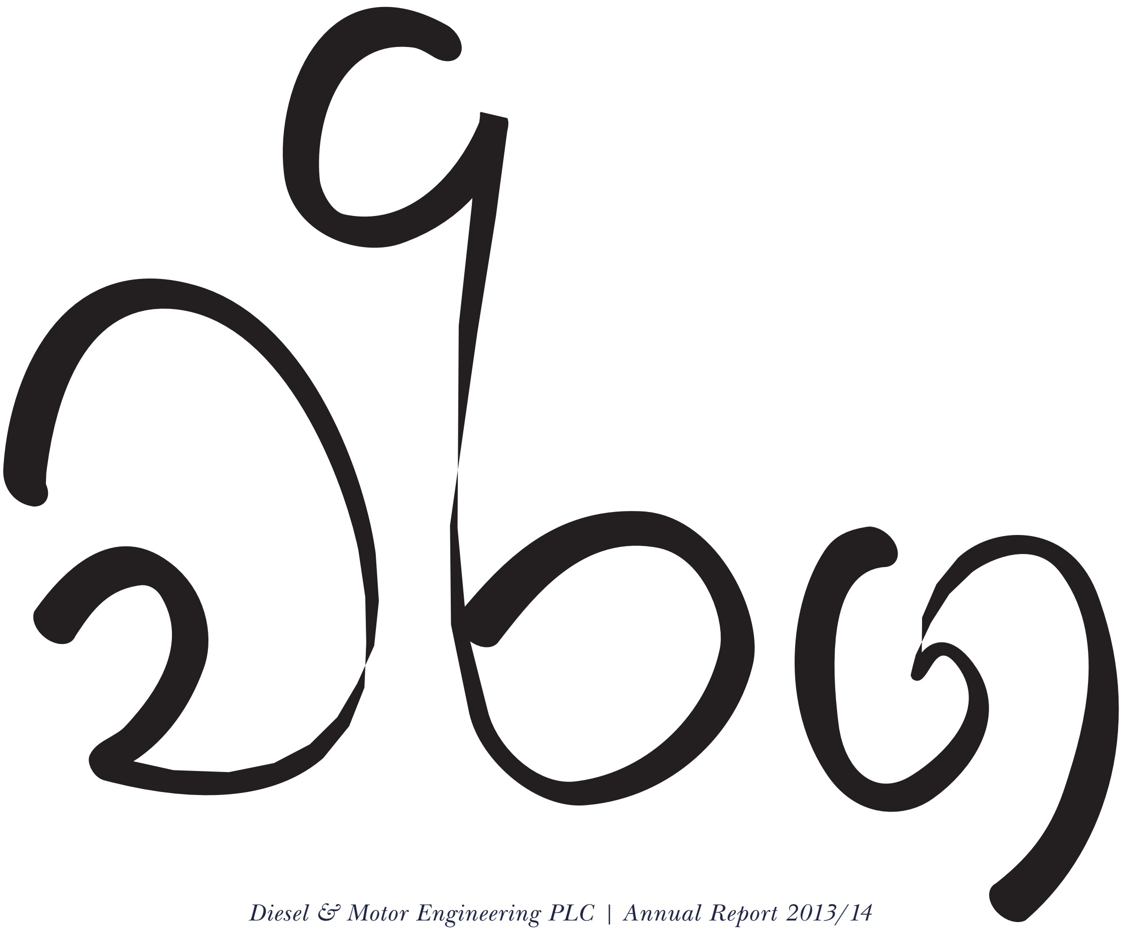

Diesel & Motor Engineering PLC | Annual Report 2013/14

dimo

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The cover of this integrated report features the word *Varige* (tribe) in Sinhala calligraphy, die-cut and embedded with ola leaf. Ola leaf manuscripts created from Palmyra or Talipot palm leaves were among the first materials used to record and share a wealth of learning on diverse subjects from religion and culture to economics, technology and art.

At DIMO we are proud of our deeply embedded 'tribal' culture - the source of our shared beliefs and common experience where knowledge is pooled and ongoing learning is inclusive, evolutionary and continuous.

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Var · ri · ga

Variga is a Sinhala word meaning tribe or clan - a group defined mainly on the basis of familial lineage. It is an old Sinhala expression that describes a community bound by kinship and strong bonds to its origins.

At DIMO we take pride in the fact that for seventy five exciting years, we have served our many stakeholders across the island and beyond with the same world-class quality and value that we offer today; an enduring testament to the strength of our heritage, the vision of our leadership and the passion of our people - the DIMO tribe.

வ - ரி - க

குடும்ப சங்கிலியின் அடிப்படையில் மனித வர்க்க கூட்டத்தினை குறிப்பிட பயன்படும் சிங்களச் சொல். தமிழில் குலம் அல்லது கோத்திரம் என அழைக்கப்படும்.

www.dimolanka.com

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Form of proxy enclosed

Online references:

The HTML version of the entire Annual Report 2013/14 can be read at www.dimolanka.com/annual-report-html/

The Chairman's statement can be viewed at www.dimolanka.com/investors/financial-reports/chairman-statement

The Sustainability performance 2013/14 can be read at www.dimolanka.com/sustainability/sustainability-performance

Corporate Governance Disclosures can be read at www.dimolanka.com/investors/stewardship

About us

Diesel & Motor Engineering PLC is a publicly held company listed on the Colombo Stock Exchange, with business interests in a range of major industry segments.

The company has grown organically to become the solid yet diversified conglomerate it is today. Our portfolio now includes classic automobile brand names - Mercedes, Chrysler and Jeep and TATA while Bosch, MTU, Komatsu, Siemens, Michelin, Osram and Mahindra & Mahindra are each leaders in their respective segments and partnerships we have cherished for many years.

Over the past few decades we have entered several diverse industry sectors as part of our quest to build our company into an engine of value creation, serving thousands of stakeholders across the island. Today DIMO is truly a global yet local company, with a history of seventy-five eventful years, marked by many significant milestones, one of which was our recent award for Best Corporate Citizen 2013.

While a spirit of teamwork has contributed much to our success, we believe that our deeply embedded 'tribal' culture has powerfully engaged every member of our corporate family, reflecting in the vision of our leadership, the loyalty of our stakeholders and the passion of our people - the DIMO tribe.

Our aspiration

To be the corporate role model that inspires and touches the life of every Sri Lankan, every day.

Our purpose

To create value responsibly.

Our values

Responsible: To be a responsible corporate citizen.
To act with responsibility towards all our stakeholders and the environment.
Righteous: To stand for righteousness with resolve.
Responsive: To be approachable and responsive to every stakeholder we serve.
Reliable: To be reliable and trustworthy, whatever we undertake to do.
Respectful: To always treat people with dignity and respect.
Resilient: To be resilient in adversity.

Traditionally, the town crier or *'Anda bera kararaya'* would travel
from village to village to announce the local news.

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Introductory statements prefacing
our fourth integrated annual report

Highlights of the Year 2013-14

A summary of our key performance indicators
for the year under review

44.34
EPS (Rs.)

88%
Customer satisfaction index

10
Dividend per share (Rs.)

61.1%
Employee satisfaction index

Aspect	Key Performance Area	Measure	2013/14	2012/13	2011/12	2010/11	2009/10
Monetised Capital	Shareholder return	Market capitalisation (Rs. Mn)	4,483	4,483	8,718	12,920	3,696
		Return on equity (%)	5.06	6.03	36.13	50.51	11.20
		Earnings per share (Rs.)	44.34	51.16	303.87	239.03	27.97
		Price earnings ratio (times)	11.39	9.87	3.20	6.20	15.20
		Dividend per share (Rs.)	10.00	10.00	40.00	61.00	7.00
		Shareholders' funds (Rs. mn) - at the year end	7,917	7,631	7,465	4,201	2,200
Customer	Customer convenience	No. of customer interaction points	60	52	40	25	19
	Customer satisfaction	Average customer satisfaction index (%)	85.8	85.50	89.20	85.60	82.60
Employee	Employee satisfaction	Employee turnover ratio (%)	17.1	21.81	21.10	19.30	14.20
		No. of employees in service for over 5 years	487	489	428	386	372
	Employee satisfaction	Employee satisfaction index (%)	61.10	53.46	62.70	54.00	54.00
	Employee knowledge and skills development	Total no. of training hours	19,895	24,336	18,106	11,107	8,936

77
No. of principals

43.3
Community development investments (Rs. Mn)

5,768
Total carbon footprint (Tons)

3,245
Tax paid to Government (Rs. Mn)

Aspect	Key Performance Area	Measure	2013/14	2012/13	2011/12	2010/11	2009/10
Business Partner	Relationship with principals	No. of principals	77	81	78	72	63
		Length of the longest relationship (years)	75	74	73	72	71
Society	Investing in community	Community development investments (Rs. mn)	43.3	50.8	51.1	30.0	5.9
		Community investments as percentage of turnover (%)	0.21	0.19	0.14	0.10	0.10
	Development of youth	No. of vocational trainees enrolled	255	154	168	148	N/A
Environment	Combating climate change	Total carbon footprint (Tons)	5,768	6,312	6,779	3,192	2,604
		Carbon footprint tCO_2 e per Rs. 1 mn of Group net turnover	0.2773	0.2218	0.1674	0.1064	0.2472
Value Creation Activities	Financial value shared with the government	Tax paid to Government (Rs. mn)	3,245	2,972	6,062	5,571	1,520
	Portfolio diversification	Non-auto segment turnover as a percentage of total turnover	26.59	17.00	12.40	19.47	35.16

Welcome to our fourth integrated annual report

Here we describe the context and framework of our reporting.

This is the Company's fourth integrated report. This report is organized around DIMO's value creation model. The capitals that provide the inputs, and the value creating activities that result in outputs and outcomes are two key components of it. Good governance and risk management underpins the strategy driven value creation process.

DIMO's value creation model aims to create value whilst balancing the Company's responsibilities to its diverse stakeholders, including its shareholders, and the environment. How the company achieved this over the past financial year is discussed comprehensively through the different sections of this report.

The financial statements of the Company up to and as at 31st March 2014 were prepared in accordance with the Sri Lanka Accounting Standards which were in effect up to that date.

The Company is in compliance with the laws and regulations of the Companies Act No. 7 of 2007 and the subsequent amendments, and the Listing Rules of the Colombo Stock Exchange (CSE). The 2013 version of the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and the Securities and Exchange Commission of Sri Lanka (SEC) have been followed. Details of compliance with this code is provided in the corporate website www.dimolanka.com.

The Company is one of the 107 companies that participate in the pilot program for development of the international framework on Integrated Reporting by the International Integrated Reporting Council (IIRC). This framework has been applied to this, the Group's fourth integrated report for 2013/14.

The report also contains the GRI G4 key performance indicators required by the Sustainability Reporting Guidelines of the Global Reporting Initiative (GRI), released in May 2013. A soft copy of this annual report, the GRI content index and key information relating to sustainability are available on the Company website. This information relating to sustainability is prepared "In accordance" - comprehensive disclosures based on GRI G4 guidelines.

The Greenhouse Gas Protocol Corporate Standard has been used to measure and report on the company's carbon footprint.

This report also acts as a Communication on Progress (COP) for the United Nations Global Compact.

The information content of the report covers the economic, social and environmental impacts resulting from the value creation activities of the Company and its subsidiaries operating across the island, and includes a reasonable assessment of potential impacts. This report also contains the objectives set by the Sustainability Committee, which are formulated based on material aspects identified. The test of materiality embedded in our processes has ensured that we report on all material issues relating to sustainability with regard to aspects internal and external to the organization within the sphere of influence of the Company. The DIMO stakeholder identification process ensures stakeholder inclusiveness. The Group Management Committee (GMC) has approved all the information and data relating to sustainability objectives that are contained in this report.

This Annual Report relates to the activities of Diesel and Motor Engineering PLC and its subsidiaries, collectively referred to as the DIMO Group, spanning a 12-month period ending 31st March 2014. There have been no changes in reporting scope and/or boundaries from the previous year. Non-financial information in this report pertaining to the previous year has not been restated, unless otherwise stated. The non-financial information contained in this report was audited by DNV Business Assurance Lanka (Pvt) Ltd according to the AA1000 Assurance Standard.

The Independent Auditor's opinion on the Financial Statements is available on page 113.

Grit to greatness

A historical overview of DIMO's seventy five exciting years of success.

In 1939, four young men - Stephen Peries, Pandithage Don Alexander, Cyril Algama and Harold Algama launched their own workshop in rented premises off Prince of Wales Avenue, Panchikawatte. It was from this tiny company that the massive conglomerate of Diesel & Motor Engineering PLC or DIMO, originated.

Notwithstanding their youth, the four young men had big dreams. Their vision was not just local but global, with ambitions to deliver world-class products and services to every customer they served. This idea of excellence above all remains our core principle to this day, while management of the company has remained for the most part in the hands of the founding families.

DIMO's original business was in making gaskets and turning out parts - a very lucrative enterprise due to the high demand for such items during the war years. As volumes expanded, the little business grew and diversified, moving into the sale of electrical parts and fittings for motor vehicles. In 1945 DIMO was incorporated as a private, limited liability company.

In 1949, DIMO went into partnership with Mr. F. K. Heller, a representative of a German company, Lohmann & Company. Mr Heller had launched Heller and Company in Sri Lanka in 1932, with the distributorship of several great German brands - Mercedes Benz, Bosch and Siemens. When World War 2 broke out, Heller & Company was acquired by the Government of British Ceylon. When the war ended Mr. Heller was released and subsequently became a prominent industrialist in Germany. His active partnership with the DIMO Group led to a significant expansion of the business. By 1952 a showroom, stores and workshop were all open for business.

Today we are the oldest sole distributor for Mercedes Benz passenger and commercial vehicles in the entire Asian region.

In 1964, DIMO became a publicly quoted company, listing with the Colombo Brokers' Association. From that moment on, DIMO has grown on a trajectory that has been both steady and organic, diversifying into a score of related business enterprises while remaining true to our core expertise in automobile and heavy-vehicle sales and services. Our portfolio now includes classic automobile brand names - Mercedes, Chrysler, Jeep and TATA while Bosch, MTU, Komatsu, Siemens, Michelin, Osram and Mahindra & Mahindra. Mahindra are each leaders in their respective segments.

The Company now manages after sales and service activities for commercial vehicles, construction machinery and power systems from our state of the art workshop in Biyagama, while logistics are managed from Weliweriya in Gampaha. A regional and expanding network of showrooms and branches bring ease of access to customers from the remotest parts of the island.

To support our powerful brand portfolio, we also offer cutting edge technology and services through the Bosch Service Centre in Colombo - a professionally managed workshop where qualified personnel repair and service virtually any model of new generation vehicle.

In 2014 DIMO added another outstanding jewel to our crown of achievements when we formally declared open our state of the art Mercedes-Benz Sales & Aftercare Centre on Sirimavo Bandaranaike Mawatha, Colombo 14. This showroom and service centre is designed to showcase the Mercedes Benz Experience; a contemporary and sophisticated multi-purposed space reflecting the timeless elegance and classic style of the Mercedes Benz brand.

Developing local expertise has always been a priority for DIMO. In 1990 we launched our first automobile training school offering a two-year comprehensive auto-engineering course designed by Mercedes-Benz.

Post-war, we opened a second automobile training school in Jaffna, to serve a region that has been denied access to quality technical training for over 30 years.

Today DIMO is truly a global yet local company, one that has always reflected the enduring spirit of Sri Lanka through the many challenges we have overcome on our seventy-five year journey to this moment of success. We know that our deeply embedded 'tribal' culture has played its part in all that we have achieved. It remains the source of our shared beliefs and common experience where knowledge is pooled and ongoing learning is inclusive, evolutionary and continuous. Today we are justifiably proud of our carefully honed business model that guarantees thousands of stakeholders the promise of rising value, through the excellence of our products and processes and the passion of our people - the DIMO tribe.

The village council or *'gam sabaawa'* would meet to discuss the management of village affairs, resolve issues and develop strategies for the future.

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Statements and reviews
by the Executive Management

Shared efforts, shared success: the strength of the DIMO tribe.

A message from the Chairman and Managing Director, Mr A.R. Pandithage

"...at DIMO we build value in multiple ways. Our 75th year was another year of building sustainable value for the company, stakeholders and the environment."

Nostalgic about past, excited about the future

In our 75th year of conducting business, we are excited for the future and nostalgic about the past. From humble beginnings DIMO has evolved over the decades to become one of the most innovative business houses in the country.

Automobiles remain to be our core business. The global automobile market grew by 3% in 2013 and for the first time global automobile sales exceeded 82 million units. Sales grew in China and the United States but continued to decline in Europe. The IMF reported a 3% growth in the global economy for the last year. The forecast for this year is 3.6% and 3.9% for 2015.

Sri Lanka recorded some impressive economic indicators, but the automobile sector showed a decline. However, DIMO's non-automobile segments delivered an improved performance and this made our profit before tax improve by 4.7%, compared to the previous year. A higher tax charge made the after tax profit reduce by 13%. By our standards this was a modest performance in a turbulent and challenging environment. The Board has decided to pay a first and final dividend of Rs. 10 per share.

At DIMO we build value in multiple ways. Our 75th year was another year of building sustainable value for the company, stakeholders and the environment.

THREE KEY RELATIONSHIPS DEFINE BUSINESS AT DIMO: OUR RELATIONSHIP WITH THE CUSTOMERS; OUR RELATIONSHIP WITH THE EMPLOYEES; AND OUR RELATIONSHIP WITH THE PRINCIPALS.

Business at DIMO

Three key relationships define business at DIMO: our relationship with the customers; our relationship with the employees; and our relationship with the principals.

The bond that we share with our customers has been akin to a marriage, a lifelong commitment. Over and over again our customers return to us with the certainty of our trust and excellence.

Our employees are the soul of the Company. We are successful in attracting the best skills and their inputs are what carry our business. In turn we have sought to give meaning to their aspirations and their lives. It is our culture to be sensitive to their lives and support their goals, thereby making DIMO a "great place to work". Of our Assets, a long-term employee relationship is of great value. Our employees have powered the Company for 75 years with their commitment and for this I am very grateful."

It is our privilege to represent the best brands in the world while forming trusted ties with our principals over these 75 years. Their class and expertise have been a source of inspiration to DIMO. Today, we look

THE BOND THAT WE SHARE WITH OUR CUSTOMERS HAS BEEN AKIN TO A MARRIAGE, A LIFELONG COMMITMENT.

"At DIMO our work ranges in scale from multi million-rupee precision engineering projects to the simple delivery of a single flawless bolt. To each of these transactions and to everything in between, we bring the identical degree of excellence, quality and care."

A.R. Pandithage
Chairman/Managing Director

Chairman's Message

to acquire new principals, and develop long-term relationships in a similar manner to those maintained presently between us and our principals.

Driving Innovation

Innovation is a value that we pursue relentlessly. Unless companies constantly innovate they can never grow to their full potential. The DIMO 800 Mercedes-Benz Centre is a major step in this direction. The investment was substantial and the return is likely to take time. The leader we have become beckons us take on this challenge and move automobile care in this country to an unparalleled level. It is a centre like no other, offering unique, state-of-the-art care and services that are on par with the best in the world. We want to ensure that our customers have access to the best products and best after-sales services. We want to ensure that our employees have access to the latest technologies. DIMO will continue to provide the leadership that we have imparted on the automobile industry in this part of the world.

Strategic Focus

DIMO's strategic focus is on nourishing and nurturing its different types of capital. This is done through innovative and responsible value creation activities that add value to the Company's diverse forms of capital. Sharp business strategies ensure the Company remains competitive, a much sought after employer, and in many cases, a pioneer of new and responsible value-creation processes.

Responsible Entrepreneurship

The value creation model we have adopted ensures that the diverse forms of capital in which we invest in are replenished and enhanced. At the same time the Group stands firmly by its value framework that is a key motivating factor for the Company. 'Responsible entrepreneurship' is the overarching framework of all of the Company's activities and DIMO remains committed to perpetuating these values.

THE VALUE CREATION MODEL WE HAVE ADOPTED ENSURES THAT THE DIVERSE FORMS OF CAPITAL IN WHICH WE INVEST IN ARE REPLENISHED AND ENHANCED. AT THE SAME TIME THE GROUP STANDS FIRMLY BY ITS VALUE FRAMEWORK THAT IS A KEY MOTIVATING FACTOR FOR THE COMPANY.

Our value creation story

The fourth integrated report published this year revolves around DIMO's unique value creation model. The Company's capital and value-creation activities are discussed in different sections of the report together with strategies. We have supplemented these with candid disclosures of our corporate governance processes and our approach to risk management.

Monetised Value Created.

Rs.6.2 bn

Re-imagining Governance

Good governance leads to positive and sustained growth and DIMO sees itself as a trailblazer where corporate governance is concerned. We are scrupulous about following all disclosure requirements and to ensure the expected accountability processes are integrated into each tier of the Company's governance structure.

Sustainable growth

How much value we add is as important as how we create value. The process is as important as the product. Our management approach and value-creation model allow us to blend corporate strategy with corporate responsibility seamlessly. We take responsibility for every step of the supply chain, and sustainability is built into all aspects of the Company's operations.

WE HAVE MADE SIGNIFICANT INVESTMENTS, WITHIN OUR CAPACITY, TO ALL SEGMENTS OF THE COMPANY'S OPERATIONS. THESE INVESTMENTS ARE NOW BEGINNING TO DELIVER.

Adapting to change

As a Company we continue to re-define ourselves. Entrepreneurship is about breaking boundaries and adventuring forward. Vehicles will continue to remain our core business. At the same time we will look at new opportunities in newer markets while ensuring that the DIMO brand is safeguarded against the vagaries of local and global economies.

We have made significant investments, within our capacity, to all segments of the Company's operations. These investments are now beginning to deliver. We are confident that we can ride the wave of post-war growth that the country is experiencing, while contributing to its growth.

My thanks

Many factors have contributed to the triumphant journey that our Company has taken so far. To our customers, our employees and our principals, thank you for inspiring us and placing your faith in DIMO.

To my colleagues on the Board, thank you for your astute guidance. My special thanks to Gladwin Peries, who retires from the Board after 37 years. Thank you for the contribution you have made to the future of DIMO.

Here to stay

The DIMO Tribe was exemplary in managing the good and the bad times of the past 75 years.

We are here to stay.

A.R. Pandithage
Chairman/Managing Director

23rd May 2014
Colombo

Living up to our heritage

A review of operations from the
Chief Executive Officer, Mr A.G. Pandithage

"DIMO continues to focus on responsible value creation. The Group understands the need to create wealth for shareholders and for multiple other stakeholders."

A cut above the best

DIMO had a comfortable year. It was not a year for great celebration. Nor was it a year of gloom. It was a year of moderate performance where the Group continued to build on the accomplishments of the past years. It would have been a year of great celebration had we had a more favourable tariff regime for vehicles, but that was not to be. The strategy of spreading our net into other areas ensured that the Group's overall performance was still a good one.

The macro-economic climate improves

The macro-economic climate was positive and enabling during 2013. The GDP grew by 7.3%; AWPLR reduced from 13.37% to 8.57%; the rupee remained relatively stable during the financial year and inflation dropped from 7.6% to 6.9% in 2013.

The Group's operational activities are mainly in transport, construction, power, and healthcare. The transport sector grew by 9.4%; the construction sector by 14.4%; the power sector by 11.3% and government expenditure on healthcare increased from Rs. 99,101 million in 2012 to Rs. 119,530 million in 2013.

THE MACRO-ECONOMIC CLIMATE WAS POSITIVE AND ENABLING DURING 2013. THE GDP GREW BY 7.3%.

Building on past accomplishments

Despite these solid indicators the registration of vehicles (excluding three wheelers and motor bicycles) dropped to 128,991 compared to 173,465 the previous year. The registration of 'commercial vehicles', which is a significant market for DIMO, dropped by 29% during the year under review.

Tariffs for passenger vehicles remained high during the year. This had an adverse impact on the Group's overall performance.

DIMO's performance in the non-automobile sector exceeded expectations. The Marketing & Distribution and Electromechanical, Bio- Medical and Marine Engineering segments of the company's operations delivered startling results and gave us an inkling of the potential these sectors offer. The construction and material handling sector too performed well capitalizing on the momentum the industry is generating in Sri Lanka.

THE MARKETING & DISTRIBUTION AND ELECTROMECHANICAL, BIO- MEDICAL AND MARINE ENGINEERING SEGMENTS OF THE COMPANY'S OPERATIONS DELIVERED STARTLING RESULTS

Responsible value creation

DIMO continues to focus on responsible value creation. The Group understands the need to create wealth for shareholders and for multiple other stakeholders. The Group's business model is designed to take this vision into account and its supply chain processes pursue this goal relentlessly.

"Teamwork is the driving force behind our success today.
This report is a tribute to the commitment and hard work of everyone
working in the great partnerships that together form the DIMO Tribe."

A.G. Pandithage
Director/Chief Executive Officer

CEO's Message

The Group's human resource policies, including its approach to innovation, its code of ethics, quality management systems, environmental management systems and performance management systems ensure that the company delivers consistently, and most importantly, responsibly.

Enhancing capacity

The impressive GDP growth rates recorded in the recent past have prompted the company to increase the capacity in every sense. The company has invested in capacity across all business segments. This includes the number of customer interaction points, the number of work bays, the distribution networks, building employee competencies, and expanding the product portfolio.

THE IMPRESSIVE GDP GROWTH RATES RECORDED IN THE RECENT PAST HAVE PROMPTED THE COMPANY TO INCREASE THE CAPACITY IN EVERY SENSE. THE COMPANY HAS INVESTED IN CAPACITY ACROSS ALL BUSINESS SEGMENTS.

The new Mercedes Centre

The new Mercedes DIMO 800 Centre opened in May 2014. This state-of- the art facility on a 621 perch property

THE NEW MERCEDES DIMO 800 CENTRE OPENED IN MAY 2014. THIS STATE-OF- THE ART FACILITY ON A 621 PERCH PROPERTY WHICH HAS 25,748 SQUARE METERS OF SHOWROOM, WORKSHOP, OFFICE AND PARKING SPACE HAS PUT THE COMPANY AHEAD OF ITS COMPETITION.

which has 25,748 square meters of showroom, workshop, office and parking space has put the company ahead of its competition.

Establishing a presence in Jaffna

The new showroom and workshop facility in Jaffna will be operational soon. This will reach out to a population segment that has been deprived of world class services during several years of war.

Taking DIMO forward

The high tariff regime for vehicles continues to have an impact on the company's performance. The expectation was that the end of the war would have unleashed a lower tax regime.

The company however, continues to innovate by broadening its range of vehicles and by moving into new areas of activity. The company also has to face the challenge of the tariff concessions offered to vehicles assembled locally.

The rapid growth in infrastructure development, construction and power sectors has attracted new players. DIMO is confident that its vintage brand, 75 years heritage, strong relationships with world class principals and its focus on innovation, will help us meet any competitive challenge that the evolving market may offer.

DIMO is upbeat about the opportunities that are unfolding. In 75 years the company has been through a multitude of changes and challenges. It is optimistic about the country's future and about the company's future. The Budgets show that the year ahead will be a better one.

A.G. Pandithage
Director/Chief Executive Officer

23rd May 2014
Colombo

Group Structure and Group Management Committee

Group structure

Name of the Company	Division	Segment	No. of Directors	Directors
Diesel & Motor Engineering PLC *Company Reg No.: PQ 146* *Year of Incorporation:* 1945	Automobile	Vehicles – Sales Vehicles – After Services	10	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 R. Seevaratnam R.C. Weerawardane
	Marketing & Projects	Marketing and Distribution Construction & Material Handling Equipment and After Services		
Dimo Travels (Pvt)Ltd *Company Reg No.: PV1256* *Year of Incorporation:* 1975 *Holding:* **100%**	Travelling		4	A.R. Pandithage (Chairman) S.C. Algama M.V. Bandara E.D.C. Kodituwakku.
Dimo (Pvt) Ltd *Company Reg No.: PV2317* *Year of Incorporation:* 1980 *Holding:* **100%**	Industrial Solutions	Electro Mechanical & Bio Medical Marine Engineering	8	A.R. Pandithage (Chairman) S.C. Algama (Managing Director) R.H. Fernando B.C.S.A.P. Gooneratne A.G. Pandithage W. Pushpawela C. Ranawana R.C. Weerawardane
Dimo Industries (Pvt) Ltd. *Company Reg No.: PV1260* *Year of Incorporation:* 1979 *Holding:* **100%**			6	A.R. Pandithage (Chairman) S.C. Algama A.C.G. Dias B.C.S.A.P. Gooneratne A.G. Pandithage R.C. Weerawardane

DIMO Group Management Committee Members

A R Pandithage
Chairman/ Managing Director

A G Pandithage
Director/Chief Executive Officer

S C Algama
Executive Director

M.V. Bandara
Chief Operating Officer - Tata Vehicles- Sales & Service

A.C.G.Dias
General Manager -Tyres

B C S A P Gooneratne
Executive Director

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

D.N.K. Kurukulasuriya
General Manager -Human Resources

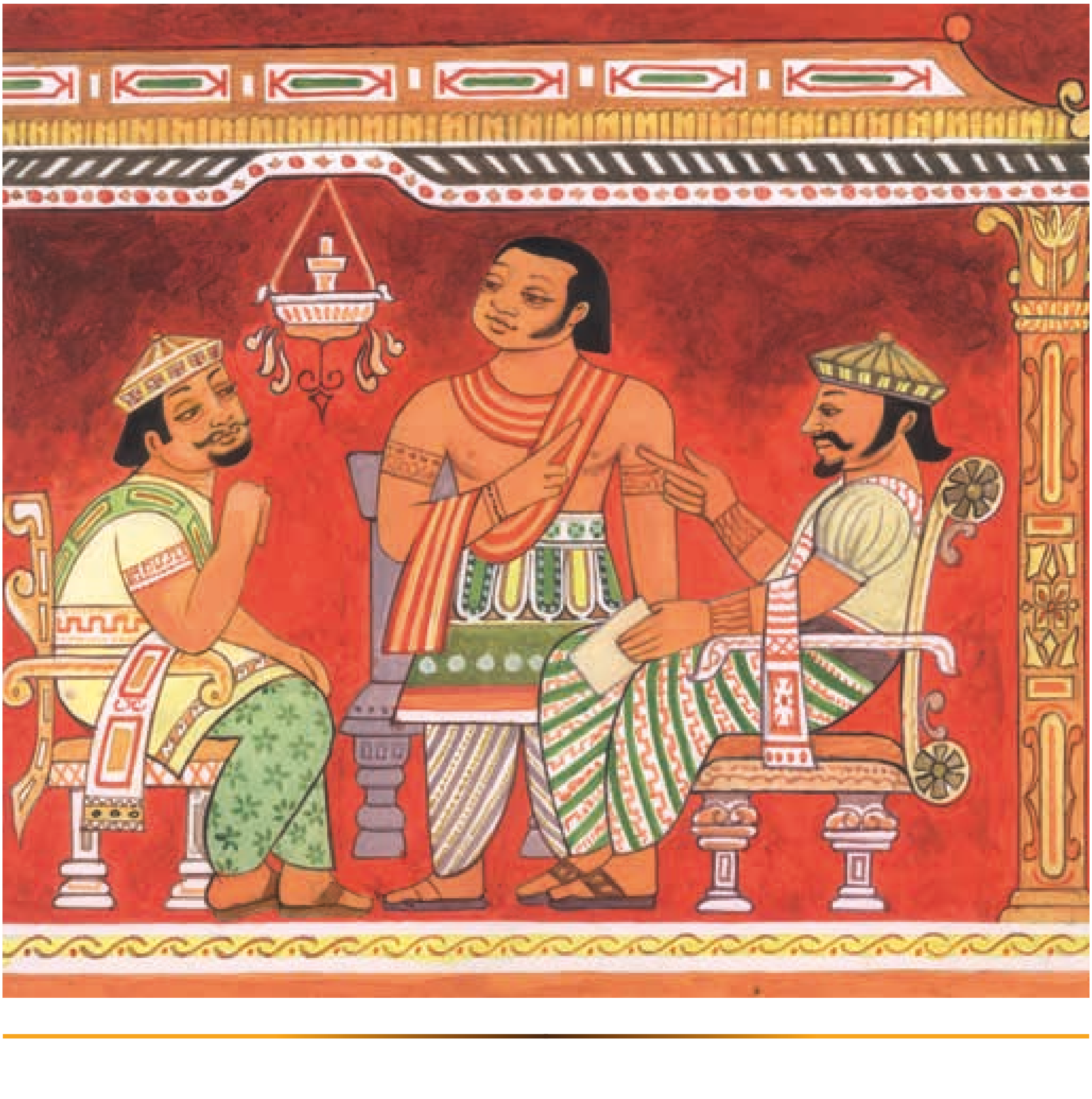
A.Mapalagama
General Manager -Infrastructure Development

N. Mudannayake
General Manager -IT

S.R.W.M.C.Ranawana
Chief Operating Officer - Construction & Material Handling

W. Pushpawela
Chief Operating Officer - Dimo (Pvt) Ltd

R C Weerawardane
Executive Director



The audience hall or council chamber was where a council of ministers and advisors would gather to discuss administration and operations.

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The Board of Directors

The Board of Directors

The board of directors is composed of ten leading individuals who bring a vast range of knowledge and experience to bear on the governance and stewardship of your company.

A.R. Pandithage

Chairman-Managing Director

A.G. Pandithage

Director, CEO

A.N. Algama

Executive Director

S.C. Algama

Executive Director

Dr. H. Cabraal

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

R.Seevaratnam
Independent Non-Executive Director

R.C. Weerawardene
Executive Director

** Mr. T.G.H. Peries is not pictured.*

Board of Directors

A.R. Pandithage
Chairman-Managing Director

A.G. Pandithage
Director, CEO

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. Weerawardene
Executive Director

* *Mr. T.G.H. Peries resigned from the Board with effect from 28 June 2013.*

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 and continues to be Chairman/Managing Director since April 2012. Holder of Dip.Ing. from Germany. Member of the Institute of Engineers, Germany (VDI). Director, 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 from 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 (Australia), Commissioner-Law Commission of Sri Lanka, Member –Advisory Commission on Company Law, Council Member – University of Colombo, UGC nominee – PGIM(Post Graduate Institute of Medicine), Member-Board of Studies-Incorporated Council of Legal Education. Member Academic Board of Studies-The Institute of Chartered Accountants of Sri Lanka, Member – Corporate Governance Committee, Senior Lecturer-University of Colombo, University of Wales, IALS Sri Lanka Law College, ICLP. Senior Practitioner in the fields of Corporate Law, Intellectual Property Law, International Trade Law, Commercial Law and Commercial Arbitration. Director-Hayleys PLC, Union Bank PLC, Tokyo Cement PLC, Lanka Orix Finance PLC, Commercial Leasing and Finance PLC, Richard Pieris Distributors Ltd, Tokyo Super Cement Lanka Co. Ltd, Fuji Lanka Cement Co. Ltd, Tokyo Power Lanka Co. Ltd, Hambana Petrochemicals Ltd, Alumex PLC and Just in Time Consultants 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 the Postgraduate Institute of Management, University of Sri Jayewardenapura. Non Executive Director of Hunas Falls Hotels PLC.

Prof. U. P. Liyanage **

Appointed to the Board in October 2006. Fellow of the Chartered Institute of Marketing. MBA and Ph.D. from the Postgraduate Institute of Management (PIM), University of Sri Jayewardenapura. Professor of Management at PIM. Non-Executive Director of Chemenex PLC, Ceylon Cold Stores PLC, Arpico Plastics PLC, Talawakelle Tea Estate PLC, Commercial Bank of Ceylon PLC and Richard Peiris & Co. PLC.

A.M. Pandithage *

Appointed to the Board in September 1982. Chairman and Chief Executive of Hayleys PLC. Honorary Consul of United Mexican States (Mexico) to Sri Lanka. Fellow of the Chartered Institute of Logistics & Transport. Member of the Presidential Committee on Maritime Matters. Committee Member of the Ceylon Chamber of Commerce. Council Member of the Employers' Federation of Ceylon. Member of the Monetary Policy Consultative Committee of the Central Bank of Sri Lanka. Director of SriLanka Port Management & Consultancy Services Ltd.

T.G.H. Peries

Joined the Company in 1962 and was appointed to the Board in August 1977. Resigned from the Board w.e.f. 28 June 2013.

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. Non Executive Independent Director of Acme Printing & Packaging PLC, Acme Packaging Solutions (Pvt) Ltd, Tea Small Holders Factories PLC, Tokyo Cement PLC, Lanka Aluminium Industries PLC, Metecno Lanka (Pvt) Ltd, Classic Teas (Pvt) Ltd, Green Farms (Pvt) Ltd, Colombo Fort Land & Building Co PLC, Omega Line Ltd, Sirio Ltd, Banji Ltd, Alpha Apparels Ltd, Hayleys Agricultural Holdings (Pvt) Ltd, Hayleys Consumers (Pvt) 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 Directors*
** *Independent Non-Executive Directors*

Group Management Committee

The Group Management Committee uses years of experience in managing DIMO's strategies and operations to drive the company to new levels of excellence each year.

A R Pandithage
Chairman/ Managing Director

A G Pandithage
Director/ Chief Executive Officer

S C Algama
Executive Director

M.V. Bandara
Chief Operating Officer - Tata Vehicles -Sales & Service

A.C.G.Dias
General Manager -Tyres

B C S A P Gooneratne
Executive Director

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

D.N.K. Kurukulasuriya
General Manager - Human Resources

A.Mapalagama
General Manager - Infrastructure Development

N. Mudannayake
General Manager - IT

S.R.W.M.C.Ranawana
Chief Operating Officer - Construction & Material Handling

W. Pushpawela
Chief Operating Officer - Dimo (Pvt) Ltd

R C Weerawardane
Executive Director

The traditional agriculture-based lifestyle of rural people saw them come together to work on each other's fields during the harvest seasons. People would also help each other to thatch roofs or repair each other's homes; the close-knit ties and community support systems that still exist today.

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Var · ri · ga Vi · laa · se

Value Creation Report

Value Creation Report

The value creation report offers a detailed analysis of how we use our capitals to create lasting value for all our stakeholders.

