

Auditors Report to The Members

We have audited the annexed balance sheet of KSB Pumps Company Limited as at December 31, 2003 and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- (a) in our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;
- (b) in our opinion:
 - (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied.
 - (ii) the expenditure incurred during the year was for the purpose of company's business ; and
 - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;
- (c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan and give the information required by the Companies Ordinance, 1984 in the manner so required and respectively give a true and fair view of the state of the company's affairs as at December 31, 2003, and of the profit, its cash flows and changes in equity for the year then ended; and
- (d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.



A. F. Ferguson & Co.
Chartered Accountants
March 12, 2004
Lahore.

BALANCE SHEET

as at December 31, 2003

	Note	2003 Rupees	2002 Rupees
CAPITAL AND RESERVE			
SHARE CAPITAL			
Authorised			
15,000,000 (2002: 15,000,000) ordinary shares of Rs 10 each		<u>150,000,000</u>	<u>150,000,000</u>
Issued, subscribed and paid up capital	3	120,000,000	120,000,000
General reserve		136,000,000	125,200,000
Unappropriated profit		118,926	77,003
		<u>256,118,926</u>	<u>245,277,003</u>
DEFERRED LIABILITIES			
Employees' retirement and other benefits	4	24,072,286	18,186,087
Liabilities against assets subject to finance lease	5	724,905	1,606,720
CURRENT LIABILITIES			
Current portion of liabilities against assets subject to finance lease		1,707,034	1,171,785
Short term finances - secured	6	39,846,285	106,368,211
Creditors, accrued and other liabilities	7	211,836,927	165,553,535
Proposed dividend		12,000,000	6,000,000
		<u>265,390,246</u>	<u>279,093,531</u>
CONTINGENCIES AND COMMITMENTS			
	8		
		<u>546,306,363</u>	<u>544,163,341</u>

	Note	2003 Rupees	2002 Rupees
FIXED CAPITAL EXPENDITURE			
Operating fixed assets - tangible	9	60,148,493	58,666,504
Assets subject to finance lease	10	914,250	1,354,125
Capital work in progress	11	390,965	311,943
		61,453,708	60,332,572
Long term loans and deposits	12	2,134,042	1,861,749
Deferred taxation	13	14,046,000	16,425,000
CURRENT ASSETS			
Stores, spares and loose tools	14	26,644,622	26,230,576
Stock in trade	15	117,550,874	144,324,898
Property acquired in satisfaction of claim		-	5,027,069
Trade debts	16	128,542,166	130,791,602
Loans, advances, deposits, prepayments and other receivables	17	30,890,007	26,552,928
Income tax recoverable		111,890,995	103,533,333
Cash and bank balances	18	53,153,949	29,083,614
		468,672,613	465,544,020
		546,306,363	544,163,341

The annexed notes form an integral part of these accounts.


Arif Ijaz
 Chief Executive


Dr. Agus Susanto
 Chairman

PROFIT AND LOSS ACCOUNT

for the year ended December 31, 2003

	Note	2003 Rupees	2002 Rupees
Sales	19	703,674,618	589,558,908
Cost of goods sold	20	549,262,600	449,496,676
Gross profit		154,412,018	140,062,232
Administration, selling and general expenses	21	121,917,527	112,887,397
Operating profit		32,494,491	27,174,835
Other income	22	18,234,155	14,303,209
		50,728,646	41,478,044
Financial charges	23	10,403,163	16,205,185
Other charges	24	2,760,000	2,628,417
		13,163,163	18,833,602
Profit before taxation		37,565,483	22,644,442
Provision for taxation	25	14,723,560	9,082,000
Profit after taxation		22,841,923	13,562,442
Unappropriated profit brought forward		77,003	14,561
Available for appropriation		22,918,926	13,577,003
Appropriations			
- Transfer to general reserve		(10,800,000)	(7,500,000)
- Final dividend @ Rs 1.00 per share (2002: Rs 0.50 per share)		(12,000,000)	(6,000,000)
		(22,800,000)	(13,500,000)
Unappropriated profit carried forward		118,926	77,003
Earnings per share	32	1.90	1.13

The annexed notes form an integral part of these accounts.



Arif Ijaz
Chief Executive



Dr. Agus Susanto
Chairman

CASH FLOW STATEMENT

for the year ended December 31, 2003

	Note	2003 Rupees	2002 Rupees
Cash flow from operating activities			
Cash generated from operations	26	138,369,268	125,254,459
Employees' retirement benefits paid		(1,175,208)	(15,873,668)
Financial charges paid		(10,721,859)	(18,569,549)
Taxes paid		(20,702,222)	(26,050,735)
Net (increase) in long term loans and advances		(272,293)	(152,545)
Net cash inflow from operating activities		105,497,686	64,607,962
Cash flow from investing activities			
Fixed capital expenditure		(13,984,691)	(9,103,412)
Sale proceeds of fixed assets		1,711,303	1,464,086
Sale proceeds of property acquired in satisfaction of claim		5,400,000	-
Net cash (outflow) from investing activities		(6,873,388)	(7,639,326)
Cash flow from financing activities			
Dividends paid		(6,016,846)	(1,499,290)
Lease rentals paid		(2,015,191)	(1,015,497)
Net cash (outflow) from financing activities		(8,032,037)	(2,514,787)
Net increase in cash and cash equivalents		90,592,261	54,453,849
Cash and cash equivalents at the beginning of the year		(77,284,597)	(131,738,446)
Cash and cash equivalents at the end of the year	27	13,307,664	(77,284,597)

The annexed notes form an integral part of these accounts.


