Drive On

United Motors Lanka PLC

2016/17

Annual Report

Contents

Drive On

"At United Motors it is of utmost importance to us to deliver value to our shareholders. Throughout our 70 year journey we have created and exploited great opportunities to grow and have faced challenges mainly due to constant government policy changes. The volatility in our industry had shown us that in some year's volumes have doubled and in other years they have halved. In this scenario we believe that the only way to be resilient is for to deliver exceptional customer service, and provide a range of innovative products and services.

We are excited about the year ahead as in the year under review we have set a platform to serve a large sector of the market that we have not been able to be a part of previously. We firmly believe that we are now a total transport provider, geared to absorb speed bumps on the road ahead. We feel the future is where we want it to progress to. We are ready to **Drive On**."

The Company

Our flagship workshop at Ratmalana

In 1985, the Company entered into a distributor agreement with Mitsubishi Motors Corporation, Japan and has since then been the sole distributor for brand new Mitsubishi vehicles in Sri Lanka.

The Company was incorporated in 1945 as a Private Limited Liability Company. It was vested with the Government on 8 March 1972 and carried on operations as the Government Owned Business Undertaking (GOBU) of United Motors. In 1985, the Company entered into a distributor agreement with Mitsubishi Motors Corporation, Japan and has since then been the sole distributor for brand new Mitsubishi vehicles in Sri Lanka. In 1989 the Company was selected as the first Government venture for 'Peoplisation' with the intention of broadening its ownership amongst the public. Accordingly, on 9 May 1989, the Company was renamed as United Motors Lanka Limited and incorporated as a Public Limited Liability Company. On 30 August 2007, the Company was reregistered under the new Companies Act No. 07 of 2007 as United Motors Lanka PLC. Since becoming a Public Limited Liability Company, United Motors has achieved remarkable results and is a leading blue-chip company in Sri Lanka today.

Our Vision

To be the best company in Sri Lanka through diversification whilst maintaining the leadership position in the transport industry.

Our Mission

To delight and make lifelong relationships with our customers by providing high quality products, services and transport solutions using state-of-the-art technology and developing a team of people who are committed to excellence with the highest level of integrity through a corporate culture that encourages participative management to create a socially responsible corporate entity,whilst ensuring optimum returns to shareholders.

Our Values

Our customers and our business:

We believe in being customer oriented and possess a policy of providing first place to the customer. Customer needs drive our choice of products and services and the way we deliver them.

Our people are our most valuable asset:

We will retain and develop quality people committed to working as a team to fulfil our corporate mission. We will provide our staff with the opportunity to realise their full potential and cultivate their abilities to the utmost. Whilst individual initiative and performance are recognised, all are identified with the success of the Company and a winning attitude prevails.

Our style of management will encourage employee involvement and a positive work attitude:

We will utilise our resources effectively to maintain a superior quality of service by following a policy of continuous improvement, openness to change, search for better ways, speed of action, hard work and an aggressive determination to get things done, which will characterise our attitude towards every aspect of our work.

Our principals / suppliers are essential to our business:

We will pursue a confident and mutually beneficial relationship. We will deal fairly and impartially and provide principals, suppliers and their accredited agents with timely advice of future requirements and quality expectations.

Our company is a responsible member of our community:

We believe that our success and growth will contribute to the quality of life of our people and towards this end we will work in harmony with nature and would seek to eliminate all forms of pollution.

Financial Highlights

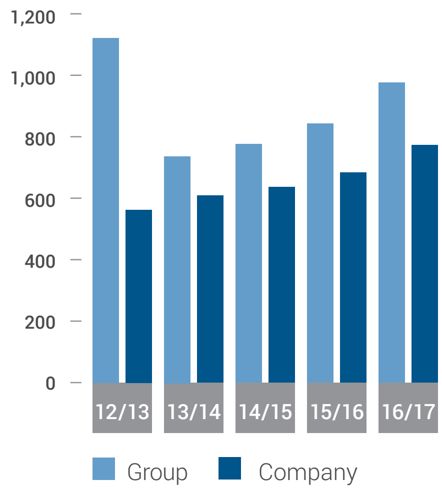
Rs. 17,925 Mn

Group Revenue

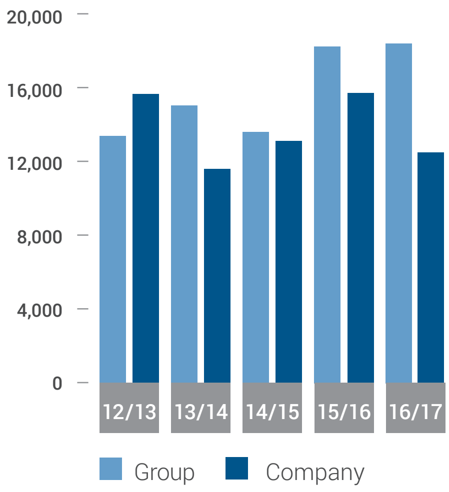
	Group			Company		
	2016/17	2015/16	Change %	2016/17	2015/16	Change %
Profitability (Rs.'000)						
Turnover	17,925,373	15,303,852	17.13	9,637,973	10,695,375	(9.89)
Profit before tax	1,438,602	2,353,603	(38.88)	1,176,146	2,049,981	(42.63)
Profit attributable to equity holders of the company	1,126,107	1,702,223	(33.84)	955,440	1,457,126	(34.43)
Financial position (Rs.'000)						
Investment in PPE and intangible assets	571,546	273,819	108.73	535,768	253,700	111.18
Non-current assets	6,762,193	6,356,068	6.39	6,064,474	5,694,367	6.50
Current assets	10,160,553	8,735,328	16.32	5,841,357	4,753,719	22.88
Current liabilities	5,967,512	4,598,093	29.78	2,768,298	1,595,419	73.52
Non-current liabilities	212,865	181,188	17.48	186,273	154,070	20.90
Shareholders' funds	10,742,369	10,312,115	4.17	8,951,260	8,698,597	2.90
Ratio						
Interest cover (times)	5.87	17.70	(66.84)	23.53	28.51	(17.47)
Profit before tax to revenue (%)	8.03	15.38	(47.79)	12.20	19.17	(36.36)
Return on capital employed (%)	10.48	16.51	(36.52)	10.67	16.75	(36.30)
Dividend cover (times)	-	-	-	1.35	1.31	3.05
Borrowings to equity (%)	38.01	27.67	37.37	16.33	1.93	746.11
Current ratio	1.70	1.90	(10.53)	2.11	2.98	(29.19)
Quick asset ratio	0.45	0.72	(37.50)	0.59	1.51	(60.93)
Share Performance						
Number of shares ('000)	100,901	100,901	-	100,901	100,901	-
Earnings per share (Rs.)*	11.16	16.87	(33.85)	9.47	14.44	(34.42)
Dividend per share (Rs.)**	-	-	-	7.00	11.00	(36.36)
Dividend yield (%)	-	-	-	8.97	13.25	(32.30)
Dividend payout (%)	-	-	-	73.92	76.18	(2.97)
Net assets per share (Rs.)*	106.46	102.20	4.17	88.71	86.21	2.90
Market value per share as at 31 March (Rs.)	-	-	-	78.00	83.00	(6.02)
Price earning ratio	-	-	-	8.24	5.75	43.30
Market capitalization as at 31 March (Rs.'000)	-	-	-	7,870,249	8,374,752	(6.02)
Highest recorded share price (Rs.)	-	-	-	89.00	118.00	(24.58)

**Net assets per share and earnings per share have been calculated for all periods based on the number of shares in issue as at 31 March 2017*
*** Dividend per share represents the per share value at the point of payment*

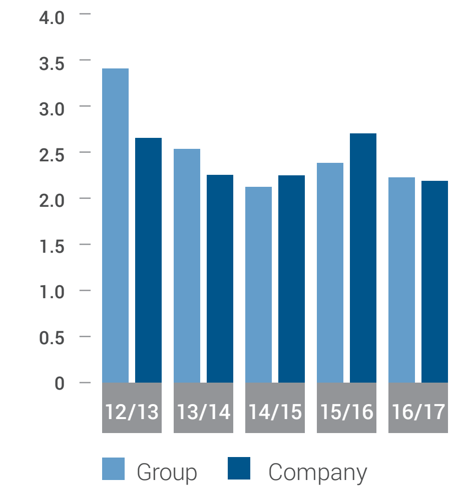
No. of Employees



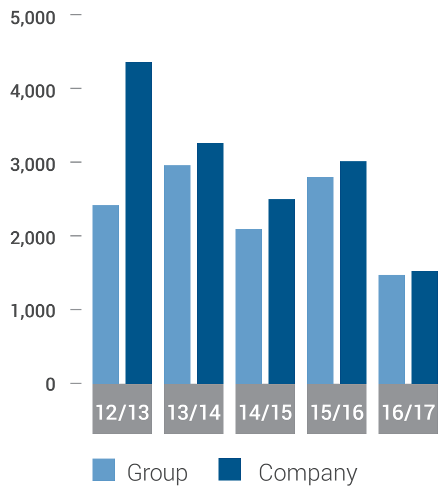
Turnover per Employee (Rs.'000)



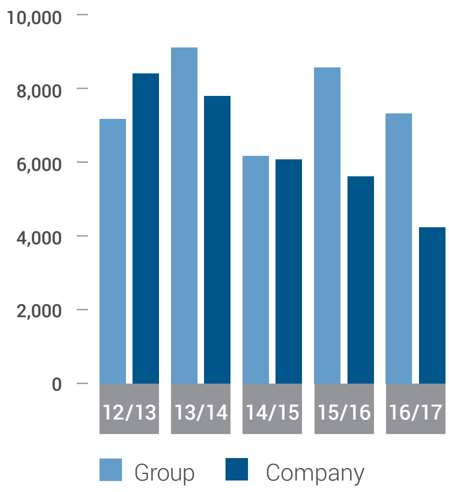
Inventory Turnover (Times)



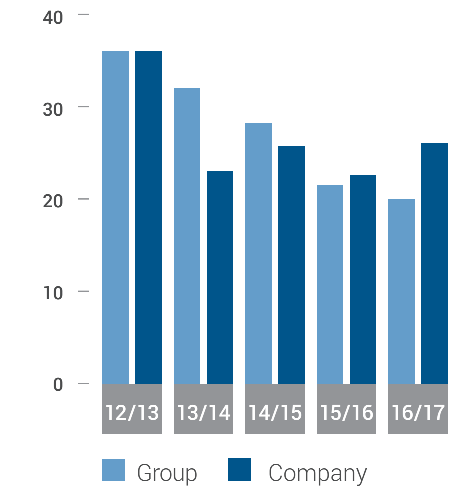
PBT per Employee (Rs.'000)



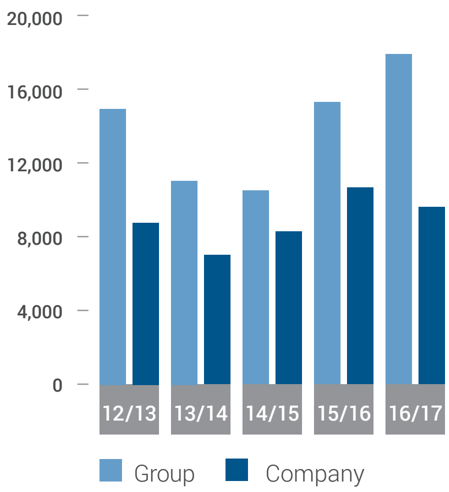
Value Added per Employee (Rs.'000)



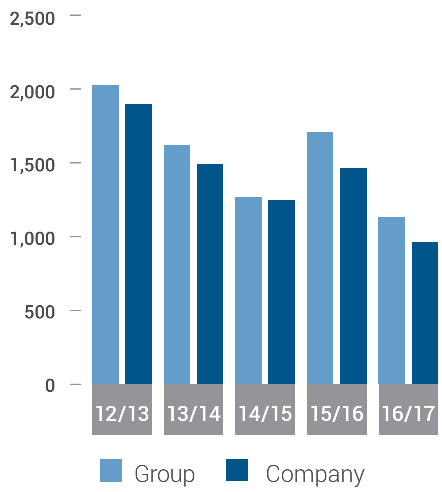
Debtors Collection Period (Days)



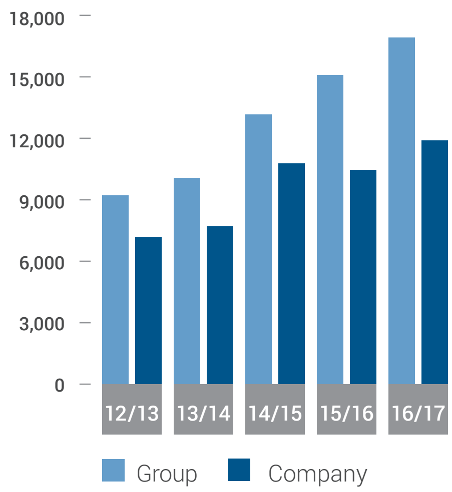
Turnover (Rs. Mn)



Profit After Tax (Rs. Mn)



Total Assets (Rs. Mn)



Operational Highlights

2,304

Cars, SUVs & vans

Industry volumes of brand new vehicles segment contracted by 42%.

1,821

Cabs, trucks & buses

Market share for Fuso vehicles (Japanese vehicles) increased from 35% to 43% during the year.

49,163

Two wheelers

5,872 two wheelers were sold more than the previous year. Market share increased from 11% to 14%.

976

Number of Employees of the Group

Rs. 1.13 Bn

Group Profit After Tax

Rs. 4.7 Bn

Taxes Paid to the Government

Rs. 572 Mn

Capital Expenditure for the year

Opening of State of Art Workshop in Ratmalana

In December 2016, the construction of our workshop in Ratmalana was completed, and we opened the doors to our latest state- of- the- art workshop. We believe that this service facility will be a major contributor in increasing our after sales income as well as add to the value we offer to our customers in terms of product and service.

Rs. 838 Mn

Lubricants

Lubricant business continued its consistent and strong volume growth for the fourth consecutive year. Sales increased by 39%.

Rs.1.8 Bn

Spare Parts

Group spare parts revenue increased by 13% compared to previous year.

Rs.750 Mn

Repairs & Services

Our state of the art workshop in Ratmalana was opened in December 2016.

Launch of ZOTYE Z100

For the first time in our history, we offer a product that is competitively priced. We have now launched the ZOTYE Z100 a 1,000 cc car, which is ideal for the Sri Lankan customer, at a more affordable price than what is offered by the current market leader. Unlike the competition our engine is a 1,000 cc engine whereas most competitors have a 800 cc engine. We believe that extra power generated by our product will be a strong value proposition that we offer.

The year was one of the most difficult in recent history for the automobile industry. The prices of most vehicles went up significantly several times during the year, due to increases in duties and changes in the methods of valuation. In addition, the government's imposition of a minimum down payment for vehicle leasing had a further negative impact on market volumes

Events of the Year

We strive to engage our customers through a series of events and activations.

May 2016

Build Sri Lanka

Unimo Enterprises Limited participated at Build Sri Lanka organized by Chamber of Construction Industry, Sri Lanka at BMICH. The DFSK Glory Diesel, JMC Truck and DFSK V27 range of vehicles were on display.

July 2016

Construct 2016

Construct 2016 provided a common platform for all industries that link with construction and gave the participants a chance to showcase their products and services to the large gathering of customers from construction related businesses who visited the 3 day exhibition at BMICH. The Mitsubishi L200 and Fuso Trucks were on display.

150 Year Celebration of Valvoline in Sri Lanka

United Motors celebrated 150 years of Valvoline existence with its top dealers at Galadari Hotel Colombo.

June 2016

Fuso Truckers Day

The Mitsubishi Truck and Bus division conducted a driver training programme on safe driving techniques and new road rules to commemorate the “Fuso Truckers Day” while also appreciating each driver for their service to their respective organizations. This is a global initiative by Fuso which aims to appreciate and acknowledge Fuso Truck drivers.

Tie ups with Financial Institutions for Special Leasing Promotions

MOU was signed with Orient Finance for a joint leasing promotion for DFSK Unimo Lokka mini trucks.

August 2016

DFSK Glory Service Campaign

Unimo Enterprises Limited conducted a free service campaign for DFSK Glory with the participation of DFSK Technicians at Orugodawatte workshop.

Construction Expo

Unimo Enterprises Limited participated at Construction Expo organized by the Ceylon Institute of Builders at BMICH. The DFSK Glory, JMC Truck and DFSK V27 range of vehicles were on display.

Events of the Year

August 2016

Mitsubishi Service Campaign Orugodawatte

UML continued vehicle clinics free of charge with the participation of Japanese Technicians at Orugodawatte Workshop.

October 2016

Launch of ZOTYE Z100

Unimo Enterprises Limited launched the Zotye Z100, 1000cc passenger car which was unveiled by Finance Minister Hon. Ravi Karunanayake at BMICH Colombo Motor Show with the presence of Zhu Wang Sheng, President Zotye International, Chanaka Yatawara, UML Group CEO/ED and Mahesh Gunatilleka, CEO/ED Unimo Enterprises Ltd.

January 2017

CMTA Motor Show

The Group participated at the Colombo Motor show organized by Ceylon Motor Traders Association at BMICH. The Mitsubishi PHEV, Montero Sport, Attrage, MG, Z100, Perodua Axia, DFSK Glory and Yokohama tyres were on display.

February 2017

Unimo Display at Crescat Boulevard

Unimo displayed the Perodua Axia (Facelift) and MG at Crescat Boulevard.

November 2016

EVO Club Gathering

United Motors for the first time sponsored the Evo Club meet which attracted over 40 Mitsubishi Evolutions from all eras.

December 2016

Mitsubishi Display at Crescat Boulevard

Mitsubishi displayed the L200 Sportero and Attrage at Crescat Boulevard.

DFSK Road Show

DFSK range of mini trucks conducted a series of vehicle parades during the year covering Kurunegala, Anuradhapura and Ampara.

Kurunegala Sinhala Velanda Sangamaya

The Company participated at the annual gathering of Kurunegala Sinhala Velanda Sangamaya in Kurunegala at Hotel Salute. The Mitsubishi PHEV, L200 and Fuso trucks were on display.

Events of the Year

February 2017

Leasing Gathering

Unimo Enterprises Limited organized a gathering for leasing companies in order to strengthen its relationship.

March 2017

Z100 Customer Gathering at JAIC Hilton

Unimo Enterprises Limited organized the first Z100 customer get-together which saw the first 100 customers participate at this event. This event was an opportunity for customers to enlighten themselves further on the product while the afternoon was filled with entertainment.

March 2017

Fuso Bus Service Campaign

The Company together with Chilaw Bus Association conducted vehicle clinics free of charge with the participation of trained technicians from our Kurunegala workshop.

Anuradhapura Chamber of Commerce Awards Night

Mitsubishi Truck and Bus division participated at the Anuradhapura Chamber of Commerce awards night at Palm Garden Hotel Anuradhapura. UML presented their range of vehicles to a large audience of businessmen.

Milestones

1945

Incorporation of United Motors Limited as a Private Limited Liability Company.

1972

Vested in the Government on 8th March, commenced as a Government Owned Business Undertaking.

1985

Entered into a distributor agreement with Mitsubishi Motors Corporation (MMC).

1989

May

United Motors Lanka Limited was incorporated as a Public Limited Liability Company with an authorised share capital (now referred to as stated capital) of Rs. 100,000,000

1994

Incorporation of a subsidiary - UML Property Developments Ltd., for the construction of a warehouse complex on a five acre land at Orugodawatte.

1995

September

UML Celebrated 50 years of excellence.

1997

November

Perodua brand from Malaysia was introduced.

1999

July

The Orugodawatte Workshop Complex was opened.

2002

March

The Valvoline brand from USA was introduced by the Company.

October

Acquisition of Unimo Enterprises Limited (UEL).

2003

April

UML acquired 50% interest in TVS Lanka (Pvt) Ltd.

2004

September

The Yokohama brand from Japan was introduced by UEL.

2006

January

Unimo Enterprises Ltd launched a range of Chinese vehicles.

2007

March

TVS Lanka (Pvt) Ltd. signed a distributor agreement with Bharat Petroleum Corporation of India.

June

JMC brand from China was introduced by UEL.

August

The Company was re-registered as United Motors Lanka PLC.

December

Zotye brand from China was introduced by UEL.

2008

March

Incorporation of TVS Automotives (Pvt) Ltd as a fully owned subsidiary of TVS Lanka (Pvt) Ltd.

2009

December

Unimo Enterprises Ltd opened a local assembly facility within the Orugodawatte Workshop Complex to assemble the Zotye Nomad SUV.

2010

December

The Company increased the number of shares by way of a share split on the basis of two new ordinary shares for every existing issued ordinary share.

2011

February

OMCL added the DFSK Mini truck brand to its portfolio.

December

The company was awarded a citation for order intake development from Mitsubishi Fuso Truck and Bus Corporation Japan for the FUSO brand.

2012

March

The Group achieved its highest ever profit in the financial year.

2013

October

United Motors was ranked amongst the top 100 Corporates in Sri Lanka across all industries in 2012/13 by LMD.

November

United Motors was ranked among the top 25 companies in Sri Lanka across all industries by Business Today, in 2012/13.

2014

March

Unimo Enterprises Ltd opened its assembly plant in Ranala.

The legendary brand MG launched by Unimo Enterprises Ltd.

October

United Motors was ranked amongst the top 100 Corporates in Sri Lanka across all industries in 2013/14 by LMD.

November

United Motors was ranked among the top 25 companies in Sri Lanka across all industries by Business Today, in 2013/14.

Valvoline was awarded for its outstanding sales performance in South East Asia at the Valvoline South East Asia Conference in Mumbai.

2015

February

The Simoniz brand from United Kingdom (UK) was introduced by the Company.

2015/16

May

The Brilliance brand from China was introduced by UEL.

June

Aashiq Lafir, Executive Director - Finance was appointed President of the Sri Lanka-Malaysia Business Council.

October

United Motors was ranked amongst the top 100 corporates in Sri Lanka across all industries in 2014/15 by LMD.

Valvoline was awarded for its outstanding sales performance for the 2nd consecutive year in South East Asia at the Valvoline South East Asia Conference in Hongkong.

November

United Motors was ranked among the top 25 companies in Sri Lanka across all industries by Business Today, in 2014/15.

2016 / 17

June

The Company added the PHEV (Plug-In Hybrid Electric Vehicle) to its portfolio.

July

The Company added the Fuso FJ Concrete Mixer to its portfolio.

Valvoline was awarded for its outstanding sales performance for the 4th consecutive year in South East Asia at the Valvoline South East Asia Conference in Thailand.

September

UML won the special achievement award " Significant sales volume increase for excellent Marketing Campaign" for the Fuso brand at the "Daimler Trucks Asia Distributor Awards 2016"

October

UEL added ZOTYE Z100 to its portfolio.

A dedicated sales showroom for Mitsubishi passenger vehicles & Fuso trucks was opened in Anuradhapura.

A dedicated sales showroom for Z100 passenger cars was opened in Kohuwala.

November

OMCL added DFSK Crew Cab to its portfolio.

December

A dedicated workshop for Mitsubishi passenger vehicles and Fuso trucks and busses was opened at Ratmalana.

February

UEL added Perodua Axia Face lift to its portfolio.

UEL added DFSK Glory Petrol to its portfolio.

Group Structure

	Company	Incorporated on	Reg: No	Chairman
Parent Company	United Motors Lanka PLC	09 May 1989	PQ-74	Sunil G. Wijesinha
Subsidiaries	Unimo Enterprises Ltd (100%)	17 March 1994	PB 218	Sunil G. Wijesinha
Subsidiaries	Orient Motor Company Ltd (100%)	27 March 1992	PB 117	Sunil G. Wijesinha
Subsidiaries	UML Property Developments Ltd (100%)	08 October 1993	PB 253	Sunil G. Wijesinha
Subsidiaries	UML Agencies & Distributors (Pvt) Ltd*	12 November 2001	PV 1514	Sunil G. Wijesinha
Joint Venture	TVS Lanka (Pvt) Ltd 50%	21 November 1995	PV 9382	V. Sirinivasan
Subsidiary	TVS Automotives (Pvt) Ltd 100% Effective 50%	27 March 2008	PV 63607	Sunil G. Wijesinha

** Steps have been initiated to strike off UML Agencies and Distributors (Private) Limited from the register maintained by the Registrar General of Companies, under section 394 of the Companies Act No. 07 of 2007 (as amended).*

Directors	Secretary	Auditors	Activities
C. Yatawara (Group Chief Executive Officer/Executive Director) A. W. Atukorala A. C. M. Lafir (Executive Director - Finance) R. H. Yaseen (Executive Director - After Sales Services) Mrs. A. H. Fernando A. D. E. I. Perera - ceased to be a director w.e.f 08.07.2016 Prof. K. A. M. K. Ranasinghe T. Nomura - appointed w.e.f 25.04.2016 and resigned w.e.f 16.01.2017 S. A. Chapman - appointed w.e.f 22.09.2016 H. Inoue - appointed w.e.f 30.01.2017	Mrs. R. M. Hisham	KPMG	Import and distribution of brand new Mitsubishi, FUSO vehicles, genuine Mitsubishi spare parts and provision of workshop facilities for repairs and lubrication services for vehicles. Distribution of Valvoline lubricants, Simoniz & Eagle One car care products.
M. Gunathilake (Chief Executive Officer/ Executive Director) C. Yatawara R. H. Yaseen Mrs. A. H. Fernando A. W. Atukorala	Mrs. R. M. Hisham	KPMG	Import and distribution of Perodua, Morris Garages (MG) cars, Brilliance vans and JMC Commercial Vehicles, Yokohama tyres. Assembly and marketing of DFSK and Zotye vehicles.
C. Yatawara Mrs. A. H. Fernando	Mrs. R. M. Hisham	KPMG	Import and distribution of DFSK trucks. Hiring of motor vehicles.
C. Yatawara	Mrs. R. M. Hisham	KPMG	Construction of warehouse complex for hiring purpose. Development of Company owned properties.
C. Yatawara	Mrs. R. M. Hisham	KPMG	No commercial operations during the year.
R. Dinesh R. Haresh C. Yatawara Sunil G. Wijesinha K. N. Radhakrishnan Mrs. A. H. Fernando A. W. Atukorala	Jacey and Company	KPMG	Import and distribution of TVS motor cycles, three wheeler, spare parts and operation of workshops.
R. Dinesh N. Krishnamoorthy C. Yatawara	Jacey and Company	KPMG	Import and distribution of BPCL-MAK lubricants, JK and TVS tyres.

Chairman's Message

I am pleased to welcome you to the 28th Annual General Meeting of United Motors Lanka PLC (UML), and present you with our annual report and audited financial statements for the financial year ended 31 March 2017.

It was a difficult but significant year for your Company. Difficult, because government policies introduced this year too were not consistent and made it difficult for us to plan our strategies with a long term focus. There were sudden and frequent changes in the duty structure which substantially affected our business. All this resulted in very tight demand conditions. While we acknowledge the fact that the Government needs to take drastic measures to respond to the challenges in the economy and take remedial measures to counter the massive debt burden, we believe that more carefully thought out strategies would have made it a win-win strategy for Businesses as well as the Government. It was a significant year because many initiatives we launched in the preceding years bore fruit this year. However, our energies were spent substantially in responding to duty structure changes and other actions of the Government. Long term planning and investment decisions became more complex and more challenging.

Your Company recorded a group profit after tax of Rs. 1.13 billion which was 34% less than last year's figure of Rs. 1.7 billion. I am pleased to remind you however that we paid two interim dividends totalling Rs. 5 per share during the year, and therefore the Board of Directors after considering the cash flow of the Company has decided that no further dividend is appropriate for the year under review.

The Group turnover amounted to Rs. 17.9 billion compared the previous year's figure of Rs. 15.3 billion. However the higher costs and lower margins resulted in a reduced net profit after tax. The business of our subsidiaries and joint venture companies too were impacted by the tightening of demand resulting from higher duties, tighter credit, and poorer business growth.

The Global Environment

Our business is substantially influenced by the global and local economic, political and social environment. Therefore it is appropriate to analyse the performance of the global economy and changes to the global technological environment.

The past year saw several unprecedented changes taking place in the international arena that will shape the global economy for decades to come. The tide of populism that swept through the developed world created political tsunamis that maneuvered Britain out of the European Union and propelled Trump into the White House. Rising support for populist parties are a social phenomenon that gathered momentum during the year, spurred by the headwinds of anti- establishment sentiments that disrupted the politics of many Western societies. These populist sentiments are the result of economic insecurity that arose out of social upheavals in the lower strata of post- industrial societies destabilised by the rise of the knowledge economy and technological automation that have eroded organised labour in manufacturing industries and contracted social security safety nets.

More recent political developments, however, notably the landslide victory of centrist Macron in France, signal that the electorate is becoming more rational, and could be construed as a positive indicator that the global economy is now on the rebound and that 2017 may well usher in a more stable socio-political scenario.

Many of our exporters suffered twin blows at the beginning of this decade with the economic decline of Europe and the US, and aggravated by the loss of GSP Plus. Regaining of GSP Plus coupled with the economic indicators of Europe showing positive momentum, with fifteen consecutive quarters of GDP growth would raise hope for exporters. The latest Spring Economic Outlook of the EU projects 1.9% growth in 2017 and 2018. Previously high unemployment rates, which had been a severe dampener on economic activity and consumer demand, has been trending downward and is expected to fall to 8.0% in 2017 and 7.7% in 2018; the lowest since late 2008. Export sectors like apparels, seafood, fresh and processed fruit and vegetable, toys, and

Rs. 194 Bn

Total Imports of Motor Vehicles

The latest import statistics indicates that, vehicle imports in 2016 amounted to Rs.194 billion in value, recording a sharp decline of 40% compared to 2015

ceramic and porcelain tableware will be the main gainers.

In China, economic growth spluttered during 2016 but is set for a recovery in 2017; growth is projected at a rate of 6.5%. Q1 2017 growth was 6.9%, higher than in Q1 of 2016, indicating some recovery in this economy that is going through a period of rebalancing. China is rapidly improving it's technological capabilities and enhancing it's focus on product and service quality. It seems to be following the path of Japan which was not known for quality in the 1960s but quickly overcame the stigma by delivering superior quality and customer service within a decade.

In the US, the Federal Reserve raised interest rates once more in March, amidst positive economic activity and jobs data (unemployment has declined to 4.7%). American consumer and business sentiment have been upbeat lately on President Trump's proposed tax cuts and regulatory easing. Yet, worries around their implementation, as well as trade protectionism weigh on investor sentiment.

Looking at important vehicle export markets like Japan, the sharp depreciation of the Yen seen over the past 6-8 months mostly reflects expectations that Trump's policies will boost growth in the world's largest economy via stronger fiscal stimulus and that the Federal Reserve will have to hike rates. However, rising risk aversion due to an uncertain global outlook had led the Yen to strengthen to a nearly three-year high. Expectations are for the Yen to trade at 117.7 per USD by the end of 2017 and further weaken to 119.4 per USD by 2018.

New technology is driving the global automobile industry today. Connected and intelligent cars are making inroads into the industry, and are having a powerful impact on its future, as two diverse worlds partner in the race to design and develop more modern more technologically sophisticated and more environmentally friendly cars: the traditionalist, expansive automotive industry has joined forces with the freewheeling, dynamic software industry.

The Local Perspective

Overall business activity was challenged on many fronts during the year, ranging from impacts of adverse weather conditions – floods as well as drought – to delays and uncertainty in implementation of key policy changes. This year too, tax policy uncertainty weighed heavily on investment and consumer sentiment, with changes announced in Budget 2017 not being enacted by the 1st of April 2017, and uncertainty surrounding the introduction of a new Income Tax law.

On the domestic front, growth moderated sharply in 2016, with the economy growing at just 4.4%. This was the fourth consecutive year of lower than mid-single digit growth. Yet, inflation has remained broadly stable, in mid-single digits for 99 consecutive months. A key factor influencing this growth slowdown is the government's new macroeconomic management stance, which focuses on fiscal consolidation and tighter monetary policy.

On the fiscal side for instance, 2016 saw the increase of VAT, which has impacted consumer demand. As part of fiscal tightening, the government took a decision to restrict the import permits for motor vehicles; a decision which impacted heavily on your Company. Budget 2017 was the first budget in which no significant increases in welfare, subsidies, or public sector salaries was proposed, also contributing to tighter consumer demand conditions.

The fiscal consolidation effort underway, as part of the country's commitments under an IMF Extended Fund Facility agreement, will no doubt support a stronger macroeconomic climate in the medium-term. Yet, it is having an inevitable dampening effect on consumer demand in the immediate term, in the absence of other growth drivers like exports and investments.

On the monetary policy front, the Central Bank raised policy interest rates twice in 12 months and introduced tighter Loan to Value (LTV) ratios for leasing as a way of curbing credit growth that had galloped to over 25% month-on-month by Q3 2016. By end of 2016 and early 2017 this had begun to slow in response to these CBSL policy actions.

On the external front, the trade deficit widened by a sharp 8.4% in 2016, to US$ 9.09 Billion. Exports ended the full year at US$ 10.3 Billion - 2.2% lower than for the previous year and Sri Lanka's import bill was 2.5% larger than in 2015, at US$ 19.4 Billion. Import expenditure on motor vehicles accounted for 9% of

Chairman's Message

the total import bill in 2016. The latest import statistics indicates that, vehicle imports in 2016 amounted to Rs.194 billion in value, recording a sharp decline of 40% compared to 2015

Weak global conditions, a slowdown in trade, and difficulties in important markets for Sri Lanka – like the EU, Middle East and Russia – all contributed to a challenging environment for international trade. During the latter half of 2016, the Rupee depreciated substantially, driven by the CBSL's actions to allow greater flexibility. It appears that the CBSL is determined to continue this stance, and hopefully this will provide greater predictability in exchange rates and avoid sharp and unmanageable devaluations. Yet, the continued slide of the Rupee made the import of motor vehicles and spare parts more expensive during the year.

Increased investment expenditure, especially in the construction sector, was a key growth driver, while consumption expenditure slowed down in response to Central Bank policy initiatives.

Despite these challenges, I am convinced that the economy will stabilise two years down the road, and have every confidence in the Central Bank's independence and handling of Sri Lanka's economic policy and credit growth. I believe it is better to suffer these belt- tightening measures now than go through the debt crises experienced by countries like Greece and Venezuela. The IMF, World Bank and ADB also seem confident that Sri Lanka is now on the right track.

Transport for Productivity Enhancement

Transport plays a vital part in enhancing productivity particularly in the SME sector. The higher duties and tightening of credit has had a significant impact on productivity and growth of this sector.

The dynamic SME sector is the bedrock of the nation, and the impact on its health must be considered before blanket policy decisions are made. Successive governments have failed to look at the duties levied on motor vehicles from an SME and rural economy perspective.

Those who are familiar with the rural economy have seen a massive transformation in rural villages facilitated by mechanisation and technology. The two wheel tractor introduced half a century ago created the first revolution while affordable Chinese made power tools created perhaps the second revolution. This advent elevated the daily paid labourer to the status of an entrepreneur who took on weeding, tree cutting, paddy harvesting, and chemical spraying. In my view the third wave was the availability of three wheelers, two wheelers and the mini trucks available below Rs. One million. This created many entrepreneurs in the village providing catering services, transport services, hardware merchants, small manufacturers, vegetable and fruit growers and others who now either had transport facilities in the village itself or had their own mode of transport. Many carpenters, masons, and other service providers would now have more mobility and would use the three wheeler or mini truck to transport their equipment and material. Villages prospered under these conditions. Many individuals were able to progress from one level to the next mainly because of transport.

Small commercial vehicles like the DFSK truck suited a village entrepreneur because at the price of less than Rs. One million they were within his reach with affordable finance facilities. Fresh produce transported to the market immediately after harvest cut post-harvest losses that arise from spoilage, banking facilities were accessible with a trip into town, and village families now had a mode of transport. Small trucks also enabled villagers to earn a side income. A school teacher, for instance, could maintain his social status as a respected educator while supplementing his income by hiring out the truck he had financed.

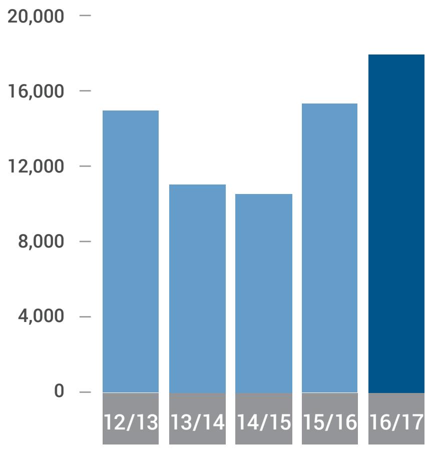
But the new duty structure will place these income generating activities well beyond the reach of the village entrepreneur, because the import duty on small trucks alone has now been increased to Rs. One million. The duty alone is more than the earlier selling price. Even the more established small entrepreneur will be compelled to resort to cheaper second hand vehicles that will cause losses in income in terms of repairs and breakdown hours and will have environment impacts as well.

The SME sector played a strong role in the growth and development of countries like Japan and Korea. Manufacturing activities in Japan were carried out through a co-operative system or through small family companies making products for bigger companies.

Linking the people to the economy by giving the autonomy of entrepreneurship is a key strategy for promoting peace and stability in a country. Entrepreneurs who depend on earning a daily income will not support disruptions to the economy that could interfere with the smooth functioning of their business.

Overall business activity was challenged on many fronts during the year, ranging from impacts of adverse weather conditions – floods as well as drought – to delays and uncertainty in implementation of key policy changes.

Group Turnover (Rs. Mn)



The monthly wage earner, on the other hand, especially the worker in the state sector, faces no loss in income even if he absents himself from work to participate in a civil protest because he is assured of his monthly income either way.

Therefore it is imperative that the micro economic impact of policies should be carefully considered before they are introduced.

Conclusion

Your company will continue to meet the challenges that will come before us. These challenges will only strengthen us further rather than weaken us. We will look forward to a more stable and a more conducive business environment in the future.

I wish to place on record my appreciation to my colleagues on the Board of Directors for their valuable support and direction that inspired the Company to overcome the challenging environment of recent years. Mr Eardley Perera did not offer himself for re-election to the Board on reaching 70 years. His contribution has been invaluable and on behalf of my colleagues on the Board I thank him and wish him success. Mr. Toshiaki Nomura, the representative from Mitsubishi Motors Corporation appointed to the Board in April 2016 also resigned from the Board in January 2017 to undertake a new role in the Company. We welcomed Mr Hiroyasu Inoue, the new representative from Mitsubishi. I thank Mr Nomura for his valuable contribution to the Board and wish him success in his new role. We also welcomed Mr Stuart Chapman to the Board and we are confident that his expertise in Strategic Marketing will make an invaluable contribution to our deliberations. Our suppliers have been great partners and I thank all of them and I believe our relationships will grow stronger every year. I express my special thanks to the Group CEO/Executive Director, Mr Chanaka Yatawara and his team for managing in a difficult environment.

Sunil G. Wijesinha
Chairman

25 May 2017

Group Chief Executive Officer's Review of Operations

In my review, I plan to take you through the challenges we faced during the year and the strategic actions taken, to meet those challenges as well as actions taken to give the UML Group a more competitive edge to grow in the future.

Vehicle Registrations - Brand New - Four Wheel

Product	2015/16	2016/17	Change
	No. of Units		(%)
Cars	51,206	19,580	(62)
SUV	2,660	1,410	(47)
Double Cabs	1,167	1,247	7
Single Cabs	4,112	3,325	(19)
Vans	794	595	(25)
Ambulances	21	106	405
Trucks	24,745	22,537	(9)
Buses	2,175	1,610	(26)
Total	**86,880**	**50,410**	**(42)**

The year was one of the most difficult in recent history for the automobile industry. The prices of most vehicles went up significantly several times during the year, due to increases in duties and changes in the methods of valuation. In addition, the government's imposition of a minimum down payment for vehicle leasing had a further negative impact on market volumes considering that approximately 70% of vehicles sold are bought through financing.

As indicated by the table industry volumes in the brand new vehicles segment contracted by 42%. The main impact of this reduction was in the passenger car category where volumes dropped by 62%. The passenger car category is approximately 40% of total sales volumes and is dominated by the low-cost under 1,000 cc vehicles, which were badly affected by the changes in duty and minimum down payment policies as this is the entry level segment. In this industry landscape, the UML Group's profit dipped from Rs. 1.7 billion in 2015/16 to Rs. 1.13 billion in 2016/17. In the year under review, we decided to focus our strategy on potential high growth areas and especially in areas that we are currently not present in. I mention below a few of those key initiatives.

The under 1,000 cc category has been in the past, and will continue to be in the future, a high growth segment. Even with overall industry volumes reducing in the current financial year, this sector continues to have a share of approximately 40% of the overall market. Over the years we have been seeking vehicle manufacturers across the world who could give us a product that would compete in pricing and quality with the market leader in this segment, and were successful in December 2016 . For the first time in our history, we offer a product in this space that is competitively priced. We have now launched the Z100 a 1,000 cc car, which is ideal for the Sri Lankan customer, at a more affordable price than what is offered by the current market leader. Unlike the competition our engine is a 1,000 cc engine where as most competitors have a 800 cc engine. We believe that extra power generated by our product will be a strong value proposition that we offer.

We have also made arrangements to launch a sedan in the under 1,000 cc segment. This product will be one of the few sedans in this category and will be marginally more expensive than the hatchback models. We feel that there will be a new market segment for this product since many consumers prefer the sedan to the hatchback model because of the sedan's larger appearance and design.

We also strengthened our truck range as the down payment requirement for leasing is only 10% as opposed to 50% for passenger vehicles. The Daimler FUSO products we represent are expected to bring in a strong growth during the next financial year.

We are also pleased to announce a venture into the construction equipment industry, in partnership with one of the largest construction equipment

40%

Under 1,000 cc Vehicle Segment

The passenger car category is approximately 40% of total sales volumes and is dominated by the low-cost under 1,000 cc vehicles, which were badly affected by the changes in duty and minimum down payment policies as this is the entry level segment

companies globally. We believe that we will be well placed to support the growing construction and infrastructure projects in the country.

In December 2016, the construction of our workshop in Ratmalana was completed, and we opened the doors to our latest state- of- the- art workshop. We believe that this service facility will be a major contributor in increasing our after sales income as well as add to the value we offer to our customers in terms of product and service.

In order to streamline the business and further improve efficiencies, we took a decision during the current year to divest our three wheeler business, in agreement with our principals, to concentrate on more profitable segments. Due to the changes in import duty policy three wheeler industry average monthly volumes dropped from 10,000 units in 2015/16 to approximately 1,200 units per month by the end of the year under review.

Our market share in the two wheeler segment increased from 11% to 14% during the year, which increased our sales volumes from those of the previous financial year, from 43,291 to 49,163. We plan to strengthen our presence in this market further this year with the launch of few new models as well as an increase in our after sales network.

We invested substantially to identify the competencies necessary for our people to operate in the present difficult environment, and have continued training them to keep our people best in class, to be really good at doing what they do best. We have introduced competency matrixes, gap analyses and conduct extensive training in those areas, and continue to invest in human resources even in times of market uncertainties. We channel a portion of our profits to address key community issues like poverty and health, and look at the well-being of children especially, as they are our country's future. Many children in Sri Lanka under five years of age suffer from heart disorders, but due to long waiting lists that number is over 3,000 patients a year. They are unable to access surgery in local hospitals, for several years. We believe that this is an area where we can make a difference even in a small way by selecting the most deserving children, based on the severity of their condition and the economic circumstances of the family. They are then introduced to a renowned hospital in India for surgery. We have sent several children already, the outcomes of their treatment has been successful and plan to consider increasing the number of children we send in the next financial year.

As we focus on the future, we see a year of continued challenges as well as opportunities ahead. The forthcoming year will be an exciting one, with the small car to steer us to further success, with government policies on taxation and duties should remain unchanged. Our strategy has always been to meet the headwinds of adversity and challenge them head on, which the UML Group is well able to do, and is used to doing. We have weathered the storms that came our way because we are fortified with the strength of an internationally recognised parent brand, a rich pedigree of private and commercial vehicles, state-of-the art workshops of global standards, and last but not by any means the least, a professional and committed team of employees and strong dealer network.

Chanaka Yatawara
Group Chief Executive Officer / Executive Director

25 May 2017

Board of Directors

Mr. Sunil G. Wijesinha

Chairman - Non - Executive Director (Independent)

Mr.Sunil Wijesinha was appointed to the Board as Chairman and Non-Executive Director in July 2013.

Mr. Sunil Wijesinha holds a MBA from Postgraduate Institute of Management, University of Sri Jayawardenapura. He is a Fellow Member of the Chartered Institute of Management Accountants (UK), a Fellow Member of the Institute of Management Services (UK) and an Associate Member of the Institution of Engineers, Sri Lanka.

Mr.Wijesinha is the Chairman of Watawala Plantations PLC, Watawala Dairy Limited, Unimo Enterprises Limited, Orient Motor Company Limited, UML Property Developments Limited, TVS Automotives (Pvt) Ltd and RIL Property Ltd.

Mr. Wijesinha is also an Executive Director of BizEx Consulting (Pvt) Ltd. He serves as an Independent Non-Executive Director at Siyapatha Finance PLC, Sampath Centre Limited and TVS Lanka (Pvt) Ltd.

He was the former Chairman of NDB Bank PLC, Merchant Credit of Sri Lanka Ltd and Employees' Trust Fund Board. He was also the Chairman and MD of Dankotuwa Porcelain PLC, Deputy Chairman of Sampath Bank PLC and Managing Director of Merchant Bank of Sri Lanka PLC. He was the former President of Japan Sri Lanka Technical and Cultural Association (JASTECA). He is the Past Chairman and is a member of the Board of Trustee of Employers' Federation of Ceylon and Past President of the National Chamber of Commerce of Sri Lanka. He was also a former Director of National Institute of Business Management.

Mr. C. Yatawara

Group Chief Executive Officer/Executive Director

Mr. Chanka Yatawara was appointed to the Board in June 2004 as a Non-Executive Director and an Executive Director in November 2004.

Mr.Yatawara holds a degree in Economics from Lewis & Clark College, Oregon, (USA).

Mr. Yatawara is a Director of Unimo Enterprises Ltd, Orient Motor Company Ltd, UML Property Developments Ltd, TVS Lanka (Pvt) Ltd and TVS Automotives (Pvt) Ltd.

Mr. A.W. Atukorala

Non-Executive Director (Independent)

Mr. Ananda Atukorala was appointed to the Board in November 2005.

Mr. Atukorala holds a B.Sc (Leeds UK), MTT (North Carolina) USA, and a MBA

Mr.Atukorala is the Chairman of NDB Bank PLC, NDB Securities Limited and Development Holdings (Pvt) Ltd.

Mr. Atukorala serves as an Independent Non-Executive Director of Orient Finance PLC, Colombo City Holdings PLC, UB Finance Company Ltd, Arni Holdings and Investments (Pvt) Ltd, Unawatuna Boutique Resort (Pvt) Ltd, Unimo Enterprises Limited and TVS Lanka (Pvt) Ltd

He was a former Deputy General Manager, ANZ Grindlays Bank, Sri Lanka; Country Manager Sri Lanka, Mashreq Bank PSC, Advisor to the Ministry of Policy Development & Implementation. He was also a Director of Union Bank PLC for a period of nine years and retired in 2012.

Mr. Atukorala had also served as a Member of the Technology Initiative for the Private Sector - an USAID sponsored project with the Ministry of Industrial Development. He was also a Working Committee Member - Commercial Banking Sector - Presidential Commission on Finance and Banking, Committee Member - Banker's Club of Sri Lanka and a former Director - Sri Lanka Banks Association (Guarantee) Ltd and CRIB - Credit Information Bureau of Sri Lanka.

Mr. A.C.M. Lafir

Executive Director – Finance

Mr. Aashiq Lafir joined the Company in January 2006 and was appointed to the Board in May 2006.

Mr. Lafir is a Fellow member of the Chartered Institute of Management Accountants (CIMA)-UK and the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka).

He also holds a Masters Degree in Business Administration from the Post Graduate Institute of Management of the University of Sri Jayawardenapura and has over 25 years of senior management experience in diverse business activities.

Mr. Lafir is also the Chairman of Skills International (Pvt) Ltd. Currently he is the President of Sri Lanka-Malaysia Business Council.

Board of Directors

Mr. R.H. Yaseen

Executive Director – (After Sales Services)

Mr. Ramesh Yaseen joined UML Group in September 2002 and was appointed to the Board in June 2008.

Mr. Yaseen is a Director of Unimo Enterprises Limited. He was a former Director of Readywear Industries Limited.

Mrs. A.H. Fernando

Non - Executive Director (Non-Independent)

Mrs. Hiroshini Fernando was appointed to the Board in July 2013.

Mrs. Fernando, a Fellow member of Institute of Chartered Accountants of Sri Lanka and Institute of Certified Management Accountants of Sri Lanka has over 20 years experience in the field of auditing, management consultancy, finance and administration.

Mrs. Fernando is the Chief Executive Officer/Executive Director of R I L Property Ltd, She is also an Executive Director of Readywear Industries Limited and Foodbuzz (Pvt) Ltd. She serves on the Boards of Videowall (Pvt) Ltd and R I L Trust, which promotes computer literacy among under privileged schools around the country. She is also a Non-Executive Director of Unimo Enterprises Limited, Orient Motor Company Limited and TVS Lanka (Pvt) Ltd.

Professor K. A. M. K. Ranasinghe

Non-Executive Director (Independent)

Professor Malik Ranasinghe was appointed to the Board in July 2014.

Prof. Malik Ranasinghe is a Senior Professor in Civil Engineering at the University of Moratuwa, Member of the University Grants Commission, Chartered Engineer and International Professional Engineer, Fellow of the Institution of Engineers, Sri Lanka, National Academy of Sciences, Sri Lanka, and Institute of Project Managers, Sri Lanka.

Prof. Ranasinghe obtained his PhD in 1990 from the University of British Columbia, Vancouver, Canada as a Canadian Commonwealth Scholar. He was honoured with, the Education Leadership Award 2013 at the 4th Asia's Best B-School Awards, Singapore, the Award for Outstanding Contribution to Education at the World Education Congress 2012, India, the Most Outstanding Senior Researcher in Technology and related Sciences award in 2012 by the Committee of Vice-Chancellors and Directors (CVCD) of Sri Lanka, the Trinity Prize for Engineering in 2004 for outstanding contributions made to his chosen profession and the Sri Lanka Association for the Advancement of Science (SLAAS), General Research Committee Award for Outstanding Contribution to Sri Lankan Science in 1999.

He is the Deputy Chairman of Sampath Bank PLC, He is also an Independent Non-Executive Director of Access Engineering PLC, Textured Jersey Lanka PLC and Resus Energy PLC.

He is the immediate past Vice-Chancellor of the University of Moratuwa, past Chairman of the Committee of Vice-Chancellors and Directors (CVCD) of Sri Lanka, former Council Member of the Association of Commonwealth Universities (ACU), former Fellow of the National University of Singapore, and former Non-Executive Director of the Colombo Stock Exchange and Lanka IOC PLC.

Board of Directors

Mr. S.A. Chapman

Non-Executive Director (Independent)

Mr. Stuart Chapman was appointed to the Board in September 2016.

Mr. Chapman holds an MBA from the University of Colombo, a Diploma in Marketing from the Chartered Institute of Marketing UK. Mr.Chapman also holds a Diploma in Life Insurance Sales and Marketing from the Life Underwriters Training Council USA and a Diploma in Business Management from the National Institute of Business Management Sri Lanka. He is a Fellow Member of the Chartered Institute of Marketing UK and the Institute of Management UK. He is also a Member of the Institute of Certified Management Accountants, Australia.

Mr. Chapman's management experience, spanning over thirty years include Sales, Marketing and General Management functions. His Industrial exposure spans Healthcare, FMCG, Consumer Durables, Insurance, Banking and Telecommunications.

He now serves as Director/ CEO of Janashakthi Insurance PLC. He is also a Non-Executive Director of Hemas Pharmaceuticals (Pvt) Ltd.

Mr. Chapman was the former Managing Director of GlaxoSmithKline (GSK) Pharmaceuticals and served on the Boards of Glaxo Wellcome Ceylon Limited and SmithKline Beecham (Pvt) Ltd. Some of his previous appointments include Managing Director - Hemas Healthcare Sector, Marketing Director - Reckitt Benckiser, Senior Brand Manager Unilever, Managing Director/CEO - Lanka Orix Leasing Company, Director Life - Ceylinco Insurance.

He also held several Industry positions including Honorary President and a Founder Member of the Chartered Institute of Marketing Sri Lanka, President of the Sri Lanka Chamber of the Pharmaceutical Industry – the apex body for the pharmaceutical industry in Sri Lanka and Co-Chairman of the Pharmaceutical & Cosmetics Steering Committee of the Ceylon Chamber of Commerce.

Mr. H. Inoue

Non-Executive Director (Independent)

Mr. Hiroyasu Inoue was appointed to the Board in January 2017.

Mr. Inoue is the Senior Expert, ASEAN Alliance & Planning Office and ASEAN Department of ASEAN Division of Mitsubishi Motors Corporation, Japan.

He was the former General Manager in charge of North Asia .

He has several years of working experience in New Zealand and launching of KD project in North Asia.

Mrs. R.M. Hisham

Company Secretary

Mrs. Rinoza Hisham was appointed as Company Secretary in January 2008.

Mrs. Hisham is an Associate Member of the Institute of Chartered Secretaries (ICSA- UK). She holds a Diploma in HR from the Institute of Personnel Management (IPM), Sri Lanka and a Masters Degree in Business Administration from the Post Graduate Institute of Management of University of Sri Jayawardenapura.

Senior Management Team of UML

General Managers

Mr. G Pilapitiya
General Manager
(New Vehicle Sales)

Mr. B Singhage
General Manager
(Technical, Parts & Accessories)

Mr. R Siriwardene
General Manager
(Human Resources & Administration)

Mr. T Jayasekara
General Manager
(Finance & Planning)

Mr. P Ellepola
General Manager
(Lubricants & Car Care)

Heads of Departments

Mr. S de Silva
Deputy General Manager
(Marketing)

Mrs. S Fernando
Deputy General Manager
(Internal Audit & Monitoring)

Mrs. R M Hisham
Assistant General Manager
(Human Resources/Legal)

Deputy General Managers & Assistant General Managers

Mr. A S J Cooray
Deputy General Manager
(Truck & Bus)

Mr. M Dissanayaka
Assistant General Manager
(New Vehicle Sales)

Mr. W P S Kumara
Assistant General Manager
(Technical)

Mr. K Gunatilleka
Assistant General Manager
(New Vehicle Sales)

Mr. B de Fonseka
Assistant General Manager
(Technical)

Mr. T Hopwood
Assistant General Manager
(Public Sector)

Mr. Sudhakaran
Assistant General Manager
(Technical)

Mr. T Gunathilaka
Assistant General Manager
(Branch Operations)

Mr. U Fernando
Assistant General Manager
(Sales Support Services)

Senior Management Team of UML

Deputy General Managers & Assistant General Managers (Contd.)