Win win

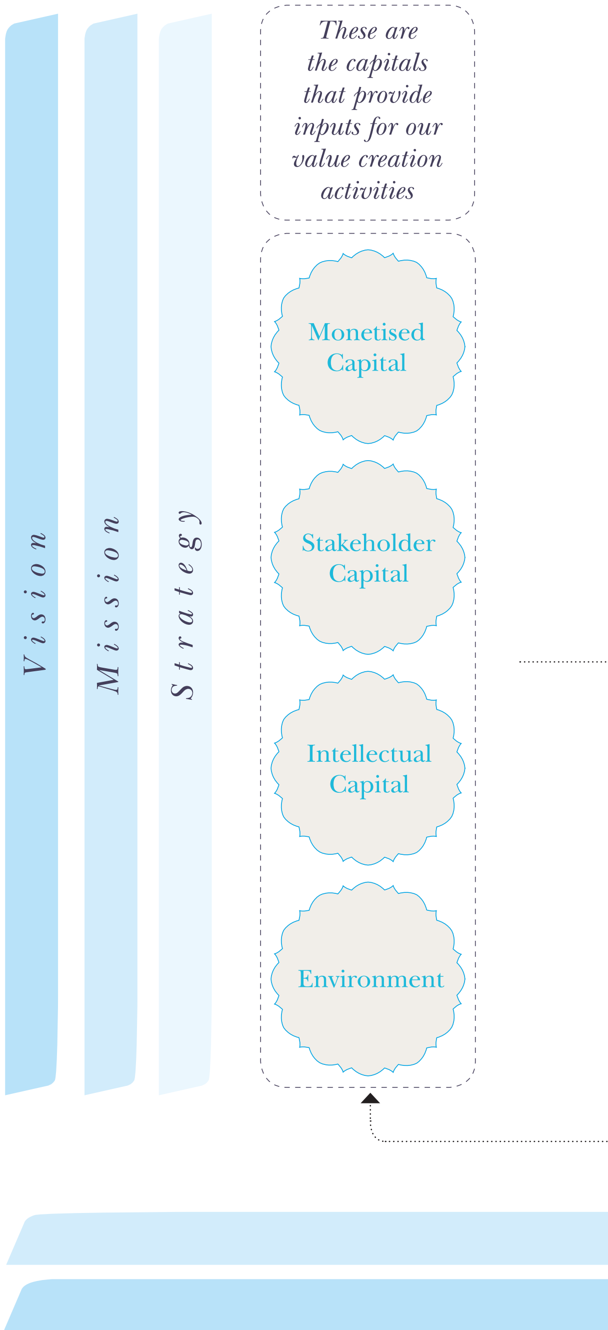
At DIMO we have been relentlessly fine-tuning our value creation process and delivery for many years. Because however big we grow, the creation of value for every one of our stakeholders remains our primary purpose. Our value creation activities use inputs or contributions from our four capitals - monetised capital (which includes financial capital, property, plant and equipment), stakeholder, intellectual and environmental capital, to achieve our purpose. The efficient and productive management of our capitals and processes is what we pride ourselves upon, for therein lies the key to the efficient and continuous delivery of rising value.

In our model there are three activities that lie at the heart of our value-creating enterprise. Securing, nurturing and preserving the capitals we own while simultaneously managing the impacts of our processes upon them is the first. The second demands precision and efficiency in the management of the process of value creation, in order to maximize the value created.

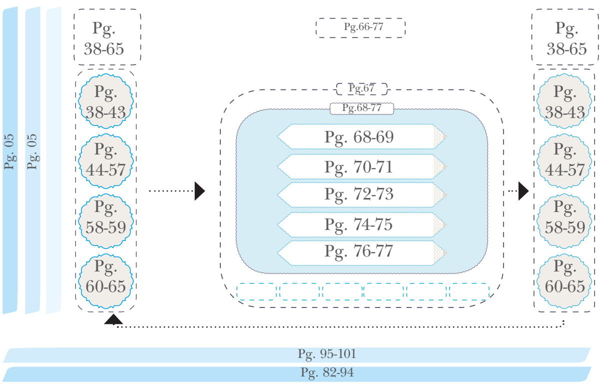
The final element in our value chain is the responsible corporate citizenship that we have always prioritised from 1939 to this day, not just because we know that our stakeholders' belief in us depends upon it but because it is the standard of governance we live by.

In the end the cycle is a perfect one, in which our capitals or value stores provide inputs for the value creation activities, leading to outputs and impacts upon our capitals.

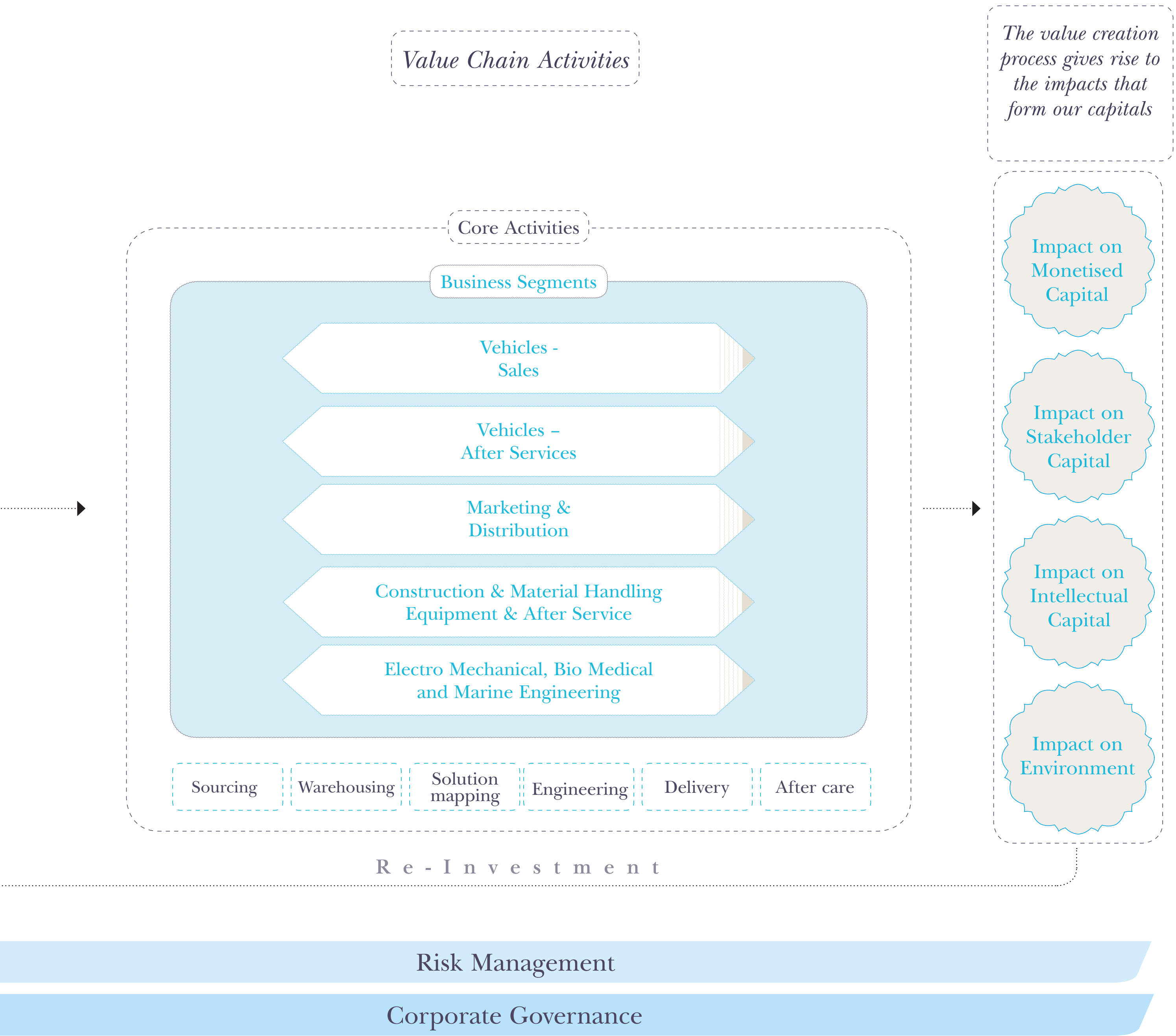
And that is how we add value to every activity we undertake, however great or small. In short, it is how we seek to leverage our core strengths, our expertise and our resources to produce a win-win result for both DIMO and every stakeholder who trusts us to deliver on every promise we make.



Note:
You may follow the page guide below for details on each element of the value creation model



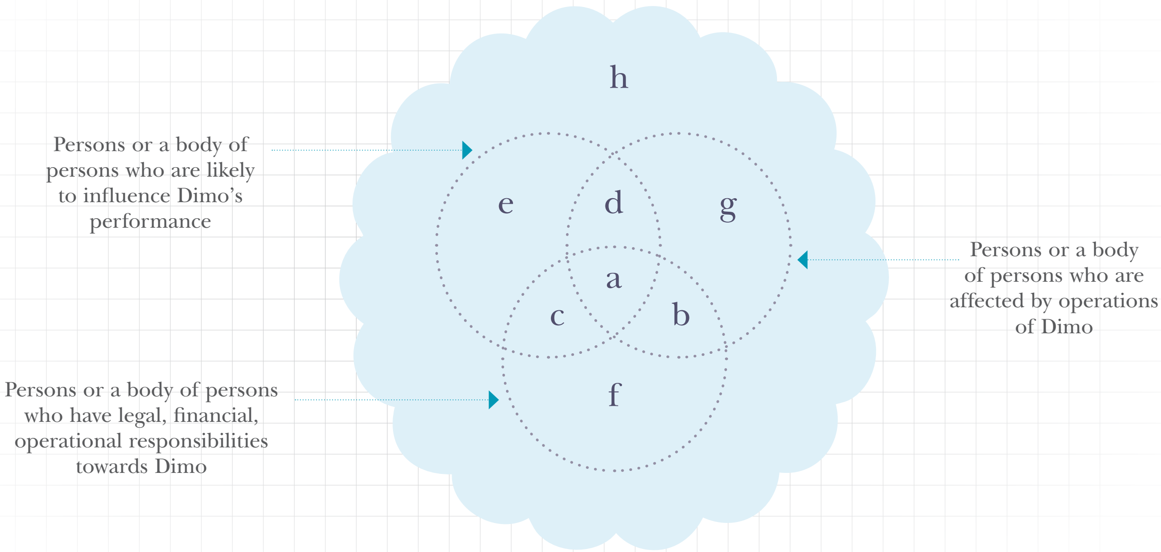
Value creation model



Adapted from the International Integrated Reporting Framework of the International Integrated Reporting Council (IIRC)

Value Creation Report

Stakeholder identification mechanism for engagement



Stakeholder identification Mechanism

The company's stakeholders were comprehensively identified by the Sustainability Committee, using data that was independently collected from various stakeholder groups. The criteria used to identify the stakeholders of the company were as follows:

- Those who exhibited all three of the identified characteristics were regarded as the most important for engagement. (a)
- Those who exhibited any two of the identified characteristics were regarded as the next most important for engagement. (b,c & d)
- Those who exhibited only one or none of the identified characteristics were not, as a rule, considered for periodic engagement. However, the Sustainability Committee would decide to include any party for periodic engagement, notwithstanding the mentioned criteria, in cases where it was warranted. (e,f,g and h)

Stakeholder engagement mechanisms

The Group engages stakeholders on a periodic basis with a view to identifying stakeholder expectations. A table containing the frequency at which such engagement takes place and the methods of engagement is given below. Any major concern relating to sustainability identified during the stakeholder engagement process is escalated to the Board of Directors. During the year, there were no such concerns that were identified, which warranted consideration or review by the Board.

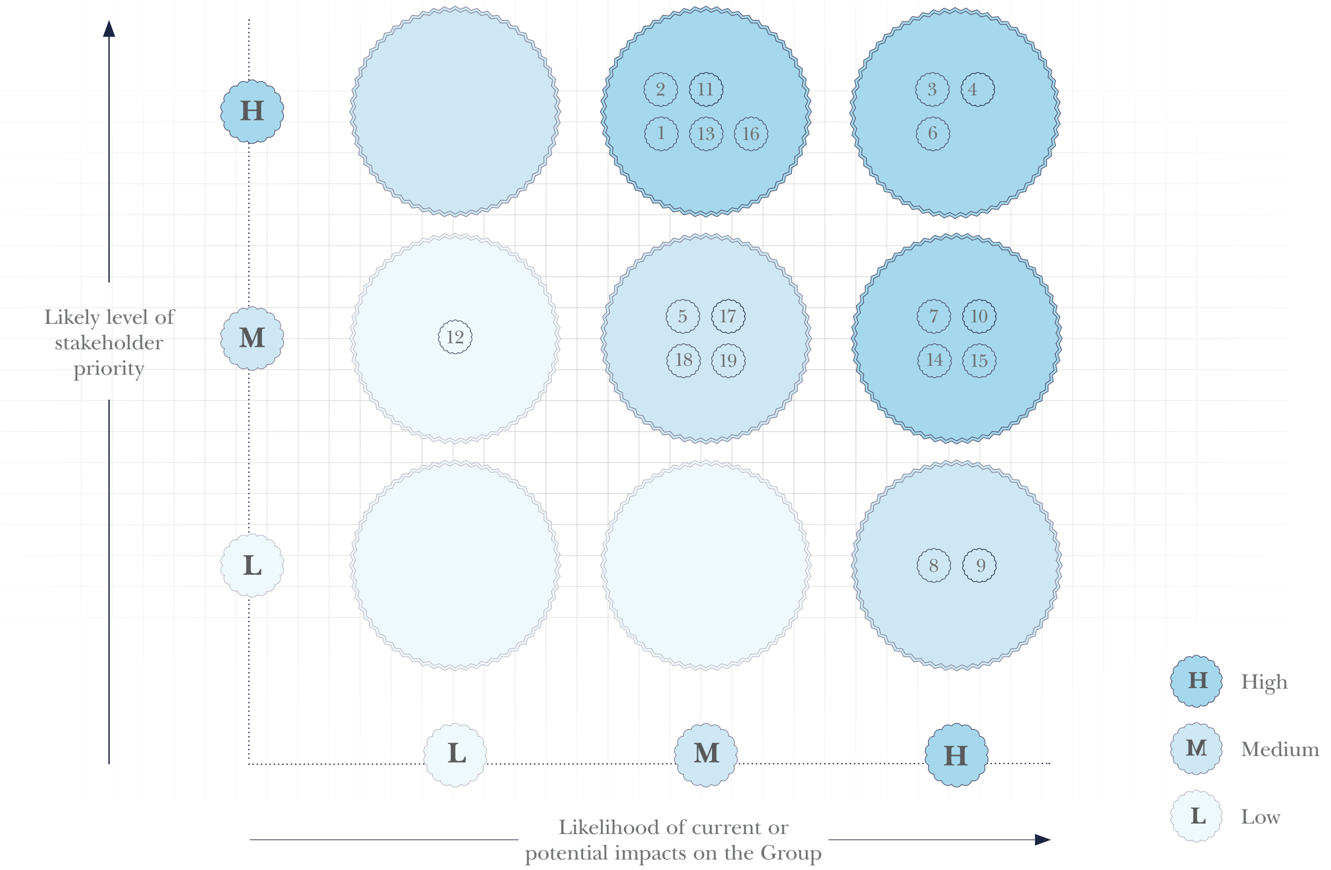
The table below illustrates how we engage with our important stakeholder groups.

Stakeholder	Engagement Method	Frequency
Shareholders • Owners • Providers of capital	• One-to-one interviews (by independent parties) • Annual General Meeting provides an opportunity to review the past year's performance and engage in discussions with the management • Annual Report • Quarterly reports providing a quarterly review of Performance. • Company Website • CSE website	• Once every 3 years • Once a year • Once a year • Once every quarter • Online • Online
Employees • The key resource for competitive advantage and sustainable growth	• One-to-one interviews (by independent parties) • Focus group discussions (by independent parties) • Employee Council meetings • Employee Portal of the company network accessible to every employee. • Annual strategic planning meeting • Company's 'Open Door' policy encourages direct employee – management dialogue. • Annual Employee Surveys - voluntary and confidential. • HR Clinics • Individual Performance Reviews – bi-annually • Employee Reward and Recognition	• Once every 3 years • Once every 3 years • Once a month • Continuous • Once a year • Continuous • Once a year • Bi annual basis across all business units. • Continuous • Continuous
Customers • Principal source of sustenance	• One-to-one interview • Customer Relationship Management process (CRM) enables the company to keep 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 Clubs" for Loyalty Customers • "Mercedes-Benz Club" • 24 hour roadside assistance	• Once every 3 years • 24 hours, 7 days • Once a month/quarter • Continuous • Continuous • 24 hours, 7 days
Business Partners & Suppliers • Critical component of the Value chain	• One-to-one interview (by independent parties) • A high speed 24 x 7 online link enables constant dialogue with principals. Issues discussed include product quality, marketing, customer satisfaction, 'problem solving' and employee motivation. • On-site visits from principals and on-site visits to principals' location facilitate engagement.	• Once every 3 years • Continuous • Continuous
Society • Local immediate communities • Stakeholders in sustainable development • Regulatory and government agencies	• One-to-one interviews (by independent parties) • Focus groups discussion (by independent parties) • Dialogue with Religious Dignitaries • Written and oral communications initiated by stakeholders • Company website • One-to-One Interview	• Once every 3 years • Once every 3 years • Continuous • Continuous • On line • Once every 3 years

Value Creation Report

Materiality of stakeholder issues

Arising from the stakeholder engagement process, the expectations were rated, assigned and prioritised.



Issues indicated in this area are of high significance and impact on both the stakeholders and the organisation. All indicators shown in this area are fully discussed in the Annual Report and in the corporate website.

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 in the Annual Report and in the corporate website.

Issues found in this area of the grid have only a minor impact thus may only be reported in the corporate website.

1. Emissions, effluents & waste
2. Technical education for youth
3. Customer health & safety
4. Economic performance
5. Employee training & education
6. Occupational health & safety
7. Compliance
8. Materials consumption
9. Anti-corruption
10. Procurement practices for local suppliers
11. Customer privacy
12. Ethical marketing communications
13. Community development
14. Mutually beneficial relationships with suppliers
15. Energy consumption
16. Employee remuneration and benefits
17. Product & service labelling
18. Water
19. Employee relations

Aspect Boundary within the organisation
Aspect Boundary outside the organisation

Status of material issues

Stakeholder concerns (both positive and negative) were considered to update the material issues. The materiality analysis has been brought up-to-date by adding key inputs and replacing outdated information based on the feedback received from stakeholders. This analysis traces the issues raised, their materiality status (whether it increased, decreased, remained unchanged from the previous year, or emerged newly in the current year), and the reasons for the shift of status and the Group's response.

Status of material issues - 2013 vs 2014

Material aspect	Issues raised by	Status of Material Issues	Possible Reason for the Shift	Response
Emissions, Effluents and Waste	Society	◆		Our Environment Management System is constantly working towards minimising emission levels.
Technical Education for Youth	Society	◆		We will continue to facilitate external trainees to receive on the job training at no cost.
Customer Health and Safety	Customer	◆		We will continue to leverage the specifications and inbuilt health and safety aspects of our blue-chip product portfolio along with our own initiatives to reinforce this aspect.
Employee Training and Education	Employee	◆		Continuous training and development programmes conducted for the employees.
Occupational Health and Safety	Employee	◆		Gap Analysis for Occupational Health and Safety Standard (OHSAS) completed.
Investment and Procurement Practices for Local Suppliers	Local suppliers	▲	Suppliers are not aware of the content of supplier code prepared by the Company.	Will be conducting awareness programs and supplier audits to educate suppliers on the supplier code of conduct
Water	Society	◆		Increase the percentage of recycled/reused ground water.
Ethical Marketing Communications	Customer	▼	No hindrance to society in terms of ethical marketing practices.	Company communication policy ensures strict compliance with regulations and codes concerning ethical marketing practices.
Local Communities	Society	◆		A process to measure community impact precedes all relevant Company activity.
Mutually Beneficial Relationships with Suppliers	Suppliers	◆		Constant contact and sharing of information continues. Reports, to Principals will address expectations of Principals.
Energy Consumption	Society	▼	Reduction in energy usage due to strict energy management	Energy saving measures are implemented across the organisation.
Employee Benefits	Employee	▼	Increasing confidence and trust employees place in Dimo.	Dimo seeks to exceed industry levels wherever possible in delivering benefits to employees.

▲ Materiality of issues increased ▼ Materiality of issues decreased ◆ Materiality of issues remains same ■ New Issues identified

Value Creation Report

A review of monetised capitals and value creation activity that can be captured in monetary terms.

Monetised Capital

Aspect	Measure	2013/14	2012/13	2011/12	2010/11	2009/10
	Turnover (Rs. mn)	20,884	27,711	39,863	29,357	10,530
Profitability	Gross profit ratio (%)	20.87	15.21	18.23	20.30	22.70
	Net profit ratio (%)	1.90	1.70	6.81	7.20	2.40
Working capital management	Current ratio (times) at the year end	1.50	1.71	1.60	1.27	1.28
	Quick Assets Ratio (times) at the year end	0.70	0.72	0.36	0.84	0.78
Asset Utilization	Asset Turnover (times)	3.10	4.98	8.55	9.59	4.92
Investments	Capital expenditure as percentage of total assets (%)	8.66	8.50	6.20	9.90	7.00
Capital structure	Debt/Equity (%) - at year end	23.15	10.10	13.40	9.80	30.20
	Interest cover (times)	2.42	2.24	15.67	17.35	2.12

Guiding philosophy

Monetised capital consists of financial capital and manufactured capital. Financial capital is the pool of funds available for DIMO to create value. Manufactured capital is made up of manufactured physical objects available to DIMO to carry out its value creating activities, represented by property, plant and equipment. For the purpose of this report, land is classified under monetised capital and not under environment capital.

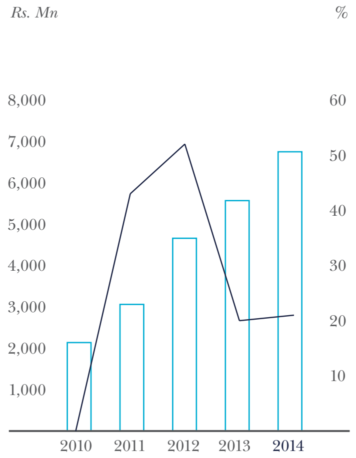
Monetised capitals together with inputs from the other capitals power the value creation activities. This section provides a review of monetised capitals and value creation activity, outputs and outcomes that can be captured in monetary terms.

Overview

In a challenging trading environment, the Group delivered a turnover of Rs. 20.8 bn through the prudent management of its value creation process. The Group recorded a profit before tax of Rs.512.8 mn and earnings per share of Rs.44.34.

Capital expenditure

The Company continued with the planned investments to expand capacity. An amount of Rs. 1,393.5 mn. (Rs. 1,094.4 mn in 2012/13) was incurred on acquisition of property, plant & equipment (PP&E) during the year. Of this, Rs. 1,223 mn was spent on the construction of the Mercedes Centre, the single largest investment planned. Other items include acquisition of plant and machinery amounting to Rs.14.4 mn and computer software amounting to Rs.40.3 mn.



Growth in Property Plant & Equipment

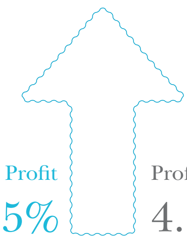
Property Plant & Equipment (Rs. Mn) — Growth %

Turnover

The Group turnover decreased by 25% to Rs. 20.8 bn when compared with last year's turnover of Rs. 27.7 bn. A 36% reduction in the turnover of the vehicle –sales segment was the main reason for the decrease.

Profitability

The gross profit margin increased from 15.21% to 20.87% in 2013/14. Profit before taxation shows a 4.7% increase compared to the last year's figure of Rs. 490 mn. The increase in gross profit and reduction in finance cost collectively triggered the increase in the Group profit before tax.

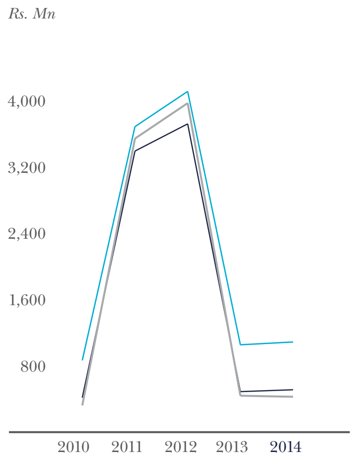


Gross Profit
3.25%

Profit before Tax
4.7%

Earnings

Earnings before interest and tax (EBIT) for the year reduced to Rs.874.5 mn from Rs. 885.5 mn the previous year while net profit after tax decreased to Rs.393.5mn from Rs.454 mn. Following suit, earnings per share (EPS) reduced to Rs.44.34 from Rs. 51.16. The computation of EPS is given in Note 4.7 to the Financial Statements.



Earnings

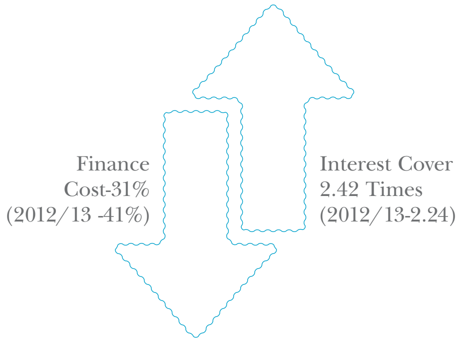
— EBITDA — EBIT — Profit Before Tax

Finance expenses

Finance cost, which is usually a significant component in the cost structure, reduced by 31% to Rs.437 mn from Rs.636 mn in the previous year. This was mainly due to the reduction of interest rates.

The increase in borrowings is mainly attributable to the financial investment in the New Mercedes-Benz Centre. During its construction period the finance cost relating to financing of the investment is capitalised as required by LKAS 23 - Borrowing Costs.

Value Creation Report



Taxation

The income tax expense for the year was Rs.119.3 mn (Rs.35.9 mn – 2012/13). The rate of income tax applicable to the Company and subsidiaries was 28%, whilst the rate of income tax applicable for exports was a concessionary rate of 12%. The qualifying payment under Section 34 (C) of the Inland Revenue Act No. 10 of 2006 and amendments thereto, on account of the investment in the Mercedes Benz Centre enabled the Group to lower its tax charge for the year and for the preceding year.

Details of income tax charge for the year are available in Note 4.6 to the Financial Statements. The tax expense includes a tax charge of Rs. 44 mn on account of deferred tax (Rs. - 42 mn - 2012/13). A summarized computation of deferred tax is given in Note 4.23 to the Financial Statements.

Dividends

The Directors have approved a final dividend of Rs.10 per share (first & final dividend of Rs. 10 per share in 2012/13) for the year ended 31st March 2014. The gross dividend approved for the year amounted to Rs.88,764 mn (Rs. 88,764 mn – 2012/13). The dividend cover was 4.4 times (5.1 times in 2012/013).

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

Solvency

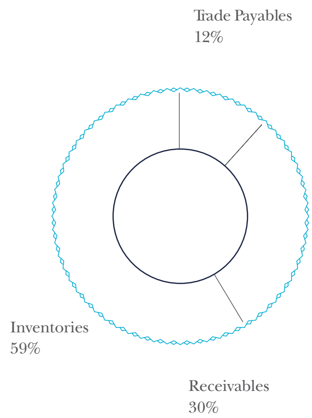
Section 56 of the Companies Act No. 7 of 2007, requires that a solvency test be carried out prior to the payment of dividends. In order to satisfy this requirement, the Company Auditors certified that the Company meets the requisite solvency levels for payment of the approved dividend.

Return on equity (ROE)

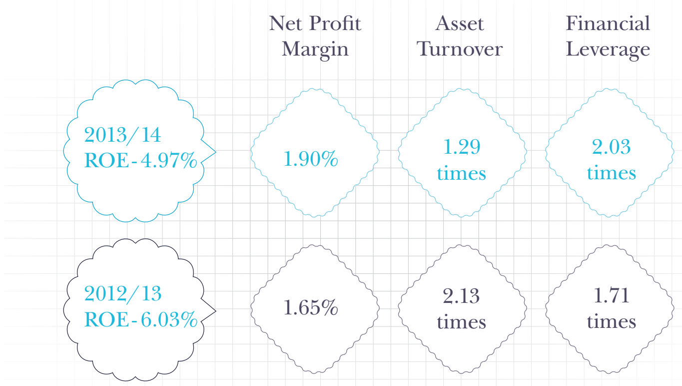
Consequent to the reduction in the profit before tax, ROE decreased to 5.15% from a ratio of 6.1% in the previous year.

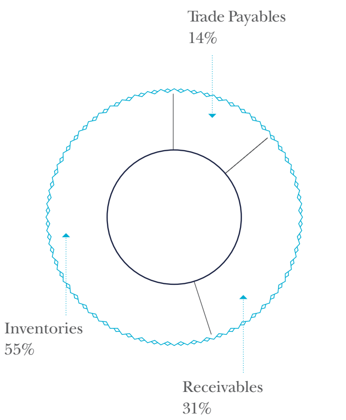
Working capital

The Group's current ratio at the year-end was 1.50:1, which is a reduction from the corresponding ratio of 1.71:1. Prudent management of working capital continues to be a key focus area and receives focused attention on a priority basis. Inventories as at the year end increased to Rs. 4,867 mn compared to the Rs. 4,141 mn previous year. Year end trade and other receivables increased to Rs. 2,742 mn from a corresponding figure of Rs. 2,086 mn. The increase in trade receivables can be mainly attributed to higher level of turnover in March 2014 compared to March 2013.



Working Capital 2012/13





Working Capital 2013/14

Borrowings

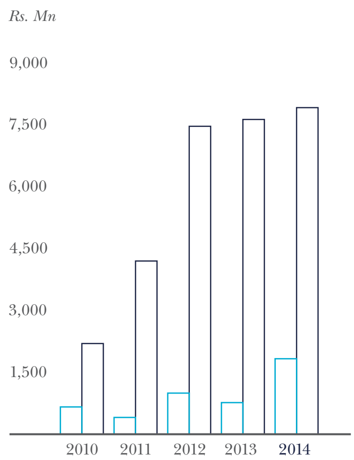
Long-term debt was obtained mainly to finance PP&E. The outstanding long term debt as at 31st March 2014 was Rs.1,832 mn (2012/13 - Rs.770 mn), details of which are given in note 4.21 to the financial statements. Short term borrowings were obtained to finance working capital. The outstanding balance as at 31st March 2014 on account of short term loans was Rs. 4,117 mn (2012/13 Rs. 2,647 mn). Consequently, a total of Rs.5,950 mn (2012/13 Rs. 3,417 mn) was outstanding on account of short and long term borrowings as at 31st March 2014. Interest rates on overdrafts are reviewed periodically while rates charged on short term/import loans are determined based on market rates.

Cash flow

The outflow on account of interest and dividend payments amounted to Rs.431 mn and Rs. 88 mn respectively. Outflow on account of Capital Expenditure during the year was Rs. 1.3 bn. (Rs. 1 bn 2012/13). The Group possesses the necessary banking facilities to support its operations.

Debt to equity ratio

The Group's debt to equity, which is calculated as a proportion of the total interest bearing borrowings to equity has increased to 23.15% from 10.10%. Increase in the total Debt (from Rs.770 mn to Rs. 1,832 mn) caused the increase in the Debt to Equity Ratio.



Capital Structure

Value Creation Report

Statement of monetised value added and value distributed

The statement of value added given below shows the monetised value derived from customers and the manner in which it has been distributed.

Statement of Value Added

For the period of	Group				Company			
		2013/2014		2012/2013		2013/2014		2012/2013
	%	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000
Gross turnover		20,884,674		27,711,604		19,185,246		26,496,949
Other income		69,419		40,321		69,722		38,305
Less : Cost of material and services bought in		(14,669,059)		(21,965,396)		(13,543,863)		(21,118,134)
Value Added		6,285,034		5,786,529		5,711,105		5,417,120

Distribution of Value Added

Employees	31	1,946,395	29	1,657,099	30	1,716,714	27	1,480,637
Government	52	3,244,962	51	2,971,591	54	3,043,731	55	2,901,017
Lenders	06	361,698	07	395,480	6	348,029	7	389,620
Community Investment -Donation	00	43,848	00	52,122	0	36,602	0	51,522
Shareholders	01	88,764	02	88,764	2	88,764	2	88,764
Retained in the business	10	599,366	11	621,472	8	477,265	9	505,560
Depreciation set aside	04	205,825	03	167,385	3	197,346	3	160,665
Profit retained	06	393,541	08	454,087	5	279,919	6	344,895
Value Distributed	100	6,285,034	100	5,786,529	100	5,711,105	100	5,417,120

Treasury management

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

Financial priorities

The Group has to gear itself to ride the post-war economic wave. The following financial priorities have been identified in order be in a state of readiness to pursue the opportunities that the rapid economic development will present to the Group.

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

Forward looking note

We are focused on improving profitability through cost management, greater efficiencies, higher value addition and productivity improvements. We will continue to diversify the revenue sources and reduce high dependence on the auto segment. Overall, the budgets for 2014/15 projects an improved performance compared to 2013/14.

Value Creation Report

A close look at what our employees bring to the process of value creation.

Employees

Aspect	Measure	2013/14	2012/13	2011/12	2010/11	2009/10
Team strength	No. of employees	1519	1,521	1,339	1,019	864
Employee attrition ratio	Employee turnover as percentage of average employees (%)	17.20	21.81	21.10	19.30	14.20
Gender distribution	Female employees as a percentage of total employees	10	10	11	10	9
Age distribution	Percentage of employees below 40 years of age	79	79	81	76	72
Employee satisfaction	Employee Satisfaction Index (%)	61.10	53.46	62.7	54	54
Knowledge and skills development	Average training hours per employee	13.10	16	13.52	10.9	10.34

Guiding philosophy

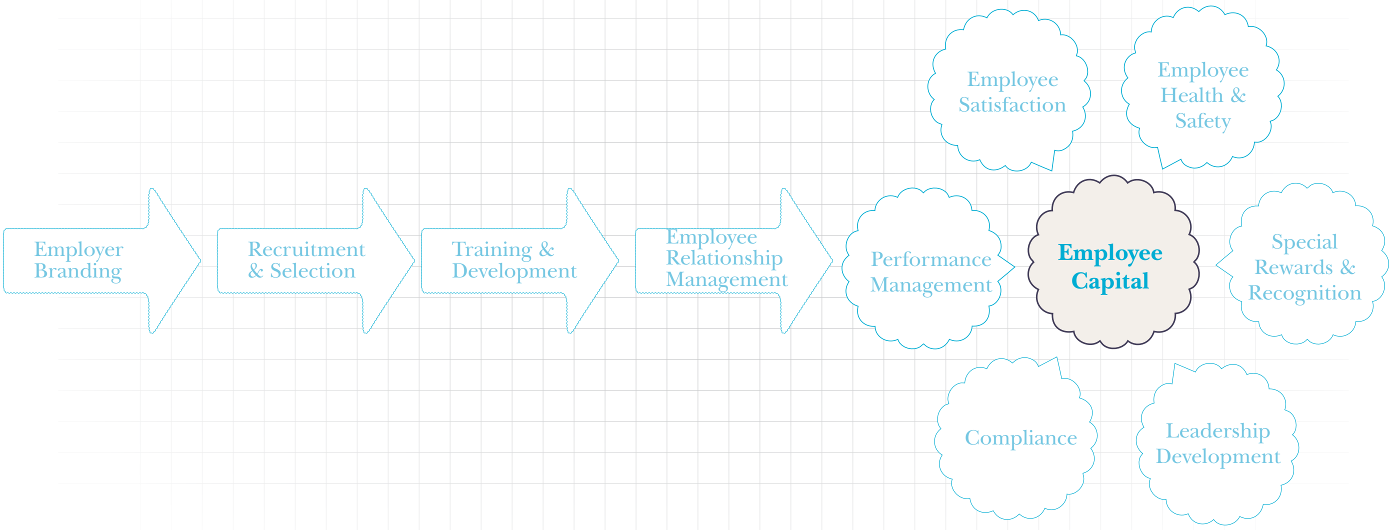
Employees provide the fire and passion to the process of value creation. They guide the Company through its supply chain, providing direction to what it does and delivering enhanced value for the Company, the environment, other stakeholders, and for themselves.

Seeking the best talent, playing the game according to the highest standards of ethics and compliance, providing opportunities for employees to evolve, grow and learn, responding to their expectations and creating new opportunities for them, are very much a part of the DIMO philosophy.

Planting a Seed ... and watching it grow

Building human capital starts with talent seeking, continues with talent acquisition and then seeks as its goal, talent transformation and evolution. The Company's philosophy is focused on transforming employees from being

Building Employee Capital



part of an organization to being part of a vision and a passion; to invest and move employees from mere physical belonging to emotional commitment and self-discovery.

The Magnetism of the brand

The value the Company adds to its brand has many benefits, one of which is to attract new and accomplished talent into the organization. The work of the company, the working environment, the accolades it receives and satisfaction levels of existing employees combine to enhance employer brand value and attract new and talented recruits to DIMO.

The Company has over the year sought partnerships and collaborations with universities and technical institutes, both as a way of building value for those institutions and as a way of attracting some of their best talent. This is complemented by the strategic use of social media to market DIMO and attract new human capital.

DIMO has also invested in the development of its own training schools with a view to capturing and nourishing talent. Today, universities, technical schools, NAITA, and the Company's own training schools are the main source of the company's new talent. During the year under review 258 new employees were recruited and 260 employees left DIMO to pursue other opportunities.

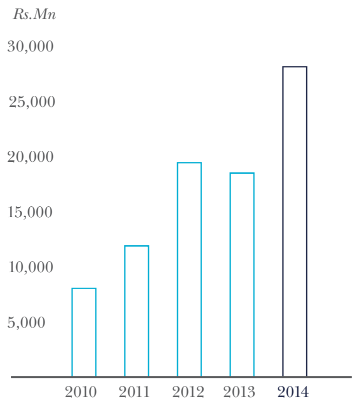
Nurturing Talent

Training requirements are identified through an annual evaluation of employees. The results of this are analysed and then training and skills development programmes designed to respond to the feedback provided by employees.

A total of 295 training interventions were implemented over the past year. Training was provided in Sinhala, Tamil and English. The average training hours per employee for the year was 13.00 (16.00 in 2012-13). In addition 83 employees had the opportunity to hone their skills in several overseas environments.

Value Creation Report

Training is not confined to work related skills. It extends to personality development, including emotional and physical growth and is aimed at the full flowering of the human personality.



Average investment on training per employee

Managing talent

Communicating with employees and providing channels for them to communicate horizontally and vertically is vital if capital is to be nourished. The human resources division visits locations on a periodic basis where employees can meet representatives and voice grievances or discuss other matters.

The Company's Employees' Council enables employees and management to have regular and candid discussions on a variety of matters pertaining to the Company's activities. These discussions cover matters such as working conditions, recruitment policy and Company strategy.

A comprehensive grievance policy enables all employees to take their grievances before an independent mechanism. Grievance response seeks to ensure that all employees receive a fair hearing and that the responses are forward looking. The Company ensures that it responds to grievances within 10 days. Last year 28 grievances were received by the management, all of which were satisfactorily resolved.