Arif Ijaz
Chief Executive


Dr. Agus Susanto
Chairman

STATEMENT OF CHANGES IN EQUITY

for the year ended December 31, 2003

	Share capital	General reserves	Unappropriated Profit	Total
	Rupees	Rupees	Rupees	Rupees
Balance as at January 1, 2002	120,000,000	117,700,000	14,561	237,714,561
Net profit for the year	-	-	13,562,442	13,562,442
Transfer to general reserve	-	7,500,000	(7,500,000)	-
Final dividend @ Rs 0.50 per share	-	-	(6,000,000)	(6,000,000)
Balance as at December 31, 2002	120,000,000	125,200,000	77,003	245,277,003
Net profit for the year	-	-	22,841,923	22,841,923
Transfer to general reserve	-	10,800,000	(10,800,000)	-
Final dividend @ Rs 1.00 per share	-	-	(12,000,000)	(12,000,000)
Balance as at December 31, 2003	120,000,000	136,000,000	118,926	256,118,926



Arif Ijaz
Chief Executive



Dr. Agus Susanto
Chairman

NOTES TO THE ACCOUNTS

for the year ended December 31, 2003

1. Legal status and nature of business

The company is incorporated in Pakistan and is listed on Karachi and Lahore Stock Exchanges. The company is principally engaged in the manufacture and sale of industrial pumps, valves, castings and related parts.

2. Summary of significant accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 Accounting convention

The accounts have been prepared under the historical cost convention, modified by capitalization of certain exchange differences referred to in note 2.16 and recognition of certain employee retirement benefits at present value.

2.3 Employees' benefits

2.3.1 The main features of the schemes operated by the company for its employees are as follow:

- (a) The supervisory and managerial staff with minimum five years of continuous service with the company are entitled to participate in an approved funded gratuity scheme. The latest valuations for the gratuity fund were conducted as at December 31, 2003. The actual return on the plan assets was Rs 3.837 million (2002: Rs.3.080 million). The transitional liability resulting from adoption of revised IAS 19 is being amortized over a period of five years as permitted by the IAS. Actuarial gains/losses are recognised following the minimum recommended approach under IAS 19 (revised 2000).

The future contribution rates of the scheme include allowances for deficit and surplus. Projected unit credit actuarial cost method, using the following significant assumptions, is used for valuation of the scheme.

Expected rate of increase in salary level	7% per annum
Expected rate of return	7% per annum
Discount rate	7% per annum

- (b) The company operates an un-funded benefit scheme (ex-gratia) for its unionized staff. Under the scheme, members who have completed prescribed years of service with the company are entitled to receive 20 days last drawn basic pay for each completed year of service. The provision is made annually to cover the obligation under this scheme and is charged to current income.
- (c) The company operates an approved contributory provident fund for all employees. During the year Rs 3.985 million (2002: Rs 3.802 million) has been charged as expense.

2.3.2 Compensated absences

The company provides for the expected cost of accumulating compensated absences, when the employee renders the service that increases the entitlement to future compensated absences.

2.4 Taxation

Current

Provision of current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of the taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilised.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except in the case of items credited or charged to equity in which case it is included in equity.

2.5 Fixed capital expenditure and depreciation

Operating assets except freehold land and capital work in progress are stated at cost less accumulated depreciation. Freehold land and capital work in progress are stated at cost less any identified impairment loss. Cost in relation to own manufactured assets includes direct cost of materials, labour and applicable manufacturing overheads. Cost of certain assets signifies the historical cost and exchange differences referred to in note 2.16.

Depreciation on fixed assets is charged to income using the straight line method so as to write off the historical cost of the assets over their useful lives at the following rates.

Building	
- Factory	5%
- Office	2.50%
Plant and machinery	6.66 and 10%
Tools, jigs, attachments and furniture and fixtures	10%
Patterns	10%
Other equipment and tubewells	12.50%
Office machines and appliances	33.33%
Vehicles	25%

The full annual rate of depreciation is applied on the cost of additions, including exchange difference, while no depreciation is charged on assets deleted during the year.

Exchange differences are amortized over the remaining estimated useful lives of the related assets.

Minor renewals or replacements, maintenance, repairs and profit and loss on disposal of fixed assets are reflected in current profit. Major renewals and improvements are capitalized.

2.6 Assets subject to finance lease

Leases where the company has substantially all the risks and rewards of ownership are classified as finance leases. These are stated at the lower of present value of minimum lease payments under the lease agreement and the fair value of the assets acquired on lease. The aggregate amount of obligations relating to assets subject to finance lease is accounted for at the net present value of liabilities. The related rental obligations, net of finance charges, are included in liabilities against assets subject to finance lease as referred to in note 5. Each lease payment is allocated between the liability and finance charge so as to achieve a constant rate on the balance outstanding. The interest element of the rental is charged to income over the lease term. Assets acquired under finance lease are depreciated over the useful lives of assets using the straight line method at rates given in note 10. Depreciation on leased assets is charged to income. The full annual rate of depreciation is applied on the cost of additions, while no depreciation is charged on assets deleted during the year. The liabilities are classified as current and long term depending upon the timing of the payments.

2.7 Stores, spares and loose tools

These are valued at cost determined by using the moving average method except for items considered obsolete which are carried at nil value. Items in transit are valued at cost comprising invoice value and other charges paid thereon.

2.8 Stock in trade

Stock of raw materials except for items in transit, work in process and finished goods, are stated at the lower of cost, principally determined using the moving average method and net realizable value. Cost of work in process and finished goods comprise cost of direct materials, labour and applicable manufacturing overheads. Materials in transit are stated at cost comprising invoice value and other charges paid thereon.

Net realizable value signifies the estimated selling price in the ordinary course of business less costs of completion and costs necessary to be incurred in order to make the sale.

2.9 Financial Instruments

Financial assets and liabilities are recognised when the company becomes a party to the contractual provisions of the instrument. The particular measurement methods adopted are disclosed in the individual policy statement associated with each item.