Mr. A N de Silva
Assistant General Manager
(Spare Parts)

Mr. I U Manthilake
Assistant General Manager
(Information Technology)

Ms. M Mannan
Assistant General Manager
(Finance)

Mr. R Senaratne
Assistant General Manager
(Lubricants Dealer Sales)

Mr. K W D A Asanke
Assistant General Manager
(Technical)

Subsidiaries CEO's & Heads of Companies

Mr. M Gunathilake

Chief Executive Officer/Executive Director - Unimo Enterprises Ltd

Mr. R Liyanage

Chief Executive Officer
TVS Lanka (Pvt) Ltd

Mr. P de Silva

General Manager
TVS Automotives (Pvt) Ltd

Mr. K P N C M Silva

Deputy General Manager (Operations)
Orient Motor Company Ltd

Senior Management Team - Subsidiaries and Joint Ventures

Unimo Enterprises Limited

Mr. L Wijeratne
Assistant General Manager (Perodua)

Mr. H D Rajapakse
Assistant General Manager (Operations)

Mr. D K N Nanayakkara
Assistant General Manager (Chinese Vehicles)

Mr. R Abayakoon
Assistant General Manager (Chinese Vehicles)

Mrs. N Palihena
Senior Accountant

Mr. D Weerasinghe
Senior Sales Manager (Yokohama Tyres)

TVS Lanka (Pvt) Ltd

Mr. S D R L Wickumsiri

Assistant General Manager
(After Market)

Mr. G Anthony

Assistant General Manager
(Two Wheeler Sales)

Ms. D Thulshika

Assistant General Manager
(Finance)

Mr. M L K Gunawardena

Senior Manager
(Human Resources & Administration)

Mr. S Palliyaguru

Head of Sales
(Three Wheeler)


FUSO
FJ

ASX


Plug-in Hybrid
OUTLANDER

Management Review

The Company continues to explore new opportunities to expand its business in the automotive industry, which yield favourable returns aligned with its investment criteria and the expectations of its shareholders.

Group Review

History of the Company

United Motors Lanka PLC (UML) can trace its beginnings as far back as 1945, when the Company was a modest family-owned entity. The Company was vested with the Government of Sri Lanka in 1972 and became a Government Owned Business Undertaking (GOBU). The first step in UML's present line of business was taken in 1985, when the Company was awarded sole distributorship of brand new Mitsubishi vehicles in Sri Lanka. In 1989, the Company was selected as the first GOBU to be privatised. UML subsequently converted into a Public Limited Liability Company, a status the Company continues to enjoy to this day. Over seven decades later, UML has progressed in leaps and bounds and developed into a highly reputed blue chip corporate listed on the Colombo Stock Exchange.

The journey has not been an easy one, but the Company has demonstrated remarkable resilience and fortitude in overcoming many challenges over the years, to become a premier business entity with a well- diversified business portfolio, equipped to meet the demands of an evolving customer base.

The United Motors Group is now a major player in the Sri Lankan automobile industry. The Company continues in its original core business of marketing brand new Mitsubishi cars, but has now extended its core business to marketing a range of SUVs, hybrids, dual purpose vehicles, trucks and buses. In 2003, Mitsubishi Fuso Truck and Bus Corporation (MFTBC) was founded, and Daimler AG acquired a controlling interest in MFTBC in 2004, but UML continued as sole distributor in Sri Lanka of all brand new Mitsubishi trucks and buses as well.

Exploring New Horizons

The Company continues to explore new opportunities to expand its business in the automotive industry, which yield favourable returns aligned with its investment criteria and the expectations of its shareholders. This ensures that resources are diverted into selling brand new vehicles while providing an efficient customer service even as the Company continues to aggressively develop its flagship brand, Mitsubishi.

In the past, UML has invested in acquiring land to expand its business. The Company entered into long-term leases to expand after sales service and in 2013, purchased 10.75 acres of land in Ratmalana to develop a logistics hub for vehicles and spare parts and set up a fully-equipped workshop for Mitsubishi and Fuso vehicles, with special facilities to repair and service large trucks. Plans were on schedule, and construction that commenced in January 2016 was completed in December 2016 and the workshop is now fully operational.

The Company also acquired 1.26 acres in Jaffna in early 2014 to set up a workshop. This new workshop facility was declared open in March 2016 and provides a full range of workshop services hitherto unavailable in Jaffna. An additional 69 perches of land adjoining its existing property in Orugodawatte was purchased in 2013, and now accommodates a brand new workshop to service and repair all hybrid vehicles.

The Company expanded its properties & footprint in Anuradhapura, Ratnapura and Kandy & these are now making an active contribution to Company profits.

During the year under review, a property in Matara was rented on a long term lease and workshop facilities established, while the Company's existing premises in Kurunegala were expanded. UML provides a full range of workshop facilities at these expanded locations, which include all mechanical repairs, painting, servicing and lubricating services.

Plans are also in the pipeline to construct additional workshops facilities in other areas of the country. As a Company with a foreign shareholding of more than 50%, UML is precluded from purchasing land in accordance with the Land (Restriction on Alienation) Act No. 38 of 2014, which has proved to be a major hurdle for future expansion. The Company looks forward to a change in this legislation in the near future.

Daimler Trucks Asia Distributor Awards 2016

Economic Review

Sri Lanka's GDP grew at a rate of 4.4% during 2016, down from last year's growth rate of 4.8%. For a country like ours this low rate of GDP growth will not suffice to fuel our short term economic aspirations. Unfavourable weather conditions and sluggish global economic recovery exacerbated the situation. However, growth picked up from the second quarter onwards amid tightened fiscal and monetary policies.

Increased investment in the construction sector drove economic growth, and consumption expenditure also slowed in response to the policies put in place by the government. The high levels of inflation were due to adverse weather conditions, tax adjustments and rising international commodity prices.

All these resulted in a balance of payments deficit for the second consecutive year, despite improvements in worker remittances, tourism and other service exports. Floods followed by drought adversely impacted economic activity in the Agricultural sector, mainly in the subsectors of Paddy, Tea and Rubber. This sector alone contracted by 4.2% in 2016, which resulted in a fall in the sector's contribution to 7.1%, from the previous year's 7.8%.

The industrial sector grew by 6.7% as indicated by Table 1, which is a noteworthy growth from last year's growth of 2.1%, and contributed 26.8% to GDP. This growth came mainly from the subsectors of construction, mining and quarrying, which together contributed 10% to GDP. Within the industrial sector, the manufacturing sub sector only grew by 1.7%, which a disappointment. Making a significant contribution was the manufacture of rubber and plastic products, basic metals and fabricated metal products, as well as the manufacture of machinery and equipment. However, growth in key subsectors such as food products, apparel, beverages, tobacco products, chemical and chemical products was negative.

Table 1
Sector wise GDP

	2015(%)	2016(%)
GDP (Overall)	4.8	4.4
Agriculture	4.8	(4.2)
Industry	2.1	6.7
Services	5.7	4.2

Gross domestic capital formation grew by 19.6%, indicating a considerable increase in the level of investment activity in the economy. This was mainly in the construction sub sector. However, consumption expenditure grew by only 4.1%, down from the 10.3% recorded last year. This slowdown is mainly due to the fall in private sector consumption expenditure as a result of tightened monetary and fiscal policies, while public sector consumption expenditure slowed due to the ongoing efforts of fiscal consolidation.

The value addition in the Agriculture, Forestry and Fishing related sectors declined by 4.2% compared to the growth of 4.8% recorded in 2015. All four areas declined in the year under review, including Paddy, Tea, Rubber and Coconut.

The services sector grew by only 4.2% in 2016 compared to 5.7% recorded in the previous year, all sectors grew except for the professional services subsector. The wholesale retail subsector grew by only 2.5% in 2016, this sector accounts for 10.6% of GDP.

The country's medium- term growth plan depends on the government addressing some deep- rooted structural issues which aim at improving productivity and efficiency thereby recalibrating the growth momentum of the economy in order to achieve medium term goals.

Declining export earnings have been mainly due to weak external demand, however, internal factors have also contributed and this cannot be ignored. Export earnings contracted for the second year in succession, and remained at levels lower than those reported five years ago. The country should look at product and market diversification and produce more complex, high value added and technologically advanced products. Adding value to mineral resources is one such possibility.

Management Review

The importance of non-traditional exports, both products and services, must grow, as our earnings from traditional produce have remained stagnant.

While capitalising on the country's rich cultural heritage and diverse natural attractions, product offerings to attract high end tourists must be expanded. In 2016, Sri Lanka hosted over two million tourists and the tourism sector earned more than US $ 3.5 billion. This sector needs a major revamp to cater to the modern day traveller.

The country's attractiveness as a destination for foreign direct investment has declined. Deep soul searching needs to be carried out to find out reasons for this decline, given the fact that all neighboring countries are able to attract record breaking levels of FDI's. Sri Lanka needs consistent policies which are long term in nature. The ease of doing business index has to improve significantly, and as a nation we have to change our mentality of opposing everything for the sake of opposing it. While ensuring that national security and all genuine concerns including the environment are addressed, we must open our minds to accepting foreign investment in Sri Lanka and with all that comes with it and ensure that the appropriate safeguards are in place.

We also need to integrate our manufacturing capabilities and plans into the global value chains, to boost the demand for our products.

Our trade deficit expanded due to the reduction in earnings from exports and the substantial increase in import expenditure during the year, the trade deficit stood at US $ 9,090 million in 2016 compared to US $ 8,388 million reported in 2015.

Earnings from exports contracted for the second successive year in 2016, mainly due to the fall in earnings from Agricultural and Industrial exports. Low commodity prices in the international markets, and modest economic recovery in a majority of our export destinations as well as the distribution of supplies internally, were the main contributors to this contraction. However, the removal of sanctions against Iran and lifting of the EU's ban on seafood exports helped in no small way. The recent announcement of the restoration of GSP+ facilities will also help bolster export earnings in 2017.

Expenditure on imports increased in 2016, and the import of investment and intermediate goods showed significant increases. The import expenditure on consumer goods declined by 8.4% during the year, mainly due to the 41.5% decline in expenditure incurred on the importation of personal vehicles. This had a direct impact on the automotive industry. Despite this overall imports increased by 2.5% over that of the previous year. The majority of our imports were from China, with India sliding to second place for the first time since 2001. Expenditure on imports was a massive US $ 19,400 million.

The overall balance of payments recorded a deficit in 2016, reflecting the widening of the current account deficit and relatively low levels of inflows into the financial account. The total external debt of the country increased in 2016 mainly due to the rise in government external debt. During the year, 61.2% of the total budget deficit of Rs. 604.3 billion was largely financed externally, balance was domestically financed.

Unemployment declined to 4.4% in 2016, from 4.7% in the previous year, while the numbers employed increased by 1.5% due to expansion in the Industrial and Services sectors.

Interest Rates

Market rates of interest increased in 2016, this was a reflection of the tight monetary conditions in the economy. Policy rates were increased in February 2016 and July 2016, the reserve requirement was increased in January 2016. These events together with gradual decline in the excess liquidity of the Rupee in the local money market, led to the increase in short term interest rates.

The increase of the Statutory Reserve Ratio (SRR) on all Rupee deposit liabilities by 1.5 percentage points to 7.5% in January 2016 was aimed at wiping out the excess liquidity in the domestic money market. Inter policy rates of the Central Bank via the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) were revised upwards by 50 basis points each twice in 2016 as indicated earlier.

Alongside the increased policy interest rates, Open Market Operations (OMO) guided interest rates to the upper bound of the policy rate corridor. The supply and tax- driven rise in inflation, particular in early 2017, prompted the Central Bank to tighten monetary policy in March 2017 as a precautionary measure.

The change from the mixed system of auctions and direct placements to a purely auction- based system also contributed to an increase in the rates of interest on government securities. Treasury Bills yields increases over that of 2015 were seen on all tenors issued. 91 day, 182 day and 364 day Treasury Bills yields were 8.72%, 9.63% and 10.7% respectively in 2016, compared to 6.45%, 6.83% and 7.3% respectively in 2015. With these occurrences a considerable increase in both lending and deposit rates for Commercial Banks was noticed in 2016.

Table 2, shows the movement of rates of interest over the last five years in respect of Commercial Banks Average Weighed Prime Lending Rate (AWPLR). The weekly AWPRL has increased significantly from 2016, from 6.26%

In 2016, the Rupee depreciated against all major currencies except the Pound Sterling. As the external value of the Sri Lankan Rupee continues to depreciate, the depreciation in the second half of the year was significantly higher than in the first half of the year.

to 11.52% in 2017, the highest recorded since 2013. This increase in interest rates deterred purchases of motor vehicles, which added to the unfavourable government policies implemented during most of the calendar year.

Credit expansion was seen in both the government and private sectors and this continued to expand at a rate higher than planned while some slowdown was noticed towards the end of the year. In absolute terms, credit extended to the private sector stood at Rs. 794.9 billion in 2016, compared to Rs. 691.4 billion in 2015. However, personal loans and advances recorded a contraction in 2016. Despite high interest rates and the imposition of conditions on loans to value ratios, licensed finance companies and specialised leasing companies grew in terms of assets and branch networks.

The leasing sector expanded its asset base in 2016 as the sector placed more emphasis on other loan products, gradually moving away from their traditional core business of financing the purchase of motor vehicles.

Table 2

Rates of Interest

Year	AWPLR (%)	Treasury Bill Yield Rate (91 days) (%)
2012	14.40	10.00
2013	10.13	7.54
2014	6.26	5.74
2015	7.53	6.45
2016	11.52	8.72

(Source: Central Bank Annual Report 2016)

Exchange Rate

In 2016, the Rupee depreciated against all major currencies except the Pound Sterling. As the external value of the Sri Lankan Rupee continues to depreciate, the depreciation in the second half of the year was significantly higher than in the first half of the year. Depreciation was 0.82 % in the first half year of 2016 compared to 3.04% in the second half of 2016.

Central Bank intervention in exchange rate management was curtailed and this has led to a significant increase in the level of depreciation in the second half of 2016. The Rupee depreciated by 3.83% against the dollar from Rs. 144.06 as at end 2015 to Rs. 149.80 as at the end of 2016. This level of depreciation reflected the demand and supply levels of foreign currency in the country with modest levels of inflow compared to the high levels of imports and large foreign debt service payments.

Reflecting the movements of the cross currency exchange rates against the US $, the Rupee depreciated against the Euro by 0.34%, the Indian Rupee by 1.72% and the Japanese Yen by 7.05% while appreciating against the Pound Sterling by 16.4%.

Table 3

Exchange rates Vs. LKR

Year Ended	USD	JPY
2012	127.16	1.4799
2013	130.75	1.2459
2014	131.05	1.0979
2015	144.06	1.1960
2016	149.80	1.2860

(Source: Central Bank Annual Report 2016)

Table 3 above shows the year- end value of the Rupee against the US Dollar and the Japanese Yen over the past five years. The US Dollar traded at 149.80 and the Japanese Yen at 1.286 at the close of the calendar year. As at the end of the financial year, the US Dollar and Japanese Yen traded at Rs. 151.74 and Rs. 1.3538 respectively.

Management Review

Inflation

The year on year inflation as reported by the Colombo Consumer Price Index (CCPI) was at a single digit for the eighth consecutive year. Consumer price inflation moved upwards during the first half of 2016 and stabilised during the remainder of the year, while core inflation broadly followed an upward trend in 2016.

Headline inflation, was subdued in the first quarter of 2016 and was due to the low international commodity prices. Inflation increased in the second quarter due to the impact of adverse weather conditions, domestic supply side disruptions and various tax adjustments.

Some reduction in the rate of inflation in the third quarter was due to delays in the implementation of changes to the tax structure and the recovery of domestic supply conditions. Inflation remained relatively stable thereafter, however the implementation of new Value Added Tax (VAT) from November 2016 exerted some pressure on prices. Inflation which peaked at 6.4% in June 2016 gradually decelerated to 4.1% by end 2016 as indicated by Table 4.

Core inflation which measures the underlying inflationary pressures in the economy, continued an upward trend in 2016. Core inflation was contained mainly by low international commodity prices, delays in implementation of tax changes and the recovery of domestic supply lines. However, the implementation of new VAT rates from November 2016 extended upward pressure on core inflation also. As such, NCPI- based core inflation was 6.7% by the end of 2016, compared to 5.8% recorded at end- 2015.

Table 4

Rate of Inflation

Year Ended	Year on CCPI (%)	Annual Average CCPI (%)
2012	9.2	7.6
2013	4.7	6.9
2014	2.1	3.3
2015	2.8	0.9
2016	4.1	3.7

(Source: Central Bank Annual Report 2016)

The Central Bank estimates the overall balance of payments deficit to be US $500 million, compared to the deficit of US $ 1.5 billion in 2015.

Colombo Stock Market

For the second successive year the Colombo Stock Exchange recorded a very poor performance in 2016. The All Share Price Index (ASPI) fell by 9.7% to 6,228.3 points and the S&P Sri Lanka 20 Index also declined by 3.6% to 3,496.4 points at the end of 2016, compared to the 6,894.5 and 3,625.7 points respectively reported as at end 2015.

The upward movement in interest rates in the domestic international markets and the depreciation of the Sri Lanka Rupee were the main reasons that caused the negative performance of the CSE. Some of the main subsectors that grew in the previous years declined substantially with the decline of the Banking, Finance and Insurance sectors by 7.7%. The Hotels and Travels sector declined by 7.4% while the telecommunication sector declined by 12.5%. Surprisingly the diversified holdings sector also declined by 16.4% the largest decline of all subsectors.

Market Capitalisation was another economic indicator that declined. Market Capitalisation as a percentage of GDP declined to 23.2% as at end 2016, from 26.8% in 2015. In real terms, the decline was Rs. 192.6 billion. In terms of Market Capitalisation, banks, finance and insurance 23.8%, and diversified holdings 18.7% were the top three largest sectors of the CSE, while the 10 largest companies accounted for 41.7% of the total Market capitalisation compared to 40.8% in 2015.

The daily average turnover of the CSE declined by 30.4% to Rs. 737.3 million in 2016, reflecting a major collapse of the market during the year. Foreign investors accounted for 42.2% of the total turnover, there was a marginal net inflow into the market in 2016 by foreign investors with outflows of Rs. 74.2 billion, while inflows were Rs. 74.6 billion.

The primary market was active during the year, Rs. 82.4 billion was raised through 20 Initial Public Offerings (IPO's) of both equity and debt.

In 2016, the CSE and the Securities and Exchange Commission (SEC) took a number of regulatory measures to develop the equity market.

Table 5
Colombo Stock Exchange Indices

Year	CSE ASPI	CSE Motor Sector	Market Capitalization Rs. Bn
2012	5,643	15,652	2,168
2013	5,913	14,955	2,460
2014	7,299	18,209	3,105
2015	6,895	17,631	2,938
2016	6,228	21,592	2,745

(Source: Central Bank Annual Report 2016)

The Treasury bill yield rates which showed an increasing trend in January 2016, continued in February 2016 as well in response to the increase in policy rates by 50 basis points in February 2016. However, the increasing trend moderated by end April 2016 and remained broadly stable thereafter till end July 2016. In July 2016, the Central Bank further tightened its monetary policy stance by increasing the policy rates by 50 basis points. Accordingly, Treasury Bill rates showed an upward adjustment and remained at elevated levels until end August 2016. However, from September 2016, Treasury Bill yield rates decreased marginally and remained broadly stable thereafter until end- 2016. The debt management strategy adopted to lower the cost of borrowing was supported by borrowings from international capital markets. Accordingly, International Sovereign Bonds were issued in July 2016 amounting to US dollars 1, 500 million and this helped to ease the pressure on interest rates in the domestic market.

The foreign investor preference for Treasury bills and bonds declined somewhat considerably during 2016. The market for commercial papers (CPs) was less active in 2016 compared to 2015. The total value of CPs issued in 2016 decreased to Rs. 7.0 billion, from Rs. 7.9 billion in 2015. The interest rates applied to CPs varied in a range of between 8.7% and 14.8% in 2016, in comparison to a range of 7.0 % to 12.0 % in 2015. CPs with a maturity of up to 3 months accounted for 42.9% of total new issuances, while the share of CPs with a maturity between 3 months and 6 months was 30.0 %. The remainder was the CPs with a maturity greater than 6 months but less than 12 months. The total outstanding value of CPs amounted to Rs. 2.2 billion by the end of 2016, compared to Rs. 4.5 billion in 2015. The market for debentures recorded a slight decline in 2016. The CSE recorded 17 debenture issuances by 14 companies during 2016 and raised about Rs. 78.0 billion, compared to Rs.83.4 billion through 25 debenture issuances in 2015. The highest listed corporate debt issuance in 2016 amounted to Rs. 8.0 billion.

Fiscal Consolidation

Fiscal performance continued to reflect the many structural weaknesses in the economy in spite of the government's commitment to fiscal consolidation. The key challenges faced by the government are mainly due to its below poor level performance in revenue collection, which has been insufficient to cover even the government's recurrent expenditure. Despite recent improvements, Sri Lanka's revenue collection is extremely poor and is largely attributable to weak tax collection due to the various tax exemptions, tax avoidance and weakness in tax administration.

Two- thirds of the recurrent expenditure is on interest and salaries. Not far behind are the payments relating to welfare expenditure and transfer payments.

This has resulted in limited fiscal space to meet urgent fiscal needs and continuous demands for funds by the economy have further compounded the problem. Significant benefits could be realised if policy measures were introduced aimed at bringing the informal economy into the tax net and increasing direct taxation. The low tax compliance and narrow tax base have to be increased and widened.

Focus must be on increasing the tax collection from income and profits, widening the tax net on immobile bases such as land and property that enhance the progressive nature of the tax structure and supporting the efforts of the state to improve revenue from direct taxes.

It is also necessary to maximise the benefits of government subsidiaries in view of the limited resources available. Continued investment in physical infrastructure is essential to sustain the growth momentum of the economy and cost effective funding arrangements must be in place. The increased occurrence of weather related vagaries arising from climate change have made policy making complex, which warrant enhanced disaster preparedness to mitigate the impact of such turbulences on all sectors of the economy. During the past few years, we have had drought followed by floods and then landslides. The consequences of these climatic changes are widespread and affect the production and the prices of crops, water supplies, irrigation, hydro power etc.

Management Review

Automobile Market – Sri Lanka

The sale of brand new cars in the year under review dropped from the previous high of 51,206 units in 2015 to a mere 19, 580 units in 2016, a drop of 31,626 units or 62%. This is a significant fall and contributed to a reduced 36,740 units in the total four wheel market. This drop is mainly due to the four main reasons increase in duties, reduction in the loan to value ratio and the general increase in rates of interest and depreciation of the Sri Lankan Rupee against the US Dollar and Japanese Yen.

All segments of the brand new four wheel market showed negative growth rates as shown in Table 6. Within the dual purpose vehicle segment, the double cab segment is the only segment to show growth, an increase of only 80 vehicles over 2015 or 7%, which is very marginal.

Market conditions, prices, credit availability, changes in the duty structure are some of the factors that contributed this massive contraction in sales. A Banking Act direction issued in January 2017, where credit facilities were restricted for the purchase of vehicles 90% for commercial vehicles, 50% for cars, SUVs and vans. This severely reduced sales in the last quarter of 2016/17.

Customs duty was changed thrice during the year in March 2016, May 2016 and June 2016, the changes related to the method of calculation of duty and the basis of valuation of vehicle Imports. All this contributed to the general increase of the price of vehicles.

Additionally, the unit rate of Excise (Special Provision) duty on the importation of motor vehicles was revised in May 2016. The overall automobile market was severally affected by the imposition of a tax on the unit rate of the vehicle calculated on its cubic capacity. This form of tax replaced the tax on the transacted value.

All the above factors plus the gradual depreciation of the Sri Lankan Rupee against all the major currencies and the increase in the rates of interest, contributed significantly to the contraction in the market.

Table 6
Performance of the Sri Lankan automobile industry over the past three years

Product	2014/15 No. of units	2015/16 No. of units	2016/17 No. of units	Increase (decrease) over 2015/16 (%)
Cars	14,242	51,206	19,580	(62%)
SUV	2,615	2,660	1,410	(47%)
Dual purpose vehicles	6,086	6,094	5,273	(13%)
Trucks	17,991	24,745	22,537	(9%)
Buses	4,203	2,175	1,610	(26%)
Total	45,137	86,880	50,410	(42%)

Customs duty was changed thrice during the year in March 2016, May 2016 and June 2016, the changes related to the method of calculation of duty and the basis of valuation of vehicle imports. All this contributed to the general increase of the price of vehicles.

Operations Review

Mitsubishi & Fuso Vehicle Sales

The overall sales of Mitsubishi and Fuso saw a significant decrease in the current financial year over the figures of the previous year. From December 2015, policy changes were effected to curb the outflow of foreign reserves for the purchase of vehicles and this resulted in a contraction of the market. In a bid to stem the flow of foreign reserves, the government introduced several policies geared to control indiscriminate purchases of vehicles. These included a requirement that restricted lease financing to 90% on of the asset value of commercial vehicles and 50% of the asset value of cars, SUVs and vans, and an almost complete withdrawal of duty free concessions. These measures had a heavy impact on purchases of certain categories of vehicles, especially high end SUVs, since owners in some of these market segments go in for heavy financing.

The floating of the Rupee against the US Dollar also increased prices of vehicle imports which had a further impact on the sales volumes of Mitsubishi vehicles.

There were, unfortunately, some missed opportunities that precluded the Company from gaining from market dynamics. The Company was disappointed at being unable to respond to the reduced duties imposed on under 1,000 cc cars early in the financial year, since it did not have vehicles in the small car category at the time. Another segment we were unable to compete in, this year too, was the van segment which is still bereft of a vehicle following the discontinuity of the L 300, which had dominated the market segment for brand new vans over the past several years. The Lancer range was also affected by the product's discontinuity.

Mitsubishi, Japan, experienced some turbulence during the previous year, these problems have thankfully been sorted out. A few months later, the company formed what is widely believed to be a mutually beneficial strategic alliance with Nissan, which gave Nissan a 34% stake and extended their existing partnership to new collaborative areas that include common vehicle platforms, technology-sharing, joint plant utilisation that will promote growth in all market segments.

The truck category was able to maintain its market share at 2%, The increase in sales in the bus category was as high as anticipated, and UML's bus category expanded its market share by 2%.

Table 7

Composition of Mitsubishi Share (Brand New Vehicle Category)

	2015/16 (%)	2016/17 (%)
Cars	0.23	0.29
SUV	25	15
Dual purpose vehicles	9	4
Trucks	2	2
Buses	5	7
Total	**2**	**2**

The Company's overall market share of brand new Mitsubishi vehicles remained at 2% as in the previous year. Table 7 above indicates the Mitsubishi share in each category of brand new vehicles registered in 2016. Government policies had a heavy impact on sales volumes. The Company's ability to avail itself of the market demand for a small car under 1,000 cc following the reduction of duty on that category, contributed towards the marginal increase of its market share in the car category, which increased from 0.23% in the previous year to 0.29% in the current year. The curtailment of concessionary duty privileges during the financial year did have an impact on high end SUVs as anticipated, and this category of vehicle contracted its market share from 25% in 2015, to 15% in the current year. Imposition of the restriction on lease finance reduced purchases of mini trucks and buses, and consequently, the performance of the vehicles in those categories was not up to earlier expectations. The truck category was able to maintain its market share at 2%, The increase in sales in the bus category was as high as anticipated, and UML's bus category expanded its market share by 2%. The market share in dual purpose vehicles dropped sharply to less than half of its previous volume, from 9% in 2015 to 4% in the current year, resulting in a loss of sales particularly from the government sector, which curtailed purchases due to budgetary constraints.

The issue of permits has now slowed to a trickle. This has seriously affected bottom line performance. Until new permits are issued the Company does not see much contribution from the permit operation. The demand for Mitsubishi ex stock vehicles will be seriously under threat as many customers continue to look for cheaper options from China, India and Korea.

Management Review

Purchases of vehicles for stock follow strict guidelines. In assessing the order quantities demand, stock in hand and stock on order are considered and followed meticulously, with stock norms being adhered to. Efficient working capital management has ensured that interest cost is been maintained at the lowest possible while earning interest on surplus funds.

Spare Parts, Repairs and Services

Spare Parts

The spare parts division was once again, a significant contributor to the Company's profitability in the year under review, and added a substantial 18% or Rs. 1.7 billion to total net turnover. This revenue was derived from sale of spares throughout the islandwide network of branches and outlets, as well as at our extensive dealerships.

The expansion of the island wide workshop facilities further enhanced spare part sales. The Company's fully equipped workshop was opened in Ratmalana during the current financial year, which has all facilities to repair and service all Mitsubishi and Fuso vehicles, and will contribute towards the spare part division's profitability.

Spare part sales are becoming increasingly more challenging in a very competitive market. The major drawback faced in improving the genuine parts business in Sri Lanka is the free availability of used accident parts in the unmonitored secondhand market. The fact that certain motor insurance companies promote these used parts to their clients exacerbates the problem.

The management's continued monitoring the performance of each sales unit to ensure optimal performance, which resulted in an increase in sales performance by Rs. 187 million, a 12.0% increase over last year's performance of Rs. 1.6 billion. The Company continues to offer attractive incentives to drive the sales team. New reward schemes were introduced this year too, which included cash and non-cash incentives that helped the team to achieve peak performance. The spares division currently operate sales counters at UML branches and sales points at the head office, Orugodawatta, Panchikawatte, Nugegoda, Matara, Ratnapura, Kandy, Kurunegala, Anuradhapura and Jaffna. All branches except the Nugegoda branch now operate workshops and this has helped to increase branch spare parts sales as well.

The spare parts division, in a bid to capture greater market share, introduced a second line of spares from Mitsubishi Motor Corporation (MMC) and Mitsubishi Fuso Truck and Bus Corporation (MFTBC), a market dominated by spurious spare parts. The MMC line is called Value Selection Parts and the MFTBC line is known as Diamond Value Parts. All these lines have been very successful.

The principals (MMC and MFTBC) are constantly being made aware of the ever changing market conditions in Sri Lanka through regular meetings and presentations. The constant movement of the Rupee has meant that selling prices are constantly changing with each shipment. MMC and MFTBC are appreciative of the activities of the division.

Repairs and Services

During the year under review, all workshops including branch workshops, delivered to their full potential. The workshops in Kandy and Jaffna, and the Hybrid workshop, which were setup recently, are now equipped to handle all types of body repairs, body painting, and service and lubrication facilities. Workshops are planned at the facilities in Anuradhapura, Matara, Ratnapura and Kurunegala and some expansion projects are currently in progress. The Company has invested in an excess of Rs. 400 million to upgrade all workshop facilities including its main workshop at Orugodawatte.

The equipment installed will deliver value to the workshop through quality enhancements, which will result in improved productivity and faster turnaround times as well as increased capacity. Quality assurance has an important place in internal processes and controls and reduces in efficiency, productivity losses and incomplete jobs.

The training unit continued the "M-step" programme in line with the Mitsubishi Motors training programme and all technicians were trained to achieve "M-step" Level II. In addition in- house service advisors were trained in Japan at the Mitsubishi Training Centres at Okazaki and other overseas training centers. The training divisions continue to conduct training programmes for fleet owners.

Value added services continued into the current year served to increase sales as well as forge customer loyalty. A number of service campaigns were conducted for the Mitsubishi range, for trucks and buses, as well as for the UNIMO range of vehicles, with the participation of the Japanese, Malaysian and Chinese principals. All these campaigns were well attended by customers, and various offers were introduced, such as free lubrication services, special discounts for parts and labour as well as the free inspection report provided by UML technicians along with the principals' experts. These services were greatly appreciated by customers.

The waste water generated from workshop operations continues to be purified and recycled to Central Environment Authority and Municipal Council standards, as part of the Company's environment-friendly initiatives. This ensures that the business has minimum adverse impact on the environment.

The islandwide branch network, originally set up to supply spares to our vehicle customers, expanded its sphere of operations into fully fledged workshops in Jaffna, Kandy and Ratnapura, and now, in addition to selling genuine spares, also provides general repair services, lubricant services as well as accident repairs. These workshops function at full capacity, and the state of the art equipment introduced to the workshops have enhanced capacity, productivity as well as turnaround time. This expansion of facilities has correspondingly increased the workload of the workshops, and several measures were taken during the year to ensure that standards of quality and customer service were maintained. A daily review of customer satisfaction was introduced and corrective measures are taken immediately to bridge perceived gaps. The workshops contributed Rs. 794 million to the Company's net turnover during the current year, an increase of Rs. 157 million or 25% over that of the previous year.

Valvoline Lubricants, Eagle One Car Care Products and Simoniz Car Care Products

2016 was a very special year for Valvoline, as it celebrated 150 years of existence as a lubricant brand. Sri Lanka also celebrated this special moment with 150 of its special and long standing dealers.

Valvoline is a business of Ashland Inc., and has been supplying premium automotive lubricants, industrial lubricants and vehicle appearance products to more than 160 countries and operates more than 40 blending plants worldwide for over 150 years. It is the first trademarked lubricant brand. Both Valvoline and Ashland Inc. are Fortune 500 companies. Ashland Inc. sold its Eagle One car care range to Handstand USA, during the financial year.

The Valvoline division posted increased sales performance during the year

Rs. 235 Mn

The Valvoline division posted good performance during the year, growing its top line to Rs. 843 million from the previous year's Rs. 608 million, and experienced robust growth in almost all product segments.

The Company introduced Valvoline viper blades to the Sri Lankan market during the year, and is now in the process of introducing a new car care range, VPS (Valvoline Professional Series).

Valvoline has been marketed in Sri Lanka since 2002 and is a well- accepted brand in the lubricant industry in Sri Lanka. As a premium category of lubricant, the company has had to contend with the disadvantage of price differentials in the market over the years, and this year proved to be no exception. Despite these challenges, UML was recognised by Valvoline, for the third consecutive year, as the best distributor in sales volumes and for achieving the highest growth among 40 countries in the South East Asian region. Valvoline presented UML with a trophy in recognition of this outstanding performance at the Valvoline South East Asia Conference held in Thailand.

The division rewarded its best performing Valvoline dealers with a trip to Greece and Malaysia and hosted a conference in the country at which high performers were presented with awards at a gala 'Valvoline Night'.

A new initiative, the 'Bike Expert' concept, was launched by the division with the support of the principal, to improve the motorcycle lubricant segment and increase performance among the dealerships. The first programme under this concept saw two motor cycle service stations being included under the concept to capture this rapidly expanding motor cycle market.

To cater to the demands for the Valvoline brand, UML appointed distributors in main towns around the island to meet small scale business needs as well as speed up delivery. The company also introduced the Valvoline service station concept and ten service stations have been included in this programme with more service stations to be included in the future. These service stations were branded to meet Valvoline global standards.

Simoniz

The decision to add a new car care range from the US-based Fram Group, one of the world's largest car care producers, paid off, with sales of the products exceeding expectations.

Many products have been introduced to the market including car and tyre polishes and waxes and brake fluids.

The latest product to be introduced is the Preston coolant.

Management Review

Information Technology

The IT division plays a vital role in supporting current operations and initiatives. The division manages and maintains ERP system and IT systems of most of the Group companies.

The ERP system continues to integrate divisions and functions across the Company, and facilitates the general operation of all processes and controls.

The Company constantly upgrades its system hardware to keep on par with the latest technology available, and in the year under review, replaced many desktop and laptop computers and ancillary equipment. It also continues to develop in-house software capable of addressing a variety of issues related to the ERP system.

The Company has decided to replace its existing ERP system with a more efficient system, and has sent in a Request for Proposal (RFP) to effect this change, and expects to complete this ERP implementation by 2018/19. Existing systems are over nine years old and need replacement to enable the Company to take advantage of all the benefits that new technology affords.

Capital Expenditure

Group capital expenditure in the year under review amounted to Rs. 572 million, an increase of Rs. 298 million over previous year's figures.

A major portion of the capital expenditure was spent on the expansion of work shop / branches island wide.

Performance by UML Subsidiaries

Unimo Enterprises Limited (UNIMO)

The year in review was one of recovery for the company, from a sluggish performance in the previous year to a surge in growth of 104%, a turnover increase from Rs. 3.6 billion in the previous year to Rs. 7.4 billion. The company's bottom line also grew by almost 19%. UNIMO was well geared this year to ensure that production meets market demand, and the company is now able to assemble the volumes needed by its sales divisions.

This year's results were mainly due to the performance of the Perodua division. The supply issues faced by Perodua in the previous year stabilised during the current financial year, which enabled the division to achieve a sales volume of 1,282 cars during the financial year, as against the sale of 766 cars in the previous year. The division's inability to achieve budgeted volumes was due to the increase in prices as a result of the increase in the loan to value ratio (LTV) limits imposed on vehicle financing. Sufficient supplies are now available and the division's prospects for the new year look good.

The Chinese Commercial Vehicle division recorded a sales volume of 159 vehicles, down by 48 vehicles compared to the previous year. Bottom lines also declined against the previous year due to heavy financing costs.

The newly formed Chinese passenger vehicles division could not achieve its budgeted volumes and bottom line, mainly due to the sluggish market conditions during the period. However, its latest introduction to the market, the seven seater DFSK Glory, captured a new market segment because of its utility and appeal, which resulted in sales of 576 vehicles in the current financial year. The division looks forward to more sales of the DFSK Glory. This division recorded an increase of vehicle sales over that of the previous year by 429 vehicles. Additionally 78 units of DFSK V27 were sold in the financial year.

The Hybrid vehicle division, which was established to meet market needs, could not perform to expectations. We plan to re-strategise its role in the reconditioned Hybrid vehicle market.

The Tyre division performance during the year under review was below expectation and recorded a bottom line of Rs. 22 million down from Rs. 45 million recorded in the prior year.

Operations of the assembly division were streamlined during the year, which included the satisfactory resolution of many issues related to assembly policies stipulated by regulatory bodies. The production capacity of assembly facility was also increased to 300 vehicles per month.

The assembly plant was seriously affected by the floods which occurred in May 2016, which halted production for several weeks. A loss of Rs. 33 million was incurred due to these floods.

Orient Motor Company Ltd (OMCL)

The company's turnover in the current financial year reported a decrease of Rs 208 million over that of the previous financial year and generated revenues of Rs 1.0 billion in the year under review. The company sold 864 units of DFSK trucks, a 28% decline compared to the 1,208 units sold in the previous year. The share of the DFSK market remained at 12% in 2016/17 when compared to the previous year.

Sales volume contracted by 28% during the year under review mainly due to changes in government policy which stipulated a 50% loan to value ratio for vehicle financing. This led to a considerable loss of revenue and profits, and the company recorded a loss of Rs. 15.7 million in 2016/17. The

TVS was recognised as the “Brand of the Year” across all industries by the Sri Lanka Institute of Marketing in the year under review, the first time that an automobile company won this prestigious award.

loan to value ratio (LTV) is very critical to this market and the reduction in loan percentages progressively over the years have severely curtailed this market as customers purchase vehicles through financing. The majority of these mini truck users are either self-employed or own small businesses. The total market has dropped from 13,977 units in 2015 to 10,777 units in 2016, a drop of 3,200 units or 23%.

This government policy on import duties resulted in a substantial drop in industry volumes as well, and reduced industry growth projected at 16%, to just 2%, and dropped the overall sales volume of mini trucks with an engine capacity of less than 1,300 cc, to almost the same volumes as in the previous year.

Changes were successfully introduced in operational activities to improve productivity and efficiency, and reduce operational costs. These strategic initiatives helped balance costs and reduce losses, and also helped manage finance costs even during the period when the fluctuating Rupee against the US $ caused market uncertainty. One of the key initiatives introduced was to build the brand name, which had a positive result and positioned the DFSK mini truck in the market as the highest selling brand in the mini truck category of Chinese origin. Other initiatives taken to counter losses included appointing new dealers, improving the productivity of existing dealers, enhancing customer convenience by adding to the number of service stations available in strategic parts of the country, as well as increasing spare parts availability.

Two new models of the light commercial vehicle (LCV) were introduced to the market in the year under review. Demand for these vehicles is encouraging.

Given the fact that the present market conditions are not favourable to the industry, OMCL will be taking several steps to increase market share and volumes in the future. These include approaching potential customers with product offers at more competitive prices, supported by a superior customer service. The company is confident that these initiatives will increase revenue and profits in the next financial year.

Performance by Joint Venture Companies

TVS Lanka (Pvt) Limited (TVSL)

TVS was awarded “Brand of the Year” the most prestigious marketing award that a brand receive in Sri Lanka. This recognition was awarded to TVS across all industries.

Despite adverse macro-economic influences such as changes in import duty structures, loan to value restrictions, currency devaluation and interest rates fluctuations, TVS Lanka recorded Rs. 11.9 billion in revenue. Further, the core business of the Company the two wheeler, outperformed the industry with a 14% growth against the 2% growth in the industry. The company achieved the targeted bottom line successfully for the third consecutive year with an achievement of 119% in PBT against the budget of the current financial year.

TVS was recognised as the “Brand of the Year” across all industries by the Sri Lanka Institute of Marketing in the year under review, the first time that an automobile Company won this prestigious award. The company kept its momentum from last year’s award of “Product Brand of the Year”. The company also created history in the marketing fraternity by winning the highest number of awards in any single brand marketed in Sri Lanka, at the SLIM Brand Excellence Awards in 2016; Gold award for Innovative Brand of the Year, Gold award for B2B Brand of the Year, Silver awards for the Best New Entrant Brand of the Year and International Brand of the Year.

Two Wheeler Segment

TVS Lanka recorded the highest volume in its core business of Two Wheeler, to reach 49,163 with a growth of 14% which is well above the growth of 2% the industry recorded. It is noteworthy to mention that the TVS brand has moved up in rank to number three in market position at the end of the financial year. This growth has been due to a well thought out value proposition of the segment as the “Warranty Leader” and “Mileage Leader”. Successful channel management has been a focal point for growth in driving productivity and wider geographical presence. The TVS brand grew in presence to have more than 1,000 consumer touch points which consist of 253 sales dealers, 462 spare parts dealers and 405 service dealers.

Management Review

With the launch of the all new APACHE RTR 200 into the 200cc market as the flagship brand in the portfolio with its new value variant, "The Most Intelligent Machine" was significant. As expected, APACHE RTR 200 opened the way to reach the dynamic youth market who enjoy the speed of this two wheeler. The XL 100 attracted an immense interest among SMEs and the self-employed due to its ability to carry weight. . However, the change in the import tax structure led to diminishing volumes in the fourth quarter of the current financial year. WEGO SBS, launched with a synchronized brake system, has shown great promise in the scooter category as the safest scooter of the category.

Table 8

New Registrations of Motor Vehicles

	FY 2016/17	FY 2015/16	Growth
Two wheelers	49,163	43,291	14%
Scooters	23,207	21,322	9%

Three Wheeler Segment

The three wheeler business showed a significant decline, with total industry volumes reduced from 5,000 units to 1,000 units per month. TVS Lanka sales have also been affected and reached 60 units, compared to 700 units in the previous financial year. This is mainly due to the adverse impact of macro-economic factors and directives such as the implementation of a mandatory 75% down payment. Further, the average three wheeler price in the industry escalated to between Rs. 575,000 and Rs. 650,000 which contracted the category. The scope for growth and development of this category will remain unattractive in the future, and TVS Lanka divested its three wheeler segment to strengthen and focus on its core business.

Service has been the focus of building the TVS brand in the financial year under review. As such, measures have been taken to enhance the quality of service levels and spare parts distribution, and the network of spare parts and service dealerships have been increased from 379 to 462 and from 301 to 405 respectively.

The sales forces have focused on training and performance management to improve productivity particularly in channel management and merchandising. The management of working capital was challenging due to currency devaluation and interest rate fluctuations, but this was effectively managed within the budget.

TVS Lanka is a joint venture between United Motors PLC, T.V. Sundaram Iyengar and Sons Limited and TVS Motors of India, and specialises in motor cycles, scooters, spare parts.

TVS Automotives (Pvt) Limited (TVSAM)

TVS Automotives (Pvt.) Limited was established for the purpose of selling and distribution of MAK Lubricants, TVS Tyres and JK Tyres. The Company's net turnover grew by 17.3% to reach Rs.1.64 billion. The growth was driven by the continued increase in the Lubricants sales (15.5%) with more significant growth in tyre sales (25.5%). However, the doubling of finance cost resulting from an increased in borrowings and the rate of interest eroded the Company's PBT by 24.5%.

Lubricants

The lubricants business continued its consistent and strong volume growth for the fourth consecutive year. In 2016/17, sales volume grew by 16.5% over the previous year. More importantly, the growth was recorded in a market that is estimated to grow by 10%. MAK also maintained its ranking in the 4th position, further improving its market share.

MAK's consistent growth is the result of the "pull" the company has been able to create with focused promotional initiatives. During the past year, investments made on brand building doubled to an unprecedented amount.

The outlook of the lubricants business for 2017/18 is expected to pose more challenges with the slowdown in the construction sector, the strain on the exchange rate and the uncertainty of further increases in interest rates. In addition, the base oil prices (the main raw material for lubricants) seems to be on a steady upward trend.

Management however, is positive in forecasting strong growth for 2017/18 by budgeting a 15% volume growth to ensure that the brand will exceed its 7% market share.

Tyres

The tyre division showed increased top line growth driven mainly by improvements in 2W/3W tyre sales. The company plans to give more attention to the 2W/3W tyre business as this will enable better working capital management.

The company has established island wide distributors for TVS tyres (the brand for 2W/3W tyres) and therefore expects significant growth in 2017/18.

The tyre business will enable the company to continue its growth momentum, especially since the lubricant business shows signs of stability.

Future Outlook

More than two years has passed since the Presidential election and the business community awaits the commencement of the mega projects promised by the government. Investments in infrastructure, power plants and highways, especially in terms of Foreign Direct Investment (FDI) are required.

The automobile industry experienced wide swings in policy, from valuation processes to changes in duty, to a point that the industry is unable to understand or predict the future thrust of government policy. The financial year in review was not a happy one for the local automobile industry as duties were increased and a 50% lease restriction on the asset value financed was introduced for certain categories of vehicles. Duty rates for hybrid and full electric vehicles also moved up during the period under review.

The change in economic dynamics will require the UML Group to continue to adopt strategies of diversification and expansion to capitalise on the development plans of the government. The Company awaits the government's Economic Development Initiatives and a crystallization of its plans.

These new strategies will focus on exploiting the new opportunities that will arise with the upturn of business in Sri Lanka, when it is anticipated that the government's new vision will create many opportunities for companies such as ours to add to our portfolio of products and services.

The new Megapolis Project has brought new hope for the industry. Much more economic activity is also possible with the opening up of the North and East. However this high-level of activity is still to be experienced. This will probably take more time as people re-build their lives, slowly and surely in the aftermath of the three-decade civil war.

United Motors won the Gold Award for the 9th consecutive year for its Annual Report in the "Automobile Category" at the Annual Report Awards organized by CA Sri Lanka.

The Company is cautiously optimistic that the North and East will return to its former self sooner rather than later. To support this vision, the Company opened a branch in Jaffna in January 2012, which provides a range of services that include vehicle sales, workshop facilities and spare parts sales counters not available to the peninsula at the time. The Company also purchased a new property in Jaffna and has set up a fully equipped workshop.

UML will continue to invest in building the Mitsubishi brand in Sri Lanka, and in upgrading all facilities including workshop facilities and spare parts availability, as well as developing its human resource skills and upgrading and maintaining the Group's wide infrastructure system.

With this in mind, the Company is upgrading, expanding and building new workshops and showrooms in Anuradhapura, Ratnapura, Kurunegala, Kandy, Orugodawatte and Matara. The brand new workshop at Ratmalana is now in commercial operation, and the Company looks forward to it performing to its full potential in the next financial year.

Unimo Enterprises Ltd has a license to assemble vehicles, and has assembled over 1,130 Chinese vehicles, encouraged by the present demand for these vehicles. The company plans to assemble new products in 2017.

The global economy is projected to grow at 3.5% in 2017 and at 3.6% in 2018, from 3.1% in 2016. The huge debt, drop in international demand for Sri Lankan products, and delayed infrastructure development restrict expansion of the economy. In the medium term, with the dual benefits of positive economic activity within the country and the trickledown effect of expected global growth, the Sri Lankan economy is forecast to register a GDP growth of 5.0% in 2017.

The Sri Lankan economy is expected to return to a high growth path in the medium term, with the right policies in place. Several constraints have been identified which include low government revenue to GDP, increasing government expenditure, falling exports to GDP and insufficient inflows to leverage on direct investments. These areas must improve if the country is to achieve sustained economic growth in the medium term.

Management Review

Projections are that our economy will improve gradually to record an annual growth rate of 7% by 2020.

Interest Rates

The commercial rates of interest increased by 1% and currently stand at 12%. High interest rates together with the ceiling on the financing of vehicles was restricted to between 50% and 90%, has had an effect on vehicles sales.

Exchange Rates

Exchange Rates are the other variable that is of concern as they directly impact on the cost of goods imported. With the US$ at Rs. 143.90 to the Sri Lankan Rupee at the start of the year, the rates increased over the 12 months and the year closed at Rs. 151.74 approximately, today the US$ trades at Rs. 152.50 per US$. The depreciation over 14 months is Rs. 8.6 per US$.

Exchange rate movements cannot be predicted, this is more true for the movements between the Japanese Yen and the Sri Lankan Rupee. Decisions on the importation of vehicles will be carefully considered to ensure that stocks are available to supply customers while at the same time ensuring that working capital levels are kept at low levels, thus ensuring low working capital cost.

The Company was able to maintain profitability in the face of these uncertain circumstances because of the far-thinking and diversified strategy adopted. Since importation of vehicles became increasingly less viable, the Group expanded the capacity of its production plant to assemble vehicles of Chinese origin which were not only affordable to the consumer, but also generated jobs and enhanced the skills and capabilities of technical staff.

The country looks to the government for a sustainable economic model that is geared to facilitate growth in all sectors, and awaits political consensus to take this forward. An economic strategy and policy framework that could be used as a base is an essential requirement if the Company is to plan its growth strategies well into the future.

The Company was able to maintain profitability in the face of these uncertain circumstances because of the far-thinking and diversified strategy adopted.

Financial Review

GDP growth rates of 9.10% and 3.4% were achieved in 2012 and 2013, in the backdrop of the conclusion of the 30 year conflict. The post conflict period was uncertain, but since the holding of the Presidential elections in 2015, the resulting political changes contributed to a certain sense of instability in the market. Running a national government in a coalition is not easy especially in view of the divergent development objectives of the coalition partners. This resulted in a marginal drop in the country's growth, from 5.0% in 2014 to 4.8% in 2015 and to 4.4% in 2016. Increases in exchange rates and rates of interest also contributed to the low levels of growth. High domestic consumption had a positive impact on certain sectors of the economy.

The automobile industry was also affected by the above variables and by the rise in import duties and other import levies. World economics also did not fully recover as expected. These events had an adverse impact on Sri Lanka as well.

The year under review has shown a decrease in growth over that of the previous year with the Rupee depreciating against the Japanese Yen. This had a negative effect on vehicle prices. New increases in duty during the year also dampened demand and the Company operated in a subdued economic environment. The full impact of the duty increases are being felt by the entire automobile industry.

The availability of permits has significantly declined in the year under review. Due to these many variables, the Company is unable to accurately predict demand levels for 2017.

Company Review

United Motors Lanka PLC

All profit centres of the Company exceeded last year's performance in terms of turnover, except for the New Vehicle Sales division which posted a performance below last year's level. The Company recorded a turnover of Rs. 9.6 billion compared to last year's turnover of Rs. 10.7 billion, which is a decrease of Rs. 1.1 billion or 10.3%.

Only the NVS division fell short of achieving their budgeted turnover, also the overall turnover was less than last year's turnover and the total budgeted turnover of the Group.

Profit after tax showed a reduction of 34% over last year. All branches recorded profits during the year under review. The Ratmalana workshop is yet to make profits.

The main reason for the decreased growth in net profit after tax, from Rs. 1.46 billion to Rs. 0.96 billion, was the depressed market for motor vehicles. The after sales division contributed significantly to profit after tax by being the top contributor to the Group's bottomline.

As analysis of turnover by major product categories in comparison with the previous year is shown in Table 9 below.

Unimo Enterprises Ltd (UNIMO)

This fully-owned subsidiary operates as a separate business, and primarily manages the sales of all non-Mitsubishi vehicles in Sri Lanka for the United Motors Group and their partners, including Perodua, JMC, DFSK, Zotye, MG, and DFSK Glory.

All divisions within the Company, except for the Chinese division, exceeded last year's topline performance by a total of Rs. 3.8 billion or a 104% increase, with the Perodua division showing the highest growth in real terms. Despite this, the Company could not meet its budgeted turnover and fell short by 52%.

The Perodua division's contribution to Company profit increased over the year. All other divisions performed at levels below that of the previous year.

Orient Motor Company Ltd (OMCL)

Another 100% owned subsidiary. The company recorded a loss of Rs. 15.7 million for the year under review.

TVS Lanka (Pvt) Ltd (TVSL)

This is a jointly controlled entity, as explained previously, with UML holding 50% ownership.

The company recorded a turnover of Rs. 11.9 billion compared to last year's Rs. 12.9 billion, which is a decline of Rs. 1 billion or 7.7%. Net profit after tax also declined by Rs. 94 million or 41%.

TVS Automotives (Pvt) Ltd (TVSAM)

The Group is proud of the turnaround of this company over the last few years. The company consistently delivers profits on a month-to-month basis. However in the year under review, profit after tax of Rs. 15.7 million was achieved, which is a contraction of 51% over the previous year.

The subsidiary companies of the group contributed Rs. 8.3 billion towards Group turnover. This excludes the turnover generated by jointly controlled entities, as the company now accounts for jointly controlled entities on an equity basis.

Profit Before Tax

The company's continued vigilance of overheads ensures that increases in costs are kept at minimal levels. The initiatives taken in the previous years to reduce the costs of fuel, utility and other maintenance expenditure continued into the current year, and these efficiency measures have now been woven into the operational model of the Company. Investment in capital assets follow a very strict evaluation process and all capital investment initiatives continue to be on a fit- for-purpose basis.

