contribution to total employment increased in 2011, whilst that of the Service sector declined.

Indicators of Sri Lankan Social Infrastructure Development

		2011
Population & Vital Statistics		
Age Distribution (2011)		
0-14 Years		26.30%
15-64 Years		67.40%
65 years & over		6.30%
Population Density (2009)		333 persons per sq. km.
Infant Mortality Rate (2007)		8.5 per 1,000 live births
Dependency Ratio (2010)		48.40%
Human Development Index (2011)		0.691
Ranking Among 169 Countries		97
Literacy Rate (2010)		
Overall		91.90%
Male		93.20%
Female		90.80%

Sri Lankan Economic Performance**GDP continuously grew by 8.3%, recording the highest in Sri Lankan history**

The economy grew by 8.3 per cent in 2011, the highest in Sri Lanka's post independence history, sustaining a growth momentum of over 8 per cent for the first time in two consecutive years. Improved consumer and investor confidence arising from the peace dividend, favorable macro-economic conditions, increased capacity utilisation, expansion of infrastructure facilities and renewed economic activity in the Northern and the Eastern provinces underpinned this growth.

Single digit Inflation rate continued for third consecutive year

For the third consecutive year inflation was contained within single digit levels. The average inflation was 6.7%, while year-on-year inflation in December 2011 was 4.9%. Adverse weather conditions that disrupted domestic food supplies, pushed inflation upwards during the first few months of the year. However, this trend reversed from May with significant improvement in domestic food production and inflation was contained at mid single digit levels by year end.

Sectoral Composition and Increase in Gross Domestic Product (GDP)

	As a Share of GDP (%)				Rate of Change (%)		
	2011	2010	2009	2008	2011	2010	2009
Agriculture Sector	11.2	11.9	12.1	12.1	1.5	7.0	3.2
Industrial Sector	29.3	28.8	28.6	28.4	10.3	8.4	4.2
Services Sector	59.5	59.3	59.3	59.5	8.6	8.0	3.3
Gross Domestic Product (GDP)	100.0	100.0	100.0	100.0	8.3	8.0	3.5

APPENDICES / COUNTRY REPORT

Trade deficit Increased by 101.2% over last year

A substantial widening of the trade deficit was observed in 2011 reflecting a 50.7% increase in import expenditure outpacing a growth of 22.4% in export earnings. Consequently, the trade deficit increased by 101.2% to US\$ 9,710 mn from US\$ 4,825 mn in 2010. As a percentage of GDP, the trade deficit increased to 16.4% in 2011, from 9.7% in 2010.

Key Economic Indicators

	2011	2010	2009	2008	2007
GDP at Market Prices (Rs. bn)	6,543	5,602	4,769	4,312	3,540
GDP per capita (US\$)	2,836	2,400	2,057	2,014	1,617
GDP growth (%)	8.3	8.0	3.5	6.0	6.8
Colombo Consumers' Price Index (2006/07=100) Annual average	6.7	6.2	3.5	—	—
Colombo Consumers' Price Index (2006/07=100) Year on year-end period	4.9	6.8	5	—	—
Fiscal deficit (% of GDP)	-6.9	-8.0	-9.8	-7	-7.7
Current account balance (% of GDP)	-7.8	-2.2	-0.5	-9.3	-4.2

Upward movement in interest rate during the last quarter of 2011

In line with other interest rates, lending rates also remained broadly stable during the first three quarters of the year before moving upward in the last quarter of 2011. During the year, the weekly average weighted prime lending rate (AWPR), which is based on lending rates offered by the commercial banks to their most creditworthy customers, hovered within a range of 8.92 - 9.96 per cent until early November before increasing substantially to reach 10.77 per cent in the last week of the year. The increase in the weekly AWPR during the year was 148 basis points.

Interest Rates

	2011	2010	2009	2008	2007
(Percentage per annum at end-year)					
Treasury Bill rate -					
91 days	8.68	7.24	7.73	17.33	21.3
364 days	9.31	7.55	9.33	19.12	19.96
Commercial Banks -					
Weighted average - prime lending rate (AWPR)	10.49	9.27	11.12	18.5	17.95
Weighted average - deposit rate (AWDR)	7.24	6.23	8.01	11.63	10.31

Source - Central Bank of Sri Lanka Annual Report 2011

As the liquidity conditions tightened, the primary market yields on government securities increased towards the end of the year

Yield rates pertaining to Treasury bills in the primary market remained broadly stable at the auctions since the reduction in policy rates in January continuing up to end September 2011. However, rates began to increase since October 2011 with declining market liquidity. The yields on 91-day, 182-day and 364-day Treasury bills increased by 144 basis points, 136 basis points and 176 basis points, respectively, during the year. Yield rates on Treasury bonds in the primary market ranged from 7.77 per cent on 2-year bonds to 9.30 per cent at the long end, i.e., on 15-year bonds.