2.10 Trade debts

Trade debts are stated at their original invoice value as reduced by appropriate provision for debts considered to be doubtful. Exchange gains and losses arising in respect of receivables in foreign currency are added to the carrying amount of the instrument. Bad debts are written off when identified.

2.11 Borrowings

Borrowings are recorded at the proceeds received. Financial charges are accounted for on an accrual basis and are included in creditors, accrued and other liabilities to the extent of the amount remaining unpaid.

2.12 Creditors and accrued liabilities

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in future for goods and services.

2.13 Derivative financial instruments

These are initially recorded at cost and are remeasured to fair value at subsequent reporting dates.

2.14 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement cash and cash equivalents comprise cash on hand, demand deposits, other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value and finances under mark up arrangements. In the balance sheet, finances under mark up arrangements are included in current liabilities.

2.15 Provisions

Provisions are recorded when the company has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits and a reliable estimate can be made of the amount of the obligation.

2.16 Foreign currencies

All monetary assets and liabilities in foreign currencies are translated into Rupees at exchange rates prevailing at the balance sheet date. Transactions in foreign currencies are translated into Rupees at the spot rate. All non monetary items are translated into Rupees at exchange rates prevailing on the date of transactions or on the date when fair values are determined. Exchange differences arising from translation and repayment of foreign currency loans are capitalised as part of cost of plant and machinery acquired out of the proceeds of such loans. All other exchange differences are charged to income.

2.17 Revenue recognition

Revenue from sale of products is recognized on shipment or acceptance of products depending on the terms of supply. Service revenue is recognised over the contractual period or as and when services are rendered to customers. Return on deposits is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.

2.18 Financial charges

Financial charges incurred during the year are charged to income.

2.19 Related party transactions

Transactions with related parties are based on the transfer pricing policy that all transactions between the Company and the related party are at arm's length prices determined as per the prescribed methods under Companies Ordinance, 1984, except in circumstances where it is in the interest of the Company not to do so.

	2003 Rupees	2002 Rupees
3. Issued, subscribed and paid up capital		
973,100 (2002: 973,100) ordinary shares of Rs 10 each fully paid in cash	9,731,000	9,731,000
8,000 (2002: 8,000) ordinary shares of Rs 10 each issued as fully paid for consideration other than cash	80,000	80,000
11,018,900 (2002:11,018,900) ordinary shares of Rs 10 each issued as fully paid bonus shares	110,189,000	110,189,000
	120,000,000	120,000,000

During the year KSB AG, Germany acquired 7,066,341 shares from Canadian Kay Pumps Limited, Canada, the previous holding Company.

	2003 Rupees	2002 Rupees
4. Employees' retirement and other benefits		
These are composed of:		
Gratuity fund - note 4.1	5,471,600	1,242,600
Ex-gratia scheme - note 4.2	12,159,793	11,152,297
Accumulating compensated absences	6,440,893	5,791,190
	24,072,286	18,186,087
4.1 Gratuity fund		
The amounts recognised in balance sheet are as follows:		
Present value of defined benefit obligation	31,843,000	28,866,000
Less: Fair value of plan assets	(29,510,000)	(28,159,000)
Add: Unrecognised actuarial gains	3,138,600	2,394,600
Less: Transitional liability to be recognised in later years	-	(1,859,000)
Balance as at December 31,	5,471,600	1,242,600
Balance as at January 1 ,	1,242,600	4,518,825
Add: Interest cost for the year	2,042,000	3,022,000
Add: Current service cost	2,326,000	1,971,000
Less: Expected return on plan assets	(1,998,000)	(2,196,000)
Less: Amortization of (gain)	-	(46,000)
Add: Amortization of transitional liability	1,859,000	3,719,000
Charge for the year	4,229,000	6,470,000
	5,471,600	10,988,825
Less: Contribution by the Company	-	(9,746,225)
Balance as at December 31,	5,471,600	1,242,600
4.2 Ex-gratia scheme		
Balance as at January 1,	11,152,297	11,418,447
Charge for the year	1,733,427	611,964
Payments during the year	(725,931)	(878,114)
Balance as at December 31,	12,159,793	11,152,297

5. Liabilities against asset subject to finance lease

The amount of future payments and the period in which these payments become due are:

	2003			2002		
	Total payments Rupees	Finance charge Rupees	Principal Rupees	Total payments Rupees	Finance charge Rupees	Principal Rupees
2003	-	-	-	1,520,620	348,835	1,171,785
2004	1,950,247	243,213	1,707,034	1,520,620	168,255	1,352,365
2005	750,369	25,464	724,905	259,104	4,749	254,355
	2,700,616	268,677	2,431,939	3,300,344	521,839	2,778,505

The value of minimum lease payments have been discounted at implicit interest rates ranging from 12.50% to 17% to arrive at their present value. The lease agreements are renewable on such terms as may be agreed upon.

The balance rentals under the lease agreements are payable in equal quarterly instalments for residual values between January 2004 and December 2005.

		2003 Rupees	2002 Rupees
6. Short term finances - secured			
Short term loan	- note 6.1	15,000,000	90,000,000
Short term running finances	- note 6.2	24,846,285	16,368,211
		39,846,285	106,368,211

6.1 Finances available from a commercial bank under mark up arrangements amount to Rs 15 million (2002: Rs 90 million). The rate of mark-up is Re 0.065 per Rs 1,000 per diem or part thereof on the balance outstanding. The loan is repayable in lump sum amount in January 2004.