Table 9

United Motors Group - Segment Turnover

	Company				Group			
Segment	2016/17		2015/16		2016/17		2015/16	
	Rs. Mn	%	Rs. Mn	%	Rs. Mn	%	Rs. Mn	%
Motor Vehicles	6,258.07	64.93	7,894.22	73.81	14,331.30	79.95	12,351.87	80.71
Spare Parts	1,742.06	18.07	1,555.36	14.54	1,765.44	9.85	1,564.57	10.22
Repairs & Services	793.69	8.24	636.32	5.95	749.60	4.18	604.00	3.95
Lubricants & Car Care	842.65	8.74	607.78	5.68	837.92	4.67	606.63	3.96
Tyres	-	-	-	-	241.11	1.35	176.77	1.16
Others	1.50	0.02	1.69	0.02	-	-	-	-
Total	9,637.97	100.00	10,695.37	100.00	17,925.37	100.00	15,303.84	100.00

Management Review

The strict cost controls implemented throughout the Company, resulted in a drop of 3.6% in overheads amounting to Rs. 57 million was seen during the year. This was mainly due to reduction in impairment losses and distribution expenses.

Finance overheads in total showed a net income position of Rs. 152 million compared to the Rs. 146 million net income earned in the previous year. This interest income is mainly due to the surplus funds which were available for investment in the Company during the year and the substantial dividend income from both investments in related companies and other companies.

Cost of Finance

Holding Company (UML)

UML continues to carry investments in the share market and as at year end, investments totaled Rs. 842 million, down from Rs. 894 million invested last year. This investment brought in a net income of Rs. 39 million and included capital gains of Rs. 8.6million during the year under review. The Company continued to invest excess funds in unit trusts during the year, which earned an income of Rs. 40 million.

The quarterly results of the Company and the Group are shown in Table 10.

UML is in an enviable position of enjoying a net finance income position. There was a decrease in finance income from Rs. 220 million to Rs. 204 million from 2016 to 2017. Finance costs also decreased, from Rs. 75 million to Rs. 52 million.

Interest income is earned on surplus funds invested in call deposits and unit trust investments; dividend income is a significant contributor to finance income.

The Company started the year when market rates of interest were around 7% - 9% and due to reasons mentioned previously, rates have increased steadily throughout the year and 2016/17 ended with rates in the region of 9% - 11%.

Subsidiary Companies

The Group incurred a net finance cost of Rs. 197 million, which is a decrease of Rs. 227 million over the net finance income earned in 2016. No subsidiary earned any net finance income.

Increases in borrowings were evident in UNIMO and OMCL.

Table 11 shows the financial cost and borrowings of the Company and Group.

Taxation

The Budget for 2016 presented on 20 November 2016 focused on simplifying the tax and regulatory environment would have had an impact on the UML Group, however most of the budget proposals are yet to be legalized.

Salient features of the Budget are:

Corporate Tax

1. Corporate tax rate - 3 Tiers
2. Removal / revision of existing exemptions.
3. New concession / exemptions
4. Withholding tax
5. Revision to time bar

Value Added Tax

1. Revision to exemption
2. SVAT scheme

Nation Building Tax

1. Exemption

Others

1. Revision of Finance Act
2. Change to the Economic Service Charge
3. Capital Gain Tax
4. Transfer of land & land lease tax

Table 10

Quarterly Results

	Company					Group				
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
Turnover (Rs. Mn)	2,183.7	2,519.9	2,554.7	2,379.7	9,638.0	4,174.1	4,528.7	4,894.8	4,327.8	17,925.4
GP (Rs. Mn)	586.5	639.4	615.2	579.9	2,421.0	799.9	863.9	895.9	796.7	3,356.4
GP to turnover	26.9%	25.4%	24.1%	24.4%	25.1%	19.2%	19.1%	18.3%	18.4%	18.7%
PBT (Rs. Mn)	284.9	290.8	270.1	330.3	1,176.1	365.6	404.3	330.7	338.0	1,438.6
PAT (Rs. Mn)	235.2	252.2	198.1	269.9	955.4	295.5	343.1	226.3	261.2	1,126.1
PAT to Turnover	10.77%	10.01%	7.75%	11.34%	9.91%	7.08%	7.58%	4.62%	6.04%	6.28%

Table 11

Borrowings

	Company			Group		
Year	Borrowings	Finance cost	Interest cover	Borrowings	Finance cost	Interest cover
	Rs. Mn	Rs. Mn	(No. of times)	Rs. Mn	Rs. Mn	(No. of times)
2015/16	167.5	74.5	28.51	2,853.1	140.9	17.70
2016/17	1,461.8	52.2	23.53	4,083.3	295.1	5.87

Working Capital and Liquidity

Interest bearing borrowings of UML increased to Rs. 1.4 billion in 2017.

Land Acquisition

The Land (Restrictions on Alienation) Bill does not allow the Company to purchase any land effective from 1 January 2013 with relief for purchases between that date and October 2014, as we are deemed a foreign- owned Company. As such, there were no investments in land after passage of the bill. Details of the land owned by the Company are given in Note 18 to the Financial Statements.

We have plans to develop all properties purchased, for which further investments in non-current assets will be allocated from internally generated or borrowed funds.

Table 12

Liquidity ratios

	Company		Group	
	31-Mar-17	31-Mar-16	31-Mar-17	31-Mar-16
Current Ratio	2.11:1	2.98:1	1.70:1	1.90:1
Quick Asset Ratio	0.59:1	1.51:1	0.45:1	0.72:1
Debt / Equity %	16.33	1.93	38.01	27.67

Inventories increased in the year under review as the Company had to meet its stocks holdings policies. Inventories at Group level increased by a substantial 38% due to the increase in the range of products and the longer time needed to assemble vehicles.

The liquidity of the Company and Group is shown in Table 12.

Management Review

Table 13

Total Assets

	Company			Group		
	31-Mar-17	31-Mar-16	Increase / (decrease)	31-Mar-17	31-Mar-16	Increase / (decrease)
	Rs. Mn	Rs. Mn	%	Rs. Mn	Rs. Mn	%
Property, Plant & Equipment	4,916.2	4,482.0	9.7	5,174.1	4,747.8	9.1
Intangible Assets	7.2	0.9	700.0	12.0	3.9	207.7
Investment Property	149.8	150.4	(0.4)	-	-	-
Investments - Non Current	900.1	960.5	(6.3)	1,473.0	1,486.4	(0.9)
Defined Benefit Obligation - Plan Asset	91.1	98.6	(7.6)	94.4	102.3	(7.7)
Deferred Tax Asset	-	1.9	(100.0)	8.7	15.7	(44.6)
Inventories	4,210.5	2,349.2	79.2	7,475.7	5,426.6	37.8
Trade & Other Receivables	1,015.1	783.5	29.6	1,990.2	1,498.5	32.8
Amounts due from Related Parties	31.6	18.0	75.6	3.7	0.6	516.7
Current Tax Receivables	-	-	-	5.2	4.6	13.0
Other Investments - Current	119.7	1,282.1	(90.7)	119.7	1,282.1	(90.7)
Cash and Bank Balances	464.5	321.0	44.7	566.1	522.9	8.3
Total Assets	11,905.8	10,448.1	14.0	16,922.8	15,091.4	12.1

Shareholder Funds

The total numbers of ordinary shares issued is 100,900,626. Shareholders' funds increased by 4.18% over that of the previous year.

Value Added

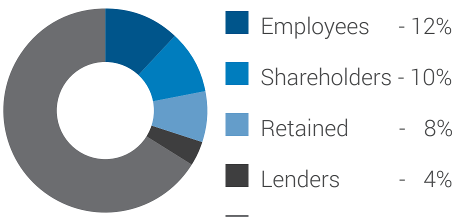
Our Groups contribution to Government increased from Rs. 4.4 billion to Rs. 4.7 billion in the year under review, this is an increase of Rs. 300 million or 6.8%.

Economic Value Added Statement

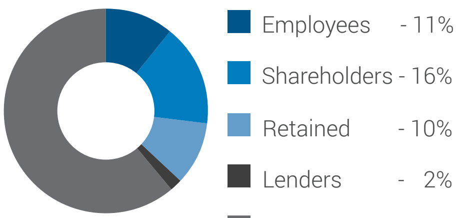
For the year ended 31 March	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Sales	17,925,373	15,303,852	9,637,973	10,695,375
Other income	197,890	215,363	321,869	268,658
	18,123,263	15,519,215	9,959,842	10,964,033
Less: cost of goods & services brought in	(10,995,725)	(8,323,670)	(6,683,689)	(7,145,189)
Value added	**7,127,538**	**7,195,545**	**3,276,153**	**3,818,844**
Distributed as follows:				
To employees as remuneration & other related payments	852,676	791,210	732,313	687,801
To the government as taxes	4,711,343	4,411,624	1,436,051	1,503,416
To the providers of capital				
- Dividends	706,303	1,109,908	706,303	1,109,908
- Interest on loans	295,125	140,918	52,199	74,505
	1,001,428	1,250,826	758,502	1,184,413
Retained within the business				
- Depreciation / amortization	134,056	141,706	95,816	91,044
- Reserves	428,035	600,179	253,471	352,170
	562,091	741,885	349,287	443,214
Value added	**7,127,538**	**7,195,545**	**3,276,153**	**3,818,844**

Group

2017



2016




AXIA


Z100


BRILLIANCE H2L


GLORY 330

Sustainability Report

Our strategies are aimed at increasing value to all our stakeholders while making a positive impact on the society with a minimum negative impact on the environment.

Overview

It is our belief that we cannot excel in financial performance alone. Sustainable long term growth requires resources such as knowledge and skills of our employees, good partnerships with our business partners, distribution channels, quality products and services which customers look for, a brand that communities recognise as a responsible and environmental friendly entity, among others.

Our strategies are aimed at increasing value to all our stakeholders while making a positive impact on the society with a minimum negative impact on the environment. Ultimate responsibility of ensuring that due consideration of economic, social and environmental performance in the formulation of our goals and strategies and in our decision making process is vested with the Board of Directors. Under the guidance of the Board, this responsibility is delegated to the Group Chief Executive Officer/Executive Director and Corporate Management Committee who embeds such concerns into our business strategy.

Our Stakeholders

It is of importance to have an understanding of all stakeholder needs and to be responsive to their expectations, to ensure sustainability of operations in achieving performance objectives. The Company continuously monitors stakeholder expectations against delivery and mitigating strategies are put in place where required.

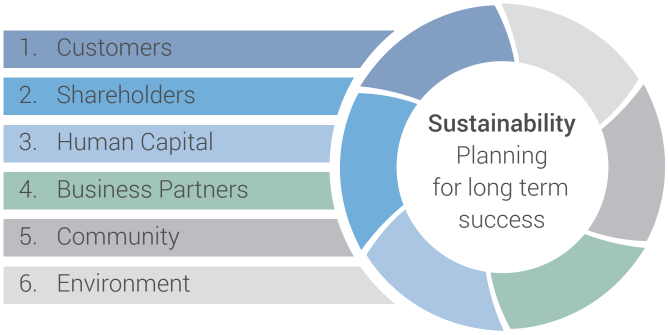
We have identified stakeholder based on two criteria;

- Parties who have the ability to influence our value creation process
- Parties who are influenced by our value creation process

Accordingly, our stakeholders are;

- Our Customers
- Our Shareholders
- Human Capital
- Business Partners
- Community
- Environment

The methods of engagement with the key stakeholders are summarised below.



1. Improve customer service standards through service excellence.

2. Positive economic value creation through business, product diversification and through our sustainability initiatives.

3. Improve employee satisfaction levels by understanding employee expectations, and be the employer of choice by providing a safe, secure, working environment for employees whose rights are fully safeguarded and who have equal opportunity to realize their full potential.

4. Aligning businesses partners expectations with the company's objectives and also seek new products based on our core competencies and emerging opportunities thereby growing our product portfolio by adding reputed business partners as likes of MMC and Daimler who supports our sustainability initiatives with eco-friendly vehicles.

5. Implement programmes which are aligned with the Company's long term strategy of uplifting education and health facilities and building strong community relationships and enhancing quality of life in the communities we operate through CSR initiatives.

6. Introduce environmentally friendly vehicles to the market and implement policies and procedures to minimize the impact on the environment.

Customers

Digital technology continues to change social trends by expanding access to knowledge and opportunities reducing the cost of information sharing. This is keeping customers more informed and connected, which has substantially changed customer behaviour and demands. Today's customer no longer compares just the product with its competitors, but also compares other brand elements such as service, quality, and overall customer satisfaction.

The automotive industry has risen to this challenge, and is fine-tuning its business to cater to the demands of the informed customer who knows what he wants and where to get it, with a minimal wait and at the best price.

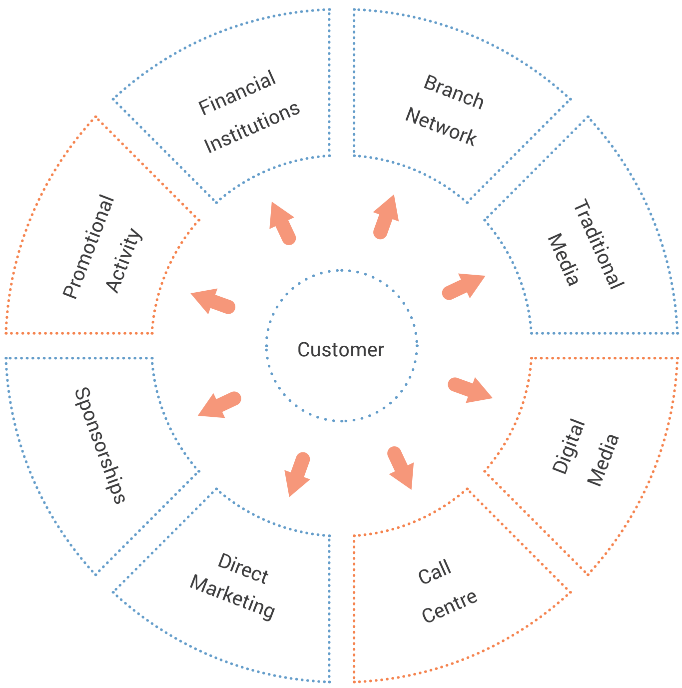
UML Group, too, has further streamlined operations to meet this new trend in customer dynamics. A customer centric strategy has been introduced aimed at providing a 360^{0} customer experience, from pre-purchase to ownership to maintenance. The strategy is aligned to the Company's objective of supplying high quality products that are safe and durable coupled with service excellence that will ensure customer loyalty to the Company's brands and products as well as word of mouth recommendations to others.

Understanding and Reaching Out to the Customer

Service excellence involves providing a service that exceeds their expectations by anticipating customer needs even before they are expressed. It is this level of service excellence that the Company aims for, and a number of strategies were introduced during the year.

The Group uses a variety of channels to reach customers around the country. A key advantage that the companys enjoys is ease of access to its branch network, situated in strategic locations across the country. They offer customers easy access to 3S facilities, namely Sales, Services, Spares of all brands under one roof.

Channels of Communication



Sustainability Report

Traditional media is used to reach existing and potential customers and TV, radio and press continue to play a vital role in informing the market of the company's products and services.

Digital media is the main platform used to reach generation Y (those born in the 1980s and 1990s), which is an important target market for its products. The Company strengthened its online presence by increasing investment in digital media platforms like Facebook and Twitter, the most actively used social media networks in Sri Lanka today, and engaged the rapidly expanding online population with its brand. Several competitions were organized for the existing fan base and advertising was targeted on Facebook and Google to engage specific segments of the yet untapped target market. This strategy proved successful, and the Company's fan base on Facebook grew to a record 122,200 during the year, from 89,000 last year positioning the page among the top six automobile pages in the country.

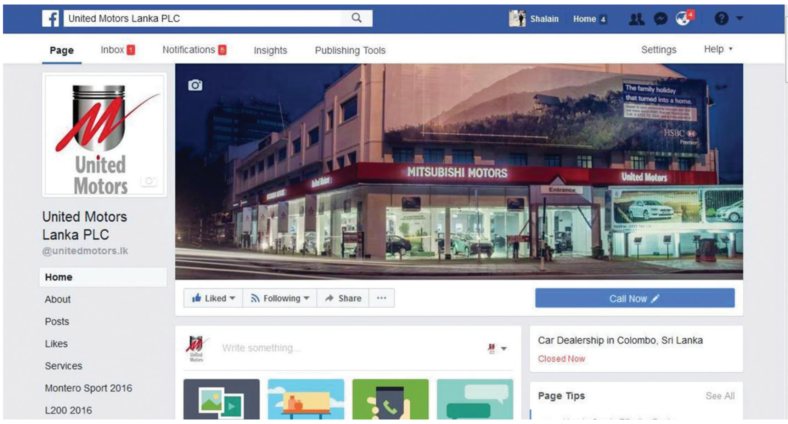
UML will continue to strengthen its presence on online platforms like Instagram, Google Plus and Google Display Network (for web display ads) and increase visibility in subsidiary social media platforms in the years to come. UML advertises in cinemas as well, to access Generation Y.

The recently established call centre helps customer's access information pertaining to products instantly while the Company is now able to assess the number of inquiries received and measure effectiveness of its advertising.

Direct marketing initiatives were increased to target specific customer segments. The sales network is one of the key means by which the company continues contact with customers. Close relationships are maintained with customers around the country through regularly scheduled sales meetings. The Company also sponsored various events around the country which involved vehicle displays and product presentations.

Promotional activities such as mall displays, displays at financial institutions etc. were intensified during the year to increase customer awareness of the products and services on offer and also to reach potential customers.

The network of partnerships with financial institutions continues to be utilized to apprise new and existing customers of the company's portfolio of products, as well as facilitate preferential rates of finance when purchasing vehicles from the UML Group.



Reinforcing the Relationship

The Company bases the foundation of its business on its relationship with its customers, and has a carefully focused and strategized approach to manage this relationship. This approach includes customer database management, a complaint management system and surveys to identify customer satisfaction.

During the latter part of the previous financial year, the Company established a call centre which conducts various surveys among customers to assess the Company's overall service delivery and responds instantly to customer queries. During the year under review, the Company conducted call surveys to measure customer satisfaction with newly introduced products as well as monitor the frequency of after sales services.

This initiative has proved very successful, and customer communication had been improved substantially. All calls received are monitored, and the

UML counts over seven decades of reputed service in its area of expertise, and continues to add value to the lives of customers by offering them the best in class brands that have the highest standards of quality and dependability.

caller's details recorded. This promotes service efficiency and helps the sales staff to effectively follow-up sales leads. It also provides precise measurements of the effectiveness of the Company advertising reach. UML substantially expanded its survey base during the year.

Customer Loyalty Programme

The "Privilege Circle" loyalty programme continues to grow in membership since commencement in 2011. The loyalty programme was extended to DFSK and Zotye customers during the year under review. More value was added to the loyalty programme this year, by adding more partners in the categories of, salon and spa, jewellery, automobiles, footwear, optometrist, phone and accessories and home automation, leisure and Kids products which brings the external partnership base to a total of 41 outlets, and widens the choice of special discounts and privileges available for members.

Lube Service Rewards scheme. This scheme rewards a customer on completion of five services, provided the vehicle is brought in for service every six months. The Company continues to educate customers on the importance of regularly maintaining and servicing their vehicles to ensure that they perform to optimum levels.

Building a Customer Centric Team

'Api United' initiative

This initiative begun in 2012, is still being actively pursued within the Company, and has been successful in inculcating a customer service mindset throughout the Company. A cross-functional in-house team addresses issues on customer care, which includes educating staff on the importance of rapid responsiveness to customer needs. The team is also responsible for ensuring conformity to the Company's code of conduct, which outlines the behavior expected of the staff of a premier customer- centric company like UML. The team meets at the commencement of business every week, to discuss any issues that relate to customer care, and ensures that issues are speedily addressed.

All staff wears a special "Api United to Serve" badge that promotes unity and awareness of the importance of attaining service excellence. Staff at all levels are also taught soft skills like grooming, etiquette and hygiene that enable them to present a personable and professional appearance to customers. Systematic staff communications by posters displayed in prominent areas as well as group emails, reinforce top-of-mind awareness of customer service.

The team also conducts several surveys during the year to gather information for improving service levels and responsiveness, and implements feedback received.

Distinctive Brand and Market Positioning

UML counts over seven decades of reputed service in its area of expertise, and continues to add value to the lives of customers by offering them the best in class brands that have the highest standards of quality and dependability. The Company continues to identify gaps in the automobile market and meets these shortfalls with world class products released to the market after rigorous testing carried out both locally and internationally to ensure that every product and service provided is the best available in the market. This assurance is supported by a long and involved process that includes rigorous market research and testing before the launch of every product. The Company also has a strict policy of partnering with only reputable suppliers, who follow stringent quality standards and product tests and are usually leaders in their respective business segments.

Customer Surveys

The many initiatives taken to enhance customer satisfaction and improved interaction have had positive results, as confirmed by the customer satisfaction survey carried out during the year, using the services of a reputed external agency. This was a random survey based on a 10% sample of the population who walked into the main three 3S facilities of the Company, namely the Sales, Services and Spares areas, as well as its showrooms and key customer contact points. About 115 mystery shoppers were used to access these contact points, the majority of whom registered scores of being 'highly satisfied' with all the areas addressed. The overall customer satisfaction registered at a gratifying 81%, which is a very high level of service as defined by internationally accepted service standards.

Sustainability Report

Shareholders

United Motors follows the practices of good corporate governance at all times and conducts its business in a manner that adds value to its shareholders and investors, and manages risks prudently. As a listed company governed by the regulations of the Securities and Exchange Commission (SEC) and the Colombo Stock Exchange (CSE), UML is bound to deliver maximum value to its investors whilst conforming to the above regulatory procedures.

The Company is also aware of its duty to engage investors by giving due consideration to their ideas and providing them with timely and accurate information on company affairs.

Enhanced Shareholder Value through Increased Returns on Investment

The entire business is modelled to create sustainable value to all stakeholders and the key portion of the value created through business is distributed to our investors as its primary stakeholder.

Over the years, UML delivered on its promise to shareholders by ensuring consistent returns on their investments through capital appreciation and dividends, and provided one of the most consistent and dependable investment opportunities to the investors.

The Company's asset base has grown during the years and supports a strong foundation that enables the company to withstand the competitive business environment. Prudent corporate strategies have resulted in the delivery of consistent returns on capital employed in the business, which consequently enhances shareholder wealth.

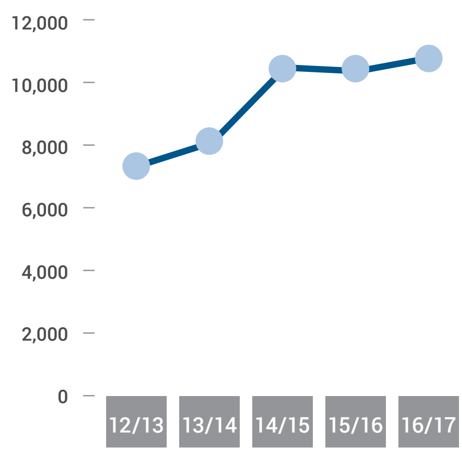
	2012/13	2013/14	2014/15	2015/16	2016/17
Shareholders' funds - Group (Rs. Mn)	7,370	8,097	10,436	10,312	10,742
Dividend per share (Rs.)*	6.00	8.7	6.00	11.00	7.00
Net assets per share - Group (Rs.)	73.05	80.25	103.42	102.20	106.46
Market capitalization (Rs. Mn)	6,458	8,274	8,889	8,375	7,870

* Dividend per share has been calculated for all periods, based on the dividend paid during the year and the number of shares in issue as at 31 March 2017.

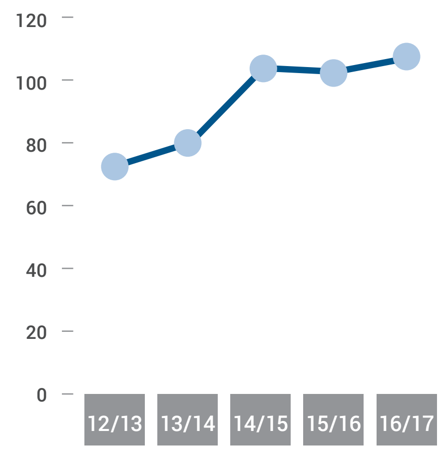
The graphs shows the changes in shareholders' funds, net assets per share and market capitalization over the years.

The Company conceptualises and implements long- term strategies aimed at ensuring consistently high returns on capital employed, which will continue to be the focus in future years.

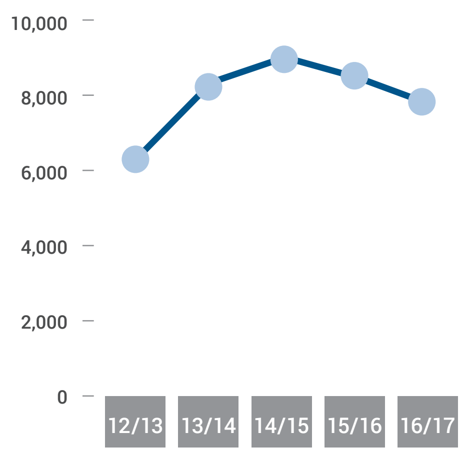
Shareholders' Funds - Group (Rs. Mn)



Net Assets per Share - Group (Rs.)



Market Capitalization (Rs. Mn)



The entire business is modelled to create sustainable value to all stakeholders and the key portion of the value created through business is distributed to our investors as its primary stakeholder.

Communicating with Shareholders

The Company is committed to enhancing relationships with individual and institutional shareholder through regular communications that give clear and balanced information about the Company and its performance. The Company's shareholder communication policy strives to ensure that all shareholders have timely access to publicly available company information which enables shareholders to actively engage with the company and exercise their rights as shareholders in an informed manner.

The Company encourages shareholders to be physically present at its Annual General Meetings and other General Meetings. The Annual General Meetings and other General Meetings of the Company are the primary forum for shareholder participation, interaction and communications. If unable to attend, the shareholder can appoint a proxy, who can attend and vote at such meetings on his behalf. Notices of General Meetings, accompanying papers, circulars and required documents are dispatched to shareholders by post within the prescribed time. At the shareholders' meetings, the Board of Directors, members of the Board Sub-Committees and Auditors, where needed, are available to provide clarification to shareholders if necessary.

The quarterly financial statements and annual reports are produced in accordance with the Listing Rules of the Colombo Stock Exchange and other applicable laws and regulations. From time to time, the Company communicates information to shareholders by way of company announcement and/or circulars, in compliance with regulatory requirements.

The Company's website (www.unitedmotors.lk) facilitates communication with all stakeholders and provides information on the Company, including all annual reports as well as press releases and announcements to external stakeholders.

Shareholders may at any time, direct questions, request for publicly available information and provide comments and suggestions to the Directors or management. Such questions, requests and comments can be addressed to the Company Secretary by post to 100, Hyde Park Corner, Colombo-2 or by email to ir@unitedmotors.lk

Sustainability Report

Human Capital

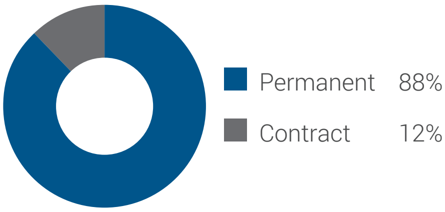
The human capital of United Motors Group; a strong team with diverse mix of individuals is the primary value creator that plays a pivotal role in driving our Group success.

The UML Group has also geared itself to cater to the knowledge economy, by recruiting high quality staff, and training and developing them to optimal levels of performance. As a service organization, all competencies are focused on attaining an exceptional level of customer satisfaction and well-planned systems are in place to achieve this objective.

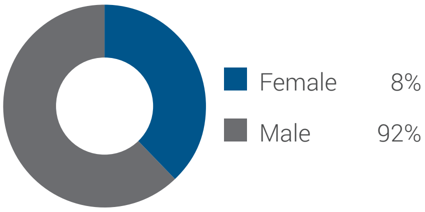
Employee Profile

The total staff strength at UML Group is 976 employees. In addition, 303 trainees from several technical & non-technical institutions have been given the opportunity to receive a comprehensive training to fulfill their career prospects.

Type of Employment

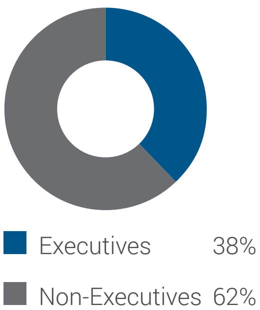


Gender

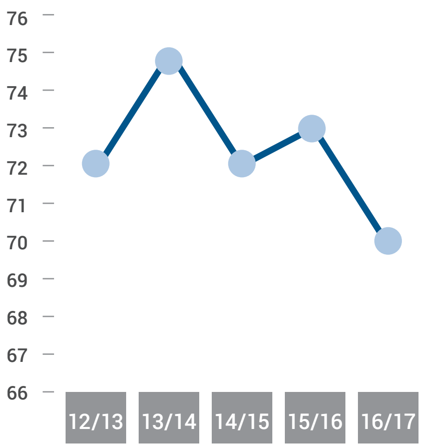


UML's culture and philosophy is making every person in the company feel important and valued, by enhancing their self-worth

Employment Category



Group OHI Index



Human Capital Management

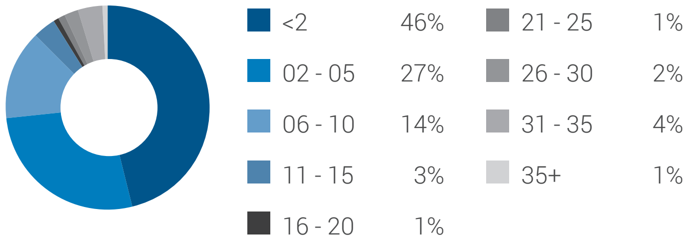
UML's culture and philosophy is making every person in the Company feel important and valued, by enhancing their self-worth through a wide spectrum of areas that help them to grow in the long run. Human capital management is designed to help employees enjoy their work, build on their strengths and acquire new skills to reach career goals. Through performance management; leadership development; talent development; rewards management; employee engagement; and employee welfare; employees have received an opportunity to walk towards different heights of their career in the continuous journey of reaching the pinnacle of UML's vision. As we are aware that developing employees improves their productivity and contribute to attain business goals. This is ultimately reflected in the bottomline growth of the Company throughout the years.

Creating High Performers

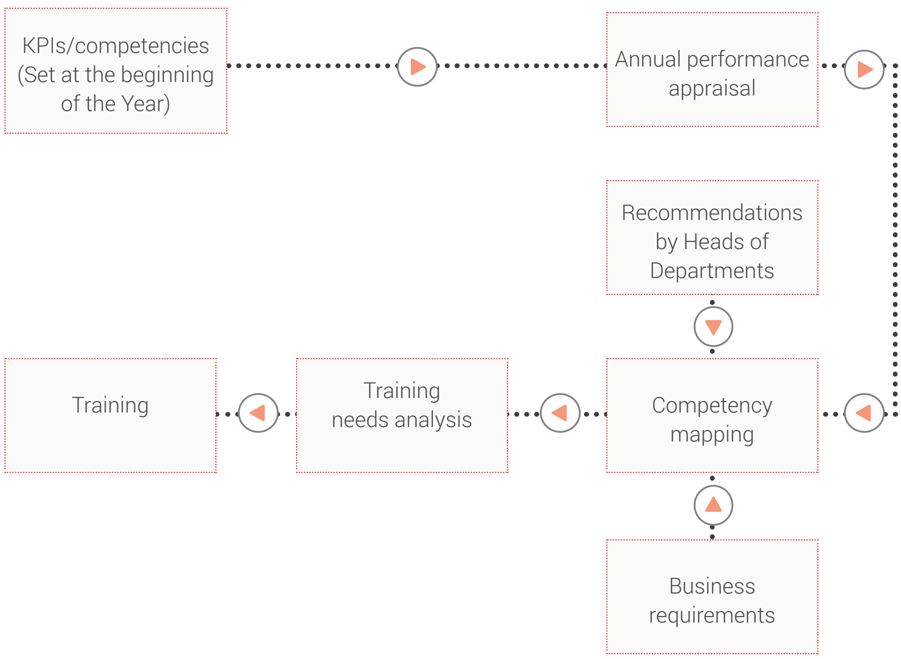
UML has a transparent and systematic performance management process aligned to business objectives that is designed to create a high performance workforce. The performance management process enables us to evaluate and measure employee performance, and offers a number of benefits for both the employees and the organization. For the business, it helps optimize productivity by aligning the employee's work schedules and actions with strategic objectives, as well as discloses individual performance, strengths and weaknesses that support career planning.

Performance management is based on assessing individual Key Performance Indicators (KPIs) through a structured performance evaluation (PE) process. Evaluation is based on three areas – of the total, individual KPIs carry 70% of the rating, 20% is on competencies and balance 10% is the employees' customer care rating.

Years of Service



The KPIs set at the beginning of the financial year, are linked to divisional and organizational goals. The assessment of the extent that employees have achieved their KPIs indicates the productivity of the Company. Competency mapping for individuals and divisions is formulated based on the rating of competencies at the annual performance appraisal. Training and development initiatives are carried out thereafter based on KPI scores and competency gaps.



Leadership Development

UML is aware that proactively identifying and developing new leaders to succeed current Senior Management is vital for its continuity because it ensures smooth transition into new leadership in the future.

- 360 degree evaluation

As part of the concept of building successful leaders, UML conducts 360 degree evaluation for Heads of Divisions based on self-evaluation, assessment by superiors, peers and subordinates in key eight areas of leadership.

- Succession planning

In identifying and grooming potential leaders, the profile of the identified position is first matched against the identified employee's profile, in the areas of qualifications, management experience and competencies. The suitability of the candidate is then assessed using a range of tools and criterias that include the annual performance appraisal review, on the job performance evaluation as well as the candidate's willingness to take up assignments beyond the job role. Once the suitability of the candidate is confirmed, the potential leader is provided with the training necessary to develop his/her knowledge, skills and attitudes for the job aspired for. Individual coaching sessions based on requirements are then arranged, and exposure to similar working environment is provided through job rotation, delegation of responsibilities, involvement in projects and other assignments that challenge their planning, thinking and interaction skills. The aspirants are also given opportunities for involvement in other activities such as cross functional teams to gain more understanding of the business.

Sustainability Report

Develop Talent to Develop Business

The UML Management strongly believes that "To develop business, we must first develop people". We believe that each employee is unique and possesses a diverse set of skills. Therefore we have placed a strong emphasis on developing human talent. Training is provided either to fill gaps in existing skills or to expand the employee's knowledge in a new area or skill. The training plan is prepared based on the training needs analysis/gap analysis identified at the performance appraisal reviews, competency map, recommendations made by the relevant Heads of Departments and also on the business requirements. We are committed to develop our people and building a high performing team through training & development.

Staff is also sent on regular overseas training to countries like Japan, Dubai and India to upgrade technical and soft skills.

Technical Trainings

Technical training equips staff with the required level of technical knowledge, skills and competencies to do the job at hand both effectively and in a timely manner. These trainings are mainly for workshop and sales personnel, and are conducted by internal resource persons. Special focus is given to the well-recognized NVQ (National Vocational Qualification) certification programme which is conducted in-house at Company's workshops. UML produces NVQ holders every year. Further, M-Step certification programme is carried out for the Mitsubishi technical staff. Technical assessments are conducted after each session to measure participants' knowledge and to take necessary steps to fill any perceived knowledge gaps.

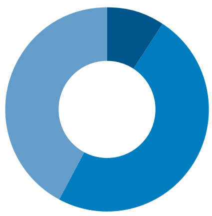
Spare Parts staff training at Hotel Renuka

The UML Management strongly believes that "to develop business, we must first develop people". We believe that each employee is unique and possesses a diverse set of skills.

8,579

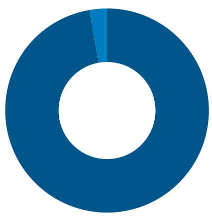
Total Training Hours

Training hours-employee category



Managers & above	9.38%
Executives	48.54%
Non Executives	42.08%

Training hours-type of training



Local	97.30%
Foreign	2.70%

Competency Based Training

Regular exercises in competency mapping are carried out for executives in order to identify and assess any perceived gaps between existing skills and knowledge and the ideal or expected levels. The ideal score is measured by pre-determined criteria and employees are trained in respective areas.

Training programme in progress

Individual Coaching

Individual coaching sessions are carried out to give special attention to some employees. Once the coaching is complete, an action plan is implemented to ensure that the employee uses the newly acquired skill on-the-job.

Individual coaching session

External Training - Workshops/seminars

Based on requirements and availability, staff is sponsored for seminars/workshops in a variety of disciplines.

Functional Training

Functional trainings are carried out for all divisions to enable them to carry out their functions more effectively by improving their on-the-job performance.

		Total Training Hrs
Category	Manages & above	805
	Executives	4,165
	Non-Executives	3,609
		8,579
Type of training	Local	8,347
	Foreign	232
		8,579
Nature of training	Product / Technical	5,120
	Competency	3,459
		8,579

The training process doesn't end with the conclusion of the training. Post training evaluation is carried out by action plans developed for individuals and teams, as the case may be, based on the training attended. These action plans will be monitored in intervals of three months and six months and follow-up sessions are conducted by the same trainer to evaluate the success of the training.

Engaged Employees

Employees who are engaged with the Company, record better on-the-job performance because they feel that the work they do is important for the Company's growth and progress, so they become more productive.

Employment at UML ensures employees to work in a more holistic approach that would give them more insights into new ideas for positive changes in established working methods or practices.

The open door policy fosters an environment of cooperation and trust between the employees and UML Management. Employees are free to discuss any issues of concern with the senior management. Top down communication is maintained continuously, and staff is appraised of company news and management decisions via email, notice boards and at meetings.

Sustainability Report

Employee Engagement Survey

An annual Organizational Health Index (OHI) survey measures employee satisfaction levels in different areas of their work namely communication, team work, job work, job satisfaction, recognition, relationship with immediate superior, compensation and career development and in their interactions with other divisions.

The results of the annual survey was encouraging, with more than 70% of employees rating the Company as a good place to work, and over 81% were satisfied with their jobs.

Survey findings revealed that the Company's brand image, stability and job satisfaction were the main motivators for employees to work at UML.

Sales Promotion Campaign for the Staff

An innovative vehicle promotion campaign gave all staff the opportunity to introduce new customers. We are proud of employees who went above and beyond their routine work to contribute for the betterment of the Company.

Employees who promoted vehicles

Employment at UML ensures employees of a more holistic approach to their work that would give them more insights into new ideas for positive changes in established working methods or practices.

Distribution of scholarships to the children of the staff

Pirith Ceremony

We believe that the growth of the Company lies not only on the hands of its employees but also on religious blessings. With this view UML held its annual Pirith Ceremony on 07 October 2016 to invoke blessings on the organization and staff.

Annual pirith ceremony 2016

Awards of Appreciation for Retirees

We valued the untiring services rendered by our employees throughout their career at UML by organizing an evening of celebration at the retirement of each retiree held in every month. Twenty two retirees have received awards during the year under review.

Rewards and Benefits

UML Group employees enjoy privileges and entitlements that include monetary and non-monetary rewards for performance.

Staff has been offered a comprehensive medical scheme for the entire family, special medical insurance for accidents and critical illnesses, as well as reimbursement of membership in relevant professional institutions.

The rewarding career created by UML Group goes beyond monetary benefits. Incentive foreign trips, local & foreign trainings, coaching sessions, memberships in professional institutes, employee recognition schemes and other Company events are just few amongst others.

The Company supports the education of the children of staff who demonstrate outstanding performance at key examinations through three scholarship programmes, "Tikiri" scholarships are provided for employees' children who succeeded at the Grade 5 scholarship exam, "Navum" scholarships are for success at the GCE Ordinary Level Examination and "Yowun" scholarships are provided for GCE Advanced Level Examination. Gift vouchers are also given at the beginning of the year to the children of staff members.

UML Employee Benefits Structure

Financial Benefits	Annual customary bonus
	Encashment of leave
	Performance based bonus
	Annual increments
	Insurance facilities including critical illness cover
	Loan facilities
Non Financial Benefits	Scholarship programs and book vouchers for children of staff members
	Local / Overseas trainings
	Payment of memberships in professional institutes
	Uniforms / safety equipments

Industrial Relations and Workers' Rights

UML maintains an open and transparent process in all aspects of dealings with its workforce, and considers good management of industrial relations as being an essential aspect of its business. As such, the Company is committed to upholding and improving relationships with its workforce, which includes endorsing their right to be treated with dignity, respect and fairplay. All applicable industrial laws, regulations, statutory obligations, awards, agreements and guidelines are complied with, and an extensive grievance handling mechanism is in place to resolve any conflicts, focused on ensuring that work is carried out with minimal disruption and with harmonious industrial relations.

The Company provides and preserves a safe and harmonious place conducive to keeping all workers contended and motivated to achieve its operational goals, and continues to develop and improve worker skills to enable them to reach their maximum potential in a constantly evolving environment.

Child Labour

UML practices zero tolerance of child labour and complies with the principles set out by the International Labour Organization (ILO) on the subject. It does not employ anyone below the age of 18, and strongly upholds the elimination of all forms of child labour. The Company also ensures that all service providers follow its policies on child labour and does not partner with stakeholders who fail to comply with these principles.

Code of Business Conduct, Ethics and Integrity

The UML Group conducts its business to the highest standards of ethics and integrity, and expects its employees to follow suit by complying with the laws and regulations applicable to its business. Staff is informed of the behaviour expected from them through principles and guidelines set out in the employee handbook, and directed to conduct themselves ethically at all times by following the highest standards of business integrity dictated by the Company's established code of conduct & ethics.

Sustainability Report

Partners

Partnerships provide the Company with the capacity to achieve what may not otherwise be achieved, and work towards a common goal that yields tangible benefits.

The Company is well aware that successful partnerships add substantial value to its business and has over the many decades of its operations, effectively nurtured and developed relationships with global and local partners who supply the Company with wide range of products and services that are the basis of its business and have earned the reputation of quality and reliability the Company stands for.

UML's partners with some of the most renowned global brands, who are mostly leaders in their market segments. These partners include, from Japan - Mitsubishi Motors Corporation, manufacturer and supplier of Mitsubishi passenger vehicles of varying categories and capacities, Fuso Trucks and Buses and also Yokohama Rubber Company Ltd, supplier of Yokohama tyres; from Malaysia - Perodua Sales Sdn Bhd, manufacturer of Perodua compact vehicles; from China - Jangling Motors Import and Export Co. Ltd., manufacturer of JMC commercial vehicles; Chongqing Yuan Group Imp. & Exp. Co. Ltd., manufacturer of DFSK vehicles, SAIC Motors, manufacturer of MG cars, Zotye Automobile Co. Ltd, manufacturer of Zotye passenger vehicles and the Brilliance Auto Group, manufacturer of vans and MPVs; from India - the TVS Motor Company Ltd, India, supplier of two wheelers, TVS Srichakra Ltd, India, manufacturer of TVS tyres. Bharath Petroleum, manufacturer of MAK lubricants and JK Tyre and Industries Ltd, manufacturer of JK tyres. The Company also partners with premium lubricant manufacturer Ashland Inc, from USA for Valvoline and Simoniz from UK.

Partnering for a Sustainable Future

UML is committed to growing the market share of our partners in all areas of its business operations, and has systematically invested in upgrading our facilities to the global standards of service excellence stipulated by its partners.

The Company strives to exceed the expectations of its partners by meeting sales targets, ensure product availability and access, and carry out various activities to build customer loyalty and expand the customer base, in addition to ensuring premium after-sales facilities.

The Company is well aware that, successful partnerships add substantial value to its business and has over the many decades of its operations, effectively nurtured and developed relationships with global and local partners

MITSUBISHI MOTORS
Drive @ earth

Mitsubishi Motors Corporation, Japan (MMC)

Based in Tokyo, Japan, MMC is a global vehicle manufacturer and member of the Mitsubishi group of companies, and sells and services minicars, minivans, SUVs, LCVs, pickup trucks and passenger cars in more than 160 countries.

In 2016 Japan's No.2 auto maker, Nissan Motor Company Limited invested 34% in MMC making it the single largest shareholder while Mitsubishi Heavy Industries Ltd, Mitsubishi Corporation, the Bank of Tokyo- Mitsubishi UFJ, Ltd remain as shareholders.

Mitsubishi Fuso Truck & Bus Corporation, Japan (MFTBC)

The company is a German-owned, Japanese-based manufacturer of trucks and buses, and is a fully consolidated business unit of Daimler Chrysler, the world's largest commercial vehicle manufacturer. As a member of the company's truck group, Mitsubishi FUSO takes its place alongside Mercedes-Benz, Freightliner, Western Star & Bharath Benz which are all global leading truck brands. Mitsubishi FUSO plays a crucial role as the group's Asian pillar and centre for light-duty trucks and hybrid technology, and occupies global leadership position in these areas. Mitsubishi FUSO's technology development is focused on three inter-related areas - fuel efficiency, environmental sustainability and safety.

Sojitz Corporation, Japan

United Motors trading partner in the supply of Mitsubishi vehicles is part of the Sojitz Group, which has 409 subsidiaries and 216 affiliates all over the world, and is a general trading company engaged in a range of global businesses, including buying, selling, importing, and exporting goods, manufacturing and selling products, providing services and planning and coordinating projects, in Japan and overseas.

The corporation also invests in various sectors and conducts financing activities. These sectors include automobiles, energy, mineral resources, chemicals, foodstuff resources, agricultural and forestry resources, consumer goods and industrial parks.

Perodua Sales Sdn Bhd, Malaysia

This company is a wholly owned subsidiary of Perusahaan Otomobil Kedua Sdn Bhd (PERODUA) which was established in 1993 and sells, markets and distributes Perodua vehicles, also providing after sales services and spare parts. Operations commenced in early 1994 and the first vehicle, the popular Perodua Kancil was introduced to the Malaysian market in August 1994. A range of vehicles such as the Perodua Rusa, Kembara, Kenari, Kelisa, Myvi, Viva and Axia have since rolled out of the Perodua plant.

Yokohama Rubber Company Limited, Japan - (Yokohama)

Yokohama manufacture world renowned Yokohama tyres, and was established in 1917. The company celebrates a century this year. Yokohama tyres are selected by almost all vehicle manufacturers in Japan as an original tyre for brand new vehicles.

Sustainability Report

Jangling Motors Import and Export Co. Ltd, China

Jangling Motors Import & Export Co. Ltd, was established in 1993, and serves clients from Africa, Middle East and Central and South America. The Company has a variety of products including light duty trucks, pickups, BUVs (business utility vehicles) and SUVs.

The JMC range of commercials vehicles are manufactured by Jiangling Motors Co. Ltd., and ranked 25th among the top 500 industrial companies in China. Jiangling Motors Co. Ltd, is a Public Limited Liability Company, with the Jiangling Holding Group and Ford Motor Company of USA as its major shareholders. The company caters to the top end of the commercial vehicle segment in the massive Chinese market.

JMC's strongest product line is its light truck range.

Zotye Automobile Co. Ltd, China

Zotye was founded in 2003, which is a modernized privately owned enterprise with its core business of automobile assembly, development and manufacturing key components parts such as moulds, sheet metals, transmission. Zotye has world class production lines for stamping, soldering, painting, assembly and dynamic testing line.

In 2007, Jiangnan Automobile Co., Ltd. was merged into the Zotye Holding Group. Jiangnan Automobile Co., Ltd. is the only sedan car manufacturer in Hunan, China, and manufactures the popular classic model sedan car, Alto. The Nomad compact SUV is also a product of Zotye Automobile Co. Ltd.

The International business is managed by Zotye International Automobile Co., Ltd. The Zotye Holding Group is in the process of reforming manufacturing techniques to upgrade Jiangnan Automobile Co., Ltd.

Brilliance Auto Group

Officially known as HuaChen Group Auto Holding Co., Ltd., is a Chinese automobile manufacturer whose headquarters are located in Shenyang, Liaoning, China. The company manufactures a range of products for the automotive industry, including automobiles, microvans, and automotive components, but its principal activity is the design, development, manufacture and sale of passenger cars under the Brilliance brand.

From January 2010, the Group's operating segments were divided primarily into the manufacture and sale of minibuses and automotive components. Its commercial vehicle brands include Jinbei and Granse minibuses as well as Huasong premium MPVs. In 2003, the Group established a joint venture with BMW, BMW Brilliance Automotive Ltd., to produce BMW 3-series and 5-series sedans in China. BMW Brilliance also commenced production and sale of BMW SUVs in China in early 2012. In November 2013, BMW Brilliance launched ZINORO 1E, its first new energy vehicle in China. At the end of 2014, the BMW joint venture introduced the very first China-produced BMW new energy vehicle, the 5-series long-wheelbase plug-in hybrid model. In 2015, BMW Brilliance sold 287,073 BMW vehicles and the Group sold 58,023 minibuses. The Group is also manufactures diesel engines and gasoline engines for use in minibuses, sedans, SUVs and light duty trucks, as well as automotive components, including window mouldings, strips, axles and stamped parts.

TVS Motor Company Ltd, India (TVS)

Manufactures wide range of two-wheelers from mopeds to racing inspired motorcycles, including popular models TVS Flame, TVS Apache, TVS Metro, TVS Scooty, , TVS Wego, TVS Streak and TVS King.

TVS Motor Company is the flagship company of the TVS Group, which is one of the largest conglomerates in India with a history of over 115 years in the automobile trade and the third largest two-wheeler manufacturer in India, ranking among the top ten globally. It is the only automotive manufacturer to have been presented with the world's most prestigious Demming Prize for Total Quality Management. TVS earned a revenue of Rs.11,516 Cr ($1.7 billion) in 2015/2016 and has an annual sales of 2.5 million units and an annual capacity of over 3 million vehicles. The company is also the second largest exporter in India and exports to over 60 countries.

DFSK

Chongqing Yuan Group Imp. & Exp. Co. Ltd.

Chongqing Yuan group is a subsidiary of the renowned Dongfeng Group of China, the second largest vehicle manufacturer in China and sells almost 2 million vehicles annually, which represents a 10.8% share of the Chinese marketplace. The Group is considered one of the first companies in China to commence mass scale vehicle production as far back as 1930. Today, the Dongfeng Group has strategic ventures with world renowned automobile manufacturers such as KIA of Korea, Honda, Nissan of Japan and Peugeot of France.

A joint venture between DFM (Dongfeng Motor Group, China) and the Sokon Motor Group formed DFSK which operates six manufacturing sites within China, producing mini vans, mini trucks, MPV's, motorcycles as well as ATVs and shock absorbers, car spare parts and auto engines. Today, the DFSK mini truck is one of China's most sought after mini trucks.

MG MORRIS GARAGES

SAIC Motor - China

SAIC Motors is a state-owned automotive design and manufacturing company with its headquarters in Shanghai, China, which also has multinational operations. The company manufactures and sells passenger cars and commercial vehicles and is one of the "Big Four" state-owned Chinese automakers. The company had the largest production volume among chinese auto makers in 2014, and manufactured more than 4.5 million vehicles during the year.

The historic MG brand continues with its rich heritage of over 90 years, backed by SAIC Motors.

SAIC Motors is also ranked 103rd among the Fortune 500 companies, SAIC Motor Passenger Vehicle Company, Shanghai Volkswagen, Shanghai General Motors, SAIC-GM-Wuling are the passenger car producers while SAIC Motor Commercial Vehicle Company, Nanjing Auto Corporation, Sunwin and SAIC-IVECO Hongyan Commercial Vehicle Company manufacture vans, buses and trucks.

TVS TYRES

TVS Srichakra Ltd., India

Incorporated in 1982, TVS Srichakra Limited is part of the TVS Group and has an annual turnover of about US $6.5 billion. TVS is the largest supplier to all the leading two wheeler manufacturers in India including TVS, Honda, and Hero, and exports a full range of tyres to more than 70 countries. The company manufactures tyres for farm vehicles, trucks, OTR, agriculture, motorcycles and speciality uses. Its newest product range includes flotation radial off-road tyres, in addition to a select range of two-wheeler tyres.

JK TYRE TOTAL CONTROL

JK Tyre and Industries Ltd., India

The Company is one of the largest four wheeler tyre and truck and bus tyre producer in India and also manufacture, tubes and flaps. It is the market leader in truck and bus radial tyres in India, and the only tyre manufacturer with the entire range of 4 wheeler radials for trucks, buses and cars.

JK Tyre and Industries Ltd manufactures the JK tyre, which is a strong player in the "Off the Road" tyre segment and has a solid presence across India. Major clients are Indian automobile giants such as TATA, Mahindra, Maruti and Ashok Leyland. Currently, the company has nine plants-six in India and three in Mexico, and exports its tyres to over 80 countries across six continents, enjoying premium brand status in various markets including South America, USA and Africa. The combined capacity of JK Tyre and JK Tornel, Mexico, which the company acquired in 2008, stands at 20 million tyres per annum.

Sustainability Report

Valvoline

MAK LUBRICANTS

Valvoline, USA

Valvoline Incorporation started its lubricant operation in 1866. The company serves more than 140 countries worldwide and is a leading marketer, distributor and premium producer of quality branded automotive and industrial products and services. Valvoline is a listed Fortune 500 company and presently operates 30 fully owned blending plants in various parts of the world, and has an established presence in USA, Brazil, Australia, New Zealand, China and India.

Products include automotive lubricants, transmission fluids, gear oils, hydraulic lubricants, automotive chemicals, specialty products, greases and cooling systems.

In 2016, it ranked as the #2 quick-lube chain by number of stores and #3 passenger car motor oil brand in United States of America. Dr Ellis introduced a brand that represents innovation and quality. The industry has changed a lot since, but the passion and drive to deliver ground breaking engine solutions lives on in today's high performance Valvoline products.

Bharat Petroleum Corporation Ltd, India

Bharat Petroleum Corporation Ltd, (BPCL), is a Fortune 500 company and among the largest petroleum companies in India, with significant in roads into lubricants and the LPG business as well. The company caters to the fuel requirements of over 8,000 industries across the massive Indian subcontinent that includes the state and private sectors in defence, railways, transport and electricity. BPCL is a household name in India and has been growing at a phenomenal rate over the past decade.

The company also operates in the Middle East, Africa and some parts of South East Asia.

SIMONIZ

Simoniz Lubricants - UK

Simoniz earned its name for product quality over a century ago, with the unveiling of the legendary Simoniz Original Wax in 1910. The car care products company joined the Holt Lloyd family of car care products in 1998 which, formed by Douglas Holt in 1919, is one of the world's leading manufacturers of automotive care and repair products. Simoniz was a strong addition to Holt Lloyd, and the combined heritage of Holts and Simoniz create a strong partnership to drive Simoniz forward not only in the UK but across the world.