The price indices of the Colombo Stock Exchange (CSE) fell during 2011

The All Share Price Index (ASPI) and the sensitive Milanka Price Index (MPI) dropped by 9 per cent and 26 percent, respectively, by end 2011. Equity prices rose to an all-time high in mid-February 2011 and moved downward thereafter, due to restrictions on credit extended by brokers, continued net foreign outflows, a liquidity drain on account of several Initial Public Offerings (IPOs), Rights Issues (RIs) and Private Placements as well as the impact of the global financial markets. The decline in the price indices resulted in a market correction following the upsurge in prices since mid-2009. The price indices of the majority of sectors declined in 2011. Consequently, the market price to earnings ratio (PER) of the CSE declined from 25 at end 2010 to 16 at end December 2011.

Capital Markets

	2011	2010	2009	2008	2007
All Share Price Index	6,074.4	6,635.9	3,385.60	1,503	2,541
Sensitive Price Index	5,229.2	7,061.5	3,849.40	1,631.30	3,291.90
Value of shares traded (Rs. bn)	546.26	570.3	142.5	101.4	105.0
Market Capitalisation (Rs. bn)	2,213.9	2,210.5	1,092.10	488.8	820.7
Market Capitalisation (% of GDP)	33.8	39.4	23	11	23

Source: Central Bank of Sri Lanka Annual Report 2011

The rupee depreciated against the US dollar in 2011

The Sri Lanka rupee appreciated slightly against the US Dollar during the first ten months of the year with the inflow of funds. However, during the last two months of the year, the pressure on the exchange rate increased on account of the foreign exchange outflows mainly arising from the import of petroleum at high prices that prevailed in international markets which resulted in a depreciation of the rupee. Overall, the rupee depreciated during the year against the US dollar to Rs. 113.90 recording a 2.6 per cent depreciation from Rs. 110.95 at end 2010. The rupee appreciated against the euro and the Indian rupee by 0.1 per cent and 15 per cent, respectively. However, the Sri Lanka rupee depreciated against the Sterling pound and the Japanese yen by 2.3 per cent and 7.2 per cent, respectively.

Exchange Rates

As at 31st March	2012	2011	2010	2009	2008	2007
Annual average Rs./US\$	–	110.57	113.06	114.94	108.33	110.62
End-year Rs./US\$	128.18	113.90	110.95	114.38	113.14	108.72

Source: Central Bank of Sri Lanka

Significant Changes

Changes to Tax Law Applicable to the year 2012/2013

- Economic Service Charge (ESC) is payable only on the turnover of a business, the profits for any year of assessment of which are not liable to income tax due to the application of any tax exemption or incurring losses during that period. The threshold of ESC will be expanded from Rs. 25 mn to Rs. 50 mn per quarter.

APPENDICES / COUNTRY REPORT

Forecasts For 2012**The Central Bank of Sri Lanka has the following forecasts in terms of outlook for 2012**

- The Sri Lankan economy is projected to grow at a slower rate of 7.2 per cent in 2012 compared to the impressive growth rate of 8.3 per cent recorded in 2011. The original growth projection for 2012 was revised downward from 8.0 percent to 7.2 per cent, considering the likely impact of the developments in the domestic and global environment and the policy measures that were taken in early 2012 to curtail aggregate demand and strengthen the external sector. The increase in policy interest rates, the limiting of domestic credit expansion and the raising of domestic fuel prices are likely to slow down the country's economic activity. The recent depreciation of the exchange rate is expected to curtail imports, but the expected increase in export competitiveness is likely to contain the impact of reducing external demand originating from the turbulent conditions in trading partner economies. Further, the high international energy prices, particularly of petroleum, the sluggish recovery of the global economy and weakening investor sentiments on a global scale too have been factored into the downward revision of the growth forecast for 2012.
- Trade in services is expected to generate increasing surpluses supported by the booming tourism industry and transportation including port and airport related activities. Workers' remittances, which are estimated to grow substantially in 2012, are expected to moderate its growth in the medium term, in line with expanding domestic economic activities. With the tight domestic labour market conditions, migration for foreign employment is expected to decline gradually resulting in a deceleration of workers' remittances in 2013 and beyond, in contrast to the substantially high growth rates recorded since 2009.

GLOSSARY / APPENDICES

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.

Air Emissions

Releasing of pollutants into the atmosphere from stationary sources (such as factory chimneys) and vehicles.

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.

Biodiversity

The degree of variation of life forms within a given species, ecosystem, biome, or an entire planet.

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.

Carbon Dioxide (CO₂)

A heavy, atmospheric gas that does not support combustion.

Carbon Footprint

A measure of the impact human activities have on the environment in terms of the amount of green house gases produced, measured in units of carbon dioxide.