The Company's human resource and human capital policy is available on the Company's intranet and is accessible to every employee. The Employees' Council meet once a month and provides an effective forum for a constructive dialogue between the management and the employees.

The Company is committed to protecting the human rights of all employees and this is closely integrated into the Code of Business Ethics of the company. The Company is committed to equal opportunity for all employees and to ensuring a safe and secure environment in all its workspaces. The HR policy ensures that employees are not discriminated against on the basis of gender, ethnicity, caste, old school ties or other distinction. The Company has a whistle-blowing policy which is accessible to any employee with the requisite confidentiality guarantees. The Code of Business Ethics and the whistle-blowing policy are accessible on the Company's intranet.

Expenses related to professional advancement and the acquisition of knowledge are reimbursed by the Company. This includes subscriptions to the memberships of professional associations.

Work is also fun at DIMO. The 'Biggest Loser' competition attracted a lot of attention and some serious competition for the title. The DIMO quiz was keenly contested as it is each year. The Toastmasters' Club provided an opportunity for employees to showcase their oratorical skills.

Managing performance

Employees are evaluated twice a year against key achievements. Competencies and personal development are discussed and feedback encouraged. A computer based performance management system allows supervisors to evaluate performance and manage employees in a structured manner. Innovation is encouraged at all levels. Incentives are offered to high performers and ultra-high performers are provided with additional incentives.

Cultivating leadership

Value is enhanced by identifying strategic channels of leadership. The Company gives priority to identifying leaders and providing opportunities for them to develop their talent. Every year the Senior Management team is provided with opportunities for participating in programmes at some of the leading universities in the world. The company's 'D-talent programme', is designed to fast-track young talent, and continued to focus on young employees and provided them special learning opportunities during the past year.

Keeping work safe and healthy

The Company's quality management system (QMS), which has ISO accreditation, deals with all aspects relating to employee safety. Internal and external audits on the effectiveness of QMS provide assessment on aspects relating to safety and health. The Company obtained the services of the National Institute for Occupational Safety & Health to carry out a risk assessment on employee health and safety aspects.

Growing satisfaction

Every year DIMO conducts an employee satisfaction survey to which employees provide answers in anonymity. Employee satisfaction is assessed in all areas of the Company including remuneration, perquisites and working conditions. The results of the survey are analysed by the Group Management Committee and changes are made where appropriate. The survey had a response rate of 91% (91% - 2012/13). The overall satisfaction index was 61.1%, up from the figure of 53.46% the previous year.

Rewarding innovation

The Company has in place a number of awards schemes to reward innovation and commitment. The 'Employee of the Year' walks away with a car for his or her outstanding contribution and the 'Ideas Man (or Woman)' who comes up with an innovative idea for the year receives special recognition at the Employees' Council. Last year 62 DIMO employees were recognized by the Company for their contribution to developing innovative practices and solutions.

Staff diversity

DIMO aims to recruit staff from all ethnic and language groups and from all regions of the country. Staff diversity is a value the Company actively seeks to promote. Last year females constituted 10% of the total workforce. Employees with a record of long service receive special recognition from the Company.

The vehicle workshops and the sales positions that involve travelling have contributed to seeing that the gender ratio is below what the Company would have liked to have maintained. The Company recruited 10 female trainees to its vehicle workshops over the past year in an endeavour to redress the balance in what is traditionally considered a 'male' environment.

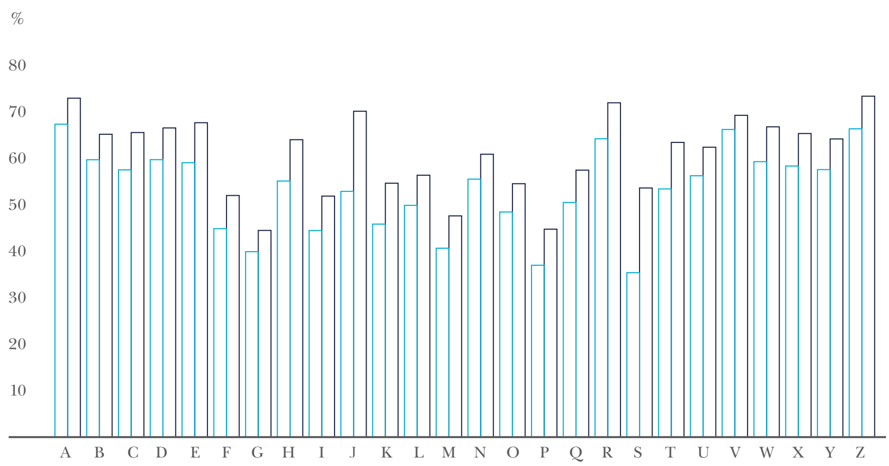
79% of the Company's employees are below the age of 40. 43% of them are less than 30.

Sharing value

The monetised value distributed to employees during the year was Rs1, 946 Mn (Rs1, 657 Mn in 2012/13) and constituted 32% (29% - 2012/13) of the monetised value created. The average employee cost per head for the year was Rs1.3 Mn (Rs 1.4 Mn - 2012/13).

Growing employee capital

Employee aspirations continue to grow and evolve. The Company will strive to align employee aspirations with Company aspirations and focus on building long term relationships that are mutually rewarding. It will strive to see that employees make a constantly growing contribution to the value creation process. The Company will make sure it creates an environment that stimulates innovation and provides material and other support for employees to learn and pursue professional goals. Employee capital will continue to be nourished at DIMO.



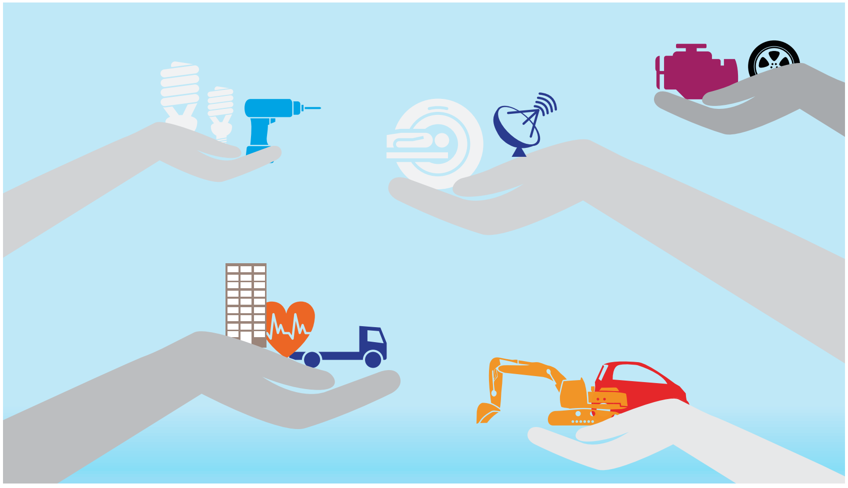
Employees Satisfaction Survey Index

2013 2014

A-Nature of work/Responsibility
B-Freedom to perform duties
C-Availability of challenging Assignments
D-Job Security
E-Clarity of Job duties
F-Salary
G-Incentives
H-other perks
I-Recognition & Appreciation
J-Support given at employee life events
K-Appraisal System
L-Opportunity for Training
M-Prospects for promotion
N-Superior's Guidance
O-Financial Assistance for Education
P-Cafeteria Facility
Q-Sanitation
R-Medical Facilities
S-Employee Wellbeings
T-Working Environment
U-Superior Relations
V-Support
W-Customer Satisfaction
X-Focus on Quality
Y-Continuous improvement
Z-Focus on Environment

Value Creation Report

Customers are at the heart of all that we do.
Our success depends upon their satisfaction.



Customers

Aspect	Measure	2013/14	2012/13	2011/12	2010/11	2009/10
Customer Service	No. of CRM Personnel	30	35	42	4	3
Customer Convenience	No. of Customer Interaction Points	60	52	40	25	19
	No. of Business locations in the North and East	7	8	4	0	0
Customer Satisfaction	Average Customer Satisfaction Index (%)	88	85.5	89.2	85.6	86

Customers lie at the heart of what the company does. The Company's business model is built around customers and is designed to meet their diverse needs and enhance their multiple experiences. The Company fosters customer capital by investing in long term relationships that are mutually beneficial, rewarding and transformative. The Company builds value by creating a complete customer experience that straddles the material, intellectual and emotional aspects of all products and services it provides.

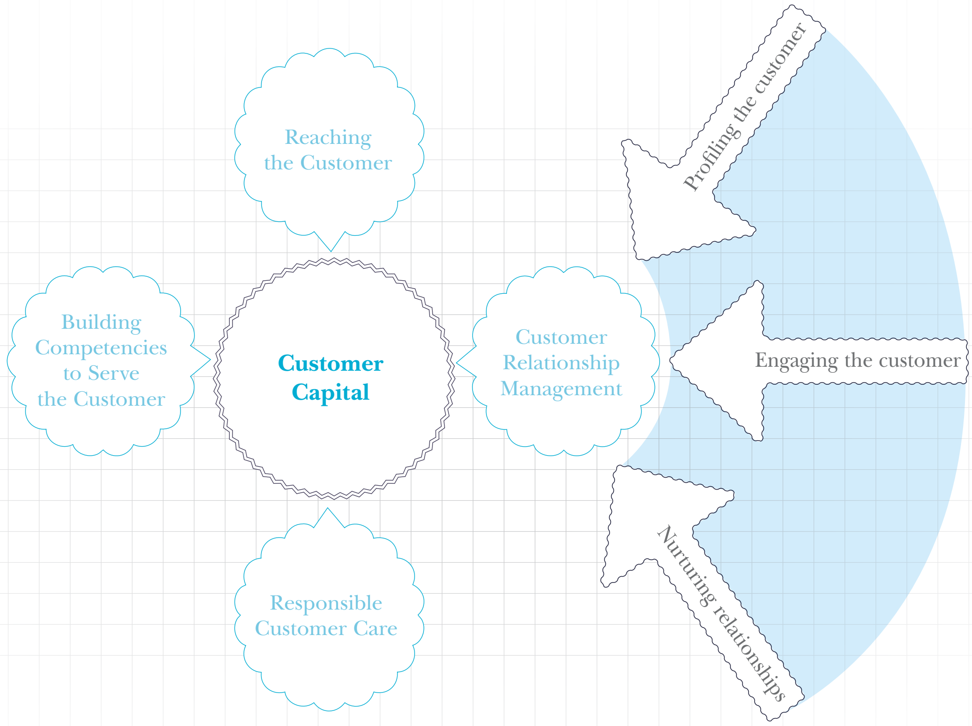
Seeking and reaching out to new and diverse customers, engaging with them to understand their needs, building internal competencies to serve customers better, enhancing standards of responsibility, conforming to statutory and ethical norms, and constantly raising the bar with regard to customer care, shape DIMO's approach to building customer value.

Being present and accessible

Accessibility is an important aspect of fostering customer capital. A closer proximity to the customer increases the opportunity for understanding customer needs, developing well-tailored products and services, and the likelihood that the customer will return asking for more.

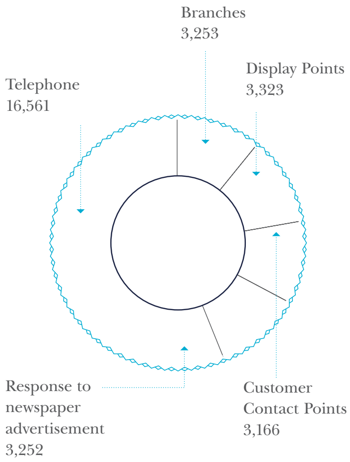
During the year under review the company operated 60 'Customer

Building Customer Capital



Interaction Points', up from the 52 operated in the previous year. They consisted of Branches, Customer Contact Points and Display Points. Each of these is designed to reach and serve the company's diverse customers in the most effective way. The first such contact point was opened in Piliyandala in December 2011 and since then the Company has made a strategic effort to make itself more accessible and to develop this aspect of its capital.

An important part of the accessibility programme is the 24-hour Call Centre launched in May 2012. Customers can make use of the Call Centre at any time to seek information on products and services and lodge complaints. The Call Centre has been a giant leap forward in reaching out to customers and enables the Company to be available 24 x7. During the year under review 29,555 sales enquiries were received. It has been supported by a state-of-the-art interactive web site which provides detailed information on the Company, its products and services. Customer engagement programmes have been taken to



Sales Enquiries 2013/14

a new level with the launch of the 'Gamin Gamata' ('Village to Village') programme which endeavours to penetrate new and emerging markets.

Strategic arrangements have been made with some of the finance and leasing companies to enable customers to reap the benefits of special interest and payment schemes and provide additional incentives to invest in the Company's products and services.

Building skills within DIMO

Building customer capital and being responsive to customer needs has required a substantial and constant investment in skills. Existing skills need to be honed and new skills generated if the Company is to respond effectively to customer needs and expand its customer base.

The Company has identified the skills deficiencies within the Company and

Value Creation Report

then sought to fill these gaps in the most productive way. No stone is left unturned in order to acquire and constantly expands the skills sets within the Company. To DIMO this is of the essence in building this segment of capital and enhancing value.

Continuous training and skills development is an intrinsic part of the human resource strategy at DIMO. This includes in-house training, external training and overseas training. During the year under review the sales and service teams, spent a total of 4,096 and 4,989 man hours (3,444 and 8,395 in 2012/13) man hours respectively on training and skills development. This comprised of 642 (588 in 2012/13) sales staff who participated in 111 (119 in 2012/13) training programs. 763 (822 in 2012-13) service staff participated in 108 (138 in 2012-13) training programmes.

Responsible relationships

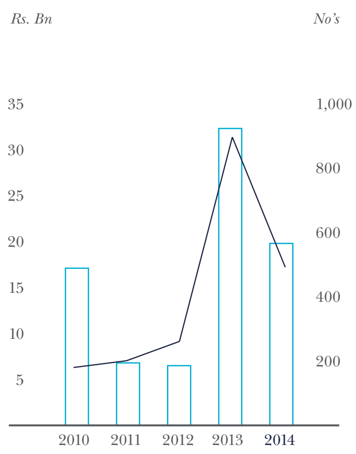
Value is built by focusing on responsible customer relationships and the highest standards of care. As a Company that markets world class products and services, DIMO is conscious that its products should be safe and created through ethical manufacturing processes. The Company's products and engineering solutions conform to the highest levels of safety and are designed to ensure minimum impact on the environment. In its after care too the Company seeks to ensure the highest levels of responsibility and highest standards of ethics in all of its customer relationships.

Sourcing safe products and responsible principals

Priority is given to customer comfort, health, safety and general well-being. In sourcing new products, the Company has always sought the best in the business and those with a long track record of safety. The Company's quality management system has been given the ISO 9001:2008 certification.

Strict compliance

Responsible value creation has meant strict compliance with statutory requirements on the provision of diagrams, expiry dates, code numbers, and environmental impact. Accurate labelling is a must and user manuals are provided, where required.



Number of Customer complaints

No. of complaints per Rs. billion gross turnover — No. of customer complaints

High ethical standards

Marketing practices conform to the highest standards of ethics and are based on transparency, honesty and full disclosure. Here too, compliance with statutory requirements is strict. Customer privacy is respected and customer information kept confidential.

Customer complaints

A total of 492 customer complaints were recorded during the year under review. This was compared to the 896 complaints received the previous year. Of these, 361 (574 in FY 2012/13) were resolved within three-days as stipulated. The number of customer complaints for every Rs. One Billion of turnover was 19.8, down from last year's 32.3.

No complaints were received with regard to any breaches of customer privacy or misuse of personal data. Similarly, no incidents were reported during the year under review with regard to breaches of health and safety, or product labelling.

Flourishing relationships

Building relationships that are stable, secure, rewarding and transformative is an intrinsic part of the Company's value creation process. Customer relationships are ongoing and constantly evolving, marked with periodic engagements and an exploration of the multiple opportunities that the relationship may present.

Nourishing enduring and satisfying relationships is a systemized process at DIMO that straddles marketing, point of sale, delivery, after-care, maintenance, complaints, customer satisfaction and customer return. Much of this is monitored by the centralized Customer Relationship Management division which responds to complaints, carries out customer satisfaction surveys, oversees some promotional campaigns and evaluates periodic reports.

Customer satisfaction

Customer satisfaction is central to the long term sustainability of the company. Customer expectations and demands are constantly mapped and since 2002 customer satisfaction surveys have been used as an index of measurement and management.

Value Creation Report

Our business partners are key drivers of our value creation process.

Business partners

Aspect	Measure	2013/14	2012/13	2011/12	2010/11
Relationship with Principals	No. of principals	77	81	78	72
	No. of relationships above 50 years	7	6	6	6
	No. of relationships between 25 to 50 years	8	10	9	9
	No. of relationships between 01 to 25 years	54	58	55	41
	No. of new relationships commenced during the year	8	7	8	16
Relationship with local suppliers	Payments to local suppliers (Rs. bn)	5.3	4.7	4.5	3.9

DIMO's business partners are a key source of capital in the company's value creation process. The company's principals, suppliers and service providers are a core component of the value creation activity at DIMO. Through this process the company not only builds value for itself but for the business partners as well.

Three important ideas have shaped our relations with our business partners: trust, transparency and longevity. Using these three ideas, we have invested in long term mutually rewarding partnerships.

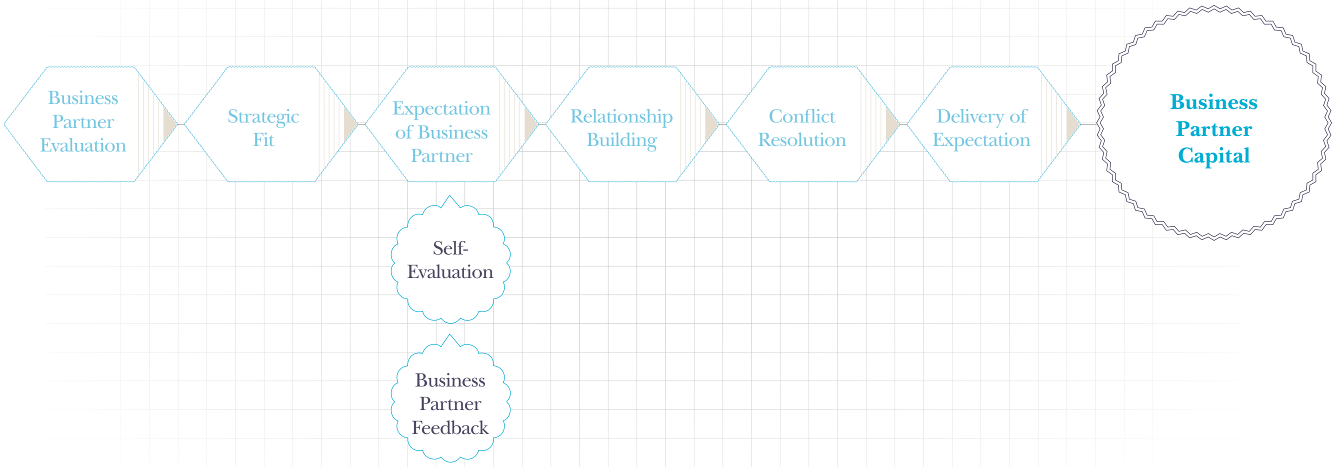
Committing to common values

In sourcing partners, the company has tried to identify companies that share DIMO's values. DIMO is committed to responsible and sustainable entrepreneurship and in its dealings with partners has made an effort to develop relations with those entities that share a similar commitment. In forging new partnerships, the company has looked for those entities that are committed to environmental protection, respecting labour standards, promoting human rights, fostering equal opportunity, eliminating corruption and anti-competitive behaviour, and ensuring occupational safety at the workplace. These values are reflected in the company's Supplier Code and suppliers have responded positively in integrating these values into their own supply chains. Upto last year 96 major local suppliers committed to upholding the Supplier Code.

Principals

The company has sought to grow its portfolio by seeking principals that complement DIMO's strategic direction. The company has been fortunate to have partnered with world class brands over these 75 years.

Building Business Partner Capital

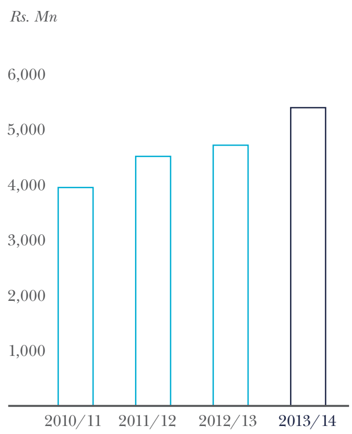


DIMO has absorbed industry best practices and technical knowhow from these principals, through constant interaction, which have included regular visits to their locations or visits from their representatives to the company. Regular feedback is provided to principals and they in turn provide regular feedback to the company. Healthy partnerships have emerged as a result of this policy of open and candid communication and regular contact. This has helped the company to consistently deliver to the highest standards expected from the principals. The company is responsive to the feedback provided by principals and has responded by investing in technical training, infrastructure development and distribution networks to strengthen our market presence.

Local suppliers

In the case of local suppliers and our distribution partners too, the company has focused on investing in long term relationships. Regular communication, sharing of market information, a commitment to core values and constant feedback have helped in developing mutually beneficial relationships. In some cases the company has invested in the development and empowerment of family members of local suppliers through a variety of interventions.

During the year the company paid Rs: 5.3 bn (2012/13 - Rs. 4.7 bn) to local suppliers.



Payments to local suppliers

Grievance handling

Grievances, if any, that emanate from the company, local suppliers or principals, are resolved speedily. Regular feedback and communication with partners has reduced the space for conflict. The company has aimed at constructive and critical engagement with all partners. It is an engagement that is forward looking and solution oriented and aimed at strengthening already existing relationships.

Assessing partner needs

Integrated into the company's process of value creation is the regular use of independent third-party stakeholder surveys, which include interviews with suppliers, market research for business development and assessing customer satisfaction. The surveys involving business partners are aimed at generating candid feedback on relationships with business partners and on how these relationships could be developed and strengthened. The company has a policy of sharing the results of such surveys with suppliers.

Value Creation Report

How do we contribute to nation development and empower the diverse people with whom we live and work?

Society

Aspect	Measure	2013/14	2012/13	2011/12	2010/11
Investing in the community	Community investments as a percentage of turnover (%)	0.21	0.19	0.14	0.10
Vocational development of youth	No. of vocational training students as a percentage of full-time employees (%)	16.78	10.50	14.24	14.52
Contribution to the state	Taxes paid to the government (Rs. Mn)	3,245	2,972	6,062	5,571

Society and local communities are important contributors to the company's supply chain and to how and how much the company creates value. The value the company builds in turn makes an important contribution to the development of the country and society. Social acceptance and continuous management of our relationships with the community within which we operate are critical for the longevity of our business. Being in touch with the pulse of the people who are affected most by the company's activities ensures that DIMO builds sustainable value.

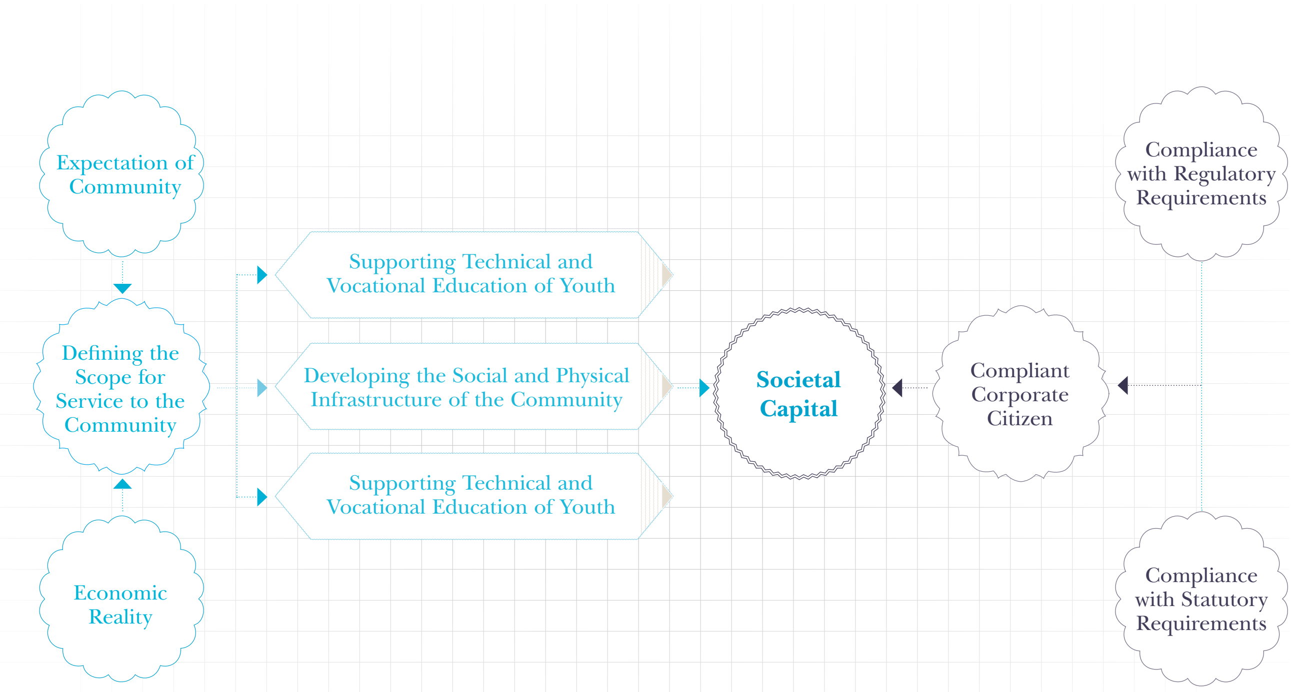
Strict compliance

Institutional stability is vital for sustainability and this is why DIMO goes to great lengths to partner and maintain positive relationships with relevant local authorities. The company is aware of the adverse effects that deviations from the regulatory framework could have on the company's reputation.

The company ensures that its compliance with the regulatory regime is strict and this includes compliance with environmental, product safety and labelling regulations.

During this year under review, the company paid Rs. 3,245 (Rs. 2.96bn in 2012/13) in taxes to the state. Taxes are paid promptly and in strict

Our Society...Live and Let Live



compliance with the legal regime that is in force; the norm being that no such monetary obligations are left pending.

Regular training programmes for staff ensure that employees are kept abreast of changes in tax structures, tariff regimes and other regulatory changes including local government and environmental regulations, new labour regulations, and consumer product safety regulations.

In keeping with the company's goal of delivering the best in products, solutions and service to customers, DIMO has developed relations with a number of trade, industry and professional associations. This has helped the company align itself with industry best practices and play a role in the formulation of policy.

Ethical business practices

DIMO builds value by ensuring that all of its business practices are ethical, transparent and honest in all circumstances. The company's processes within its supply chain are designed to ensure ethical outcomes at all times.

The company has in place a comprehensive 'Code of Business Conduct and Ethics' which is periodically revised and refined as business practices evolve. It covers anti-corruption, anti-competitive behaviour, non-discrimination, fair dealing with peers, equal opportunity, and dealings with public institutions, amongst other things. The Code can easily be accessed on the company's intranet.

The company does not make contributions to political parties or seek to influence political action. On the other hand the company works with regulatory and non-regulatory bodies and professional associations to design relevant policy frameworks and shape relevant laws.

Last year there were no breaches of the company's Code of Business Ethics.

Community engagement

Community acceptance for the value that DIMO builds is important for sustainable and responsible entrepreneurship. Smart management of relationships with the community helps build value for the company.

The company engages the community in multiple ways, including by way of independent stakeholders surveys. These engagements help the company to identify the pulse of the community, understand community perceptions and feelings, and respond

Value Creation Report

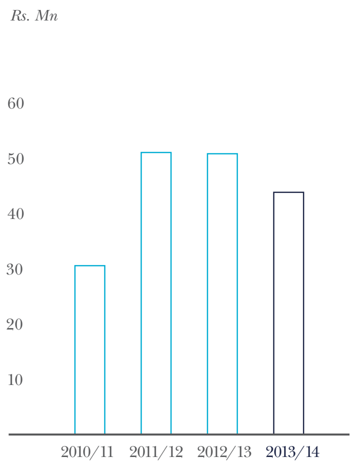
to community needs. The results of these engagements including the stakeholder surveys, are analysed by the Sustainability Committee which formulates targeted interventions. These engagements are used to develop products and other responses that are responsive to the nuances of community needs and aspirations.

Community interventions

Last year the company made interventions in three strategic areas:

1. Technical and vocational education for youth
2. Developing community infrastructure
3. Enhancing livelihood opportunities

Total expenditure on these initiatives was Rs. 43.8 mn (Rs. 50.8 mn in 2012/13).



Community development expenditure

Technical and vocational education for youth

DIMO Automobile Training School (DATS)

The DIMO Automobile Training School opened its doors to the nation's youth in 1990. In 2010, DIMO's commitment to vocational education led to the opening of another training school in Jaffna. The state-of-the-art training schools at Siyambalape and Jaffna are two key channels through which the company provides free vocational and technical education to youth.

DATS provides young people the opportunity to work with world class brands and state-of-the-art technology. So far, 368 students have passed out from DATS as diploma holders. The schools develop a pool of technical expertise within the country and also provide a recruitment source for DIMO. There is no obligation for these trainees to work for DIMO and they are free to chart their career path. DATS has tried to break gender stereotypes by making a special endeavour to train and recruit female mechanics for the automobile sector. At present, there is a batch of 10 female students enrolled at DATS. DIMO invested Rs: 22.9 mn on the two schools during the reporting period.

Other initiatives the company undertook last year include the provision of technical training programmes on the use of agricultural machinery, career guidance workshops in collaboration with the universities of Sri Jayewardenepura and Moratuwa, provision of school materials, food items to disabled and disadvantaged groups and the provision of Mobile career counselling to rural youth through our partnership with Deutsche Gesellschaft Für Internationale Zusammenarbeit (GIZ) GMBH.

Moreover, students from the following institutions received vocational training at DIMO:

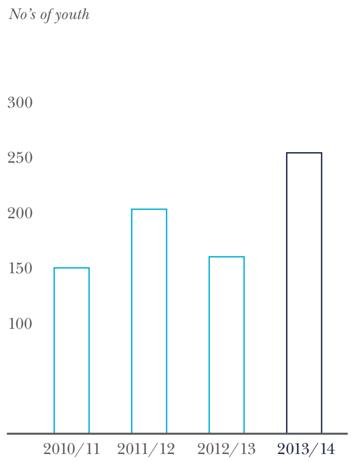
- NAITA (National Apprentice & Industrial Training Authority
- Ceylon German Technical Training Institute
- University of Moratuwa
- University of Peradeniya
- University of Sri Jayawardenapura
- University of Kelaniya
- Vocational Training Authority of Sri Lanka
- Automobile Engineering Training Institute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

During the reporting period, 209 apprentices were given the opportunity to obtain their vocational training at the company's facilities (154 in 2012/13). As of now, there is a total of 258 apprentices receiving technical training.

Developing community infrastructure

Investments in community infrastructure plays an important role in relationship building. Last year trainees from the DIMO

Automobile Training School helped in the renovation and development of the Kalotuwawa Primary School in Dedunupitiya. The water supply system at the iconic Athugala Samadhi Temple in the Kurunegala District was strengthened to help the thousands who flock there every year. The company also opened the state-of-the-art DIMO Technical Institute in Sooriyawewa, which is equipped with state-of-the art driver and technical training facilities.



Number of youth afforded training

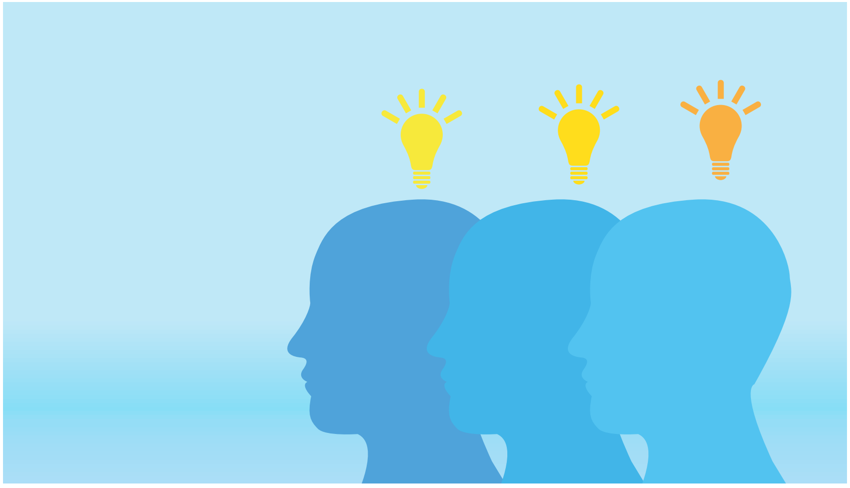
Enhancing livelihood opportunities

DIMO continues to build value by investing in local communities and in livelihoods in different parts of the country. A special focus is given to disabled, disadvantaged communities. The company has developed a special programme of assistance for disabled persons, including disabled soldiers and children, for their empowerment and their equal access to opportunities.

Some of the community empowerment projects carried out during this reporting period include awareness programmes on disease prevention, child nutrition programmes, blood donation camps, development of religious sites, opportunities for rural entrepreneurs to own low cost commercial vehicles, soil testing and agricultural awareness programmes for farmers and partnering with local universities to carry out research to modify logistics related regulations

Value Creation Report

Our quest for perfection is driven by our intellectual capital – the source of all intelligent innovation and creative ideas.



Intellectual Capital

A model of inspiration and innovation

Our store of intellectual capital is built through multiple synergies derived from the value creation process. These synergies are manifested in three intangibles; organisational knowledge based intangibles or expertise, process capital - the systems and processes that are unique to DIMO and brand equity, that is, the name, logo and perceptions that identify our company in the public eye.

These three capitals help drive the company's value creation activities. Value creation and intellectual capital are thus inter-dependent while innovation is a key factor that is embedded in the value creation process.

Developing organisational knowledge

The company's organisational knowledge-based intangibles are embedded in the corporate culture, structures, processes of governance, data and information and the nuances of intuition among employees.

The DIMO corporate culture enables learning, provides opportunities to explore and innovate. The company also encourages an open culture of knowledge-sharing and building on knowledge already acquired, across different tiers.

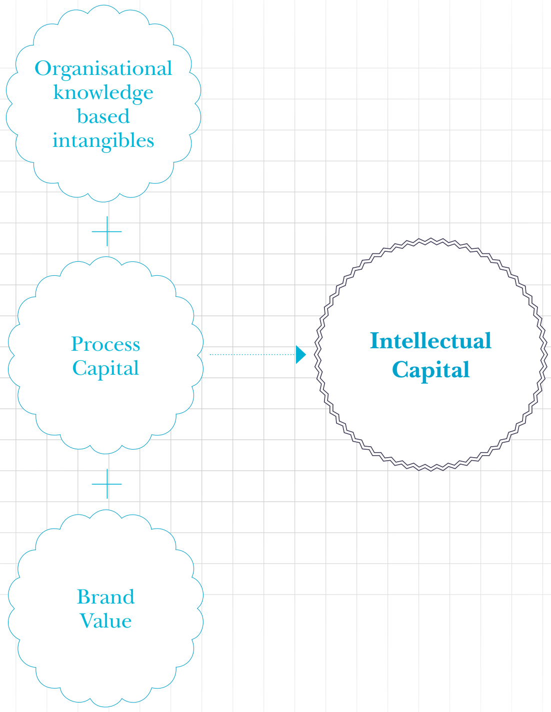
Time tested processes

Over the years we have developed robust organisation-wide processes, core value creation activities and support services that have evolved processes that are unique to the company.

Growing brand value

The DIMO brand is now a ripe old '75'. It has all the characteristics and advantages of a vintage brand, rich, robust, owning years of acquired skills and long relationships with diverse stakeholders. At the same time it carries the advantages of a young brand - adapting easily to change and embracing new ideas and challenges with gusto.

Intellectual capital



The DIMO brand is another form of capital that contributes to building value within the company. The brand is an integral element of the company's innovative supply chain process that in turn, replenishes and rejuvenates the brand.

One of DIMO's brand strengths is the trust and goodwill the company has generated over the years. Our portfolio of quality products and our expert, responsive after-care services have ensured that our customers return to us over and over again.

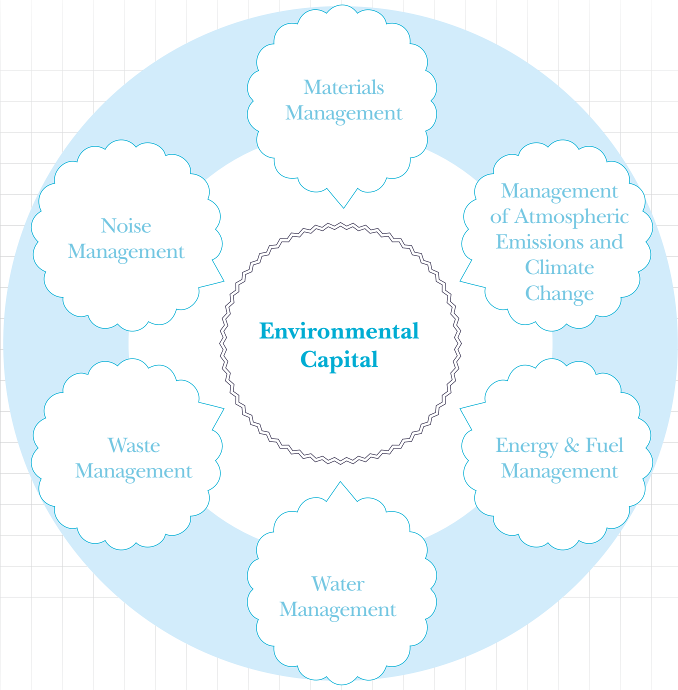
Value Creation Report

Minimising the impact that we have on our physical environment and inspiring our employees and society to internalize the values of conservation remain our priorities.

Environment

Aspect	Measure	2013-14	2012/13	2011/12	2010/11	2009/10
Combating Climate Change	Carbon footprint tCO2 e per Rs. 1 mn of Group net turnover	0.2773	0.2218	0.1674	0.1064	0.2472
Energy Consumption	Total energy consumption (1,000 GJ)	52,333	60,547	78,184	32,264	26,210
	Energy consumption (Giga joules) per employee (on average)	34	42	58	31	30
Water Consumed	Total water consumption (m3)	90,487	101,984	75,640	46,408	37,572
Water Recycled	Ground water recycled and reused as a percentage of total water consumption (%)	24 %	21.00	15.00	24.00	34.00
Waste Management	Hazardous waste (solid) sent for recycling/reusing - Kg	125,153	132,364	65,989	37,002	N/A
	Hazardous waste (liquid) sent for recycling/reusing - Litres	107,646	105,506	94,267	80,295	N/A

Building Environmental Capital



DIMO's environmental strategy is driven by two principles. The company's first principle seeks to minimize the impact that the company's operations have on the physical environment. The second seeks to inspire employees and society to internalize the value of conservation and to commit to minimizing the impacts on the environment. DIMO's environmental strategy is grounded in the idea that the company should re-use, re-cycle and replenish wherever possible, and preserve today's physical environment for generations yet unborn.