The Holt Lloyd company's products now cover areas which include vehicle interior and exterior trim, cleaning care, special maintenance, finishing protection, road emergency succour and vehicle cleaning tools.

Engaging with the Community

The impact that the Company has on the lives of its stakeholders is the yardstick by which it measures its success. A key component of this is the company's influence on and presence in, the communities in which it works and lives. The UML Group reaches beyond the products and services it provides, to fulfill its responsibilities as a concerned neighbour and committed corporate citizen.

The Company believes that a genuine commitment to care is integral to its mission of making a difference in the lives of communities. As an industry leader, UML has made contributions to improving the health and education of communities, by identifying and meeting specific needs.

This year's CSR initiatives reinforced the foundations laid last year to ensure a sustainable future for children and youth, and support the company's position that children are the world's most valuable resource and its best hope for the future.

Education

The Company awarded 36 scholarships to students of low income families in Wijayaba School, Grandpass. Many parents of these children are daily wage earners whose children's education is low on their list of priorities.

This year, UML decided to involve the two key groups of stakeholders in the schoolchildren's lives and education, namely, the teachers and parents, in order to ensure continuity in the children's education. The Company engaged a corporate trainer to conduct a workshop to boost the morale of the teachers and motivate them to encourage the schoolchildren to focus on educational pursuits. Also a workshop was conducted for parents as well, to help them understand the importance of educating their children and show them how they, as parents, could support their children's education and encourage them to study.

Awarding scholarships to students of Wijaya School

In April 2016, the Company also awarded 50 scholarships to the children of airmen and officers in the Sri Lanka Air Force who were either deceased or disabled during the civil war. In June 2016, 50 children of disabled or deceased soldiers in the Sri Lanka Navy were awarded with scholarships.

Awarding scholarships at Sri Lanka Navy Headquarters

Healthcare

The Company continued to focus on pediatric heart- care during the year, and financed two children from impoverished homes to undergo surgery for congenital heart disease in India.

The Children's Heart Project of Sri Lanka names congenital heart disease as a major contributor to the deaths of children under five years of age. Of every 1,000 babies born around the world, six to eight new-born suffer from a congenital heart disease. In Sri Lanka alone, an estimated 2,500 to 3,000 children are born with a congenital heart condition every year, most of who will need either surgical or catheter- based treatment within the first year of their lives. Surgery costs between Rs. 400,000 to Rs. 700,000 in a private hospital, and therefore beyond the reach of poor families. The surgery is available free of charge in a number of government hospitals, but many of the diagnosed children are unable to receive timely treatment and die while still young, because of the long waiting list at these hospitals. The Lady Ridgeway Hospital for Children performs about 650 catheter- based interventions and 900 cardiac surgeries every year and continues to have a waiting list of several thousands.

United Motors Lanka PLC., reaches out to these under-privileged children in need of specialised heart surgery, and during the year under review, sent one child diagnosed as being the most deserving, to a specialised cardiac hospital in India. A total of four children have been identified and sent for this procedure to date.

Enhancing the quality of life of children in communities by giving them the advantage of good health and a solid education, adds value to the Company's sustainability scorecard.

Handing over of air tickets

Other Community Initiatives

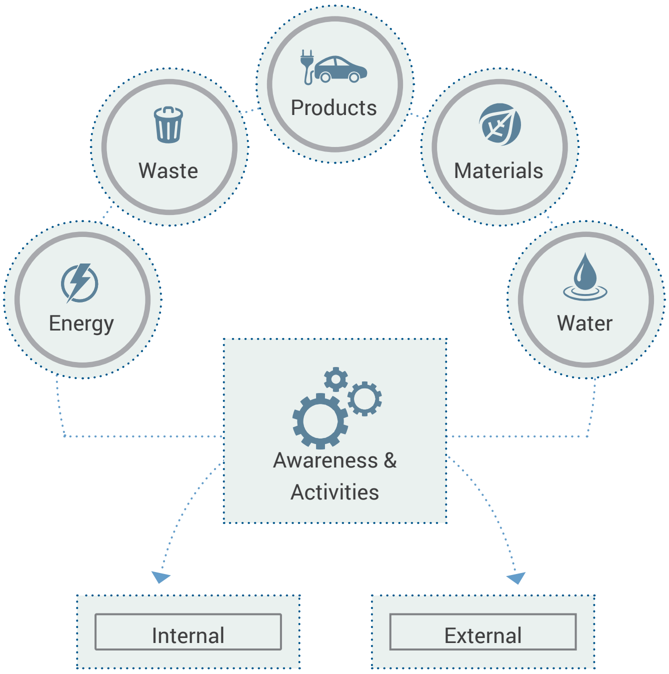
UML also helped communities in Wellampitiya and Orugudawatte in the vicinity of its Orugodawatte workshop, to recover from the devastating effects of the May 2016 floods by providing them with cooked meals until they were back on their feet. Affected staff was also provided with cash contributions to help them rebuild their lives.

Sustainability Report

Environment

Going Green for a More Sustainable Future

Having understood that the environment is the most important resource for sustaining life, UML is committed to the principles of environment stewardship. Accordingly the Company has invested in environmental friendly processes, initiated eco-friendly practices, and taken steps to replenish natural resources that have been used in the course of its business.



A comprehensive policy framework is in place that builds an overreaching structure to take forward the Company's mission of building a sustainable business. This framework supports the corporate goal of contributing towards a greener future through initiating actions for greening the environment, reducing energy and waste, improving the health and safety of its people and the living standards of disadvantaged communities, in order to reduce the carbon footprint of its operations.

The Green Team that comprises members of different divisions promote the Company's sustainable initiatives by implementing a number of initiatives such as green projects, internal activities for increasing staff awareness on the importance of protecting nature, and external activities for promoting environment awareness among the Company's external stakeholders.

Widespread environmental awareness programmes were introduced throughout the Company to mark the World Environment Week from 6 -10 June 2016.

The Company has invested in environmental friendly processes, initiated eco - friendly practices, and taken steps to replenish natural resources that have been used in the course of its business.

Various activities carried out during the World Environmental week from 6 - 10 June 2016

- Display of notices throughout the Company that highlights the need for protecting the environment and provoke thought and action
- A message from the Group CEO/Executive Director on the importance of inculcating the 3Rs of reduce, re-use and recycle into company practices
- Discussions on environmental protection at weekly divisional floor meetings
- Regular SMS texts and eco tips about green awareness
- Display of selected artwork from green art competitions held at several schools
- Free emission testing provided for customers at the Head Office and Orugodawatta workshop
- Environmental awareness messages set up at roundabouts
- Environmental awareness messages communicated through newspaper advertisements in line with the theme this year, "wild life protection"
- Distribution of eco driving tips to over 7500 customers via email, direct mails and prints

Display of selected art

Promoting a Greener Work Environment

UML believes that implementing sustainable best practices in the workplace is a win-win situation all round. It provides the staff with a healthy sustainable work environment, promotes productivity and ensures business health and continuity.

Managing Energy

Energy efficiency is a key concern of the Company. Since most energy, once used, cannot be renewed or replaced, UML knows the importance of optimizing energy in all areas of its operations, and has, over the years, implemented various activities to promote optimal energy management in business.

Energy consumption of all branches and departments are carefully monitored and solutions to high energy consumption in the business is actively pursued.

Many steps taken throughout the Company to reduce energy wastage have seen positive results. Lighting systems and energy consumption of other electrical items were assessed and changes were made to optimise electricity consumption.

New UML workshop at Ratmalana on ten acre property was specially designed under environmental friendly basis, exclusively providing automobile care for Mitsubishi passenger and FUSO commercial range of vehicles. For the first time at UML, this workshop introduced water borne auto paints that are environmental friendly and not hazardous for the painters.

Improving Resource Efficiency

UML realises the adverse environmental, economic, and health consequences of waste material, and looks at reducing waste generated from its offices and workshops, while identifying opportunities for using resources more efficiently.

The main consumables in the business are materials like paper and cotton waste, and a conscious decision was made to reduce the amount of paper used in its operations. Paper consumption at divisional levels was closely monitored. Waste paper management is carried out according to the 3R concept of Reduce-Reuse-Recycle.

UML continues to inculcate the importance of environment consciousness to all staff, with updated notice boards in prominent areas on environmental protection.

Managing Waste

UML has tools and processes to manage environmental issues that may arise from its workshop operations, and carefully manages the use of energy, water use, as well as the generation and disposal of waste.

In recognition that water is a critical and fast depleting resource, used water from the workshop operation is purified and used for other purposes.

The Company has also introduced a system for collecting and recycling the massive quantities of cardboard used in packaging vehicle spare parts shipped from overseas, and has a contract with a specialised service provider to safely dispose the used oil, oil filters and other used components from our operations.

More methods for reducing consumption and wastage of these natural resources will continue to be pursued in all areas of business.

Public awareness hoarding-garbage disposal

Engaging School Children

In May 2016, the green team also initiated a programme to create awareness among school children commencing with Navodaya Vidyalaya, Ratmalama, at which the Company engaged a prominent environmental consultant to create environment awareness to over 150 school children. In June 2016, UML staff also educated the children on green productivity. These initiatives succeeded in the launch of the 'Go Green Environmental Protection' programme by the environmental team at the Navodya school in July 2016, at which an environmental policy was implemented and initial steps taken in the 5Ss and the 3Rs.

Sustainability Report

Towards a Cleaner Environment

Cleanliness for Healthy Life

A clean environment is essential for human health and well-being.

Preventing or reducing dengue virus transmission depends entirely in controlling the mosquito vectors or interruption of human–vector contact. As part of our contribution towards environmental management, several dengue campaigns supported by the respective branch teams to eradicate the mosquito menace and promote a healthy environment were carried out at UML's branch offices in Kandy, Anuradhapura, Kurunegala and Ratnapura from September to November 2016.

Dengue awareness walk

Awareness sessions were carried out among school children and the general public with dengue awareness walks and street dramas. The teams cleaned the polluted environments, provided garbage bins and distributed leaflets on the importance of dengue prevention and dengue awareness signages were set up at prominent areas of the public roads.

Dengue awareness to general public

Beach Cleaning

As the World Ocean Day unraveled, the green team joined with enthusiastic stores and workshop teams to clean up a 300 metre stretch of public beach in Uswetakeiyawa, which is a popular place for bathing and relaxing. UML messages on promoting a green environment were displayed prominently and garbage bins were placed along the beach with the aim of inspiring communities towards preserving nature's charm.

Beach cleaning programme

Greening our Products

UML supports its principals in developing environmental friendly automobiles aimed at reducing the carbon footprint of transportation into the future.

New and innovative eco-friendly vehicles as well as vehicle accessories were introduced to the Sri Lankan market in the recent past, which continues to deliver benefits to our environment and the climate which minimise the impact of our products on the planet.

The Mitsubishi Attrage and Mirage have eco-friendly features that include high fuel efficiency which reduces the burning of fossil fuels and some of their components have been manufactured from recycled / eco-friendly material. Further their transmissions have lower emissions when compared with a standard petrol engine.

Mitsubishi Outlander PHEV, the world's first Plug in Hybrid Electric Vehicle 4WD SUV from Japan which offers unmatchable fuel savings, along with the drive and glide feature on EV mode with a high capacity 12KW battery which can store free energy generated through the transformation of kinetic energy to electricity. UML also has taken the initiative of offering its clients the vehicle with a source of renewable energy in the form of a solar system which can power the Outlander PHEV, with this option our customer is poised to be one of the most eco ethical citizen of our motherland.

The Perodua Axia, Malaysia's first energy efficient vehicle (EEV), launched by UML's fully owned subsidiary, Unimo Enterprises Ltd. promises an eco-friendly drive and has a quieter, cleaner and low emission engine.

UML plans to launch several other eco-friendly vehicles as well as products in the near future.


JMC
New Carrying

DFSK

Corporate Governance

The Chairman's Statement on Corporate Governance

The Board has set the governance framework based on the core values of the Company across all our business processes bringing in transparency and accountability.

Dear Stakeholders,

Over the years, UML has focused on developing a strong corporate governance foundation to create and maintain a sustainable business model and also to develop a trusted relationship with our stakeholders. It is this governance mindset which has enabled the Group to continuously create value for all our stakeholders notwithstanding the external environment and macro conditions. The Board has set the governance framework based on the core values of the Company across all our business processes bringing in transparency and accountability.

The Board sets the tone for good Corporate Governance at the top, by promoting professional standards through Charters of the Board and Board Sub Committees, which sets out the main duties and responsibilities of the Board and the Board Sub Committees. Code of Conduct and Ethics provides guidance on the core values and guiding principles of the Company.

The report that follows demonstrates the governance framework of the Company and how it has complied with the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and the Institute of Chartered Accountants of Sri Lanka and the section 7.10 of the Listing Rules on Corporate Governance issued by the Colombo Stock Exchange.

As required by the Code of Best Practice on Corporate Governance, I hereby confirm that, I am not aware of any material violations of any of the provisions of the Code of Business Conduct and Ethics by Directors or any Key Management Personnel of the Company.

Sunil G. Wijesinha
Chairman

25 May 2017

How We Govern

Corporate governance is the system by which a Company is directed, controlled and managed. It guides the Board and all levels of employees in the conduct of business on a day to day basis.
We believe that good governance is essential for the creation of long term shareholder value. The Corporate Governance Framework guides the Company and drives towards progress by way of developing and implementing appropriate corporate strategies. In pursuing the corporate objectives, we are committed to the highest level of governance and strive to foster a culture that values ethical standards, personal and corporate integrity and mutual respect.

The Board of Directors, led by the Chairman is responsible for the governance of the Company and ensuring that governance structures, policies and processes are sufficiently robust and relevant in a fast changing environment. The structures, framework and processes are reviewed regularly to identify areas for improvement to ensure that all elements of our governance framework are fit for purpose, enabling value creation and growth.

The Board sets the tone at the top by promoting professional standards and corporate values that cascade to senior management and other employees of the Company. The Code of Business Conduct & Ethics policies, procedures and processes are some of the key mechanisms through which these standards and values are cascaded down to ensure adherence across the Company.

Governance Structure

The Board of Directors (the Board) along with the Chairman is the apex body responsible and accountable for the stewardship function to the Shareholders. The Directors are collectively responsible for upholding and ensuring the highest standards of corporate governance and inculcating ethics and integrity across the Company.

The Board has delegated some of its functions to Board subcommittees, enabling the committees to focus on their delegated areas of responsibility and impart knowledge and experience in areas where they have greater expertise, while retaining final decision rights pertaining to matters under the purview of these committees.

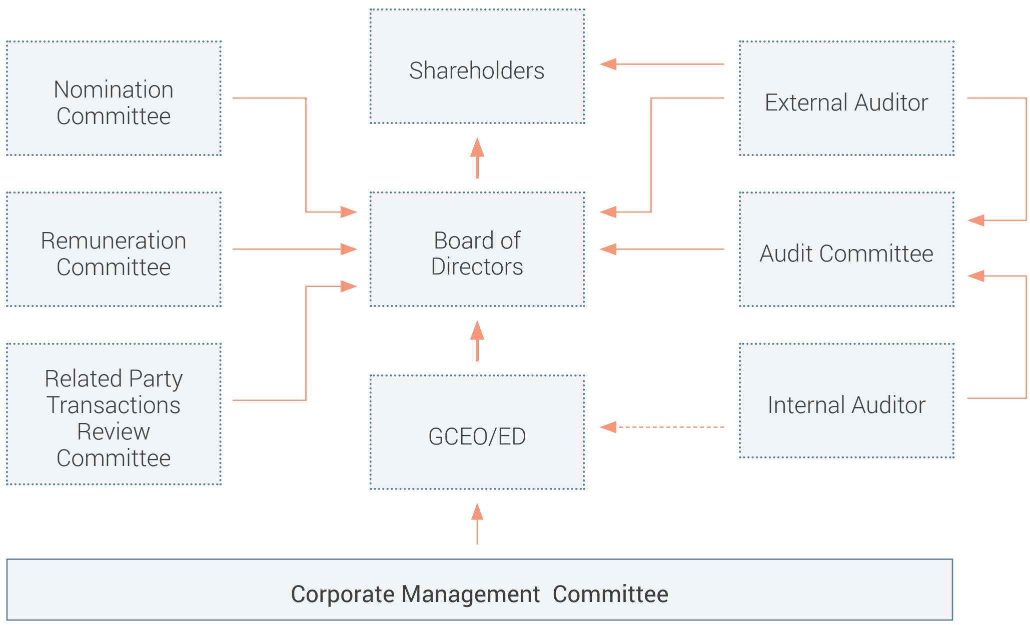
The Company has four Board sub-committees.

- Audit Committee
- Remuneration Committee
- Nomination Committee
- Related Party Transactions Review Committee

Details of Board subcommittees are detailed in the subcommittee reports.

Clear definitions of authority limits, responsibilities and accountabilities are set and agreed upon in advance to achieve greater operating efficiency and to expedite the decision making, through a committee structure ensuring that Group Chief Executive Officer/ Executive Director, Executive Director- Finance, Executive Director – After Sales and other divisional heads are accountable for the total company, division respectively.

The Corporate Management Committee under the leadership and direction of the Group Chief Executive Officer/Executive Director, implements the policies and strategies determined by the Board and manages business affairs of the Company through delegation and empowerment.



Corporate Governance

Governance Framework

In setting the governance framework for the Company, the Board takes into account, Code of Best Practice on Corporate Governance jointly issued by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission and also the Listing Rules of the Colombo Stock Exchange and best practices to deliver value to our stakeholders in a clear and transparent manner.

The corporate governance framework of the Company comprise of the following;

- Articles of Association
- Terms of reference of Board and Board Sub Committees
- Code of Business Conduct & Ethics
- Policies and procedures
- Organisation structure
- Risk management framework

The above is drafted in line with;

- Code of Best Practice on Corporate Governance jointly issued by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission, which seeks to address all rights of key stakeholders.
- Continuing Listing Rules of the Colombo Stock Exchange which addresses the rights of the investors.
- Companies Act No.07 of 2007, which includes provisions for preserving the rights of shareholders.
- Inland Revenue Act No. 10 of 2006 and amendments thereto and other Acts which are applicable for regulatory bodies.
- Shop and Office and Wages Board Acts, Gratuity Act and Termination of Employment of Workmen Act which addresses the rights of employees and responsibilities of employers.

This report summarizes how the Company is governed. We have used the structure of the Code of Best Practice on Corporate Governance jointly issued by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission to detail the governance structures and processes.

Compliance

The disclosures below indicate level of conformance with the above Code of Best Practice in Corporate Governance jointly issued by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission which comprises of seven fundamental aspects namely:

A. Directors
B. Directors' remuneration
C. Relationships with shareholders
D. Accountability and audit
E. Institutional investors
F. Other investors
G. Sustainability reporting

Corporate governance principles	Code reference	Compliance status	Details of compliance
A. Directors			
A.1. Board			
All Directors possess the skills, experience and knowledge complemented with a high sense of integrity and independent judgement. The Board gives leadership in setting the strategic direction and establishing a sound control framework for the successful functioning of the Company.			
Board meetings	A.1.1	Complied	The involvement and commitment of the Directors is evidenced by regular Board meetings. As a practice, the Company holds monthly Board meetings, at which the Company's performance and the business strategies are reviewed and discussed. Further, the parent company Board reviews the financial performance and the business strategies of all subsidiaries and jointly controlled entities every month. Heads of those companies, present the quarterly performance to the Board. A formal agenda is prepared for all Board meetings by the Company Secretary in consultation with the Chairman and the Group Chief Executive Officer / Executive Director. Agenda and papers for the meeting are circulated with sufficient notice. The Board met 13 times during the year and the attendance at Board Meetings is set out on page 101.
Board responsibilities	A.1.2	Complied	The Board has provided strategic direction to the development of short, medium and long term strategies which are aimed at long term sustainability of the Company. Board evaluates the progress on strategy implementation at Board meetings. The Board continuously monitors the stakeholder expectations and this is the starting point for strategy formation. The Board has put in place a Corporate Management Committee led by the Group Chief Executive Officer/ Executive Director who has the required skills, experience and the knowledge necessary to implement the business strategies of the Company. The Board recognizes its responsibility for the Company's internal controls system and for reviewing its effectiveness on a continuous basis. Audit Committee has been specifically assigned to carry out this task. These systems manage the risk of the Company's business and ensure that the financial information on which decisions are made and published is reliable and also ensures that Company's assets are safeguarded. The Board ensures that procedures and processes are in place to ensure that the Company complies with applicable laws and regulations. The Board evaluates and approves all investment proposals and the restructuring plans for existing businesses. The Board also reviews budgets and monitor performance of the individual business units against the budget on a monthly basis.

Corporate Governance

Corporate governance principles	Code reference	Compliance status	Details of compliance
Compliance with laws and access to independent professional advice	A.1.3	Complied	The Board of Directors ensures that procedures and processes are in place to ensure that the Company complies with the laws and regulations through a comprehensive statutory compliance checklist signed off by the relevant management and checked by the internal audit on a monthly basis. A summary of the non-compliance is presented at monthly Board meetings. The Company has complied with all applicable laws and regulations during the year. The Board members seek independent professional advice from third parties whenever deemed necessary, at Company's expense.
Board Secretary	A.1.4	Complied	The Company Secretary provides support to the Board ensuring that Directors receive timely and accurate information required to fulfill their roles. She attends all meetings and ensures that minutes are kept for all proceedings at the Board meetings and provides the Board with support and advice relating to corporate governance matters, Board procedures and applicable laws and regulations.
Independent judgement	A.1.5	Complied	Non - Executive Directors are responsible for bringing independent and objective judgement and scrutinize the recommendations / proposals made by the Corporate Management Committee led by Group Chief Executive Officer/ Executive Director on issues of strategy, performance, resource utilization and business conduct.
Dedication of adequate time and effort by the Board and Board Committees	A.1.6	Complied	The Chairman and members of the Board have dedicated adequate time for the fulfilment of their duties as Directors of the Company. All Directors are provided with notice, agenda and board papers in advance of each meeting. Whenever necessary, matters are also referred to them by circulars. Additionally, the Board members have meetings and discussions with management as and when required.
Training for Directors	A.1.7	Complied	The Board of Directors recognises the need for continuous training and expansion of knowledge in carrying out their duties as Directors. The Directors are regularly updated by the Group Chief Executive Officer/ Executive Director on relevant information regarding internal and external environment. Directors also attend forums/seminars where relevant topics are discussed.
A.2 Chairman and Chief Executive Officer			
There should be a clear division of responsibilities between the Chairman and Chief Executive Officer to ensure a balance of power and authority, in such a way that any individual has no unfettered powers in decision making.			
Division of responsibilities of Chairman and Chief Executive Officer/ Executive Director	A.2.1	Complied	The functions of the Chairman and the Group Chief Executive Officer/ Executive Director are clearly segregated. The Chairman holds office in a non - executive capacity with a clear division of responsibility at the most senior level of the Company. The Chairman is responsible for leading and effective functioning of the Board. The Group Chief Executive Officer / Executive Director is responsible for managing the business and implementing the strategies of the Company within the policy framework formulated by the Board and monitors its progress. This ensures balance of power and authority in strategic and operational decisions.

Corporate governance principles	Code reference	Compliance status	Details of compliance
A.3. Chairman's role			
The Chairman should lead and manage the Board, ensuring that it discharges its legal and regulatory responsibilities effectively and fully, preserves order and facilitates the effective functioning of the Board.			
Role of the Chairman	A.3.1	Complied	The role of the Chairman is clearly to run the Board effectively, maintain right balance within the Board, guide the Group Chief Executive Officer/ Executive Director to ensure that the Company is on the right track .The Chairman ensures the optimum contribution of all the Directors in discussions where decisions are needed on matters of strategy and risk etc. Their individual views and concerns are objectively assessed prior to making key decisions. Information is presented to the Board via board papers and the Chairman ensures such information is adequate for decision making. The Chairman also ensures regular meetings are held, the minutes of which are accurately recorded and where appropriate, include the individual and collective views of the Directors.
A.4. Financial acumen			
The Board should ensure the availability of sufficient financial acumen and knowledge to offer guidance on matters of finance.			
Availability of sufficient financial acumen and knowledge	A.4	Complied	All Directors possess financial acumen and knowledge through experience gained from leading public and private enterprises coupled with their academic and professional background. Three senior Chartered/ Management Accountants are in the Board who possess the necessary knowledge and competence to guide and advice on matters relating to finance.
A.5. Board balance			
There should be balance of Executive and Non-Executive Directors so that no individual or small group of individuals can dominate the Board's decision-making.			
Presence of Non-Executive Directors	A.5.1	Complied	The Board comprises of nine Directors of whom six including the Chairman hold office in a Non-Executive capacity. The requirement of the Code has been complied with during the financial year.
Independent Director	A.5.2	Complied	Out of six Non- Executive Directors five Directors are independent.
Criteria to evaluate independence of the Non-Executive Directors	A 5.3	Complied	The Board evaluates Non-Executive Director's independence on an annual basis as per the set criteria.
Signed declaration of independence by the Non-Executive Directors	A.5.4	Complied	All Non-Executive Directors of the Company have made written submissions as to their independence in line with the requirements of Schedule J of the Code.
Determination of independence of the Directors by the Board	A.5.5	Complied	The Board has determined the independence or non-independence of all Non-Executive Directors based on their declaration and their information available to the Board. Having taken into account all relevant aspects, the Board determined that Mr. A. W. Atukorala who has served the Board for continuously more than nine years continues as Independent Non-Executive Director of the Company. Accordingly, all Non- Executive Directors except for Mrs. A. H. Fernando are independent as per the specified criteria.

Corporate Governance

Corporate governance principles	Code reference	Compliance status	Details of compliance
Alternate Director	A.5.6	Not applicable	No alternate Directors.
Senior Independent Director	A.5.7	Not applicable	Requirement to appoint Senior Independent Director does not arise.
Confidential discussion by the Senior Independent Director with other Directors	A.5.8	Not applicable	As above.
Meeting of Non-Executive Directors	A.5.9	Complied	Chairman where necessary holds meeting with Non-Executive Directors. One such meeting was held during the year under review.
Recording of concerns in Board minutes	A.5.10	Complied	The Company Secretary records all matters discussed and decisions taken, unresolved matters and details required by the Board for further clarification and submit the required details for next Board meeting for effective decision making.
A.6. Supply of information			
Management should provide timely information in a form and of quality appropriate to enable the Board to discharge its duties.			
Information to the Board by the management	A.6.1	Complied	The Directors are provided with a comprehensive package of information for the regular Board meetings which is circulated in advance of scheduled meetings. These include an executive summary with detailed analysis of financial and non-financial information. The Chairman ensures that all Directors are properly briefed on issues arising at Board meetings.
Adequate time for effective Board meetings	A.6.2	Complied	Board papers are generally sent a week before the meeting giving adequate time for Directors.
A.7. Appointments to the Board			
A formal and transparent procedure should be followed for the appointment of new Directors to the Board			
Nomination Committee Terms of Reference for Nomination Committee Duties of Nomination Committee	A.7.1	Complied	The details of the Nomination Committee is given on page 107. The Nomination Committee recommends all new appointments and re-elections to the Board. Mr. T. Nomura, Mr. S. A Chapman and Mr. H. Inoue were appointed to the Board during the year under review. Terms of reference for Nomination Committee is in place. Terms of reference address duties of the Nomination Committee.
Assessment of Board composition by the Nomination Committee	A.7.2	Complied	The Nomination Committee carries out continuous review of the structure, size and composition (including skills, knowledge and experience) of the Board.
Disclosure of details of new Directors to shareholders	A.7.3	Complied	Mr. T. Nomura, Mr. S. A Chapman and Mr. H. Inoue were appointed to the Board during the year under review. Details of new Directors were disclosed to the shareholders through an announcement of CSE at the time of their appointment as well as in the Annual Report.

Corporate governance principles	Code reference	Compliance status	Details of compliance
A.8. Re-election			
All Directors should submit themselves for re-election at regular intervals and at least once in every three years, and all Non-Executive Directors should be appointed for a specific term and subject to re-election.			
Appointment of Non-Executive Directors	A.8.1	Complied	According to the Company's Articles of Association, at every AGM, one third of Non-Executive Directors excluding the Chairman shall retire from office each year. However, keeping in line with Code of Best Practice on Corporate Governance, the Chairman also seeks re-election on rotation. Accordingly, the Directors who shall seek re-election at this year's AGM have been indicated in the notice of the meeting on page 202.
Election of the Directors by the shareholders.	A.8.2	Complied	As above.
A.9. Appraisal of Board performance			
The Board should periodically appraise its own performance against the preset targets in order to ensure that the Board responsibilities are satisfactorily discharged.			
Appraisal of Board Performance	A.9.1	Complied	There is a formal process for appraisal of Board performance. The appraisals are carried out through a structured questionnaire which is in four separate parts addressing the following; ▪ Overall collective performance of the Board ▪ Evaluation of the performance of the Chairman ▪ Self-evaluation by each Director ▪ Evaluation of Non-Executive Directors An evaluation of Audit Committee was carried out during the year under review.
Annual self-evaluation of the Board and its Committees	A.9.2	Complied for the Board and Audit Committee	
Disclosure of the method of appraisal of Board and Board Sub Committee performance.	A.9.3	Complied	
A.10. Disclosure of information in respect of Directors			
Details in respect of each Director should be disclosed in the annual report for the benefit of the shareholders.			
Details in respect of Directors	A.10.1	Complied	Brief profiles of the Directors are given in the annual report on pages 24 to 28. Directors' attendance at Board meetings and Board sub committee meetings is disclosed in the Annual Report on page 101. The total number of Board positions (excluding directorship in UML) held by each Director is given on page 101.
A.11. Appraisal of Chief Executive Officer			
The Board of Directors should assess the performance of the Chief Executive Officer at least annually.			
Targets of Chief Executive Officer / Executive Director	A.11.1	Complied	An annual evaluation of the performance of the Group Chief Executive Officer /Executive Director was carried out by Remuneration Committee against pre-agreed targets.
Evaluation of the performance of the Chief Executive Officer / Executive Director	A.11.2		

Corporate Governance

Corporate governance principles	Code reference	Compliance status	Details of compliance
B). Directors' remuneration			
B.1 Remuneration procedure The Company should establish a formal and transparent procedure for developing policy on executive remuneration and fixing the remuneration packages of individual Directors. No Director should be involved in deciding his/her own remuneration.			
Terms of reference of Remuneration Committee	B.1.1	Complied	The Remuneration Committee is responsible for assisting the Board with regard to the remuneration policy for the Executive Directors and Corporate Management Team.
Composition of the Remuneration Committee	B.1.2 & B.1.3	Complied	All members of the Remuneration Committee are Non-Executive Directors. Details of the Remuneration Committee are given in the Remuneration Committee report on page 105.
Remuneration of Non-Executive Directors	B.1.4	Complied	The Board as a whole decides the remuneration of the Non-Executive Directors. The Non-Executive Directors receive a fee for serving on the Board and attending Board and Board subcommittee meetings.
Consultation of the Chairman and access to professional advice.	B.1.5	Complied	Input of the Chairman is obtained as the Chairman of the said Sub Committee. External professional advice is also sought on a need basis.
B.2. The level and make up of remuneration			
The level of remuneration of both Executive and Non-Executive Directors should be sufficient to attract and retain the Directors needed to run the company successfully. A proportion of Executive Directors remuneration should be structured to link rewards to corporate and individual performance.			
Remuneration of Chief Executive Officer / Executive Director and other Executive Directors	B.2.1	Complied	The remuneration scheme for Executive Directors is structured to align rewards to their individual performance and the achievement of corporate targets.
Comparison of remuneration with other companies	B.2.2	Complied	Salary surveys are carried out regularly to identify the salary levels of other companies for decision making.
Comparison of remuneration with other companies in the Group when deciding salary increments	B.2.3	Complied	When deciding annual increments, achievements against set targets, salary levels of other similar companies and companies within the Group are considered.
Performance related payments to Chief Executive officer / Executive Director	B.2.4	Complied	CEO's remuneration and incentives are based on achievement of preset targets.
Executive share options	B.2.5	Not applicable	The Company does not have share option schemes for Executives.
Considering provisions of schedule E in deciding the Executive Directors' remuneration	B.2.6	Complied	Provisions set out in Schedule E of the Code is followed in deciding the remuneration of Executive Directors.
Early termination of Directors	B.2.7	Not applicable	Only applicable to the Executive Directors. Their terms of employment is governed by the contract of service.

Corporate governance principles	Code reference	Compliance status	Details of compliance
Early termination not included in the initial contract	B.2.8	Not applicable	As above.
Remuneration of Non-Executive Directors	B.2.9	Complied	Non-Executive Directors' fee are based on the time commitment and responsibilities of their role taking into consideration prevailing market rates.
B.3. Disclosure of remuneration			
The Company's Annual Report should contain a statement on remuneration policy and details of remuneration of the Board as a whole.			
Disclosure of remuneration	B.3.1	Complied	Details are given in Remuneration Committee Report given on page 106. The remuneration paid to Board of Directors is disclosed in aggregate in Note 13.1 to the financial statements.
C). Relationships with shareholders			
C.1. Constructive use of the AGM and conduct of General Meetings			
Board should use the AGM to communicate with shareholders and should encourage their participation			
Use of Proxy votes	C.1.1	Complied	The Company records all proxy votes lodged for each resolution.
Separate resolution for all separate issues	C.1.2	Complied	Separate resolutions for each item are proposed giving the opportunity to vote on each matter separately.
Availability of all Board Sub Committee Chairman at the AGM.	C.1.3	Complied	At each AGM, the Board presents a business review to all shareholders who request for clarifications. Further, the Chairman/Chairperson of sub committees are available to answer questions at AGM.
Adequate notice of the AGM	C.1.4	Complied	In terms of the provisions of the Companies Act, notice of meeting is circulated fifteen working days prior to the AGM.
Procedures of voting at general meetings	C.1.5	Complied	A copy of the Annual Report is dispatched together with the notice of meeting. A summary of the procedures that govern voting is indicated in the proxy form.
C.2. Communication with shareholders			
The Board should implement effective communication with shareholders.			
Channel to reach all shareholders of the Company	C.2.1	Complied	The primary modes of communication between the Company and the shareholders are the interim financial statements, Annual Report and the AGM. Copies of Annual report, interim reports, stock exchange announcements etc. are posted on the Company's website.
Policy and methodology for communication with shareholders	C.2.2	Complied	The Company focuses on open communication and fair disclosures with emphasis on the integrity, timeliness and relevance of the information provided.

Corporate Governance

Corporate governance principles	Code reference	Compliance status	Details of compliance
Implementation of the policy and methodology for communication with shareholders	C.2.3	Complied	Shareholder communication policy is in place.
Contact person in relation to shareholders matters	C.2.4 C.2.6	Complied	Shareholders may, at any time, direct questions, request for publicly available information and provide suggestions to Directors or management of the Company. Such questions, requests and suggestions should be addressed to the Company Secretary.
Process to make all Directors aware of major issues and concerns of shareholders	C.2.5	Complied	The Company Secretary maintains records of all correspondence received and will deliver as soon as practical such correspondence to the Board or individual Director/s as applicable and the Board or individual Director/s will respond to the shareholders and will direct the Company Secretary to send the response to the shareholder.
The process responding to shareholder matters	C.2.7	Complied	Refer above.
C.3. Major and material transactions			
As per the requirement of the Companies Act, Directors should disclose to shareholders, all proposed material transactions which would materially alter/vary the Company's net asset base.			
Major and material transactions	C.3	Complied	In terms of Listing Rules pertaining to immediate disclosures, the Company always notifies the Colombo Stock Exchange about the relevant transactions as soon as they are approved by the Board of Directors in order to ensure dissemination of information to the public.
Major transactions	C.3.1	Not applicable	No major transactions took place during the year which materially affected the net assets.
D). Accountability and Audit			
The Board should present a balanced and understandable assessment of the Company's financial position, performance and prospects.			
Statutory and regulatory reporting	D.1.1	Complied	In the preparation of quarterly and annual financial statements UML has complied with the requirements of Companies Act No 07 of 2007, Sri Lanka Accounting Standards and reporting requirements prescribed by the regulatory authorities.
Directors report in the annual report	D.1.2	Complied	The annual report of the Board of Directors on the affairs of the Company is given on pages 116 to 123 covers all disclosure requirements.
Statement of Directors' and Auditors' responsibility for the financial statements and a statement on internal control	D.1.3	Complied	Statement of Directors' responsibility for financial reporting is given on pages 127 and 128. The Directors' statement on internal controls is given on page 129. Auditors' responsibility on financial statements is given on page 131.

Corporate governance principles	Code reference	Compliance status	Details of compliance
Management discussions and analysis	D.1.4	Complied	Management review includes Group overview, operational review and financial review. The management discussion and analysis is given on pages 38 to 57.
Declaration by the Board that the business is a going concern	D.1.5	Complied	This declaration is made in the "Annual Report of the Board of Directors on the affairs of the Company" on page 118.
Summoning an EGM to notify serious loss of capital	D.1.6	Not applicable	No serious loss of capital and no EGM summoned during the year under review.
Related party transactions	D.1.7	Complied	Process for identifying, recording and disclosure of related party transactions is in place. All related party transactions as defined in Sri Lanka Accounting Standard 24 - Related party transactions is disclosed in note 39 to the financial statements. A related party transaction review subcommittee is in place. Refer report of the related party transactions review committee on pages 108 and 109.
D.2. Internal controls			
The Board should maintain a sound system of internal controls and a process for risk management to safeguard shareholders' investments and the Company's assets.			
Internal controls	D.2	Complied.	The Company's prevailing internal control systems are reviewed by the internal audit division and periodical reports are submitted to the Audit Committee.
Annual evaluation of the risks facing the Company and the effectiveness of the system of internal controls	D.2.1	Complied	Details are given in Directors' statement on internal controls on page 129.
Internal audit function	D.2.2	Complied	UML has its in-house internal audit function.
Review of the process and effectiveness of risk management and internal controls	D.2.3	Complied	The internal audit division of the Company carries out regular review on risk management and internal controls including controls over financial reporting which is reviewed and monitored by the Audit Committee.
Responsibilities of Directors for maintaining a sound system of internal controls	D.2.4	Complied	The Directors' responsibility for maintaining a sound system of internal controls is given in Directors' statement on internal controls on page 129.
D.3. Audit Committee			
The Board should establish formal and transparent arrangements in selecting and applying accounting policies, financial reporting and internal controls principles and maintains an appropriate relationship with the Company's external auditors.			
Composition of the Audit Committee	D.3.1	Complied	Audit Committee Chairman and other two members are Non- Executive Directors. The details of the composition of the Audit Committee are given on page 102.

Corporate Governance

Corporate governance principles	Code reference	Compliance status	Details of compliance
Review of independence and objectivity of the external auditor	D.3.2	Complied	The Audit Committee monitors and reviews the external auditor's independence, objectivity and the effectiveness of the audit process taking into account relevant best practices and regulatory requirements. The Audit Committee is responsible for making recommendations on the appointment, reappointment and or removal of the external auditors' in line with professional standards and regulatory requirements.
Terms of reference of the Audit Committee	D.3.3	Complied	The Audit Committee is guided by the committee charter which sets out the responsibilities of the committee. Details of the Audit Committee are given in the Audit Committee Report on pages 102 to 104.
Disclosures of Audit Committee	D.3.4	Complied	The names of the members of the Audit Committee are given in the Audit Committee Report on pages 102 and 104. In order to safeguard the objectivity and independence of the external auditor, the Audit Committee reviewed the nature and scope taking into account of the regulations and guidelines stated in Section D.3.2.
D.4. Code of Business Conduct & Ethics			
The Company should develop a Code of Business Conduct & Ethics for Directors and members of the senior management.			
Code of Business Conduct & Ethics	D.4.1	Complied	A Code of Business Conduct & Ethics is in place which addresses conflict of interest and outside activities, privacy/ confidentiality, gifts and entertainment, personal investments, know your customers, anti-money laundering, accuracy of company records and reporting, protecting UML group's assets, workplace responsibilities, raising ethical issues, responsibilities of superiors and managers, compliance with laws, rules and regulations, key irregularities and disciplinary procedures. Further, the Code specifically addresses share trading policy, whistle blowing policy, conflict of interest and confidentiality policy.
Affirmation by the Chairman that there is no violation of the Code of Business Conduct & Ethics	D.4.2	Complied	The Board is not aware of any material violations of any of the provisions of the Code of Business Conduct & Ethics by any Director or senior management of the Company.
D.5. Corporate governance disclosures			
The Company should disclose the extent of adoption of best practice in corporate governance			
Disclosure of corporate governance	D.5.1	Complied	The Annual Report deals with the extent to which Company has complied with the requirements of the Code of Best Practices on Corporate Governance issued by SEC and CA Sri Lanka and compliance with regulations of the section 7.10 of the Listing Rules of Colombo Stock Exchange.

Corporate governance principles	Code reference	Compliance status	Details of compliance
E). Institutional investors			
E.1. Shareholder voting			
Institutional shareholders are responsible to make considered use of their votes and encouraged to ensure their voting intentions are translated into practice.			
Dialogue with Institutional shareholders	E.1.1	Complied	The Company's performance is well communicated to the shareholders at the AGM. All other formal and informal suggestions and views of shareholders are conveyed to the Board.
E.2. Evaluation of governance initiatives			
When evaluating company's governance arrangements, institutional investors should be encouraged to give due weight to all relevant factors drawn to their attention			
Evaluation of governance initiatives	E.2	Complied	Institutional investors are encouraged to provide any feedback on the governance related issues.
F). Other investors			
F.1. Investing/ divesting decision			
Investing/ divesting decisions	F.1	Complied	The Company's Annual Report provides adequate information to shareholders to make judgments or to seek clarifications on their investment decisions.
F.2. Shareholder voting			
Individual shareholder voting	F.2	Complied	Notice of meeting is sent to all shareholders on time to encourage their participation at the Annual General Meeting and exercise their voting rights. In case of appointing proxy, the proxy form and instructions are given in the annual report.
G). Sustainability reporting			
Principles of sustainability reporting	G.1	To be complied in future.	Although the engagement with different stakeholders is disclosed in the sustainability report on pages 60 to 81, a Sustainability Reporting framework has not been applied in preparing this annual report.
Economic sustainability	G.1.1		
The environment	G.1.2		
Labour practices	G.1.3		
Society	G.1.4		
Product and service responsibility	G.1.5		
Stakeholder identification engagement and effective communication	G.1.6		
Sustainable reporting and disclosure	G.1.7		

Corporate Governance

Status of compliance with the Listing Regulations of Colombo Stock Exchange

CSE Rule		Compliance Status	Details of Compliance
7.10 Compliance			
a / b /c	Compliance with the corporate governance rules	Complied	The Company is in compliance with the corporate governance rules.
7.10.1 Non-Executive Directors			
a / b /c	At least 2 members or 1/3 of the Board whichever is higher should be Non-Executive Directors.	Complied	Six out of nine Board members are Non-Executive Directors.
7.10.2 Independent Directors			
a	2 or 1/3 on Non-Executive Directors whichever is higher shall be 'independent'.	Complied	Out of six Non-Executive Directors, five are independent.
b	Each Non-Executive Director to submit a signed and dated declaration of his/her independence / non-independence.	Complied	Non-Executive Directors have submitted declarations as to their independence.
7.10.3 Disclosures relating to Directors			
a / b	Board shall annually determine the independence or otherwise of Non-Executive Directors.	Complied	The Board considers Non-Executive Director's independence on an annual basis. Refer A.5.5 on page 89.
c	A brief resume of each Director should be included in the annual report including the Director's experience.	Complied	Refer Board of Directors profiles on pages 24 to 28.
d	Provide a resume of new Directors appointed to the Board along with details.	Complied	Mr. T. Nomura, Mr. S. A Chapman and Mr. H. Inoue were appointed to the Board during the year under review. Detailed resume of the new Directors were submitted to the Colombo Stock Exchange.
7.10.4 Criteria for defining independence			
a. to h.	Requirements for meeting the criteria to be an independent Director	Complied	Requirement specified are considered in deciding the independence.
7.10.5 Remuneration Committee			
a.1	Remuneration Committee shall comprise of Non-Executive Directors and majority should be independent.	Complied	Remuneration Committee consists of four Non-Executive Directors out of which three are independent.
a.2	One Non-Executive Director shall be appointed as Chairman of the Committee by the Board of Directors.	Complied	Board Chairman is the Chairman of the Remuneration Committee who is a Non-Executive Director.
b	Remuneration Committee shall recommend the remuneration of the Chief Executive Officer and Executive Directors.	Complied	Remuneration of Group Chief Executive Officer / Executive Director and Executive Directors is recommended by the Remuneration Committee.

CSE Rule		Compliance Status	Details of Compliance
C.1	Names of Remuneration Committee members	Complied	Refer Remuneration Committee report on page 105 for the names of the Committee members.
C.2	Statement of remuneration policy	Complied	Refer Remuneration Committee report for the remuneration policy.
C.3	Aggregate remuneration paid to Executive Directors and Non-Executive Directors	Complied	Aggregate remuneration paid to Executive and Non-Executive Directors are disclosed in Note 13.1 to the financial statements.
7.10.6 Audit Committee			
Composition			
a.1.	Audit Committee shall comprise of Non-Executive Directors, a majority of whom should be independent.	Complied	Audit Committee consists of three Non-Executive Directors out of which two are independent.
a.2.	A Non-Executive Director shall be the Chairman of the Committee	Complied	Chairperson of the Audit Committee is a Non-Executive Director.
a.3	Chief Executive Officer and Chief Financial Officer shall attend Audit Committee meetings	Complied	Group Chief Executive Officer / Executive Director and the Executive Director-Finance and the DGM Internal Audit & Monitoring attend meetings by invitation.
a.4	The Chairman of the Audit Committee or one member should be a member of professional accounting body.	Complied	Chairperson of the committee is a member of the Institute of Chartered Accountants of Sri Lanka and a member of the Institute of Certified Management Accountants of Sri Lanka.
b. Functions of the Audit Committee shall include:			
b.1	Overseeing of the preparation presentation and adequacy of disclosures in the financial statements in accordance with SLFRS/LKAS.	Complied	The Audit Committee oversees the Company's financial reporting process to ensure the reliability of the information provided to the stakeholder. Appropriateness of the accounting policies adopted, key judgments and estimates used in preparation of financial statements and processes by which compliance with Sri Lanka Accounting Standards (SLFRSs & LKASs) and other regulatory provisions relating to financial reporting and disclosures are reviewed by the Audit Committee.
b.2	Overseeing the compliance with financial reporting requirements, information requirements as per the laws and regulations.	Complied	The Audit Committee has the overall responsibility for overseeing the preparation of financial statements in accordance with the laws and regulations of the country and also recommending to the Board, on the adoption of best accounting policies.
b.3	Ensuring the internal controls and risk management, are adequate, to meet the requirements of the SLFRS/LKAS.	Complied	The Committee reviewed the processes for identification, recording, evaluation and management of all significant risks. Audit Committee reviews the design and operating effectiveness of the internal controls.

Corporate Governance

CSE Rule		Compliance Status	Details of Compliance
b.4	Assessment of the independence and performance of the entity's external auditors.	Complied	The Audit Committee assessed the external auditor's independence, objectivity and the effectiveness of the audit process.
b.5	Make recommendations to the Board pertaining to external auditors.	Complied	The Audit Committee is responsible for making recommendations on the appointments, reappointments and removal of the external auditors in line with professional standards.
c. Disclosure in the annual report			
c.1	Names of the Audit Committee members shall be disclosed.	Complied	Names of the Audit Committee members are disclosed in the Audit Committee report on page 102.
c.2	Audit Committee shall make a determination of the independence of the external auditors.	Complied	The Audit Committee assessed the external auditor's independence based on set guidelines and also obtained a confirmation and concluded that the external auditors are independent.
c.3	Report on the manner in which Audit Committee carried out its functions.	Complied	Refer Audit Committee Report on pages 102 to 104 for functions carried out.

Accordingly, we have complied with all listing regulations of CSE with regard to Corporate Governance and the best practices in the Corporate Governance Code except for Sustainability Reporting which we hope to comply in future as of the reporting date.

Assurance

The "Assurance" element is the supervisory role of the corporate governance framework, where a range of assurance mechanisms such as corrective actions being proposed and implemented, monitoring and assessing effectiveness and process control at management level and internal assurance by the internal audit department.

There are clear processes for monitoring and following up on corrective actions on control weaknesses or failures reported. These audit findings together with the management comments are reviewed by the Audit Committee.

Name of Director	Capacity	Status of independence	Board meetings		Audit Committee meetings		Remuneration Committee meetings		Nomination Committee meetings		Related Party Transactions Review Committee meetings	
			No of meetings		No of meetings		No of meetings		No of meetings		No of meetings	
			Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Mr. Sunil G. Wijesinha	Chairman Non-Executive Director	Independent	13	13	10	10	3	3	4	4	5	5
Mr. C Yatawara	GCEO/Executive Director	Non Independent	13	13	*10	10	*3	2	4	4	5	5
Mr. A W Atukorala	Non-Executive Director	Independent	13	12	10	10	3	1	4	3	5	5
Mr. A C M Lafir	Executive Director	Non Independent	13	13	*10	9	-	-	-	-	5	5
Mr. R H Yaseen	Executive Director	Non Independent	13	7	-	-	-	-	-	-	-	-
Mrs. A H. Fernando	Non-Executive Director	Non Independent	13	13	10	10	3	3	4	4	5	5
Mr. A. D.E. I. Perera - Ceased to be a Director w.e.f. 8 July 2016	Non-Executive Director	Independent	4	4	-	-	1	1	-	-	-	-
Prof. K.A.M.K. Ranasinghe	Non-Executive Director	Independent	13	13	-	-	3	3	-	-	-	-
Mr. T. Nomura - Appointed w.e.f. 25 April 2016 and resigned w.e.f. 16 January 2017	Non-Executive Director	Independent	10	-	-	-	-	-	-	-	-	-
Mr. S.A. Chapman - Appointed w.e.f. 22 September 2016	Non-Executive Director	Independent	7	7	-	-	-	-	-	-	-	-
Mr. H. Inoue - Appointed w.e.f. 30 January 2017	Non-Executive Director	Independent	2	-	-	-	-	-	-	-	-	-
Chairman of Board/ Board Sub Committee			Mr. Sunil.G. Wijesinha		Mrs. A H. Fernando		Mr. Sunil.G. Wijesinha		Mr. Sunil.G. Wijesinha		Mr. A W Atukorala	

* Attended by invitation

Name of Director	No of Board seats held in listed companies (excluding UML)		No of Board seats held in unlisted companies	
	Executive capacity	Non-Executive capacity	Executive capacity	Non-Executive capacity
Mr. Sunil. G. Wijesinha	-	2	1	9
Mr. C Yatawara	-	-	5	2
Mr. A W Atukorala	-	3	-	7
Mr. A C M Lafir	-	-	-	1
Mr. R H Yaseen	-	-	-	1
Mrs. A H. Fernando	-	-	5	3
Prof. K.A.M.K. Ranasinghe	-	4	-	-
Mr. S. A. Chapman	1	-	-	1
Mr. H. Inoue	-	-	-	-

Audit Committee Report

“Keeping with Best Corporate Governance Practices, the Audit Committee recommended the Board to rotate the external auditors”

Charter of the Committee

The Charter of the Audit Committee (the Committee) approved by the Board, clearly defines the Terms of Reference of the Committee and is annually reviewed to ensure that new developments relating to the Committee’s functions are addressed.

The Committee assists the Board in discharging its responsibilities and exercises oversight over financial reporting, internal audit, external audit, internal controls and risks.

Rules on Corporate Governance under Listing Rules of the Colombo Stock Exchange and Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka and Securities and Exchange Commission of Sri Lanka further regulate the composition, role and functions of the Audit Committee.

The Committee is empowered by the Board to;

- Ensure that financial reporting systems in place are effective and well managed in order to provide accurate, appropriate and timely information to the Board, Regulatory Authorities, the Management and other stakeholders.
- Review the appropriateness of accounting policies and their adherence to statutory and regulatory compliance requirements and applicable Accounting Standards.
- Review the interim and annual financial statements prepared for publication prior to submission to the Board of Directors.
- Examine the adequacy, design and operating effectiveness of the risk management measures, internal controls and governance processes in place to identify, avoid and mitigate risks and to provide reasonable assurance that the Company’s assets are safeguarded and that steps are being taken to continuously improve the control environment.
- Ensure that the Company has adopted and adhered to high standards of Corporate Governance practices, conforming to highest ethical standards and good industry practices in the best interest of all stakeholders.

Composition of the Committee

The Audit Committee consist of following members whose profiles are given on pages 24 to 26.

Mrs. A. H. Fernando – Chairperson - Non-Executive Director
Mr. Sunil.G. Wijesinha – Independent - Non-Executive Director
Mr. A .W. Atukorala – Independent - Non-Executive Director

Chairperson of the Committee, Mrs. A.H. Fernando, a Non-Executive Director is a member of the Institute of Chartered Accountants of Sri Lanka and a member of the Institute of Certified Management Accountants of Sri Lanka.

Attendees by invitation

Group Chief Executive Officer / Executive Director
Executive Director - Finance
Deputy General Manager Internal Audit and Monitoring.

The Company Secretary functions as Secretary to the Audit Committee.

Meetings

The Committee held ten meetings during the financial year ended 31 March 2017.

Name	Attendance
Mrs. A. H. Fernando	10/10
Mr. Sunil.G. Wijesinha	10/10
Mr. A .W. Atukorala	10/10

The engagement partner of the Company’s external auditors attends meetings when matters pertaining to their functions come up for consideration. Three such meetings were held during the year.

The Committee also invited members of the Senior Management to participate in the meetings as and when required .

- Review internal and external audit reports and follow up on their findings and recommendations. Assess the independence and monitor the performance and functions of internal and external auditors.

Activities for the Year Under Review

Financial reporting

The Audit Committee assisted the Board in its oversight on the preparation of financial statements ensuring that the Company's financial reporting gives a true and fair view based on the accounting records and in accordance with the stipulated Sri Lanka Accounting Standards.

Accordingly, the Committee reviewed the following;

- Adequacy and effectiveness of the internal controls, systems, and procedures to provide reasonable assurance that all transactions are recorded accurately and completely in the books of accounts.
- Effectiveness of the financial reporting systems to ensure reliability of the information provided to the stakeholders.
- Appropriateness of the accounting policies adopted, key judgements and estimates used in preparation of financial statements and compliance with Sri Lanka Accounting Standards (SLFRSs & LKASs) and other regulatory provisions relating to financial reporting and required disclosures.
- Quarterly accounts and annual report are reviewed prior to submission to the Board.

