



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

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*Var · ri · ga Ree · thi*

*Governance & Risk Management*

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## *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

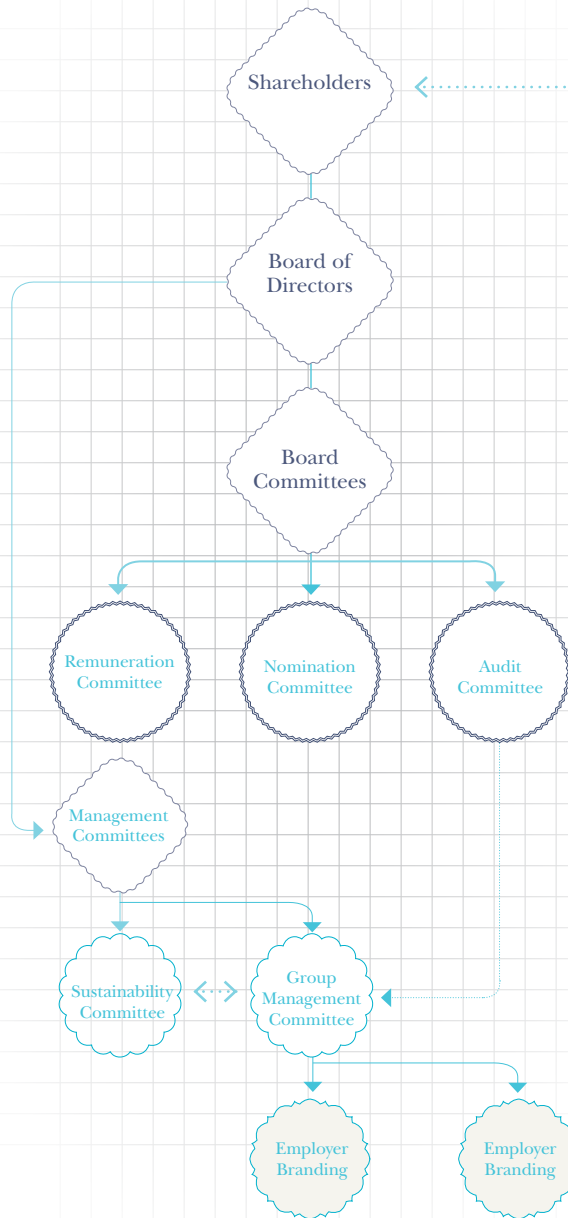
#### EXTERNAL REGULATION

- 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 Code of Business Ethics	Quality and safe products and services	Quality Management System
	Meet Regulatory standards and business ethics in performing supply chain activities.	Quality Management System Code of Business Ethics	On-time delivery	Quality Management System
	Product responsibility	Quality Management System		
Monetised Capital	Internal Control	Audit Committee Group Management Committee	Business Strategy Formulation	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
	Equal opportunities	Code of Business Ethics	Retention	HR Scorecard
	Reducing gender inequality	UN Global Compact Principles	Employee Engagement	HR Scorecard
	Comply with legislation and regulations relating to employees	Sustainability Objectives		
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- Meet Legal and Regulatory requirements regarding Environment	Environmental Management System	Carbon foot-print Management	Environmental Management System
		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 <a href="http://www.dimolanka.com/investors/stewardship">www.dimolanka.com/investors/stewardship</a>
Listing Rules of the Colombo Stock Exchange	Listing rules to be followed by listed companies in Sri Lanka including on Corporate Governance relating to; <ul style="list-style-type: none"> <li>- Non Executive Directors</li> <li>- Independent Directors</li> <li>- Disclosures relating to Directors</li> <li>- Remuneration Committee</li> <li>- Audit Committee</li> </ul>	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 <a href="http://www.dimolanka.com/sustainability/sustainability-performance">www.dimolanka.com/sustainability/sustainability-performance</a> 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 <a href="http://www.dimolanka.com/sustainability/sustainability-performance">www.dimolanka.com/sustainability/sustainability-performance</a>
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