A comprehensive environmental management system

All forms of entrepreneurship impact on the environment. For entrepreneurs the challenge is to minimize adverse impacts and maximize positive impacts. DIMO has in place a comprehensive environmental management system, ISO 14001 (2004) certified, that nudges the company towards environmentally friendly goals. The Environment Management System (EMS) is managed by the company's Group Management Committee and Sustainability Committee, which oversee all aspects of the system.

Over the years the EMS has identified six areas where the company should minimize adverse impacts and maximize positive impacts.

Greenhouse emissions

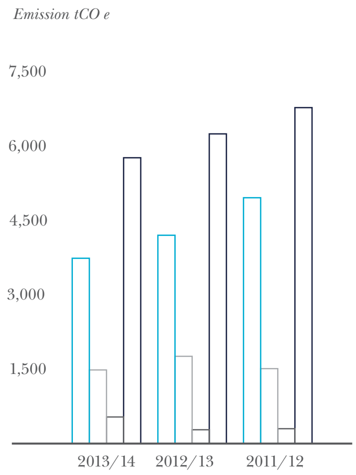
Emissions are the invisible destroyer. Their impact is subtle and long term and has previously been easier to hide. The main greenhouse gas (GHG) emitted into the atmosphere by the activities of the company is carbon dioxide. DIMO has taken steps to measure and manage emission levels, being conscious of the fact that this could possibly have an impact on the community.

Stakeholder engagement with local communities has also identified their expectation of us to be environmentally friendly. It may also have an impact on the company's social licence to operate. Climate change continues to pose a major challenge to the global community and the company is conscious of the harm that carbon based fuels cause.

This is the sixth consecutive year in which the company has calculated and reported on its carbon footprint.

The measurement methodology follows the standards laid down in the WBCSD/WRI Greenhouse Gas Protocol's Corporate Standard (Revised Edition).

Value Creation Report



Carbon Footprint

Scope 1 Scope 2 Scope 3 Total

The direct GHG emissions from diesel used for company vehicles, delivery of brand new vehicles and other uses amounted to 2,511 tCO2e (2,914 tCO2e in 2012/13). This is 43% (47% in last year) of the company's total carbon footprint.

DIMO's GHG emission during the year under review was 0.2773 tCO2e per Rs.1 Mn of net turnover. This is in comparison to the last year's figure of 0.2218 tCO2e. This increase is partially due to the reduction in turnover that did not result in a proportionate reduction in GHG emissions. There was a 7.7% reduction in the company's carbon footprint. This is attributed to a reduction in diesel used for delivery vehicles and reduced electricity usage.

The company will continue to monitor its carbon footprint and ensure that there is a progressive reduction in years to come.

THERE WAS A 7.7% REDUCTION IN THE COMPANY'S CARBON FOOTPRINT. THIS IS ATTRIBUTED TO A REDUCTION IN DIESEL USED FOR DELIVERY VEHICLES AND REDUCED ELECTRICITY USAGE.

Atmospheric emissions

Atmospheric emissions are tested every three months. So far the company has ensured that its emissions levels are well below the level set by the Central Environmental Authority (CEA).

A comprehensive system of 'gas', and 'dust' extractors and filtration systems across all the company's workshop sites ensure that emissions are kept within acceptable limits. Carbon dioxide and diesel fumes from our Mercedez Benz workshop are captured, stored and released in controlled volumes into the atmosphere. Exhaust and gas extractors capture emissions from engine testing and the cleaning of air filters and brake assemblies. Filtration systems in the company's paint booths capture toxic fumes and particles, by-products of the 'painting' process.

Materials management

The company uses a substantial quantity of materials for vehicle repairs, for after care of vehicles, and in providing various engineering solutions. This includes paints, kerosene, lubricants, re-threaded tyres, floor carpets, lacquer, thinner, putty and filler.

The company has in place processes to ensure that all materials used as part of the company's activities are stored, used and then disposed of in line with the company's comprehensive Environmental Management System. The company's Materials Management System ensures that materials are recycled wherever possible. Those materials that cannot be re-cycled are disposed in a responsible way.

Managing energy usage

The company's main sources of energy are electricity, diesel, petrol, and liquefied petroleum gas. The expenditure on energy is significant because of the nature of its business activities. Electricity is obtained mainly from the national grid. This is supplemented by the use of environmentally friendly 'in-house' generators.

Stringent processes measure and carefully manage energy consumption within the company. The cost of energy is a significant part of product and service costs, and has an important impact on the company's bottom line.

Overall energy usage reduced by 13% over the past year. Diesel fuel usage for delivery of vehicles reduced by 20% and this had a significant impact on overall energy consumption. Stringent processes to monitor diesel usage were implemented during the year. Petrol consumption increased by 7% because of an increase in sales promotion activities. Electricity consumption decreased by 14%.

External and 'in-house' energy audits have identified a number of areas where the company can reduce energy usage. The use of capacitor banks for power factor correction, the replacement of incandescent lighting with CFL and LED lighting, programming all computers to revert to standby mode within a five- minute idling period, and the setting of air conditioning units at a constant minimum of 24 degrees Celsius or more, are some of the measures that were identified and measures the company implemented across all of its locations. The company is certified to conduct energy diagnoses and audits and is accredited by the Sri Lanka Sustainable Energy Authority.

Optimised water usage

Water is a primary and indispensable input for the vehicle service and repair business. In addition, water is used for other purposes at all location sites. The company continues to rely on the national supply for its water.

The company's processes ensure the measurement, management and recycling of water used within the Group. Water optimization affects the company's bottom line, and helps conserve a natural resource that is critical to society. Waste water is treated to comply with regulatory requirements before being released into the environment to ensure that there are no harmful effects to the community.

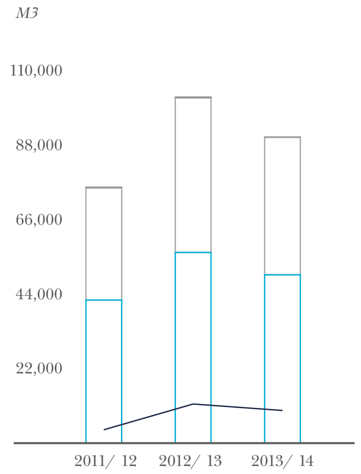
Total water consumption & reused water

Water consumption decreased by 10.1 % over the past year. This was mainly due to a 15% decrease in water consumption at the company's headquarters. 24% of the ground water consumed (21 % in FY 2012/13) has been recycled and reused. This amounts to 11% (11% in FY 2012/13) of the total water consumption.

OVERALL ENERGY USAGE REDUCED BY 13% OVER THE PAST YEAR. DIESEL FUEL USAGE FOR CUSTOMER DELIVERIES REDUCED BY 20%

The amount of water re-cycled increased because of an increase in capacity at the water treatment plant at Siyambalape. The total volume of water reused at Siyambalape and Weliveriya was 9,692 m³. Of this, 4,917m³ has been used for vehicle washing purposes whilst the balance was used for gardening purposes in both premises.

DIMO's waste management processes prevent the discharge of untreated water into the sewage system. Waste water from all workshops pass through oil separators and are monitored to ascertain their pH levels, to ensure compliance with regulatory limits. All of the company's workshop locations contain a state-of-the-art biological water treatment and recycling plant. Wherever possible water is recycled and re-used.



Water usage/ reused

The company is subject to random independent checks by a CEA approved entity. Re-cycled water is checked randomly to ensure pH Value, Chemical Oxygen Demand (COD), Biochemical Oxygen Demand, Total Suspended Solids and Oil/Grease content levels are below the tolerance levels set by the CEA. The levels have always been found to be within the parameters of the CEA.

Value Creation Report

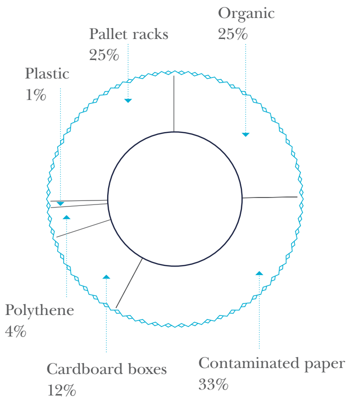
Waste management

The measurement and management of effluents and waste is necessary as it helps the company evaluate the level of efficiency with which the service centres operate. It also helps the company ascertain how environmentally friendly it is. Being able to recycle and reuse helps keep costs down while mitigating the adverse impacts on the environment. Efficient waste management plays a pivotal role in adhering to environmental regulations and ensuring that the local communities where the company operates do not face any health hazards as a result of the company's business activities.

Non-hazardous solid waste management

The company's systematised approach to effluent and waste segregation for non-hazardous solid waste, which forms part of the EMS, involves separating materials at source. Materials such as organic material, paper, plastic and polythene are classified so that management becomes easier and more efficient.

Colour coded bins are provided at all the company's locations and waste is separated at source. Disposed food is given to a third party for use as animal feed. Last year 136,192 kilogrammes (134,536kg in 2012-13) of non-hazardous waste were handed over to CEA approved third parties for recycling or to be reused.



Non-hazardous solid waste disposal Kg 2013/14

HAZARDOUS WASTE ITEMS WERE HANDED OVER TO CEA APPROVED THIRD PARTIES FOR RECYCLING

Hazardous waste management

Hazardous waste is regularly handed over to designated third parties for recycling. This includes waste oil, thinner, sludge, mettle scraps, metal dust, paint cans, filters, batteries, tyres and saw dust. No chemical spillages have taken place at DIMO. Employees have been trained to respond promptly to chemical spillages, should they occur. Regular training is provided to employees on safety measures and the proper handling of materials.

During the year under review 125,153 kilograms (132,364 kg in 2012-13) and 107,646 litres, (105,506 litres in 2012-13) of hazardous waste items were handed over to CEA approved third parties for recycling/ to be re-used.

Noise management

Noise emissions from all of the company's facilities are strictly controlled to ensure that they do not cause discomfort to those in the vicinity. Noise levels are measured constantly by the Central Environmental Authority (CEA) to ensure that it remains within acceptable limits.

Environmentally friendly buildings

In order to pursue the company's sustainability objectives to the maximum and to further integrate the sustainability ethos into all aspects of DIMO's operations, the company began to explore the use of 'Green Buildings' at different locations within the Group.

The implementation of the green building concept began with the construction of the Bosch Service Centre at the Head Office premises in 2011. This facility, constructed as a 'Green Building' began commercial operations in January 2012. The LEED Gold Certificate was obtained for this building.

The recently completed Dimo 800 – Mercedes Benz Centre at Sirimavo Bandaranaike Mawatha, Colombo 14, was also constructed in line with the Green Building concept. The company expects to save approximately 25 % energy from the energy saving initiatives taken.

Protecting biodiversity:

Turtle conservation at Panama

The objective of the turtle conservation project, carried out in partnership with the Environmental Foundation Limited (EFL), is to conserve marine turtles by restoring and rehabilitating their nesting habitats along the Panama coastal line in the Eastern Province.

A new agreement to continue the partnership for this project was signed on the 2nd of December 2013. The marine turtle monitoring and conservation program in the Komari-Panama area will be developed into a community-based turtle monitoring, conservation and education programme. Under the renewed agreement, as of now, 3570 hatchlings were released to the ocean and 88% of the eggs have successfully hatched.

Unusually diverse, predictably excellent

Find out how our products and services play their role in the generation of sustainable value.

"Whatever we do, we do it well. And whatever we do, we strive to bring added value into every transaction we process."

Vehicles - Sales

Vehicles - After Care Services

Marketing & Distribution

Construction & Material Handling Equipment & Services

Electro Mechanical, Bio Medical & Marine Engineering

Value creation activities

This section provides an overview of the "value creation activities" undertaken by each business segment together with their performance.

Registration of Vehicles in Sri Lanka

Year	2008	2009	2010	2011	2012	2013
Class of vehicles						
Motor cars	20,237	5,762	23,072	57,886	31,546	28,380
Three-wheelers	44,804	37,364	85,648	138,426	98,815	83,673
Motor cycles	155,952	135,421	204,811	253,331	192,284	169,280
Buses	1,180	739	2,491	4,248	3,095	1,805
Dual purpose vehicles	2,856	1,280	11,712	33,518	37,397	24,603
Goods transport vehicles	14,038	8,225	11,845	14,818	12,266	5,872
Land vehicle	26,132	15,284	19,664	23,194	21,892	13,038
TOTAL	265,199	204,075	359,243	525,421	397,295	326,651

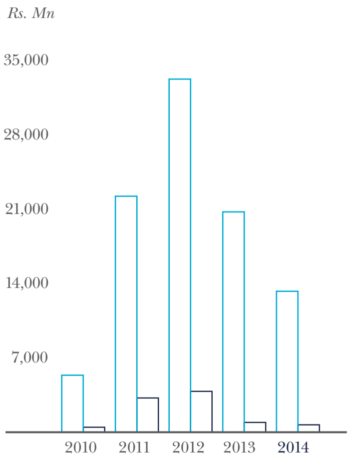
Source: Department of Motor Traffic

Adding value through an innovative supply chain

DIMO uses monetised and non-monetised capitals to generate significant outputs and outcomes for company, stakeholders and environment. In 2013 DIMO continued to deploy its supply chain process to generate value in a number of key areas. The company's core activities - sourcing, warehousing, marketing, solution mapping, engineering, delivery and after sales care – were the primary contributors to value generation. These core areas were supported by interventions in the financial and commercial services, in IT, marketing and human resource management. The company's capital deployed in these core areas and support services, helped in the process of value creation and in growing both monetised and non-monetised capital.

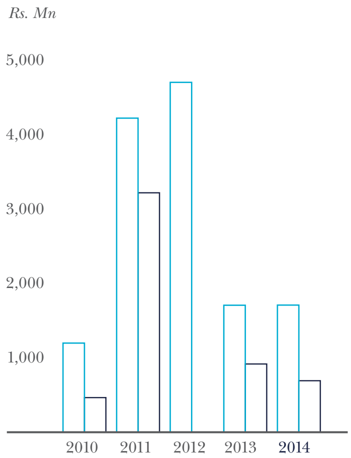
VEHICLES - Sales

A key part of our portfolio is the vehicle segment. From high-end luxury brands to hardworking commercial vehicles, we deliver a range of passenger, four-wheel drive, commercial and special purpose vehicles that serve Sri Lankans from every part of the island.



Vehicle Sales

Turnover   Results



Group Results vs Vehicle Sales Results

Group Results   Results

Adding value with 'high-end' and utility vehicles

The sale and the after care of passenger, commercial vehicles and off-road vehicles is one of the company's core activities. The company markets a range of vehicles which include Mercedes Benz, Tata, Chrysler - Jeep, Mahindra tractors and Claas machines. The company's overall performance is influenced significantly by how this segment performs.

There was a decrease in the total number of vehicle registrations in 2013 by 18% (a 24% decrease in 2012). Car registrations decreased by 10%, buses by 42%, three-wheelers by 15%, land vehicles by 40% and 'goods transport vehicles' by as much as 52%.

Import tariff and interest rates have a critical bearing on the growth of the automobile market in Sri Lanka. An enhanced duty structure on vehicles has curtailed demand over the past two years. On the other hand the commercial vehicle business is highly dependent on the prevailing interest-rate regime. Most of these vehicles are purchased through lease agreements or from commercial borrowings.

Borrowing and lending rates dropped in 2013/14 although the expected increase in demand did not occur.

The 'DIMO Batta', which the company started marketing in 2006 has transformed the lives of thousands of Sri Lankan entrepreneurs. It has provided a variety of entrepreneurs with a low cost and functional vehicle that serves multiples purposes. During the year the company sold 10,375 units out of which 6,772 were DIMO Battas.

43 showrooms in all parts of the country showcase the company's vehicles. Innovations such as a 'twenty-four hour roadside assistance service', Adhisathkara and Gamin Gamata have ensured that customers are provided with the highest levels of after sales care.

Outlook

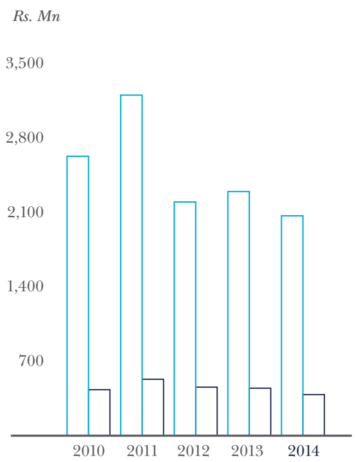
The company anticipates that the heavy investments earmarked for infrastructure and roads over the next few years and a lower interest rate regime will stimulate a healthy growth in this sector. DIMO stands ready to capitalize on this opportunity.

Vehicle sales -segment	2013/14	2012/13
Segment Turnover (Rs. mn)	13,262	20,736
% Contribution to the Group Turnover	64%	75%
Segment Result (Rs. mn)	692	916
% Contribution to the Group Segment Result	41%	54%
Segment Capital employed(Rs.mn)	4,028	3,740
Weighted average customer satisfaction index	90%	91%
No of vehicles sold by Dimo	10,375	14,199

Principals represented

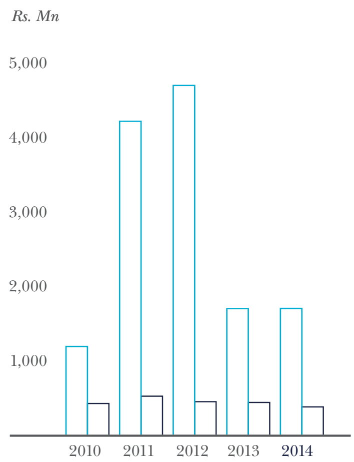
VEHICLES - After Care Services

World-class accessories and components are simply part of our renowned after care service package. DIMO also serves our customers through our state-of-the-art Mercedes Benz Centre and the LEED Gold certified BOSCH Diesel Centre and Car Service Centre, offering industry expertise, state of the art diagnostic equipment and access to best-in-class automobile engineering services.



Vehicles After Services

Turnover   Results



Group Results vs Vehicles After Services Reuslts

Group Results   Results

Adding value with quality 'After Sales' care

The state-of-the-art Mercedes Benz service centre that opened in 2014 will transform 'after sales care' offered by the company. It will complement the services offered by the Bosch Centre, which DIMO opened two years ago. During 2014 the company will relocate the Tata passenger vehicle service centre to its headquarters. This will be accompanied by a re-organisation of the Tata service dealer network and a strengthening of service capacity.

Apart from providing 'after sales care' for Mercedes Benz, Chrysler - Jeep, Tata vehicles and Mahindra tractors, DIMO also holds the franchise for spare parts for these vehicles and has a country-wide distribution network. Spare parts for these brands of vehicles and tractors are made available through 21 distribution centres in different parts of the country.

Vehicle after care today requires the intensive use of state-of-the-art technology. DIMO has invested heavily in training technically sound and technologically advanced engineers over the years. It has placed strong emphasis on maximizing the benefits of modern technology for vehicle after care and on carving a niche as a technological leader. An elaborate training structure and an 'in-house' training centre ensure the constant availability of well-equipped engineers with the capacity to understand diagnostic issues and advise on effective solutions. The use of electronic and on-line catalogues has added value to our supply chain in this segment.

Outlook

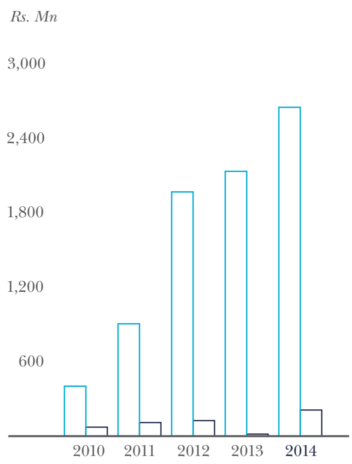
The new state-of-the-art workshop at the Mercedes Centre will significantly improve workshop capacity, providing a boost to the revenue streams from this segment. Relocation of the Tata passenger car workshop too will help to improve its capacity and revenue. Overall this segment is expected to record a much improved performance.

Vehicle after sales-segment	2013/14	2012/13
Segment Turnover (Rs. mn)	2,067	2,294
% Contribution to the Group Turnover	10%	8%
Segment Result (Rs. mn)	386	445
% Contribution to the Group Segment Result	23%	26%
Segment Capital employed(Rs.mn)	1,429	1,251
Weighted average customer satisfaction index	85%	77%
Workshop throughput – No. of vehicles	7,451	7,504

Principals represented

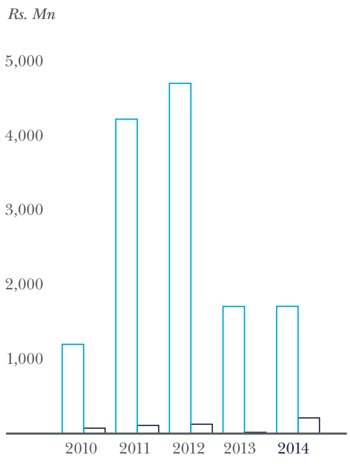
MARKETING & DISTRIBUTION

The Marketing & Distribution sector is a broad one, delivering total solutions in tyres, auto components, power tools and lighting products from a range of global brands. Top quality product technology combined with highly trained personnel make us outstanding in these industry segments.



Marketing and Distribution

Turnover Results



Group Results vs Marketing & Distribution

Group Results Results

Adding Value through Marketing and Distribution Operations

The Marketing and Distribution segment of DIMO's operations markets a range of quality products that include tyres, modern lighting products, power tools, original equipment for vehicles (OE) and Bosch auto components. These products are distributed mainly through a country-wide network of distributors and dealers. Key aspects driving performance in this segment are a reliable marketing strategy, strong execution of this strategy, and the effective management of the inventory and receivables. Sourcing quality products, warehousing them and prompt delivery play an important part in the supply chain of this segment. The company uses the logistics centre at Weliveriya as its main warehouse to supply agents throughout the country.

Marketing & distribution segment considerably improved its contribution to the segment result with the Original equipment (OE) business being a major contributor. Power tools business too performed exceptionally well to record the highest ever profit to come from its operations. Power tools accessories sales remained the market leader in the branded products segment. Tyre retailing is being considered as a strategy for market penetration and the company recently opened a retail outlet in Wattala taking the first step in this direction.

Outlook

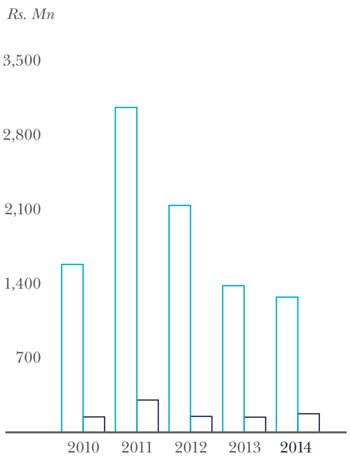
The construction sector boom has given an impetus to the lighting and power tools businesses. Plans are afoot to add two more product ranges, which will boost the segment turnover. The growth momentum experienced in the tyre business in the second half of the year is expected to continue during the ensuing year. In order to improve competitiveness, strengthening of the distribution network will receive special focus. The budgets indicate that Bosch and Original Equipment (OE) business will enhance the contribution to segment result. Overall, a much improved performance is expected from this segment.

Marketing and Distribution -segment	2013/14	2012/13
Segment Turnover (Rs. mn)	2,650	2,134
% Contribution to the Group Turnover	13%	8%
Segment Result (Rs. mn)	209	15
% Contribution to the Group Segment Result	12%	1%
Segment Capital employed(Rs.mn	1,505	1,132
Weighted average customer satisfaction index	86%	87%
Segment Receivables – (Rs. Mn)	817	452
Segment Inventory – (Rs. mn)	511	566

Principals represented

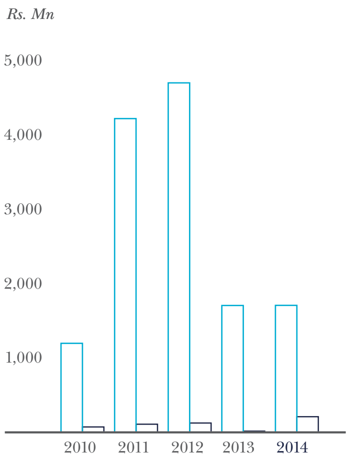
CONSTRUCTION & MATERIAL HANDLING EQUIPMENT & SERVICES

Sri Lankans all over the island now have access to state-of-the-art technology in construction and mining equipment. DIMO also offers a range of after-market support services, company certified implements and original components.



Construction, Material Handling Equipment & After Services

Turnover Results



Group Results vs Construction, Material Handling Equipment & After Services Results

Group Results Results

Adding value through the construction and infrastructure industry

DIMO provides a range of solutions for infrastructure development and the construction industry. Bulldozers, rollers and compressors and more specialized machinery such as pavers and cranes provide a 'one stop shop' for those engaged in road construction. Warehousing solutions such as racking systems, material handling equipment, storage management systems and automated car parking systems are designed for another group of entrepreneurs. The company provides full maintenance contracts with the equipment it markets, providing added value to customers. The warehousing solutions are unique and include the full spectrum of services from design to supply and commissioning of a fully functional state-of-the-art warehouse.

This segment of the company's operations was buoyed by the momentum of the country's construction sector. "BOMAG" asphalt pavers, "KAESER" compressors, LEEBOY backhoe loaders, "GEHL" skid steer loaders and "PALFINGER" truck mounted cranes were introduced to the product portfolio of this segment during the year.

Outlook

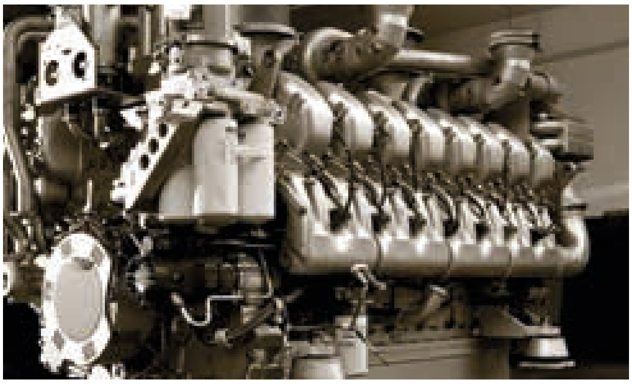
Strong public sector investments in highways, railroads, and port development will present this segment with more business opportunities. This momentum is likely to be maintained and the company will continue to support the development of a robust infrastructure, housing and the tourism industry for Sri Lanka at the same time creating value for DIMO.

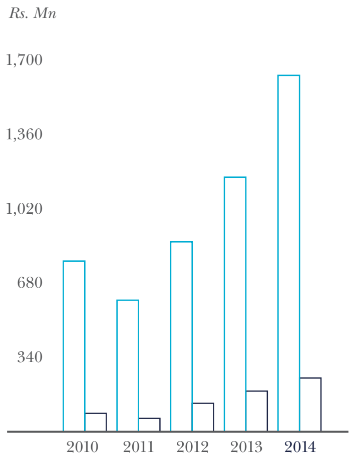
Construction Material Handling Equipment and Services	2013/14	2012/13
Segment Turnover (Rs. mn)	1,273	1,381
% Contribution to the Group Turnover	6%	5%
Segment Result (Rs. mn)	174	142
% Contribution to the Group Segment Result	10%	8%
Segment Capital employed (Rs.mn)	579	492
Weighted average customer satisfaction index	90%	86%
Contribution of full maintenance contracts to the segment result	32.75%	42.25%

Principals represented

ELECTRO-MECHANICAL, BIO MEDICAL & MARINE ENGINEERING

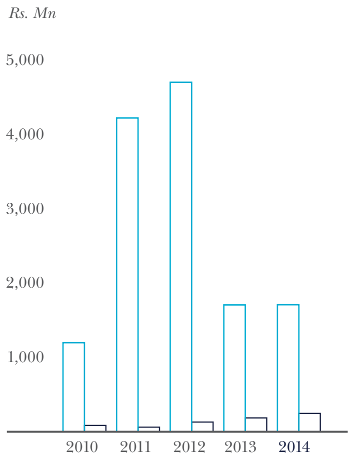
This segment is possibly our widest, including building automation systems, fire detection, protection and suppression systems, CCTV and access control systems, public address systems, power systems for marine propulsion and rail traction, industrial refrigeration and medical equipment.





Electro Mechanical, Bio Medical & Marine Engineering

Turnover Results



Group Results vs Electro Mechanical, Bio Medical & Marine Engineering Results

Group Results Results

Adding value through Electro-Mechanical, Bio-Medical and Marine Solutions

This is a segment that has seen a rapid expansion in the recent years in scope and in size. The Electro - Mechanical Engineering business includes many building services such as fire detection and protection systems, building technologies, security and electrical engineering solutions and services including transmission and distribution. This is an area where total solutions are offered to the customer upon understanding their requirement. The Bio Medical Engineering business deals with state of the art equipment in diagnosis, therapy, ophthalmology and critical care. Therefore, our solution extends to designing, supplying, commissioning and after service of the solution proposed. The Marine solutions business is mainly engaged in areas related to repair of ships and marine craft. Solution mapping, engineering and after service are critical activities in the supply chain of this segment.

The Bio-Medical Engineering business was the top performer of this segment. State of the art diagnostic equipment such as high- end MRI and CT scanners were installed and commissioned by the engineers of the DIMO tribe. During the year under review, the first tomotherapy unit in Sri Lanka was imported and supplied by DIMO. The building technologies business was active in the private sector and public sector projects and made a significant contribution to the segment result. The Power Engineering business too made its contribution to the development of the power sector, whilst creating value for DIMO.

Outlook

Sri Lanka is in a phase of the economy where spending in construction industry, power generation and transmission and healthcare is rapidly increasing. This significantly enhances the prospects of this segment. We also note the encouragingly consistent growth recorded in this segment. This is a key area that is expected to be developed in the short and medium term in our endeavour to reduce dependence on the auto related segments. The budgets indicate a further improved performance in 2014/15.

Electro Mechanical , Bio Medical and Marine Engineering	2013/14	2012/13
Segment Turnover (Rs. mn)	1,630	1,165
% Contribution to the Group Turnover	8%	4%
Segment Result (Rs. mn)	245	186
% Contribution to the Group Segment Result	14%	11%
Capital employed	1,494	1,034
Weighted average customer satisfaction index	88%	88%

Principals represented

Sustainability Performance Objectives in 2013/14

Aspect	Term	Objective	Achievement			Remarks
			2013-14 (Annualised)	2012/13	2011/12	
Monetised Capital	Long/ Short	ROE to be more than Annual AWDR+3%	Not achieved	Not achieved	Achieved	The AWDR+3% as at year end was 11.45% The ROE for the period was 3.29%. The ROE for 2012/13 was 6.1%
Customer	Long	To ensure continuity of a customer-centric Quality Management system with suitable accreditation	Achieved	Achieved	Achieved	A quality management system accredited with ISO 9001:2008 is in place
	Short	Number of training hours for sales personnel to increase by 10% from previous year	Not achieved	Achieved	Achieved	The number of training hours of sales personnel was 25% less than the previous year
	Short	To achieve a Weighted Average Customer Satisfaction Index score of more than 85%	Achieved	Achieved	Achieved	During the year under review the Weighted Average Customer Satisfaction Index score was 89%. In 2012/13 this was 85.2%
	Short	Each branch to have a customer interaction event each quarter	Achieved	Achieved	Not Applicable	Each branch achieved the required number of customer events
Employee	Short	To achieve an employee satisfaction index score of more than 60%	Achieved	Not achieved	Achieved	In the current year the employee satisfaction index score has increased to 61.10% from 53.46 in 2012-13
	Short	Average training hours per employee per year to be more than 10 hours	Achieved	Achieved	Achieved	Average Training hours per employee was 13.10 hours in 2013/14. The corresponding figure for 2012/13 was 16.00 Hours
	Long	To maintain an the ratio of female to male employees, excluding workshops and field sales of more than 15%	Achieved	Achieved	Not achieved	The ratio was 20% in 2013/14 and 2012-13
Business Partner	Short	To carry out a performance evaluation of twenty foreign Principals at least once a year	Achieved	Achieved	Achieved	The Annual Principal performance evaluation process made this possible
	Short	To obtain declarations from at least 50% of the current major local suppliers, that they will abide by the DIMO supplier code	Achieved	Achieved	Achieved	Declarations from 74% of the current major local suppliers have been obtained
Society	Short	Invest at least .05% of turnover on community development activities	Achieved	Achieved	Achieved	In 2013/14 Dimo has invested 0.20% of the turnover on community development activities. In 2012/13 this was 0.19%. During the year under review expenditure on community development activities was Rs. 43.8 mn (Rs. 50.8 mn in 2012/13)

Aspect	Term	Objective	Achievement			Remarks
			2013-14 (Annualised)	2012/13	2011/12	
Society	Long/ Short	To provide vocational training for trainees numbering more than 5% of the number of employees	Achieved	Achieved	Achieved	The number of vocational trainees who registered for training in 2013/14 was 16.78% of the average number of employees for the year. This was 10.76% in 2012/13
	Short	100% compliance with Laws and Government regulations	Achieved	Achieved	Achieved	The Company's Code of Business Ethics require compliance with laws and regulation at all times. No non-compliances were reported during the year
Environment	Long	To re-cycle and re-use at least 20% of the ground water used	Achieved	Achieved	Not Achieved	We were able to achieve 24% in 2013/14 due to expansion of the water recycling capacity. The corresponding figure for 2012/13 was 21%
	Short	Waste segregated and handed over to selected third parties for recycling/ reuse to be more than 90% of total solid waste	Achieved	Achieved	Achieved	In 2013/14 the Company renewed the waste collection agreements with 3rd parties who were approved by the Central Environmental Authority. These parties were capable of providing a total solution for waste management
	Short	Carbon Foot Print for every Rs. 1.0 mn of turnover to reduce by 5%	Not Achieved	Not Achieved	Not Achieved	Carbon footprint for every Rs. one million mn of turnover in 2013/14 was 0.2773 tC02e. The corresponding figure for 2012/13 was 0.2218 tCO2e. However, the total carbon footprint reduced from 6,242 tCO2 to 5,768 tCO2
Value creation	Long	Reduce dependence on vehicle business by increasing the turnover & segment result of Non-vehicle business at least by 15% per annum	Partially achieved	Partially achieved	Not achieved	Non-vehicle segment turnover increased by 25% and segment result increased by 234% in 2013/14 compared
	Long/ Short	EVA To be positive	Not achieved	Not achieved	Achieved	EVA created during 2013/14 was a negative value of Rs.536 mn and in 2012/13 it was a negative value of Rs.547 mn
	Long/ Short	Value Added to increase every year at a rate more than the rate of inflation +5%	Not achieved	Not achieved	Achieved	The Value Added has increased by 6 % in 2013/14 over the previous year, Which did not meet the objective of 11.9%

The *'sanhinda'* was where people would gather to resolve matters of governance, initiate community discussions and enjoy social interaction.

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Governance & Risk Management

Senior Independent Director's Statement

Senior Independent Director's Statement

The 'Code of Best Practice on Corporate Governance 2013' (The Code) issued jointly by the Securities and Exchange Commission and The Institute of Chartered Accountants of Sri Lanka recommends that a Senior Independent Director (SID) be appointed in the event of the Chairman heading the executive function of the Company.

The presence of a 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 the Chairman on major strategic and governance issues. As the SID, I make myself available to any Director to have any confidential discussion 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
23rd May 2014

Transparent, accountable and responsible

A very detailed analysis of our corporate governance philosophies, policies and practice.

"DIMO perceives good governance as an uncompromising effort that enables growth in a sustainable manner; not as a set of controls that stifles progress."

Philosophy

Enterprise Governance is at 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 acceptable corporate behaviour.

Governance in Action

Primary authority for identifying, overseeing and evaluating economic concerns is vested in the Board of Directors and regular monitoring is delegated to the Group Management Committee (GMC), which consists of executive members of the Board and senior management. The GMC together with the heads of business units is responsible for implementing and monitoring the performance and conformance aspects of governance.

The Sustainability Committee, containing members of the Board and management, has the primary responsibility to oversee the Group's activities with regard to the identification and management of environmental and social concerns and the achievement of the sustainability objectives. It is the duty of this Committee to report critical issues to the Board for action. Operational aspects relating to management of environmental and social impacts are delegated to the respective business units.

Governance Model

The Board identifies the scope of Enterprise Governance, which that is implemented starting from the Board Room throughout the Value Creation process. This signifies that the conformance and performance aspects of Governance should be identified in relation to managing the capitals and value creation activities. Duties of responsible trusteeship, faithful stewardship and uncompromising accountability underpin the manner in which Dimo is committed to good governance through its Value Creation process, in its pursuit of creating value and accumulating financial and non-financial wealth for its stakeholders. Conformance and Performance requirements demand a robust enterprise governance framework.

Governance Framework

The ultimate responsibility for good governance rests with the Board of Directors. In order to effectively fulfill this responsibility, the Board has in place a governance structure and a process to monitor its effectiveness. The Audit Committee, Remuneration Committee and 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 consists of a governance structure, regulation framework and assurance and certification sources.