Internal Controls and Risk Management

A risk based audit approach is used to assess the effectiveness of the internal control procedures in place to identify and manage all significant risks. The effectiveness of the Company's internal controls and risk management processes are assessed by the reports submitted by the internal and external auditors.

The Committee reviewed the processes for identification, recording, evaluation and management of all significant risks. Required assurances were obtained from the Divisional Heads on the mitigating actions taken in respect of the identified risks.

Directors' statement on internal controls is given on page 129.

Regulatory Compliance

A procedure has been laid down for reporting on the statutory compliance / non-compliance of the Company and its subsidiaries on a monthly basis. This report is certified by the internal audit division. Non compliances are followed up to ensure appropriate corrective actions are taken. Messrs Amarasekara & Company acts as the tax advisors for the Group and conducts tax compliance reviews.

Internal Audit

The Audit Committee exercises oversight over the internal audit function. The Committee approves the annual internal audit programme and follows up on the progress during the year. Internal audit reports are presented and reviewed on a regular basis. Issues are raised with a risk rating to ensure more attention is given to high risk areas. These reviews examine management's responses to the issues raised and recommendations to overcome the issues and the implementation plans. The processes and the frequency of audits are dependent on the risk level, with higher risk areas being audited more frequently with greater focus.

Independence and Objectivity of the External Auditors

Prior to commencement of the annual audit, the committee discussed with the external auditors their audit plan, audit approach, procedures and matters relating to the scope of audit. The fees of the external auditors were also approved by the Audit Committee. The audit findings were discussed at the conclusion of the audit, where the Committee reviewed and recommended the annual consolidated financial statements to the Board for their approval.

The external auditors were given adequate access by the Committee to ensure they had no cause to compromise their independence and objectivity. The Committee reviewed the non-audit services provided by the external auditors with the aim of assessing the independence and objectivity of the external auditor. Having reviewed these, the Committee is satisfied that the non-audit service provided by the external auditors does not impair their independence. The Committee has also received a declaration from the external auditors as required by the Companies Act No. 07 of 2007, confirming that they do not have any relationship or interests in the Company which may have a bearing on their independence.

Audit Committee Report

The Audit Committee also reviewed the external auditor's management letter for the previous financial year with the management's responses thereto and necessary actions were taken.

Keeping with best corporate governance practices, the Audit Committee recommended to the Board to rotate external auditors, Messrs. KPMG, who had been the external auditors for more than twenty five years. Accordingly, in order to select the external auditor for the financial year ending 31 March 2018, proposals were requested from multinational audit firms practicing in the country. After evaluation, the Committee has recommended to the Board of Directors to propose Messrs. PricewaterhouseCoopers (PwC), Chartered Accountants to be appointed as the external auditors of the Company for the financial year ending 31 March 2018. Such appointment is subject to the approval of the shareholders at the Annual General Meeting to be held on the 30 June 2017.

Corporate Governance

The Committee reviewed the level of compliance with corporate governance rules as per Sec 7.10 of the Listing Rules of the Colombo Stock Exchange and compliance with the Code of Best Practice on Corporate Governance jointly issued by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission and is satisfied that the Company has complied with all mandatory requirements and best practices during the year under review except for sustainability reporting which will be complied in future.

The Committee continuously emphasized on upholding ethical values of the staff members. In this regard, the whistle blowing policy is in place with a view to further strengthening the process by which employees raise their concerns in confidence. Incidents reported through whistle blowing procedures were investigated.

Evaluation of the Committee

An evaluation of the effectiveness of the Audit Committee was carried out during the year under review. It was concluded that its performance was satisfactory.

Conclusion

Based on the review of reports submitted by the external and internal auditors and the information received during the deliberations, the Committee is satisfied that the internal controls and procedures in place are adequately designed and have been operating effectively to provide reasonable assurance that the Company's assets are safeguarded and that steps are being taken to continuously improve the control environment. The Committee is also satisfied that the Company has adopted appropriate accounting policies and the financial position of the Company is regularly monitored and the financial statements are reliable.

Mrs. A. H. Fernando
Chairperson – Audit Committee

25 May 2017

Remuneration Committee Report

Remuneration is one of the key tools that helps us to motivate our people to achieve corporate goals. The Committee remains committed to linking remuneration to the achievement of UML's strategic objectives

Policy

The remuneration policy of the Company is designed to attract, motivate and retain staff with the appropriate professional, managerial and operational expertise to achieve the objectives of the Company.

Scope and Responsibility

The scope and the responsibility of the Remuneration Committee include:

- To consider internal as well as external remuneration factors and to ensure that the remuneration policy of the Company recognises and addresses the short and long term needs of the organisation in relation to performance, talent retention and rewards.
- To formulate on behalf of the Board, formal and transparent procedures for developing policy on remuneration for Executive Directors, Group CEO and Corporate Management Team.
- To recommend to the Board a competitive remuneration and rewards structure which is linked to performance.
- To decide on the remuneration packages of Group CEO, Executive Directors and Key Management Personnel.
- To evaluate the performance of Group CEO, management development plans and succession planning.
- To approve annual salary increments, bonuses, changes in perquisites and incentives.
- To plan for Succession.

Professional Advice

The committee, when necessary obtains external independent professional advice on matters within the purview of the Committee and invite professional advisors with relevant experience to assist in carrying out various duties.

Remuneration Package

Remuneration is one of the key tools that helps us to motivate our people to achieve corporate goals. The Committee remains committed to link remuneration to the achievement of UML's strategic objectives.

Composition

The Remuneration Committee appointed by and responsible to the Board of Directors comprises three Independent Non-Executive Directors (IND/NED) and one Non-Independent Non-Executive Director (NIND/NED). Members of the Committee are:

Mr. Sunil G. Wijesinha (Chairman)	- (IND/NED)
Mr. A.W. Atukorala	- (IND/NED)
Mrs. A.H.Fernando	- (NIND/NED)
Prof. K.A.M.K. Ranasinghe	- (IND/NED)

The above composition is in compliance with the requirement to have a minimum of two Independent Non- Executive Directors in terms of the Continuing Listing Requirements of the Listing Rules issued by the Colombo Stock Exchange.

The profiles of the members are given on pages 24 to 27 of the annual report.

Group Chief Executive Officer/ Executive Director (GCEO/ED) attends the meetings by invitation.

The Company Secretary functions as the Secretary to the Remuneration Committee.

Our remuneration arrangements are designed to support our business vision and the implementation of our strategy. The performance measures have been selected to support our business strategy and the ongoing enhancement of shareholder value.

The focus of our package is on variable pay based on annual and long term performance. Performance related elements are structured so that the target levels of rewards are challenging but achievable.

Acknowledging that success is not only measured by delivering financial returns, we also consider the quality of performance in terms of business results and leadership including corporate social responsibility projects and the progress against such pre agreed targets.

Remuneration Committee Report

Employees

Total compensation of employees are influenced by number of factors such as skills, experience, responsibility, performance, industry average and the findings of market surveys conducted on selected firms in every three to four years.

Executive staff members are informed of the key performance indicators (KPI) in advance and are evaluated against such pre-agreed targets.

The Employee remuneration consists of a fixed component and a variable component.

Basic salary is the fixed component of the remuneration and is reviewed for increments annually based on the ratings at the annual performance appraisals.

The Company has implemented a variable bonus scheme for staff at all levels which is based on individual performance and the Company performance.

Directors

The remuneration packages awarded to Executive Directors comprise a mix of performance related and non-performance related remuneration designed to motivate them towards the achievement of corporate goals.

To ensure that remuneration arrangements fully support the sustainability agenda, the performance goals for the Executive Directors are based on quantitative and qualitative targets.

The remuneration for Non-Executive Directors reflects the time, commitment and responsibilities of their role and is based on industry and market surveys. They do not receive any performance or incentive payments.

The aggregate remuneration paid to the Executive Directors and the fees paid to the Non-Executive Directors for serving on the Board and attending Board and Board Sub Committee meetings are disclosed in Note 13.1 to the financial statements.

Sunil G. Wijesinha
Chairman - Remuneration Committee.

25 May 2017

Meetings

The Committee held three meetings during the year.

Name	Attendance
Mr. Sunil G. Wijesinha	03/03
Mr. A.W. Atukorala	01/03
Mrs. A. H. Fernando	03/03
Mr. A.D.E.I. Perera*	01/01
Prof. M. Ranasinghe	03/03

The proceedings of the meetings are regularly reported to the Board of Directors. A member of the Remuneration Committee does not participate in decisions relating to his/her own remuneration.

At these meetings the performance bonus and its quantum, annual increments for the Group were discussed. The members also evaluated the performance of the GCEO/ED against the pre-agreed targets/various parameters.

Neither the GCEO /ED nor any other Directors participated in remuneration committee meetings when determinations are made in respect of their own performance, compensation package and fees.

The proceedings of the meetings are regularly reported to the Board of Directors.

*Ceased to be a member from 8 July 2016

Nomination Committee Report

The members continued to work closely with the Board of Directors in reviewing the structure, size, composition and skills required for a steadfast, strong and successful organization and reported back to the Board of Directors with its recommendations

Terms of Reference of the Nomination Committee

The Nomination Committee was established for the purpose of advising the Board in relation to nominations, retirement, re-election, succession and training of the Board members. The Committee has the authority to discuss the issues under its purview and report back to the Board of Directors with recommendations, enabling the Board to make a decision.

The Committee focuses on the following objectives in discharging its responsibilities.

- To regularly review the structure, size, composition and competencies (including the skills, knowledge and the experience) of the Board and make recommendations to the Board with regard to any changes.
- To identify and recommend suitable Directors for appointment to the Board and Board sub committees.
- To consider and recommend (or not recommend) the re-appointment of current Directors, taking into account the performance and contribution made by the Director concerned and provide advice and recommendations to the Board on any such appointment.
- To look into and make recommendations on any other matters referred to it by the Board of Directors.

Professional Advice

The Committee seeks external professional advice on matters within its purview whenever required.

Performance

The members of the Nomination Committee continued to work closely with the Board of Directors in reviewing the structure, size, composition and skills required for a steadfast, strong and successful organization and reported back to the Board of Directors with its recommendations.

Sunil G. Wijesinha
Chairman - Nomination Committee

25 May 2017

Composition of the Nomination Committee

The Nomination Committee appointed by the Board of Directors comprises of two Independent Non-Executive Directors (IND/NED), the Group Chief Executive Officer / Executive Director (GCEO / ED) and one Non-Independent Non-Executive Director (NIND/NED). Members of the Committee are:

Mr. Sunil G. Wijesinha (Chairman) - (IND/NED)
Mr. A.W. Atukorala - (IND/NED)
Mr. C. Yatawara - (ED)
Mrs. A.H. Fernando - (NIND/NED)

Brief profiles of the members are given on pages 24 to 26.

The Company Secretary acts as the secretary to the Committee.

Meetings

The Nomination Committee held four meetings during the year.

Name	Attendance
Mr. Sunil G. Wijesinha	04/04
Mr. A.W. Atukorala	03/04
Mr. C. Yatawara	04/04
Mrs. A.H. Fernando	04/04

A member of Nomination committee does not participate in decisions relating to his/her own re-appointment/re-election.

The proceedings of the meetings are regularly reported to the Board of Directors.

Related Party Transactions Review Committee Report

Necessary steps have been taken by the Committee to avoid any conflicts of interests that may arise in transacting with related parties.

Purpose of the Committee

The Related Party Transactions Review Committee has been formed to adopt the Code of Best Practice on Related Party Transactions, issued by the Securities & Exchange Commission of Sri Lanka (the 'Code') and Section 9 of the Listing Rules of the Colombo Stock Exchange (the 'Rules').

Roles and Responsibilities

The mandate of the Committee, derived from the Code and the Rules includes the following:

- To develop and recommend a related party transaction policy.
- To ensure that the Company complies with the Rules.
- To review in advance all proposed RPTs to ensure compliance with the Rules.
- To update the Board of Directors on the related party transactions of the Company on a quarterly basis.
- Define and establish the threshold values in setting a benchmark for related party transactions, RPTs which have to be pre-approved by the Board, RPTs which require to be reviewed in advance and annually.
- To make immediate market disclosures on applicable RPTs as required by the Rules.
- To include appropriate disclosures on RPTs in the annual report as required by the Rules.

Policies and procedures in related party transactions are being reviewed and strengthened on an ongoing basis.

Necessary steps have been taken by the Committee to avoid any conflicts of interests that may arise in transacting with related parties.

The Policies and Procedures Adopted by the Committee for Reviewing Related Party Transactions

The Committee formulated and recommended a process for adoption on RPT transactions for the Company, which

Composition of the Committee

The Committee consists of five members with a combination of Independent (IND) /Non-Independent (NIND), Non-Executive (NED) and Executive Directors (ED). The members of the Committee are:

Mr. A. W. Atukorala	- (Chairman) (IND/NED)
Mr. Sunil G. Wijesinha	- (IND/NED)
Mr. C. Yatawara	- (ED)
Mr. A. C. M. Lafir	- (ED)
Mrs. A. H. Fernando	- (NIND/NED)

The above composition is in compliance with the provisions of the Code. Brief profiles of the members are given on pages 24 to 26.

The Company Secretary functions as the Secretary to the Committee.

Meetings

The Related Party Transactions Review Committee held five meetings during the year.

Name	Attendance
Mr.A. W.Atukorala	05/05
Mr. Sunil G. Wijesinha	05/05
Mr. C.Yatawara	05/05
Mr. A.C.M. Lafir	05/05
Mrs. A. H. Fernando	05/05

The Committee has reviewed the related party transactions during the year and has communicated the comments/ observations to the Board of Directors.

The proceedings of the meetings are regularly reported to the Board of Directors.

is consistent with the operating model and the delegated decision rights.

The Committee in discharging its functions introduced processes and periodic reporting by the relevant entities with a view to ensure that;

- There is compliance with the Code
- Shareholder interests are protected
- Fairness and transparency are maintained.

Any member of the Committee, who has an interest in RPT under discussion, shall abstain from voting on the approval of such transaction. A RPT entered into without pre-approval of the Committee, shall not be deemed to violate this policy, be invalid or unenforceable so long as the transaction is brought to the notice of the Committee as promptly as reasonably practical, after it is entered into or after it becomes apparent that the transaction is covered by the policy. As such all RPT, other than the exempted transactions, will be reviewed either prior to the transaction is entered into or if the transaction is expressed to be conditional on such review, prior to the completion of the transaction.

Conclusion

The related party transactions in terms of LKAS 24 – 'Related Party Disclosures', are given in Note 39 to the Financial Statements.

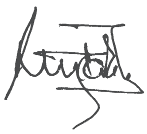
Recurrent Related Party Transactions

There were no recurrent related party transactions which in aggregate value exceeded 10% of the gross revenue of the Company as per audited financial statements of 31 March 2017 which required additional disclosures in this annual report under Colombo Stock Exchange Listing Rule 9.3.2 and Code of Best Practices on Related Party Transactions under the Securities and Exchange Commission Directive issued under Section 13 (c) of the Securities and Exchange Commission Act.

Non-recurrent Related Party Transactions

There were no non-recurrent related party transactions which aggregate value exceeded 10% of the equity or 5% of the total assets whichever is lower of the Company as per audited financial statements of 31 March 2017 which required additional disclosures in this annual report under Colombo Stock Exchange listing Rule 9.3.2 and Code of Best Practices on Related Party Transactions under the Securities and Exchange Commission Directive issued under Section 13 (c) of the Securities and Exchange Commission Act.

During the year 2016/2017, the Company complied with the Code of Best Practice on Related Party Transactions, issued by the Securities & Exchange Commission of Sri Lanka and Section 9 of the Listing Rules of the Colombo Stock Exchange.



A.W. Atukorala
Chairman – Related Party Transactions Review Committee

25 May 2017

Enterprise Risk Management

Overview

Almost all business decisions contain an element of risk. Therefore understanding and managing risk that may affect the value creation process in the short, medium and in the long term is the fundamental to strategic planning and decision making process. Our risk management framework enables management to identify and effectively deal with uncertainties and associated risks and enhances the capacity to build stakeholder value. Risk management process looks at implementing various policies, procedures and practices to identify, analyse, evaluate and monitor risk followed by identifying solutions to minimize the probability of occurrence and / or the impact of the identified risks.

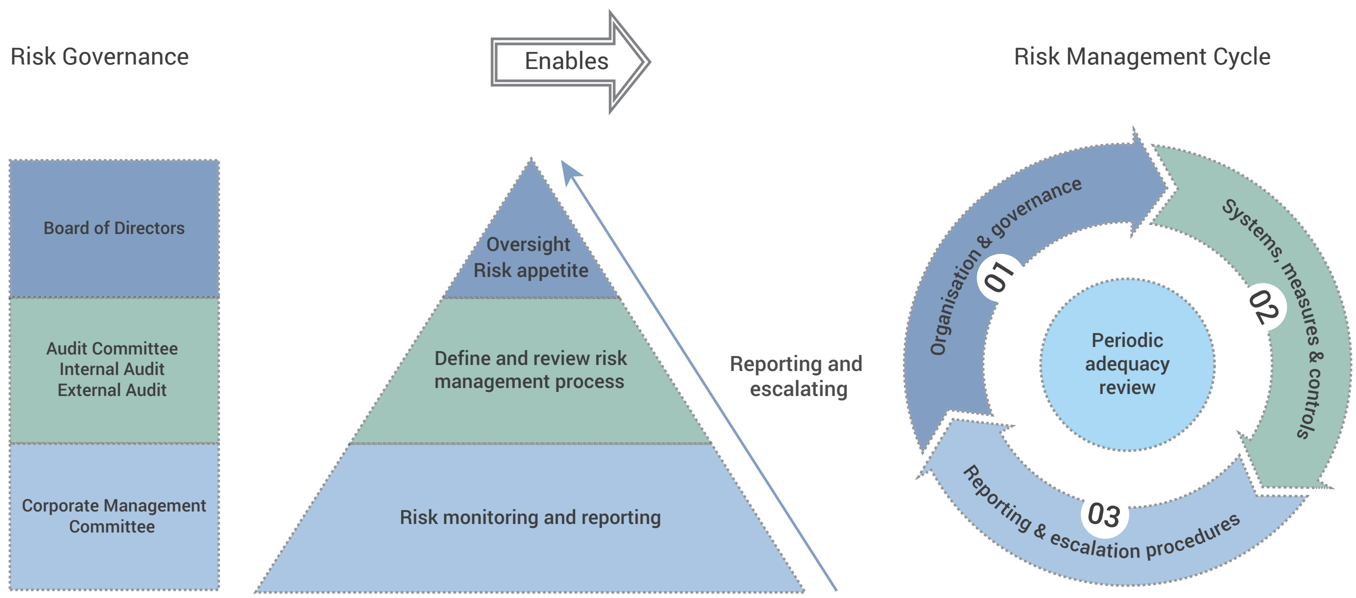
Risk Management Structure and Process

Risk management structure

The Board is primarily responsible for overseeing that risks are identified and appropriately managed and to identify risks that do not match the risk appetite. The Audit Committee, to which this function has been delegated, reviews the effectiveness of the risk management process, including the systems established to identify, assess, manage and monitor risks.

The Corporate Management Committee takes the lead in identifying risks. The Corporate Management Committee examines processes and events, uncertainties and changes in the environment that might expose to situations that could seriously reduce future earnings impair its asset value or create legal, regulatory or reputational risks. They also evaluate options available to eliminate or mitigate risks. Monitoring and reporting of risk management measures is a responsibility that rests with the Corporate Management Committee.

Understanding and managing risk that may affect the value creation process in the short, medium and in the long term is the fundamental to the strategic planning and decision making process



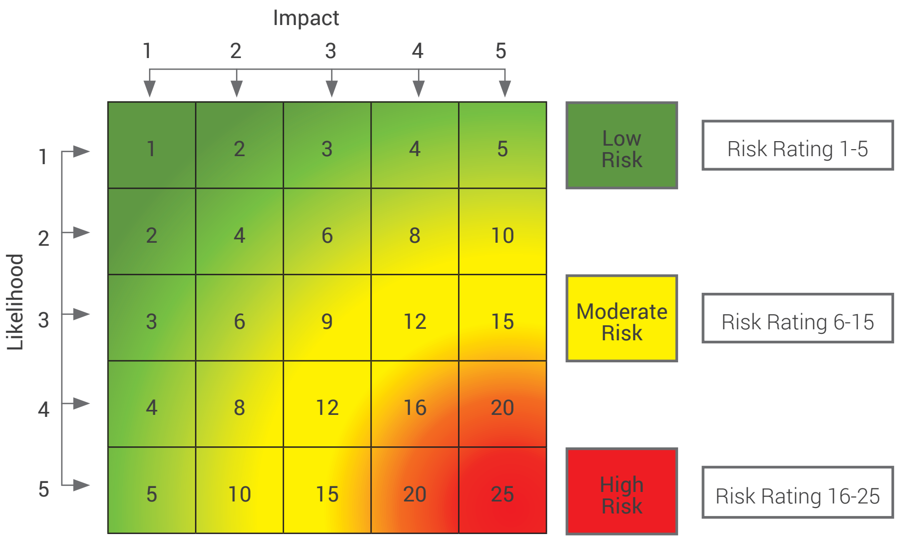
Risk Evaluation

Each risk is reviewed in terms of likelihood of occurrence and business impact of event/events:

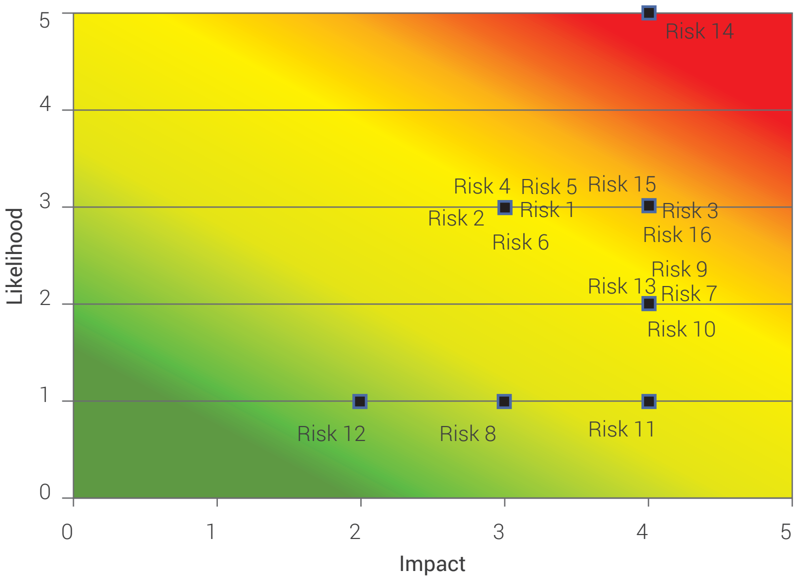
- Likelihood of occurrence is assessed on the basis of past experience, industry conditions and the mitigating controls that are in place. A rating of 1-5 has been assigned for high, medium-high, medium, low - medium and low for likelihood of occurrence.
- The impact of the event is assessed by determining the estimated loss it would cause and the extent of the business impact. A rating of 1-5 has been assigned for high, medium-high, medium, low-medium and low for impact for each risk.

Upon assessment of the likelihood of occurrence and the extent of the business impact of each risk, it is subjected to the following matrix in order to derive the nature and extent of action required. A ranking of high, moderate, low is assigned based on the final score.

Risk Matrix



Heat Map



Enterprise Risk Management

A description of the main risks faced and controls implemented to eliminate / mitigate / manage such risks are given below;

Risk Ref.	Risk	Risk management actions	Change in Risk Profile 2016/17	Change in Risk Profile 2015/16
1.	Credit risk		Moderate	Moderate
	Credit risk arises from credit exposure to customers on unsecured debts.	Wherever applicable, prior to approving credit, a customer is subject to a process of evaluation to establish credit worthiness. Credit limits are initially set based on the Company's credit policy and thereafter revised when required based on annual turnover and settlement patterns to minimize the risk of default. All trade debts are monitored by the Divisional Heads at the monthly meetings with divisional staff. At these meetings overdue debts are discussed and corrective actions are taken to follow up and collect overdue debts. The monthly reports submitted to the Board of Directors include an age analysis of debtors. Credit is suspended on overdue accounts and legal actions are taken to recover long overdue receivables. The Company invests in Unit Trusts. The reputation of the Custodian, track record of the Fund Manager is considered before the initial investment. Once an investment is placed, the size, number of unit holders and the return from the Unit Trust is closely monitored to ensure that originally assessed credit worthiness is being continued.		
2.	Interest rate risk		Moderate	Moderate
	Unfavourable interest rate movements impact negatively on the cost of funding and interest income.	Proper working capital management is done to ensure that borrowing needs and investment opportunities are foreseen. Market interest rates are monitored closely to forecast future movements to ensure borrowings and investments are at the best rate for the Company. Gearing is kept at an optimal level.		
3.	Exchange rate risk		Moderate	Moderate
	Negative changes in exchange rates causing potential losses on assets & liabilities and transactions denominated in foreign currency.	Wherever favourable, variable interest rates are negotiated for investments and borrowings. Import bills are negotiated at the most favourable time. Hedging through forward contracts is used where desirable.		
4.	Liquidity risk		Moderate	Low
	Unavailability of sufficient funds to settle dues as and when they are due to ensure smooth functioning of day-to-day operations.	Preparation of cash flows ensures that the Company is well aware of future cash needs. Strong relationships have been built with Banks to ensure that urgent borrowing needs are met at short notice. Facilities are in place to cover forecasted cash needs for at least for a period of twelve months.		

Risk Ref.	Risk	Risk management actions	Change in Risk Profile 2016/17	Change in Risk Profile 2015/16
5.	Equity price risk		Moderate	Moderate
	Listed equity securities are susceptible to market price risks arising from uncertainties of future values of the equity securities.	Equity price risk is managed through diversification of investment portfolio to different business sectors. Equity investment decisions are based on fundamentals rather than on speculation and decisions are taken based on indepth analysis of industry and macroeconomics analysis as well as research reports on the investee company performance. Timely purchase and exit decisions are taken to maximize profits.		
6.	Information technology risk		Moderate	Moderate
	Loss of confidential data through security breaches, disaster or a breakdown causing loss of vital data or lack of access to critical IT systems.	The IT security policy comprehensively addresses risks associated with the Company's information systems. The review of effectiveness of information security procedures and access controls adopted by the Company against threats from the internal and external environment and corruption or loss of information are part of the audit programme of the internal auditors. Recommendations made by the auditors are discussed by the Audit Committee and progress on corrective action is regularly reviewed. Adequate connectivity ensures uninterrupted data transfer between the head office and all branches and workshops. Backup of the ERP data is kept at a remote location as part of the Company disaster recovery procedure.		
7.	Risk of natural disasters		Moderate	Low
	Damages from fire and floods have been identified as key disaster related risks that the Company is exposed to.	Safety measures are taken to minimize possible damages to people and property in case of fire or floods. Adequate and appropriate insurance covers are in place to cover if a disaster occurs to minimise the financial losses.		
8.	Risk of technological obsolescence		Low	Low
	Technological obsolescence will impact on the inability to compete in the market which will reduce the customer satisfaction.	Ordering of new vehicles take into account the technologies used in the vehicle to be imported. The Company makes regular investment in new technology through purchase of latest diagnostic tools for after sales service. Staff are constantly exposed to new technology and trained to use them. The Company is backed by world renowned brands, some of whom are technology leaders. Therefore, technology is leveraged to compete with others. Purchase of IT related equipment take place taking into consideration technology used in those products.		

Enterprise Risk Management

Risk Ref.	Risk	Risk management actions	Change in Risk Profile	
			2016/17	2015/16
9.	Relationship with principals		Moderate	Moderate
	Performance being adversely impacted as a result of disruptions to relationship with Principals.	The Company has focused on developing a mutually beneficial relationship with principals in order to minimize the risk. Regular meetings are held with the principals to explain future vision of the Company and to obtain their plans for future to build up a sound business relationship. Agreements with well-defined duties and responsibilities are in place with all principals and being renewed where required. Market and product performance statistics are regularly shared with the principals.		
10.	Regulatory risk		Moderate	Moderate
	Non-compliance with laws and regulations can have a negative impact on the Company.	Statutory compliances and non-compliances are reported monthly and monitored by the Board. All relevant statutes that the Company has to comply with has been identified and updated as and when necessary. Employees are being educated on the need to comply with the statutory requirements. Tax compliance audit is carried out by the Tax Consultants on the compliance with the tax statutes at the end of each year.		
11.	Reputation / Societal risk		Low	Low
	Non-acceptance of the Company as a responsible corporate citizen can lead to loss of confidence on the Company and consequently loss of business opportunities in the short-term, as well as depletion of the Company's image.	Comply with Corporate Governance Best Practices. The Company engage in various community related activities / CSR activities for the betterment of the general public.		
12.	Environmental risk		Low	Low
	The negative impact on the environment due to its operations.	Introduction of eco-friendly vehicles. Dedicated team is appointed to carry out green initiatives emphasizing the Company's commitment to preserve the environment. Environmental factors are considered in decision making. All required approvals are obtained for our business operations.		

Risk Ref.	Risk	Risk management actions	Change in Risk Profile	
			2016/17	2015/16
13.	Obsolescence of inventory / high stock holding		Moderate	Low
	Inventory items run the risk of being obsolete due to slow moving.	Orders are placed in line with the demand to reduce the stock levels and thereby reduce the opportunity for obsolescence. Periodic review of inventory age analysis and strategies are taken to increase sales and to reduce inventory levels. Purchasing Committee is in place for vehicle ordering. Obsolete and damaged items are identified during physical inventory verification and actions are taken to dispose aged and damaged items.		
14.	Business environment		High	High
	The negative impact to the business due to changes in government policies and legislation.	As vehicle sales are subject to regular policy changes, we have reduced the dependency on new vehicle sales segment, by gradually strengthening the other business segments such as workshop services, spare parts, lubricant sales and assembly operation. We continuously look for opportunities to diversify into non related business segments.		
15.	Drop in customer satisfaction levels		Moderate	Moderate
	Drop in customer satisfaction will impact negatively for current and future performance of the Company.	A cross functional team is in place to plan, implement and monitor customer satisfaction initiatives/ processes. Continuous training on customer care is carried out to improve soft skills. Customer care and customer satisfaction index have been included in the employees' evaluations with the objective of increasing customer satisfaction levels. Regular independent customer surveys are carried out to assess the customer satisfaction levels.		
16.	Human resource risk		Moderate	Moderate
	Failure to recruit and retain appropriately skilled employees.	The Company invests in training and development. A balanced fixed and variable performance based incentives are offered to employees. Structured employee satisfaction surveys are carried out every year. Salary surveys are conducted to benchmark with the industry.		

Annual Report of the Board of Directors

Annual Report of the Board of Directors on the affairs of the Company and the statement of compliance of the content of the annual report as required by Section 168 of the Companies Act No. 07 of 2007.

1. General

The Directors have pleasure in presenting the twenty eighth annual report of your Company together with the audited financial statements of the Group and the Company for the year ended 31 March 2017 and the auditors' report on those financial statements conforming to all relevant statutory requirements.

This report provides the information as required by the Companies Act No.07 of 2007, Listing Rules of the Colombo Stock Exchange (CSE) and the recommended best practices on corporate governance.

The appropriate number of copies of the annual report will be submitted to the CSE and to the Sri Lanka Accounting and Auditing Standards Monitoring Board within the statutory dead line.

The ordinary shares of the Company were listed in the CSE in 1989. The Company was re-registered as per the Companies Act No. 07 of 2007 on 30 August 2007, under the Company registration number PQ-74. The registered office of the Company is at 100, Hyde Park Corner, Colombo 02, at which the Company's head office too is situated.

The table given below provides the required and applicable details and cross reference to disclosures mandated by the Companies Act No.07 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)	117
(ii).	Signed financial statements of the Group and the Company for the accounting period completed	Section 168 (1) (b)	133
(iii).	Auditor's report on financial statements of the Group and the Company	Section 168 (1) (c)	131
(iv).	Accounting policies and any changes therein	Section 168 (1) (d)	138 - 149
(v).	Particulars of the entries made in the interest register during the accounting period	Section 168 (1) (e)	121
(vi).	Remuneration and other benefits paid to directors of the Company and its subsidiaries during the accounting period	Section 168 (1) (f)	153
(vii).	Amount of donations made by the Company and its subsidiaries during the accounting period	Section 168 (1) (g)	153
(viii)	Information on the directorate of the Company and its subsidiaries during and at the end of the accounting period	Section 168 (1) (h)	16 - 17
(ix).	Disclosure of amounts payable to the auditors as audit fees and fees for other services rendered during the accounting period by the Company and its subsidiaries	Section 168 (1) (i)	153
(x).	Auditor's relationship or any interest with the Company and its subsidiaries – audit fee/ non-audit fee	Section 168 (1) (j)	122
(xi).	Acknowledgement of the contents of this report/signatures on behalf of the Board	Section 168 (1) (k)	123

2. Review of Business

2.1. Vision, Mission and Corporate Conduct

The Company's vision and mission are given on page 03 The business activities of the Company are conducted maintaining the highest level of ethical standards at all times.

2.2. Principal Business Activities of the Company and the Group

United Motors Lanka PLC

United Motors Lanka PLC continues as the sole distributor for brand new Mitsubishi and Fuso vehicles, genuine Mitsubishi spares and provides after sales services to its customers at Colombo and from its branch network.

The company continues to market Valvoline Lubricants and Eagle One car care products from USA and Simoniz car care products from UK.

Subsidiary Companies	
Unimo Enterprises Limited	The Company is engaged in the import and distribution of Perodua vehicles from Malaysia, Brilliance vans and JMC commercial vehicles from China. Morris Garages (MG) cars from Thailand and Yokohama Tyres from Japan. The Company is also engaged in the assembly and marketing of DFSK & Zoyte vehicles from China.
Orient Motor Company Limited	This Company is engaged in the distribution of DFSK trucks from China and hiring of motor vehicles.
UML Property Developments Limited	This Company has constructed a warehouse and has leased it to United Motors Lanka PLC.
UML Agencies & Distributors (Pvt) Limited	During the year under review this Company did not have any commercial transactions. Steps have been initiated to strike off this Company from the register maintained by the Registrar General of Companies, under section 394 of the Companies Act No. 07 of 2007(as amended).
Joint Venture	
TVS Lanka (Pvt) Limited	This Company is a joint venture between United Motors Lanka PLC, TVS and Sons Ltd and TVS Motor Company of India and is engaged in the import and distribution of TVS motor cycles, spare parts and provide after sales services to its customers. During the year under review, TVS Lanka (Pvt) Limited divested the TVS Three Wheeler business.
TVS Automotives (Pvt) Limited	TVS Automotives (Pvt) Ltd, is a fully owned subsidiary of TVS Lanka (Pvt) Limited. The Company is engaged in the sales and marketing of MAK Lubricants, JK and TVS Tyres.

There were no significant changes in the nature of principal activities of the Company, its subsidiaries or joint venture during the financial year under review that may have significant impact on the Company's state of affairs.

2.3. Review of the Operations of the Company and the Group

The "Chairman's Report" and the "Group Chief Executive Officer's Review of operations" which forms an integral part of this report provides an overall assessment on the financial performance and financial position of the Company, its subsidiaries and joint venture and describes in detail its affairs and important events for the year. A detailed analysis of the operations and financial results is contained in the "Management Review".

Annual Report of the Board of Directors

2.4. Directors' responsibility for financial reporting

The Directors are responsible for the preparation of the financial statements of the Company and to present a true and fair view of its state of affairs. The Directors are of the view that these financial statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, (SLFRSs and LKASs), Companies Act No 07 of 2007, Sri Lanka Accounting and Auditing Standards Act No 15 of 1995 and the Listing Rules of the Colombo Stock Exchange.

The Statement of Directors' Responsibility for Financial Reporting is given on pages 127 to 128 and forms an integral part of the Annual Report of the Board of Directors.

3. Future Developments

An overview of the future developments of the Company is given in the "Chairman's Report", the "Group Chief Executive Officer's Review" and the "Management Review".

4. Financial Statements

The financial statements of the Company and the Group have been prepared in accordance with Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and comply with the requirements of Companies Act No 07 of 2007.

The financial statements of the Company and of the Group which are duly certified by the Executive Director Finance, approved by the Board of Directors and signed by two members of the Board of Directors including the Chairman are given on page 133 of the annual report.

5. Auditors' Reports

The Company's auditors, Messrs KPMG performed the audit on the consolidated financial statements for the year ended 31 March 2017. The auditors' report on the financial statements is given on page 131 of the annual report.

6. Significant Accounting Policies

The Company / Group prepared the financial statements in accordance with Sri Lanka Accounting Standards (LKAS/SLFRS). The significant accounting policies adopted in the preparation of the financial statements of the Company and the Groups are given on pages 138 to 149 of the annual report. There were no changes in accounting policies during the year under review.

7. Going Concern

The Directors are satisfied that the Company, its subsidiaries and equity accounted investee have adequate resources to continue in operational existence for the foreseeable future, to justify adoption of the going concern basis.

8. Revenue

The Company achieved a revenue of Rs. 9.6 billion during the year ended 31 March 2017. The details of the revenue by segment are given under – Note 10 to financial statements.

9. Dividends and Reserves

Profits and Appropriations

The details of the profits relating to the Company and the appropriations are given in the table below:

For the year ended 31 March	2017 Rs.'000	2016 Rs.'000
Profit for the year before taxation	1,176,146	2,049,981
Income Tax expenses	(220,706)	(592,855)
Profit for the year after taxation	955,440	1,457,126
Other comprehensive income	4,334	4,952
Un-appropriated profit brought forward From previous year	4,008,500	4,074,717
Super gains tax paid on profit after tax of 2013 / 14	-	(418,387)
Profit available for appropriation	4,968,274	5,118,408
Appropriations		
Dividend paid		
14/15 – Rs. 4.00 per share (final)	-	(403,603)
15/16 – Rs. 3.00 per share (first interim)	-	(302,702)
15/16 – Rs. 4.00 per share (second interim)	-	(403,603)
15/16 – Rs. 2.00 per share (final)	(201,801)	-
16/17 – Rs. 2.50 per share (first interim)	(252,251)	-
16/17 – Rs 2.50 per share (second interim)	(252,251)	-
Un appropriated profit to be carried forward	4,261,971	4,008,500

Dividends

First interim dividend of Rs. 2.50 per share was paid on 21 December 2016 and a second interim dividend of Rs. 2.50 per share was paid on 31 March 2017.

The Board of Directors provided the statement of solvency to the external auditors and obtained the certificates of solvency from the external auditors in respect of the interim dividends.

Reserves

The total revenue reserves of the Company as at 31 March 2017 amounted to Rs. 4,728 million and the capital reserves of the Company as at 31 March 2017 amounted to Rs. 2,922 million. Details of reserves are shown in the statement of changes in equity on page 135.

10. Provision for Taxation

Provision for taxation has been computed at the prescribed rates and details are given in Note 15 to the financial statements.

11. Corporate Donations

The Company made donations to the value of Rs. 415,000 (Rs. 208,000 in 2015/16) to charities and corporate social responsibility projects.

Out of the aforementioned sum, the donations made by the Company/ Group to Government approved charities amounted to Rs. 135,000 (15/16 – Rs. 17,500)

12. Property, Plant & Equipment

Investments in property, plant and equipment amounted to Rs. 535.8 million. Details of such investment including the extent, locations, additions and disposal of property during the year and the depreciation charge for the year are shown in Note 18 to the financial statements.

Details of investment properties are given in Note 19 to the financial statements.

Market value of property, plant & equipment and investment property

All freehold land of the Group is revalued in every five years by professionally qualified independent valuers and brought into financial statements. The details are given in Note 18.3 to the financial statements.

The Directors are of the opinion that the revalued amounts are not in excess of the current market values of such properties. Details of valuation of investment properties are given in Note 19 to the financial statements.

13. Post Balance Sheet Events

In the opinion of the Directors, no transactions or any other material events of an unusual nature has arisen during the period between the end of the financial year and the date of this report other than the items disclosed in Note 41 to the financial statements.

14. Stated Capital

The stated capital of the Company as at 31 March 2017 was Rs. 336,335,420 comprising of 100,900,626 ordinary shares.

There has been no change in the stated capital during the year.

15. Share Information

There were 4,047 registered shareholders as at the balance sheet date.

Distribution schedule of shareholdings

Information on the distribution of shareholding and the respective percentages are given in the section on 'Share Information' on page 194.

Information on earnings, dividend, net assets and market value

Information relating to dividends, net assets and market value per share and the trading of the shares are given on page 196.

The movement in the number of shares represented by the Stated Capital of the Company is given in the Section in 'Investor Information' on page 199.

Substantial shareholdings

The details of top twenty shareholders and the percentage holding of the public are given under 'Share Information' on pages 195 to 196.

16. Equitable Treatments to Shareholders

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

Annual Report of the Board of Directors

17. Corporate Governance

Directors declarations

The directors declare that:

(a) The Company complied with all applicable laws and regulations in conducting its business and has not engaged in any activity contravening the relevant laws and regulations.

(b) The Directors have declared all materials interests in contracts involving the Company and refrained from voting on matters in which they were materially interested.

(c) The business is going concern with supporting assumptions as necessary and 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 of the Company, its subsidiaries and joint venture are prepared based on the going concern assumptions; and

(d) They have conducted a review of internal controls covering financial, operational and compliance controls, risk management and have obtained a reasonable assurance of their effectiveness and proper adherence.

The Company has compiled with the Code of Best Practice on Corporate Governance issued jointly by Institute of Charted Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka and also the rules and regulations stipulated by the Colombo Stock Exchange. The level of conformance is given in the section on 'How we govern' on pages 85 to 101.

The Company maintains and practices high principles of good corporate governance. During the year under review, the Company compiled with all applicable laws and regulations in conducting its business. A separate report on "Corporate Governance" is given on pages 84 to 101 in the annual report.

18. Board of Directors

Names of the Directors who held office during the financial year are given in the following table:

Name of Director	Classification	Remarks
Mr. Sunil G.Wijesinha	NED/IND	Director/Chairman since July 2013
Mr. C. Yatawara (GCEO)	ED	Non-Executive Director since June 2004; Appointed as an Executive Director since November 2004.
Mr. A.W. Atukorala	NED/IND	Director since November 2005
Mr. A.C.M. Lafir	ED	Executive Director since May 2006
Mr. R.H. Yaseen	ED	Executive Director since June 2008
Mrs. A.H. Fernando	NED/NIND	Director since July 2013
Mr. A.D.E.I. Perera	NED/IND	Director from May 2014 to July 2016
Prof. K.A.M.K. Ranasinghe	NED/IND	Director since July 2014
Mr. T. Nomura	NED/IND	Director from April 2016 to January 2017
Mr. S.A Chapman	NED/IND	Director since September 2016
Mr. H. Inoue	NED/IND	Director since January 2017

IND - Independent Director
NIND - Non Independent Director
NED - Non Executive Director
ED - Executive Director

List of Directors of subsidiaries and joint venture

Names of the Directors of subsidiaries and joint venture of the Company are given in the 'Group Structure' on pages 16 and 17.

New appointments and resignations of Directors

Mr. T. Nomura was appointed to the Board with effect from 25 April 2016. Mr. Nomura resigned with effect from 16 January 2017.

Mr. A.D.E.I. Perera ceased to be a Director with effect from 08 July 2016.

Mr. S. Chapman was appointed with effect from 22 September 2016. Mr. H. Inoue was appointed with effect from 30 January 2017.

Re-election and retirement of Directors

In terms of the Article 89 of the Articles of Association of the Company, Mr. H. Inoue retire by rotation and being eligible, offers himself for re-election on the unanimous recommendation of the Board Nomination Committee and the Board of Directors.

In terms of the Article 89 of the Articles of Association of the Company, Mr. S.A Chapman retires by rotation and being eligible, offers himself for re-election on the unanimous recommendation of the Board Nomination Committee and the Board of Directors.

In terms of the Article 83 of the Articles of Association of the Company, Mrs. A.H. Fernando retires by rotation and being eligible, offers herself for re-election on the unanimous recommendation of the Board Nomination Committee and the Board of Directors.

Independence of Non-Executive Directors

The Listing Rules of the Colombo Stock Exchange specify that a Non-Executive Director shall not be considered independent if he/ she has served on the Board for a period of nine years from the date of the first appointment, unless the Board taking into account all the circumstances, is of the opinion that the Director is nevertheless ‘independent’ and specify the criteria not met and the basis of its determination in the annual report.

Mr. A.W. Atukorala completed nine years in office as Non-Executive Director in November 2014.

The Board recognizes that Mr. Atukorala has acted in an independent manner over the years bringing his independent judgment upon matters relating to the Board Sub Committees and the Board. The Board is of the opinion that there is no reason to believe that his status as ‘Independent’ Director has been impaired in any manner due to his tenure in office. Having taken into account all relevant aspects, the Board determined that Mr. A.W. Atukorala continues as an Independent Non-Executive Director of the Company.

Directors’ meetings

Directors’ meetings which comprise of Board meetings and Board Sub-Committee meetings of Audit Committee, Remuneration Committee, Nomination Committee, Related Party Transactions review Committee and the attendance of Directors at these meetings are given on page 101 of the annual report.

Directors’ dealings in shares of the Company

Directors’ shareholding as at 1 April 2016, disclosure in respect of Directors’ dealings in shares of the Company during the year and their shareholding as at 31 March 2017 have been disclosed in ‘share information’ on page 197.

Directors’ remuneration & other benefits

Details of Directors emoluments and other benefits paid in respect of the Group and the Company during the financial year under review is given in Note 13.1 to the financial statements.

The Directors have not taken any loans during the year under review.

Directors’ interests in contracts or proposed contracts with the Company

The Company maintains the Directors’ Interests Register and the Directors of the Company have made necessary declarations of their interest in contracts or proposed contracts with the Company.

Directors have no direct or indirect interest in any other contracts or proposed contracts with the Company other than those disclosed.

As a practice, Directors have refrained from voting on matters in which they were interested.

Entries in the interests register

The Company, in compliance with the Companies Act No. 07 of 2007, maintains an interests register. All related entries were made in the interests register during the year under review. The interests register is available for inspection by shareholders.

Board Sub Committees

The Board while assuming the overall responsibility and accountability in the management of the Company has also appointed Board Sub Committees to ensure oversight and control over certain affairs of the Company, conforming to Corporate Governance Code and adopting the best practices.

The Board Sub Committees play a critical role in order to ensure that the activities of the Company at all times are conducted with the highest ethical standards and in the best interest of all its stakeholders. The terms of reference of these Sub-Committees conform to the recommendations made by various regulatory bodies such as the Institute of Chartered Accountants of Sri Lanka, the Securities and Exchange Commission of Sri Lanka and the Colombo Stock Exchange.

The composition of the Board Sub-Committees as at 31 March 2017 and the details of the attendance by Directors at meetings are given on page 101 while the reports of these sub-committees are given on pages 102 to 109 .

Annual Report of the Board of Directors

19. Risk Management and Internal Controls

The Directors periodically review and evaluate the risks that are faced by the Company. The various exposures to risk by the Company and specific steps taken by the Company in managing the risks are detailed under the 'Enterprise Risk Management' on pages 110 to 115 of the annual report.

The Board of Directors, through the involvement of internal audit and monitoring division, has taken steps to ensure and have obtained reasonable assurance that an effective and comprehensive system of internal controls are in place covering financial, operational and compliance controls required to carry on the business in an orderly manner, safeguard the Company's assets and to secure as far as possible the accuracy and reliability of the financial records.

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. The Directors' statement on the Internal Controls are given on page 129.

20. Compliance with Laws and Regulations

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

21. Statutory Payments

The Directors to the best of their knowledge and belief are satisfied that all statutory payments due to the government, other regulatory institutions and related to the employees have been made or provided for during the year under review.

22. Outstanding Litigation

In the opinion of the Directors and in consultation with the Company's lawyers, litigations which are currently pending against the Company will not have a material impact on the reported financial results and future operations of the Company.

23. Environmental Protection

The Company has made its best endeavors to comply with the relevant environment laws and regulations. The Company has not engaged in any activity that is harmful or hazardous to the environment and has taken all possible steps that are necessary to safeguard the environment from any pollution that could arise in the course of carrying out its sales and service operations.

Specific measures taken to protect the environment is given in the section on 'Environment' in the Sustainability Report on pages 78 to 81.

24. Human Resources

The Company continues to invest in human resource development and implement effective HR practices to ensure optimum contribution towards the achievement of its corporate goals. The number of persons employed by the Company, its subsidiaries as at the year-end was 976 (2015/2016 – 841).The details of human resources initiatives are given in the section on 'Human capital' in the Sustainability Report on pages 66 to 71.

25. Industrial Relations

There have been no material issues pertaining to employees and Industrial relations of the Company during the period under review.

26. Employee Share Ownership Plans

The Company did not have any employee share ownership/option plans during the year.

27. Auditors

Auditors' remuneration

The fees paid to the auditors, Messrs KPMG for audit and audit related services are given in Note 13.1.1 to the financial statements.

Auditors' independence

Based on the declaration provided by Messrs KPMG and as far as the Directors are aware, the auditors do not have any relationship or interests with the Company or in any of the subsidiaries that may have a bearing on their independence, within the meaning of the Code of Professional Conduct and Ethics issued by the Institute of Chartered Accountants of Sri Lanka.

Appointment of auditors

The Audit Committee, in line with the best corporate governance practices, recommended to the Board to rotate the external auditors, Messrs KPMG who have been the external auditors for more than twenty five years.

Accordingly, in order to select the external auditors for the financial year ending 31 March 2018, proposals were requested from multinational audit firms practicing in the country. After due evaluation, the Audit Committee has recommended to the Board of Directors to propose Messrs. PricewaterhouseCoopers (PwC), Chartered Accountants to be appointed as the external auditors of the Company for the financial year ending 31 March 2018. Such appointment is subject to the approval of the shareholders at the Annual General Meeting to be held on the 30 June 2017.

In accordance with the Companies Act No. 07 of 2007, a resolution relating to the appointment of external auditors and authorizing the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting to be held on the 30 June 2017.

28. Annual General Meeting

The twenty eighth Annual General Meeting of the Company will be held on 30 June 2017. The notice of meeting relating to the Annual General Meeting is given on page 202.

29. Acknowledgement of the Contents of the Report

As required by the Companies Act No. 07 of 2007, the Board of Directors does hereby acknowledge the contents of this annual report.

Signed in accordance with a resolution adopted by the Directors.

Sunil G. Wijesinha
Chairman

C. Yatawara
Chief Executive Officer/Executive Director

Mrs. R.M. Hisham
Company Secretary

25 May 2017


Plug-in Hybrid
OUTLANDER


FUSO

Financial Information

Financial Calendar

Financial statements 2016/17		
First quarter released on	-	29 July 2016
Second quarter released on	-	28 October 2016
Third quarter released on	-	30 January 2017
Fourth quarter released on	-	26 May 2017

Annual Report & Accounts		
2015/2016	-	15 June 2016

Meetings		
Twenty seventh Annual General Meeting	-	08 July 2016
Twenty eighth Annual General Meeting	-	30 June 2017

Dividends		
Final dividend 2015/2016	-	20 July 2016
First interim dividend 2016/2017	-	21 December 2016
Second interim dividend 2016/2017	-	31 March 2017

Statement of Directors' Responsibility

The responsibilities of the Directors' in relation to the financial statements of the Company and the consolidated financial statements of the Company and its subsidiaries and joint venture are set out in this statement. The responsibilities of the external auditors in relation to the financial statements are set out in "Auditors' Report" appearing on page 131.

As per the provisions of the Companies Act No. 07 of 2007, the Directors are required to prepare for each financial year and place before a general meeting financial statements which comprise of

- the state of affairs of the Company and the Group as at the balance sheet date; and
- income statement and the statement of comprehensive income which presents a true and fair view of the profit or loss or income and expenditure of the Company and the Group as at the balance sheet date which complies with the requirements of the Companies Act No. 07 of 2007.
- statement of changes in equity, statement of cash flows for the year then ended and notes thereto.

The Directors have ensured that in preparing these financial statements;

- appropriate accounting policies have been used and applied in a consistent manner;
- all applicable accounting standards as relevant have been applied where relevant;
- prudent judgment and reasonable estimates have been made so that the form and substance of transactions are properly reflected;
- compliance with the Companies Act No.07 of 2007, Listing Rules of Colombo Stock Exchange: and
- requirements of Sri Lanka Accounting and Auditing Standards Act No.15 of 1995 have been followed.

Accordingly, the Directors confirm that the financial statement of the Company and the Group give a true and fair view of-

- the state of affairs and the financial position of the Company and the Group as at 31 March 2017 and
- the profit or loss or income and expenditure for the financial year then ended.

Under section 150 of the Companies Act No. 07 of 2007, the Directors of the Company are responsible for ensuring that proper books of account are maintained to record all transactions of the Company and its subsidiaries and that financial statements are prepared for each financial year to give a true and fair view of the state of affairs and of the profit or loss or income and expenditure for the Company and the Group as at the balance sheet date. In keeping with this requirement, the Company has maintained proper books of account and the financial reporting system is reviewed at regular intervals.

Following a review of the Company's financial and related information including cash flows and borrowing facilities, the Directors are satisfied that the Company and its subsidiaries have adequate resources to continue in business for the foreseeable future. Accordingly, the financial statements have been prepared on the basis of a going concern and the Board accepts responsibility for the integrity and objectivity of the financial statements presented.

The Directors have provided the Company's auditors, Messrs KPMG with every opportunity to take whatever steps that are necessary and appropriate inspections for the purpose of enabling them to express their opinion. Accordingly Messrs KPMG has examined the financial statements made available by the Board of Directors together with all the financial records, related information, minutes of board meetings etc., in order to express their opinion on financial statements are given on page 131.

The Directors are aware of the responsibility to take whatever steps that are reasonable to safeguard the assets of the Company and that of the Group and in that contexts to have appropriate internal control systems to prevent and detect fraud and other irregularities. The Directors have accordingly instituted comprehensive internal control mechanisms to ensure that as far as it is practically possible, the Company's business is carried out in an orderly manner, that its assets are safe guarded and that the records of the Company are accurate and reliable. The existence of such internal controls are regularly monitored by the internal audit division.

The Board of Directors also wishes to confirm that, as required by section 166(1) and 167(1) of the Companies Act No.07 of 2007, the annual report has been prepared and the Directors have ensured that a copy is sent to every shareholder of the Company.

The Board of Directors provided the Statement of Solvency to the Auditors and obtained Certificates of Solvency from the Auditors in respect of each dividend payment in terms of Section 56(2) of the Companies Act No. 07 of 2007.