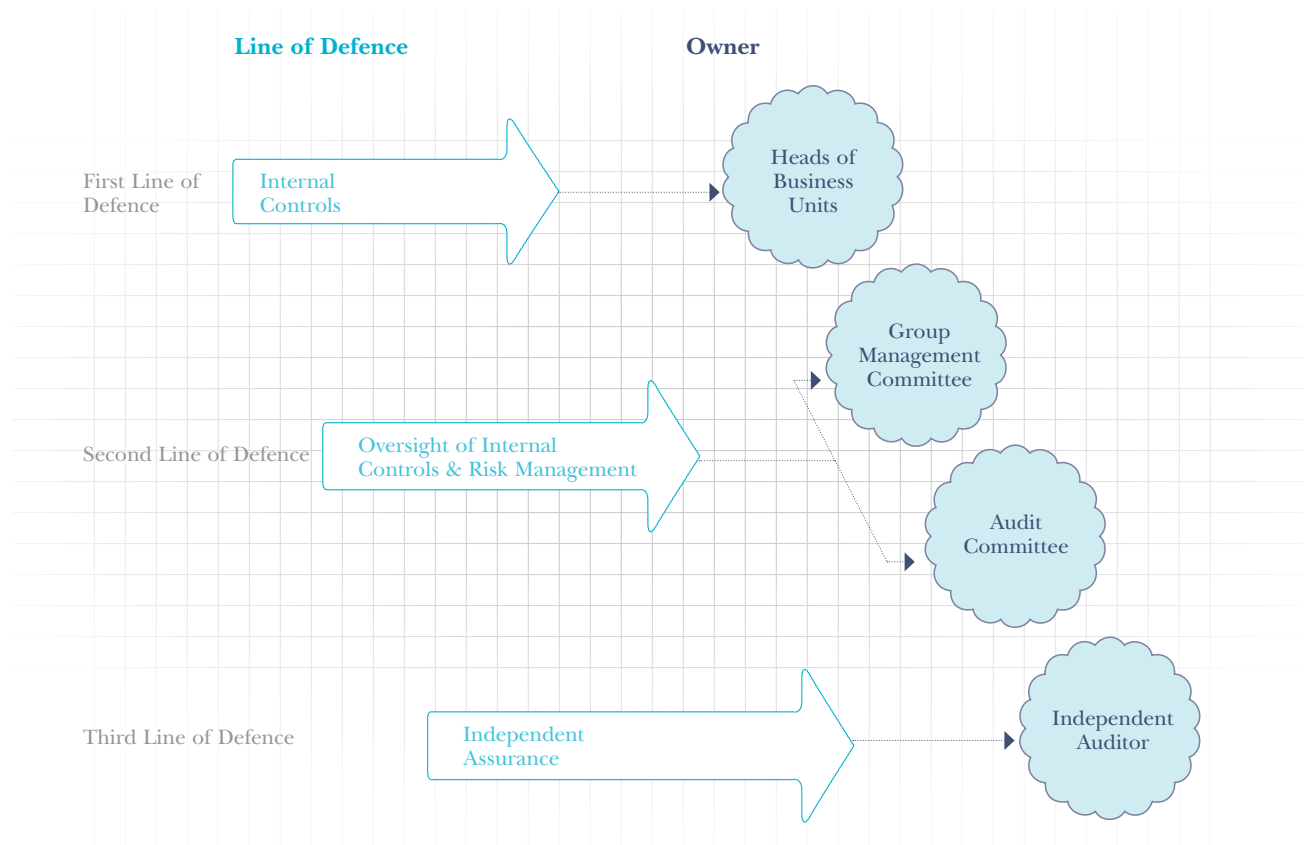
assurance and comfort with regard to integrity and due functioning of the enterprise governance framework. This is depicted in the governance framework appearing on page 84 The three lines of defence approach, which is described later, provides comfort on the effectiveness of internal controls and risk 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](http://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 one is 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	Compliant	Chief Executive Officer and Chief Financial Officer attend Audit Committee meeting by invitation
		The chairman of the Audit Committee or one member should be a member of a professional accounting body	Compliant	Chairman of the Audit Committee is a member of The Institute of Chartered Accountants of Sri Lanka and the Institute of Chartered Accountants of England & Wales
7.10.6.(b)	Function of Audit committee	Should be as outlined in the Section 7.10 of the Listing Rules	Compliant	The terms of reference of the Audit Committee adopted by the Board on 20th June 2007 cover the areas outlined.
7.10.6.(c)	Disclosure in the Annual Report relating to Audit Committee	a). Names of Directors comprising the Audit Committee	Compliant	Please refer 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					
	First	Re-election	Position	Attendance	Audit Committee		Nomination Committee		Remuneration Committee	
					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.