6.2 Finances available from commercial banks under mark-up arrangements amount to Rs 270 million (2002: Rs 75 million). The rates of mark-up range from Re 0.111 to Re 0.194 per Rs 1,000 per diem or part thereof on the balance outstanding. In the event the company fails to pay the balance on the expiry of the quarter, mark-up is to be computed at the rate ranging from Re 0.336 to Re 0.965 per Rs 1,000 per diem or a part thereof on the balance unpaid.

Of aggregate facility of letters of credit of Rs 105 million (2002: Rs 130 million) and guarantees of Rs 135 million (2002: Rs 147.070 million), the amounts utilized as at December 31, 2003 amount to Rs 42.986 million (2002: Rs 37.326 million) and Rs 130.265 million (2002: Rs 113.554 million) respectively.

The finances are secured by first parri passu charge over all current and future assets of the company.

		2003 Rupees	2002 Rupees
7. Creditors, accrued and other liabilities			
Trade creditors	- note 7.1	50,965,680	55,392,503
Accrued liabilities		59,011,523	48,142,475
Sales tax payable		9,024,502	7,402,313
Advances from customers		74,052,128	34,953,068
Interest free deposits, repayable on demand		7,803,755	7,308,336
Mark-up accrued on short term finances - secured		1,063,460	1,919,163
Lease rental		417,935	330,553
Workers' profit participation fund	- note 7.2	2,117,700	1,314,100
Workers' welfare fund		670,000	625,000
Unclaimed dividend		515,339	532,185
Rent received in advance		2,483,534	4,086,970
Other liabilities		3,711,371	3,546,869
		<u>211,836,927</u>	<u>165,553,535</u>

7.1 Trade creditors include amount due to associated undertakings of Rs 10.176 million (2002: Rs 13.765 million).

7.2 Workers' profit participation fund

Balance at beginning of the year	1,314,100	573,900
Allocation for the year	2,015,000	1,230,000
The amount available with the company for its business operations	3,329,100	1,803,900
Interest payable on funds utilized by the company	49,000	30,600
	3,378,100	1,834,500
Amount paid during the year	1,260,400	520,400
Balance at the end of the year	<u>2,117,700</u>	<u>1,314,100</u>

8. Contingencies and commitments

- (a) Post-dated cheques not provided for in the accounts, furnished by the Company to the Collector of Customs to cover import levies in excess of 20% ad valorem on certain raw materials and components amounted to Rs 0.361 million (2002: Rs 3.329 million). Liabilities under the post-dated cheques can arise in respect of such raw materials which are not consumed within one year from the receipt thereof or till the expiry of extended period and such liability, if any, will be treated as part of the cost of such raw materials and components.
- (b) Liabilities, if any, which may arise from the outstanding warranties and guarantees to the customers as to performance, free of charge replacement of faulty materials or bad workmanship etc. are not ascertainable. Based on past experience, however, the amount of contingent loss, if any, arising from other warranties and guarantees is not likely to be material and no provision has, therefore, been made in these accounts.
- (c) The Deputy Director of Punjab Employees' Social Security Institution raised a demand of Rs 4.570 million (2002: Rs 4.570 million) being social security of contracted staff for the period from October 1994 to June 2002 not paid by the Company. The Company has challenged the demand in the High Court through a writ petition. The High Court has stayed the recovery of the amount. Pending adjudication, no provision has been made in these accounts against the demand, as the Company's legal advisor is of the view that the demand is arbitrary and there are strong grounds for the decision to be in favour of the Company.

Commitments in respect of

Letters of credit other than for capital expenditure approximately Rs 42.986 million (2002: Rs 37.326 million).

9. Operating fixed assets - tangible

9.1 The following is a statement of operating fixed assets:

	Cost as at January 1, 2003	Additions during the year	Disposals during the year	Cost as at December 31, 2003	Accumulated depreciation as at January 1, 2003	Depreciation charge for the year	Depreciation on disposals during the year	Accumulated depreciation as at December 31, 2003	Book value as at December 31, 2003
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Freehold land	1,372,520	-	-	1,372,520	-	-	-	-	1,372,520
Buildings on freehold land	36,008,807	-	-	36,008,807	20,493,496	1,079,929	-	21,573,425	14,435,382
Plant and machinery	87,076,840	742,995	-	87,819,835	73,806,030	2,317,649	-	76,123,679	11,696,156
Tools, jigs and attachments	27,549,983	3,700,127	-	31,250,110	20,556,697	1,836,391	-	22,393,088	8,857,022
Patterns	42,434,166	2,157,363	-	44,591,529	25,612,087	3,207,188	-	28,819,275	15,772,254
Other equipment and tubewells	5,569,054	433,793	-	6,002,847	4,569,431	390,373	-	4,959,804	1,043,043
Furniture and fixtures	6,264,707	269,350	(129,962)	6,404,095	4,998,635	312,301	(122,322)	5,188,614	1,215,481
Office machines and appliances	31,387,443	2,490,275	(595,088)	33,282,630	29,429,664	1,954,431	(595,089)	30,789,006	2,493,624
Vehicles	11,643,329	4,111,766	(2,737,606)	13,017,489	11,174,305	1,317,779	(2,737,606)	9,754,478	3,263,011
Rupees 2003	249,306,849	13,905,669	(3,462,656)	259,749,862	190,640,345	12,416,041	(3,455,017)	199,601,369	60,148,493
Rupees 2002	242,230,147	9,064,975	(1,988,273)	249,306,849	180,621,639	11,707,729	(1,689,023)	190,640,345	58,666,504

9.2 The depreciation charge for the year has been allocated as follows:

	2003 Rupees	2002 Rupees
Cost of goods sold - note 20		
- Fixed Assets	10,336,653	10,672,559
- Assets subject to finance lease	267,250	267,250
	10,603,903	10,939,809
Administration, selling and general expenses - note 21		
- Fixed Assets	2,079,388	1,035,170
- Assets subject to finance lease	1,391,625	1,086,875
	3,471,013	2,122,045
	14,074,916	13,061,854