Statement of Directors' Responsibility

The Board of Directors also fulfilled the requirement of the Solvency Test in terms of section 56(3) of the Companies Act No. 07 of 2007 immediately after the payment of interim dividends.

Further, the Board of Directors wishes to confirm that the Company has complied with the requirements under the Section 07 on Continuing Listing Requirements of the Listing Rules of the Colombo Stock Exchange, where applicable.

Compliance Report

The Directors confirm that to the best of their knowledge and belief, all taxes and others statutory dues payable by the Company and all contributions taxes and levies payable by the Companies within the Group on behalf of and in respect of its employees, as at the balance sheets date, have been paid or provided for in arriving at the financial results for the year under review.

The Directors are of the view that they have discharged their responsibilities as set out in this statement.

By order of the Board.

RMHisham

Ms. R M Hisham
Company Secretary

25 May 2017

Directors' Statement on Internal Controls

Responsibility

The Board of Directors presents this report on internal controls as per the requirements of Code of Best Practice on Corporate Governance jointly issued by the Institute of Chartered Accountants of Sri Lanka and Securities and Exchange Commission of Sri Lanka.

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of United Motors Lanka PLC (the Company) system of internal controls. However, such a system is designed to manage the key areas of risk within an acceptable risk profile, rather than to eliminate the risk of failure to achieve the business objectives and policies. Accordingly, the system of internal controls can only provide a reasonable but not absolute assurance against material misstatement of management and financial information and records against financial losses or fraud.

The Board has established an on-going process for identifying, evaluating, managing and reporting the significant risks faced and this process includes enhancing the system of internal controls as and when there are changes to business environment or regulatory guidelines.

The management assists the Board in the implementation of the Board's policies and procedures on risks and controls by identifying and assessing the risks faced by the Company and in designing, implementing and monitoring of suitable internal controls to mitigate and control these risks.

The Board is of the view that the system of internal controls in place, is sound and adequate to provide a reasonable assurance regarding the reliability of financial reporting and that the preparation of financial statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

Key Internal Control Processes

The subcommittees of the Board are established to assist the Board in ensuring the effectiveness of the operations and that the operations are in accordance with corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved by the Board.

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- The internal audit function provides comfort on the efficiency and effectiveness of the internal control systems. The internal audit division checks for compliance with policies and procedures and the effectiveness of the internal control systems and highlights significant findings in respect of any non-compliance. Audits are carried out on all business processes in accordance with the annual audit plan approved by the Audit Committee. The frequency of which is determined by the level of risk assessed by the internal audit to provide an independent and objective report on operational and management activities of these business processes of the Company. The findings of the internal audits are submitted to the Audit Committee for review at their periodic meetings.

- The Audit Committee reviews internal control issues identified by the Internal Audit division, the external auditors, management and evaluates the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits. The minutes of the Audit Committee meetings are tabled for information of the Board on a periodic basis. Details of the activities undertaken by the Audit Committee of the Company are set out in the Audit Committee Report on pages 102 to 104 .

In assessing the internal control system, the divisional heads of the Company assessed all procedures and controls. These in turn were observed and checked by the Internal Audit Division for suitability of design and effectiveness on an on-going basis. The assessment included subsidiaries as well.

The recommendations made by the external auditors in connection with the internal control system in previous years were reviewed during the year and appropriate steps have been taken to implement them.

Confirmation

Based on the above processes, the Board confirms that the financial reporting system of the Company has been designed to provide a reasonable assurance regarding the reliability of financial reporting. The preparation of financial statements for external purposes has been done in accordance with Sri Lanka Accounting Standards (SLFRS/ LKAS), Companies Act No. 07 of 2007, Listing Rules of the Colombo Stock Exchange and the requirements of Securities and Exchange Commission.

By order of the Board

Mrs. A .H. Fernando
Chairperson - Audit Committee

Mr. C. Yatawara
Group Chief Executive Officer/ Executive Director

Mr. Sunil. G. Wijesinha
Chairman

25 May 2017

CEO & CFO's Responsibility Statement

The financial statements of United Motors Lanka PLC and the Group are prepared in compliance with the Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka (SLFRS / LKAS), the requirements of the Companies Act No. 07 of 2007, the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the listing rules of the Colombo Stock Exchange applicable to the Company.

The accounting policies used in the preparation of the financial statements are appropriate and are consistently applied, except where otherwise stated in the notes accompanying the financial statements. There are no departures from the prescribed Accounting Standards in their adoption. Comparative information has been reclassified wherever necessary to comply with the current presentation. There are no departures from the prescribed Accounting Standards in their adoption. Comparative information has been reclassified whenever 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 significant accounting policies adopted in the preparation of the financial statements of the Group and the Company are given on pages 138 to 149 of the annual report.

We confirm, that to the best of our knowledge, the financial statements and other financial information included in this annual report, fairly present in all material aspects, the financial position, results of the operations and cash flows of the Company and the Group as of and for the periods presented in this annual report.

The Board of Directors and the management of your Company accepts 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 a true and fair manner, the form and substance of transactions and reasonably present the Company's state of affairs. It is confirmed that the Company has adequate resources to continue its operation in the foreseeable future. Therefore, the Company will continue to adopt the "going concern" basis in preparing these financial statements. We are responsible for establishing and maintaining internal controls and procedures and have designed such controls and procedures, or caused such controls and procedures to be designed under our supervision, to ensure that material information relating to the Company is made known to us and for safeguarding the Company's assets and preventing and detecting fraud and error. We have evaluated the effectiveness of the Company's internal controls and procedures and are satisfied that the controls and procedures were effective as of the end of the period covered by this annual report. We confirm, based on our evaluations that there were no significant deficiencies and material weaknesses in the design or operation of internal controls. No fraud that involved management or other employees was reported in the year under review.

Our internal audit division has 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 KPMG, Chartered Accountants, the independent auditors.

The Audit Committee of your Company meets periodically with the independent auditors to review the manner in which the 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.

It is also declared and confirmed that the Company has complied with and ensured compliance with the guidelines for the listed companies where mandatory compliance is required. It is further confirmed that the Company has complied with all applicable laws, regulations and other guidelines and that there are no known material litigations and claims against the Company other than those arising out of the normal course of business.

A. C. M. Lafir
Executive Director - Finance

C. Yatawara
Group Chief Executive Officer / Executive Director

25 May 2017

Independent Auditors' Report

KPMG
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
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TO THE SHAREHOLDERS OF UNITED MOTORS LANKA PLC

Report on the Financial Statements

We have audited the accompanying financial statements of United Motors Lanka PLC, ("the Company"), and the consolidated financial statements of the Company and its subsidiaries ("Group"), which comprise the statement of financial position as at 31st March 2017, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information set out on pages 132 to 193 of the annual report.

Board's Responsibility for the Financial Statements

The Board of Directors ("Board") is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31st March 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we state the following:

a) The basis of opinion and scope and limitations of the audit are as stated above

b) In our opinion:

- We have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.
- The financial statements of the Company give a true and fair view of its financial position as at 31st March 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
- The financial statements of the Company, and the Group comply with the requirements of sections 151 and 153 of the Companies Act No. 07 of 2007.

Chartered Accountants

Colombo
25 May 2017

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March	Note	Group 2017 Rs.'000	Group 2016 Rs.'000	Company 2017 Rs.'000	Company 2016 Rs.'000
Revenue	10	17,925,373	15,303,852	9,637,973	10,695,375
Cost of sales		(14,568,945)	(11,320,866)	(7,216,966)	(7,267,929)
Gross profit		3,356,428	3,982,986	2,421,007	3,427,446
Other income	11	100,022	44,217	117,381	48,291
Distribution expenses		(414,672)	(389,822)	(204,961)	(239,079)
Administrative expenses		(1,431,155)	(1,380,269)	(1,280,032)	(1,288,781)
Other expenses	12	(50,791)	(65,286)	(29,538)	(43,758)
Profit from operations	13	**1,559,832**	**2,191,826**	**1,023,857**	**1,904,119**
Finance income	14.1	97,868	171,146	204,488	220,367
Finance cost	14.1	(295,125)	(140,918)	(52,199)	(74,505)
Net finance (cost) / income		(197,257)	30,228	152,289	145,862
Share of profit of equity accounted investee (net of income tax)	22.1	76,027	131,549	-	-
Profit before income tax expenses		**1,438,602**	**2,353,603**	**1,176,146**	**2,049,981**
Income tax expense	15	(312,495)	(651,380)	(220,706)	(592,855)
Profit for the year		**1,126,107**	**1,702,223**	**955,440**	**1,457,126**
Other comprehensive income					
Items that will never be reclassified to profit or loss					
Employee benefit plan actuarial gains / (losses)	32.6	7,691	11,131	5,596	8,436
Deferred tax on actuarial gains on defined benefit obligations	33.3	(1,880)	(4,238)	(1,262)	(3,484)
Equity accounted investee					
- share of other comprehensive income	22.1	2,420	971	-	-
Items that are or may be reclassified to profit or loss					
Net change in fair value of available for sale financial assets	14.2	2,219	(233,599)	(808)	(197,757)
Total other comprehensive income / (loss) for the year		10,450	(225,735)	3,526	(192,805)
Total comprehensive income for the year		**1,136,557**	**1,476,488**	**958,966**	**1,264,321**
Profit attributable to:					
Equity holders of the parent		1,126,107	1,702,223	955,440	1,457,126
Profit for the year		**1,126,107**	**1,702,223**	**955,440**	**1,457,126**
Total comprehensive income attributable to:					
Equity holders of the parent		1,136,557	1,476,488	958,966	1,264,321
Total comprehensive income for the year		**1,136,557**	**1,476,488**	**958,966**	**1,264,321**
Earnings per share (Rs.)	16	11.16	16.87	9.47	14.44
Dividend per share (Rs.)	17	-	-	7.00	11.00

Notes from pages 138 to 193 form an integral part of these financial statements.
Figures in brackets indicate deductions.

Statement of Financial Position

As at 31 March	Note	Group 2017 Rs.'000	Group 2016 Rs.'000	Company 2017 Rs.'000	Company 2016 Rs.'000
Assets					
Non-current assets					
Property, plant and equipment	18	5,174,082	4,747,746	4,916,169	4,482,016
Investment property	19	-	-	149,836	150,350
Intangible assets	20	11,980	3,913	7,232	921
Investments in subsidiaries	21	-	-	172,400	172,400
Investments in equity accounted investee	22	800,431	750,853	173,545	173,545
Other investments	24	672,573	735,573	554,191	614,655
Defined benefit plan	32.2	94,398	102,313	91,101	98,582
Deferred tax assets	33.1	8,729	15,670	-	1,898
Total non-current assets		6,762,193	6,356,068	6,064,474	5,694,367
Current assets					
Inventories	25	7,475,704	5,426,634	4,210,477	2,349,153
Trade and other receivables	26	1,990,190	1,498,435	1,015,144	783,486
Amounts due from related parties	27	3,687	620	31,568	17,998
Current tax receivables	36.2	5,193	4,641	-	-
Other investments	24	119,673	1,282,125	119,673	1,282,125
Cash and cash equivalents	28	566,106	522,873	464,495	320,957
Total current assets		10,160,553	8,735,328	5,841,357	4,753,719
Total assets		16,922,746	15,091,396	11,905,831	10,448,086
Equity and liabilities					
Equity					
Stated capital	29	336,335	336,335	336,335	336,335
Capital reserve	30	2,956,382	2,956,382	2,922,336	2,922,336
Other components of equity		1,396,585	1,394,366	1,430,618	1,431,426
Retained earnings		6,053,067	5,625,032	4,261,971	4,008,500
Total equity attributable to the equity holders of the parent		10,742,369	10,312,115	8,951,260	8,698,597
Non-current liabilities					
Employee benefits	32.1	174,435	166,758	161,671	154,070
Deferred tax liabilities	33.2	38,430	14,430	24,602	-
Total non-current liabilities		212,865	181,188	186,273	154,070
Current liabilities					
Interest bearing borrowings	31	3,965,092	2,635,284	1,359,865	-
Trade and other payables	34	1,693,473	1,323,945	1,153,897	1,012,017
Amounts due to related parties	35	-	361	42,641	29,280
Current tax liabilities	36.1	190,776	420,673	110,000	386,662
Bank overdrafts	28	118,171	217,830	101,895	167,460
Total current liabilities		5,967,512	4,598,093	2,768,298	1,595,419
Total liabilities		6,180,377	4,779,281	2,954,571	1,749,489
Total equity and liabilities		16,922,746	15,091,396	11,905,831	10,448,086
Net assets per share (Rs.)		106.46	102.20	88.71	86.21

Notes from pages 138 to 193 form an integral part of these financial statements.

I certify that these financial statements are in compliance with the requirements of Companies Act No. 07 of 2007.

A. C. M. Lafir
Executive Director - Finance

The Board of Directors is responsible for the preparation and presentation of these financial statements. These financial statements were approved by the Board of Directors on 25 May 2017.

Approved and signed for and on behalf of the Board of Directors.

Sunil G. Wijesinha
Chairman

C. Yatawara
Group CEO / Executive Director

Colombo
25 May 2017

Statement of Changes in Equity

	Stated capital	Capital reserve	Other components of equity				Retained earnings	Total equity
			Development reserve	Property, plant & equipment replacement reserve	General reserves	Available for sale reserve		
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Group								
Balance as at 01.04.2015	336,335	2,956,382	785,400	308,900	466,250	67,415	5,514,889	10,435,571
Super gain tax for the year of assessment 2013/14 (*)							(490,036)	(490,036)
Balance as at 01.04.2015 (after adjusting for super gain tax)	336,335	2,956,382	785,400	308,900	466,250	67,415	5,024,853	9,945,535
Total comprehensive income for the year								
Profit for the year							1,702,223	1,702,223
Other comprehensive income								
Employee benefit plan actuarial gains							11,131	11,131
Deferred tax on actuarial gains on defined benefit obligation							(4,238)	(4,238)
Net change in fair value of available for sale financial assets						(233,599)	-	(233,599)
Equity accounted investee - share of OCI							971	971
Total comprehensive income for the year	-	-	-	-	-	(233,599)	1,710,087	1,476,488
Transactions with owners, recognised directly in equity								
Distribution to owners of the Company								
Final dividend paid 2014 / 2015							(403,603)	(403,603)
First interim dividend paid 2015 / 2016							(302,702)	(302,702)
Second interim dividend paid 2015 / 2016							(403,603)	(403,603)
Balance as at 31.03.2016	336,335	2,956,382	785,400	308,900	466,250	(166,184)	5,625,032	10,312,115
Total comprehensive income for the year								
Profit for the year							1,126,107	1,126,107
Other comprehensive income								
Employee benefit plan actuarial gains							7,691	7,691
Deferred tax on actuarial gains on defined benefit obligation							(1,880)	(1,880)
Net change in fair value of available for sale financial assets						2,219	-	2,219
Equity accounted investee - share of OCI							2,420	2,420
Total comprehensive income for the year	-	-	-	-	-	2,219	1,134,338	1,136,557
Transactions with owners, recognised directly in equity								
Distribution to owners of the Company								
Final dividend paid 2015 / 2016							(201,801)	(201,801)
First interim dividend paid 2016 / 2017							(252,251)	(252,251)
Second interim dividend paid 2016 / 2017							(252,251)	(252,251)
Balance as at 31.03.2017	336,335	2,956,382	785,400	308,900	466,250	(163,965)	6,053,067	10,742,369

	Stated capital	Capital reserve	Other components of equity				Retained earnings	Total equity
			Development reserve	Property, plant & equipment replacement reserve	General reserves	Available for sale reserve		
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Company								
Balance as at 01.04.2015	336,335	2,922,336	785,400	308,900	466,250	68,633	4,074,717	8,962,571
Super gain tax for the year of assessment 2013/14 (*)							(418,387)	(418,387)
Balance as at 01.04.2015 (after adjusting for super gain tax)	336,335	2,922,336	785,400	308,900	466,250	68,633	3,656,330	8,544,184
Total comprehensive income for the year								
Profit for the year							1,457,126	1,457,126
Other comprehensive income								
Employee benefit plan actuarial gains							8,436	8,436
Deferred tax on actuarial gains on defined benefit obligations							(3,484)	(3,484)
Net change in fair value of available for sale financial assets						(197,757)	-	(197,757)
Total comprehensive income for the year	-	-	-	-	-	(197,757)	1,462,078	1,264,321
Transactions with owners, recognised directly in equity								
Distribution to owners of the Company								
Final dividend paid 2014 / 2015							(403,603)	(403,603)
First interim dividend paid 2015 / 2016							(302,702)	(302,702)
Second interim dividend paid 2015 / 2016							(403,603)	(403,603)
Balance as at 31.03.2016	336,335	2,922,336	785,400	308,900	466,250	(129,124)	4,008,500	8,698,597
Total comprehensive income for the year								
Profit for the year							955,440	955,440
Other comprehensive income								
Employee benefit plan actuarial gains							5,596	5,596
Deferred tax on actuarial gains on defined benefit obligations							(1,262)	(1,262)
Net change in fair value of available for sale financial assets						(808)	-	(808)
Total comprehensive income for the year	-	-	-	-	-	(808)	959,774	958,966
Transactions with owners, recognised directly in equity								
Distribution to owners of the Company								
Final dividend paid 2015 / 2016							(201,801)	(201,801)
First interim dividend paid 2016 / 2017							(252,251)	(252,251)
Second interim dividend paid 2016 / 2017							(252,251)	(252,251)
Balance as at 31.03.2017	336,335	2,922,336	785,400	308,900	466,250	(129,932)	4,261,971	8,951,260

(*) As per the provisions of Part III of the Finance Act, No. 11 of 2015 which was certified on 30 October 2015, the Group / Company was liable for Super Gain Tax (SGT) amounting to Rs.490 Mn and Rs.418 Mn respectively. According to the Act, the SGT shall be deemed to be an expenditure in the financial statements relating to the year of assessment commenced on 1 April 2013. The Act supersedes the requirements of the Sri Lanka Accounting Standards, hence the expense of SGT is accounted in accordance with the requirements of the said Act as recommended by the Statement of Alternative Treatment (SoAT) on accounting for SGT issued by the Institute of Chartered Accountants of Sri Lanka, dated 24 November 2015.

Capital reserve which includes revaluation reserve on property, plant & equipment represents the unutilised revaluation surplus arising out of the revaluation of land owned by United Motors Lanka PLC.

Property, plant & equipment replacement reserve represents profits reserved by the Company for the replacement of capital assets that have either completed their economic life or whose technologies are out-dated and thus require replacement.

Development reserve represents profits that have been held in reserve to fund future development projects of the Company.

General reserves are profits held in the reserve to fund future needs of the business which have not been specified.

Available for sale reserve comprises the cumulative net change in the fair value of available for sale financial assets until the investments are derecognised or impaired.

Notes from page 138 to 193 form an integral part of these financial statements. Figures in the brackets indicate deduction.

Statement of Cash Flows

For the year ended 31 March	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Cash flows from operating activities				
Profit before income tax expense	1,438,602	2,353,603	1,176,146	2,049,981
Adjustments for;				
Provision for depreciation / amortisation	134,056	141,706	95,816	91,044
Profit on disposal of property, plant & equipment	(6,016)	(10,895)	(1,608)	(5,242)
Net gain on disposal of available for sale financial assets	(6,037)	(54,170)	(4,253)	(52,805)
Net gain on disposal of financial assets at the fair value through profit or loss	(4,353)	(3,942)	(4,353)	(3,942)
Net change in fair value - financial asset at fair value through profit or loss	2,865	37,966	2,865	37,966
Interest expense	292,236	101,457	49,310	35,343
Interest income	(48,609)	(68,023)	(45,674)	(51,340)
Dividend income	(36,302)	(20,085)	(30,503)	(18,271)
Dividend received from subsidiary	-	-	(93,441)	(60,750)
Dividend received from equity accounted investee	-	-	(25,988)	(12,600)
Impairment of trade receivables and losses on warranty claims	124	38,220	2,857	25,188
Provision for employee benefit obligations	34,852	30,400	31,238	28,216
Expected return on plan asset	(10,801)	(9,901)	(10,263)	(9,574)
Share of profits of equity accounted investee	(76,027)	(131,549)	-	-
Withholding tax on dividend received from equity accounted investee	2,888	1,400	-	-
Provision for slow moving / obsolete inventories	50,667	27,066	26,681	18,570
Fair value adjustment on unit trust	-	(9,340)	-	(9,340)
Operating profit before working capital changes	**1,768,145**	**2,423,913**	**1,168,830**	**2,062,444**
(Increase) / decrease in inventories	(2,099,737)	(1,519,588)	(1,888,005)	627,496
(Increase) / decrease in trade and other receivables	(491,879)	162,592	(234,515)	470,985
(Increase) / decrease in amounts due from related party receivables	(3,067)	505	(13,570)	(2,805)
(Decrease) / increase in amounts due to related party payables	(361)	361	13,361	(38,434)
Increase in trade and other payables	369,528	111,072	141,880	88,833
Cash (used in) / generated from operations	**(457,371)**	**1,178,855**	**(812,019)**	**3,208,519**
Interest paid	(288,317)	(99,678)	(47,303)	(36,428)
Income tax paid	(513,883)	(305,355)	(472,130)	(299,670)
Super gain tax paid	-	(490,036)	-	(418,387)
Contribution paid and received from investment plan (net)	(768)	(180)	(297)	(180)
Net cash (used in) / generated from operating activities	**(1,260,339)**	**283,606**	**(1,331,749)**	**2,453,854**

For the year ended 31 March	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Cash flows from investing activities				
Proceeds from disposal / (acquisition) of shares	65,055	(597,390)	57,709	(469,168)
Proceeds from disposal of / (investment in) unit trust	1,170,140	242,052	1,170,140	(236,385)
Acquisitions of property, plant & equipment and intangible assets	(571,546)	(273,819)	(535,768)	(253,700)
Proceeds from disposal of property, plant & equipment	9,097	28,337	1,610	21,061
Interest received	48,609	68,023	45,674	51,340
Dividend received from equity accounted investee	25,988	12,600	25,988	12,600
Dividend received	36,302	20,085	123,944	79,021
Net cash generated from / (used in) investing activities	783,645	(500,112)	889,297	(795,231)
Cash flows from financing activities				
Dividend paid	(706,303)	(1,109,908)	(706,303)	(1,109,908)
Loans obtained	18,166,142	19,039,681	9,135,259	11,641,534
Loans paid	(16,840,253)	(17,511,403)	(7,777,401)	(12,103,234)
Net cash generated from / (used in) financing activities	619,586	418,370	651,555	(1,571,608)
Net increase in cash & cash equivalents	142,892	201,864	209,103	87,015
Cash & cash equivalents at the beginning of the year	305,043	103,179	153,497	66,482
Cash and cash equivalents at end of year (note 28)	447,935	305,043	362,600	153,497

Notes from page 138 to 193 form an integral part of these financial statements.
Figures in the brackets indicate deduction.

Notes to the Financial Statements

1. Reporting entity

1.1 Corporate information

United Motors Lanka PLC (the "Company"), is a public quoted Company incorporated on 9 May 1989 and domiciled in Sri Lanka. The registered office and the principal place of business of the Company are located at No. 100, Hyde Park Corner, Colombo 02.

1.2 Consolidated financial statements

The consolidated financial statements of the Group as at and for the year ended 31 March 2017 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group Entities") and the Group's interests in joint venture. All the Group entities and joint venture are limited liability companies, incorporated and domiciled in Sri Lanka.

1.3 Principal activities and nature of operations

The principal activities of the Company, subsidiaries and joint venture are given below.

Name of Company	Principal activities
United Motors Lanka PLC	Importation & sale of brand new Mitsubishi & Fuso vehicles, spare parts, lubricants, after sales services and related services.
Subsidiaries	
Unimo Enterprises Ltd	Importation & sale of vehicles, spare parts & tyres and assembling of vehicles
Orient Motor Company Ltd	Importation & sale and hiring of vehicles
UML Property Developments Ltd	Renting of premises
Joint venture	
TVS Lanka (Pvt) Ltd	Importation & distribution of motor bikes, three wheelers, spare parts & related services
TVS Automotives (Pvt) Ltd	Importation & sale of lubricants & 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.

2. Basis of preparation

2.1 Statement of compliance

The consolidated financial statements of the Group and the separate financial statements of the Company have been prepared in accordance with the Sri Lanka Financial Reporting Standards (SLFRS) and Sri Lanka Accounting Standards (LKAS) laid down by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and in compliance with the requirements of the Companies Act No.07 of 2007.

2.2 Responsibilities for the financial statements

The Board of Directors acknowledges their responsibility for the financial statements, as set out in the "Annual Report of the Board of Directors", "Statement of Directors' Responsibilities for Financial Statements" and the certification on the financial position on pages 116 to 123, 127 to 128 and 133 respectively of this annual report.

2.3 Approval of financial statements

The financial statements for the year ended 31 March 2017 were authorized for issue by the Board of Directors on 25 May 2017.

2.4 Basis of measurement

The consolidated financial statements have been prepared on an accrual basis except for cash flow information and under the historical cost convention except for following material items in the statement of financial position:

- Financial instruments at fair value through profit or loss are measured at fair value.
- Available for sale financial assets are measured at fair value.
- Defined benefit obligation is measured after actuarially valuing and the present value of the defined benefit obligation is recorded. Defined benefit asset is measured at fair value.
- Freehold land is stated at fair value.

2.5 Functional and presentation currency

The financial statements of the Company and the Group are presented in Sri Lankan Rupees, which is the Group's functional and presentational currency. All financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand.

2.6 Materiality and aggregation

Each material class of similar items is presented separately in the financial statements. Items of dissimilar nature or function are presented separately, unless they are immaterial as permitted by the Sri Lanka Accounting Standards.

2.7 Offsetting

Assets and liabilities and income and expenses in the financial statements are not set off unless required or permitted by Sri Lanka Accounting Standards.

2.8 Comparative information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the financial statements in order to enhance the understanding of the current period's financial statements and to enhance the inter period comparability. The presentation and classification of the financial statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

2.9 Significant accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with SLFRS / LKAS 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 and disclosure of contingent liabilities. Judgements and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Hence actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future period affected.

More information on significant areas of estimates, uncertainty and critical judgments in applying accounting policies that have the most significant effects on the amounts recognised in these financial statements are included in the following.

3.3 - Financial instruments
3.3.1.4 - Impairment of trade receivables
3.4.1 - Provision for depreciation
3.5.3 - Employee benefit obligations
3.5.4 - Contingent liabilities
3.6.13 - Deferred tax liabilities / assets

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 cease trading activities in any of Group's entities. Accordingly, the financial statements continue to be prepared on a going concern basis.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and by Group entities. The accounting policies adopted by the Group are consistent with those used in the previous year.

3.1 Basis of consolidation

The Group's financial statements comprise consolidation of the financial statements of the Company, its subsidiaries in terms of SLFRS 10 – Consolidated and Separate Financial Statements and its share of net assets in joint venture in terms of SLFRS 11 – Joint Arrangements.

3.1.1 Acquisitions and divestments

Acquisitions of subsidiaries are accounted for using the purchase method of accounting. The results of subsidiaries and joint venture have been included from the date of acquisition, or incorporation while results of subsidiaries and joint venture disposed will be included up to the date of disposal. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

3.1.2 Subsidiaries

Subsidiaries are investees that are controlled by the Company. Control exists when the Company is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power to govern the financial and operating policies over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

A list of the Group's subsidiaries is set out in note 40 to the financial statements.

These consolidated financial statements are prepared to a common financial year end of 31 March. The accounting policies of subsidiaries are in line with the policies adopted by the Company. All the assets and liabilities of the Company and the subsidiaries are included in the consolidated statement of financial position.

There are no significant 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.

Notes to the Financial Statements

3.1.3 Non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries / jointly controlled entities not owned directly or indirectly by the Company.

The Group does not have any subsidiaries with significant non-controlling interests as all subsidiaries are fully owned by United Motors Lanka PLC.

3.1.4 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing consolidated financial statements. Unrealized gains arising from transactions with equity accounted investee are eliminated to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

3.1.5 Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any gain or loss arising on the loss of control is recognised in the income statement. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value at the date the control is lost. Subsequently it is accounted for as an equity accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

3.1.6 Interests in equity-accounted investee

The Group's interest in equity-accounted investee comprises interest in a joint venture.

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement rather than rights to its assets and obligations for its liabilities.

Interest in joint venture is accounted for using the equity method. They are recognised initially at cost, which includes transactions costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity accounted investee until the date on which joint control ceases.

3.2 Foreign currency transactions and balances

Transactions in foreign currencies are translated to Sri Lanka Rupees at the exchange rate prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to Sri Lanka Rupees at the exchange rate prevailing as at the reporting date. Non-monetary assets and liabilities which are measured at historical cost denominated in foreign currencies are translated to Sri Lanka Rupees at the exchange rate prevailing at the dates of the transactions. Non-monetary assets & liabilities that are measured at fair value denominated in foreign currencies are translated to Sri Lanka Rupees at the exchange rate prevailing at the dates that the fair values were determined. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

3.3 Financial instruments

3.3.1 Non derivative financial assets

3.3.1.1 Initial recognition and measurement

Financial assets are recognised when and only when the Company becomes a party to the contractual provisions of the financial instruments. The Company determines the classification of its financial assets at initial recognition. When financial assets are recognised they are measured at fair value plus directly attributable transaction costs. However in the case of financial assets classified at fair value through profit or loss, directly attributable transaction costs are not considered.

The financial assets include cash and cash equivalents, short term deposits, unit trusts, treasury bills, equity shares and trade and other receivables.

3.3.1.2 Classification and subsequent measurement

At inception, a financial asset is classified into one of the following categories;

- At fair value through profit or loss
- Loans and receivables
- Available-for-sale
- Held to maturity investments

The subsequent measurement of financial assets depends on their classification as follows;

Financial assets at fair value through profit or loss

Financial asset at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or finance costs in the statement of comprehensive income.

Investments in unit trust and equity securities acquired for the purpose of trading are classified as financial assets at fair value through profit or loss.

Loans & receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method (EIR), less any impairment losses. The losses arising from impairment are recognised in the statement of comprehensive income as impairment losses on loans and receivables.

Loans and receivables comprises of cash and cash equivalents, trade and other receivables and receivables from related companies.

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale. According to LKAS 39 investment in long term equity securities are classified as available for sale financial assets. Available for sale financial assets are recognised at fair value, subsequently measured at fair value, with changes recognised in other comprehensive income (OCI) and presented within equity in the available for sale reserve. If there is significant and prolong decline in fair value, such decline is identified as impairment. Impairment losses shall be recognised in the profit or loss and cumulative losses recognised in the OCI will be recycled to profit or loss.

Available for sale financial assets comprises investments in long term equity securities.

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR (Effective Interest Rates). The EIR amortization is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income under finance costs.

There were no assets classified as held to maturity as at the reporting date.

3.3.1.3 Derecognition

The Company and Group derecognise a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

3.3.1.4 Impairment of financial asset

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Impairment of financial assets carried at amortized cost

The Group considers evidence of impairment for receivables at both specific asset and collective level. All individually significant receivables are assessed for specific impairment. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

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

Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. If a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss. When the Group considers that there is no realistic process of recovery of the asset, the relevant amounts are written off.

Impairment of financial assets – available for sale

Impairment losses on available for sale financial assets are recognised by reclassifying accumulated losses that has been recognised in other comprehensive income and presented in the fair value reserve in equity, to profit or loss. If, in a subsequent period, the fair value of an impaired available for sale asset increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available for sale equity security is recognised in other comprehensive income.

Notes to the Financial Statements

3.3.2 Non derivative financial liabilities

3.3.2.1 Initial recognition and measurement

Financial liabilities within the scope of SLFRS / LKAS are recognised when and only when the Company becomes a party to the contractual provisions of the financial instrument. Financial liabilities are recognised initially at fair value plus transaction cost that are directly attributable to the issue of the financial liability, which are not at fair value through profit or loss. Financial liabilities can be classified in to two categories as financial liabilities at fair value through profit or loss and other financial liabilities. The Company has classified its financial liabilities into other financial liability category.

3.3.2.2 Subsequent measurement

The Group classifies non derivative financial liability into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Such financial liabilities measured at amortized cost includes trade and other payables, interest bearing borrowings, over drafts, amounts due to related companies etc.

3.3.2.3 Derecognition

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of comprehensive income.

3.3.3 Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3.4 Non financial assets and basis of measurement

3.4.1 Property, plant and equipment

Property, plant and equipment are tangible items that are held for servicing, or for administrative purposes and are expected to be used during more than one period.

Basis of Recognition

Property, plant and equipment are recognised if it is probable that future economic benefits associated with the assets will flow to the Group / Company and cost of the asset can be measured reliably. Purchased software that is integral to the functionality of the related equipment is capitalised as part of computer equipment.

Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is 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 and direct labour, any other costs directly attributable to bringing the asset to a working condition for their intended use and the costs of dismantling and removing the items and restoring the site on which they are located.

Cost model

The Group applies cost model to property, plant and equipment except for freehold land and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

Revaluation model

Freehold land is stated at cost at the time of acquisition and subsequently measured at fair value at the next valuation. Freehold land of the Group is revalued every five years to ensure that the carrying amounts do not differ materially from the fair values at the reporting date.

On revaluation of an asset, any increase in the carrying amount is recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus or used to reverse a previous revaluation decrease relating to the same asset, which was charged to the profit or loss. In this circumstance, the increase is recognised as income to the extent of the previous write down.

Any decrease in the carrying amount is recognised as an expense in comprehensive income or is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation reserve in respect of that asset. Upon disposal or retirement, any balance remaining in the revaluation reserve in respect of an asset is transferred directly to retained earnings.

Subsequent costs

The cost of replacing significant parts of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Group and its cost can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are charged to the statement of comprehensive income as incurred.

De-recognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or losses arising from derecognition of an item of property, plant and equipment is included in statement of comprehensive income when the item is derecognised. When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognised. Major inspection costs are capitalised. At each such capitalisation, the remaining carrying amount of the previous cost is derecognised.

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset or other amount substituted for cost, less its residual value. Depreciation is recognised in the statement of comprehensive income on straight-line basis over the estimated useful lives of each item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease terms and useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease period. Freehold land is not depreciated.

The estimated useful lives are as follows:

Buildings	40 years
Furniture and fittings	5 – 10 years
Office equipment	4 years
Electrical fixtures and fittings	4 – 10 years
Machinery and tools	4 – 10 years
Motor vehicles	4 years
Reference books	10 years
Computer equipment	5 years

The assets' useful lives are reviewed and adjusted if appropriate at the end of each reporting period. Accordingly, the management decided to change the useful life of certain items categorized under furniture & fittings and Electrical fixtures & fittings, to 5 – 10 years and 4 – 10 years respectively (2016 – 5 years and 4 years respectively) during the year under review. The impact of such change has been incorporated in these financial statements. The revisions were accounted for prospectively as a change in accounting estimates.

Depreciation methods, useful lives and residual values are reviewed at each reporting date. Depreciation of an asset begins when it is 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. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date that the asset is derecognised.

All classes of property, plant and equipment together with the reconciliation of carrying amounts and accumulated depreciation at the beginning and at the end of the year are given in note 18.

Leasehold improvements are capitalized and depreciated over the life time of the lease or useful life whichever is shorter.

Borrowing cost

As per LKAS 23 on "Borrowing costs", the Group capitalizes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset 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 profit and loss in the period it is incurred.

Capital work-in-progress

Capital expenses incurred during the year which are not completed as at the reporting date are shown as capital work-in-progress, whilst the capital assets which have been completed during the year and in use have been transferred to property, plant & equipment.

3.4.2 Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or both but not for sale in the ordinary course of business, used in the production or supply of goods or services or for administrative purposes.

Basis of recognition

Investment property is recognised if it is probable that future economic benefits that are associated with the investment property will flow to the Group and cost of the investment property can be measured reliably.

Below mentioned properties classified as investment properties in the books of United Motors Lanka PLC and UML Property Developments Limited do not qualify as an investment property in the consolidated financial statements.

Notes to the Financial Statements

- The parent company, United Motors Lanka PLC rented part of the land and building to its subsidiaries / affiliates.
- The building held by UML Property Developments Limited is rented to the parent company, United Motors Lanka PLC.

Measurement

An investment property is measured initially at its cost. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. The cost of a self-constructed investment property is its cost at the date when the construction or development is complete. The Group applies the cost model for investment properties in accordance with LKAS 40 "Investment Property". Accordingly, land classified as investment properties are stated at cost less any accumulated impairment losses and buildings classified as investment properties are stated at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation

Depreciation is provided on a straight line basis over the estimated life of the class of asset from the date of purchase up to the date of disposal.

De-recognition

Investment properties are derecognised when disposed, or permanently withdrawn from use because no future economic benefits are expected.

Reclassification of investment property

When the use of a property changes from owner-occupied to investment property, the transfers are recorded at carrying amount following the cost model as per LKAS 40.

3.4.3 Leased assets

Finance leases

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

Operating leases

Other leases are operating leases. Payments made under operating leases are recognised in profit or loss on straight line basis over the term of the lease.

3.4.4 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, or for administrative purpose.

Basis of recognition

Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the assets can be measured reliably.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. The negative goodwill is recognised immediately in the statement of comprehensive income. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold net of disposal proceeds.

Software

All licensed computer software costs incurred by the Group, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and is probable that they will lead to future economic benefits, are included in the statement of financial position under the category intangible assets and carried at cost less amortization and any accumulated impairment losses. 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 profit or loss when incurred.

Useful economic lives and amortisation

Computer software are amortised over their estimated useful economic life over a period of 5 years on a straight-line basis. They are assessed for impairment whenever there is an indication that the intangible asset may be impaired. Above rate is consistent with the rate used in the previous years. Amortisation method, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

De-recognition

An intangible asset is derecognised on disposal or when no future economic benefits are expected from its use and subsequent disposal. Gains and losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss.

3.4.5 Investments in subsidiaries

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.

An impairment assessment was carried out as at 31 March 2017 and it was concluded that net realisable value of all the investments included under unquoted investments exceeds its carrying value.

3.4.6 Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories that are not interchangeable are recognised 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. It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. Accordingly, the costs of inventories are accounted as follows:

Motor vehicles	-	at actual cost
Goods-in-transit	-	at actual cost
Work-in-progress	-	at cost
Other stocks	-	at purchase cost on a first in first out basis

Provisions are made for all non-moving and obsolete items of inventory to reflect the lower of cost or net realizable value.

3.4.7 Impairment - non financial assets

The carrying value of the Group's non-financial assets, other than inventories, and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

For impairment testing, assets 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 or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or cash-generating unit is the greater of if it's 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 or groups of assets ("cash-generating unit or CGU") for the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the Group of CGUs that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

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

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

3.5 Liabilities and provisions

3.5.1 Provisions

A provision is recognised in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the provision can be measured reliably in accordance with LKAS 37 – Provisions, Contingent Liabilities and Contingent Assets. The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation at that date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is determined based on the present value of those cash flows.

3.5.2 Dividends payable

Provision for final dividends is recognised at the time the dividend is approved by the shareholders. Interim dividends payable is recognised when the Board approves such dividend in accordance with the provisions of the Companies Act No. 07 of 2007.

Notes to the Financial Statements

Dividends for the year that are approved after the reporting period are disclosed under events after the reporting period in accordance with the Sri Lanka Accounting Standard LKAS 10.

3.5.3 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment plan under which an entity pays fixed contribution into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in the statement of comprehensive income in the periods during which services are rendered by employees.

Employees' Provident Fund

The Company and employees contribute 12% and 10% respectively of the salary of each employee to the approved Private Provident fund. Other companies of the Group and their employees contribute at 12% and 8% respectively to the Employees' Provident Fund managed by the Central Bank of Sri Lanka.

Employees' Trust Fund

The Company / Group contribute 3% of the salary of each employee to the Employees' Trust Fund managed by Central Bank of Sri Lanka.

Contributions to defined contribution plans are recognised as an expense in the statement of comprehensive income as incurred.

Defined benefit plans - retiring gratuity

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company and the Group are liable to pay retirement benefits under the Payment of Gratuity Act, No 12 of 1983. The net obligation of the Group in respect of defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods and discounting that amount.

The calculation of defined benefit obligation is performed annually by a qualified actuary using the Projected Unit Credit (PUC) method. Re-measurement of the net defined benefit liability, which comprises actuarial gains and losses, are recognised immediately in OCI. The Group determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined liability, taking in to account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

The Company's liability arising on retirement benefits of employees joined prior to 1992 / 93 is partly externally funded through investment in NDB Mutual Funds. The gratuity liability of the employee joined after 1992 is externally funded and a policy agreement has been entered in to with AIA Insurance which covers 682 employees of the Company as at 31 March 2017.

Subsidiaries and joint ventures

All the subsidiaries & joint ventures have adopted actuarial valuation method in line with Group accounting policies.

The gratuity liability of subsidiaries and joint ventures is partly externally funded with AIA Insurance PLC.

3.5.4 Capital commitments & contingencies

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be measured reliably. Capital commitments and contingent liabilities of the Group are disclosed in the respective notes to the Financial Statements.

3.5.5 Events after the reporting date

The materiality of the events after the reporting date has been considered and appropriate adjustments and provisions have been made in the financial statements wherever necessary.

3.6 Statement of comprehensive income

3.6.1 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Group and the 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 sales returns, trade discounts and revenue related taxes. Group Revenue is shown after eliminating intercompany sales in full. The following specific criteria are used for the purpose of recognition of revenue.

3.6.2 Sale of goods

Revenue from sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible returns of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue is measured net of returns, trade discounts, and volume rebates.

3.6.3 Services rendered

Revenue for services rendered is recognised in the statement of comprehensive income once significant performance obligations have been provided.

3.6.4 Facilitation fee

Facilitation fee is recognised in the statement of comprehensive income at the point of invoicing to the supplier.

3.6.5 Profit on disposal of property, plant & equipment

The gains or losses on the sale of property, plant and equipment are determined on the difference between the carrying amount of the property, plant and equipment at the time of disposal and the proceeds of disposal, net of expenses incurred on disposal. This is recognised in the year in which significant risks and rewards of ownership are transferred to the buyer.

3.6.6 Rental income

Rental Income is recognised on an accrual basis.

3.6.7 Expenditure

All expenditure incurred in running of the business and in maintaining the property, plant & equipment has been charged to revenue in arriving at the profit for the year. For the purpose of presentation of statement of comprehensive income, the Directors are of the opinion that function of expense method present fairly the elements of the enterprise's performance, hence such presentation method is adopted. Expenditure incurred for the purpose of acquiring, expanding or improving assets of a permanent nature by means of which to carry on the business or for the purpose of increasing the earning capacity of the business has been treated as capital expenditure.

Repairs and maintenance are charged to the statement of comprehensive income in the year in which the expenditure is incurred. The profit earned by the Company is before income tax expense and after making provision for all known liabilities and for depreciation of property, plant & equipment.

3.6.8 Warranties

Costs incurred by the Company under the terms of the warranty agreement between principal suppliers are reimbursed to the Company. Any amounts that are not reimbursed under the warranty agreement are charged to the statement of profit or loss.

3.6.9 Finance costs / income

Finance costs comprise interest payable on all financial liabilities such as term loans, overdrafts and finance leases and fair value losses on financial assets at fair value through profit or loss. Interest expenses are recognised using the effective interest method.

Finance income comprises interest income, income from unit trusts, profit from disposal of marketable securities, dividend income, foreign exchange gains, fair value gains on financial assets at fair value through profit or loss and all other income received or receivable as a result of holding financial asset.

Interest income is recognised as it accrues using the effective interest method in the statement of comprehensive income.

Dividend income is recognised in the statement of comprehensive income on the date that the Group's right to receive payment is established.

The interest component of finance lease payment is recognised in the financial statements using effective rate method.

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

3.6.10 Income tax expense

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognised directly in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity or other comprehensive income.

3.6.11 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 adjustment made to tax payable in respect of previous years.

3.6.12 Tax exposures

In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities. Such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

3.6.13 Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax base of the assets and liabilities as at the reporting date.

Deferred tax is not recognised for;

- temporary differences on the initial recognition of assets and liabilities in transactions that are not a business combination and that affect either accounting or taxable profit or loss,
- temporary differences relating to investments in subsidiaries, to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and

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- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse. In the absence of the availability of the income tax rate applicable on the reversal date, the income tax rate applicable as at the reporting date is used.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax assets is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that the future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized, based on the level of future taxable profit forecasts and tax planning strategies.

3.6.14 Withholding Tax (WHT) on dividends

- Withholding tax on dividends distributed by the subsidiaries and joint venture;
  Dividends received by the Company out of taxable profit of the subsidiaries and joint venture are subject to 10% deduction at source.
- Withholding tax on dividends distributed by the Company;
  Withholding tax that arises from the distribution of dividends by the Company is recognised at the time the liability to pay the related dividend is recognised.

3.6.15 Value Added Tax (VAT)

The Company and its subsidiaries are liable to pay Value Added Tax on taxable supplies at the specified rates where applicable.

3.6.16 Economic Service Charge (ESC)

The Company and its subsidiaries are liable to pay Economic Service Charge at specified rates where applicable.

3.6.17 Nations Building Tax (NBT)

The Company and its subsidiaries are liable to pay Nation Building Tax (NBT) at specified rates where applicable.

4. Basic earnings per share

The financial statements present basic earnings per share (EPS) for its ordinary shareholders. The basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the 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.

5. Related party transactions

Disclosure has been made in respect of the transactions in which one party has the ability to control or exercise significant influence over the financial and operating policies / decisions of the other, irrespective of whether a price is charged.

6. Operating segments

Group has five reportable segments whilst the Company has four reportable segments. These segments offer different products and services and are managed separately as they require different marketing strategies. Operating results are reviewed by Group CEO / ED to make decisions about resource allocation and performance assessment for each segment separately.

The business segments of the Group are highlighted in the table below:

Reportable segment	Operation
Spare parts	Sale of spare parts
Vehicles	Sale of brand new passenger vehicles, commercial vehicles, special purpose vehicles, pre-owned passenger vehicles, motor bikes, and three wheelers
Repairs & services	Repairs and servicing of vehicles
Tyres	Sale of tyres
Lubricant & other services	Sale of lubricant & hiring of vehicles

Segment results that are reported to the Group CEO / ED include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments (other than investment property) & related revenue, loans & borrowings, related expenses, corporate and head office expenses and income tax assets & liabilities.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment.

Inter-segment pricing is determined on an arm's length basis.

The activities of the Group are within Sri Lanka. Consequently, the economic environment in which the Company operated is not subject to risk and rewards that are significantly different on a geographical basis. Hence, disclosure by geographical region is not provided.

7. Cash flow statement

The statement of cash flows has been prepared by using the "indirect method" of preparing cash flows in accordance with the Sri Lanka Accounting Standard – LKAS 7 on 'Statement of cash flows'.

Cash and cash equivalents comprise of cash balances, short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents as referred to in the statement of cash flows comprised of those items as explained in note 28.

Bank overdrafts are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

The statement of cash flows are given on pages 136 and 137.

8. New accounting standards issued not yet adopted

Following table list the standards issued but not yet effective up to the date of issuance of the Group's financial statements. The Group intends to adopt those standards when they become effective.

New or amended standard	Summary of the requirements	Possible impact on consolidated financial statements
SLFRS 9 – Financial instruments	SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 - Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from LKAS 39. Effective date of SLFRS 9 is for annual periods on or after 01 January 2018.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of SLFRS 9.
SLFRS 15 – Revenue from contracts with customers	SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 on 'Revenue' and LKAS 11 on 'Construction Contracts'. SLFRS 15 is effective for annual reporting periods beginning on or after 01 January 2018.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of SLFRS 15.
SLFRS 16 – Leases	SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between On-Balance Sheet finance leases and Off-Balance Sheet operating leases. Instead there will be a single On-Balance Sheet accounting model that is similar to current finance lease accounting. SLFRS 16 is effective for annual Reporting periods beginning on or after 01 January 2019.	The Group is assessing the potential impact on its consolidated financial statements resulting from the application of SLFRS 16.

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9. Segment results

Group

	Spare parts		Vehicles		Repairs & services		Tyres		Lubricant & other services		Total	
In Rs.'000	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Revenue												
External - Sales	1,765,449	1,564,568	14,283,056	11,451,878	-	-	241,113	176,774	837,920	605,729	17,127,538	13,798,949
- Services / commission	-	-	48,239	899,993	749,596	604,009	-	-	-	901	797,835	1,504,903
Total revenue	1,765,449	1,564,568	14,331,295	12,351,871	749,596	604,009	241,113	176,774	837,920	606,630	17,925,373	15,303,852
Segment results	**654,979**	**622,011**	**1,071,877**	**1,899,539**	**128,917**	**123,427**	**33,634**	**41,151**	**141,044**	**68,973**	**2,030,451**	**2,755,101**
Unallocated income											100,022	44,217
Unallocated expenses											(570,641)	(607,492)
Profit from operations before finance cost											1,559,832	2,191,826
Net finance (cost) / income											(197,257)	30,228
Profit from operations											1,362,575	2,222,054
Share of profit of equity accounted investee (net of income tax)											76,027	131,549
Profit before income tax expense											1,438,602	2,353,603
Income tax expenses											(312,495)	(651,380)
Profit from ordinary activities											**1,126,107**	**1,702,223**
Employee benefit plan actuarial gains / (loss)											7,691	11,131
Deferred tax on actuarial gain on defined benefit obligation											(1,880)	(4,238)
Equity accounted investee - share of OCI											2,420	971
Net change in fair value of available for sale financial assets											2,219	(233,599)
Other comprehensive income attributable to equity holders of the parent											**1,136,557**	**1,476,488**
Segment assets	2,329,250	1,378,464	10,039,129	8,630,977	399,644	322,876	239,228	221,312	687,538	489,035	13,694,789	11,042,664
Unallocated assets											3,227,957	4,048,732
Total assets	**2,329,250**	**1,378,464**	**10,039,129**	**8,630,977**	**399,644**	**322,876**	**239,228**	**221,312**	**687,538**	**489,035**	**16,922,746**	**15,091,396**
Segment liabilities	129,748	61,085	444,332	701,004	8,000	6,357	9,237	4,201	26,846	-	618,163	772,647
Unallocated liabilities											5,562,214	4,006,634
Total liabilities	**129,748**	**61,085**	**444,332**	**701,004**	**8,000**	**6,357**	**9,237**	**4,201**	**26,846**	**-**	**6,180,377**	**4,779,281**
Segment capital expenditure - allocated	56,290	27,993	456,950	221,002	23,901	10,807	7,688	3,163	26,717	10,854	571,546	273,819
Depreciation & amortisation - allocated	13,203	14,487	107,177	114,373	5,606	5,593	1,803	1,637	6,267	5,616	134,056	141,706
Non cash expenses / (income)	28,522	13,866	23,054	46,722	(153)	761	(2,800)	(3,017)	2,168	6,954	50,791	65,286

Company

	Spare parts		Vehicles		Repairs & services		Lubricant & other services		Total	
In Rs.'000	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Revenue										
External - Sales	1,742,062	1,555,361	6,213,471	6,998,634	-	-	842,689	606,880	8,798,222	9,160,875
- Services / commission	-	-	44,598	895,589	793,692	636,318	1,461	2,593	839,751	1,534,500
Total revenue	1,742,062	1,555,361	6,258,069	7,894,223	793,692	636,318	844,150	609,473	9,637,973	10,695,375
Segment results	**651,548**	**620,851**	**548,120**	**1,644,739**	**173,014**	**155,737**	**168,296**	**108,285**	**1,540,978**	**2,529,612**
Unallocated income									117,381	48,291
Unallocated expenses									(634,502)	(673,784)
Profit from operations before finance cost									1,023,857	1,904,119
Net finance income									152,289	145,862
Profit before income tax expense									1,176,146	2,049,981
Income tax expenses									(220,706)	(592,855)
Profit from ordinary activities									**955,440**	**1,457,126**
Employee benefit plan actuarial gains									5,596	8,436
Deferred tax on actuarial gain on defined benefit obligation									(1,262)	(3,484)
Net change in fair value of available for sale financial assets									(808)	(197,757)
Other comprehensive income attributable to equity holders of the parent									**958,966**	**1,264,321**
Segment assets	1,539,371	1,240,026	6,861,696	5,192,558	399,644	322,876	876,173	556,257	9,676,884	7,311,717
Unallocated assets									2,228,947	3,136,369
Total assets	**1,539,371**	**1,240,026**	**6,861,696**	**5,192,558**	**399,644**	**322,876**	**876,173**	**556,257**	**11,905,831**	**10,448,086**
Segment liabilities	99,573	6,357	388,168	529,400	8,000	6,357	26,846	-	522,587	542,114
Unallocated liabilities									2,431,984	1,207,375
Total liabilities	**99,573**	**6,357**	**388,168**	**529,400**	**8,000**	**6,357**	**26,846**	**-**	**2,954,571**	**1,749,489**
Segment capital expenditure - allocated	96,840	36,894	347,881	187,256	44,121	15,094	46,926	14,456	535,768	253,700
Depreciation & amortisation - allocated	17,318	13,240	62,213	67,199	7,890	5,417	8,395	5,188	95,816	91,044
Non cash expenses / (income)	27,814	13,823	732	24,030	(153)	761	1,145	5,144	29,538	43,758

Notes to the Financial Statements

10. Revenue

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Brand new vehicles	14,283,056	11,451,878	6,213,471	6,998,634
Spare parts, repairs & services	2,515,045	2,168,577	2,535,753	2,191,678
Lubricants & car care products	837,920	605,729	842,689	606,880
Facilitation fee	4,999	32,264	4,999	32,264
Local charges on new vehicles	43,240	868,630	39,599	864,226
Hiring	-	-	1,462	1,693
Tyres	241,113	176,774	-	-
	17,925,373	15,303,852	9,637,973	10,695,375

10.1 The detailed segmental review is given under note 9 to the financial statements.

10.2 Free service arrangements - The Company and the Group do not defer revenue component applicable to free service arrangements and recognised full revenue at the point of invoicing. The Company / Group generally provide three labour free services. According to past records, the cost of labour of such free services is immaterial and the Company/Group is of the view that this does not have a material impact on the result of these financial statements.

10.3 Warranty obligation - A standard warranty period / Kms is agreed with the principal for new vehicle sales. The cost incurred by the Company in respect of replacements within the warranty period, is reimbursed by the principal provided that the claims are within the terms agreed with the principal from the date of imports. The Company has no warranty liability in respect of past sales which can occur in future, as the cost is reimbursed by the principal other than in a situation where the Company gives warranty period commencing from the date of sale which is beyond the warranty period given by the principal.