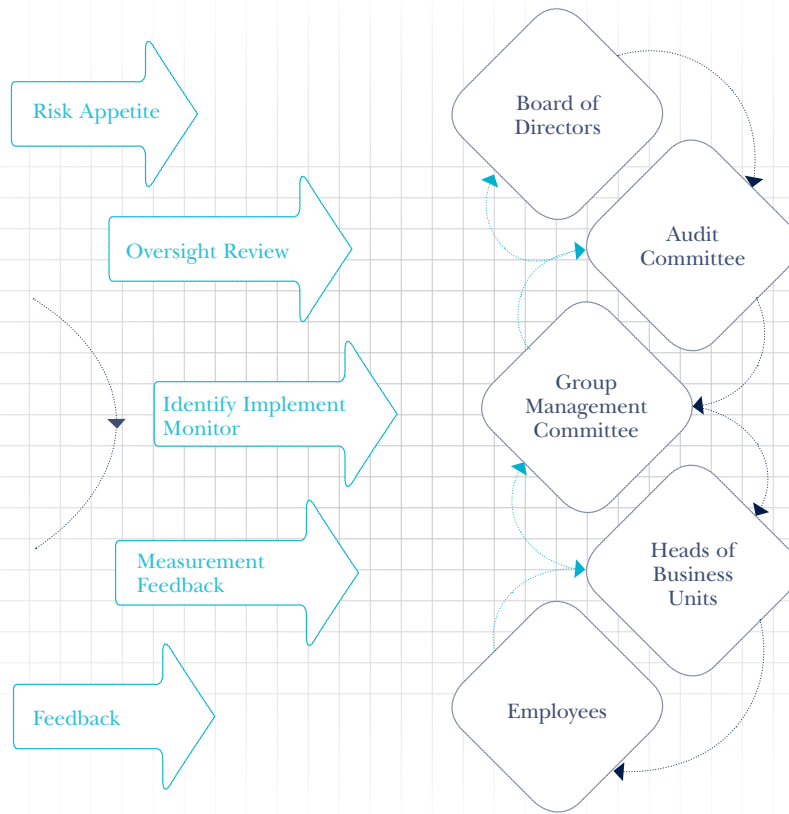
The Group Management Committee (GMC) takes the lead at the implementation level in identifying risks. The GMC examines processes and events, uncertainties and changes in environment that expose the group

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

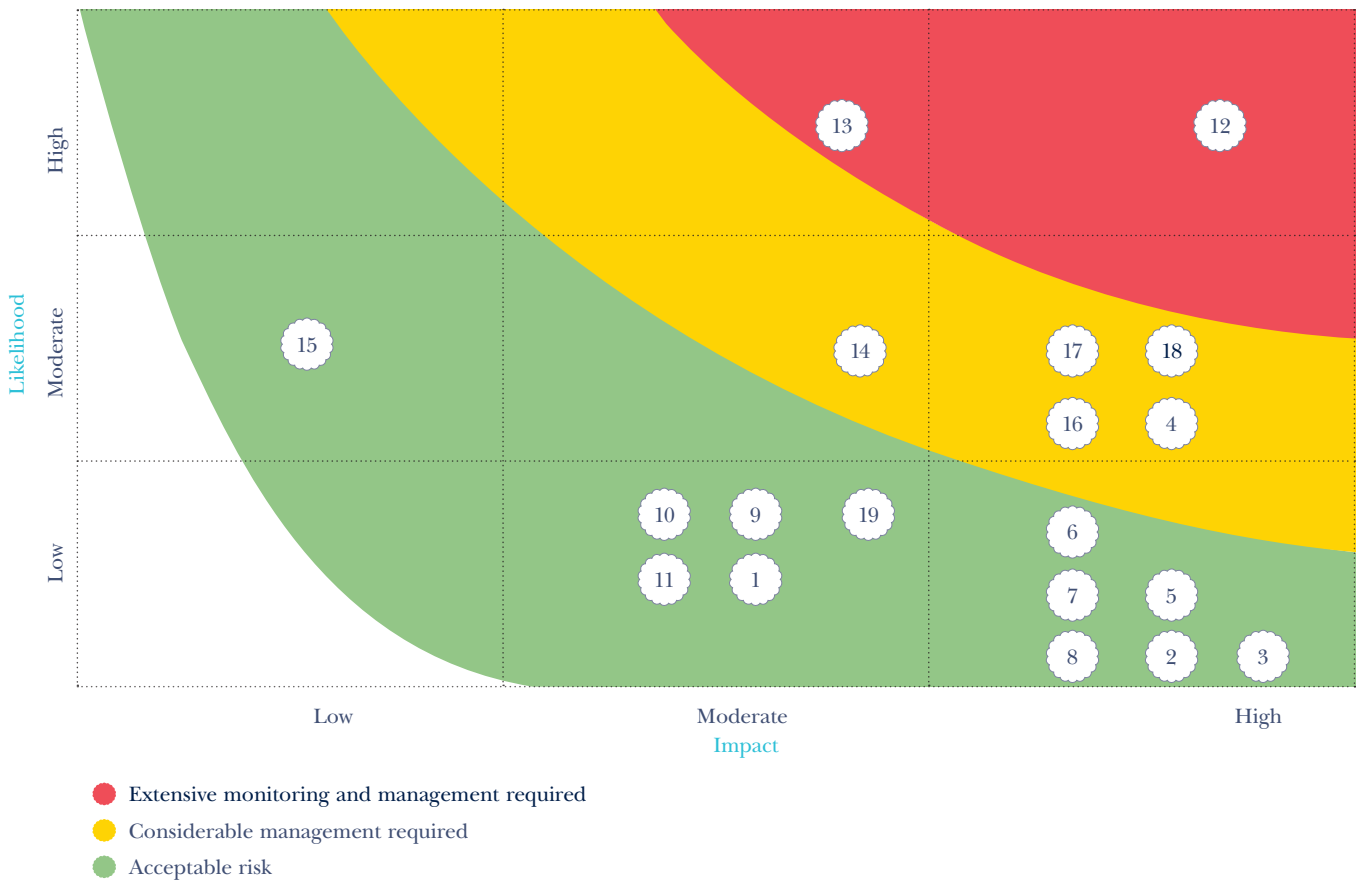
Risk mapping is carried out in order to assess the likelihood of occurrence and consequences of an event/set of events:

- 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



## *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	<ul style="list-style-type: none"> <li>Ensuring proper mix of short and long term borrowings</li> <li>Maintain an appropriate combination of fixed and floating rate borrowings</li> </ul>	●	●	●
02	Monetised Capital	Unavailability of sufficient funds impacting smooth functioning of the day-to-day operations of the Group	<ul style="list-style-type: none"> <li>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</li> <li>The Group maintains a desired mixture of cash and cash equivalents</li> </ul>	●	●	●
03	Monetised Capital	Damages resulting from natural disasters such as fire and floods	<ul style="list-style-type: none"> <li>Preventive measures of safety are taken to minimise damage to people and property in the case of fire or floods</li> <li>The Group has a disaster recovery plan in place</li> <li>Indemnity from insurance policies</li> </ul>	●	●	●
04	Customers	Loss of customers and resulting impact on business due to dissatisfied customers.	<ul style="list-style-type: none"> <li>Availability of a Quality Management System.</li> <li>Dedicated unit for Customer Relationship Management</li> <li>Continuous training of employees on customer care and aftercare</li> <li>Inclusion of customer care and customer satisfaction index in employees' and business unit objectives.</li> <li>A detailed narrative on delivering value to customers is available from pages 48 to 51.</li> </ul>	●	●	●
05	Employees	Adverse impacts arising from failure to recruit/retain skilled employees	<ul style="list-style-type: none"> <li>Due importance is given to the human resources management function of the Group</li> <li>Top management involvement in talent management led by the Human Resources Department</li> <li>Adoption of Best Practices in human resources management</li> <li>Conducting employee satisfaction surveys</li> <li>Investment in training and development</li> <li>Policy of competitive remuneration</li> <li>More employee-related information is available from pages 44 to 47.</li> </ul>	●	●	●