Carbon Offset

A way of counteracting the carbon emitted when the use of fossil fuel causes greenhouse gas emissions. Offsets commonly involve investing in projects such as renewable energy, tree planting and energy efficient projects.

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.

Corporate Governance

The process by which cooperates are governed. It is concerned how power is exercised over management, the direction of the entity, supervision of executive action and accountabilities to share holders and others.

Current Ratio

Current assets divided by current liabilities.

Debt/Equity Ratio

Ratio between long-term interest bearing borrowings and shareholders' equity.

Deferred Taxation

The net effect on items which have been included in the Income Statements, which would only qualify for inclusion on a tax return at a future date.

Dividend Cover

Profit attributable to ordinary shareholders divided by dividend. This measures the number of times dividend is covered by distributable profit.

Dividend Pay Out Ratio

The percentage of earnings paid to shareholders in dividends.

Dividend 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.

EBIT

Earnings before interest and tax.

EBITDA

Earnings before interest, taxes, depreciation and amortisation.

Economic Value Added (EVA)

A measure of productivity which takes into consideration cost of total invested equity.

Effective Rate of Tax

Provision for tax excluding deferred tax, divided by net profit before tax.

Energy/Water Conservation

Practices and strategies that are designed to minimise the amount of energy and water used.

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.

Equal Pay

A concept that states that individuals doing the same work should receive the same remuneration regardless of their sex, race, sexuality, nationality or anything else. Example of practical application: inquire at facility about outstanding union grievances.

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.

Fair Value

The amount for which an asset could be exchanged or liability settled between knowledgeable willing parties in an arms length transactions.

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.

Guarantees

Three party agreement involving promise by one party, the Guarantor to fulfil the obligation of a person owing debt if that person failed to perform.

Gearing

Long-term interest bearing borrowings to equity.

General Reserve

Reserves available for distributions and investment.

Greenhouse Gas

A gas which contributes to the greenhouse effect by absorbing solar radiation. These gases include, but are not limited to, carbon dioxide, ozone, methane, and chlorofluorocarbons.

Gross Domestic Product - GDP

The value of all goods and services produced domestically in an economy during a specified period, usually a year. Nominal GDP, adjusted for inflation, gives GDP in real terms.

Gross Dividend

The portion of profit including tax withheld, distributed to shareholders.

Gross Profit Ratio

The percentage of gross profit to net turnover.

Human Rights

The basic rights and freedoms to which all humans are entitled regardless of race, nationality, or membership of any particular social group.

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 traded 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.

APPENDICES / GLOSSARY

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.

Noise Emission

Machine-created environmental noise that disrupts the activity or balance of human or animal life.

Price Earning Ratio

Market price of a share divided by earnings per share as reported at that date.

Recycling

The collection of waste materials and reprocessing them into new materials or products.

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.

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.

Sustainability

Meeting the needs of the present without compromising the ability of future generations to meet their own needs.

Stakeholder

Stakeholder is the term referring to persons or group whose interests are interlined with those of a company in a variety of ways.

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.

United Nations Global Compact

A strategic policy initiative for business that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human right, labour, environment and anti-corruption.

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

APPENDICES



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 2011 -12 (the report) in its printed format against the Global Reporting Initiative (GRI) 2006 Sustainability Reporting Guidelines Version 3.1 (G3.1) 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 coresponsibility 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 2011 - 12. 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 April 2012.

Scope, boundary and limitations of Assurance

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

- The content of the 2011 - 12 Sustainability report i.e. Review of the policies, initiatives, practices and performance described in the Integrated Report;
- Evaluation of the AccountAbility principles and specified information, described below, for a Type 2, moderate level of assurance, in accordance with the requirements of AA1000AS (2008) detailed below:
 - Information related to company's sustainability issues, responses, performance data, case studies and underlying systems for the management of such information and data;
 - Information relating to company's materiality assessment and stakeholder engagement processes;
- Confirm that the Report meets the requirements of the GRI G3.1 for an Application Level A+, as declared by Diesel & Motor Engineering PLC.

The reporting boundary is as set out in the Report, i.e. it covers all business units under Diesel & Motor Engineering PLC; no limitations on the scope of the assurance engagement were encountered during the verification process.

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,

¹ www.dnv.com/cr

APPENDICES / INDEPENDENT ASSURANCE STATEMENT ON THE NON-FINANCIAL REPORTING



- Adherence to the additional principles of *Completeness* and *Neutrality* as set out in DNV's Protocol, and
- The principles and requirements of the GRI G3.1 for an application level A+.