The Company estimates this future liability on the extended warranty period is insignificant based on the past records. Therefore revenue has not been deferred.

11. Other income

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Rent income	1,643	1,626	25,035	17,635
Profit on disposal of property, plant & equipment	6,016	10,895	1,608	5,242
Award received from principal	10,223	2,497	10,223	2,497
Incentive received from principal	65,860	2,022	65,860	2,022
Staff loan interest	971	867	971	867
Commission on insurance	3,474	2,627	3,474	2,627
Income on legal services	26	26	26	26
Valuation fee	176	141	176	141
Sundry income (note 11.1)	11,633	23,516	10,008	17,234
	100,022	44,217	117,381	48,291

11.1 Sundry income

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Scrap sales	7,015	7,435	7,015	7,435
Miscellaneous	4,618	16,081	2,993	9,799
	11,633	23,516	10,008	17,234

12. Other expenses

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Losses on warranty claims	732	14,289	732	2,209
Provision for slow moving / obsolete inventories	50,667	27,066	26,681	18,570
Impairment (reversals) / losses and write offs on loans and receivables	(608)	23,931	2,125	22,979
	50,791	65,286	29,538	43,758

13. Profit from operations

13.1. Operating profit is stated after charging all expenses including the following:

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Depreciation on property, plant & equipment (note 18)	132,503	139,931	93,957	88,979
Depreciation on investment property (note 19)	-	-	514	514
Amortization of intangible assets (note 20.2)	1,553	1,775	1,345	1,551
Auditors' remuneration (note 13.1.1)	3,660	3,778	2,735	2,853
Tax compliance / consultancy charges	1,050	980	622	612
Directors' emoluments	117,067	97,629	93,652	77,742
Employee benefit expense (note 13.1.2)	852,676	791,210	732,313	687,801
Donations	415	208	415	208
Legal fees	2,300	1,173	892	402
Operating lease expenses	168,293	145,494	143,582	125,911

13.1.1 Auditor's remuneration

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Audit services and related services	3,881	3,778	2,806	2,853
Non audit services	82	-	82	-
	3,963	3,778	2,888	2,853

Notes to the Financial Statements

13. Profit from operations (Contd.)

13.1.2 Employee benefit expense

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Salaries and bonus	708,508	666,342	609,205	581,171
Contributions to defined contribution plan	78,636	70,049	66,832	59,606
Contributions to employee defined benefit plans (gratuity)	23,754	20,318	20,679	18,462
Others	41,778	34,501	35,597	28,562
	852,676	791,210	732,313	687,801
Number of employees at the end of the year	976	841	773	682

14. Finance income and finance cost

14.1 Recognised in profit or loss

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Finance income				
Income from unimpaired financial assets:				
Interest on call deposits	7,363	4,880	3,677	3,979
Interest on amounts due from related parties	-	-	751	-
Income from unit trust investments	40,275	62,276	40,275	46,494
Foreign exchange gains	3,538	16,453	1,247	12,186
Net gains on disposal of				
Financial assets at fair value through profit or loss	4,353	3,942	4,353	3,942
Available for sale financial assets	6,037	54,170	4,253	52,805
Dividend income on				
Financial assets at the fair value through profit or loss	2,102	827	6,195	827
Available for sale financial assets	34,200	19,258	24,308	17,444
Dividend income from investments in related companies	-	-	93,441	60,750
Dividend income from equity accounted investee	-	-	25,988	12,600
Net change in fair value of unit trust investments	-	9,340	-	9,340
Total finance income	97,868	171,146	204,488	220,367
Finance cost				
Expenses on financial liabilities measured at amortized cost:				
Interest on bank borrowings	(291,530)	(100,518)	(49,054)	(34,725)
Interest on overdrafts	(706)	(939)	(256)	(618)
Net change in fair value				
Financial assets at fair value through profit or loss	(2,865)	(37,966)	(2,865)	(37,966)
Foreign exchange losses	(24)	(1,495)	(24)	(1,196)
Total finance cost	(295,125)	(140,918)	(52,199)	(74,505)
Net finance income recognised in profit or loss	(197,257)	30,228	152,289	145,862

14.2 Recognised in other comprehensive income

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Net change in fair value of available for sale financial assets	2,219	(233,599)	(808)	(197,757)
	2,219	(233,599)	(808)	(197,757)

15. Income tax expenses

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Current tax expense (note 15.1)	374,730	617,558	286,978	559,728
Adjustments in respect of prior years	(91,296)	30,298	(91,510)	26,105
	283,434	647,856	195,468	585,833
Deferred tax expense				
Deferred tax asset reversal during the year (note 33.1)	6,323	4,125	-	7,022
Charge / (reversal) of deferred tax liability during the year (note 33.2)	22,738	(601)	25,238	-
	29,061	3,524	25,238	7,022
	312,495	651,380	220,706	592,855

The Department of Inland Revenue has issued income tax assessments on the Company for the years of assessment 2009/10 and 2010/11 disallowing 2/3rd of the NBT expenses claimed by the Company. Additional assessments (excluding penalty) amount to Rs.7,787,394 and Rs.18,317,599 respectively. On 13 November 2015, the Company filed a petition in Court of Appeal against the determination of the Commissioner General Inland Revenue (CGIR) for the year of assessment 2009/2010. The determination of CGIR for the year of assessment 2010/2011, dated on 21 January 2016 has now been appealed against with Tax Appeals Commission. The Company has made required provisions for the above amounts in these financial statements.

Notes to the Financial Statements

15. Income tax expenses (Contd.)

15.1 Reconciliation between accounting profit to income tax expense:

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Profit before income tax expense	1,438,602	2,353,603	1,176,146	2,049,981
Disallowable expenses	473,615	475,466	317,459	412,578
Exempt dividends and other non business income	(220,849)	(232,788)	(204,847)	(213,416)
Allowable expenses	(288,910)	(324,156)	(268,300)	(254,095)
Statutory income from business	1,402,458	2,272,125	1,020,458	1,995,048
Income from other sources	12,898	4,556	4,463	3,979
Total statutory income / assessable income	1,415,356	2,276,681	1,024,921	1,999,027
Tax losses (note 15.2 b)	(258)	(1,319)	-	-
Taxable income	1,415,098	2,275,362	1,024,921	1,999,027
Standard tax rate	28%	28%	28%	28%
Concessionary tax rate	2%	2%		
Taxable income liable at standard rate	1,332,417	2,200,197	1,024,921	1,999,027
Taxable income liable at concessionary rate	82,681	75,165	-	-
Income tax at standard rate	373,076	616,055	286,978	559,728
Income tax at concessionary rate	1,654	1,503	-	
Income tax for the year	374,730	617,558	286,978	559,728
Total tax for the year	**374,730**	**617,558**	**286,978**	**559,728**
Effective tax rate	26%	26%	24%	27%

15.2 Income tax provisions

(a) Current tax has been computed in accordance with the provisions of the Inland Revenue Act, No. 10 of 2006 and amendments thereto. The taxable profit of the Company & subsidiaries are liable for income tax at 28% (2016 - 28%) except for the 'taxable profit' of UMPDL which is liable at 2% on turnover in accordance with an agreement entered in to with the Board of Investments of Sri Lanka under section 17 of the BOI Act No.4 of 1978 and will be liable at the said rate till the year 2022.

(b) The utilisation of tax losses brought forward is restricted to 35% of current year's statutory income. Unabsorbed tax losses can be carried forward indefinitely. The tax losses carried forward by the group entities as at 31 March 2017 amounts to Rs.185,829,457 (Rs.186,500,036 in 2016)

	Group	
	2017 Rs.'000	2016 Rs.'000
Tax loss at the beginning of the year	186,500	198,184
Adjustment in respect of previous year	(412)	(10,365)
Tax losses set off during the year (35% of statutory income)	(258)	(1,319)
Tax loss at the end of the year	**185,830**	**186,500**

(c) Deferred tax has been computed using the current tax rate of 28% (2016 - 28%) for the Company & the Group (note 33).

16. Earnings per share

Basic earnings per share

The Company's and the Group's earnings per share is computed on the net profit attributable to equity holders of the parent and the weighted average number of ordinary shares in issue during the year as required by LKAS 33 "Earnings per share"

	Group		Company	
	2017	2016	2017	2016
Amount used as numerator				
Profit attributable to equity holders of the parent company (Rs.'000)	1,126,107	1,702,223	955,440	1,457,126
Amount used as denominator				
Weighted average number of ordinary shares ('000s)	100,901	100,901	100,901	100,901
Basic earnings per share (Rs.)	11.16	16.87	9.47	14.44

17. Dividend per share

	Company			
	2017		2016	
	Dividend per share Rs.	Dividend Rs.'000	Dividend per share Rs.	Dividend Rs.'000
Final dividend paid 2014/15	-	-	4	403,603
First interim dividend paid 2015/16	-	-	3	302,702
Second interim dividend paid 2015/16	-	-	4	403,603
Final dividend paid 2015/16	2	201,801	-	-
First interim dividend paid 2016/17	2.5	252,251	-	-
Second interim dividend paid 2016/17	2.5	252,251	-	-
	7	706,303	11	1,109,908

As required by section 56(2) of the Companies Act No. 07 of 2007, the Board of Directors has confirmed that the Company satisfies the solvency test in accordance with section 57 of the Companies Act No. 07 of 2007, prior to recommending and has obtained a certificate from the auditors, prior to the distributing the dividend.

Notes to the Financial Statements

18. Property, plant & equipment

18.1 Group

	Free hold land Rs.'000	Buildings Rs.'000	Furniture & fittings Rs.'000	Office equipment Rs.'000	Electrical fixtures & fittings Rs.'000	Machinery & tools Rs.'000	Motor vehicles free hold Rs.'000	Reference books Rs.'000	Computer equipment Rs.'000	Capital work in progress Rs.'000	Total 2017 Rs.'000	Total 2016 Rs.'000
Cost or revalued amount												
At the beginning of the year	4,026,950	453,603	40,613	42,186	85,578	204,751	332,623	107	130,080	88,260	5,404,751	5,183,321
Additions	-	105,081	5,197	6,022	6,943	77,909	28,978	-	9,903	321,887	561,920	273,669
Disposals	-	-	-	-	-	(3,828)	(6,384)	-	(65)	-	(10,277)	(52,239)
Transfers	-	-	5,487	(5,487)	-	-	-	-	-	-	-	-
De-recognition of capital work-in-progress	-	281,659	5,099	1,064	24,874	8,948	-	-	-	(321,644)	-	-
At the end of the year	4,026,950	840,343	56,396	43,785	117,395	287,780	355,217	107	139,918	88,503	5,956,394	5,404,751
Accumulated depreciation												
At the beginning of the year	-	143,559	28,328	30,528	56,977	91,564	204,936	107	101,006	-	657,005	551,871
Charge for the year	-	22,974	5,459	3,942	7,293	24,949	55,350	-	12,536	-	132,503	139,931
Disposals	-	-	-	-	-	(1,003)	(6,128)	-	(65)	-	(7,196)	(34,797)
Transfers	-	-	1,808	(1,808)	-	-	-	-	-	-	-	-
At the end of the year	-	166,533	35,595	32,662	64,270	115,510	254,158	107	113,477	-	782,312	657,005
Carrying amount as at 31 March 2017	4,026,950	673,810	20,801	11,123	53,125	172,270	101,059	-	26,441	88,503	5,174,082	
Carrying amount as at 31 March 2016	4,026,950	310,044	12,285	11,658	28,601	113,187	127,687	-	29,074	88,260	-	4,747,746

Details of land and buildings owned by the Group are as follows:

Location / address	Buildings		Land					
	No. of building units	Sq. / Ft	Extent			Cost	Revaluation	Total Value
			Acre	Rood	Perch	Rs.'000	Rs.'000	Rs.'000
100, & 100A ,Hyde Park Corner, Colombo 02	10	81,794	1	3	0.54	76,791	2,081,094	2,157,885
143 & 145 Majeed Place, Orugodawatte	27	126,382	7	-	15.14	63,940	809,254	873,194
Vauxhall Street, Colombo 02	2	825	-	1	10.35	161,325	265,800	427,125
Meetotamulla, Orugodawatte	1	3,494	-	1	28.86	78,081	(4,997)	73,084
Maligawa Road, Ratmalana	25	89,262	9	3	36.50	443,140	35,810	478,950
Navatkuli, Jaffna	3	9,475	1	-	25.69	12,623	4,089	16,712
Total	68	311,232	20	2	37.08	835,900	3,191,050	4,026,950

18.2 Company

	Free hold land Rs.'000	Buildings Rs.'000	Furniture & fittings Rs.'000	Office equipment Rs.'000	Electrical fixtures & fittings Rs.'000	Machinery & tools Rs.'000	Motor vehicles free hold Rs.'000	Reference books Rs.'000	Computer equipment Rs.'000	Capital work in progress Rs.'000	Total 2017 Rs.'000	Total 2016 Rs.'000
Cost or revalued amount												
At the beginning of the year	3,879,590	358,219	36,573	28,811	85,031	174,794	177,148	107	120,800	88,260	4,949,333	4,731,988
Additions	-	105,081	5,187	3,811	6,082	62,085	15,576	-	8,403	321,887	528,112	253,700
Disposals	-	-	-	-	-	-	(1,568)	-	-	-	(1,568)	(36,355)
Transfers	-	-	5,487	(5,487)	-	-	-	-	-	-	-	-
De-recognition of capital work-in-progress	-	281,659	5,099	1,064	24,874	8,948	-	-	-	(321,644)	-	-
At the end of the year	**3,879,590**	**744,959**	**52,346**	**28,199**	**115,987**	**245,827**	**191,156**	**107**	**129,203**	**88,503**	**5,475,877**	**4,949,333**
Accumulated depreciation												
At the beginning of the year	-	105,043	25,596	20,899	56,296	79,164	86,934	107	93,278	-	467,317	398,874
Charge for the year	-	20,187	5,391	2,322	6,907	17,396	30,543	-	11,211	-	93,957	88,979
Disposals	-	-	-	-	-	-	(1,566)	-	-	-	(1,566)	(20,536)
Transfers	-	-	1,808	(1,808)	-	-	-	-	-	-	-	-
At the end of the year	**-**	**125,230**	**32,795**	**21,413**	**63,203**	**96,560**	**115,911**	**107**	**104,489**	**-**	**559,708**	**467,317**
Carrying amount as at 31 March 2017	**3,879,590**	**619,729**	**19,551**	**6,786**	**52,784**	**149,267**	**75,245**	**-**	**24,714**	**88,503**	**4,916,169**	
Carrying amount as at 31 March 2016	**3,879,590**	**253,176**	**10,977**	**7,912**	**28,735**	**95,630**	**90,214**	**-**	**27,522**	**88,260**	**-**	**4,482,016**

Details of land & buildings owned by the Company are as follows:

Location / address	Buildings		Land					
	No. of building units	Sq. / Ft	Extent			Cost	Revaluation	Total Value
			Acre	Rood	Perch	Rs.'000	Rs.'000	Rs.'000
100, & 100A ,Hyde Park Corner, Colombo 02	9	71,524	1	2	3.70	25,000	1,985,525	2,010,525
143 & 145 Majeed Place, Orugodawatte	27	126,382	7	-	15.14	63,940	809,254	873,194
Vauxhall Street, Colombo 02	2	825	-	1	10.35	161,325	265,800	427,125
Meetotamulla, Orugodawatte	1	3,494	-	1	28.86	78,081	(4,997)	73,084
Maligawa Road, Ratmalana	25	89,262	9	3	36.50	443,140	35,810	478,950
Navatkuli, Jaffna	3	9,475	1	-	25.69	12,623	4,089	16,712
Total	**67**	**300,962**	**20**	**2**	**0.24**	**784,109**	**3,095,481**	**3,879,590**

Considering the useful life of certain items categorized under furniture & fittings and electrical fixtures & fittings, the management decided to change the useful lives to 5 – 10 years and 4 – 10 years respectively (2016 – 5 years and 4 years respectively) during the year under review. The revisions were accounted for prospectively as a change in accounting estimates.

Notes to the Financial Statements

18. Property, plant & equipment (Contd.)

18.3 Revaluation

Company:

(i) In March 1993, the Company's land amounting to Rs.93,335,951 was revalued by an independent chartered valuer. The surplus arising out of such revaluation amounting Rs.49,000,000 was fully utilised for issue of bonus shares.

(ii) In December 1999, another revaluation has been carried out by an independent chartered valuer to reflect the market value.

The total surplus arising out of this revaluation amounting to Rs. 141,853,649 has been fully utilised for the issue of bonus shares during 2002/2003.

(iii) In March 2005, a third revaluation was carried out by an independent chartered valuer to reflect market value of land. The total surplus arising out of such revaluation amounting to Rs. 398,820,000 has been credited to the capital reserve on revaluation of land.

(iv) In March 2010, a fourth revaluation was carried out by J M S Bandara, a qualified independent valuer on 31 March 2010 to reflect market value of land. The resultant surplus of Rs 827,883,000 has been credited to the capital reserve on revaluation of land.

(v) In March 2015, a further revaluation was carried out by J M S Bandara, a qualified independent valuer on 31 March 2015 to reflect market value of land. The resultant surplus of Rs 1,733,106,312 has been credited to the capital reserve on revaluation of land.

18.4 Measurement of fair value

Measurement of fair value of land has been categorised as level 3 of the fair value hierarchy based on the inputs to the valuation technique used.

The following table shows the valuation technique used in measuring the fair value of land, as well as the significant unobservable inputs used.

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Fair value of land is based on available property market data, available facilities & services, planning restrictions, title status, size/shape & other physical factors of the land.	The valuer has used a range of prices for each land based on investigated prices in order to determine the market value.	The estimated fair value would increase (decrease) if: Market value per perch is higher (lower)

18.5 Fully depreciated assets

Cost of fully depreciated assets which are still in use as at reporting date is as follows:

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Buildings	42,977	42,977	42,977	42,977
Furniture and fittings	19,890	16,354	16,180	13,210
Office equipment	19,055	16,646	15,646	14,141
Electrical fixtures & fittings	35,574	31,047	35,574	31,047
Machinery & tools	41,688	41,688	39,048	39,048
Motor vehicles	216,603	165,426	59,297	56,135
Computer equipment	80,005	67,306	73,024	63,829
Reference books	107	107	107	107
Total	455,899	381,551	281,853	260,494

18.6 No restrictions existed on the title of the property, plant and equipment of the Group as at the reporting date, and there were no temporarily idle property, plant & equipment as at the reporting date.

18.7 There were no items of property, plant and equipment pledged as security for liabilities and there is no permanent fall in the value of property.

18.8 There were no compensation received/ receivable from third parties for items of property, plant and equipment that were impaired, lost or given up.

18.9 Based on the provisions of the Land (Restrictions on Alienation) Act No. 38 of 2014, foreigners are no longer permitted to buy land in Sri Lanka. A company having foreign shareholding of 50% or more is categorised as a foreign company as per Section 02 of the above Act. According to the above classification, as at 31 March 2017 United Motors Lanka PLC & its subsidiaries are classified as foreign companies.

19. Investment property

	Company	
	2017 Rs.'000	2016 Rs.'000
Cost		
At the beginning of the year	152,495	152,495
At the end of the year	**152,495**	**152,495**
Accumulated depreciation		
At the beginning of the year	2,145	1,631
Charge for the year	514	514
At the end of the year	2,659	2,145
Net book value as at 31 March	**149,836**	**150,350**

The buildings owned by UML Property Developments Limited are rented to the parent company, United Motors Lanka PLC. Hence it does not qualify as an investment property in the consolidated financial statements.

Details of investment property are as follows:

Location / address	Buildings			Land				Cost of the property
	No. of buildings	Sq. / Ft	Value	Extent			Value	
			Rs.'000	Acre	Rood	Perch	Rs.'000	Rs.'000
100A ,Hyde Park Corner, Colombo 02	1	10,270	5,135	-	-	36.84	147,360	152,495

The Company classified part of the land and building as investment property. UML has rented this property to its subsidiaries and affiliated company (Unimo Enterprises Ltd and TVS Automotives (Pvt) Ltd)

The Company recognised investment property at cost and according to the valuation done by Mr J. M. S Bandara, qualified independent valuer in March 2017, fair value of this property is Rs.470 Mn (2016 - Rs.360 Mn). In determining the fair value, the current condition of the properties, future usability and market evidence of transaction prices for similar properties, with appropriate adjustments for size and location have been considered.

Rental income earned from investment property by the Company amounts to Rs.6,216,456 (2016 – Rs.6,216,456) and direct operating expenses incurred by the Company that generated rental income amounted to Rs.53,775 (2016 – Rs.668,000). No operating expense was incurred for investment property that did not generate rental income. There was no restriction on the realisability of the investment property.

Notes to the Financial Statements

20. Intangible assets

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Goodwill (note 20.1)	2,890	2,890	-	-
Computer software (note 20.2)	9,090	1,023	7,232	921
	11,980	3,913	7,232	921

20.1 Goodwill

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
At the beginning of the year	2,890	2,890	-	-
At the end of the year	2,890	2,890	-	-

20.1.(a) Impairment of goodwill

Goodwill represents the difference between the purchase consideration and the fair value of assets acquired as a result of the acquisition of balance 50% shares in Unimo Enterprise Ltd (formally known as Associated United Motors Limited) which was acquired on 3 October 2002.

No condition has arisen that results in an impairment of goodwill that requires a provision.

20.2 Computer software

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Cost				
At the beginning of the year	16,719	16,719	14,757	14,757
Additions	9,620	-	7,656	-
At the end of the year	26,339	16,719	22,413	14,757
Accumulated amortisation				
At the beginning of the year	15,696	13,921	13,836	12,285
Amortisation during the year	1,553	1,775	1,345	1,551
At the end of the year	17,249	15,696	15,181	13,836
Carrying amount at the end of the year	9,090	1,023	7,232	921

20.3 Cost of fully amortized computer software of Group and the Company amount to Rs.16.7 million (2016 - Rs. 8.1 million) and Rs.14.8 million (2016 - Rs. 7 million) respectively.

20.4 There were no restrictions existed on the title of the intangible assets of the Group / Company as at the reporting date. Further there were no items pledged as security for liabilities.

21. Investments in subsidiaries

	Holding %	Group 31.03.2017 Rs.'000	Group 31.03.2016 Rs.'000	Company 31.03.2017 Rs.'000	Company 31.03.2016 Rs.'000
Orient Motor Company Ltd	100	-	-	50,000	50,000
UML Property Developments Ltd	100	-	-	75,000	75,000
Unimo Enterprises Ltd	100	-	-	47,400	47,400
		-	-	172,400	172,400

22. Investments in equity accounted investee

	Holding %	Group 31.03.2017 Rs.'000	Group 31.03.2016 Rs.'000	Company 31.03.2017 Rs.'000	Company 31.03.2016 Rs.'000
TVS Lanka (Pvt) Ltd - (interest in joint venture)	50	800,431	750,853	173,545	173,545
		800,431	750,853	173,545	173,545

TVS Lanka (Pvt) Ltd is a joint venture which the Group has 50% ownership interest. The other parties to the joint venture are T V Sundaram Iyengar & Sons (Pvt) Ltd, India and TVS Motor Company Ltd, India.

22.1 Reconciliation of investments in equity accounted investee

Reconciliation of the carrying amount of the equity accounted investee is as follows;

	Group 2017 Rs.'000	Group 2016 Rs.'000
Balance as at 1 April	750,853	632,183
Profit for the year recognized in statement of profit or loss	76,027	131,549
Dividend received	(28,875)	(14,000)
Elimination of unrealized profit	6	150
Other comprehensive income	2,420	971
Group's share of net result of equity accounted investee as at 31 March	**800,431**	**750,853**

Notes to the Financial Statements

22. Investments in equity accounted investee (Contd.)

22.2 Summary of financial information of equity accounted investee

	31.03.2017 Rs.'000	31.03.2016 Rs.'000
Current assets	5,231,767	5,077,375
Non current assets	62,920	195,411
Current liabilities	(3,695,126)	(3,769,357)
Non current liabilities	(23,789)	(26,796)
Net assets (100%)	**1,575,772**	**1,476,633**
Group's share of net assets (50%)	787,886	738,317
Elimination of unrealized profit	-	(9)
Goodwill	12,545	12,545
Carrying amount of interest in equity accounted investee	**800,431**	**750,853**
Cash and cash equivalents included in current assets	152,696	124,714
Current financial liabilities included in current liabilities	2,436,188	2,762,982
Non current financial liabilities included in non current liabilities	-	-
Revenue	13,485,274	14,163,281
Profit or loss from continuing operations	152,049	262,046
Other comprehensive income	4,840	1,942
Profit & other comprehensive income (100%)	**156,889**	**263,988**
Profit & other comprehensive income (50%)	78,444	131,994
Elimination of unrealised profit	3	526
Group's share of profit and total comprehensive income	**78,447**	**132,520**
Depreciation and amortisation	(26,289)	(38,845)
Interest income	6,350	5,486
Interest expense	(253,571)	(193,112)
Income tax expense	(68,997)	(161,735)
Compensation paid	(25,648)	-
Contingent liabilities	1,504,000	529,396
Capital & other commitments	-	-
Dividend received	-	-

23. Financial instruments

23.1 Fair values of assets and liabilities

Fair values Vs. carrying amounts

The following tables show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Group - 31 March 2017		Carrying amount					Fair value			
	Note	Available-for-sale Rs.'000	Fair value through profit or loss Rs.'000	Loans and receivables Rs.'000	Other financial liabilities Rs.'000	Total Rs.'000	Level 1 Rs.'000	Level 2 Rs.'000	Level 3 Rs.'000	Total Rs.'000
Financial assets measured at fair value										
Equity shares	24	672,573	119,673			792,246	792,246			792,246
		672,573	119,673	-	-	792,246	792,246			792,246
Financial assets not measured at fair value										
Trade & other receivables excluding pre-payments	26			1,570,804		1,570,804				
Amounts due from related parties	27			3,687		3,687				
Cash & cash equivalents	28			566,106		566,106				
		-	-	2,140,597	-	2,140,597				
Financial liabilities not measured at fair value										
Interest bearing borrowings	31				3,965,092	3,965,092				
Trade & other payables	34				1,693,473	1,693,473				
Amounts due to related parties	35				-	-				
Bank overdrafts	28				118,171	118,171				
		-	-	-	5,776,736	5,776,736				

Group - 31 March 2016		Carrying amount					Fair value			
	Note	Available-for-sale Rs.'000	Fair value through profit or loss Rs.'000	Loans and receivables Rs.'000	Other financial liabilities Rs.'000	Total Rs.'000	Level 1 Rs.'000	Level 2 Rs.'000	Level 3 Rs.'000	Total Rs.'000
Financial assets measured at fair value										
Equity shares	24	735,573	111,985			847,558	847,558			847,558
Investments in unit trusts	24		1,170,140			1,170,140		1,170,140		1,170,140
		735,573	1,282,125	-	-	2,017,698	847,558	1,170,140	-	2,017,698
Financial assets not measured at fair value										
Trade & other receivables excluding pre-payments	26			1,384,047		1,384,047				
Amounts due from related parties	27			620		620				
Cash & cash equivalents	28			522,873		522,873				
		-	-	1,907,540	-	1,907,540				
Financial liabilities not measured at fair value										
Interest bearing borrowings	31				2,635,284	2,635,284				
Trade & other payables	34				1,323,945	1,323,945				
Amounts due to related parties	35				361	361				
Bank overdrafts	28				217,830	217,830				
		-	-	-	4,177,420	4,177,420				

Notes to the Financial Statements

23. Financial instruments (Contd.)

23.1 Fair values of assets and liabilities (Contd.)

Company - 31 March 2017		Carrying amount					Fair value			
	Note	Available-for-sale Rs.'000	Fair value through profit or loss Rs.'000	Loans and receivables Rs.'000	Other financial liabilities Rs.'000	Total Rs.'000	Level 1 Rs.'000	Level 2 Rs.'000	Level 3 Rs.'000	Total Rs.'000
Financial assets measured at fair value										
Equity shares	24	554,191	119,673			673,864	673,864			673,864
		554,191	119,673	-	-	673,864	673,864	-	-	673,864
Financial assets not measured at fair value										
Trade & other receivables excluding pre-payments	26			964,981		964,981				
Amounts due from related parties	27			31,568		31,568				
Cash & cash equivalents	28			464,495		464,495				
		-	-	1,461,044	-	1,461,044				
Financial liabilities not measured at fair value										
Interest bearing borrowings	31				1,359,865	1,359,865				
Trade & other payables	34				1,153,897	1,153,897				
Amounts due to related parties	35				42,641	42,641				
Bank overdrafts	28				101,895	101,895				
		-	-	-	2,658,298	2,658,298				

Company - 31 March 2016		Carrying amount					Fair value			
	Note	Available-for-sale Rs.'000	Fair value through profit or loss Rs.'000	Loans and receivables Rs.'000	Other financial liabilities Rs.'000	Total Rs.'000	Level 1 Rs.'000	Level 2 Rs.'000	Level 3 Rs.'000	Total Rs.'000
Financial assets measured at fair value										
Equity shares	24	614,655	111,985			726,640	726,640			726,640
Investments in unit trusts	24		1,170,140			1,170,140		1,170,140		1,170,140
		614,655	1,282,125	-	-	1,896,780	726,640	1,170,140	-	1,896,780
Financial assets not measured at fair value										
Trade & other receivables excluding pre-payments	26			738,888		738,888				
Amounts due from related parties	27			17,998		17,998				
Cash & cash equivalents	28			320,957		320,957				
		-	-	1,077,843	-	1,077,843				
Financial liabilities not measured at fair value										
Interest bearing borrowings	31				-	-				
Trade & other payables	34				1,012,017	1,012,017				
Amounts due to related parties	35				29,280	29,280				
Bank overdrafts	28				167,460	167,460				
		-	-	-	1,208,757	1,208,757				

The following table shows the valuation technique used in measuring level 2 fair values, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Investments in unit trusts	Fair value is based on the published unit price.	Based on published unit prices.	The estimated fair value will increase (decrease) if: The published unit prices are higher (lower)

23.2 Financial assets by fair value hierarchy

Fair value of financial instruments are based on a fair value hierarchy which is defined below.

Level 1
Inputs that are quoted market prices (unadjusted) in active market for identical instruments. The Group measures the fair value of an instrument using active quoted prices or dealer price quotations without any deductions for transaction cost. Market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions at arm's length basis.

Level 2
Input other than quoted prices included within level one that are observable either directly or indirectly. This category includes instruments valued using; quoted market prices in an active market for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or valuation techniques in which whole significant inputs are directly or indirectly observable from market data.

Level 3
The input that are unobservable. This category included all the instruments for which valuation techniques include input not based on observable data and the unobservable inputs have a significant effect on the instruments valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

23.3 Overview of financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for identifying, analysing, evaluating and monitoring the risk and the management of capital of the Group. Further, quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The respective Board of Directors of each company has overall responsibility for the establishment and oversight of the respective company's risk management framework.

Each company's risk management policies are established to identify and analyse the risks faced by the company, to set appropriate risk profile and controls, and to monitor risks and mitigate. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and each company's activities.

The Audit Committee oversees how management monitors compliance with their risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by each company. The Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The risk management has been further detailed in Enterprise Risk Management given in pages 110 to 115.

Notes to the Financial Statements

23. Financial instruments (Contd.)

23.4 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under financial instrument or customer contract, leading to a financial loss.

The Group is exposed to credit risk from its operating activities (primarily from trade receivables) and from its financing activities, including deposits with banks, foreign exchange transaction and other financial instruments.

The Group does an extensive and continuous evaluation of credit worthiness of its customers / financial institutions by assessing external credit ratings (if available) or historical information about default rates and change the credit limits and payment terms where necessary.

23.4.1 Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

		Group		Company	
	Note	31.03.2017 Rs.'000	31.03.2016 Rs.'000	31.03.2017 Rs.'000	31.03.2016 Rs.'000
Carrying amount					
Fair value through profit and loss - unit trust	24.3	-	1,170,140	-	1,170,140
Trade and other receivables excluding prepayments	26	1,570,804	1,384,047	964,981	738,888
Amount due from related parties	27	3,687	620	31,568	17,998
Cash at bank	28	475,934	341,868	385,354	177,052
		2,050,425	2,896,675	1,381,903	2,104,078

23.4.2 Trade receivables

The management assesses the credit quality of the customer, taking into account their financial position, past experience and other factors. Sources of credit risks are identified, assessed and monitored and the Group has policies to manage the risks within various subcategories. The utilization of credit limits is regularly monitored.

Maximum exposure to credit risk for trade receivables at the reporting date by category wise is as follows:

	Group		Company	
	31.03.2017 Rs.'000	31.03.2016 Rs.'000	31.03.2017 Rs.'000	31.03.2016 Rs.'000
Public Sector	215,365	233,504	211,790	233,504
Private Sector				
Individual customers	8,894	-	8,894	-
Corporate customers	162,332	54,420	162,332	54,420
Dealers & distributors	258,399	179,702	172,038	115,553
Leasing companies	387,291	389,269	183,654	155,436
	1,032,281	856,895	738,708	558,913

23.4.3 Impairment losses

(a) Details of the impairment of trade receivables are given below.

	Group			
	31.03.2017		31.03.2016	
	Gross Rs.'000	Impairment Rs.'000	Gross Rs.'000	Impairment Rs.'000
Individual impairment				
Not past due	658,228	-	582,018	-
Past due	32,653	32,653	38,647	35,747
Collective Impairment				
Not past due	353,923	664	248,573	728
Past due	31,380	10,586	36,117	11,985
	1,076,184	**43,903**	**905,355**	**48,460**

	Company			
	31.03.2017		31.03.2016	
	Gross Rs.'000	Impairment Rs.'000	Gross Rs.'000	Impairment Rs.'000
Individual Impairment				
Not past due	451,016	-	351,085	-
Past due	31,430	31,430	31,623	31,623
Collective Impairment				
Not past due	272,802	141	194,722	131
Past due	19,801	4,770	16,835	3,598
	775,049	36,341	594,265	35,352

(b) The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
At the beginning of the year	48,460	29,607	35,352	12,373
Impairment loss (reversed) / recognised	(4,557)	18,853	989	22,979
At the end of the year	**43,903**	**48,460**	**36,341**	**35,352**

(c) Impairment loss of Rs 32.6 million of the Group relates to individually significant customers and impairment test indicated that they are not expecting to be able to pay their outstanding balances, mainly due to economic circumstances. Hence the receivable balances are identified as impaired as at 31 March 2017.

Except for the above, balance receivables are impaired collectively based on the collection pattern and historical default rate.

(d) The Group believes that no impairment is necessary for equity securities categorised under 'available for sale financial assets' and 'fair value through profit or loss' as the value changes are not permanent and significant.

Notes to the Financial Statements

23. Financial instruments (Contd.)

23.4.3 Impairment losses (Contd.)

(e) When the Group ascertains that no recovery of the amount owing is possible, at that point the amounts are considered irrecoverable and are written off against the financial asset directly.

Credit risk relating to cash and cash equivalents

The cash and cash equivalents are held with banks and financial institutions which are rated above 'BBB-(lka).

Credit risk relating to investments in unit trusts

Most of the Group's investments were in unit trusts. The reputation of the custodian and track record of the fund manager are considered before the initial investment. Once an investment is placed, the Group continuously monitors the size, number of unit holders and the return from the unit trust to ensure that originally assessed credit worthiness is being continued.

23.5 Liquidity risk

Liquidity risk is the risk that the Group may not have sufficient liquid financial resources to meet its obligations when they fall due. The Group manages the liquidity risk by carrying out cash flow forecasts and identifying future cash needs. Investments are planned ensuring money is available for settlements. Adequate banking facilities are approved and kept for use as and when necessary. Strong relationships have been built with banks to ensure that urgent borrowing needs are met at short notice.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

	Note	Carrying amount Rs.'000	Contractual Cash flows Rs.'000	Less than 6 months Rs.'000	6-12 months Rs.'000	1-2 years Rs.'000	2-5 years Rs.'000	More than 5 years Rs.'000
31 March 2017- Group								
Non-derivative financial liabilities								
Interest bearing borrowings	31	3,965,092	3,965,092	3,965,092	-	-	-	-
Trade and other payables	34	1,693,473	1,693,473	1,693,473	-	-	-	-
Amounts due to related parties	35	-	-	-	-	-	-	-
Bank overdrafts	28	118,171	118,171	118,171	-	-	-	-
		5,776,736	5,776,736	5,776,736	-	-	-	-
31 March 2016 - Group								
Non-derivative financial liabilities								
Interest bearing borrowings	31	2,635,284	2,635,284	2,635,284	-	-	-	-
Trade & other payables	34	1,323,945	1,323,945	1,323,945	-	-	-	-
Amounts due to related parties	35	361	361	361	-	-	-	-
Bank overdrafts	28	217,830	217,830	217,830	-	-	-	-
		4,177,420	4,177,420	4,177,420	-	-	-	-
31 March 2017 - Company								
Non-derivative financial liabilities								
Interest bearing borrowings	31	1,359,865	1,359,865	1,359,865	-	-	-	-
Trade and other payables	34	1,153,897	1,153,897	1,153,897	-	-	-	-
Amounts due to related parties	35	42,641	42,641	42,641	-	-	-	-
Bank overdrafts	28	101,895	101,895	101,895	-	-	-	-
		2,658,298	2,658,298	2,658,298	-	-	-	-
31 March 2016 - Company								
Non-derivative financial liabilities								
Interest bearing borrowings	31	-	-	-	-	-	-	-
Trade & other payables	34	1,012,017	1,012,017	1,012,017	-	-	-	-
Amounts due to related parties	35	29,280	29,280	29,280	-	-	-	-
Bank overdrafts	28	167,460	167,460	167,460	-	-	-	-
		1,208,757	1,208,757	1,208,757	-	-	-	-

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

23.6 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks;

- Foreign exchange risk
- Interest rate risk
- Equity price risk

(a) Foreign exchange risk

Foreign currency risk arises when future commercial transactions are denominated in a currency that is not the entity's functional currency. The Group is principally exposed to fluctuations in the value of the Japanese Yen (JPY) and US Dollar (USD) against the Sri Lankan Rupee (LKR). The Group's functional currency is LKR in which most of the transactions are denominated, and all other currencies are considered foreign currencies for reporting purposes.

Changes in foreign currency exchange rates affect the Group's cost of purchases. Based on anticipated exchange rate movements forward booking is considered as a method to minimise risk. Import bills are negotiated at the most favourable time for the Group.

The exposure to currency risk as at the reporting date is as follows:

	Group		Company	
	USD - '000	JPY - '000	USD - '000	JPY - '000
Trade and other receivables as at 31 March 2017	593	26,493	331	26,493
Trade and other payables as at 31 March 2017	899	240,812	899	240,812

Sensitivity analysis

The following table demonstrates the sensitivity of Group / Company profits to a reasonable possible change in the US Dollar (USD) and Japanese Yen (JPY) exchange rate with all other variables held constant.

The impact on the profit before tax due to change in the fair value of monetary assets and liabilities denominated in foreign currency as at 31 March 2017 is as follows;

Currency	Increase/ decrease in exchange rate	Group effect on profit before tax Rs.'000	Company effect on profit before tax Rs.'000
USD	+ 5 %	(2,472)	(4,432)
	- 5%	2,472	4,432
JPY	+ 5 %	(14,896)	(14,896)
	- 5%	14,896	14,896

Notes to the Financial Statements

23. Financial instruments (Contd.)

23.6 Market risk (Contd.)

(b) Interest rate risk

The Group's interest rate risk arises mainly from the short term borrowings and investment of excess funds in financial instruments. Borrowings at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash / investments held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group has cash and bank balances including deposits placed with government and reputed financial institutions. All available opportunities are considered before making investment decisions.

Proper working capital management is done to ensure that borrowing needs and investment opportunities are foreseen. Market interest rates are monitored closely to ensure borrowings and investments are at the best rate for the Group.

At the end of the reporting period the interest rate profile of the Group / Company's interest bearing financial instruments was as follows:

	Group 2017 Rs.'000	Company 2017 Rs.'000
Fixed rate instruments		
Financial assets	-	-
Financial liabilities	-	-
Variable rate instruments		
Financial assets	-	-
Financial liabilities	4,083,263	1,461,760

Sensitivity analysis

The following table demonstrates the sensitivity to a reasonable possible change in variable interest, with all other variables held constant.

	Increase/decrease in variable rates	Group Effect on profit before tax Rs.'000	Company Effect on profit before tax Rs.'000
31 March 2017 variable rate instruments	+5%	(22,660)	(7,935)
	-5%	22,660	7,935

(c) Equity price risk

Listed equity securities are susceptible to equity price risk arising from uncertainties of future values of the investment securities. The Group manages the equity price risk through diversification of its portfolio among different business segments.

The Groups' equity risk management policies adopted by the Investment Committee are as follows;

- Equity investment decisions are based on fundamentals rather than on speculation.
- Decisions are made based on in-depth industry and macroeconomic analysis as well as on research reports on the company performance.

The table below shows the diversification of equity investments;

Investment shares

Sector	Group				Company			
	31.03.2017		31.03.2016		31.03.2017		31.03.2016	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
Banks, finance and insurance	312,143	46.4	421,095	57.2	268,842	48.5	367,384	59.8
Construction & engineering	7,827	1.2	7,036	1.0	-	-	-	-
Diversified holdings	260,177	38.7	151,284	20.6	223,826	40.4	128,710	20.9
Motor	61,523	9.1	61,369	8.3	61,523	11.1	61,369	10.0
Beverage, food & tobacco	16,112	2.4	74,821	10.2	-	-	57,192	9.3
Power & energy	4,020	0.6	1,978	0.3	-	-	-	-
Health & care	554	0.1	-	-	-	-	-	-
Manufacturing	10,217	1.5	17,990	2.4	-	-	-	-
Total	672,573	100.0	735,573	100.0	554,191	100.0	614,655	100.0

Trading shares

Sector	Group / Company			
	31.03.2017		31.03.2016	
	Rs.'000	%	Rs.'000	%
Banks, finance & insurance	45,520	38.0	47,056	42.0
Diversified holdings	5,425	4.5	4,162	3.7
Beverage, food & tobacco	25,671	21.5	23,557	21.0
Construction & engineering	13,065	10.9	6,021	5.4
Power & energy	3,721	3.1	-	-
Manufacturing	26,271	22.0	31,189	27.9
Total	119,673	100	111,985	100

Sensitivity analysis

Investments in equity shares are subject to the performance of investee company and the factors that affect the status of the stock market.

The following table demonstrates the sensitivity of the Group and Company's equity to a reasonably possible change in the market prices of the listed equity securities, with all other variables held constant.

	Change in year 31.03.2017 share price of all companies in which the Group / Company has invested	Group		Company	
		Effect on profit before tax Rs.'000	Effect on equity Rs.'000	Effect on profit before tax Rs.'000	Effect on equity Rs.'000
31 March 2017 - Investments in equity shares	+ 5%	5,984	33,629	5,984	27,710
	- 5%	(5,984)	(33,629)	(5,984)	(27,710)

Notes to the Financial Statements

23. Financial instruments (Contd.)

23.7 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations. The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- training and professional development;
- ethical and business standards;
- risk mitigation, including insurance when this is effective.

Compliance with set procedures is supported by a programme of periodic reviews undertaken by Internal Audit. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

23.8 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Consistent with others in the industry, capital is monitored on the basis of the gearing ratio.

No changes were made in objectives, policies or processes for managing capital during the years ended 31 March 2016 and 31 March 2017.The Group monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. Net debt includes interest bearing borrowings, trade and other payables, less cash and cash equivalents.

		Group		Company	
	Note	31.03.2017 Rs.' 000	31.03.2016 Rs.' 000	31.03.2017 Rs.' 000	31.03.2016 Rs.' 000
Interest bearing borrowings	31	3,965,092	2,635,284	1,359,865	-
Bank overdraft	28	118,171	217,830	101,895	167,460
Trade and other payables	34	1,693,473	1,323,945	1,153,897	1,012,017
Less: Cash and short term deposits	28	(566,106)	(522,873)	(464,495)	(320,957)
Net debt		5,210,630	3,654,186	2,151,162	858,520
Equity		10,742,369	10,312,115	8,951,260	8,698,597
Capital and net debt		15,952,999	13,966,301	11,102,422	9,557,117
Gearing ratio		**0.33**	**0.26**	**0.19**	**0.09**

24. Other investments

	Group		Company	
	31.03.2017 Rs.'000	31.03.2016 Rs.'000	31.03.2017 Rs.'000	31.03.2016 Rs.'000
Non-current investments				
Equity securities designated as available for sale financial assets (note 24.1)	836,538	901,757	684,124	743,779
Decrease in market value	(163,965)	(166,184)	(129,933)	(129,124)
	672,573	735,573	554,191	614,655
Current investments				
Equity securities designated as fair value through profit or loss (note 24.2)	158,206	149,951	158,206	149,951
Decrease in market value	(38,533)	(37,966)	(38,533)	(37,966)
	119,673	111,985	119,673	111,985
Other investments designated as fair value through profit or loss (note 24.3)	-	1,170,140	-	1,170,140
	-	1,170,140	-	1,170,140
	119,673	1,282,125	119,673	1,282,125

Notes to the Financial Statements

24. Other investments (Contd.)

24.1 Equity securities designated as available for sale financial assets

	Group					
	31.03.2017			31.03.2016		
	No. of shares	Cost Rs.'000	Market value Rs.'000	No. of shares	Cost Rs.'000	Market value Rs.'000
Access Engineering PLC	196,150	5,175	4,668	193,729	4,549	4,030
ACL Cables PLC	-	-	-	53,295	6,270	5,377
Aitken Spence PLC	361,647	41,596	20,324	361,647	41,596	26,581
Alumex PLC	-	-	-	70,000	1,171	1,078
Bairaha Farms PLC	52,251	10,587	8,371	38,267	8,171	5,510
Central Industries PLC	21,000	1,140	924	-	-	-
Ceylon Grain Elevators PLC	5,000	471	344	45,260	4,734	3,118
Citizens Development Business Finance PLC - Non voting	10	1	1	10	1	1
Citizens Development Business Finance PLC - Voting	18,600	1,467	1,194	-	-	-
Commercial Bank of Ceylon PLC - Non voting	254,770	33,272	26,267	195,480	26,580	22,089
Commercial Bank of Ceylon PLC - Voting	733,064	106,974	95,592	788,879	116,271	99,004
DFCC Bank PLC	477,092	92,716	54,388	477,092	92,716	65,362
Diesel & Motor Engineering PLC	109,883	90,211	61,523	111,640	91,654	61,369
Hatton National Bank PLC - Non voting	-	-	-	90,293	14,914	15,440
Hatton National Bank PLC - Voting	105,489	23,381	23,767	501,207	112,156	99,891
John Keells Holdings PLC	1,130,478	179,377	155,893	834,111	152,697	123,449
Lanka Walltiles PLC	82,116	9,760	7,637	82,116	9,760	8,113
Laugfs Gas PLC	143,049	5,912	4,020	54,196	2,428	1,978
LB Finance PLC	-	-	-	59,915	7,466	6,357
Melstacorp PLC	1,243,376	85,156	73,608	297,367	81,428	61,317
MTD Walkers PLC	90,259	5,521	3,159	90,259	5,521	3,006
National Development Bank PLC	545,023	69,516	76,085	475,000	61,174	80,180
Nations Trust Bank PLC	243,142	24,689	17,993	258,683	25,945	19,194
People's Leasing & Finance PLC	179,704	4,066	2,803	129,654	3,109	2,074
Renuka Foods PLC	388,211	9,210	6,988	37,361	1,053	777
Seylan Bank PLC - Voting	41,015	4,130	3,568	38,000	3,918	3,268
Singer Finance (Lanka) PLC	426,997	10,494	7,302	254,790	6,760	4,612
Softlogic Finance PLC	89,709	5,171	2,781	89,709	5,171	3,436
Softlogic Holdings PLC	649,259	9,824	7,726	-	-	-
Softlogic Life Insurance PLC	20,700	481	404	-	-	-
Swisstek (Ceylon) PLC	20,000	1,443	1,312	-	-	-
Textured Jersey Lanka PLC	-	-	-	9,602	324	304
The Lanka Hospital Corporation PLC	9,000	652	553	-	-	-
Three Acre Farms PLC	5,870	846	753	84,708	12,213	7,217
Vallibel Finance PLC	-	-	-	3,491	230	187
Vallibel One PLC	150,000	3,299	2,625	70,443	1,777	1,254
		836,538	672,573		901,757	735,573

	Company					
	31.03.2017			31.03.2016		
	No. of shares	Cost Rs.'000	Market value Rs.'000	No. of shares	Cost Rs.'000	Market value Rs.'000
Aitken Spence PLC	323,596	37,820	18,186	323,596	37,820	23,784
Commercial Bank of Ceylon PLC - Non voting	254,770	33,272	26,267	195,480	26,580	22,089
Commercial Bank of Ceylon PLC - Voting	499,370	69,360	65,118	558,502	78,657	70,092
DFCC Bank PLC	477,092	92,716	54,388	477,092	92,716	65,362
Diesel & Motor Engineering PLC	109,883	90,211	61,523	111,640	91,654	61,369
Melstacorp PLC	1,243,376	85,156	73,608	277,367	76,790	57,193
Hatton National Bank PLC - Non voting	-	-	-	90,293	14,914	15,440
Hatton National Bank PLC - Voting	105,489	23,381	23,767	457,667	103,081	91,213
John Keells Holdings PLC	957,446	151,296	132,032	708,958	129,209	104,926
National Development Bank PLC	545,023	69,516	76,085	475,000	61,174	80,180
Nations Trust Bank PLC	243,142	24,689	17,993	243,142	24,689	18,041
People's Leasing & Finance PLC	106,154	2,577	1,656	106,154	2,577	1,698
Seylan Bank PLC - Voting	41,015	4,130	3,568	38,000	3,918	3,268
		684,124	554,191		743,779	614,655

Notes to the Financial Statements

24. Other investments (Contd.)

24.2 Equity securities designated as fair value through profit or loss

	Group / Company					
	31.03.2017			31.03.2016		
	No. of shares	Cost Rs.'000	Market value Rs.'000	No. of shares	Cost Rs.'000	Market value Rs.'000
Access Engineering PLC	446,000	11,521	10,615	170,000	3,827	3,536
ACL Cables PLC	50,806	3,135	2,769	32,507	3,796	3,280
ACL Plastics PLC	-	-	-	23,125	4,080	3,584
Alumex PLC	188,868	3,877	3,588	277,429	5,145	4,272
Bairaha Farms PLC	68,849	13,137	11,030	63,849	12,216	9,194
Central Industries PLC	11,796	638	519	-	-	-
Ceylon Grain Elevators PLC	55,470	5,303	3,822	84,893	7,927	5,849
Citizens Development Business Finance PLC - Non voting	52,437	5,269	2,522	52,437	5,269	3,566
Citizens Development Business Finance PLC - Voting	73,224	8,447	4,701	73,224	8,447	5,492
Commercial Bank of Ceylon PLC - Voting	4,449	691	580	4,386	691	550
Kelani Cables PLC	30,000	4,247	3,525	14,443	1,775	1,625
Kelani Tyres PLC	40,095	3,215	2,205	31,443	2,622	2,012
Lanka IOC PLC	104,100	4,002	3,019	-	-	-
Lanka Walltiles PLC	38,989	4,466	3,626	95,093	10,893	9,395
Laugfs Gas PLC	25,000	885	702	-	-	-
LB Finance PLC	-	-	-	45,653	5,614	4,844
MTD Walkers PLC	70,000	4,204	2,450	74,625	4,546	2,485
Nations Trust Bank PLC	83,391	8,249	6,171	83,391	8,249	6,188
People's Leasing PLC	395,694	8,779	6,173	263,327	6,282	4,213
Renuka Foods PLC	457,001	11,398	8,226	198,882	5,464	4,137
Sanasa Development Bank PLC	30,440	4,326	3,014	25,623	3,885	3,503
Seylan Bank PLC - Voting	-	-	-	17,021	1,607	1,464
Singer Finance (Lanka) PLC	555,729	13,830	9,503	454,994	11,641	8,235
Softlogic Finance PLC	65,944	3,768	2,044	65,944	3,768	2,526
Softlogic Life Insurance PLC	394,030	8,965	7,684	-	-	-
Swisstek (Ceylon) PLC	63,909	4,694	4,173	18,400	1,123	1,012
Textured Jersey Lanka PLC	-	-	-	5,000	162	159
Three Acre Farms PLC	50,000	7,584	6,415	120,018	16,538	10,226
Vallibel Finance PLC	88,411	5,926	5,172	120,600	8,350	6,476
Vallibel One PLC	310,002	7,650	5,425	233,803	6,034	4,162
		158,206	119,673		149,951	111,985

24.3 Other investments designated as fair value through profit or loss

	Group / Company					
	31.03.2017			31.03.2016		
	No. of units in '000	Cost of investment Rs.'000	Market value Rs.'000	No. of units in '000	Cost of investment Rs.'000	Market value Rs.'000
Investment in unit trusts	-	-	-	78,742	1,160,800	1,170,140
	-	-	-	78,742	1,160,800	1,170,140

25. Inventories

	Group		Company	
	31.03.2017 Rs.'000	31.03.2016 Rs.'000	31.03.2017 Rs.'000	31.03.2016 Rs.'000
Spare parts	1,489,038	708,705	477,118	473,435
Vehicles	4,591,769	3,548,576	2,708,213	895,483
Lubricants	244,925	144,533	244,925	144,533
Tyres	83,154	102,067	-	-
Others	39,897	31,948	39,897	31,948
Stock-in-trade	6,448,783	4,535,829	3,470,153	1,545,399
Work-in-progress	170,080	59,377	32,215	32,733
Goods in transit (note 25.2)	856,841	831,428	708,109	771,021
	7,475,704	5,426,634	4,210,477	2,349,153

The stock-in-trade of each category has been shown after netting off the provision made for slow moving inventories in respect of each category.