9.3 Disposal of fixed assets

Details of certain fixed assets sold during the year is as follows:

Description	Mode of disposal	Cost Rupees	Accumulated depreciation Rupees	Book value Rupees	Sale proceeds Rupees
Vehicles sold to executives					
Farukh Aziz	Negotiation	848,000	848,000	-	586,000
Mukhtar Ahmed Bhatti	Company scheme	678,756	678,756	-	454,918
Azam Hanif Zuberi	-do-	521,850	521,850	-	172,032
Abdul Ghafoor	-do-	689,000	689,000	-	468,354

10. Assets subject to finance lease

	Cost as at January 1, 2003	Additions during the year	Cost as at December 31, 2003	Accumulated depreciation as at January 1, 2003	Depreciation charge for the year	Transfers to fixed assets	Accumulated depreciation as at December 31, 2003	Book value as at December 31, 2003	Rate %
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	
Vehicles	5,416,500	1,219,000	6,635,500	4,062,375	1,658,875	-	5,721,250	914,250	25
Rupees 2003	5,416,500	1,219,000	6,635,500	4,062,375	1,658,875	-	5,721,250	914,250	
Rupees 2002	5,416,500	-	5,416,500	2,708,250	1,354,125	-	4,062,375	1,354,125	

11. Capital work in progress

This consists of:

	2003 Rupees	2002 Rupees
Advance for land	229,800	229,800
Plant and machinery	161,165	82,143
	390,965	311,943

12. Long term loans and deposits

These are composed of:

Loans to employees including executives Rs 0.920 million (2002: Rs 0.909 million) - considered good	2,654,926	2,535,449
Current portion including executives Rs 0.432 million (2002: Rs 0.618 million) shown under current assets- note 17	(1,073,404)	(1,231,220)
	1,581,522	1,304,229
Security deposits	552,520	557,520
	2,134,042	1,861,749

12.1 The loans to employees amounting to Rs 1.069 million (2002: Rs 1.314 million) are for house building and purchase of vehicles and are repayable in monthly instalments over a period of 24 - 36 months. The remaining loans are for use in marriages of employees and their dependents.

The loans to employees, including executives are interest free. The loans to executives are for house building and purchase of vehicles and are repayable in monthly instalments over a period of 24 - 36 months. The maximum amount outstanding at the end of any month in respect of loans to executives was Rs 1.116 million (2002: Rs 1.167 million).

Long term loans to employees outstanding for more than 3 years amount to Rs. Nil (2002: Rs. Nil).

	2003 Rupees	2002 Rupees
13. Deferred taxation		
This comprises temporary differences relating to:		
Employee benefits	7,470,499	7,107,620
Provision for doubtful debts	6,845,207	9,544,158
Accelerated tax depreciation allowances	(3,281,863)	(3,496,240)
Others	3,012,157	3,269,462
	14,046,000	16,425,000
14. Stores, spares and loose tools		
Stores	13,424,916	14,948,386
Spares	8,329,114	11,098,197
Loose tools	4,890,592	4,688,376
	26,644,622	30,734,959
Provision for obsolescence	-	(4,504,383)
	26,644,622	26,230,576
15. Stock in trade		
Raw materials including in transit Rs 6.784 million (2002: Rs 8.947 million)	67,507,776	80,859,378
Work in process	38,183,589	43,836,126
Finished goods	11,859,509	21,847,541
	117,550,874	146,543,045
Provision for obsolescence	-	(2,218,147)
	117,550,874	144,324,898

	2003 Rupees	2002 Rupees
16. Trade debts		
Considered good - unsecured		
- Due from associated undertakings - note 16.1	2,883,601	6,270,155
- Others	125,658,565	124,521,447
	128,542,166	130,791,602
Considered doubtful	19,557,733	27,269,024
	148,099,899	158,060,626
Less: Provision for doubtful debts	(19,557,733)	(27,269,024)
	128,542,166	130,791,602

16.1 Due from associated undertakings

PT KSB Indonesia	-	209,880
KSB Aktiengesellschaft, Germany	2,712,276	3,187,844
KSB Ajax pty. Limited, New Zealand	59,487	386,821
KSB Amri (A.P) PTE Limited, Singapore	43,065	271,270
KSB Limited Hong Kong	-	1,013,720
KSB Taiwan Limited	-	1,133,352
National Refinery Limited	68,773	67,268
	2,883,601	6,270,155

These relate to normal course of business and are interest free.

The maximum amount due at the end of any month during the year from associated undertakings was Rs 15.900 million (2002: Rs 18.928 million).

	2003 Rupees	2002 Rupees
17. Loans, advances, deposits, prepayments and other receivables		
Current portion of long term loans to employees - note 12	1,073,404	1,231,220
Short term advances to employees including advances to executives Rs 0.490 million (2002: Rs 0.694 million) - considered good - note 17.1	3,378,991	2,300,629
Advances to suppliers and contractors		
- Considered good	1,891,610	1,997,406
- Considered doubtful	283,479	283,479
	2,175,089	2,280,885
Trade deposits and prepayments - considered good	12,975,292	9,231,876
Letters of credit, deposits and opening charges	1,195,156	1,020,724
Other receivables		
- Considered good	2,496,240	3,312,286
- Considered doubtful	210,965	-
	2,707,205	3,312,286
Due from associated undertakings - note 17.2	7,879,314	7,458,787
	31,384,451	26,836,407
Less: Provision for doubtful receivables	(494,444)	(283,479)
	30,890,007	26,552,928

17.1 Included in advances to employees is amount due from Chief Executive of Rs. 0.002 million (2002: Rs. 0.008 million).