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:

- 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. 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;

INDEPENDENT ASSURANCE STATEMENT ON THE NON-FINANCIAL REPORTING / APPENDICES



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 2011 - 2012, 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

Karthik Ramaswamy

Lead Verifier

Senior Assessor - Sustainability & Business Excellence Services
Det Norske Veritas AS, India

Antonio Astone

Global Manager, CR Services
Det Norske Veritas AS,
Centro Direzionale Colleoni Palazzo
Sirio 2, Italy.

Chennai, 17th May, 2012.



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● Fully Reported

■ Partially Reported

The complete GRI G3.1 Index with core and additional indicators as well as the ten principles of the Global Compact can be found at www.dimolanka.com/sustainability

GRI APPLICATION LEVEL CHECK / APPENDICES



Statement GRI Application Level Check

GRI hereby states that **Diesel & Motor Engineering PLC** has presented its report "Dimo Intergrated Annual Report 2011-12" to GRI's Report Services which have concluded that the report fulfills the requirement of Application Level A+.

GRI Application Levels communicate the extent to which the content of the G3.1 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3.1 Guidelines.

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

Amsterdam, 29 May 2012

A handwritten signature in blue ink, appearing to read "Nelmara Arbex".

Nelmara Arbex
Deputy Chief Executive
Global Reporting Initiative



The "+" has been added to this Application Level because **Diesel & Motor Engineering PLC** has submitted (part of) this report for external assurance. GRI accepts the reporter's own criteria for choosing the relevant assurance provider.

The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The GRI Guidelines set out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance.
www.globalreporting.org

Disclaimer: Where the relevant sustainability reporting includes external links, including to audio visual material, this statement only concerns material submitted to GRI at the time of the Check on 24 May 2012. GRI explicitly excludes the statement being applied to any later changes to such material.

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NOTICE OF MEETING / APPENDICES

NOTICE IS HEREBY GIVEN that the Sixty-Seventh Annual General Meeting of Diesel & Motor Engineering PLC will be held at the Registered Office of the Company, No. 65, Jetawana Road, Colombo 14, on Friday, 29th June 2012 at 10.00 a.m. and the business to be brought before the meeting will be:

Agenda

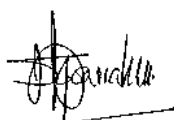
1. To consider and adopt the Report of the Directors and the Statement of Accounts for the year ended 31st March 2012, with the Report of the Auditors thereon.
2. To re-elect Mr. A.N. Algama, who retires by rotation in terms of Article 66 of the Articles of Association as a Director of the Company.*
3. To re-elect Mr. S.C. Algama, who retires by rotation in terms of Article 66 of the Articles of Association as a Director of the Company.*
4. To re-elect Prof. U.P. Liyanage, 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. A.M. Pandithage, who retires by rotation in terms of Article 66 of the Articles of Association as a Director of the Company.*
6. To reappoint Messrs KPMG 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 page 235 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



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

Colombo
30th May 2012

FORM OF PROXY

I/We,
of
being a member/members of DIESEL & MOTOR ENGINEERING PLC hereby appoint:

1. of
.....
Holder of NIC No. or failing him/them.

2. ASOKA RANJITH PANDITHAGE (Chairman of the Company) of Colombo or, failing him, one of the Directors of the Company as my/our proxy to vote as indicated hereunder for me/us and on my/our behalf at the Sixty-Seventh Annual General Meeting of the Company to be held on Friday, 29th June 2012 and at every poll which may be taken in consequence of the aforesaid meeting and at any adjournment thereof.

	For	Against
1. To consider and adopt the Report of the Directors and the Statement of Accounts for the year ended 31st March 2012, with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect Mr. A.N. Algama, who retires by rotation at the Annual General Meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr. S.C. Algama, who retires by rotation at the Annual General Meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-elect Prof. U.P. Liyanage who retires by rotation at the Annual General Meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-elect Mr. A.M. Pandithage who retires by rotation at the Annual General Meeting, a Director.	<input type="checkbox"/>	<input type="checkbox"/>
6. To reappoint Messrs KPMG as Auditors and authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
7. To authorise the Directors to determine contributions to charities.	<input type="checkbox"/>	<input type="checkbox"/>

The proxy may vote as he/she thinks fit on any other resolution brought before the meeting.

Dated this day of 2012.

Witness:

.....

.....

.....
Signature of Shareholder

1. A proxy need not be a member of the Company.
2. Instructions to fill the Form of Proxy (please see overleaf).

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.

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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: +94-11-2449797,
+94-11-2338883
www.dimolanka.com
E-mail: dimo@dimolanka.com
Facsimile: +94-11-2449080

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

PQ 146

Founded

1939

Accounting Year End

31st March

Tax Payer Identification Number (TIN)

104002498

Stock Exchange Listing

The ordinary shares of the Company are listed with the Colombo Stock Exchange of Sri Lanka.

Auditors

KPMG
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

Bank of Ceylon
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



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