Enterprise Governance

Governance Framework

REGULATION FRAMEWORK

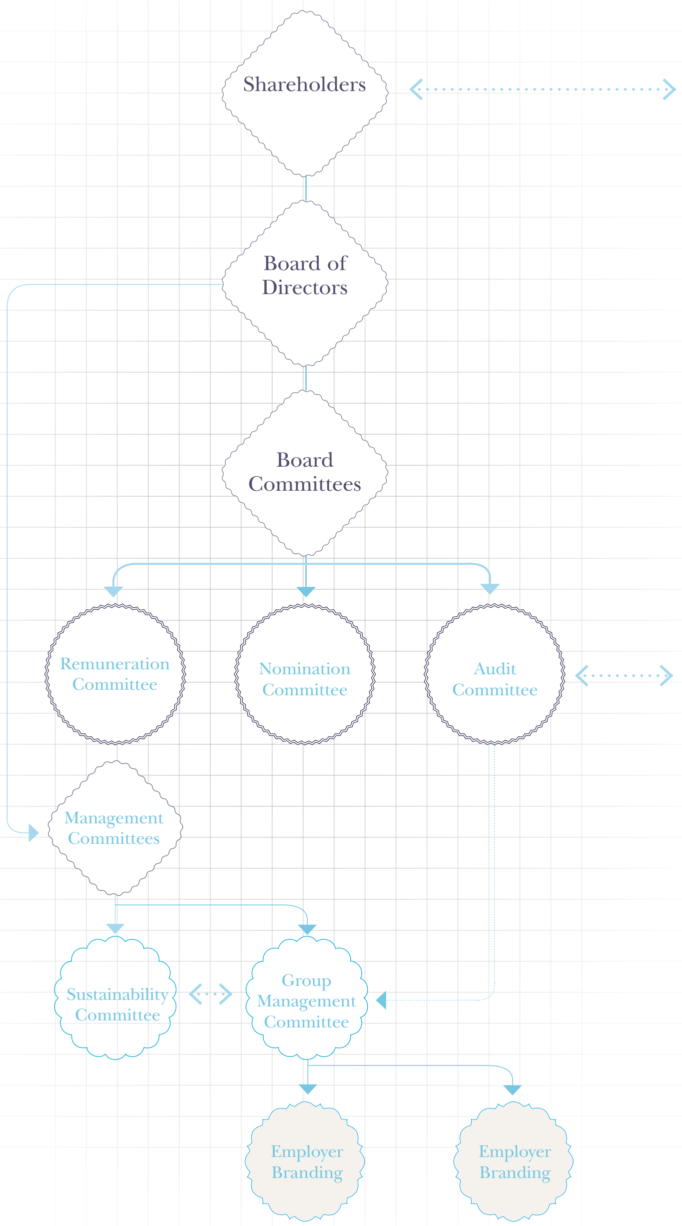
EXTERNAL REGULATION

- Code of Best Practice on Corporate Governance issued jointly by SEC and ICASL
- Corporate Governance rules published by the CSE
- Companies Act No.07 of 2007
- GRI Guidelines on Sustainability

EXTERNAL REGULATION

- Article of Association
- Quality Management System (QMS)
- Environment Management System (EMS)
- Code of Business Ethics
- Internal Control System
- Risk Management Framework

GOVERNANCE STRUCTURE



ASSURANCE & CERTIFICATION

ASSURANCE OF FINANCIAL INFORMATION

- Independent Audit

INDEPENDENT REVIEW

- Internal Audit

INDEPENDENT CERTIFICATION

- QMS Audit & Certification
- EMS Audit & Certification
- Assurance of Non-financial Information

Conformance and Performance

The driving force of conformance and performance is the onus that is placed upon the Board by the expectations of trusteeship, stewardship and accountability although there are many laws, regulations, best practices and expectations that shape these two dimensions of governance. Arising from the responsibilities placed upon it, the Board endeavours to meet the demands through the structures and the processes that are in place.

The table ... illustrates key conformance and performance aspects arising from value creation activities and capitals and the point of reference through which they are addressed, regulated 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 in conformance and performance.

Conformance & Performance Aspects based on Value Creation Activities/ Capitals

Capital / Activity	Key Conformance Aspects	Point of Reference	Key Performance Aspects	Point of Reference
Value creation activities	Meet regulatory standards with regard to product and services.	Quality Management System	Quality and safe products and services	Quality Management System
		Code of Business Ethics		
	Meet Regulatory standards and business ethics in performing supply chain activities.	Quality Management System	On-time delivery	Quality Management System
		Code of Business Ethics		
	Product responsibility	Quality Management System		
Monetised Capital	Internal Control	Audit Committee	Business Strategy Formulation	Group Management Committee
		Group Management Committee		
	Internal Audit	Audit Committee	Operational Excellence	Group Management Committee
				Quality Management System
	Uncertainty Management	Risk Management Framework		Environmental Management System
	Assurance	Audit Committee		
		Independent Auditors		

Enterprise Governance

Capital / Activity	Key Conformance Aspects	Point of Reference	Key Performance Aspects	Point of Reference
Customers	Meeting Customer Expectations	Quality Management System	Customer satisfaction	Quality Management System
	Customer Health & Safety	Quality Management System	Customer Relationship Management	Quality Management System
	Customer Privacy	Quality Management System	Customer Complaint Handling	Quality Management System
Employees	Employee safety	Quality Management System	Employee satisfaction	HR Scorecard
	Employee Rights	UN Global Compact Principles	Training & development	HR Scorecard
		Code of Business Ethics	Retention	HR Scorecard
	Equal opportunities	UN Global Compact Principles	Employee Engagement	HR Scorecard
	Reducing gender inequality	Sustainability Objectives		
	Comply with legislation and regulations relating to employees	Code of Business Ethics		
Business Partners	Compliance with Principals' requirements of ethical practices	Quality Management System	Expectation management	Quality Management System
	Honor Agreements with Principals	Quality Management System		
Intellectual capital	Data security and integrity	Quality Management System	Quality and accuracy of information	Quality Management System
	Meet the requirements of the legislative enactments applicable to the Group.	Code of Business Ethics	Not applicable	
	Enhance and preserve the reputation of the company by following best practices relating to good governance and sustainability.	Code of Best Practice on Corporate Governance jointly issued by SEC and ICASL		
		CSE Listing Rules		
		Articles of Association		
		GRI G4 Guidelines		

Capital / Activity	Key Conformance Aspects	Point of Reference	Key Performance Aspects	Point of Reference
Society	Anti-corruption	Code of Business Ethics	Benevolence & Philanthropy	Sustainability Committee
		UN Global Compact Principles	Social development	Sustainability Committee
Environment	Comply with all requirements of the Environment Management System-	Environmental Management System	Carbon foot-print Management	Environmental Management System
	Meet Legal and Regulatory requirements regarding Environment	Environmental Management System	Energy & Fuel Management	Environmental Management System
		UN Global Compact Principles	Water Management	Environmental Management System
		Code of Business Ethics	Waste Management	Environmental Management System
			Material Usage	Environmental Management System
			Noise & Air Emissions	Environmental Management System
			Re-cycle & Re-use	Environmental Management System

Level of Compliance & Adherence

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	All requirements of the code and the compliance level is given on the table laid out in the company's website at www.dimolanka.com/investors/stewardship
Listing Rules of the Colombo Stock Exchange	Listing rules to be followed by listed companies in Sri Lanka including on Corporate Governance relating to; – 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 91 to 94

Enterprise Governance

Point of Reference	Aspect of Regulation	Status
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 Code of Business Ethics.
Articles of Association	Requirements prescribed by the Articles of Association	Complied
Code of Business Ethics	Compliance requirements applicable to all employees	All employees sign 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 generally accepted manner as specified by GRI G4 guidelines.	Complied. GRI index is available on the company's website at www.dimolanka.com/sustainability/sustainability-performance The Report on the Independent Assurance obtained on Non- Financial Reporting is available from pages 163 to 166
Environment Management System (EMS)	Meet the requirements of the Group's Environmental Management System accredited by ISO 14001:2004 Standard.	Complied. The Group's Environmental Management System is certified with ISO 14001:2004 with certification provided by Det Norske Veritas AS (DNV)
Quality Management System (QMS)	Meet the requirements of the Group's Quality Management System accredited by ISO 9001:2008 Standard.	Complied. The Group's QMS is certified with ISO 9001: 2008, with certification 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 company's website at www.dimolanka.com/sustainability/sustainability-performance
HR Scorecard	Specifies the KPIs to be attained with regard to HR related objectives that includes objective relating to Employee Satisfaction, Training & 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 are called upon to explain matters relating to internal controls.

Point of Reference	Aspect of Regulation	Status
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 and 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.
Risk Management	To manage risks that the Group is exposed to	Please refer the Risk Management Report on pages 95 to 101

Adherence

The governance practices of the Company are conceived out of the corporate philosophy of achieving sustainable growth through good governance. While being fully compliant with demands of the laws and regulations relating to corporate governance, the Company recognizes that best practices provide a robust framework for sustainable growth and meeting stakeholder expectations.

Enterprise Governance requires a high level of commitment across the organization and it is essential that an enabling governance culture is created. This envisages creation of awareness at all levels. All employees are expected preserve the corporate values and respect the code of business ethics in achieving their own objectives set by the management and in achieving the objectives of the Company. The sustenance of enterprise governance principles is facilitated by aligning the corporate values into value creation activities, and making a conscious effort to continually improve the governance framework and processes.

Compliance

Compliance is monitored through the monitoring of the point of reference/s. In the event of the points 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 with the actual status.

Assurance and Comfort

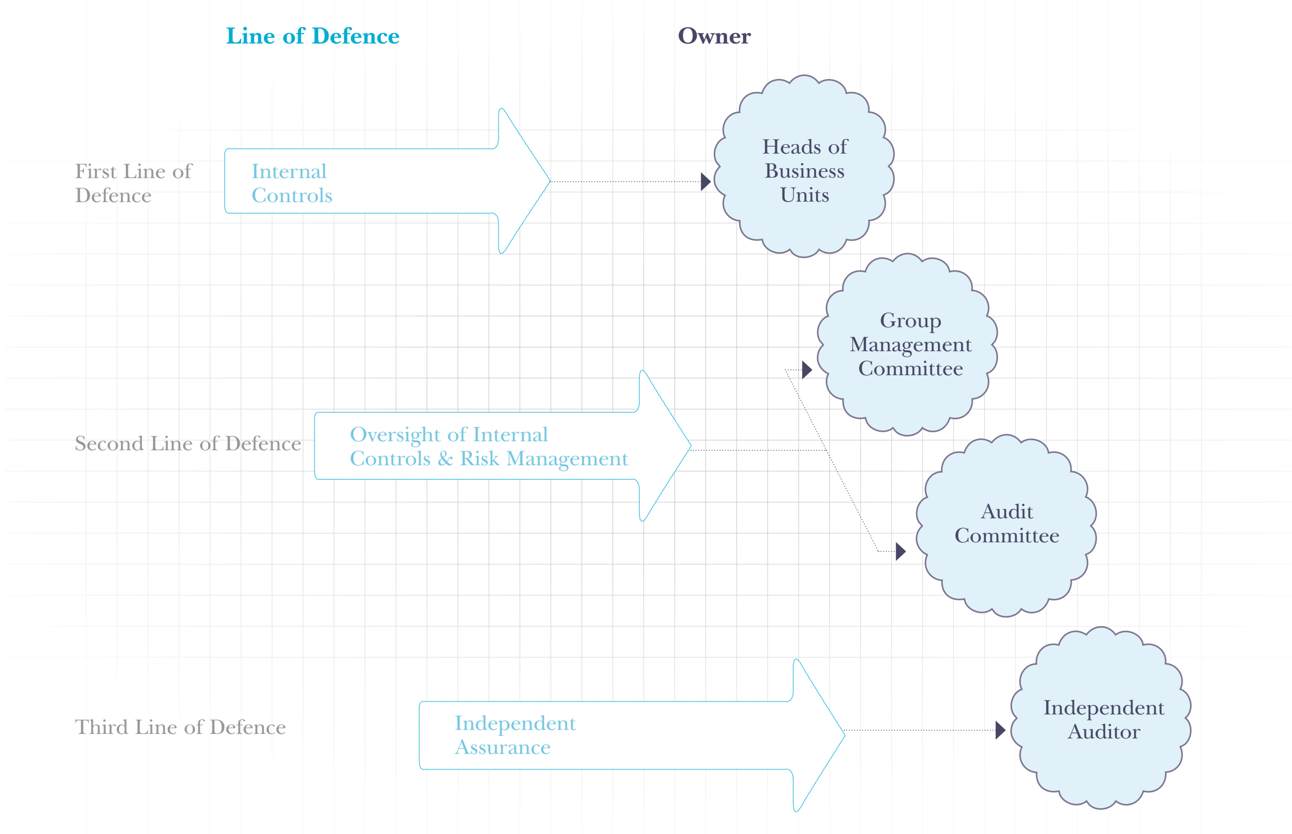
Independent assurance, independent review, oversight and independent certification are key sources of assurance and comfort with regard to integrity and due functioning of the enterprise governance framework. This is depicted in the governance framework appearing on page 84 The three lines of defence approach, which is described later, provides comfort on the effectiveness of internal controls and risk management.

Lines of Defence

The comfort level derived from assurance is reliant upon the internal controls that are in place. Whilst the internal controls focus on the current operations and decisions, the risk and 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 effectiveness of internal controls and risk management.

Enterprise Governance

Three Lines of Defence



Internal Controls

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 internal audit function is constructed 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, 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 present their findings to the Audit Committee.

Best Practices

The extent 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 is available in the company's website at www.dimolanka.com/investors/stewardship

Group's code of business ethics provides guidelines for ethical business conduct. The Group also has a Human Resource Policy, Human Right Policy, Whistle Blowing Policy, Communication Policy and IT Policy.

The Company maintains an open door policy which encourages the prompt discussion of any issues relating to business conduct. The Whistle Blowing Policy has documented mechanisms to directly contact the personnel responsible in order to report any issues. The Code of Business Conduct, the Human Resources and Human Rights Policies contain grievance handling mechanisms. No external ombudsmen are involved in the identification and resolution of internal issues.

Disclosures

The tables given below provide the required and applicable details, disclosures or cross references to details/ disclosures mandated by the Companies Act No. 07 of 2007 and the listing rules of the Colombo Stock Exchange.

Disclosures required by the Companies Act No.7 of 2007

	Information required to be disclosed as per the Companies Act No. 07 of 2007	Reference to the Companies Act	Page Reference
(i)	The nature of the business of the Group and the Company together with any change thereof during the accounting period	Section 168 (1) (a)	120
(ii)	Signed Financial Statements of the Group and the Company for the accounting period completed	Section 168 (1) (b)	114-157
(iii)	Auditors' Report on Financial Statements of the Group and the Company	Section 168 (1) (c)	113
(iv)	Accounting Policies and any changes therein	Section 168 (1) (d)	120-157
(v)	Particulars of the entries made in the Interests Register during the accounting period	Section 168 (1) (e)	109
(vi)	Remuneration and other benefits paid to Directors of the Company during the accounting period	Section 168 (1) (f)	128
(vii)	Corporate Donations made by the Company and its during the accounting period	Section 168 (1) (g)	128
(viii)	Information on Directorate of the Company and its Subsidiaries during and at the end of the accounting period	Section 168 (1) (h)	21
(ix)	Amounts Paid/payable to the External auditor as audit fees and fees for other services rendered during the accounting period	Section 168 (1) (i)	128
(x)	Auditors' relationship or any interest with the Company and its Subsidiaries	Section 168 (1) (j)	110
(xi)	Acknowledgement of the contents of this Report and Signatures on behalf of the Board	Section 168 (1) (k)	109-111

Corporate Governance

Disclosures Required by the Listing Rules of the Colombo Stock Exchange

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

Rule No.	Subject	Applicable requirement	Compliance status	Details
7.10.1.(a)	Non-Executive Directors	At least two or one third of the Directors, whichever is higher, should be Non-Executive Directors	Compliant	Four out of Ten 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)	Independence of 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 27
7.10.3.(b)	Independence of Directors	The Board shall make a determination annually as to the Independence or Non-independence of each Non-Executive Director	Compliant	The Board has determined that Independent Directors identified on page 27 meet the criteria of an Independent Director
7.10.3.(c)	Disclosures relating to Directors	A brief resume of each Director should be included in the Annual Report including the area of expertise	Compliant	Please refer page 27
7.10.3.(d)	Appointment of new Directors	Provide brief resume of any new Director appointed to the Board.	Not Applicable	Not Applicable
7.10.5	Remuneration committee	A listed company shall have a Remuneration Committee	Compliant	Names of the members of the Remuneration Committee are available on page 94
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 on are independent. Chairman of Remuneration Committee is an Independent Non-Executive Director
7.10.5.(b)	Functions 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 103
7.10.5.(c)	Disclosure in the Annual Report relating to Remuneration committee	The Annual Report should set out; a) Names of Directors comprising the Remuneration Committee	Compliant	Please refer page 94

Rule No.	Subject	Applicable requirement	Compliance status	Details
		b) Statement of Remuneration policy	Compliant	Please refer the Remuneration Committee report on page 103 or a brief statement of policy
		c) Aggregate remuneration paid to Executive & Non-Executive Directors	Compliant	Please refer page 156
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 94
7.10.6.(a)	Composition of Audit committee	Shall comprise Non-Executive Directors, a majority of whom are independent	Compliant	Audit Committee consists of four Non-Executive Directors of which whom three are independent. Chairman of Audit Committee is a Non-Executive independent Director
		Chief Executive Officer and the Chief Financial Officer should attend Audit Committee Meetings The chairman of the Audit Committee or one member should be a member of a professional accounting body	Compliant Compliant	Chief Executive Officer and Chief Financial Officer attend Audit Committee meeting by invitation 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 pages 94
		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 102
		c). The Annual report shall contain a Report of the Audit Committee in the prescribed manner	Compliant	Please refer Audit Committee report on pages 102

Enterprise Governance

Disclosures specified by section 7.6 of the Listing Rules of the Colombo Stock Exchange

The Annual Report also contains disclosures specified above. There is no evidence of the book value being substantially different from the market value of land and other fixed assets of the Company or its subsidiaries.

Composition of the Board and Board Committees and attendance at Meetings for 2013/2014

Board Member	Date of Appointment to the Board		Board		Committee Members					
					Audit Committee		Nomination Committee		Remuneration Committee	
	First	Re-election	Position	Attendance	Position	Attendance	Position	Attendance	Position	Attendance
A.R. Pandithage	June 1977	Not Applicable	Chairman/MD	7/7	No	-	Member	1/1	No	-
R. Seevaratnam	January 2007	June 2013	Senior Independent Director	7/7	Chairman	4/4	Member	1/1	Member	1/1
Dr. H. Cabral	October 2006	June 2011	Independent Director	3/7	Member	3/4	Chairman	1/1	Member	1/1
Prof. U. Liyanage	October 2006	June 2012	Independent Director	7/7	Member	3/4	Member	1/1	Chairman	1/1
A.M. Pandithage	September 1982	June 2012	Non-Executive Director	6/7	Member	3/4	Member	1/1	Member	1/1
A.N. Algama	November 1984	June 2012	Executive Director	7/7	No	-	No	-	No	-
S.C. Algama	November 1984	June 2012	Executive Director	7/7	No	-	No	-	No	-
A.G. Pandithage	December 1995	June 2013	CEO /Director	7/7	No	-	No	-	No	-
B.C.S.A.P. Gooneratne	April 2006	June 2011	Executive Director	7/7	No	-	No	-	No	-
R.C. Weerawardane	June 2002	June 2013	Executive Director	6/7	No	-	No	-	No	-
T. G. H. Peries*	August 1977	June 2010	Executive Director	1/1	No	-	No	-	No	-

** Mr. T. G. H. Peries resigned from the Board with effect from 28th June 2013.*

Identify. Assess. Mitigate.

A close look at our
risk management framework.

"The Board is primarily responsible for ensuring that the risks are identified and appropriately managed across the value creation process."

Overview

The constantly evolving economic/ business environment and the challenging business operations present the Group with risks and opportunities. These risks have the potential to impact the capitals and the value creation activities. Thus, a need arises to identify and manage risks that may affect the value creation process in the short, medium and long term. The systematic approach required for risk management calls for measures that ensure that risks are identified on time, evaluated in terms of risk appetite of the Group and that effective management and monitoring mechanisms are installed.

Risk Management Structure

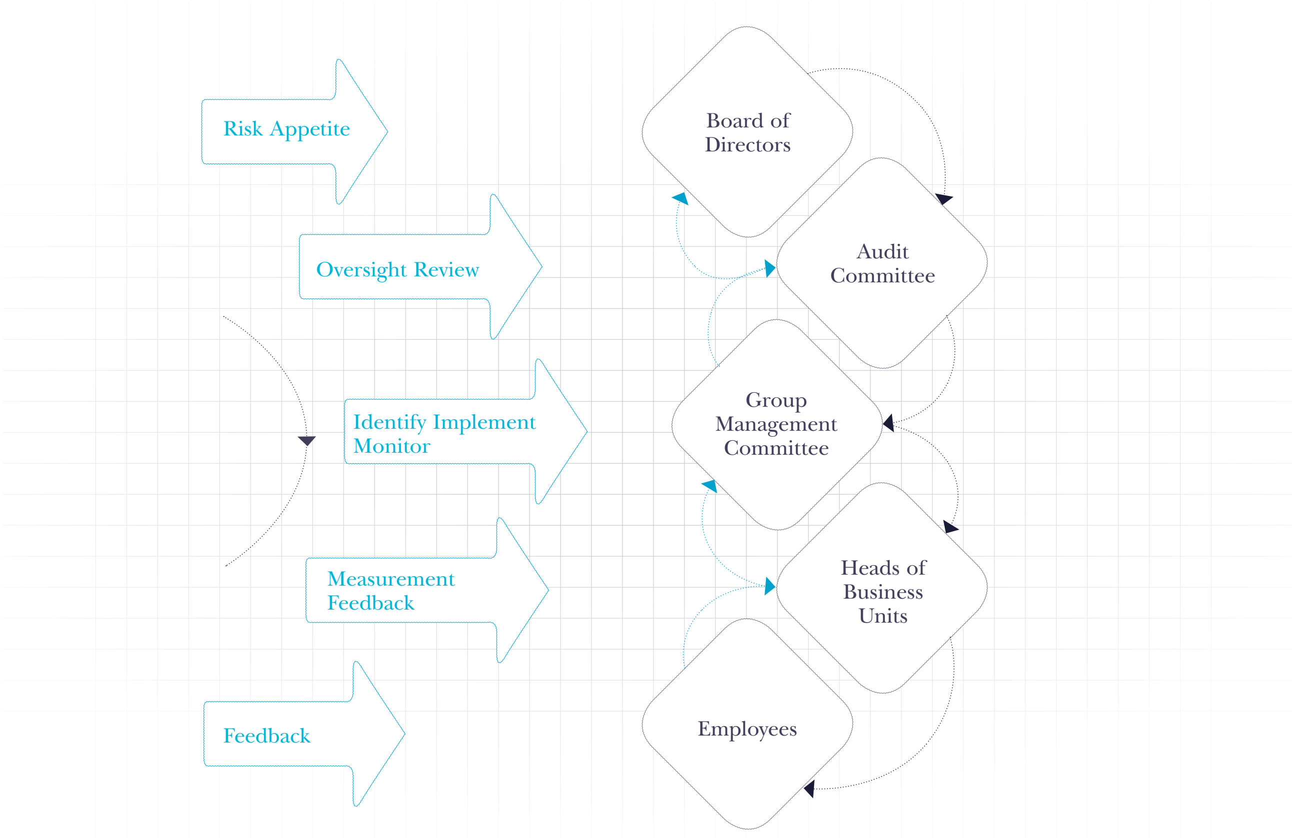
The Board is primarily responsible for ensuring that the risks are identified and appropriately managed across the Group through the value creation process and embedding this into the "Dimo way". The Audit Committee has been delegated the responsibility for reviewing the effectiveness of the Group's risk management process, 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. The GMC examines processes and events, uncertainties and changes in environment that expose the group to 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

Risk Management Structure



Risk Evaluation

Where a risk is evaluated it takes 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.

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. As per the probability of occurrence, a ranking of high, medium and low is assigned for each risk.
- The impact of the event is assessed by determining the loss or damage it would cause and the extent of the impact. 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

Extensive monitoring and management required

Considerable management required

Acceptable risk

Risk Management

Risk Management Actions

The table given below sets out an assessment of risks that the value creation activities and capitals were subject to during the year and risk mitigating actions that were/are in place:

Value Creation Activities / Capitals and Associated Risks

	Category / Segment affected	Risk Statement	Risk Mitigation	Change in Risk Profile		
				2013/14	2012/13	2011/12
01	Monetised Capital	Increase in interest rates impacting on the Group's cost of funding	• Ensuring proper mix of short and long term borrowings • Maintain an appropriate combination of fixed and floating rate borrowings			
02	Monetised Capital	Unavailability of sufficient funds impacting smooth functioning of the day-to-day operations of the Group	• 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			
03	Monetised Capital	Damages resulting from natural disasters such as fire and floods	• Preventive measures of safety are taken to minimise damage to people and property in the case of fire or floods • The Group has a disaster recovery plan in place • Indemnity from insurance policies			
04	Customers	Loss of customers and resulting impact on business due to dissatisfied customers.	• Availability of a Quality Management System. • Dedicated unit for Customer Relationship Management • Continuous training of employees on customer care and aftercare • Inclusion of customer care and customer satisfaction index in employees' and business unit objectives. • A detailed narrative on delivering value to customers is available from pages 48 to 51.			
05	Employees	Adverse impacts arising from failure to recruit/retain skilled employees	• Due importance is 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 • Investment in training and development • Policy of competitive remuneration • More employee-related information is available from pages 44 to 47.			

	Category / Segment affected	Risk Statement	Risk Mitigation	Change in Risk Profile		
				2013/14	2012/13	2011/12
06	Employees	Losses from low productivity and low employee engagement as a result of industrial disputes	• 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 business locations where representatives from HR Department visit locations to listen to employee grievances.			
07	Business Partners	Performance being adversely impacted as a result of disruptions to relationships with principals.	• The Group 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 52 to 53.			
08	Intellectual Capital	Loss of confidential data through security breaches / system down in the IT systems	• Extensive controls and reviews to maintain efficiency of IT infrastructure and data • Regular back up of data & off-site storage of data backup system • Disaster recovery plan			
09	Society	Potential exposure of the Group to financial losses, litigation and unacceptable corporate behaviour	• 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.			

Risk Management

	Category / Segment affected	Risk Statement	Risk Mitigation	Change in Risk Profile		
				2013/14	2012/13	2011/12
10	Society	Loss of social licence to operate Damage to the reputation and loss of stakeholders' interest as a result of social rejection Loss of reputation arising from corporate behaviour against the interests of the society	• 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. • More details on interactions with the community are available on pages 54 to 57.			
11	All stakeholders	Loss of confidence/ business opportunities/ depletion of group image due to group not being perceived as a responsible citizen.	• Environmental sustainability is a part of the decision making process in day to day operations and strategy formulation • Existence of a sustainability committee to manage environmental sustainability related issues • The Group's Environmental Management System is accredited with ISO 14001:2004 • The Group follows GRI Guidelines on sustainability reporting. The GRI index is available at www.dimolanka.com/sustainability/sustainability-performance			
12	Vehicle Sales Segment	The vulnerability of the vehicles market to negative changes in interest rates and fiscal policy would adversely impact on group's performance.	• Reduce the dependency on vehicle segment, by gradually strengthening the other business segments such as Marketing & Distribution, Construction & Material handling Equipment and Electro Mechanical, Bio Medical Engineering and Marine Solutions.			
13	Medical and Power Engineering Businesses	This business segment caters to a limited customer base, and therefore the bargaining power of customers is high. This may impact profit margins.	• Diversifying into different markets and product / services. • Strengthening the service levels and product offering in this sector. • Enhance value addition by Dimo through wider participation in the supply chain.			

	Category / Segment affected	Risk Statement	Risk Mitigation	Change in Risk Profile		
				2013/14	2012/13	2011/12
14	Construction & Material Handling Equipment Businesses	Intense competition from cheaper substitute products.	• Enhancing the customer awareness on product's high quality and durability and after sales services. • Offer a "value for money" proposition	●	●	●
15	All Business Segments	Failure to secure delivery of products on time.	• Maintaining a sound working capital management strategy, • Relationship management with principals.	●	●	●
16	All business segments	Technological obsolescence will impact on the inability to compete in the market	• 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	●	●	●
17	All Segments	Possibility of incurring losses on receivables due to adverse economic conditions/poor credit management	• Strict adherence to Group Credit Policy that includes evaluation of a customer prior to granting credit and credit administration. • Periodic review of receivables by the Group Management Committee	●	●	●
18	All Segments	Negative changes in exchange rates causing potential losses on assets & liabilities and transactions denominated in foreign currency	• Hedging through forward foreign exchange contracts, where desirable • Hedging through foreign currency bank account balances and trade receivables	●	●	●
19	All Segments	Losses resulting from slow moving inventory items becoming obsolete	• Leverage information technology to manage inventory and ordering	●	●	●

Report of the Audit Committee

The Audit Committee is formally constituted as a Sub-committee of the Main Board, to which it is accountable and consists of four Non-Executive Directors, of whom three members are Independent Non-Executive Directors.

The Audit Committee has written terms of reference, dealing clearly with its authority & duties and is established for the purpose of assisting the Board in fulfilling their oversight responsibilities regarding the integrity of the Financial Statements, risk management, business ethics, internal control, compliance with legal and regulatory requirements, review of external Auditors' performances & independence and internal audit.

Compliance with Financial Reporting

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

The review included:

- Appropriateness and changes in Accounting Policies.
- Significant estimates and judgment made by the management.
- Compliance with relevant Accounting Standards and applicable regulatory requirements.
- Adequacy of impairment provision against assets.
- Issues arising from the Internal and External audit.
- The Company's ability to continue as a going concern.

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.

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 External Auditors.

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 External Auditors.

The Audit Committee monitors and reviews:

- The coverage of the 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 External Auditors Messrs KPMG, Chartered Accountants. The Audit Committee has met with the External Auditors to review their audit plan and any observations made by them.

The Committee has received a declaration from the External Auditors, confirming that they do not have any relationship or interest in the Company or its subsidiaries as required by the Companies Act No. 07 of 2007.

The Committee reviewed the non-audit services and its impact on the independence of the External Auditors.

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

Meetings of Audit Committee

Four Audit Committee meetings were held during the year ended 31st March 2014. The attendance details are given in page 94. 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
23rd May 2014

Report of the Remuneration Committee

The Remuneration Committee is a sub-committee of the Board. The members of the Committee consist of three Independent Directors and a Non-Executive Director. The Chairman of the Committee, who is an Independent Director, and the members of the Committee were appointed by the Board.

The Committee was established for the purpose of recommending the remuneration of the Board of Directors including Chairman, Chief Executive Officer (CEO) and the Executive Directors. The Committee also approves the remuneration of the members of the Group Management Committee on the recommendations made by the Chairman and the CEO.

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

The decisions on matters relating to remuneration of Executive Directors and the members of the Group Management Committee were arrived at in consultation with the Chairman & the CEO. No Director is involved in determining his own remuneration.

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

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

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

The Company does not have an Employee Share Ownership plan for Directors and Key Management Personnel (KMPs).

The Directors' emoluments are disclosed note 4.5 on page 128

The Committee meets as and when a need arises. The Remuneration Committee meetings and members attendance is given in page 94.

Prof. U. Liyanage
Chairman - Remuneration Committee

Colombo
23rd May 2014

Report of the Nomination Committee

Introduction

The Nomination Committee assists 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 to enhance the process for nominating members to the Board of Directors.

Committee Composition and its Key Activities

The members of the Committee consist of three Independent Directors, a Non-Executive Director and the Chairman/MD of the board. The Chairman of the Committee, who is an Independent Director, and the members of the Committee were appointed by the Board.

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

The Committee met on one occasion in 2013/14 and the members' attendance record is set out in the Enterprises Governance report on page 94

The key activities carried out by the Committee during the year 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. During the year, the Committee was briefed on succession planning issues relating to executive directors and Group corporate management roles and satisfied itself that action plans are in place to manage succession.
- Evaluate performance of Executive Directors.

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

Dr. H. Cabral
Chairman - Nomination Committee

Colombo
23rd May 2014

Responsibility Statement of Chairman/ Managing Director and Chief Executive Officer and Chief Financial Officer

The Consolidated 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 consolidated financial statements are appropriate and are consistently applied, except unless otherwise stated in the notes accompanying the Financial Statements. The consolidated financial statements have been prepared in accordance with the Sri Lanka Accounting Standards (SLFRS/LKAS). There are no departures from the prescribed Accounting Standards in their adoption. Comparative information has been reclassified wherever necessary to comply with the current presentation. The Significant Accounting Policies and estimates that involved a high degree of judgment and complexity were discussed with the Audit Committee.

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 recognized in weighing the assurances provided by any system of internal controls and accounting.

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

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

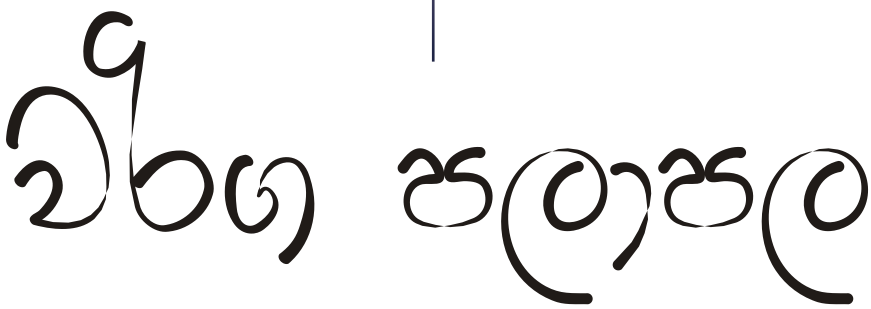
A.R. Pandithage
Chairman/Managing Director

A.G. Pandithage
Director/Chief Executive Officer

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

Colombo
23rd May 2014

The astrologer and his calculated forecasts for the years ahead
remain an important aspect of life in Sri Lanka.



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Financial Information

Financial Calendar

Interim Financial Statements

Three months ended 30th June 2013 – 08th August 2013
Six months ended 30th September 2013 – 24th October 2013
Nine months ended 31st December 2013 – 03rd February 2014
Twelve months ended 31st March 2014 – 23rd May 2014

Dividends

Final dividend for 2013/2014 – 13th June 2014

Annual Report – Financial year ended 31st March 2014 – 4th June 2014
69th Annual General Meeting – 27th June 2014

Annual Report of the Board of Directors

The Directors have pleasure in presenting the Annual Report for the year ended 31st March 2014 which covers business strategy, value creation report, Audited Financial Statements, share-related information, and reviews on risk management, governance and sustainability. Disclosures required by the Companies Act No. 07 of 2007' appearing on page 91 form part of this Annual Report of the Board of Directors.

Group Structure and Nature of Operations

The Group structure and names of the Directors of subsidiaries are available in page 21.

A brief description of nature of the principal business activities of the Group and the Company is given in Note 2.3 to the Financial Statements on page 120. 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.

Vision, Mission and Corporate Conduct

The Company's vision and mission are available on page 5. They have been identified as "Aspiration" and "Purpose" respectively. The Directors and all the employees conduct their activities with the highest level of ethical standards and integrity in achieving the vision and mission. All employees are given a copy of code of business ethics of the Company and employees are required to adhere to it.

Review of Business Performance

Review of business performance and future outlook of the group is available in the Chairman's Letter (pages 14 to 17), Chief Executive Officer's Review (pages 18 to 20) and the value creation report (pages 32 to 79).

Turnover

The total gross turnover generated by the five business segments of the Group was Rs 20.9 bn.

Directorate

As at 31st March 2014, the Board of Directors of the Company consisted of ten members. The information on Directors, of the Company is available in the Directors profile in pages 24 to 27.

New Appointments, Resignations and Re-elections to the Board

There were no new appointments made to the Board, during the financial year ended 31st March 2014.

Mr. T.G.H. Peries retired from the board of Directors w.e.f. 28th June 2013.

Mr. S.C Algama, Mr. A.N Algama and Dr. H. Cabral retire by rotation and are eligible for re-election,

The agenda for the Annual General Meeting includes an ordinary resolution to be taken up to appoint Mr. R. Seevaratnam as a Director, who has reached the age of 70.

Board and Board Committee Meetings

The number of Board meetings, Audit Committee meetings, Nomination Committee meetings and Remuneration Committee meetings held during the year and the attendance of Directors at these meetings are given on page 94 of Enterprise Governance Report.

Directors Shareholdings

Shareholdings of Directors and their spouses are given on page 162 under 'Share Information".

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 2014.

Director's Interest Register

The Interest Register is maintained by the Company, as per the Companies Act No. 07 of 2007. All Directors have made declarations as provided for in Section 192 (2) of the aforesaid Companies Act.

During the year, entries were made in the Interest Register on Directors' interests in contracts, remuneration paid to the Directors, renewal of Directors' and Officers' Liability Insurance. The Interest Register is available for inspection as required under the Companies Act.

Director's remuneration is given in Note 4.5 to the Financial Statements.

Annual Report of the Board of Directors

Accounting Policies

The financial statements, significant accounting policies and the notes thereto of the Group and the Company (refer pages 114 to 157), comply with the requirements of the Sri Lanka Accounting Standards and the Companies Act No. 07 of 2007.

These Financial Statements and notes thereto give a true and fair view of the Company's and the Group's financial position as at 31st March 2014 and of their performance for the year ended on that date. There were no changes to the accounting policies used by the Group during the year.

Independent Auditors Appointment and Remuneration

The Company's External Auditors, Messrs KPMG, who were reappointed in accordance with a resolution passed at the last Annual General Meeting, have expressed their opinion which appears on page 169 of this Annual Report.

The details of their remuneration are given in Note 4.5 to the Financial Statements. As far as the Directors are aware, the Auditors do not have any other relationship with the Company, or any of its subsidiaries. The Auditors do not have any interest in contracts with the Company, or any of its subsidiaries.

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 95 to 101.

The Board is satisfied with the effectiveness of the system of internal controls that were in place during the year under review and up to the date of approval of the Annual Report and Financial Statements.

Share Information

Information relating to distribution of shareholdings, market value and top twenty shareholders are available on the pages 160 to 162 under "Share Information".

Donations

The Group and the Company made donations during the year amounting to Rs. 13.2 mn and Rs. 5.9 mn respectively (2012/13 - Group: Rs. 14.8 mn, Company - Rs. 14.1 mn)

Property Plant and Equipment and Intangible Assets

The Group and the Company incurred Rs. 1,393.5 mn and Rs. 1433 mn (2012/13 - Group Rs. 1,094.4 mn, Company Rs. 1078.2 mn) on property plant and equipment and Rs. 40.3 mn (2012/13 Rs. Nil) by the Company on intangible assets, details of which are available in notes 4.9 and 4.11 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 freehold land is adjusted accordingly. The details of market value of freehold land are given in note 4.9 to the Financial Statements.

Stated Capital

There were no shares Issues during the financial year.

Dividends and Reserves

Detail information on dividends and reserves are available in note 4.8 and 4.20 to the Financial Statements respectively.

Statutory Payments

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments to the government, other regulatory bodies and related to the employees have been made on time.

Environmental Protection

Policies and Endeavours made on environmental preservation by the Group and the Company are available in pages 60 to 65 of the Stakeholder Report.

Events after the Reporting Date

There were no material event that occurred after the reporting date that require adjustment to or disclosure in the Financial Statements, other than those disclosed in the note 5.4 to the Financial Statements in pages 157.

Going Concern

The Board of Directors has reviewed the Company's business plans and is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements are prepared considering the Company as a going concern concept.