	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	<ul style="list-style-type: none"> <li>An 'Open door policy' is in place to discuss grievances with superiors</li> <li>An employee council meets every month to provide for employee representation</li> <li>HR clinics are held at business locations where representatives from HR Department visit locations to listen to employee grievances.</li> </ul>	●	●	●
07	Business Partners	Performance being adversely impacted as a result of disruptions to relationships with principals.	<ul style="list-style-type: none"> <li>The Group has focused on developing a mutually beneficial relationship with principals in an effort to minimise the risk.</li> <li>Independent survey on expectations of principals</li> <li>Emphasis on meeting expectations of principals</li> <li>Periodic evaluation of Principals' satisfaction levels</li> <li>A detailed account of our relationships with principals is given from pages 52 to 53.</li> </ul>	●	●	●
08	Intellectual Capital	Loss of confidential data through security breaches / system down in the IT systems	<ul style="list-style-type: none"> <li>Extensive controls and reviews to maintain efficiency of IT infrastructure and data</li> <li>Regular back up of data &amp; off-site storage of data backup system</li> <li>Disaster recovery plan</li> </ul>	●	●	●
09	Society	Potential exposure of the Group to financial losses, litigation and unacceptable corporate behaviour	<ul style="list-style-type: none"> <li>The Code of Business Ethics of the Group requires that all employees comply with laws and regulations.</li> <li>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.</li> <li>Internal and independent assurance provides comfort on compliance with laws and regulations.</li> </ul>	●	●	●



## *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	<ul style="list-style-type: none"> <li>Engagement in various community related activities, including community development</li> <li>Philanthropy</li> <li>Developing the social and physical infrastructure of the community</li> <li>Upholding of the principles of Global Compact relating to social development.</li> <li>More details on interactions with the community are available on pages 54 to 57.</li> </ul>	●	●	●
11	All stakeholders	Loss of confidence/business opportunities/depletion of group image due to group not being perceived as a responsible citizen.	<ul style="list-style-type: none"> <li>Environmental sustainability is a part of the decision making process in day to day operations and strategy formulation</li> <li>Existence of a sustainability committee to manage environmental sustainability related issues</li> <li>The Group's Environmental Management System is accredited with ISO 14001:2004</li> <li>The Group follows GRI Guidelines on sustainability reporting. The GRI index is available at <a href="http://www.dimolanka.com/sustainability/sustainability-performance">www.dimolanka.com/sustainability/sustainability-performance</a></li> </ul>	●	●	●
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.	<ul style="list-style-type: none"> <li>Reduce the dependency on vehicle segment, by gradually strengthening the other business segments such as Marketing &amp; Distribution, Construction &amp; Material handling Equipment and Electro Mechanical, Bio Medical Engineering and Marine Solutions.</li> </ul>	●	●	●
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.	<ul style="list-style-type: none"> <li>Diversifying into different markets and product / services.</li> <li>Strengthening the service levels and product offering in this sector.</li> <li>Enhance value addition by Dimo through wider participation in the supply chain.</li> </ul>	●	●	●

	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.	<ul style="list-style-type: none"> <li>Enhancing the customer awareness on product's high quality and durability and after sales services.</li> <li>Offer a "value for money" proposition</li> </ul>	●	●	●
15	All Business Segments	Failure to secure delivery of products on time.	<ul style="list-style-type: none"> <li>Maintaining a sound working capital management strategy,</li> <li>Relationship management with principals.</li> </ul>	●	●	●
16	All business segments	Technological obsolescence will impact on the inability to compete in the market	<ul style="list-style-type: none"> <li>The Group makes regular investments in new technology in providing after sales services and in IT infrastructure</li> <li>Staff are consistently exposed to new technology and trained to handle them</li> <li>The Group is backed by world renowned brands, some of whom are technology leaders. Therefore, technology is leveraged to compete with others</li> </ul>	●	●	●
17	All Segments	Possibility of incurring losses on receivables due to adverse economic conditions/poor credit management	<ul style="list-style-type: none"> <li>Strict adherence to Group Credit Policy that includes evaluation of a customer prior to granting credit and credit administration.</li> <li>Periodic review of receivables by the Group Management Committee</li> </ul>	●	●	●
18	All Segments	Negative changes in exchange rates causing potential losses on assets & liabilities and transactions denominated in foreign currency	<ul style="list-style-type: none"> <li>Hedging through forward foreign exchange contracts, where desirable</li> <li>Hedging through foreign currency bank account balances and trade receivables</li> </ul>	●	●	●
19	All Segments	Losses resulting from slow moving inventory items becoming obsolete	<ul style="list-style-type: none"> <li>Leverage information technology to manage inventory and ordering</li> </ul>	●	●	●

## 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*

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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.

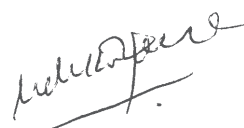
The remuneration packages which are linked to individual performances are aligned with the Company's short-term and long-term strategy. The Committee makes every endeavour to maintain remuneration levels that are sufficient to attract and retain Executive Directors and the Senior Management team.

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