The maximum aggregate amount due from Chief Executive and Executives at the end of any month during the year were Rs 0.385 million and Rs 1.190 million (2002: Chief Executive Rs 0.071 million and Executives Rs 1.617 million) respectively.

17.2 Due from associated undertakings

KSB Aktiengesellschaft, Germany	7,305,336	3,037,801
KSB Services GmbH, Germany	241,172	204,233
KSB Armaturen GmbH, Germany	-	936,355
KSB S.A. Cedex, France	11,728	3,171,868
KSB AMRI, Singapore	321,078	108,530
	7,879,314	7,458,787

These relate to normal course of business and are interest free. The maximum aggregate amount of advances to associated companies at the end of any month during the year was Rs 7.879 million (2002: Rs 7.459 million).

18. Cash and bank balances	2003 Rupees	2002 Rupees
At banks		
- on deposit accounts	58,177	58,177
- on saving accounts	3,565,502	678,703
- on current accounts	26,081,683	19,290,040
	29,705,362	20,026,920
Cash in hand including cheques in hand of Rs 22.853 million (2002: Rs 8.496 million)	23,448,587	9,056,694
	53,153,949	29,083,614

18.1 The balances in saving and deposit accounts bear mark-up which ranges from 0.5% to 3% per annum.

19. Sales

Local sales	645,868,680	517,218,837
Export sales	57,805,938	72,340,071
	703,674,618	589,558,908

19.1 Sales are exclusive of sales tax of Rs 92.374 million (2002: Rs 79.990 million).

19.2 Sales are inclusive of revenue from rendering of services of Rs 55.763 million (2002: Rs 26.743 million).

20. Cost of goods sold

Raw material consumed	- note 20.1	284,298,650	243,805,831
Salaries, wages, amenities and staff welfare	- note 20.2	79,338,810	66,605,148
Electricity and power		23,530,034	21,636,064
Stores and spares consumed	- note 20.3	42,493,318	44,054,168
Insurance		928,885	1,039,670
Travelling and conveyance		14,715,253	11,733,669
Postage and telephone		3,674,880	2,699,560
Rent, rates and taxes		730,305	459,020
Repairs and maintenance		3,247,473	3,117,790
Packing and forwarding		12,109,086	11,170,915
Outside services		54,746,832	37,274,023
Warranty		-	3,000,000
Depreciation	- note 9.2	10,603,903	10,939,809
Provision for obsolete stock		-	2,218,147
Royalty		109,200	-
Other expenses		7,712,124	4,358,665
		538,238,753	464,112,479
Less: Cost of capital assets produced		(1,539,842)	(2,813,049)
		536,698,911	461,299,430
Decrease/(increase) in work in process		3,442,792	(7,037,867)
Cost of goods manufactured		540,141,703	454,261,563
Decrease/(increase) in finished goods		9,120,897	(4,764,887)
		549,262,600	449,496,676

- 20.1** Included in cost of goods sold is raw material written off of Rs 3.171 million (2002: Rs 1.617 million), work-in-process written off of Rs 1.214 million (2002: Rs 2.519 million) and finished goods written off of Rs 0.223 million (2002: Rs 0.402 million). During the year stock amounting to Rs 2.218 million were written off against the provision for obsolescence held as at January 1, 2003.
- 20.2** Included in salaries, wages, amenities and staff welfare is Rs 16.999 million (2002: Rs 7.128 million) in respect of employees retirement and other benefits inclusive of termination benefits.
- 20.3** Included in stores and spares consumed is Rs Nil (2002: Rs 4.504 million) against provision for obsolete stores and spares and Rs 1.813 million (2002: Rs 2.463 million) against stores and spares written off during the year. During the year stores and spares amounting to Rs 4.504 million were written off against provision for obsolescence held as at January 1, 2003.

	2003 Rupees	2002 Rupees
21. Administration, selling and general expenses		
Salaries, wages, amenities and staff welfare - note 21.1	48,171,853	43,695,605
Travelling, conveyance and representations	15,835,693	14,651,093
Rent, rates and taxes	2,860,368	2,629,775
Publicity charges	3,260,460	990,793
Electricity, gas and water	3,011,007	3,071,354
Postage and telephone	5,488,661	4,951,687
Printing and stationery	2,839,476	2,489,023
Repairs and maintenance	3,820,088	3,577,584
Professional services - note 21.2	4,387,719	3,210,659
Commission expenses	18,836,190	21,085,434
Bad debts written off	3,321,287	-
Provision for doubtful debts	2,678,713	7,000,000
Others receivables written off	-	250,695
Provision for doubtful receivables	210,965	69,796
Depreciation - note 9.2	3,471,013	2,122,045
Other expenses	3,724,034	3,091,854
	121,917,527	112,887,397

- 21.1** Included in salaries, wages, amenities and staff welfare is Rs 5.249 million (2002: Rs 7.035 million) in respect of employees retirement and other benefits.

	2003 Rupees	2002 Rupees
21.2 Professional services		
The charges for professional services include the following in respect of auditors' services:		
Statutory audit	150,000	130,000
Review of half yearly accounts	75,000	75,000
Audit of funds, consolidation forms and sundry services	367,500	117,500
Taxation services	1,100,000	841,515
Out of pocket expenses	108,052	107,029
	1,800,552	1,271,044
22. Other income		
Recovery of trade debts previously written off	184,956	48,210
Commission	6,644,024	4,806,303
Rental income	3,592,200	3,006,850
Sale of scrap	3,262,590	2,506,322
Interest income	91,969	84,702
Sundry	2,381,821	1,372,214
Profit on sale of property acquired in satisfaction of claim	372,931	-
Profit on sale of fixed assets	1,703,664	1,164,836
Provisions no longer considered necessary written back	-	1,313,772
	18,234,155	14,303,209
23. Financial charges		
Interest on workers' profit participation fund	49,000	30,400
Mark up on finance lease	537,007	512,928
Mark up on short term running finances - secured	5,120,147	13,293,628
Bank and other charges	4,697,009	2,368,229
	10,403,163	16,205,185
24. Other charges		
Exchange loss	-	660,051
Workers' profit participation fund	2,015,000	1,230,000
Workers' welfare fund	670,000	625,000
Donations	75,000	113,366
	2,760,000	2,628,417
24.1 Donations		
None of the directors or their spouses had any interest in the donations charged in the accounts.		