Compliance with laws and regulations

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

Annual General Meeting

The Annual General meeting will be held at the Registered Office of the Company, No. 65, Jetawana Road, Colombo 14 on 27th June 2014. The notice of Annual General Meeting is given on page 169.

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

Colombo
23rd May 2014

Statement of Directors' Responsibilities for Financial Statements

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

The responsibilities of the Directors in relation to the Financial Statements of the Company and the Group are set out in following statement. As per the provision of the Companies Act No. 07 of 2007, the Directors are required to prepare for each financial year and place before general meeting of shareholders the Financial Statements, which comprise;

1. Income Statement and Statement of Comprehensive Income, which presents a true and fair view of the profit or loss of the Group/ Company for the financial year; and
2. Statement of Financial Position, which presents true and fair view of the state of affairs of the Group/ Company as at the end of the financial year and which complies with the requirements of the Companies Act No.07 of 2007.

In addition, the Directors have to ensure that Financial Statements present fairly for each financial year the Group's/Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the 'Framework for the preparation and presentation of Financial Statements' set out in the Sri Lanka Accounting Standards. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable Sri Lanka Accounting Standards.

Directors also have to ensure that;

- Appropriate Accounting Policies have been used in a consistent manner;
- Where necessary, prudent judgment and estimates have been made;
- Requirements of the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 have been followed;
- 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 113.

Messrs KPMG, Chartered Accountants the Auditors of the Company has examined the Financial Statements and the related records and information. Their opinion on Financial Statements is given on page 113.

The Directors are also responsible for taking reasonable measures to safeguard the assets of the Group/ Company 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 2014 and the bank facilities, consider that the Group/Company has adequate resources to continue in operation, and have continued to adopt the going concern basis in preparing Financial Statements.

By Order of the Board,

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

Colombo
23rd May 2014

Independent Auditors' Report

KPMG

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

Tel : +94 - 11 542 6426
Fax : +94 - 11 244 5872
+94 - 11 244 6058
+94 - 11 254 1249
+94 - 11 230 7345
Internet : www.lk.kpmg.com

TO THE SHAREHOLDERS OF DIESEL & MOTOR ENGINEERING PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Diesel & Motor Engineering PLC ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the statement of financial position as at 31 March 2014, the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information set out on pages 114 to 157 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 31 March 2014 and the financial statements give a true and fair view of the financial position of the Company as at 31 March 2014, and of its financial performance and its cash flow 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 financial position of the Company and its subsidiaries dealt with thereby as at 31 March 2014, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

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.

KPMG.

CHARTERED ACCOUNTANTS

Colombo
23rd May 2014

SECTION 1 - Financial Statements

Section 1 provides the key Financial Statements relating to financial performance, position and cash flows of the Group and the Company, which comprises the following.

Income Statement and Statement of Comprehensive Income: Financial performance

Statement of Financial Position: Financial position

Statement of Changes in Equity: Summary of comprehensive income and transactions with owners

Statement of Cash Flow: Cash flows

Notes to the Financial Statements: Comprising general (Section 3) and specific (Section 4) accounting policies, estimates and other disclosures (Section - 5).

Income Statement and Statement of Comprehensive Income

Income Statement

For the year ended 31st March	Note	Group 2014 Rs. '000	Group 2013 Rs. '000	Change %	Company 2014 Rs. '000	Company 2013 Rs. '000	Change %
Revenue	4.1	20,884,674	27,711,604	(25)	19,185,246	26,496,949	(28)
Sales taxes		(201,513)	(227,451)	(11)	(180,872)	(216,789)	(17)
Net revenue		20,683,161	27,484,153	(25)	19,004,374	26,280,160	(28)
Cost of sales		(16,366,248)	(23,303,126)	(30)	(15,226,149)	(22,519,305)	(32)
Gross profit		4,316,913	4,181,027	3	3,778,225	3,760,855	0
Other operating income	4.3	69,419	35,903	93	69,722	35,427	97
Distribution expenses		(549,392)	(487,981)	13	(506,403)	(475,939)	6
Administrative expenses		(2,962,384)	(2,843,448)	4	(2,658,182)	(2,599,142)	2
Results from operating activities		874,556	885,501	(1)	683,362	721,201	(5)
Finance income		75,511	240,761	(69)	70,617	241,178	(71)
Finance cost		(437,209)	(636,241)	(31)	(423,990)	(630,798)	(33)
Net finance cost	4.4	(361,698)	(395,480)	(9)	(353,373)	(389,620)	(9)
Profit before tax	4.5	512,858	490,021	5	329,989	331,581	(0)
Income tax (expense)/reversal	4.6	(119,317)	(35,934)	232	(50,070)	13,314	476
Profit for the year		393,541	454,087	(13)	279,919	344,895	(19)
Basic and diluted earnings per share - (Rs.)	4.7	44.34	51.16		31.54	38.86	

Statement of Comprehensive Income

For the year ended 31st March	Note	Group 2014 Rs. '000	Group 2013 Rs. '000	Change %	Company 2014 Rs. '000	Company 2013 Rs. '000	Change %
Profit for the year		393,541	454,087	(13)	279,919	344,895	(19)
Other comprehensive income							
Actuarial loss arising from employee benefit	4.22	(25,272)	(28,796)	(12)	(23,347)	(24,748)	(6)
Net changes in fair value of financial assets available-for-sale		(255)	1,300	(120)	(253)	1,304	(119)
Tax on other comprehensive income	4.6.2	7,076	8,063	(12)	6,537	6,929	(6)
Total other comprehensive income net of tax		(18,451)	(19,433)	(5)	(17,063)	(16,515)	3
Total comprehensive income for the year		375,090	434,654	(14)	262,856	328,380	(20)

Figures in brackets indicate deductions.

The Notes to the Financial Statements from pages 120 to 157 form an integral part of these Financial Statements.

Statement of Financial Position

As at 31 March	Note	Group 2014 Rs. '000	Group 2013 Rs. '000	Company 2014 Rs. '000	Company 2013 Rs. '000
Assets					
Non - Current Assets					
Property, plant & equipment	4.9	6,746,756	5,567,369	6,750,935	5,523,513
Lease rentals paid in advance	4.10	28,936	31,141	28,936	31,141
Intangible assets	4.11	35,723	2,136	35,723	2,136
Investment in subsidiaries	4.12	-	-	20,645	11,145
Financial assets available-for-sale	4.14	4,823	5,077	4,801	5,054
Deferred tax assets	4.23	121,172	111,082	115,756	107,280
Total non - current assets		6,937,410	5,716,805	6,956,796	5,680,269
Current Assets					
Inventories	4.15	4,867,641	4,141,906	4,755,944	4,055,558
Trade & other receivables	4.16	2,742,873	2,086,115	2,099,995	1,654,001
Other current assets	4.17	421,086	206,394	391,852	178,086
Current tax asset	4.28	86,856	67,081	107,913	102,176
Amount due from subsidiaries	4.29.1	-	-	56,468	-
Cash and cash equivalents	4.18	1,038,788	682,078	1,033,806	615,156
Total current assets		9,157,244	7,183,574	8,445,978	6,604,977
Total assets		16,094,654	12,900,379	15,402,774	12,285,246
Equity and Liabilities					
Equity					
Stated capital	4.19	425,297	425,297	425,297	425,297
Capital reserve		2,014,752	2,014,752	2,014,752	2,014,752
Revenue reserves	4.20	5,477,444	5,191,118	4,875,315	4,701,223
Total equity attributable to the equity holders of the Company		7,917,493	7,631,167	7,315,364	7,141,272
Non-Current Liabilities					
Long-term borrowings	4.21	1,499,763	540,243	1,499,763	540,243
Employee benefits	4.22	349,642	287,046	332,521	273,471
Deferred tax liabilities	4.23	151,079	96,724	144,688	92,679
Deferred income	4.24	91,018	140,312	57,691	77,311
Total non-current liabilities		2,091,502	1,064,325	2,034,663	983,704
Current Liabilities					
Trade payables	4.26	1,208,337	843,044	1,129,614	792,718
Other current liabilities	4.27	426,959	484,286	400,473	462,254
Current portion of long-term borrowings	4.21	333,080	229,960	333,080	229,960
Short-term borrowings	4.21.2	4,117,283	2,647,597	3,964,245	2,518,226
Amounts due to subsidiaries	4.29.1	-	-	225,335	157,112
Total current liabilities		6,085,659	4,204,887	6,052,747	4,160,270
Total liabilities		8,177,161	5,269,212	8,087,410	5,143,974
Total equity and liabilities		16,094,654	12,900,379	15,402,774	12,285,246
Net assets per share		891.97	859.71	824.13	804.63

It is certified that the Financial Statements as set out on pages 114 to 157 have been prepared in accordance with the requirements of the Companies Act No. 7 of 2007.

E.D.C. Kodituwakku
General Manager - Finance & Controlling
Member - Group Management Committee

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

Signed for and on behalf of the Board,

A.R. Pandithage
Chairman/Managing Director

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

23rd May 2014
Colombo

Figures in brackets indicate deductions.

The Notes to the Financial Statements from pages 120 to 157 form an integral part of these Financial Statements.

Statement of Changes in Equity

	Note	Stated Capital Rs.'000	Capital Reserve Rs.'000	Revenue Reserves: General Reserve Rs.'000	Revenue Reserves: Available-for-Sale Reserve Rs.'000	Revenue Reserves: Retained Earnings Rs.'000	Total Rs.'000
Group							
Balances as at 01st April 2012		425,297	2,014,752	2,317,290	2,678	2,680,598	7,440,615
Total comprehensive income							
Profit for the year		-	-	-	-	454,087	454,087
Other comprehensive income		-	-	-	1,300	(20,733)	(19,433)
Total comprehensive income		-	-	-	1,300	433,354	434,654
Transaction with owners, recorded directly in equity - contributions and distributions							
Dividends to equity owners							
2011/12 Final - Dividend		-	-	-	-	(244,102)	(244,102)
Transfer during the year		-	-	1,500,000	-	(1,500,000)	-
Total transactions with owners		-	-	1,500,000	-	(1,744,102)	(244,102)
Balance as at 31st March 2013		425,297	2,014,752	3,817,290	3,978	1,369,850	7,631,167
Total comprehensive income							
Profit for the year		-	-	-	-	393,541	393,541
Other comprehensive income		-	-	-	(255)	(18,196)	(18,451)
Total comprehensive income		-	-	-	(255)	375,345	375,090
Transaction with owners,recorded directly in equity - contributions and distributions							
Dividends to equity owners							
2012/13 Final - Dividend	4.8	-	-	-	-	(88,764)	(88,764)
Transfer during the year		-	-	300,000	-	(300,000)	-
Total transactions with owners		-	-	300,000	-	(388,764)	(88,764)
Balance as at 31st March 2014		425,297	2,014,752	4,117,290	3,723	1,356,431	7,917,493
Company							
Balances as at 01st April 2012		425,297	2,014,752	2,179,464	2,658	2,434,823	7,056,994
Total comprehensive income							
Profit for the year		-	-	-	-	344,895	344,895
Other comprehensive income		-	-	-	1,304	(17,819)	(16,515)
Total comprehensive income		-	-	-	1,304	327,076	328,380
Transaction with owners,recorded directly in equity - contributions and distributions							
Dividends to equity owners							
2011/12 Final -Cash dividend		-	-	-	-	(244,102)	(244,102)
Transfer during the year		-	-	1,500,000	-	(1,500,000)	-
Total transactions with owners		-	-	1,500,000	-	(1,744,102)	(244,102)
Balance as at 31st March 2013		425,297	2,014,752	3,679,464	3,962	1,017,797	7,141,272
Total comprehensive income							
Profit for the year		-	-	-	-	279,919	279,919
Other comprehensive income		-	-	-	(253)	(16,810)	(17,063)
Total comprehensive income		-	-	-	(253)	263,109	262,856
Transaction with owners,recorded directly in equity - contributions and distributions							
Dividends to shareholders							
2012/13 Final - Cash Dividend	4.8	-	-	-	-	(88,764)	(88,764)
Transfer during the year		-	-	225,000	-	(225,000)	-
Total transactions with owners		-	-	225,000	-	(313,764)	(88,764)
Balance as at 31st March 2014		425,297	2,014,752	3,904,464	3,709	967,142	7,315,364

The General reserve and Retained earnings represent reserves available for distribution.

Available-for-sale reserve consists of net unrealised gains arising from fair valuation of available-for-sale financial assets, excluding the impact arising from impairment of assets.

Figures in brackets indicate deductions.

The Notes to the Financial Statements from pages 120 to 157 Form an integral part of these Financial Statements.

Consolidated Cash Flow Statement

For the year ended 31st March	Note	Group 2014 Rs. '000	Group 2013 Rs. '000	Company 2014 Rs. '000	Company 2013 Rs. '000
Cash Flows from Operating Activities					
Profit before taxation		512,858	490,021	329,989	331,581
Adjustment for					
Depreciation on property, plant & equipment	4.9	208,888	167,385	200,409	160,665
Amortisation of intangible assets and lease rentals	4.10/4.11	8,974	3,148	8,974	3,148
Deferred income net of amortisation		(49,294)	(39,457)	(19,620)	(70,498)
Impairment reversal on investment in subsidiary	4.12	-	-	(9,500)	-
(Profit)/Loss on disposal of property, plant & equipment	4.3	(6,971)	4,418	(6,993)	2,878
Interest expenses	4.4	437,209	636,241	423,990	630,798
Interest income	4.4	(59,856)	(110,169)	(59,136)	(108,370)
Dividend income	4.3	(522)	(235)	(11,322)	(13,015)
Reversal of impairment of trade receivables	4.5	(19,275)	(142,540)	(31,914)	(122,667)
Provision/(reversal of) for slow moving inventories	4.5	(87,605)	131,061	(83,751)	122,593
Provision for employee benefit obligation excluding actuarial loss	4.5	55,935	43,311	51,850	40,675
		1,000,341	1,183,184	792,976	977,788
Changes in working capital					
(Increase)/decrease in inventories		(638,130)	3,878,068	(616,635)	3,897,716
(Increase)/decrease in trade & other receivables		(637,483)	(134,547)	(414,080)	54,600
(Increase)/decrease in other current assets		(214,692)	55,441	(213,766)	54,882
Increase in amount due from subsidiaries		-	-	(56,468)	-
Increase/(decrease) in trade payables		358,725	(652,599)	330,328	(661,952)
Decrease in other current liabilities		(57,327)	(218,203)	(61,781)	(213,547)
Increase in amounts due to subsidiaries		-	-	68,223	58,495
Cash generated from/(used in) operating activities		(188,566)	4,111,344	(171,203)	4,167,982
Interest paid		(430,641)	(628,206)	(417,422)	(622,763)
Employee benefit-payment	4.22	(18,611)	(9,495)	(16,147)	(8,776)
Income tax paid	4.28	(87,751)	(265,943)	(5,737)	(228,818)
Net cash generated from/(used in) operations		(725,569)	3,207,700	(610,509)	3,307,625

For the year ended 31st March	Note	Group 2014 Rs. '000	Group 2013 Rs. '000	Company 2014 Rs. '000	Company 2013 Rs. '000
Cash Flow from Investing Activities					
Proceeds from disposal of property plant & equipment		12,195	13,556	12,196	11,953
Dividend received		522	147	11,322	12,927
Interest received		59,856	110,169	59,136	108,370
Acquisition and construction of property plant & equipment and capital work-in-progress	4.9	(1,393,500)	(1,094,453)	(1,433,034)	(1,078,254)
Acquisition of intangible assets	4.11	(40,356)	-	(40,356)	-
Net cash used in investing activities		(1,361,283)	(970,581)	(1,390,736)	(945,004)
Cash Flows from Financing Activities					
Proceeds from long-term loans	4.21.1.1	1,292,600	-	1,292,600	-
Repayment of long-term loans	4.21.1.1	(229,960)	(229,960)	(229,960)	(229,960)
Dividend paid	4.20	(88,764)	(244,102)	(88,764)	(244,102)
Net cash from/(used in) financing activities		973,876	(474,062)	973,876	(474,062)
Net increase/(decrease) in cash & cash equivalents		(1,112,976)	1,763,057	(1,027,369)	1,888,559
Cash & cash equivalents at beginning of the year		(1,965,519)	(3,728,576)	(1,903,070)	(3,791,629)
Cash & cash equivalents at end of the year (Note-A)		(3,078,495)	(1,965,519)	(2,930,439)	(1,903,070)

Note-A

Analysis of Cash & Cash Equivalents at the end of the year					
Cash & bank balances and short-term investments	4.18	1,038,788	682,078	1,033,806	615,156
Short-term borrowings	4.21.2	(4,117,283)	(2,647,597)	(3,964,245)	(2,518,226)
Cash and cash equivalents		(3,078,495)	(1,965,519)	(2,930,439)	(1,903,070)

Figures in brackets indicate deductions.
The Notes to the Financial Statements from pages 120 to 157 form an integral part of these Financial Statements.

SECTION 2 - Corporate Information

This section gives a description of the reporting entity, the principal activities of the Company and Group entities and the identification of Financial Statements and its authorisation.

2.1 Reporting Entity

Diesel & Motor Engineering PLC (the Company) is a 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.

2.2 Consolidated Financial Statements

The Consolidated Financial Statements of Diesel & Motor Engineering PLC as at and for the year ended 31st March 2014 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.

2.3 Principal activates and nature of operations

The principal activities of the Company and its subsidiaries are as follows:

Entity	*Principal Business Activities*
The Company	
Diesel & Motor Engineering PLC	Import, sale and repair of passenger vehicles, commercial vehicles, material handling machinery, construction machinery, agri machinery, power tools, import & sale of vehicle spares, components, accessories, providing lighting solutions and storage systems.

Entity	*Principal Business Activities*
Fully-owned Subsidiaries	
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.	Import and sale of tyres.

There were no significant changes in the nature of the principal activities of the Group and the Company during the financial year under review. Activities of the Group are described in more detail in the 'Group Structure' on page 21.

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 activities of any of Group entities.

2.4 Approval of Financial statements by the Board of Directors

The Financial Statements for the year ended 31st March 2014, were authorised for issue by the Board of Directors on 23rd May 2014.

SECTION 3 -
Basis of Preparation

This section provide the basis of preparation of Financial Statements including significant accounting policies and application of Sri Lanka Accounting Standards and other relevant statutory requirements.

This section provides a summary of significant accounting policies, significant accounting judgements, estimates and assumptions used, other general accounting policies and Sri Lanka Accounting Standards (SLFRS) not yet adopted.

All specific accounting policies and accounting estimates in relation to the reported values have been presented in the respective notes in section 4.

3.1 Statement of Compliance

The Consolidated Financial Statements of the Group and the separate Financial Statements of the Company, have been prepared and presented in accordance with the Sri Lanka Accounting Standards (SLFRSs/LKASs) laid down by The Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007.

3.2 Responsibilities for the financial statements

The Board of Directors acknowledges the responsibility in relation to the Financial Statements, as set out in the 'Statement of Directors' Responsibilities for Financial Statements', 'Annual Report of the Board of Directors' and in the statement appearing with the Statement of Financial Position on pages 109 to 111 of this Annual Report.

3.3 Basis of measurement

The Financial Statements of the Group/Company have been prepared on historical cost basis, except for freehold land and financial assets available for sale measured at fair value and defined benefit obligations which is recognised at present value.

3.4 Functional and presentation currency

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

3.5 Use of Materiality, Offsetting and Rounding

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.

Offsetting

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

Rounding

The amounts in the Financial Statements have been rounded off to the nearest Rupees thousand, except where otherwise indicated.

3.6 Summary of significant accounting policies

The accounting policies set out in each of the individual notes to the Financial Statements of the Group/Company, have been applied consistently to all periods presented in these Financial Statements.

Management considers the accounting policies relating to revenue recognition to be significant accounting policies. These policies are presented in more details in note 4.1.

In addition, the accounting policies relating to the following are considered relevant to understanding these Consolidated Financial Statements.

- Property, plant and equipment
- Financial assets and liabilities
- Inventories
- Trade and other receivables

SECTION 3 - Basis of Preparation

3.7 Summary of significant accounting judgements, estimates and assumptions

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

Management considered the following items, where significant judgments, estimates and assumptions have been used in preparing these Financial Statements.

Going concern

The management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's/Company's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on a going concern basis.

The following notes provide more information on specific accounting judgments, estimations and assumptions used.

- Impairment losses on non financial assets (Note 3.9) Management Judgement is used when assessing the indicators of impairment.
- Deferred tax (Note 4.23)
- Provision for impairment of trade receivables (Note 4.16)
- Defined benefit obligation (Note 4.22)
- Provision for impairment of investments in subsidiaries (Note 4.12.1)
- Provision and contingent liabilities (Note 4.25)

3.8 New standards not yet adopted

Sri Lanka Accounting Standards (SLFRSs) issued but not yet effective.

The new accounting standards, amendments and interpretations issued but not effective for the financial year commencing 1 April 2013 have not been applied when preparing these Financial Statements.

SLFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. SLFRS 9 replaces the parts of LKAS 39 that relate to classification and measurement of financial instruments. SLFRS 9, requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the LKAS 39 requirements. The effective date of this standard has been deferred.

SLFRS 10, 'Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor when assessing whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where it is difficult to assess. This standard will not have significant impact on the Group and it has been adopted from the accounting period commencing from 1 April 2014.

SLFRS 11, 'Joint Arrangement', The objective of this SLFRS is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements). SLFRS 11 has become effective for the Group from 1 April 2014. However, it will not be applicable for the Group, in the absence of a joint venture in the Group this standard become in applicable.

SLFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. This standard will not have a significant impact on the Group and has become effective from the accounting period commencing on 1 April 2014.

SLFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across SLFRSs/LKASs. This standard has become effective to the Group from 1 April 2014 and Group dose not anticipate any significant impact.

There are no other standards interpretations that are issued but not effective as at the reporting date.

3.9 General accounting policies

Basis of consolidation

Subsidiaries

Subsidiaries are those entities controlled by the Company. Control exists 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. All the subsidiaries are consolidated from the date that control commences until the date that control ceases.

A list of the Group's subsidiaries is set out in Note 4.12 to the Financial Statements.

Financial Statements of the Group entities are prepared to a common financial year ending 31st March, using uniform accounting policies.

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.

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.

Foreign currency translation

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group/Group entities at the functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the spot rate of the functional currency prevailing at the reporting date.

Foreign exchange differences arising on translation of foreign exchange transactions are recognised as a profit or a loss in the Income Statement.

Impairment of non-financial assets

All non-financial assets, other than inventories, 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. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets.

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

SECTION 4
Specific Accounting Policies and Notes

This section provides specific accounting policies and accounting estimates in relation to the reported values in the financial statements with additional notes and explanations.

4.1 Revenue

Accounting Policies

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group/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 Group/Company separately identifies different components of a single transaction in order to reflect the substance of the transaction. The following specific criteria are used for the purpose of recognition of revenue.

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been passed to the buyer, usually on delivery of the goods.

Provision of services

Revenue from services rendered is recognised in the Income Statement once all significant performance obligations have been provided.

Constructions related contracts

Revenue from construction related contracts is recognised in the Income Statement by reference to the stage of completion of the transactions at the end of the reporting date.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

Service support income

Service support income which is included in revenue represents income received from foreign principals on indent sales. Such income is recognised on an accrual basis at the time of supply of goods and services relating to the service support provided by the Group.

Sales Performance

	Group		Company	
For the year ended 31st March	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Vehicles - Sales	13,262,241	20,736,288	13,262,801	20,686,979
Vehicles - After Services	2,067,354	2,294,649	2,083,942	2,294,649
Marketing and Distribution	2,650,395	2,134,000	2,564,728	2,134,000
Construction & Material Handling Equipment and After Services	1,273,775	1,381,321	1,273,775	1,381,321
Electro Mechanical & Bio Medical and Marine Engineering	1,630,909	1,165,346	-	-
	20,884,674	27,711,604	19,185,246	26,496,949

4.2 Segment Information

Accounting Policies

The Operating business are organised and managed separately according to the nature of the products and services provided. The Primary segment reporting format is determined based on products and services offered as the Group's risks and returns are affected predominantly by differences in the products and services provided.

The Group comprises of the following main business segments as per the products and services offered:

Vehicles - Sales

Sale of brand new passenger vehicles, commercial vehicles, agri machinery, special purpose vehicles and pre-owned passenger vehicles.

Vehicles - After Services

Repair and Service of vehicle included in the vehicle-sale segment, sale of vehicle spare parts, accessories and components.

Marketing and Distribution

Sale of power tools and accessories, lamps, lighting fittings and accessories, tyres and retreaded tyres.

Construction & Material Handling Equipment and After Services

Sales and services of earth moving machinery, road construction machinery, forklifts, material handling machinery, racking systems, dock levellers and car parking systems.

Electro-Mechanical, Bio Medical and Marine Engineering

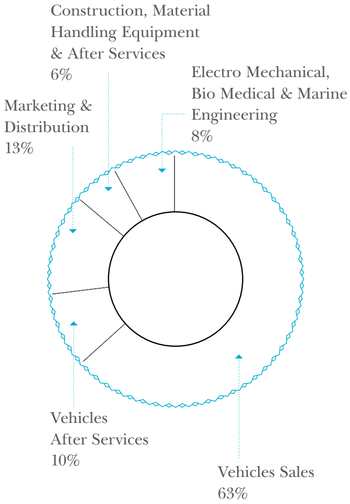
Sale, installation, commissioning and maintenance of medical equipment, generating sets, diesel engines for marine propulsion and rail traction, building management systems, fluid management systems, industrial refrigeration systems and power engineering equipment and systems.

Inter-segment transfers are based on fair market prices (arm's length basis in a manner similar to transactions with third parties). Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

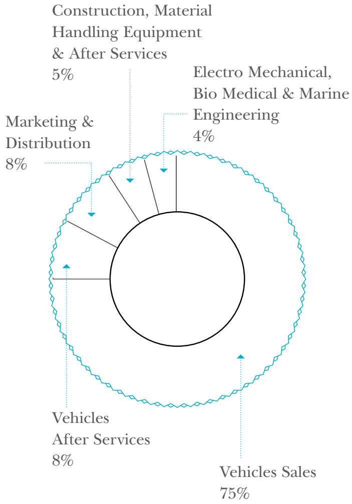
Unallocated assets and liabilities comprise mainly of assets and liabilities that cannot be attributed to a particular segment.

Finance income and expenses and income taxes are managed at Group level and are not allocated to business segments.

Sales to any single customer does not represent more than 10% of the total sales and no segments are determined based on the geographical area as all the segments are operating in the same economic environment.



Segment Revenue 2014



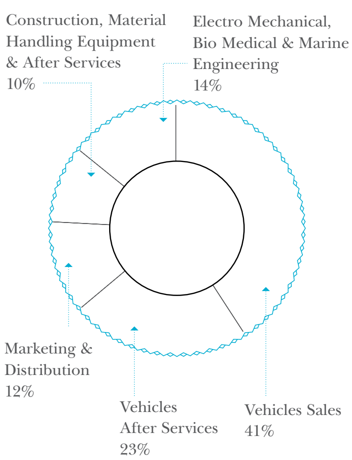
Segment Revenue 2013

Specific Accounting Policies and Notes

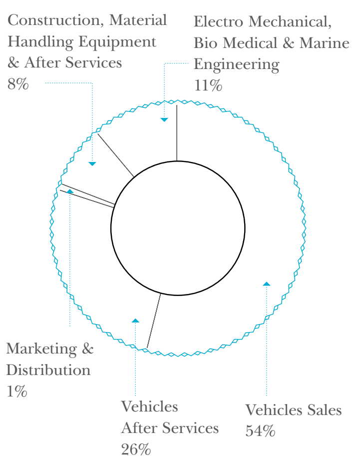
Segmental Results and Assets/Liabilities

Group

For the year ended 31st March	Vehicles - Sales 2014 Rs. '000	Vehicles - Sales 2013 Rs. '000	Vehicles - After Services 2014 Rs. '000	Vehicles - After Services 2013 Rs. '000	Marketing and Distribution 2014 Rs. '000	Marketing and Distribution 2013 Rs. '000	Construction & Material Handling Equipment and After Services 2014 Rs. '000	Construction & Material Handling Equipment and After Services 2013 Rs. '000	Electro Mechanical & Bio Medical and Marine Engineering 2014 Rs. '000	Electro Mechanical & Bio Medical and Marine Engineering 2013 Rs. '000	Total 2014 Rs. '000	Total 2013 Rs. '000
Business Segment Turnover and Results												
Total segment revenue	13,288,560	20,794,283	2,800,344	2,758,442	2,822,779	2,181,450	1,321,621	1,437,782	1,900,079	1,221,937	22,133,383	28,393,894
Inter-segment revenue	(26,319)	(57,995)	(732,990)	(463,793)	(172,384)	(47,450)	(47,846)	(56,461)	(269,170)	(56,591)	(1,248,709)	(682,290)
Total external revenue	13,262,241	20,736,288	2,067,354	2,294,649	2,650,395	2,134,000	1,273,775	1,381,321	1,630,909	1,165,346	20,884,674	27,711,604
Segment results	692,280	916,766	386,107	445,586	209,697	15,605	174,681	142,765	245,859	186,168	1,708,624	1,706,890
Unallocated other income	-	-	-	-	-	-	-	-	-	-	69,419	35,903
Unallocated expenses	-	-	-	-	-	-	-	-	-	-	(903,487)	(857,292)
Finance cost - net	-	-	-	-	-	-	-	-	-	-	(361,698)	(395,480)
Income tax expense	-	-	-	-	-	-	-	-	-	-	(119,317)	(35,934)
Profit for the year	-	-	-	-	-	-	-	-	-	-	393,541	454,087
Business Segment Assets and Liabilities												
Segment assets	4,028,135	3,740,927	1,429,507	1,251,320	1,505,377	1,132,103	579,762	492,174	1,494,910	1,034,883	9,037,691	7,651,407
Unallocated assets	-	-	-	-	-	-	-	-	-	-	7,056,963	5,248,972
Total assets											16,094,654	12,900,379
Segment liabilities	374,858	2,914,312	63,968	109,137	53,312	102,724	854	23,084	30,893	88,902	523,885	3,238,159
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	7,653,276	2,031,053
Equity	-	-	-	-	-	-	-	-	-	-	7,917,493	7,631,167
Total equity and liabilities											16,094,654	12,900,379
Other Information												
Capital expenditure	52,331	12,741	84,881	86,525	23,259	28,395	3,813	5,512	4,296	15,984	168,580	149,157
Unallocated capital expenditure	-	-	-	-	-	-	-	-	-	-	1,265,276	945,296
Depreciation and amortisation	22,868	13,759	74,741	52,867	11,786	8,036	4,213	3,389	8,478	6,719	122,086	84,770
Unallocated depreciation and amortisation	-	-	-	-	-	-	-	-	-	-	95,776	85,763



Segment Results 2014



Segment Results 2013

4.3 Other Operating Income/(Expenses)

Accounting Policies

Income earned and expenses incurred on other sources, which are not directly related to the normal operations of the group are recognised as other operating income/(expenses).

The following specific criteria are used for the purpose of recognising income.

Deferred Income on sale and lease back transactions

The excess of sales proceeds over the cost 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.

Dividend income

Dividend income is recognised when the Group/Company right to receive payment is established.

Other Operating Income/(Expenses)

	Group		Company	
For the year ended 31st March	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Amortisation of deferred income	1,595	3,191	1,595	3,191
Sundry income	60,331	36,895	49,812	22,099
Dividend income	522	235	11,322	13,015
Profit/(Loss) on disposal of property, plant & equipment	6,971	(4,418)	6,993	(2,878)
	69,419	35,903	69,722	35,427

4.4 Finance Income and Expenses

Accounting Policies

Finance income comprises of interest income. Interest income is recognised as it accrues, using the effective interest method.

Finance costs comprise interest expense on borrowings and impairment losses recognised on financial assets (other than trade receivables). Interest expenses are recognised using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the asset. A qualifying asset is an asset which takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are recognised in the Income Statement in the period in which they occur.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

Specific Accounting Policies and Notes

Net Finance Cost

For the year ended 31st March	Group 2014 Rs. '000	Group 2013 Rs. '000	Company 2014 Rs. '000	Company 2013 Rs. '000
Finance income				
Interest income	59,856	110,169	59,136	108,370
Exchange gain on translation of foreign currency	15,655	130,592	11,481	132,808
Total finance income	75,511	240,761	70,617	241,178
Finance cost				
Interest on long-term borrowings	(40,673)	(53,329)	(40,673)	(53,329)
Interest on short-term borrowings	(396,536)	(582,912)	(383,317)	(577,469)
Total finance cost	(437,209)	(636,241)	(423,990)	(630,798)
Net finance cost	(361,698)	(395,480)	(353,373)	(389,620)
Capitalisation of finance income and cost				
Finance income	8,399	-	8,399	-
Finance cost	(57,622)	(59,651)	(57,622)	(59,651)
Net finance cost	(49,223)	(59,651)	(49,223)	(59,651)

4.5 Profit Before Tax

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

For the year ended 31st March	Group 2014 Rs. '000	Group 2013 Rs. '000	Company 2014 Rs. '000	Company 2013 Rs. '000
Directors' emoluments - Short-term employment benefits	173,211	159,847	159,273	149,827
- Post-employment benefits	41,434	43,267	39,111	41,011
Auditors' remuneration				
- Audit services	2,811	2,415	2,300	1,980
- Audit-related services	717	932	602	785
- Non-audit services	557	628	403	454
Depreciation on property, plant & equipment	208,888	167,385	200,409	160,665
Amortisation of intangible assets and lease rentals paid in advance	8,974	3,148	8,974	3,148
Reversal of impairment of trade and other receivable	(19,275)	(142,540)	(31,914)	(122,667)
Provision/(reversal of) for slow moving inventories	(87,605)	131,061	(83,751)	122,593
Donations	13,191	14,804	5,949	14,104
Legal fees	17,668	17,753	17,225	15,904
Staff expenses (Note 4.5.1)	1,344,015	1,121,737	1,174,398	993,423

4.5.1 Staff Expenses

Accounting Policies

Salaries and wages, contribution to EPF and ETF, training expenses and current service cost of defined benefit plans are measured at cost and recognised as an expense in the year in which the related services are provided.

Staff Expenses

For the year ended 31st March	Group 2014 Rs. '000	Group 2013 Rs. '000	Company 2014 Rs. '000	Company 2013 Rs. '000
Defined contribution plan cost	160,925	145,001	139,918	128,032
Employee benefit obligation cost (Note 4.22)	55,935	43,311	51,850	40,675
Training expenses	42,803	41,866	34,339	28,401
Salaries and wages	1,084,352	891,559	948,291	796,315
	1,344,015	1,121,737	1,174,398	993,423
Average number of employees for the year	1,518	1,433	1,349	1,290

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

4.6 Income Tax

Accounting Policies

Income tax expense/(reversal) for the year comprises current and deferred tax including adjustments to previous years and changes in tax provisions. It is recognised in the Income Statement except, to the extent it relates to items recognised directly in Equity or in Other Comprehensive Income (OCI).

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.

Accounting Estimate

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

Deferred tax

A detail disclosure of accounting policies and estimate of deferred tax is available in Note 4.23.

Income Tax Expense

For the year ended 31st March	Group 2014 Rs. '000	Group 2013 Rs. '000	Company 2014 Rs. '000	Company 2013 Rs. '000
Current Tax Expense				
Current tax on profit for the year (Note 4.6.1)	66,795	69,092	-	21,536
Under provision in respect of previous year	1,181	1,494	-	74
	67,976	70,586	-	21,610
Deferred Tax Expense				
Origination/(Reversal) of temporary differences (Note 4.6.2)	51,341	(34,652)	50,070	(34,924)
Total income tax expense/(reversal)	119,317	35,934	50,070	(13,314)

Specific Accounting Policies and Notes

4.6.1 Reconciliation of Accounting Profit to Income Tax Expense

	Group		Company	
For the year ended 31st March	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Profit before taxation	512,858	490,021	329,989	331,581
Disallowable expenses	405,705	387,338	383,017	371,219
Allowable expenses	(396,564)	(267,963)	(376,714)	(263,745)
Qualifying Payments	(343,492)	(362,177)	(336,292)	(361,677)
Taxable income	178,507	247,219	-	77,378
Income tax				
Tax at 12%	622	98	-	98
Tax at 28%	66,173	68,994	-	21,438
Current tax on profits for the year	66,795	69,092	-	21,536
Effective tax rate (%)	13%	14%	0%	6%

Current 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 the final dividend approved on 23rd May 2014 is Rs. 8.8 mn. The actual liability arises in the year in which dividend is paid. Therefore, no liability is recognised in these Financial Statements.

4.6.2 Recognition of deferred tax expenses in the Comprehensive Income

	Group		Company	
For the year ended 31st March	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Income Statement (Note 4.23.2)	51,341	(34,652)	50,070	(34,924)
Other Comprehensive Income (Note 4.23.2)	(7,076)	(8,063)	(6,537)	(6,929)
	44,265	(42,715)	43,533	(41,853)

4.6.3 Tax Losses Brought Forward and Utilised During the Year

	Group		Company	
For the year ended 31st March	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Tax losses at the beginning of the year	6,050	6,050	-	-
Claim during the year	(3,829)	-	-	-
Tax losses at the end of the year	2,221	6,050	-	-

Tax losses brought forward relate to Dimo Industries (Pvt) Ltd.

4.7 *Earnings Per Share - Basic and Diluted*

Accounting Policies - Measurement basis

Earnings per share has been calculated by dividing the 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.

Calculation of Earnings Per Share

	Group		Company	
For the year ended 31st March	2014	2013	2014	2013
Profit attributable to ordinary shareholders (Rs. '000)	393,541	454,087	279,919	344,895
Weighted average number of ordinary shares	8,876,437	8,876,437	8,876,437	8,876,437
Earnings per ordinary share - basic and diluted (Rs.)	44.34	51.16	31.54	38.86

4.8 *Dividends*

Calculation of Dividend Per Share

	Company	
For the year ended 31st March	2014	2013
	Rs. '000	Rs. '000
Final dividend approved	88,764	88,764
	88,764	88,764
Dividend per share (Rs.)	10.00	10.00

No interim dividend was paid during the financial year 2013/14.
(No Interim dividends was paid in 2012/13.)

4.8.1 Approved Final Dividend

On 23rd May 2014, the Board of Directors of the Company has recommended the payment of a first and final dividend of Rs. 10.00 per share for the year ended 31st March 2014 (2012/13 - final dividend of Rs. 10.00 per share). In accordance with the - LKAS 10 on 'Events after the Reporting Period', this final dividend has not been recognised as a liability in the Financial Statements as at 31st March 2014.