25.1 Provision for slow moving inventories

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
At the beginning of the year	158,756	131,690	141,210	122,640
Provision made during the year	54,094	27,066	26,681	18,570
At the end of the year	**212,850**	**158,756**	**167,891**	**141,210**

25.2 Goods in transit

	Group		Company	
	31.03.2017 Rs.'000	31.03.2016 Rs.'000	31.03.2017 Rs.'000	31.03.2016 Rs.'000
Vehicles	513,261	680,799	510,375	637,148
Spare parts	343,580	150,629	197,734	133,873
	856,841	831,428	708,109	771,021

Notes to the Financial Statements

25. Inventories (Contd.)

25.3 Inventories & trade receivables pledged as security for liabilities of Group entities are as follows.

Company	Bank	Facility	Amount pledged as security Rs.'000	Balance outstanding Rs.'000
Orient Motor Company Ltd	National Development Bank PLC	Overdraft, short term loan, letter of credit	100,000	-
	Commercial Bank of Ceylon PLC	Overdraft, short term loan, letter of credit	115,000	-
	Standard Chartered Bank	Overdraft, short term loan, letter of credit	200,000	-
Unimo Enterprises Ltd	Sampath Bank PLC	Overdraft, short term loan, letter of credit	365,000	83,391
	National Development Bank PLC	Overdraft, short term loan, letter of credit	305,000	536,567
	Commercial Bank of Ceylon PLC	Overdraft, short term loan, letter of credit	525,000	483,804
	Standard Chartered Bank	Overdraft, short term loan, letter of credit	500,000	453,959

26. Trade and other receivables

	Group		Company	
	31.03.2017 Rs.'000	31.03.2016 Rs.'000	31.03.2017 Rs.'000	31.03.2016 Rs.'000
Trade receivables	1,076,184	905,355	775,049	594,265
Impairment allowance (note 26.2)	(43,903)	(48,460)	(36,341)	(35,352)
	1,032,281	**856,895**	**738,708**	**558,913**
Other receivables (note 26.3)	424,690	414,066	112,441	66,889
Loans to employees	10,540	13,072	10,540	13,072
Economic Service Charge	48,662	-	48,662	-
Pre-payments	419,386	114,388	50,163	44,598
Facilitation fee receivable	260	38	260	38
Advances paid	54,371	99,976	54,370	99,976
Total trade and other receivables	**1,990,190**	**1,498,435**	**1,015,144**	**783,486**

26.1 The Group's exposure to credit risk and impairment losses related to trade and other receivables are disclosed in note 23.4

26.2 Impairment allowance for trade receivables

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
At the beginning of the year	48,460	29,607	35,352	12,373
During the year (reversal) / provision	(1,633)	22,573	2,125	22,979
Bad debt written off during the year	(2,924)	(3,720)	(1,136)	-
At the end of the year	**43,903**	**48,460**	**36,341**	**35,352**

26.3 Other receivables

	Group		Company	
	31.03.2017 Rs.'000	31.03.2016 Rs.'000	31.03.2017 Rs.'000	31.03.2016 Rs.'000
Other receivables	446,024	443,203	114,381	68,742
Impairment of other receivables	(21,334)	(29,137)	(1,940)	(1,853)
	424,690	414,066	112,441	66,889

26.4 Loans to employees

Total loans disbursed to employees amounts to Rs.9.3 million, out of which the movement of loans disbursed to employees which has exceeded Rs. 20,000 are disclosed as follows:

	Group		Company	
	Non executives 2017 Rs.'000	Executives 2017 Rs.'000	Non executives 2017 Rs.'000	Executives 2017 Rs.'000
At the beginning of the year (number of employees - 169)	8,893	-	8,893	-
Loans disbursed during the year	9,329	-	9,329	-
Recovered during the year	(8,615)	-	(8,615)	-
At the end of the year (number of employees -185)	9,607	-	9,607	-

No loans have been granted to the Directors of the Company.

26.5 Trade receivables pledged as security for liabilities are given in note 25.3.

27. Amounts due from related parties

		Group		Company	
	Relationship	31.03.2017 Rs.'000	31.03.2016 Rs.'000	31.03.2017 Rs.'000	31.03.2016 Rs.'000
Orient Motor Company Ltd	Subsidiary	-	-	10,911	7,115
Unimo Enterprises Ltd	Subsidiary	-	-	17,006	10,305
TVS Lanka (Pvt) Ltd	Equity accounted investee	3,326	50	3,326	50
TVS Automotives (Pvt) Ltd	Related entity	361	570	325	528
		3,687	620	31,568	17,998

Notes to the Financial Statements

28. Cash & cash equivalents

	Group		Company	
	31.03.2017 Rs.'000	31.03.2016 Rs.'000	31.03.2017 Rs.'000	31.03.2016 Rs.'000
Favourable balances				
Call deposits	39,708	23,594	34,005	23,594
Cash at bank	436,226	318,274	351,349	153,458
Cash In hand	90,172	181,005	79,141	143,905
	566,106	522,873	464,495	320,957
Unfavourable balances				
Bank overdrafts used for cash management purposes	(118,171)	(217,830)	(101,895)	(167,460)
Net cash and cash equivalent for the purpose of cash flow statements	**447,935**	**305,043**	**362,600**	**153,497**

In September 2015 the Department of Inland Revenue issued seizure notice to all six bank accounts of Orient Motor Company Ltd (OMCL) to recover unpaid NBT of Rs.17,640,485 as per their records. OMCL has set-off this amount against a GST refund approved by the Commissioner General of Inland Revenue (CGIR). Orient Motor Company Ltd has filed a fundamental rights case in the Supreme Court against the Department of Inland Revenue on the basis that these outstanding taxes are not payable as they have been set off against refunds approved by CGIR. The case is currently being heard in the Supreme Court and there are no developments that have arisen which require a provision in the accounts. Therefore no provision has been made in these financial statements for the year ended 31 March 2017, as OMCL has strong reasons to believe that they will not have to settle any assessments issued by the Department of Inland Revenue.

Overdraft facilities of the Company are unsecured. See note 38.2 for details of securities given for related companies.

The Group's / Company's exposure to interest rate risk is disclosed in note 23.6.

29. Stated capital

	No of Shares		Group		Company	
	2017	2016	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
At the beginning of the year	100,900,626	100,900,626	336,335	336,335	336,335	336,335
At the end of the year	**100,900,626**	**100,900,626**	**336,335**	**336,335**	**336,335**	**336,335**

30. Capital reserve

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
At the beginning of the year	2,956,382	2,956,382	2,922,336	2,922,336
At the end of the year	**2,956,382**	**2,956,382**	**2,922,336**	**2,922,336**

31. Interest bearing borrowings

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
At the beginning of the year	2,630,078	1,101,800	-	461,700
Obtained during the year	18,166,142	19,039,681	9,135,259	11,641,534
	20,796,220	20,141,481	9,135,259	12,103,234
Payments made during the year	(16,840,253)	(17,511,403)	(7,777,401)	(12,103,234)
Loans outstanding as at 31 March	3,955,967	2,630,078	1,357,858	-
Accrued loan interest	9,125	5,206	2,007	-
At the end of the year	**3,965,092**	**2,635,284**	**1,359,865**	**-**
Current	3,965,092	2,635,284	1,359,865	-
Total	**3,965,092**	**2,635,284**	**1,359,865**	**-**

31.1 Details of Group's interest bearing loans and borrowings, which are measured at amortised cost are given below.

	Group		Company	
	31.03.2017 Rs.'000	31.03.2016 Rs.'000	31.03.2017 Rs.'000	31.03.2016 Rs.'000
Current liabilities				
Short term loans	3,965,092	2,635,284	1,359,865	-
	3,965,092	**2,635,284**	**1,359,865**	**-**

31.2 Borrowings which are guaranteed through corporate guarantees given by the parent company, United Motors Lanka PLC, in favour of its subsidiaries and a related company are described in note 38.2 to these consolidated financial statements.

31.3 Terms & debt repayment schedule

Terms & conditions of the outstanding loans are as follows:

	Group					
			31.03.2017		31.03.2016	
	Effective interest rate	Year of Maturity	Face value Rs.'000	Carrying value Rs.'000	Face value Rs.'000	Carrying value Rs.'000
Short term loans - secured	Market rate	2017	2,605,227	2,605,227	2,635,284	2,635,284
Short term loans - unsecured	Market rate	2017	1,359,865	1,359,865	-	-
			3,965,092	**3,965,092**	**2,635,284**	**2,635,284**

	Company					
			31.03.2017		31.03.2016	
	Effective interest rate	Year of Maturity	Face value Rs.'000	Carrying value Rs.'000	Face value Rs.'000	Carrying value Rs.'000
Short term loans - unsecured	Market rate	2017	1,359,865	1,359,865	-	-
			1,359,865	**1,359,865**	**-**	**-**

Notes to the Financial Statements

32. Employee benefits

32.1 Retirement benefit obligations

	Group		Company	
	31.03.2017 Rs.'000	31.03.2016 Rs.'000	31.03.2017 Rs.'000	31.03.2016 Rs.'000
Present value of unfunded obligations	1,108	658	-	-
Present value of funded obligations	173,327	166,100	161,671	154,070
Retirement benefit obligation (note 32.5)	**174,435**	**166,758**	**161,671**	**154,070**

The retirement benefit obligation is based on the actuarial valuation performed by Mr M. Poopalanathan, AIA, of Messrs Actuarial and Management Consultants (Pvt) Limited. The valuation method used by the actuary is the "Projected Unit Credit Method", the method recommended by LKAS 19 - Employee Benefits.

32.2 Defined benefit plan

	Group		Company	
	31.03.2017 Rs.'000	31.03.2016 Rs.'000	31.03.2017 Rs.'000	31.03.2016 Rs.'000
Employees joined before 1992 / 93				
Mutual fund (note 32.3)	624	841	624	841
Employees joined after 1992 / 93				
Defined benefit plan (note 32.4)	93,774	101,472	90,477	97,741
	94,398	**102,313**	**91,101**	**98,582**

32.3 Retiring gratuity is a defined benefit plan covering employees of the Company. The Company's liability arising on retirement benefits of employees joined prior to 1992 / 93 is partly externally funded through investments in NDB Mutual Funds and the value of this fund as at 31 March 2017 is Rs.623,914 (2016 - Rs. 841,265). The gratuity liability of employees joined after 1992/93, is externally funded and an agreement has been entered in to with AIA Insurance PLC and covers 773 employees of the Company as at 31 March 2017.

32.4 Movement in fair value of defined benefit plan

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
At the beginning of the year	101,472	110,007	97,741	106,378
Expected return on the plan (note 32.6)	10,801	9,901	10,263	9,574
Contribution paid into the plan	-	-	-	-
Benefits paid by the plan	(17,329)	(10,315)	(16,469)	(10,136)
Benefits payable by the plan	(2,148)	(4,069)	(2,148)	(4,069)
Actuarial gains / (losses) in other comprehensive income (note 32.6)	978	(4,052)	1,090	(4,006)
Fair value of the defined benefit plan at the end of the year	**93,774**	**101,472**	**90,477**	**97,741**

32.5 Movement in the present value of the defined benefit obligations

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
At the beginning of the year	166,758	166,343	154,070	152,919
Expenses recognised in profit & loss (note 32.6)	34,635	30,162	31,021	27,978
Actuarial (gains) / losses in other comprehensive income (note 32.6)	(6,713)	(15,183)	(4,506)	(12,442)
Benefits paid during the year	(20,245)	(14,564)	(18,914)	(14,385)
Defined benefit obligation at the end of the year	**174,435**	**166,758**	**161,671**	**154,070**

32.6 Expenses recognised in statement of profit or loss and comprehensive income

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Recognised in profit & loss				
Defined benefit obligations				
Current service costs	17,126	15,285	14,844	14,215
Interest on obligation	17,509	14,877	16,177	13,763
	34,635	30,162	31,021	27,978
Defined benefit plan				
Expected return on plan asset	10,801	9,901	10,263	9,574
	10,801	9,901	10,263	9,574
Recognised in other comprehensive income				
Defined benefit obligations				
Actuarial gains / (losses) recognised during the year	6,713	15,183	4,506	12,442
	6,713	15,183	4,506	12,442
Defined benefit plan				
Actuarial gains / (losses) recognised during the year	978	(4,052)	1,090	(4,006)
	978	(4,052)	1,090	(4,006)
	7,691	**11,131**	**5,596**	**8,436**

32.7 Actuarial assumptions

Principal actuarial assumptions are as follows:

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Rate of discount as at 31 March	12%	10.5%	12%	10.5%
Future salary increases	10%	10%	10%	10%
Retirement age	55 or 60	55 or 60	55 or 60	55 or 60
Staff turnover rate	5%	5%	5%	5%

Assumptions regarding future mortality are based on A67 / 70 Mortality table, issued by the institute of Actuaries, London, United Kingdom.

Notes to the Financial Statements

32. Employee benefits (Contd.)

32.8 Sensitivity analysis

Values appearing as defined benefit obligation in the financial statements are sensitive to the changes in financial and non - financial assumptions used. The estimated impact based on sensitivity analysis carried out is as follows:

	Group		Company	
	+ 1%	- 1%	+ 1%	- 1%
A percentage point change in the discount rate Effect on the present value of defined benefit obligation (Rs.'000)	(8,744)	9,756	(7,709)	8,568
A percentage point change in the salary escalation rate Effect on the present value of defined benefit obligation (Rs.'000)	10,544	(9,603)	9,303	(8,501)

33. Deferred tax assets / liabilities

33.1 Deferred tax assets

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
At the beginning of the year	15,670	24,033	-	12,404
Reversal of timing differences – recognised in profit or loss	(6,323)	(4,125)	-	(7,022)
Reversal of timing differences – recognised in other comprehensive income	(618)	(4,238)	-	(3,484)
At the end of the year	8,729	15,670	-	1,898

Composition of deferred tax assets

	Group		Company	
	31.03.2017 Rs.'000	31.03.2016 Rs.'000	31.03.2017 Rs.'000	31.03.2016 Rs.'000
Property, plant & equipment	(5,546)	(42,519)	-	(40,985)
Retirement benefit obligation	3,572	46,692	-	43,140
Provisions	10,703	11,754	-	-
Intangible assets	-	(257)	-	(257)
Net deferred tax assets	8,729	15,670	-	1,898

Deferred tax asset on tax losses of Orient Motor Company Ltd (OMCL) has not been recognised as it is not probable whether OMCL will have adequate profits to utilize such carried forward tax losses. Unused tax loss and unrecognised deferred tax asset as at the reporting date are Rs. 185,829,457 (2016 - Rs.186,500,036) and Rs. 52,032,248 (2016 - Rs. 52,220,010) respectively.

33.2 Deferred tax liabilities

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
At the beginning of the year	14,430	15,031	(1,898)	-
Charge / (reversal) of timing differences – recognised in profit or loss	22,738	(601)	25,238	-
Origination of timing differences – recognised in other comprehensive income	1,262	-	1,262	
At the end of the year	**38,430**	**14,430**	**24,602**	**-**

Composition of deferred tax liability

	Group		Company	
	31.03.2017 Rs.'000	31.03.2016 Rs.'000	31.03.2017 Rs.'000	31.03.2016 Rs.'000
Property plant & equipment	83,281	14,430	69,453	-
Retirement benefit obligation	(45,268)	-	(45,268)	-
Intangible assets	(417)	-	417	-
Net deferred tax liability	**38,430**	**14,430**	**24,602**	**-**

33.3 Expenses recognised in statement of other comprehensive income.

	Group		Company	
	31.03.2017 Rs.'000	31.03.2016 Rs.'000	31.03.2017 Rs.'000	31.03.2016 Rs.'000
Reversal of timing differences – recognised in other comprehensive income (note 33.1)	(618)	(4,238)	-	(3,484)
Origination of timing differences – recognised in other comprehensive income (note 33.2)	(1,262)	-	(1,262)	-
	(1,880)	**(4,238)**	**(1,262)**	**(3,484)**

34. Trade & other payables

	Group		Company	
	31.03.2017 Rs.'000	31.03.2016 Rs.'000	31.03.2017 Rs.'000	31.03.2016 Rs.'000
Trade payables	531,684	670,643	483,066	482,551
Taxes payable	412,277	34,495	35,510	31,859
Dividend payable	299,339	104,212	299,339	104,212
Advances received from customers	60,142	69,350	35,844	48,439
Other payable (note 34.1)	390,031	445,245	300,138	344,956
	1,693,473	1,323,945	1,153,897	1,012,017

Notes to the Financial Statements

34. Trade & other payables (Contd.)

34.1 Other payable

	Group		Company	
	31.03.2017 Rs.'000	31.03.2016 Rs.'000	31.03.2017 Rs.'000	31.03.2016 Rs.'000
Accrued charges	173,698	366,985	168,602	291,768
Others	216,333	78,260	131,536	53,188
	390,031	445,245	300,138	344,956

35. Amounts due to related parties

		Group		Company	
		31.03.2017 Rs.'000	31.03.2016 Rs.'000	31.03.2017 Rs.'000	31.03.2016 Rs.'000
Orient Motor Company Ltd	Subsidiary	-	-	4,093	15,481
Unimo Enterprises Ltd	Subsidiary	-	-	54	7,430
UML Property Developments Ltd	Subsidiary	-	-	38,494	6,008
TVS Lanka (Pvt) Ltd	Equity accounted investee	-	361	-	361
		-	361	42,641	29,280

36. Current taxation

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
At the beginning of the year	416,032	73,531	386,662	100,499
Income tax on current year profits (note 15)	374,730	617,558	286,978	559,728
	790,762	691,089	673,640	660,227
Under / (over) provision in respect of prior periods (note 15)	(91,296)	30,298	(91,510)	26,105
Income tax paid	(513,883)	(305,355)	(472,130)	(299,670)
At the end of the year	185,583	416,032	110,000	386,662

The income tax liability comprise of:

	Group		Company	
	31.03.2017 Rs.'000	31.03.2016 Rs.'000	31.03.2017 Rs.'000	31.03.2016 Rs.'000
36.1 Current tax liabilities	190,776	420,673	110,000	386,662
36.2 Current tax receivables	(5,193)	(4,641)	-	-
	185,583	416,032	110,000	386,662

37. Capital commitments

The Group / Company has capital commitments amounting to Rs. 51,233,074 in relation to buildings under construction approved by the Board of Directors which is incidental to the ordinary course of business, the details of which are as follows:

	Group		Company	
	31.03.2017 Rs.'000	31.03.2016 Rs.'000	31.03.2017 Rs.'000	31.03.2016 Rs.'000
Approved and contracted commitments in relation to construction of buildings	51,233	298,818	51,233	298,818
	51,233	**298,818**	**51,233**	**298,818**

38. Contingent liabilities

38.1 As per the sale and purchase agreement dated 21 February 2011 between United Motors Lanka PLC and Janashakthi Insurance PLC, the Company offered a guarantee that agreed to settle and / or mitigate any liability that may arise on Orient Finance PLC with regard to NDB Bank PLC claim over equipment taken on hire purchase agreement by the lessee of Orient Financial Services Corporation Ltd.

38.2 Corporate guarantees issued are given below.

Corporate guarantees issued by United Motors Lanka PLC

Name of Company	Name of Bank	Facility	Amount pledged as security Rs.'000	Outstanding as at 31.03.2017 Rs.'000	Outstanding as at 31.03.2016 Rs.'000
Orient Motor Company Ltd	Standard Chartered Bank	Letter of credit, overdraft and term loan	750,000	-	614,895
	Bank of Ceylon	Letter of credit, overdraft and term loan	1,000,000	522,900	-
	Sampath Bank PLC	Letter of credit, overdraft and term loan	330,000	-	-
Unimo Enterprises Ltd	Sampath Bank PLC	Letter of credit, overdraft and term loan	325,000	83,391	977,630
	Standard Chartered Bank	Letter of credit, overdraft and term loan	500,000	453,959	-
	Bank of Ceylon	Letter of credit, overdraft and term loan	1,000,000	912,535	-
TVS Automotives (Pvt) Ltd	Hatton National Bank PLC	Letter of credit, overdraft and term loan	60,000	60,000	60,000

Corporate guarantees issued by TVS Lanka (Pvt) Ltd

Name of Company	Name of Bank	Facility	Limit Rs.'000	Outstanding as at 31.03.2017 Rs.'000	Outstanding as at 31.03.2016 Rs.'000
TVS Automotives (Pvt) Ltd	Hatton National Bank PLC	Overdraft and term loan	340,000	239,290	141,090
	DFCC Bank PLC	Overdraft and term loan	100,000	78,916	79,679
	Commercial Bank of Ceylon PLC	Overdraft and term loan	100,000	46,419	5,997
	Sampath Bank PLC	Overdraft and term loan	155,000	5,221	114,037

Notes to the Financial Statements

38. Contingent liabilities (Contd.)

38.3 Unimo Enterprises Ltd has given bank guarantees to Sri Lanka Customs amounting to Rs.1,204.4 million for excise duty concession in respect of vehicles assembled but to be approved by the Cabinet appointed committee.

38.4 The Company and the Group have guarantees outstanding amounting to Rs.37 Mn and Rs.849 Mn respectively as at the reporting date.

38.5 Details relating to certain tax assessment pertaining to the Company and its subsidiary Orient Motor Company Ltd are reflected in notes 15 and 28 respectively.

39. Related party disclosures

The Company carries out transaction in the ordinary course of business on an arm's length basis with parties who are defined as related parties in Sri Lanka Accounting Standard 24 (LKAS) "Related Party Disclosures", the details of which are reported below.

39.1 Parent and ultimate controlling party

The Company does not have an identifiable parent of its own.

39.2 Transaction with Key Management Personnel (KMP)

According to Sri Lanka Accounting Standard, LKAS 24 "Related Party Disclosures" , Key Management Personnel (KMP) are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Directors of the Company have been classified as KMP of the Company. The Directors of subsidiaries along with the Company have been identified as KMP of the Group.

39.2.1 Compensation to KMP

	Group		Company	
	2017 Rs.'000	2016 Rs.'000	2017 Rs.'000	2016 Rs.'000
Short term employment benefits	117,067	97,629	93,652	77,742
	117,067	97,629	93,652	77,742

In addition to their salaries / fees the Company provides non cash benefits to KMP. The Company also contributes to a post employment defined benefit plan on behalf of the KMP.

39.3 Terms and conditions of transactions with related parties

Transactions with related parties are carried out in the ordinary course of business on an arm's length basis. Outstanding current account balances at year end are unsecured, interest free and settlement occurs in cash.

39.4 Transactions with subsidiaries, equity accounted investee and related entities.

Company	Transaction Type	2017 Rs.'000	2016 Rs.'000
UML Property Developments Ltd (UMPDL)	Rentals paid for premises occupied	82,681	83,433
Orient Motor Company Ltd	Sale of motor vehicles	-	8,380
	Sale of lubricants	235	709
	Repairs & services provided	30,459	47,779
	Interest received	750	-
	Expenses incurred	7,523	9,337
	Reimbursement of expenses	2,462	2,741
	Hiring income received	169	585
	Hiring rentals paid for vehicles	50,229	56,845
	Rentals received for premises occupied	7,117	8,933
	Loans granted	1,096,795	17,640
	Loans settlements	1,096,795	17,640
Unimo Enterprises Ltd	Purchase of motor vehicles	5,966	-
	Purchase of spare parts	48,475	165,637
	Purchase of tyres	2,550	2,311
	Repairs & services provided	63,435	40,573
	Sale of lubricants	4,535	568
	Expenses incurred	39,313	34,397
	Hiring income received	1,499	1,333
	Rentals received for premises occupied	16,752	9,199
	Indent commission paid	3,370	-
TVS Lanka (Pvt) Ltd	Purchase of motor bikes	448	702
	Repairs & services provided	721	730
	Repairs & services obtained	432	523
	Expenses incurred	5,032	1,704
	Income on legal services	27	30
TVS Automotives (Pvt) Ltd	Expenses incurred	2,598	1,975
	Rentals received for premises occupied	1,660	1,842

Notes to the Financial Statements

39. Related party disclosures (Contd.)

39.5 Transactions between subsidiaries / equity accounted investee / related entities

39.5.1 Unimo Enterprises Ltd

Company	Transaction Type	2017 Rs.'000	2016 Rs.'000
Orient Motor Company Ltd	Expenses incurred	3,388	3,496
	Reimbursement of expenses	3,973	3,958
	Hiring rentals paid for vehicles	6,269	7,374
TVS Lanka (Pvt) Ltd	Purchase of motor bikes	1,340	928
	Repairs & services obtained	160	225
TVS Automotives (Pvt) Ltd	Expenses incurred	83	70

39.5.2 Orient Motor Company Ltd

Company	Transaction Type	2017 Rs.'000	2016 Rs.'000
TVS Lanka (Pvt) Ltd	Repairs & services obtained	57	106
UML Property Developments Ltd	Expenses incurred	96	90

39.5.3 TVS Lanka (Pvt) Ltd

Company	Transaction Type	2017 Rs.'000	2016 Rs.'000
TVS Automotives (Pvt) Ltd	Expenses incurred	1,056	2,112
	Repairs & services provided	78	36

39.5.4 Transactions with other related entities controlled by the major shareholder

Company	Transaction Type	2017 Rs.'000	2016 Rs.'000
Readywear Industries Ltd	Sale of spare parts	-	8
	Repairs & services provided	-	470
R I L Property Ltd	Repairs & services provided	520	38
	Services obtained	68	-
Foodbuzz (Pvt) Ltd	Repairs & services provided	280	16
	Services obtained	70	-
	Sale of vehicle	3,925	-

40. Consolidation

The consolidated financial statements of the Company's shareholding as at 31 March 2017 are in the proportions indicated below.

Subsidiary	**Ownership interest**	
	2017	2016
Unimo Enterprises Ltd	100%	100%
UML Property Developments Ltd.	100%	100%
Orient Motor Company Ltd.	100%	100%
Equity accounted investee		
TVS Lanka (Pvt) Ltd	50%	50%

Group has no non-controlling interest to be reported as all its subsidiaries are fully owned.

Analysis of consolidated profit after income tax expense

	Group	
	2017 Rs.'000	2016 Rs.'000
Parent company	955,440	1,457,126
Subsidiaries	224,733	192,438
Equity accounted investee	76,027	131,549
	1,256,200	1,781,113
Inter-company elimination	(130,093)	(78,890)
Consolidated profit after tax expenses	1,126,107	1,702,223

41. Events occurring after the reporting period and other matters

Subsequent to the reporting date, no circumstances have arisen, which would require adjustments or disclosures in these financial statements.

Share Information

The audited income statement for the year ended 31 March 2017 and the audited statement of financial position as at 31 March 2017 will be submitted to the Colombo Stock Exchange (CSE) within three months from the year end, which is well within the required deadlines as required by the Rule No. 7.5(a) of the Listing Rules of the CSE (the Company duly complied with this requirement for 2015/16).

The Company duly submitted the unaudited interim financial statements for the year 2016/17 to the CSE within applicable statutory deadlines as required by the listing rules of the CSE. (The Company also duly complied with this requirement for 2015/16)

1. Stock Exchange Listing

The issued ordinary shares of United Motors Lanka PLC were listed with the CSE on 05 December 1989.

2. Analysis of Shareholders

a) Resident /Non Resident as at 31 March 2017

Range of Shareholdings (No. of Shares)	Resident			Non - Resident			Total		
	No. of share holders	No. of shares	% of total holding	No. of share holders	No. of shares	% of total holding	No. of share holders	No. of shares	% of total holding
Up to 1,000	2,471	915,361	0.90	33	17,555	0.00	2,504	932,916	0.90
1,001 - 10,000	1,314	4,650,817	4.60	24	83,864	0.10	1,338	4,734,681	4.70
10,001 - 100,000	162	4,218,657	4.20	17	521,207	0.50	179	4,739,864	4.70
100,001 - 1,000,000	19	4,822,691	4.80	-	-	-	19	4,822,691	4.80
Over 1,000,000	5	28,883,066	28.60	2	56,787,408	56.30	7	85,670,474	84.90
Total	3,971	43,490,592	43.10	76	57,410,034	56.90	4,047	100,900,626	100.00

b) Resident /Non Resident as at 31 March 2016

Range of Shareholdings (No. of Shares)	Resident			Non - Resident			Total		
	No. of share holders	No. of shares	% of total holding	No. of share holders	No. of shares	% of total holding	No. of share holders	No. of shares	% of total holding
Up to 1,000	2,458	921,901	2.12	24	14,349	0.02	2,482	936,250	0.93
1,001 - 10,000	1,363	4,769,794	10.99	25	84,396	0.15	1,388	4,854,190	4.81
10,001 - 100,000	163	4,216,954	9.71	11	338,197	0.59	174	4,555,151	4.51
100,001 - 1,000,000	20	4,641,491	10.69	1	260,000	0.45	21	4,901,491	4.86
Over 1,000,000	5	28,866,136	66.49	2	56,787,408	98.79	7	85,653,544	84.89
Total	4,009	43,416,276	100.00	63	57,484,350	100.00	4,072	100,900,626	100.00

c) Individuals/Institutions

	31 March 2017			31 March 2016		
	No. of shareholders	Total holdings	% of total holding	No. of shareholders	Total holdings	% of total holding
Individual	3,863	79,632,512	78.92	3,888	79,855,429	79.14
Institutions	184	21,268,114	21.08	184	21,045,197	20.86
Total	4,047	100,900,626	100.00	4,072	100,900,626	100.00

d) Public Shareholding

	31.03.2017	31.03.2016	31.03.2015	31.03.2014	31.03.2013
Public Shareholding	27,095,541	27,063,322	27,083,420	18,154,758	20,166,672
Percentage	26.85	26.82	26.84	26.99	29.98

3. Share Trading

	2016/17	2015/16	2014/15	2013/14	2012/13
Market					
Number of transactions	984,412	1,362,544	2,015,482	1,473,729	1,601,463
Number of shares traded	6,846,805,469	8,954,401,301	16,609,902,380	9,790,011,926	9,067,929,398
Value of shares traded (Rs. Mn)	177,641	231,840	354,544	195,507	189,717
Market days	244	241	239	243	239
Company					
Number of transactions	2,471	4,543	6,492	2,750	5,628
Number of shares traded	2,343,611	8,348,316	8,792,300	21,951,785	5,170,568
Value of shares traded (Rs. Mn)	211	826	992	2,557	439.4
Market days	227	239	235	227	236

4. Market Capitalization and Market Prices

a) Market capitalization

Year	Shareholders' funds Rs.(Mn)	Ordinary shares in issue (Mn)	UML market capitalization Rs.(Mn)	CSE market capitalization Rs.(Bn)	As a % of CSE market	Market capitalization rank
2016/2017	10,742	100.90	7,870.25	2,662.86	0.29	59
2015/2016	10,312	100.90	8,374.75	2,586.15	0.32	59
2014/2015	10,436	100.90	8,889.34	2,891.17	0.31	63
2013/2014	8,097	67.26	8,273.85	2,498.0	0.33	58
2012/2013	7,370	67.26	6,457.64	2,205.1	0.29	64

b) Market prices

	2016/2017	2015/2016	2014/2015	2013/2014	2012/2013
Highest (Rs.)	99.80	118.00	154.00	130.00	108.00
	(02.08.2016)	(12.08.2015)	(07.08.2014)	(31.01.2014)	(02.04.2012)
Lowest (Rs.)	76.10	75.30	88.00	95.50	64.60
	(28.03.2017)	(10.03.2016)	(31.03.2015)	(02.04.2013)	(27.07.2012)
Year End (Rs.)	78.00	83.00	88.10	123.00	96.00

Share Information

5. Dividends

	2016/17	2015/16	2014/15	2013/14	2012/13
Dividend (Rs. '000)	706,303	1,109,908	605,404	874,471	605,404
Profit (Rs. '000)	955,440	1,457,126	1,236,867	1,482,765	1,886,762
Dividend payout ratio %	73.92	76.18	48.95	58.98	32.09

6. Value Creation for Shareholders

	2016/2017	2015/2016	Change%
Net asset value per share (Rs.)	88.71	86.21	2.89
Earning per share (Rs.)	9.47	14.44	(34.41)
Market price per share - year end (Rs.)	78.00	83.00	(6.00)
Price earning ratio (times)	8.24	5.75	43.30
Return on equity(%) - After Tax	10.67	16.75	(36.29)
Dividend pay out	73.92	76.18	(2.96)

7. Twenty Largest Shareholders

Shareholder	31 March 2017		31 March 2016	
	No. of shares	% of total shareholding	No. of shares	% of total shareholding
Mr. M.A. Yaseen	61,750,266	61.20	61,750,266	61.20
Mrs. R.R. Yaseen	10,767,210	10.67	10,767,210	10.67
Mrs. S. M Chrysostom	6,945,471	6.88	6,945,471	6.88
Mitsubishi Motors Corporation	4,937,142	4.89	4,937,142	4.89
Mr. C. Yatawara	1,270,385	1.26	1,253,455	1.24
Mr. H.A. Van Starrex	881,919	0.87	810,664	0.80
Capital Development & Investment Company PLC – A/C No. 2	604,209	0.60	604,209	0.60
Bank of Ceylon No. 1 Account	404,478	0.40	373,182	0.37
Deutsche Bank AG as Trustee to Candor Growth Fund	346,594	0.34	328,916	0.33
Mr. A.M. Weerasinghe	301,880	0.30	301,880	0.30
Deutsche Bank AG AS trustee to Candor Opportunities Fund	250,000	0.25	-	-
Mr. S.D. Yaseen	243,300	0.24	243,300	0.24
Deutsche Bank AG as Trustee to Amana Candor Sharia Fund	225,000	0.22	-	-
Seylan Bank PLC/Lasantha Chandika Ranaweera Pathirana	195,037	0.19	-	-
Waldock Mackenzie Ltd / Hi -Line Trading (Pvt) Ltd	166,371	0.16	165,354	0.16
Mr. J. A. Yaseen	156,177	0.15	156,177	0.15
Mr. P. Rathnayaka	156,000	0.15	156,000	0.15
Mercantile Investments and Finance PLC	150,000	0.15	150,000	0.15
Bank of Ceylon A/C NDB Wealth Growth Fund	140,237	0.14	140,237	0.14
Akbar Brothers (Pvt) Ltd A/C No. 1	136,648	0.14	-	-
*Others (shareholders under 20 largest shareholders as at 31 March 2016)	-	-	773,643	0.77
Total	90,028,324	89.22	**89,857,106**	**89.06**

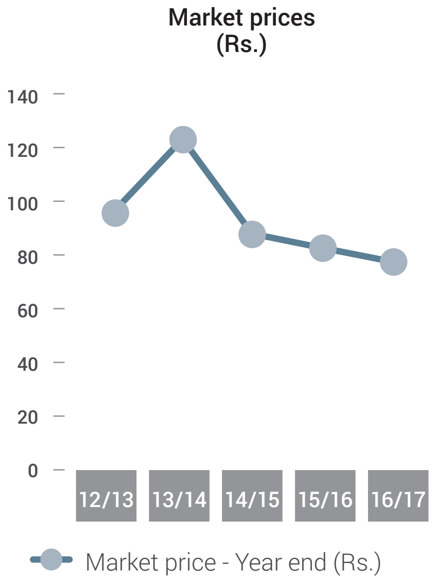
**Comparative shareholding as at 31March 2016 of the twenty largest shareholders as at 31 March 2017.Please refer 7.1 for details*

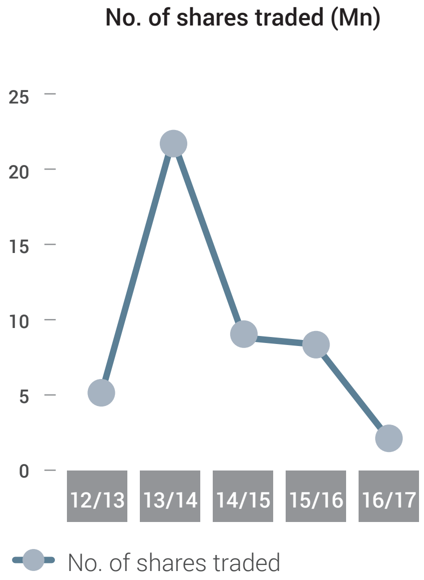
7.1 Shareholders Included in the Twenty Largest Shareholding as at 31 March 2016

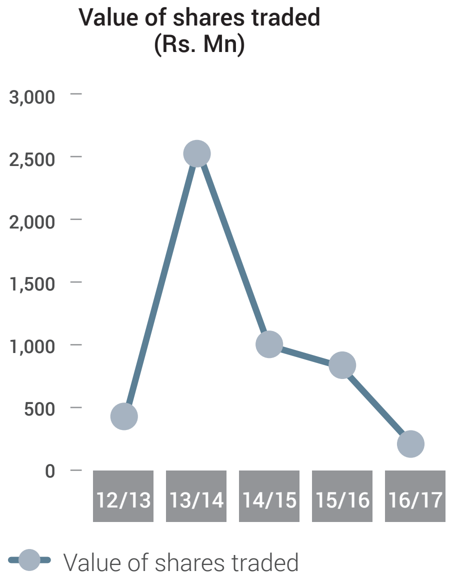
Shareholding as at 31 March 2016	No. of shares	% of Total shareholding
Deutsche Bank AG Singapore Branch	260,000	0.26
Hatton National Bank PLC A/C No 5 (Trading Portfolio)	187,643	0.19
Deutsche Bank AG as Trustee to Candor Sharia Fund	175,000	0.17
Miss. R. Suhayb	151,000	0.15
Total	773,643	0.77

8. Directors' Shareholding

Name of Director	No. of shares as at 01 April 2016	% of total holding	Movement during the year	No. of shares as at 31 March 2017	% of total holding
Mr. S. G. Wijesinha	-	-	-	-	-
Mr. C. Yatawara	1,253,455	1.242		1,270,385	1.259
Mr. A.W. Atukorala	3,000	0.003		3,000	0.003
Mr. A.C.M. Lafir	14,224	0.014		14,224	0.014
Mr. R. H. Yaseen	10,620	0.011		10,620	0.011
Mrs. A. H. Fernando	-	-	-	-	-
Prof. K.A.M.K Ranasinghe	-	-	-	-	-
Mr. S.A.Chapman	-	-	-	-	-
Mr.H.Inoue	-	-	-	-	-







Ten Year Summary - Group

(in Rs.'000)

Reported as per	SLFRS / LKAS							SLAS		
For the year ended 31 March	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Turnover	17,925,373	15,303,852	10,538,194	11,040,794	14,941,189	20,816,341	10,935,116	5,829,410	7,280,837	8,395,149
Profit before taxation	1,438,602	2,353,603	1,625,881	2,174,345	2,702,651	3,193,694	1,374,720	134,041	(7,726)	848,507
Income tax	(312,495)	(651,380)	(363,549)	(566,624)	(689,737)	(911,162)	(473,178)	12,249	(74,706)	(328,824)
Profit for the year	**1,126,107**	**1,702,223**	**1,262,332**	**1,607,721**	**2,012,914**	**2,282,532**	**901,542**	**146,290**	**(82,432)**	**519,683**
Shareholders' funds										
Stated capital	336,335	336,335	336,335	336,335	336,335	336,335	336,335	336,335	336,335	336,335
Capital reserve	2,956,382	2,956,382	2,956,382	1,223,276	1,223,276	1,218,974	1,218,974	1,244,755	408,908	408,908
Other reserves	7,449,652	7,019,398	7,142,854	6,537,566	5,811,016	4,261,260	2,422,654	1,588,827	1,477,478	1,695,326
Shareholders' funds	**10,742,369**	**10,312,115**	**10,435,571**	**8,097,177**	**7,370,627**	**5,816,569**	**3,977,963**	**3,169,917**	**2,222,721**	**2,440,569**
Non controlling interests	-	-	-	-	-	10,900	9,615	8,325	7,367	96,797
Total Equity	**10,742,369**	**10,312,115**	**10,435,571**	**8,097,177**	**7,370,627**	**5,827,469**	**3,987,578**	**3,178,242**	**2,230,088**	**2,537,366**
Assets employed										
Current assets	10,160,553	8,735,328	7,281,121	5,685,356	5,143,081	7,818,347	4,034,184	3,820,047	4,619,698	4,432,527
Non current assets	6,762,193	6,356,068	5,868,063	4,391,515	4,072,588	2,662,050	2,176,473	2,467,206	2,636,042	3,338,361
Total assets	**16,922,746**	**15,091,396**	**13,149,184**	**10,076,871**	**9,215,669**	**10,480,397**	**6,210,657**	**6,287,253**	**7,255,740**	**7,770,888**
Current liabilities	(5,967,512)	(4,598,093)	(2,532,239)	(1,805,828)	(1,696,197)	(4,497,424)	(2,105,844)	(2,674,371)	(4,041,418)	(4,012,950)
Non current liabilities	(212,865)	(181,188)	(181,374)	(173,866)	(148,845)	(155,504)	(117,235)	(434,640)	(984,234)	(1,220,572)
Total liabilities	**(6,180,377)**	**(4,779,281)**	**(2,713,613)**	**(1,979,694)**	**(1,845,042)**	**(4,652,928)**	**(2,223,079)**	**(3,109,011)**	**(5,025,652)**	**(5,233,522)**
Net assets	**10,742,369**	**10,312,115**	**10,435,571**	**8,097,177**	**7,370,627**	**5,827,469**	**3,987,578**	**3,178,242**	**2,230,088**	**2,537,366**
Profitability										
Earnings per share (Rs.)	11.16	16.87	12.51	15.93	19.95	22.62	8.93	1.45	(0.82)	5.15
Net assets per share ** at year end (Rs.)	106.46	102.20	103.42	80.25	73.05	57.65	39.42	31.42	22.03	24.19
Return on capital employed (%)	10.48	16.51	12.10	19.86	27.31	39.16	22.61	4.60	(3.69)	20.48
Others										
Market price per share (Rs.)	78.00	83.00	88.10	123.00	96.00	108.00	152.20	90.00	33.50	53.75
Price earnings ratio	6.99	4.92	7.04	7.72	4.81	3.18	11.41	41.66	(13.51)	3.42
Annual sales growth (%)	17.13	45.22	(4.55)	(26.10)	(28.22)	90.36	87.59	(19.93)	(13.27)	24.46
Current ratio (times)	1.70	1.90	2.88	3.15	3.03	1.74	1.92	1.43	1.14	1.10

** Net assets per share has been calculated, for all periods, based on the net assets of the Group and number of shares in issue as at 31 March 2017

Investor Information

Year		Shares at the beginning	Issued during the year	Stated Capital (Rs)	Market Value Per Share (Rs)
1990/1991		10,000,000	-	100,000,000	23.75
1991/1992		10,000,000		100,000,000	53.00
1992/1993	Issued through Share Trust Scheme to Employees	10,000,000	90,266	100,902,660	35.00
1993/1994	Issued through Share Trust Scheme to employees	10,090,266	91,230		
	Bonus issue 1:5		2,036,300	122,177,960	60.00
1994/1995		12,217,796	-	122,177,960	27.50
1995/1996		12,217,796	-	122,177,960	31.50
1996/1997	Issued through Share Trust Scheme to Employees	12,217,796	53,319		
	Bonus issue 1:5		2,443,560	147,146,750	32.00
1997/1998		14,714,675		147,146,750	41.50
1998/1999		14,714,675		147,146,750	32.50
1999/2000		14,714,675		147,146,750	31.25
2000/2001		14,714,675		147,146,750	28.00
2001/2002		14,714,675		147,146,750	32.00
2002/2003	Bonus issue 1:1	14,714,675	14,714,675	294,293,500	31.00
2003/2004		29,429,350		294,293,500	28.00
2004/2005		29,429,350		294,293,500	51.75
2005/2006		29,429,350		294,293,500	80.00
2006/2007	Bonus issue 1:7	29,429,350	4,204,192	336,335,420	80.00
2007/2008		33,633,542		336,335,420	53.75
2008/2009		33,633,542		336,335,420	33.50
2009/2010		33,633,542		336,335,420	90.00
2010/2011	Subdivision of shares-every existing ordinary share was subdivided into two ordinary shares	33,633,542	33,633,542	336,335,420	152.20
2011/2012		67,267,084		336,335,420	108.00
2012/2013		67,267,084		336,335,420	96.00
2013/2014		67,267,084		336,335,420	123.00
2014/2015	Subdivision of shares-every two existing ordinary shares were subdivided into three ordinary shares	67,267,084	33,633,542	336,335,420	88.00
2015/2016		100,900,626		336,335,420	83.00
2016/2017		100,900,626		336,335,420	78.00

Glossary of Financial Terms

Accounting policies
The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

Accrual basis
Recognizing the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

Actuarial gains and losses
Is the effect of difference between the previous actuarial assumptions and what has actually occurred and the effects of changes in actuarial assumptions.

Amortisation
The systematic allocation of cost of an intangible asset over its useful life.

Amortised cost
Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment or un-collectability.

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

Capital reserves
Reserves identified for specific purposes and considered not available for distribution.

Collective impairment
Impairment assessment on a collective basis for receivables with similar risk characteristics that are not considered individually significant and to cover losses that has been incurred but has not yet been identified at the reporting date.

Contingencies
Conditions or situations at the reporting date, the financial effects of which are to be determined by the future events which may or may not occur.

Current ratio
Current assets divided by current liabilities.

Current service cost
Is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Deferred taxation
Sum set aside for income tax in the Financial Statements that may become payable/receivable in a financial year other than the current financial year.

Depreciation
The systematic allocation of the depreciable amount as an asset over its useful life.

Dividend cover
Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by the current years' distributable profits.

Dividend pay-out
Dividend per share as a percentage of the earnings per share.

Dividend yield
Dividend earned per share as a percentage of its market value.

Earnings per ordinary share
Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue.

Effective tax rate
Provision for taxation excluding deferred tax divided by the profit before taxation.

Equity method
Is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The investor's profit or loss includes its share of the investee's profit or loss and other comprehensive income.

Fair value
The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair value through profit and loss
A financial asset/liability acquired/ incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking, or a derivative (except for a derivative that is a financial guarantee contract)

Financial instrument
A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in another entity.

Financial asset
Any asset that is cash, equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

Financial liability
Any liability that is a contractual obligation to deliver cash or another financial asset to another entity.

Gearing

Proportion of total interest bearing borrowings to capital employed.

Held to maturity investments

Debt assets acquired by the entity with positive intention to be held to maturity.

Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

Intangible asset

An identifiable non-monetary asset without physical substance held for use in the production / supply of goods / services or for rental to others or for administrative purposes.

Interest cover

A ratio showing the number of times interest charge is covered by earnings before interest and tax.

Investment properties

Investment property is property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for use or sale.

Joint control

Joint control is the contractually agreed sharing of the control over an economic activity and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

Joint venture

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

Liquid assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, Bills of Exchange and Treasury Bills & Bonds.

Market capitalisation

Number of ordinary shares in issue multiplied by the market value of a share as at a date.

Materiality

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of financial statements.

Net asset value per share

Shareholders' funds divided by the number of ordinary shares in issue.

Non-controlling interest

Equity in a subsidiary not attributable directly or indirectly to a parent.

Parent

A parent is an entity that has one or more subsidiaries.

Price earnings ratio

Market price of a share divided by earnings per share as reported at that date.

Public holding

Percentage of shares held by the public calculated as per the Listing Rules of Colombo Stock Exchange as of the date of the report.

Related parties

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

Retirement benefit-present value of defined benefit obligation

Is the present value of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

Shareholders' funds

Shareholders' funds consist of stated capital, statutory reserves, capital and revenue reserves.

Specific impairment provisions

Impairment is measured individually for receivables that are individually significant.

Notice of Meeting

Notice is hereby given that the Twenty Eighth Annual General Meeting of United Motors Lanka PLC will be held on Friday, 30 June 2017, at 10.00 a.m. at Renuka City Hotel, No. 328, Galle Road, Colombo - 03, for the following purposes;

01. To receive and consider the Annual Report of the Board of Directors, the Audited Balance Sheet and Accounts of the Company for the year ended 31 March 2017 and Report of the Auditors thereon.

02. (i) To re-elect, Mr. S.A. Chapman, as a Director of the Company in terms of Article 89 of the Articles of Association of the Company.

    (ii) To re-elect, Mr. H. Inoue, as a Director of the Company in terms of Article 89 of the Articles of Association of the Company.

    (iii) To re-elect Mrs. A.H. Fernando, who retires by rotation in terms of Articles 83 of the Articles of Association of the Company.

03. To appoint Messrs. PricewaterhouseCoopers (PwC), Chartered Accountants, as the Auditors for the ensuing year and to authorise the Board of Directors to fix their remuneration.

04. To authorize the Board of Directors to determine and make donations for 2017/2018.

05. To consider any other business of which due notice has been given.

By order of the Board

Mrs. R.M. Hisham
Company Secretary

Colombo
25 May 2017

Notes

- Any member of the Company who is entitled to attend and vote at this meeting may appoint a proxy to attend and vote instead of him/her.
- To be valid the completed form of proxy must be deposited at the Registered Office of the Company situated at No. 100, Hyde Park Corner, Colombo 2 not less than forty eight (48) hours before the appointed hour of the meeting.
- A proxy need not be a member of the Company.
- A form of proxy is enclosed in this Report.

Proxy Form

I/We.. of...

..../ being a member/members of United Motors Lanka PLC, hereby

appoint...of ....

....whom failing

1) Sunil Gamini Wijesinha of Colombo or failing him
2) Chanaka Yatawara of Colombo or failing him
3) Ananda Wijetilake Atukorala of Colombo or failing him
4) Aashiq Carder Mohamed Lafir of Colombo or failing him
5) Ramesh Hiran Yaseen of Colombo or failing him
6) Ladduwa Kovisge Anne Hiroshini Fernando of Colombo or failing her
7) Kulatilleke Arthanayake Malik Kumar Ranasinghe of Colombo or failing him
8) Stuart Anthony Chapman of Colombo

as my/our proxy to represent me/us and*............................ to vote on my/ our behalf at the Twenty Eighth Annual General Meeting of the Company to be held on Friday, 30 June 2017, at 10.00 a.m at Renuka City Hotel, No.328, Galle Road,Colombo-03 and at any adjournment thereof and at every poll which may be taken in consequence of the above said meeting. I/We the undersigned herby authorize my/our Proxy to vote on my/our behalf in accordance with the preference indicated below:

		For	Against
1.	To receive and consider the Annual Report of the Board of Directors, the Financial Statements of the Company for the year ended 31 March 2017 and Report of the Auditors thereon.		
2.	(i) To re-elect Mr. S. A. Chapman, as a Director of the Company.		
	(ii) To re-elect Mr. H. Inoue as a Director of the Company.		
	(iii) To re-elect Mrs. A. H. Fernando as a Director of the Company		
3.	To appoint Messrs. PricewaterhouseCoopers (PwC), Chartered Accountants, as the Auditors for the ensuing year and to authorise the Board of Directors to fix their remuneration		
4.	To authorize the Board of Directors to determine donations for 2017/2018		

Signed on this .... day of .... Two Thousand and Seventeen

....

Signature/s

*If you wish your Proxy to speak at the meeting you should insert the words “to speak and” in the place indicated and initial such insertion.

Notes:

Please indicate with an “x” in the space provided how your Proxy is to vote. If there is in the view of the Proxyholder doubt (by reason of the way in which the instructions contained in the proxy have been completed) as to the way in which the Proxyholder should vote, the Proxyholder shall vote as he thinks fit.

Instructions as to completion appear overleaf

Instructions as to completion

1. Kindly perfect the form of proxy, after filling in legibly your full name and address, and sign in the space provided. Please fill in the date of signature.
2. If you wish to appoint any person other than Directors as your proxy, please insert the relevant details in the space provided overleaf.
3. In terms of Article 66 of the Articles of Association of the Company.

   (i) in the case of an individual shall be signed by the Appointer or his Attorney; and

   (ii) in the case of a company or a corporate body shall be either under its common seal or signed by its Attorneys or by an Officer on behalf of such entity.
4. In terms of Article 61 of the Articles of Association of the Company in the case of joint-holders of a share the senior who tenders the vote, whether in person or by proxy shall be accepted to the exclusion of the votes of the other joint-holders and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members in respect of the joint holding.
5. To be valid the completed form of proxy must be deposited at the Registered Office of the Company situated at No. 100, Hyde Park Corner, Colombo 2 not less than forty eight (48) hours before the appointed hour of the meeting.

Corporate Information

Name of Company
United Motors Lanka PLC

Legal Form
A Public Limited Liability Company incorporated in Sri Lanka on 9 May 1989.

Listed with the Colombo Stock Exchange
5 December 1989

Company Registration Number
PQ -74

Accounting Year End
March 31

Registered Office
100, Hyde Park Corner, Colombo 02

Head Office
P.O. Box 697,
100, Hyde Park Corner,
Colombo 02
Tel: 4797200, 4696333, 2448112
Fax: 2448113
www.unitedmotors.lk

VAT Registration Number
294000038 - 7000

Tax Payer Identification Number
294000038

Auditors
KPMG
32A, Sir Mohammed Macan Markar Mawatha,
Colombo 03.

Lawyers
Messrs Julius & Creasy
41, Janadipathi Mawatha,
Colombo-01

Registrars
P. W. Corporate Secretarial (Pvt) Ltd,
3/17, Kynsey Road, Colombo 08.
Tel: 4640360/3
Fax 4740588

Subsidiary Companies
Unimo Enterprises Ltd
Orient Motor Company Ltd
UML Property Developments Ltd

Joint Venture
TVS Lanka (Pvt) Ltd
TVS Automotives (Pvt) Ltd

Bankers (in alphabetical order)
Bank of Ceylon
Commercial Bank PLC
DFCC Bank PLC
Hatton National Bank PLC
National Development Bank PLC
Nations Trust Bank PLC
Pan Asia Bank PLC
People's Bank
Sampath Bank PLC
Seylan Bank PLC
Standard Chartered Bank

Board of Directors
Chairman
Mr. Sunil G. Wijesinha

Group Chief Executive Officer/Executive Director
Mr. C. Yatawara

Directors
Mr. A.W. Atukorala
Mr. A.C.M. Lafir
Mr. R.H. Yaseen
Mrs. A.H. Fernando
Prof. K.A.M.K. Ranasinghe
Mr. S.A. Chapman
Mr. H. Inoue

Company Secretary
Mrs. R.M. Hisham

Audit Committee
Chairperson
Mrs. A.H. Fernando

Mr. Sunil G. Wijesinha
Mr. A.W. Atukorala

Remuneration Committee
Chairman
Mr. Sunil G. Wijesinha

Mr. A.W. Atukorala
Mrs. A.H. Fernando
Prof. K.A.M.K. Ranasinghe

Nomination Committee
Chairman
Mr. Sunil G. Wijesinha

Mr. A.W. Atukorala
Mr. C. Yatawara
Mrs. A.H. Fernando

Related Party Transactions Review Committee
Chairman
Mr. A.W. Atukorala

Mr. Sunil G. Wijesinha
Mr. C. Yatwara
Mr. A.C.M. Lafir
Mrs. A.H. Fernando

INVESTOR RELATIONS
For investor relations and clarifications on the report,
Please contact:
Company Secretary,
United Motors Lanka PLC,
No. 100 Hyde Park Corner,
Colombo 02, Sri Lanka
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Tel: +94(011)4696019/6015

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United Motors

2016/17
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