	2003 Rupees	2002 Rupees
25. Provision for taxation		
Current year		
- Current	12,790,000	13,650,000
- Deferred	1,201,600	(4,186,000)
	13,991,600	9,464,000
Prior year		
- Current	(445,440)	(5,333,000)
- Deferred	1,177,400	4,951,000
	731,960	(382,000)
	14,723,560	9,082,000
	2003 %	2002 %

25.1 Tax charge reconciliation

Numerical reconciliation between the average effective tax rate and the applicable tax rate.

Applicable tax rate	35.00	35.00
Tax effect of amounts that are:		
- Not deductible for tax purposes	6.92	12.51
Tax effect under presumptive tax regime and others	(4.68)	(5.72)
Prior year effect	1.95	(1.68)
Average effective tax rate charged to profit and loss account	39.19	40.11

	2003 Rupees	2002 Rupees
26. Cash generated from operations		
Profit before taxation	37,565,483	22,644,442
Adjustment for non cash charges and other items:		
Depreciation	14,074,916	13,061,854
Profit on sale of fixed assets	(1,703,664)	(1,164,836)
Profit on sales of property acquired in satisfaction of claim	(372,931)	-
Employees' benefits	7,061,407	8,662,522
Provision for doubtful debts	2,678,713	7,000,000
Bad debts written off	3,321,287	-
Other receivables written off	-	250,695
Provision for other receivables	210,965	69,796
Provision for obsolete stores and spares	-	4,504,383
Stores and spares written off	1,813,179	2,463,114
Provision for obsolete stock	-	2,218,147
Stock-in-trade written off	4,608,088	4,538,146
Provisions no longer considered necessary written back	-	(1,313,772)
Financial charges	10,403,163	16,205,185
Working capital changes - note 26.1	58,708,662	46,114,783
	138,369,268	125,254,459

26.1 Working capital changes

(Increase)/decrease in current assets:

Stores and spares	(2,227,225)	(2,369,412)
Stock in trade	22,165,936	(14,360,269)
Trade debts	(3,750,564)	46,861,982
Others receivables	(4,548,044)	(3,464,255)
	11,640,103	26,668,046

(Decrease)/increase in current liabilities:

Creditors, accrued and other liabilities	47,068,559	19,446,737
	58,708,662	46,114,783

27. Cash and cash equivalents

Cash and cash equivalents comprise the following items

Cash and bank balances - note 18	53,153,949	29,083,614
Short term finances - note 6	(39,846,285)	(106,368,211)
	13,307,664	(77,284,597)

28. Remuneration of directors and executives

28.1 Remuneration of chief executive and executives

The aggregate amounts charged in the accounts for remuneration including certain benefits to the chief executive and executives of the company are as follows:

	Chief Executive		Executives	
	2003 Rupees	2002 Rupees	2003 Rupees	2002 Rupees
Number of persons	1	1	118	106
Remuneration	2,251,560	2,251,560	29,949,039	26,270,273
Bonus	660,000	260,000	650,065	-
Retirement benefits	412,786	412,786	4,809,701	4,242,822
House rent allowance	1,013,196	1,013,208	11,959,836	10,462,007
Utilities	225,156	225,156	2,657,792	2,324,915
Leave fare assistance	273,112	196,940	1,628,375	1,520,225
Medical and other expenses	37,715	18,100	1,171,450	1,070,750
	4,873,525	4,377,750	52,826,258	45,890,992

In addition, the chief executive and certain executives are provided with free use of the Company's cars and free residential telephones and mobile phones.

28.2 Directors fee

Aggregate amount charged in the accounts for the year for fees to 6 directors (2002: 7) was Rs 7,500 (2002: Rs 10,000).

29. Related associated party transactions

The related parties comprise associated undertakings and key management personnel. The company in the normal course of business carries out transactions with various related parties. Amounts due from and to related parties are shown under receivables and payables, amounts due from key management personnel are shown under receivables and remuneration of key management personnel is disclosed in note 28.

	2003 Rupees	2002 Rupees
Holding company		
Sales	19,703,319	-
Purchases	13,076,718	-
Commission income	3,658,220	-
Royalty	109,200	-
Associated undertakings		
Sales	9,847,943	13,414,720
Purchases	8,771,597	43,201,884
Services received	672,820	577,488
Commission income	800,173	4,751,274
Commission expense	3,607,881	3,488,881

29.1 Royalty and commission expense are transacted at the rate approved by the State Bank of Pakistan.

	Actual capacity Nos.	Actual production 2003 Nos.	2002 Nos.
30. Plant capacity and production			
Power driven pumps	5,000	2,995	2,491

Actual production reflects change in product mix and market demand.

31. Number of employees as at year end

Number of employees	331	337
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32. Earnings per share

32.1 Basic earning per share

Profit for the year	Rupees	22,841,923	13,562,442
Average number of shares outstanding during the year	Nos.	12,000,000	12,000,000
Earnings per share	Rupees	1.90	1.13

32.2 Diluted earnings per share

There is no dilution effect on the basic earnings per share of the company as the company has no such commitments.