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

As required by Section 56 of the Companies Act No. 07 of 2007, the Board of Directors of the Company satisfied the solvency test in accordance with Section 57, prior to recommending the final dividend. A statement of solvency completed and duly signed by the Directors on 23 May 2014 has been audited by Messrs KPMG, Chartered Accountants.

Specific Accounting Policies and Notes

4.9 Property plant and equipment

Accounting Policies

Basis of recognition

Property, plant & equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Group/Company and cost of the asset can be measured reliably.

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

Basis of measurement

All property, plant & equipment are initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs. The cost of self-constructed assets includes the cost of materials, direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, the costs of dismantling and removing the items and restoring the site on which they are located and borrowing costs that are directly attributable to the asset under construction.

Cost model

Property, plant & equipment (excluding freehold land), is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

When an asset's carrying value is higher than it's estimated recoverable amount, the carrying value is written down to its recoverable amount. (please refer 3.9 - Impairment of non-financial assets)

Revaluation model

Freehold land is stated at cost at the time of acquisition and subsequently measure at fair value at the next revaluation. The Group policy is to revalue all freehold land at every three years or when there is a substantial difference between the fair value and the carrying amount.

Any revaluation surplus is recognised in Other Comprehensive Income and accumulated in equity in the capital reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Income Statement, in which case the increase is recognised in the Income Statement.
A revaluation deficit is recognised in the Income Statement, except to the extent that it offsets an existing surplus on the same asset recognised in the capital reserve. Upon disposal, any revaluation reserve relating to particular assets being sold is transferred to retained earnings.

Subsequent cost

When significant parts of a property, plant and equipment are required to be replaced at regular intervals, the Group derecognises the replaced part, and recognises the new part with its own associated useful life and depreciated accordingly. Ongoing repair and maintenance costs are recognised in the Income Statement as incurred.

Derecognition

An item of property, plant & equipment is derecognised upon disposal, replacement or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the Income Statement in the period the asset is derecognised.

Depreciation

Depreciation is based on straight-line method over the estimated useful lives of the assets. Freehold land is not depreciated.

Depreciation of an asset begins from the date they are available for use or in respect of self constructed assets from the date that the asset is completed and ready for use. Depreciation ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

The estimated useful life of assets is as follows:

Class of Asset	Year
Buildings	36 - 40
Buildings on leasehold land	Over the lease period
Plant and 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

Residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted if appropriate.

Capital work-in-progress

Capital work-in-progress is stated at cost, including borrowing costs, less any accumulated impairment losses. These would be transferred to the relevant asset category in PPE when the asset is completed and available for use i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Carrying Value of Property, Plant & Equipment

	* Freehold Land Rs. '000	Buildings and Premises Rs. '000	Leasehold Buildings and Premises Rs. '000	Plant and Machinery Rs. '000	Tools and Implements Rs. '000	Motor Vehicles Rs. '000	Computer Hardware and Software Rs. '000	Electrical Fixtures, Fittings and Office Equipment Rs. '000	Total 2014 Rs. '000	Total 2013 Rs. '000
Group										
Cost or Revalued Amount										
At the beginning of the year	3,396,858	701,828	123,050	448,126	179,382	399,820	190,998	268,988	5,709,050	5,241,994
Additions	-	-	-	14,495	11,414	41,454	14,235	23,872	105,470	443,710
Transferred from capital work-in-progress	-	-	104,227	-	-	-	8,424	-	112,651	65,358
Disposals	-	-	-	(5,470)	(141)	(17,672)	(2,901)	(299)	(26,483)	(42,012)
At the end of the year	3,396,858	701,828	227,277	457,151	190,655	423,602	210,756	292,561	5,900,688	5,709,050
Depreciation										
At the beginning of the year	-	121,289	16,001	134,535	139,323	214,582	131,328	126,749	883,807	740,461
Charge for the year	-	17,307	18,745	32,439	16,487	77,893	26,116	19,901	208,888	167,385
On disposals	-	-	-	(1,573)	(141)	(16,511)	(2,812)	(221)	(21,258)	(24,039)
At the end of the year	-	138,596	34,746	165,401	155,669	275,964	154,632	146,429	1,071,437	883,807
Carrying amount before capital work-in- progress	3,396,858	563,232	192,531	291,750	34,986	147,638	56,124	146,132	4,829,251	4,825,243
Capital work-in-progress at cost										
At the beginning of the year	-	638,885	93,560	-	-	-	908	8,773	742,126	156,741
Additions	-	1,087,911	14,027	83,761	21,533	-	32,299	48,499	1,288,030	650,743
Transferred to PPE	-	-	(104,227)	-	-	-	(8,424)	-	(112,651)	(65,358)
At the end of the year	-	1,726,796	3,360	83,761	21,533	-	24,783	57,272	1,917,505	742,126
Carrying amount as at 31st March 2014	3,396,858	2,290,028	195,891	375,511	56,519	147,638	80,907	203,404	6,746,756	-
Carrying amount as at 31st March 2013	3,396,858	1,219,424	200,609	313,591	40,059	185,238	60,578	151,012	-	5,567,369
Company										
Cost or Revalued Amount										
At the beginning of the year	3,396,858	700,213	123,050	412,562	159,097	396,245	172,733	253,519	5,614,277	5,157,601
Additions	-	-	-	12,762	11,246	41,454	12,378	23,239	101,079	427,511
Transferred from capital work-in-progress	-	-	104,227	-	-	-	8,424	-	112,651	65,358
Disposals	-	-	-	(5,470)	(141)	(17,672)	(2,523)	(299)	(26,105)	(36,193)
At the end of the year	3,396,858	700,213	227,277	419,854	170,202	420,027	191,012	276,459	5,801,902	5,614,277
Depreciation										
At the beginning of the year	-	120,948	16,001	122,550	124,778	212,175	118,699	117,739	832,890	693,588
Charge for the year	-	17,267	18,745	29,784	14,810	77,309	23,746	18,748	200,409	160,665
On disposals	-	-	-	(1,573)	(141)	(16,511)	(2,456)	(221)	(20,902)	(21,363)
At the end of the year	-	138,215	34,746	150,761	139,447	272,973	139,989	136,266	1,012,397	832,890
Carrying amount before capital work-in-progress	3,396,858	561,998	192,531	269,093	30,755	147,054	51,023	140,193	4,789,505	4,781,387
Capital work-in-progress at cost										
At the beginning of the year	-	638,885	93,560	-	-	-	908	8,773	742,126	156,741
Additions	-	1,106,190	14,027	90,617	21,533	-	32,299	67,289	1,331,955	650,743
Transferred to PPE	-	-	(104,227)	-	-	-	(8,424)	-	(112,651)	(65,358)
At the end of the year	-	1,745,075	3,360	90,617	21,533	-	24,783	76,062	1,961,430	742,126
Carrying amount as at 31st March 2014	3,396,858	2,307,073	195,891	359,710	52,288	147,054	75,806	216,255	6,750,935	-
Carrying amount as at 31st March 2013	3,396,858	1,218,150	200,609	290,012	34,319	184,070	54,942	144,553	-	5,523,513

Capital work-in-progress mainly comprises of cost relating to constructions of new Mercedes Benz centre.

** Freehold land is carried at revalued amount.*

Specific Accounting Policies and Notes

4.9.1 Revaluation of Freehold Land

Freehold land was revalued 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, adjusted for any difference in the nature, location or condition of the specific property.

The revaluation surplus, amounting to Rs. 879.14 mn was credited to the capital reserve account during the year 2011/12.

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

Location	Extent	Freehold Land Original Cost Rs. '000	Revalued Rs. '000	Revalued Amount as No. of Times of Cost	Freehold Building Square Feet	Pledged	Mortgaged to Financial Institution
No. 65, Jetawana Road, Colombo 14 and No. 56, K. Cyril C. Perera Mawatha, Colombo 14	2A-0R-33.29P	414	1,349,135	3,258.78	65,605	–	–
No. 61, Jetawana Road, Colombo 14	0A-1R-04.00P	18,014	220,000	12.21	8,423	–	–
No. 74, Jetawana Road, Colombo 14	0A-1R-14.56P	113,808	252,640	2.22	4,042	–	–
No. 800, Sirimawo Bandaranaike Mawatha,Colombo 14	3A-3R-14.00P	641,519	659,388	1.03	–	–	–
No. 135, Mahena Road, Siyambalape	7A-3R-05.90P	16,483	222,660	13.51	96,300	–	–
Kirindiwela Road, Weliweriya	16A-0R-36.31P	89,958	191,125	2.12	213,925	√	Commercial Bank
No.360, Madampitiya Road, Mahawatta, Colombo 14	1A-2R-26.80P	301,599	*301,599	–	–	–	–
No. 09, Ariyala, Kandy Road, Jaffna	1A-2R-26.72P	32,487	*32,487	–	–	–	–
Yaggapitiya Watta, Dambulla Road, Kurunegala	5A-0R-0P	54,599	*54,599	–	–	–	–
No. 274/A, Kakunagaha Watta, Siyambalape	1A-0R-14.00P	21,123	*21,123	–	–	–	–
No. 23, Kaldemulla Road, Moratuwa	0A-3R-27.04P	92,102	*92,102	–	18,274	–	–
Total		1,382,106	3,396,858		406,569		

** These freehold lands were acquired subsequent to the last revaluation date and therefore, the original cost is shown under the 'Revalued' column.*

4.9.2 Fully Depreciated but still in Use

Property, plant & equipment totalling to Rs.435.6 mn (2013 - Rs. 433 mn) at cost have been fully depreciated and continue to be used by the Group. The cost of fully-depreciated assets of the Company amounted to Rs. 404.6 mn (2013 - Rs. 403 mn).

4.9.3 Property, Plant & Equipment Pledged as Security against Long-Term Bank Loan

Land and buildings with a carrying value of Rs. 191 mn (2013 - Rs. 666 mn) have been pledged as security against term loans obtained.

4.9.4 Permanent Fall in Value of Property, Plant & Equipment

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

4.9.5 Title Restriction on Property, Plant & Equipment

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

4.10 Lease Rentals Paid in Advance

Acounting Policies

Lease rentals paid in advance 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.

Carrying Value of Lease Rentals Paid in Advance

	Group		Company	
As at 31st March	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Cost				
At the beginning of the year	39,938	39,938	39,938	39,938
Additions during the year	-	-	-	-
At the end of the year	39,938	39,938	39,938	39,938
Accumulated Amortisation				
At the beginning of the year	6,592	4,387	6,592	4,387
Amortisation for the year	2,205	2,205	2,205	2,205
At the end of the year	8,797	6,592	8,797	6,592
Carrying amount at the end of the year	31,141	33,346	31,141	33,346
Current portion of lease rentals paid - (Note 4.17)	2,205	2,205	2,205	2,205
Non-current portion of lease rentals paid	28,936	31,141	28,936	31,141
Carrying amount at the end of the year	31,141	33,346	31,141	33,346

4.10.1 Details of Lease Rentals Paid in Advance

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

Specific Accounting Policies and Notes

4.11 Intangible assets

Accounting Policies

Basis of recognition

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.

Basis of measurement

Acquired Intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses.

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.

Useful economic lives, amortisation

Intangible assets with finite lives are amortised on a straight-line basis over their estimated useful life from the date that they are available for use. These assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Intangible assets mainly represent cost of computer software and the amortisation rate is as follows:

Computer software 4 Years

Above rate is consistent with the rate used in the previous years. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Derecognition

Intangible assets are derecognised on disposal, replacement or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset is included in the Income Statement in the period the asset is derecognised.

Carrying Value of Intangible Assets

	Group		Company	
As at 31st March	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Cost				
At the beginning of the year	6,344	6,344	6,344	6,344
Additions during the year*	40,356	-	40,356	-
At the end of the year	46,700	6,344	46,700	6,344
Accumulated Amortisation				
At the beginning of the year	4,208	3,265	4,208	3,265
Amortisation for the year	6,769	943	6,769	943
At the end of the year	10,977	4,208	10,977	4,208
Carrying amount at the end of the year	35,723	2,136	35,723	2,136

** Additions consist of investment in application software.*

4.12 Investments in Subsidiaries

Accounting Policies

Investments in subsidiaries are recorded at cost less impairment in the Financial Statements of the Company. The net assets of each subsidiary are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the investment is estimated and the impairment loss is recognised to the extent of its net assets loss.

Accounting Estimate - Provision for Impairment

An impairment assessment was carried out as at 31st March 2014 and it was concluded that net realisable value of all the investments included under unquoted investments exceed its carrying value except for DIMO Industries (Pvt) Ltd. Based on an assessment made for impairment, a provision of Rs. 2.7 mn (2012/13 - Rs. 12.2 mn) in relation to the investment in Dimo Industries (Pvt) Ltd. was considered to be adequate as at reporting date. The management has implemented a revitalisation plan for Dimo Industries (Pvt) Ltd. and commenced tyre trading activities with effect from 1st April 2013.

Carrying Value of Investments in Subsidiaries

As at 31st March	Percentage of Holding (%)	Company 2014 Rs. '000	Company 2013 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 4.12.1)		(2,705)	(12,205)
		20,645	11,145

4.12.1 Provision for Impairment of Investments in Subsidiaries

As at 31st March	Company 2014 Rs. '000	Company 2013 Rs. '000
At the beginning of the year	12,205	12,205
Reversal of impairment	(9,500)	-
At the end of the year	2,705	12,205

Specific Accounting Policies and Notes

4.13 Financial Assets and Liabilities

Accounting Policies

Financial assets

Initial recognition and measurement

Group/Company classifies financial assets at initial recognition as available-for-sale financial assets or loans and receivables based on the purpose of each investment. At the end of each reporting period all classifications are re-evaluated to the extent that such classification is permitted and required.

All the financial assets are initially recognised at fair value plus directly attributable transaction cost.

Available-for-sale financial assets (AFS)

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale financial assets or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets consist of investments in quoted shares held for earnings on income or for capital appreciation.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables mainly consist of trade and other receivables.

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

a. The right to receive cash from the asset has expired

b. The Group has transferred its right to receive cash flows from the asset or has assumed an obligation to pay the received cash in full without material delay to a third party under a 'pass through' arrangement, and either,

    i. The Group: has transferred substantially all the risks and rewards of the asset, or

    ii. has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

Financial liabilities

Initial recognition and measurement

Group classifies financial liabilities at initial recognition as other financial liabilities. At the end of each reporting period all classifications are re-evaluated to the extent that such classification is permitted and required.

All the financial liabilities are initially recognised at fair value, net of transaction cost. Other financial liabilities mainly consist of trade and other payables and bank borrowings. Subsequently they are carried at amortised cost.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Offsetting of financial assets and liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

4.13.1 Financial Assets and Liabilities by Category

Financial assets

As at 31st March	Group 2014 Rs. '000	Group 2013 Rs. '000	Company 2014 Rs. '000	Company 2013 Rs. '000
i. Financial assets at fair value through profit or loss	-	-	-	-
ii. Held-to-maturity (HTM)	-	-	-	-
iii. Loans & receivables (L&R)				
Trade & other receivables	2,742,873	2,086,115	2,099,995	1,654,001
Cash and cash equivalents	1,038,788	682,078	1,033,806	615,156
iv. Available-for-sales (AFS)				
Financial assets available-for-sale	4,823	5,077	4,801	5,054
Total financial assets	3,786,484	2,773,270	3,138,602	2,274,211

Financial liabilities

As at 31st March	Group 2014 Rs. '000	Group 2013 Rs. '000	Company 2014 Rs. '000	Company 2013 Rs. '000
i. Financial liabilities at fair value through profit or loss	-	-	-	-
ii. Other financial liabilities				
Current portion of long-term borrowings	333,080	229,960	333,080	229,960
Long-term borrowings	1,499,763	540,243	1,499,763	540,243
Short-term borrowings	4,117,283	2,647,597	3,964,245	2,518,226
Trade payables	1,208,337	843,044	1,129,614	792,718
Total financial liabilities	7,158,463	4,260,844	6,926,702	4,081,147

Fair value estimation of financial assets and liabilities

The Group/Company uses the following hierarchy for determining and disclosing the fair value of financial instruments.

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs with significant effects on the recorded fair values are observable, either directly or indirectly;

Level 3: techniques that use inputs that have a significant effect on the recorded fair values that are not based on observable market data.

The Group held the following financial instruments carried at fair value in the Statement of Financial Position.

		Group 2014 Rs. '000	Group 2013 Rs. '000	Company 2014 Rs. '000	Company 2013 Rs. '000
Financial assets					
Classified as available for sale	Level 1	4,823	5,077	4,801	5,054
	Level 2	-	-	-	-
	Level 3	-	-	-	-

Financial liabilities are not measured at fair value.

Specific Accounting Policies and Notes

4.13.2 Financial risk management

The group's activities are exposed it to a variety of financial risks such as;

a. Market risk (Including currency risk, fair value interest rate risk and cash flow interest rate risk)

b. Credit risk

c. Liquidity risk

The groups' overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the groups' financial performance.

The overall objectives and policies for the Group's financial risk management are as per the internal treasury practices. It will cover foreign exchange policy, Investment policy, financing policy and policies on credit risk and risk limits.

(a) Market risk

(i) Foreign exchange risk

The Group is sensitive to the fluctuations in exchange rates and is principally exposed to fluctuations in the value of Sri Lankan Rupee (LKR) aginst the US Dollar (USD), Euro and Japanese Yen. Group's functional currency is the Sri Lankan Rupee (LKR) in which most of the transactions are denominated and all other currencies are considered foreign currencies for reporting purposes. The Group had taken measures to manage risk by having foreign currency trade receivables and foreign currency bank accounts balances to cover the exposure on foreign currency payables. Hence the overall objective of foreign exchange risk management is to reduce the short term negative impact of exchange rate fluctuations on earnings and cash flow, thereby increasing the predictability of the financial results.

Sensitivity Analysis - Based on exchange rate fluctuation against Sri Lankan rupees

	Group		Company	
	2014	2013	2014	2013
US Dollar (USD)				
% of Appreciation / (Depreciation) during the financial year	3.52	(0.90)	3.52	(0.90)
1% change impact to profitability by - Rs'000	4,242	5,295	3,301	3,543
Euro				
% of Appreciation / (Depreciation) during the financial year	11.39	(4.93)	11.39	(4.93)
1% change impact to profitability by - Rs'000	3,096	3,767	1,088	1,858
Japanese Yen				
% of Appreciation / (Depreciation) during the financial year	(4.96)	(13.73)	(4.96)	(13.73)
1% change impact to profitability by - Rs'000	306	119	301	119

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The group's exposure to the risk of changes in market interest rates relates primarily to the group's long-term debt obligations with floating rates. The Group manages its interest rate risk by monitoring and managing cash flows, negotiating favourable rates on borrowings and deposits including and maintaining an appropriate combination of fixed and floating rate debt.

Sensitivity Analysis

If interest rates had been higher/lower by 100 basis points and all other variables were held constant, the profit before tax for the period ended 31 March 2014 would decrease/increase by 12.2 Mn (2013 Rs 7.7 Mn). This is mainly attributable to the Group's exposure to interest rates on variable rate of interest.

(iii) Price risk

The Group is exposed to price risk because of investments in quoted shares held by the Group classified as financial assets available-for-sale. The value of these investments is subjected to the performance of investee company and the factors that affects the status of the stock market. Sensitivity analysis on the value of the investments is not provided as it is deemed to be not material.

(b) Credit risk

The Group extends credit facilities to customers during the course of business. Therefore, non-payment of trade debts is a key risk associated with trade receivables.

The Group has taken several measures to manage and mitigate the credit risk including carrying out a credit evaluation as per the Group credit policy, prior to extending credit. A review of age analysis of trade debtors and follow-up meetings are carried out by the business unit managers at least once a month and by the Group Management Committee (GMC) at least once a quarter. In the event of a debt becoming doubtful, legal action is initiated by the Manager - Legal.

Credit risk exposure

The maximum risk exposure of financial assets which are generally subject to credit risk are equal to their carrying amounts. Following table shows the maximum risk positions.

	Group		Company	
For the year ended 31 March	2014 Rs'000	2013 Rs'000	2014 Rs'000	2013 Rs'000
Trade and other receivables	2,742,873	2,086,115	2,099,995	1,654,001
Amounts due from subsidiaries	-	-	56,468	-
Cash in hand and at bank	1,038,788	682,078	1,033,806	615,156
Total credit risk exposure	3,781,661	2,768,193	3,190,269	2,269,157

Deposits and balances with banks

	Group		Company	
For the year ended 31 March	2014 Rs'000	2013 Rs'000	2014 Rs'000	2013 Rs'000
Fitch Rating				
AAA	68,797	85	68,797	85
AA+	821,765	149,550	821,765	149,550
AA	1,786	2,168	1,750	2,062
AA-	121,959	458,977	119,274	393,222
A	-	51,399	-	51,399
BB	-	46	-	46
	1,014,307	662,225	1,011,586	596,364

(c) Liquidity risk

This is the risk that the group will encounter in meeting the obligations associated with it's financial liabilities that are settled by delivering cash or another financial asset.

In the management of liquidity risk, the Group monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and to mitigate the effects of fluctuations in cash flows. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. Access to source of funding is sufficiently available.

Maturity profiles and specific risk management strategies with regards to trade payables and bank borrowings are given in the respective notes.

Specific Accounting Policies and Notes

4.13.3 Capital Risk management

The objectives of the capital management can be summarised as follows:

a. Appropriately allocate capital to meet strategic objectives.

b. Enable the Group to face any economic down turn/ crisis situation.

The Group's policy is to maintain a strong capital base so as to ensure investor, creditor and market confidence in order to sustain future development of the business. The impact of the shareholders' return is also recognised and the Group recognises the need to maintain a balance between higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Company manages its capital structure and adjusts it accordingly in line with changes in global and local economic and market conditions and its overall risk appetite.

Given below is a summary of the capital structure of the Group:

For the year ended	2014 Rs. '000	2013 Rs. '000
Long-term borrowings (Note 4.21.1.1)	1,832,843	770,203
Equity	7,917,493	7,631,167
Total equity and long-term loans	9,750,336	8,401,370
Gearing ratio (%)	19%	9%

4.14 Available-for-sale financial assets (AFS)

Accounting Policies

Available-for-sale financial assets are subsequently measured at fair value and the resulting unrealised gains and losses arising from changes in the fair value are recognised in Other Comprehensive Income (available-for-sale reserve). When financial assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the Income Statement.

The fair values of quoted shares are based on current bid prices at the end of the reporting period.

Dividend income is recognised in the Income Statement when the Group becomes entitled to receive the dividend.

Accounting Estimate - Assessment of Impairment

The Group assesses at each reporting date whether there is any objective evidence that an asset or a group of assets is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period for which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, is removed from Other Comprehensive Income (available-for-sale reserve)

Carrying Value of Available-for-Sale Financial Asset

	Group					Company				
	No. of Shares	Market Value 2014	Total Cost	Fair Value 2014	Fair Value 2013	No. of Shares	Market Value 2014	Total Cost	Fair Value 2014	Fair Value 2013
As at 31st March		(Per Share)	Rs. '000	Rs. '000	Rs. '000		(Per Share)	Rs. '000	Rs. '000	Rs. '000
Quoted Investments										
Ordinary Shares										
Hunas Falls Hotels PLC	900	48.10	14	44	47	450	48.10	7	22	24
Hatton National Bank PLC (non-voting)	33,943	120.00	700	4,073	4,474	33,943	120.00	700	4,073	4,474
Ceylinco Insurance PLC (non-voting)	1,700	415.00	298	706	556	1,700	415.00	298	706	556
			1,012	4,823	5,077			1,005	4,801	5,054

All investments in available-for-sale financial assets are denominated in Sri Lankan Rupees

4.15 Inventories

Inventories are measured at the lower of cost and net realizable value.

The cost of inventories that are not interchangeable are recognized by using specific identification of their individual cost and other inventories are based on weighted average cost formula. The cost of inventories includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their present location and condition but excluding borrowing cost.

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

Goods-in-transit are recognised at purchase cost.

Carrying Value of Inventories

	Group		Company	
As at 31st March	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Stock-in-trade	4,303,732	3,930,259	4,221,759	3,895,507
Work-in-progress (at cost)	122,814	106,467	89,312	52,708
Provision for slow moving inventories (Note 4.15.1)	(252,423)	(340,028)	(244,624)	(328,375)
	4,174,123	3,696,698	4,066,447	3,619,840
Goods-in-transit	693,518	445,208	689,497	435,718
Total inventories at the lower of cost and net realisable value	4,867,641	4,141,906	4,755,944	4,055,558

4.15.1 Movement in Provision for Slow Moving Inventories

	Group		Company	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
At the beginning of the year	340,028	208,967	328,375	205,782
Provision for/ (reversal of) slow moving inventories	(87,605)	131,061	(83,751)	122,593
At the end of the year	252,423	340,028	244,624	328,375

4.16 Trade and Other Receivables

Accounting Policies

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Other financial nature receivables are recognised as other receivables. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Accounting Estimate - Provision for Impairment

The Group/Company considers evidence of impairment for receivables at both specific asset level and at collective level. All individually significant receivables are assessed for specific impairment by considering objective evidences i.e. Experiencing a significant financial difficulty or default in payments by a customer. Receivables that are not individually assessed are then collectively assessed for any impairment by grouping receivables together with similar risk characteristics.

In assessing collective impairment, the Group/Company uses historical trends of the probability of default, the timing of recoveries, and the amount of losses incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested historical trends.

Specific Accounting Policies and Notes

Carrying Value of Trade and Other Receivables

	Group		Company	
As at 31st March	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Trade receivables	2,968,878	2,329,280	2,284,433	1,868,141
Provision for impairment (Note 4.16.1)	(242,677)	(261,952)	(200,886)	(232,800)
	2,726,201	2,067,328	2,083,547	1,635,341
Other receivables	16,672	18,787	16,448	18,660
Carrying value	2,742,873	2,086,115	2,099,995	1,654,001

4.16.1 Movement in Provision for Impairment of Trade Receivables

	Group		Company	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
At the beginning of the year	261,952	404,492	232,800	355,467
Reversal of impairment loss	(19,275)	(142,540)	(31,914)	(122,667)
At the end of the year	242,677	261,952	200,886	232,800

4.16.2 Age Analysis of Trade Receivables after Provision for Impairment

	Group		Company	
As at 31st March	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Not due	1,837,842	1,446,388	1,390,909	1,177,492
Due but not impaired				
Between 61 days to - 180 days	623,581	368,730	531,999	287,861
Between 181 days to - 365 days	198,094	163,544	125,424	101,672
Over 365 days	66,684	88,666	35,215	68,316
Net trade receivables - maximum exposure to credit risk	2,726,201	2,067,328	2,083,547	1,635,341
Provision for impairment	242,677	261,952	200,886	232,800
Gross trade receivables	2,968,878	2,329,280	2,284,433	1,868,141

With respect to trade receivables as at the reporting date, past due but not impaired, based on credit history, there are no indications that customer will not be able to meet their obligations. No indication of default are identifiable for trade receivables that are neither past due nor impaired.

4.16.3 Carrying amount of trade receivables are denominated in the following currencies.

	Group		Company	
	2014	2013	2014	2013
	Rs'000	Rs'000	Rs'000	Rs'000
Currency				
Sri Lankan Rupees	2,518,329	1,745,605	1,916,723	1,382,491
USD	119,040	273,485	113,690	239,116
Euro	59,056	46,084	25,942	11,580
Japanese Yen	27,181	549	26,684	549
Other	2,595	1,605	508	1,605
	2,726,201	2,067,328	2,083,547	1,635,341

4.16.4 Trade debtors jointly with inventories are pledged as security for short-term borrowings up to a limit of Rs.95 mn (2012/13 - Rs. 95 mn).

4.16.5 Terms of Trade and Other Receivables

Trade and other receivables are non-interest-bearing and are expected to be received before 60 days.

4.17 Other Current Assets

Accounting Policies

The Group/Company classifies all non financial current assets under other current assets. Other current assets mainly comprises of advances, deposits, prepayments and current portion of the lease rentals paid in advance.

Advances and deposits are carried at historical value less provision for impairment. Prepayments are amortised over the period during which it is utilised and carried at historical value less amortisation charge and any impairment.

Carrying Value of Other Current Assets

	Group		Company	
As at 31st March	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Deposits and prepayments	305,417	198,410	279,168	171,424
Lease rentals paid in advance - (Note 4.10)	2,205	2,205	2,205	2,205
Other receivables	113,464	5,779	110,479	4,457
	421,086	206,394	391,852	178,086

4.18 Cash and Cash Equivalents

Accounting Policies

Cash and cash equivalents comprise of cash balances, investments in short-term deposits with an original maturity of three months or less. Cash and Bank balances are stated at recoverable values. Short-term deposits are stated at recoverable value of the deposit. There were no cash and cash equivalents held by the Group companies that were not available for use.

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.

Carrying Value of Cash and Cash Equivalents

	Group		Company	
As at 31st March	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Bank balances	118,057	225,859	115,336	159,998
Investment in fixed deposits	896,250	436,366	896,250	436,366
Cash in hand	24,481	19,853	22,220	18,792
	1,038,788	682,078	1,033,806	615,156

Review of Credit & Interest Rate Risks

The Group's cash and cash equivalents comprise of bank balances and fixed deposits which are invested in commercial banks and does not bear a credit risk.

Fixed deposits have been placed with the maturity period less than three months and carrying a fixed rate of interest. Investments in fixed deposits are made for varying periods of between one month to three months.

Specific Accounting Policies and Notes

4.18.1 Carrying amount of cash and cash equivalents are denominated in the following currencies.

	Group		Company	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Currency				
Sri Lankan Rupees	179,872	533,561	177,575	532,394
USD	855,219	77,831	852,707	30,479
Euro	278	62,001	105	43,598
Yen	3,419	8,685	3,419	8,685
	1,038,788	682,078	1,033,806	615,156

4.19 Stated Capital

	Company			
As at 31st March	2014		2013	
	No. of Shares	Rs. '000	No. of Shares	Rs. '000
Ordinary Shares				
Issued and Fully-paid Ordinary Shares				
At the end of the year	8,876,437	425,297	8,876,437	425,297

4.20 Revenue Reserve

	Group		Company	
As at 31st March	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
At the beginning of the year	5,191,118	5,000,566	4,701,223	4,616,945
Dividend	(88,764)	(244,102)	(88,764)	(244,102)
Total comprehensive income				
Income Statement				
Profit for the year	393,541	454,087	279,919	344,895
Other Comprehensive Income				
Actuarial loss arising from employees benefits (Net of tax)	(18,196)	(20,733)	(16,810)	(17,819)
Net Changes in fair value of financial assets available-for-sale	(255)	1,300	(253)	1,304
At the end of the year	5,477,444	5,191,118	4,875,315	4,701,223

4.21 Long-term and Short-term Borrowings

Accounting Policies

Borrowings are initially recognised at fair value net of transactions cost. Subsequently, they are stated at amortised cost; any difference between the proceeds (Net of transaction cost) and the repayable amount (including interest) is recognised in the Income Statement over the period of the loan using effective interest method.

4.21.1 Carrying Value of Long-term Borrowings

As at 31st March	Group 2014 Rs. '000	Group 2013 Rs. '000	Company 2014 Rs. '000	Company 2013 Rs. '000
a. Non-current portion of the long-term borrowings				
Term loans (Note 4.21.1.1)	1,499,763	540,243	1,499,763	540,243
Total non-current long-term borrowings	1,499,763	540,243	1,499,763	540,243
b. Current portion of the long-term borrowings				
Term loans (Note 4.21.1.1)	333,080	229,960	333,080	229,960
Total current portion of long-term borrowings	333,080	229,960	333,080	229,960

4.21.1.1 Movement and Classification of Long-term Borrowings

As at 31st March	Group 2014 Rs. '000	Group 2013 Rs. '000	Company 2014 Rs. '000	Company 2013 Rs. '000
At the beginning of the year	770,203	1,000,163	770,203	1,000,163
Loans obtained during the year	1,292,600	-	1,292,600	-
Repayments during the year	(229,960)	(229,960)	(229,960)	(229,960)
At the end of the year	1,832,843	770,203	1,832,843	770,203
Classified as current liabilities (repayable within one year)	333,080	229,960	333,080	229,960
Classified as long-term loans (repayable after one year)	1,499,763	540,243	1,499,763	540,243

4.21.1.2 Principal Amounts of Long-term Borrowings

		Company				
Lender	Currency	2014 Rs. '000	2013 Rs. '000	Balance Outstanding as at 31.03. 2014	Secured	Repayments Tenure
Commercial Bank of Ceylon PLC	LKR	400,000	400,000	156,910	✓	Repayable in 120 Instalments commenced from February 2008
Hatton National Bank PLC	LKR	200,000	200,000	-	-	Repayable in 60 Instalments commenced from March 2009
DFCC Bank	LKR	250,000	250,000	108,333	-	Repayable in 60 Instalments commenced from June 2011
Bank of Ceylon	LKR	500,000	500,000	275,000	-	Repayable in 60 Instalments commenced from January 2012
DFCC Bank	LKR	500,000	-	500,000	-	Repayable in 60 Instalments commenced from April 2014
HSBC Bank	USD	792,600	-	792,600	-	Repayable in 60 Instalments commenced from December 2014
Total		2,642,600	1,350,000	1,832,843		

Details of land which were pledged against above bank loan facilities are disclosed in Note 4.9.3.

Specific Accounting Policies and Notes

4.21.1.3 Analysis of Long-Term Borrowings by the year of Repayment

		Commercial Bank of Ceylon PLC	Hatton National Bank PLC	DFCC Bank	Bank of Ceylon	HSBC Bank	Total 2014	Total 2013
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs'000	Rs. '000	Rs. '000
Movement of Loans								
Balance at the beginning of the year		196,870	40,000	158,333	375,000	-	770,203	1,000,163
Loans obtained during the year		-	-	500,000	-	792,600	1,292,600	-
Repayments during the year		(39,960)	(40,000)	(50,000)	(100,000)	-	(229,960)	(229,960)
Balance at the end of the year		156,910	-	608,333	275,000	792,600	1,832,843	770,203
Analysis of Long-Term Borrowings by Period of Repayment								
Repayable	- within 6 months from year end	19,980	-	75,000	50,000	-	144,980	114,980
	- between 6 months and 1 year	19,980	-	75,000	50,000	43,120	188,100	114,980
	- between 2 and 5 years from year end	116,950	-	458,333	175,000	749,480	1,499,763	540,243
	- later than 5 years from year end	-	-	-	-	-	-	-
		156,910	-	608,333	275,000	792,600	1,832,843	770,203

4.21.2 Short-Term Borrowings

	Group		Company	
As at 31st March	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Short-term bank loans	3,835,720	2,284,352	3,762,535	2,204,731
Bank overdrafts	281,563	363,245	201,710	313,495
	4,117,283	2,647,597	3,964,245	2,518,226

Unutilised bank facilities as at 31st March 2014 amounted to Rs.6,325 mn (2013 - Rs. 9,233 mn).

Short-term bank loans are repayable within a period of six months and details of inventories and book debts which were pledged against above short-term loan facilities are disclosed in Note 4.16.4

4.22 Employee Benefits

Accounting Policies

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed determinable contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

Employees are eligible to Employees' Provident Fund (EPF) contributions and Employees' Trust Fund (ETF) contributions as per the respective statutes. These obligations come within the scope of a defined contribution plan as per LKAS -19 on 'Employee Benefits'. The contributions made are expensed to the Income Statement as and when the contributions are made.

Defined benefit obligations

In accordance with the Gratuity Act No. 12 of 1983, a liability arises for a defined benefit obligation to employees.
Such defined benefit obligation is a post-employment benefit obligation falling within the scope of Sri Lanka Accounting Standard LKAS -19 on 'Employee Benefits'.

The liability recognised in the Statement of Financial Position is the present value of the defined benefit obligation at the reporting date. The calculation is performed annually by a qualified actuary using the projected unit credit method (PUC). Any actuarial gains and losses arising are recognised immediately in Other Comprehensive Income. The discount rate has been derived considering the yield of government bonds.

The liability is not externally funded.

Accounting Estimates

The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, and mortality rates. Due to the long term nature of these obligation, such estimates are subject to significant uncertainty.

Carrying Value of Defined Benefit Obligation

	Group		Company	
As at 31st March	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Present value of unfunded obligation	349,642	287,046	332,521	273,471
At the beginning of the year	287,046	224,434	273,471	216,824
Current service cost	25,795	19,745	23,135	17,908
Interest cost	30,140	23,566	28,715	22,767
Actuarial loss	25,272	28,796	23,347	24,748
Paid during the year	(18,611)	(9,495)	(16,147)	(8,776)
At the end of the year	349,642	287,046	332,521	273,471

4.22.1 Defined Benefit Obligation Recognised in Total Comprehensive Income

	Group		Company	
As at 31st March	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Income Statement				
Current service cost	25,795	19,745	23,135	17,908
Interest cost	30,140	23,566	28,715	22,767
	55,935	43,311	51,850	40,675
Other Comprehensive Income				
Actuarial loss	25,272	28,796	23,347	24,748
	25,272	28,796	23,347	24,748
Total charge for the year	81,207	72,107	75,197	65,423

Specific Accounting Policies and Notes

An actuarial valuation was carried out by Mr. M. Poopalanathan, AIA, of Messrs Actuarial and Management Consultants (Pvt) Ltd., a firm of professional actuaries as at 31st March 2014.

The following assumptions and data were used in valuing the defined benefit obligation by the actuarial valuer:

	2014 %	2013 %
Rate of discount	10.5	10.5
Salary escalation rate	10	10

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

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

The current service cost for the year under review is 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 2014 amounted to Rs. 330 mn and Rs. 316 mn respectively.

Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected defined benefit obligation by the amounts shown below.

	Defined Benefit Obligation			
	Group		Company	
	Increase Rs. '000	Decrease Rs. '000	Increase Rs. '000	Decrease Rs. '000
Rate of discount (1% movement)	13,676	14,724	12,700	13,858
Salary escalation rate (1% movement)	16,004	15,107	15,070	14,055

4.23 Deferred Tax

Accounting Policies

Deferred tax is provided using liability method on temporary differences as at the reporting date between the tax written down value and their carrying amounts in financial reporting, for Company and Group.

Deferred tax provision is calculated by applying on the temporary difference, the income tax rate that is applicable at the time of reversal. In the absence of the availability of the income tax rate applicable on the reversal date, the income tax rate applicable on the reporting date is used.

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 reporting 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 reporting date and are recognised to the extent that it is probable that future taxable profits will allow the deferred tax assets to be recovered.

Accounting Estimate - Judgement Used

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits.