33. Financial Instruments

33.1 Financial assets and liabilities

	Interest/mark-up bearing			Non interest bearing			Total		Credit risk	
	Maturity upto	Maturity after	Sub total	Maturity upto	Maturity after	Sub total	2003	2002	2003	2002
	one year	one year		one year	one year					
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Financial assets										
On balance sheet										
Loans to employees	-	-	-	1,073,404	1,581,522	2,654,926	2,654,926	2,535,449	2,654,926	2,535,449
Security deposits	-	-	-	-	552,520	552,520	552,520	557,520	552,520	557,520
Trade debts	-	-	-	128,542,166	-	128,542,166	128,542,166	130,791,602	128,542,166	130,791,602
Loans, advances, deposits prepayments and other receivables	-	-	-	18,192,631	-	18,192,631	18,192,631	16,024,521	18,192,631	16,024,521
Cash and Bank balances	3,623,679	-	3,623,679	49,530,270	-	49,530,270	53,153,949	29,083,614	52,557,980	28,523,268
	3,623,679	-	3,623,679	197,338,471	2,134,042	199,472,513	203,096,192	178,992,706	202,500,223	178,432,360
Off balance sheet										
	-	-	-	-	-	-	-	-	-	-
	3,623,679	-	3,623,679	197,338,471	2,134,042	199,472,513	203,096,192	178,992,706	202,500,223	178,432,360
Financial liabilities										
On balance sheet										
Short term finances	39,846,285	-	39,846,285	-	-	-	39,846,285	106,368,211		
Liabilities against assets subject to finance lease	1,707,034	724,905	2,431,939	-	-	-	2,431,939	2,778,505		
Creditors, accrued and other liabilities	417,935	-	417,935	123,071,128	-	123,071,128	123,489,063	116,625,215		
	41,971,254	724,905	42,696,159	123,071,128	-	123,071,128	165,767,287	225,771,931		
Off balance sheet										
Contingencies and commitments	-	-	-	360,500	-	360,500	360,500	3,328,740		
Letters of credit	-	-	-	42,986,000	-	42,986,000	42,986,000	37,326,000		
Guarantees	-	-	-	130,265,000	-	130,265,000	130,265,000	113,554,319		
	-	-	-	173,611,500	-	173,611,500	173,611,500	154,209,059		
	41,971,254	724,905	42,696,159	296,682,628	-	296,682,628	339,378,787	379,980,990		
On balance sheet gap										
	(38,347,575)	(724,905)	(39,072,480)	74,267,343	2,134,042	76,401,385	37,328,905	(46,779,225)		
Off balance sheet gap										
	-	-	-	(173,611,500)	-	(173,611,500)	(173,611,500)	(154,209,059)		

The effective interest/mark-up rates for the monetary financial assets and liabilities are mentioned in respective notes to the financial statements.

33.2 Financial risk management objectives

The company's activities expose it to a variety of financial risks, including the effects of changes in foreign exchange rates, market interest rates such as State Bank of Pakistan's repo rate and treasury bills rate, credit and liquidity risk associated with various financial assets and liabilities respectively as referred to in note 33 and cash flow risk associated with accrued interests in respect of borrowings as referred to in note 6.

The company finances its operations through equity, borrowings and management of working capital with a view to maintaining a reasonable mix between the various sources of finance to minimize risk.

Taken as a whole, risk arising from the company's financial instruments is limited as there is no significant exposure to market risk in respect of such instruments.

33.3 Concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed completely to perform as contracted. Out of the total financial assets of Rs 203.096 million (2002: Rs. 178.993 million), the financial assets which are subject to credit risk amounted to Rs 202.500 million (2002: Rs 178.432) million. The company believes that it is not exposed to major concentration of credit risk as exposure is spread over a large number of counter parties in case of trade debts.

33.4 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings, especially with group companies. Payables exposed to foreign currency risks are covered in certain cases through forward contracts.

33.5 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The company usually borrows funds at fixed and market based rates and as such the risk is minimized.

33.6 Liquidity risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The company follows an effective cash management and planning policy to ensure availability of funds and to take appropriate measures for new requirements.

33.7 Fair value of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

34. Date of approval of accounts

These financial statements were authorised for issue on March 12, 2004 by the board of directors of the company.

35. Corresponding figures

Previous year's figures have been re-arranged for purposes of comparison. However, no significant rearrangements have been made.



Arif Ijaz
Chief Executive



Dr. Agus Susanto
Chairman

The Company Secretary
KSB Pumps Company Limited
16/2, Sir Aga Khan Road
Lahore - 54000

I/We _____
of _____
in the district of _____ being member(s) of KSB
Pumps Co. Ltd. and holder(s) of _____ shares as per Share Register folio number
(No. of shares)
_____ and/or CDC participant I.D. No. _____ and sub account No.
_____ hereby appoint _____
of _____ as my/our proxy to
attend and vote for me/us on my/our behalf at the annual general meeting of the company to
be held on Thursday April 29, 2004 and at any adjournment thereof.

Signed this _____ day of _____ 2004.

Witness

Signature _____

Name _____

Address _____

NIC No. _____

Signature on
Rs. 5.00
Revenue
Stamp

Note:

- A member of the company entitled to vote at this meeting may appoint another member as his/her proxy to attend and vote on his/her behalf. Proxy must be received at the Registered Office of the company not later than 48 hours before the time of meeting.
- The instrument appointing a proxy should be signed by the member or by his attorney duly authorised in writing. If the member is a corporation its common seal should be affixed to the instrument.
- The shareholders of the company through Central Depository Company or their proxies are requested to bring with them copies of their National Identity card or Passport alongwith the participant's ID number and their account number at the time of attending the Annual General Meeting in order to facilitate their identification.