Carrying Value of Deferred Tax Assets/(Liabilities)

	Group		Company	
As at 31st March	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Summary of net deferred tax assets/(liabilities)				
At the beginning of the year	14,358	(28,357)	14,601	(27,252)
(Origination)/reversal of temporary differences to Income Statement	(51,341)	34,652	(50,070)	34,924
Reversal of temporary differences to Other Comprehensive Income	7,076	8,063	6,537	6,929
At the end of the year (Note 4.23.1)	(29,907)	14,358	(28,932)	14,601

4.23.1 Reconciliation of Deferred Tax Assets and Liabilities

	Group		Company	
As at 31st March	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Deferred Tax Liability				
Temporary difference arising from property, plant & equipment	(539,566)	(345,444)	(516,741)	(330,999)
Total temporary difference of deferred tax liability	(539,566)	(345,444)	(516,741)	(330,999)
Closing deferred tax liability @ 28%	(151,079)	(96,724)	(144,688)	(92,679)

As at 31st March	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Deferred Tax Assets				
Temporary difference arising from defined benefit obligations	349,642	287,048	332,521	273,470
Temporary difference arising from tax losses	2,221	-	-	-
Temporary difference arising from deferred free service income and warranty provision	80,892	109,674	80,892	109,674
Total temporary difference of deferred tax asset	432,755	396,722	413,413	383,144
Closing deferred tax assets @ 28%	121,172	111,082	115,756	107,280
Net temporary differences	(106,811)	51,278	(103,328)	52,145
Net deferred tax (liability)/asset	(29,907)	14,358	(28,932)	14,601

4.23.2 Movement in Deferred Tax Assets and Liabilities during the Year

	Group				Company			
	Balance as at 01.04.2013	Recognised in Income Statement	Recognised in Other Comprehensive Income	Balance as at 31.03.2014	Balance as at 01.04.2013	Recognised in Income Statement	Recognised in Other Comprehensive Income	Balance as at 31.03.2014
	Rs. '000	Rs. '000		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Property, plant & equipment								
- Deferred tax liability	(96,724)	(54,355)	-	(151,079)	(92,680)	(52,008)	-	(144,688)
Retirement benefit obligation								
- Deferred tax asset	80,373	10,452	7,076	97,901	76,572	9,998	6,537	93,107
Tax loss-Deferred tax asset	-	622	-	622	-	-	-	-
Deferred free service and warranty provision								
- Deferred tax assets	30,709	(8,060)	-	22,649	30,709	(8,060)	-	22,649
	14,358	(51,341)	7,076	(29,907)	14,601	(50,070)	6,537	(28,932)

Specific Accounting Policies and Notes

4.24 Deferred income

Accounting Policies

Undelivered free services relating to vehicle sales

The Company sells vehicles bundled with free services to the customers with warranty limitations on mileage or usage period. The unprovided free services are deferred at the time of selling the vehicles at its relative fair value and recognised as revenue when the recognition criteria are fulfilled i.e. upon provision of the service or expiration of entitled period or/and criteria, whichever occurs first.

Accounting Estimate

Relative fair value of free services

The amount charged by the service provider in respect of each service is recognised as the relative fair value of free services. These amounts are estimated using the combination of historical experience in service and price changes.

Carrying Value of Deferred Income

	Group		Company	
As at 31 March	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
At the beginning of the year	140,312	179,769	77,311	147,809
Income deferred during the year	329,079	148,528	149,292	90,211
Income amortised during the year	(378,373)	(187,985)	(168,912)	(160,709)
At the end of the year	91,018	140,312	57,691	77,311

4.25 Provisions and Contingent Liabilities

Accounting Policies

Provisions

Provisions are recognised when the Group/Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset when the reimbursement is certain. The expense relating to any provision is presented in the Income Statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Provisions are calculated based on the historical experience and the specific terms in the individual cases. The Group arrives at an estimate on the basis of an evaluation of the most likely outcome.

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

Provisions for extended warranty

The Company may offer extended warranties on vehicles on its own account in certain circumstances. The extended warranty is provided by giving a warranty period that goes beyond the warranty provided by manufacturers.

A provision for warranty is recognised when the underlying products are sold. The quantum of the provision is based on the historical experience. The said extended warranty provision will be reversed upon expiration of warranty period.

Accounting Estimate

The Management considers likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in the respective legal jurisdictions.

As at 31 March	Group		Company	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Provision for litigation claims	11,000	-	11,000	-
Provisions for extended warranty	29,062	26,622	29,062	26,622
	40,062	26,622	40,062	26,622

Contingent liabilities

Contingent Liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be readily measured. Further, provisions for which no reliable estimate can be made are disclosed as contingent liabilities.

Currently the Group/Company is involved in pending litigations and claims arising out of the normal conduct of the business. Group/Company does not expect the pending litigations and claims, individually and in aggregate, to have a material impact on Group's financial position, operating profit of cash flow in addition to amounts accrued as provision for legal disputes. Disclosure relating to contingencies are setout in Note 5.2.

4.26 Trade payables

Accounting Policies

Trade payables are obligations to pay for goods or services, that have been acquired in the ordinary course of business. Trade payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Generally trade payables are due within ninety days.

Carrying Value of Trade Payables

As at 31st March	Group		Company	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Trade payables	1,208,337	843,044	1,129,614	792,718

4.26.1 Review of Liquidity Risk

Trade payables are non-interest-bearing and have settlement periods less than 90 days. The quick assets ratio of the Company as at the year-end was 0.70:1 (in 2012/13 - 0.72:1). As a liquidity risk management measure, the entities continually compare trade payables with receivables, cash and cash equivalents and unutilised banking facilities.

The trade payables of the Group include an amount of Rs. 693.5 million as bills payable corresponding to goods shipped but not received (Goods-in-Transit). At the time of settlement of such bills, entities will obtain short-term loans to cover the working capital cycle period of the imports.

Unutilised banking facilities are given in Note 4.21.2

Specific Accounting Policies and Notes

4.27 Other Current Liabilities

Accounting Policies

Group classifies all non financial current liabilities under other current liabilities. Other current liabilities include accruals and advances and these liabilities are recorded at the amounts that are expected to be paid.

Carrying Value of Other Current Liabilities

	Group		Company	
As at 31st March	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Advances received	12,367	124,185	12,367	124,185
Interest payable	6,568	8,035	6,568	8,035
Unclaimed dividend	6,025	6,503	6,025	6,503
Value Added Tax (VAT)	3,882	10,583	-	5,269
Other payables and accrued expenses	398,117	334,980	375,513	318,262
	426,959	484,286	400,473	462,254

4.27.1 Terms of Settlement of Other Current Liabilities

Other current liabilities are non-interest bearing and are payable within three months excluding advances and unclaimed dividends. Advances received are expected to be set-off within three months.

4.28 Current Tax Assets and Liabilities

Current tax assets are recognised at historical value less impairment. Income tax liabilities are recorded at the amounts expected to be paid.

Carrying Value of Current Tax Asset/(Liability)

	Group		Company	
As at 31st March	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Opening balance	67,081	(128,276)	102,176	(105,032)
Current tax for the year (Note 4.6)	(67,976)	(70,586)	-	(21,610)
	(895)	(198,862)	102,176	(126,642)
Tax paid during the year:				
Current tax & WHT	87,751	265,943	5,737	228,818
	87,751	265,943	5,737	228,818
Current tax asset/(liability)	86,856	67,081	107,913	102,176
Made up as follows:				
Current tax asset	107,913	103,550	107,913	102,176
Current tax liability	(21,057)	(36,469)	-	-
	86,856	67,081	107,913	102,176

4.29 Amounts Due (to)/ from Subsidiaries

Name of the Company	Dimo (Pvt) Ltd.	Dimo Industries (Pvt) Ltd.	Dimo Travels (Pvt) Ltd.	As at 31.03.2014	As at 31.03.2013
Shareholding	100%	100%	100%		
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Opening balance due to subsidiaries	(147,397)	(9,388)	(327)	(157,112)	(98,617)
Sale of goods and services	51,356	-	-	51,356	12,260
Purchase of goods and services	(267,178)	-	-	(267,178)	(56,387)
Expenses incurred on behalf of subsidiaries	38,491	39,856	-	78,347	64,623
Fund transfers - net	99,565	26,000	155	125,720	(78,991)
Closing balance due (to) /from subsidiaries	(225,163)	56,468	(172)	(168,867)	(157,112)

4.29.1 Amounts Due (to)/ from Subsidiaries comprises with:

	Company	
As at 31st March	2014	2013
	Rs. '000	Rs. '000
Amount due from subsidiaries	56,468	-
Amount due to subsidiaries	(225,335)	(157,112)
Amount due (to)/from subsidiaries	(168,867)	(157,112)

SECTION 5
Other Disclosures

This section provides information on related party disclosures and other disclosures required by the Sri Lanka Accounting Standard.

5.1 Related Party Disclosures

The Company carried out transactions in the ordinary course of its business with parties who are defined as related parties as per Sri Lanka Accounting Standard - LKAS 24 on 'Related Party Disclosures', the details of which are reported below:

5.1.1 (a) Transactions with Key Management Personnel (KMPs)

According to Sri Lanka Accounting Standard - LKAS 24 on 'Related Party Disclosures', Key Management Personnel are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Board of Directors of the Company (Executive and Non-Executive Directors) have been classified as KMPs. As the Company is the ultimate parent of the subsidiaries (listed in Note 2.3), the Board of Directors of the Company has the authority and responsibility for planning or controlling the activities of the Group directly or indirectly. Accordingly, the Board of Directors of the Company (Executive & Non-Executive) are KMPs of the Group.

Officers who are employees of Diesel & Motor Engineering PLC and Directors of the subsidiaries and not of the Company have been classified as KMPs of the respective subsidiary only.

5.1.1 (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 a post-employment contribution plan for 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 were granted to KMPs of the Company.

Compensation to Key Management Personnel of the Company are as follows:

For the year ended 31st March	Group 2014 Rs. '000	Group 2013 Rs. '000	Company 2014 Rs. '000	Company 2013 Rs. '000
Short-term employment benefits	173,211	159,847	159,273	149,827
Post-employment benefits	41,434	43,267	39,111	41,011
Total compensation applicable to key management personnel	214,645	203,114	198,384	190,838

The Company also has an obligation towards a post-employment benefit plan for the Executive Directors. The liability arising from the post-employment obligation has been provided for, based on an actuarial valuation and is covered under Employee Benefits referred to in Note 4.22 to the Financial Statements.

5.1.1 (c) Transactions with Close Family Members of KMPs

Close 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.

5.1.2 Transactions with Companies Significantly Influenced by Key Management Personnel (KMP)

Mr. A.M. Pandithage who is a Director of the Company is also the Chairman of Hayleys PLC.

The balances due to and due from Hayleys Group as at 31st March 2014 are as follows:

	Group	
As at 31st March	2014 Rs. '000	2013 Rs. '000
Balance due to Hayleys Group	-	-
Balances due from Hayleys Group	2,110	1,674

Transactions during the year with the Hayleys Group:

	Group	
For the year ended 31st March	2014 Rs. '000	2013 Rs. '000
Goods and services purchased from Hayleys Group	21,906	25,681
Goods and services sold to Hayleys Group	30,728	42,633

Terms and Conditions of Transactions with the companies on which KMPs have Significant Influence

Outstanding balances at the year-end relating to the Companies on which KMPs have significant influence 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 2014. The Group has not recorded any impairment of receivables relating to amounts owed by related parties (2013 - Rs. Nil).

5.1.3 Transactions with Group entities

The Company has carried out transactions with Group entities in the Ordinary course of business. The details are set out in Note 4.29.

5.2 Commitments and Contingencies

Capital Expenditure Commitments

Capital expenditure committed by the Board of Directors for which a provision has not been made in the Financial Statements amount to approximately Rs.824.2mn (2012/13 - Rs. 2,101.4 mn).

Contingencies

Guarantees

The contingent liabilities as at 31st March 2014 on guarantees given by Diesel & Motor Engineering PLC, in respect of bank guarantees, bid bonds and performance bonds amounted to Rs. 753.9 mn (2012/13 - Rs. 731.7 mn).

Litigation Against the Company

The claims for lawsuits filed against the Company as at 31st March 2014 amount to Rs. 41.2 mn (2013 - Rs. 37.9 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.

5.3 Comparative Information

Comparative information is reclassified wherever necessary to confirm with the current year's classification in order to provide better presentation.

5.4 Events Occurring After the Reporting Period

Subsequent to the reporting date, the Board of Directors of the Company approved a first & final dividend of Rs. 10.00 per share for the year ended 31st March 2014. Details of the above dividend are disclosed in Note 4.8.1 to the Financial Statements.

There were no other material events that occurred after the reporting date that require adjustments to or disclosure in the Financial Statements.

The pita potha falls at the end of the book, after which we bring our reader the appendices and other information.

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Appendices

Share Information

1 Stock Exchange Listing

The issued ordinary shares of Diesel & Motor Engineering PLC,are listed with the Colombo Stock Exchange of Sri Lanka. The audited Group Income Statements for the year ended 31st March 2014 and the audited Balance Sheets at that date have been submitted to the Colombo Stock Exchange within three months of the Balance Sheet date.

2 Shareholders

The number of Shareholders as at 31 st March 2014 was 1,915 (2,024 as at 31st March 2013).

No of Shares Held	Resident			Non Resident			Total		
	No of Share holders	No of Shares	%	No of Share holders	No of Shares	%	No of Share holders	Total No of Shares	%
1 - 1,000	1,617	223,388	2.52	28	9,852	0.11	1,645	233,240	2.63
1,001 - 10,000	203	603,503	6.80	6	6,541	0.07	209	610,044	6.87
10,001 - 100,000	44	1,460,574	16.45	1	12,466	0.14	45	1,473,040	16.59
100,001 - 1,000,000	15	5,331,810	60.07	-	-	-	15	5,331,810	60.07
1,000,001 and over	1	1,228,303	13.84	-	-	-	1	1,228,303	13.84
Total	1,880	8,847,578	99.67	35	28,859	0.65	1,915	8,876,437	100.00

Over 95% of the shares issued is held by residents of Sri Lanka.

	31st March 2014			31st March 2013		
Categories of Shareholders	No.of Shareholders	No.of shares	%	No.of Shareholders	No.of shares	%
Individuals	1,810	5,533,175	62.34	1,919	5,869,921	66.13
Institutions	105	3,343,262	37.66	105	3,006,516	33.87
Total	1,915	8,876,437	100.00	2,024	8,876,437	100.00

3 Market Value of Shares

The Market value of an ordinary share of Diesel & Motor Engineering PLC (based on the Volume Weighted Average Price), as at 31st March 2014 was Rs. 505.00 (Rs. 505.00 as at 31st March 2013).

4 Dividend Payment

	2013/14	2012/13
	Rs.mn	Rs.mn
Final dividend - Rs.10.00 per share	88,764,370	88,764,370

5 Share Trading Information from 1st April 2012 to 31st March 2014

	2013/2014		2012/2013	
Highest (Rs.)	649.00	15 May 13	940.10	2 April 2012
Lowest (Rs.)	450.00	16 Sep 13	490.00	15 March 2013
Closing (Rs.)	505.00	27 March 14	505.00	28 March 2013
No.of transactions	2,924		3,807	
No. of shares traded	508,640		431,915	
Value of shares traded (Rs.)	259,814,071		270,355,889	

6 Public Shareholding

As at 31st March	2014	2013
Number of Shares	4,144,847	3,895,878
%	46.69	43.89

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

Share Information

8 *Changes in Shareholdings of Directors and their Spouses During 2013/2014*

Name	Shareholding %	As at 31.03.2014 No. of Shares	Movement of Shares	As at 31.03.2014 No. of Shares
Mr. A. R. Pandithage	21.63	1,919,735	-	1,919,735
Mr. A. N. Algama	2.41	213,739	-	213,739
Mr. S. C. Algama	6.40	574,779	-	574,779
Mr. A. G. Pandithage	6.43	570,862	-	570,862
Mr. A. M. Pandithage	2.53	224,172	-	224,172
Mr. T. G. H. Peries*	-	-	-	248,969
	39.40	3,503,287	-	3,752,256

** Mr. T. G. H. Peries resigned from the board w.e.f. 28th June 2013*

9 *Top Twenty Shareholders*

Name	31st March 2014		31st March 2013	
	Shares	%	Shares	%
Employees Provident Fund	1,228,303	13.84	1,228,303	13.84
Mr. A. R. Pandithage	991,233	11.17	991,233	11.17
Mrs. J. C. Pandithage	928,502	10.46	928,502	10.46
A & G Investments Pvt Limited	608,939	6.86	608,939	6.86
Mr. S. C. Algama	567,786	6.40	567,786	6.40
Mr. A. G. Pandithage	525,814	5.92	525,814	5.92
Sri Lanka Insurance Corporation Ltd-Life Fund	315,466	3.55	315,466	3.55
Almar Trading Co (Pvt) Ltd	310,875	3.50	309,374	3.49
Mr. A. N. Algama	213,739	2.41	213,739	2.41
Mr. T. G. H. Peries	193,069	2.18	193,069	2.18
Mr. A. M. Pandithage	182,319	2.05	182,319	2.05
Dr. D. Jayanntha	159,200	1.79	158,700	1.79
Miss. T. R. N. C. Peries	148,009	1.67	148,009	1.67
Mr. L. P. Algama	134,569	1.52	134,569	1.52
Estate of The Late N. U. Algama	118,845	1.34	118,845	1.34
United Motors Lanka PLC	111,640	1.26	78,803	0.89
The Ceylon Guardian Investment Trust PLC A/C #02	77,873	0.88	-	-
Mr. M. Radhakrishnan	69,788	0.79	69,788	0.79
Almar International (Pvt) Ltd	62,861	0.71	62,861	0.71
The Ceylon Investment PLC A/C #02	62,556	0.70	-	-
	7,011,386	78.98	6,836,119	77.01

10 The stated capital represents 8,876,437 Ordinary shares.

Independent Assurance Statement on Non-Financial Reporting

DNV·GL

Introduction

DNV GL represented by DNV Business Assurance Lanka (Private) Limited has been commissioned by the management of Diesel and Motor Engineering PLC ('DIMO' or 'the Company') to carry out an independent assurance engagement (Type 2, Moderate level) for the non-financial - qualitative and quantitative information (sustainability performance) prepared 'in accordance – Comprehensive' option based on Global Reporting Initiative G4 Sustainability Reporting Guidelines (GRI G4) and reported in DIMO's Annual Report – 2013 -14 ('the Report') in its printed and web based Report. This engagement focused on verification of non-financial - qualitative and quantitative information (sustainability performance) disclosed in the Report, and underlying management system and reporting processes. The engagement was carried out against AccountAbility's AA 1000 Assurance Standard 2008 (AA 1000AS), the DNV GL Protocol for Verification of Sustainability Reporting ('VeriSustain' - www.dnv.com/moreondnv/cr/; available on request) including confirmation of 'in accordance – Comprehensive' reporting requirements and adherence to reporting principles and standard disclosures of the GRI G4.

The intended users of this assurance statement are the management and readers of the non-financial - qualitative and quantitative information (sustainability performance) reported in DIMO's Annual Report – 2013-14. The management of Company is responsible for all information provided in the Report as well as the processes for collecting, analysing and reporting the information presented in the printed and web based report, including the maintenance and integrity of the website. Our responsibility in performing this work is regarding the verification of the non-financial - qualitative and quantitative information (sustainability performance) disclosed in the Report only and in accordance with the scope of work agreed with the management of the Company. The assurance engagement is based on the assumption that the data and information provided to us is complete, sufficient and authentic. We disclaim any liability or responsibility to a third party for decisions, whether investment or otherwise, based on this assurance statement. Our assurance engagement was planned and carried out in April – May 2014.

Scope, Boundary and Limitations of Assurance

The scope of assurance included the review of Economic, Environment and Social disclosures in the Report. In particular the assurance engagement included:

- The verification of the qualitative and quantitative sustainability performance reported in the Annual Report prepared by DIMO based on GRI G4 guidelines, covering economic, environmental and social performance for the activities undertaken by DIMO over the reporting period 1st April 2013 to 31st March 2014 and reported in this Annual Report;
- Review of the policies, initiatives, practices and performance described in the non-financial - qualitative and quantitative information (sustainability performance) reported and referenced in the Report;
- Evaluation of the disclosed information in the Report, both general and specific standard disclosures, 'in accordance – Comprehensive' reporting requirements covering the systems, and the processes which DIMO has in place for adherence to the reporting principles set out in GRI G4;
- Evaluation with respect to the AccountAbility principles and specified performance information, for a Type 2, moderate level of assurance, in accordance with the requirements of AA1000AS (2008):
- information relating to the issues, responses, performance data, case studies and underlying systems for the management of such information and data;

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- information relating to materiality assessment and stakeholder engagement processes;
- Confirmation of sustainability disclosures related to GRI G4 - 'in accordance – Comprehensive' as declared by DIMO.

The reporting aspect boundary is based on the internal and external materiality assessment covering the operations (Vehicle - Sales, Vehicles – After Services, Marketing and Distribution, Construction and Material Handling Equipment and After Services, Electromechanical, Biomedical Engineering and Marine Solutions) in Sri Lanka, including the key supply chain activities as set out in the report. During the assurance process, we did not come across limitations to the scope of the agreed assurance engagement, except certain disclosures related to remuneration which are set out in the report as sensitive and confidential. No external stakeholders were interviewed as part of this assurance engagement.

Verification Methodology

This assurance engagement was planned and carried out in accordance with the AA1000AS (2008) i.e. Type 2, Moderate, and VeriSustain. The report has been evaluated against the following criteria:

- Adherence to the principles of Inclusivity, Materiality and Responsiveness, as well as Reliability of specified sustainability performance information, as set out in the AA1000AS (2008);
- Application of the principle of materiality as per GRI G4;
- Adherence to additional principles of Completeness and Neutrality, as set out in VeriSustain;
- The GRI G4 requirements – 'in accordance - Comprehensive'.

During the assurance engagement, we have taken a risk-based approach, meaning that we concentrated our verification efforts more on the issues of high material relevance to DIMO's business and its stakeholders. We have verified the statements and claims made in the Report and assessed the robustness of the underlying data management system, information flow and controls. In doing so, we have:

- Reviewed the approach to stakeholder engagement and its materiality determination process;
- Examined and reviewed documents, data and other information made available by the DIMO and visited the Head Office at Colombo and sites i.e. service centres of a) Vehicle and b) Construction and Material Handling Equipment located at Siyambalape;
- Conducted interviews with key representatives including data owners and decision-makers from different functions;
- Performed sample-based reviews of the mechanisms for implementing the sustainability related policies, as described in the Report;
- Performed sample-based checks of the processes for generating, gathering and managing the quantitative data and qualitative information included in the Report.

Conclusions

In our opinion, based on the scope of this assurance engagement, the non-financial - qualitative and quantitative information (sustainability performance) reported in the Annual Report – 2013-14 and referenced information on the website provides a fair representation of the sustainability related strategies, management system and performance, and meets the general content and quality requirements of GRI G4 i.e.,

- General Standard Disclosures: We reviewed the General Standard Disclosures reported in this Report and we are of the opinion that the reported information generally meets the reporting requirement for 'in accordance – Comprehensive' based on GRI G4 and the reason for non-disclosure is explained..
- Specific Standard Disclosures: We reviewed the Specific Standard Disclosures reported in this Report and we are of the opinion that the reported information generally meets the disclosure requirement for 'in accordance

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– Comprehensive' based on GRI G4 covering Generic Disclosures on Management Approach (DMA) and Performance Indicators for identified material Aspects as below:

Economic
- Economic Performance – G4-EC1, EC3 and EC4;
- Indirect Economic Impacts – G4-EC7, EC8;
- Procurement Practices – EC9;

Environment
- Materials – EN1;
- Energy – G4-EN3 to 6;
- Water – EN8 to 10;
- Emissions – EN15 to 21;
- Effluents and Waste – G4-EN22 to 24;
- Compliance – EN29
- Environmental Grievance Mechanisms - G4-EN34;

Social Labour Practices and Decent Work
- Employment – G4-LA1 to 3;
- Occupational Health and Safety – G4-LA5 to 8;
- Training and Education – G4-LA9 to 11;
- Supplier Assessment for Labour Practices – G4-LA14 & 15;
- Labour Practices and Grievance Mechanisms – G4-LA16;

Human Rights
- Non-discrimination – G4-HR3;
- Human Rights Grievance Mechanisms – G4-HR12;

Society
- Local Communities – G4-SO1 & 2;
- Anti-Corruption – G4-SO3 to 5;
- Compliance – G4-SO8;
- Grievance Mechanisms for Impact on Society – GRI-SO11;

Product Responsibility
- Customer Health and Safety – GRI G4-PR 1,2
- Product and Service Labelling - G4-PR3 to 5;
- Marketing Communications - G4-PR7;
- Customer Privacy - G4-PR8;
- Compliance - G4-PR9;

We have evaluated the Report's adherence to the following principles on a scale of 'Good', 'Acceptable' and 'Needs Improvement':

AA1000AS (2008) principles

Inclusivity: The stakeholder identification and engagement process includes engagement with key stakeholders of business verticals to identify key sustainability challenges and concerns through different channels. The material issues emerging from the stakeholder engagement were collected and prioritised, and the results are fairly reflected in the Report. In our view, the level at which the Report adheres to this principle is 'Good'.

Materiality: The Company has carried out the materiality assessment for its five business verticals based on requirements of GRI G4. Inputs to materiality determination consider the aspects that are internal and external to the organization and concerns of stakeholders. In our view, the level at which the Report adheres to this principle is 'Good'.

Responsiveness: We consider that the response to key stakeholder concerns through its policies, management systems and governance mechanisms are fairly reflected in the Report. In our view, the level at which the Report adheres to this principle is 'Good'.

Reliability: The majority of data and information verified at the Head Office and at two sites visited by us were found to be fairly accurate. Some of the data inaccuracies identified during the verification process were found to be attributable to transcription, interpretation and aggregation errors; these errors have been corrected. Hence 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 reliable and acceptable. In our view, the level at which the Report adheres to this principle is "Good".

Specific evaluation of the information on sustainability performances

We consider the methodology and process for gathering information

Independent Assurance Statement on Non-Financial Reporting

DNV·GL

developed by DIMO for its sustainability performance reporting is appropriate, and the qualitative and quantitative data included in the Report was found to be identifiable and traceable; the personnel responsible was able to demonstrate the origin and interpretation of the data and its reliability. We observed that the Report presents a faithful description of the reported sustainability activities for the reporting period.

Additional principles as per DNV GL VeriSustain Protocol

Completeness: The Report has fairly reported the general and specific standard disclosures including the sustainability strategy, management approach, monitoring systems and sustainability performances indicators against the GRI G4 – 'in accordance – Comprehensive'. However certain disclosures /performance indicators - internal and external to the Company like remuneration, other indirect emissions(Scope 3), occupational health and safety etc.– are partially reported/responded as systems for disclosure is being developed; In our view, the level at which the Report adheres to this principle is "Acceptable".

Neutrality: The disclosures related to sustainability issues and performances are reported in a neutral tone, in terms of content and presentation. In our view, the level at which the Report adheres to the principle of Neutrality is "Good".

Opportunities for Improvement

The following is a summary of observations and further opportunities for improvement reported back to the management of DIMO. These do not, however, affect our conclusions regarding the Report, and are not considered for drawing our conclusion on the Report; however, they are indeed consistent with the Management's objectives already in place:

- Strengthening of the materiality assessment process based on multi-stakeholder engagement, covering all business verticals and supply chain partners, can identify relevant sustainability topics in the supply chain.
- The supply chain risk assessment covering the value chain partners will help evolving appropriate sustainability strategies to manage the risks.

Our Competence and Independence

We are a global provider of sustainability services, with qualified environmental and social assurance specialists working in over 100 countries. We were not involved in the preparation of any statements or data included in the Report except for this assurance statement. DNV GL maintains complete impartiality toward internal stakeholders interviewed during the verification process.

For DNV GL

Vadakepatth Nandkumar
Project Manager,
Head – Sustainability and Climate Change,
DNV Business Assurance India Private limited, India.

Prasun Kundu,
Assurance Reviewer,
DNV Business Assurance India Private limited, India.

29th May 2014, Bangalore, India.

AA1000
Licensed Assurance Provider
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Ten Year Summery

Year Ended 31st March	2013/14	2012/13	2011/12	2010/11	2009/10	2008/09	2007/08	2006/07	2005/06	2004/05
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Operating Results										
Revenue	20,884,674	27,711,604	39,862,943	29,357,271	10,530,587	9,187,966	12,687,289	12,989,916	10,512,326	7,565,327
Profit before tax	512,858	490,021	3,724,521	3,395,980	420,095	175,082	344,444	512,895	382,235	253,633
Income tax	(119,317)	(35,934)	(1,022,870)	(1,274,228)	(141,842)	(72,054)	(139,351)	(211,118)	(117,062)	(76,431)
Profit for the year	393,541	454,087	2,701,651	2,121,752	278,253	103,028	205,093	301,777	265,173	177,202
Capital Employed										
Stated Capital	425,297	425,297	425,297	182,500	182,500	182,500	182,500	-	-	-
Share Capital	-	-	-	-	-	-	-	121,000	90,000	90,000
Share Premium	-	-	-	-	-	-	-	61,500	37,500	37,500
Capital Reserve	2,014,752	2,014,752	2,014,752	1,135,612	1,135,612	1,135,612	311,522	311,522	311,522	311,522
Revenue Reserve	5,477,444	5,191,118	5,000,566	2,882,735	882,816	686,733	1,163,129	1,012,486	777,009	566,836
Total equity	7,917,493	7,631,167	7,440,615	4,200,847	2,200,928	2,004,845	1,657,151	1,506,508	1,216,031	1,005,858
Total Borrowings	1,608,915	2,796,158	2,864,688	2,802,374	2,709,671	1,966,600	3,068,466	5,045,829	3,417,800	5,950,126
Net capital Employed	2,614,773	4,012,189	4,371,196	4,459,525	4,714,516	4,167,528	7,269,313	12,486,444	11,048,967	13,850,158
Net Assets Employed										
Non- current assets	6,937,410	5,716,805	4,763,435	3,099,509	2,149,406	2,234,911	1,463,068	1,005,370	775,323	734,720
Current assets	9,157,244	7,183,574	10,536,783	7,839,972	3,389,023	3,028,263	4,368,090	4,193,262	3,794,288	2,460,687
Total liabilities (excluding borrowings)	(2,227,035)	(1,851,412)	(2,813,774)	(3,670,168)	(1,370,901)	(548,658)	(1,371,633)	(827,436)	(557,422)	(580,634)
Net Assets Employed	13,867,619	11,048,967	12,486,444	7,269,313	4,167,528	4,714,516	4,459,525	4,371,196	4,012,189	2,614,773
Cash Flows										
Net cash generated from / (used in) operation	(587,299)	(990,433)	383,134	520,706	625,652	846,833	1,793,848	(2,430,074)	3,207,700	(725,569)
Net cash flow from Investing activities	(97,584)	(91,474)	(287,636)	(519,212)	1,918	(24,275)	(937,710)	(788,829)	(970,581)	(1,361,283)
Net cash flow from Financing activities	92,125	305,800	(49,458)	179,289	(416,861)	(295,885)	(377,658)	277,902	(474,062)	973,876
Net increase / (decrease) in cash & cash equivalents	(592,758)	(776,107)	46,040	180,783	210,709	526,673	478,480	(2,941,001)	1,763,057	(1,112,976)
Key Indicators										
Earnings per share (Rs.)	44.34	51.16	304.36	239.03	27.97	9.36	16.95	25.76	22.96	15.34
Net assets per share (Rs.)	891.97	859.71	838.24	473.26	252.92	230.39	136.95	124.50	121.60	100.59
Market value per share (Rs.)	505.00	505.00	982.20	1,484.70	394.25	60.25	88.75	120.00	138.50	103.00
Dividend per share (Rs.)	10.00	10.00	40.00	61.00	7.00	3.00	4.00	6.00	6.00	5.00
Dividends approved (Rs.'000)	88,764	88,764	244,102	443,822	34,810	26,107	48,400	72,600	60,000	50,000
Annual sales growth (%)	(24.64)	(30.48)	35.91	178.78	14.61	(27.58)	(2.33)	23.57	38.95	57.71
Equity to total assets ratio (%)	49.19	59.15	48.63	38.40	39.78	38.09	28.42	28.98	26.61	31.48
Dividends cover (no of times)	4.43	5.11	7.61	4.00	3.11	2.34	4.02	3.88	3.99	3.18
Price earnings ratio (no. of times)	11.39	9.87	3.23	6.21	14.89	6.44	5.24	4.66	6.03	6.71
Current Ratio (no. of times)	1.50:1	1.71.;1	1.60:1	1.27:1	1.20:1	1.31:1	1.26:1	1.30:1	1.33:1	1.24:1
Turnover to capital employed (no of times)	1.51	2.51	3.19	4.04	2.53	1.95	2.84	2.97	2.62	2.89
Interest Cover(no of times)	2.73	2.24	15.67	17.35	2.20	1.31	1.67	2.11	2.43	2.73
Average No. of employees	1,518	1,433	1,179	942	867	869	866	820	714	627

Awards Accolades

Date received	Award	Place	Year	Awarded institute
Nov'13	The Best Corporate Citizen Sustainability Awards 2013	Overall Winner	2013	Ceylon Chamber of Commerce (CCC)
Nov'13	Top ten Best Corporate Citizen Sustainability Award 2013	TOP TEN	2013	Ceylon Chamber of Commerce (CCC)
Nov'14	The Best Corporate Citizen Sustainability Awards 2013 (Social sustainability)	Winner	2013	Ceylon Chamber of Commerce (CCC)
Nov'13	The Best Sustainability Project Awards 2013(Automobile Training School)	Best project	2013	Ceylon Chamber of Commerce (CCC)
Nov'13	The Best Corporate Citizen Sustainability Awards 2013 -Certificate of Merit for the Turtle Conservation Project	Certificate of Merit	2013	Ceylon Chamber of Commerce (CCC)
Nov'13	The Best Corporate Citizen Sustainability Awards 2013 -Certificate of Merit for "Lassana Hetak" Project	Certificate of Merit	2013	Ceylon Chamber of Commerce (CCC)
Dec'13	Annual Report- Diversified Holdings (up to 05 subsidiaries)	Gold	2013	The Institute of Chartered Accountant of Sri Lanka
Dec'13	Corporate Governance Disclosure Reporting in the overall category	Gold	2013	The Institute of Chartered Accountant of Sri Lanka
Dec'13	Corporate Social Responsibility Reporting in the overall category	Gold	2013	The Institute of Chartered Accountant of Sri Lanka
Dec'13	Special Recognition Award for Excellence in Integrated Reporting	Special award	2013	The Institute of Chartered Accountant of Sri Lanka
Feb'14	ACCA Sustainability Reporting - Overall Category	Runner-Up	2013	The Association of Chartered Certified Accountants
Feb'14	ACCA Sustainability Reporting - Retail and Trading category	1st Place	2013	The Association of Chartered Certified Accountants
Sep'13	Grand Award for On-Line Annual Reports Interactive - International	Grand Award	2013	International ARC Awards in New York
Sep'13	App Annual Report -Engineered Industrial Products Category	Silver	2013	International ARC Awards in New York
Sep'13	Cover Photo Design -Engineered Industrial Products Category	Bronze	2013	International ARC Awards in New York
Sep'13	Interactive Annual Report -Engineered Industrial Products Category	Gold	2013	International ARC Awards in New York
Sep'13	Illustrations -Engineered Industrial Products Category	Honours	2013	International ARC Awards in New York
Sep'13	Photography -Engineered Industrial Products Category	Honours	2013	International ARC Awards in New York
Sep'13	Printing & Production -Engineered Industrial Products Category	Silver	2013	International ARC Awards in New York
Jun'13	Category winner of Business Services Turnover $100 million - $ 1 billion	Gold	2012	League of American Communications Professionals
Oct'13	Great Place to Work - Adjudged a top 15 best Company	Top 15	2013	Great place to Work Institute

Notice of Meeting

NOTICE IS HERBY GIVEN that the Sixty – Ninth 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, 27th June 2014 at 11.30 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 2014, with the Report of the Auditors thereon.
2. To re-elect Mr. S.C. Algama, who retires by rotation in terms of Articles 66 of the Articles of Association as a Director of the Company.
3. To re-elect Mr. A.N. Algama, who retires by rotation in terms of Articles 66 of the Articles of Association as a Director of the Company.
4. To re-elect Dr. H. Cabral, who retires by rotation in terms of Articles 66 of the Articles of Association as a Director of the Company.
5. To propose the following resolution as an ordinary resolution for the reappointment of Mr.R.Seevaratnam who has reached the age of 70 years.

   "IT IS HEREBY RESOLVED that the age limit referred to in section 210 of the Companies Act No. 07 of 2007 shall not apply to Mr. R.Seevaratnam who has reached the age of 70 years prior to this Annual General Meeting and that he will be reappointed as a director of the Company".
6. To reappoint Messrs KPMG as Auditors to the Company for the ensuing year and to authorize the Board of Directors to determine their remuneration.
7. To authorize the Directors to determine contributions to charities.

The profiles of the Directors proposed for re-election are given on 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
23rd May 2014

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 7 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,
P.O. Box 186,
No 32A,
Sir Mohamed Macan Markar Mawatha,
Colombo 03, Sri Lanka.

Internal Auditors

SJMS Associates
Chartered Accountants
No 2, Castle Street,
Colombo 04, 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
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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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-Eighth Annual General Meeting of the company to be held on Friday, 27th June 2014 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 2014, with the Report of the Auditors thereon.		
(2)	To re-elect Mr. S. C. Algama, who retires by rotation at the Annual General Meeting, a Director.		
(3)	To re-elect Mr. A. N. Algama, who retires by rotation at the Annual General Meeting, a Director.		
(4)	To re-elect Dr. H. Cabral, who retires by rotation at the Annual General Meeting, a Director		
(5)	To reappoint as a Director Mr. R. Seevaratnam in terms of section 210 of the Companies Act No.07 of 2007 "IT IS HEREBY RESOLVED that the age limit referred to in section 210 of the Companies Act No. 07 of 2007 shall not apply to Mr. R.Seevaratnam who has reached the age of 70 years prior to this Annual General Meeting and that he be reappointed as a director of the Company".		
(6)	To re-appoint Messrs KPMG as Auditors and authorise the Directors to determine their remuneration.		
(7)	To authorise the Directors to determine contributions to charities.		

The proxy may vote as he/she thinks fit on any other resolution brought before the meeting.

Dated this .... day of .... 2014.

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).*

Instruction as to Completion

1. To be valid this form of proxy must be deposited at the Registered Office, No. 65, Jetawana Road, Colombo14, 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.