

## AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of KSB Pumps Company Limited as at December 31, 2004 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 accounts 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 accounts and are further in accordance with accounting policies consistently applied except for change in accounting policies as referred to in note 2.1.2 with which we concur;
  - (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, 2004, 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 25, 2005  
Lahore



## BALANCE SHEET

as at December 31, 2004

	Note	2004 Rupees	Restated 2003 Rupees
<b>SHARE CAPITAL AND RESERVES</b>			
<b>Authorised capital</b>			
15,000,000 (2003: 15,000,000) ordinary shares of Rs 10 each		<b>150,000,000</b>	150,000,000
Issued, subscribed and paid up capital	3	<b>120,000,000</b>	120,000,000
General reserve		<b>167,000,000</b>	136,000,000
Unappropriated profit		<b>21,162,269</b>	12,118,926
		<b>308,162,269</b>	268,118,926
<b>NON CURRENT LIABILITIES</b>			
Employees' retirement and other benefits	4	<b>16,901,070</b>	24,072,286
34 Liabilities against assets subject to finance lease	5	<b>2,261,088</b>	724,905
<b>CURRENT LIABILITIES</b>			
Trade and other payables	6	<b>270,795,169</b>	210,773,467
Interest and mark up accrued		<b>658,978</b>	1,063,460
Short term finances - secured	7	<b>69,163,577</b>	39,846,285
Current portion of liabilities against assets subject to finance lease	5	<b>1,483,403</b>	1,707,034
		<b>342,101,127</b>	253,390,246
<b>CONTINGENCIES AND COMMITMENTS</b>			
	8	<b>669,425,554</b>	546,306,363



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	Note	2004 Rupees	Restated 2003 Rupees
<b>FIXED CAPITAL EXPENDITURE</b>			
Property, plant and equipment	9	60,978,203	56,974,586
Investment property	10	3,050,937	3,173,907
Assets subject to finance lease	11	3,251,990	914,250
Capital work-in-progress	12	497,706	390,965
		<b>67,778,836</b>	61,453,708
<b>LONG TERM LOANS -UNSECURED</b>	13	<b>2,934,675</b>	1,581,522
<b>LONG TERM DEPOSITS</b>		<b>842,520</b>	552,520
<b>DEFERRED TAXATION</b>	14	<b>10,115,000</b>	14,046,000
<b>CURRENT ASSETS</b>			
Stores, spares and loose tools	15	23,084,131	26,644,622
Stock in trade	16	164,709,577	117,550,874
Trade debts	17	162,687,710	128,542,166
Advances, deposits, prepayments and other receivables	18	54,037,454	30,890,007
Income tax recoverable		47,870,637	111,890,995
Cash and bank balances	19	135,365,014	53,153,949
		<b>587,754,523</b>	468,672,613
		<b>669,425,554</b>	546,306,363



The annexed notes form an integral part of these financial statements.

**Arif Ijaz**  
Chief Executive

**Dr. Agus Susanto**  
Chairman

## PROFIT AND LOSS ACCOUNT

for the year ended December 31, 2004

	Note	2004 Rupees	2003 Rupees
Sales	20	<b>853,673,833</b>	703,674,618
Cost of goods sold	21	<b>(651,320,155)</b>	(549,262,600)
Gross profit		<b>202,353,678</b>	154,412,018
Distribution and marketing expenses	22	<b>(85,748,365)</b>	(72,962,663)
Administration expenses	23	<b>(60,730,364)</b>	(48,954,864)
Other operating expenses	24	<b>(5,960,790)</b>	(2,760,000)
Other operating income	25	<b>34,788,645</b>	18,234,155
Profit from operations		<b>84,702,804</b>	47,968,646
Finance cost	26	<b>(4,028,461)</b>	(10,403,163)
Profit before taxation		<b>80,674,343</b>	37,565,483
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Profit after taxation		<b>52,043,343</b>	22,841,923
Earnings per share	34	<b>4.34</b>	1.90

Appropriations have been reflected in the statement of changes in equity.

The annexed notes form an integral part of these financial statements.

  
**Arif Ijaz**  
Chief Executive

  
**Dr. Agus Susanto**  
Chairman

## CASH FLOW STATEMENT

for the year ended December 31, 2004

	Note	2004 Rupees	2003 Rupees
<b>Cash flows from operating activities</b>			
Cash generated from operations	28	62,557,487	138,369,268
Employees' retirement benefits paid		(10,510,966)	(1,175,208)
Financial charges paid		(4,296,893)	(10,721,859)
Taxes refund/(paid)		38,650,358	(20,702,222)
Net (increase) in long term loans and advances		(1,353,153)	(272,293)
Net (increase) in long term deposits		(290,000)	-
<b>Net cash from operating activities</b>		<b>84,756,833</b>	<b>105,497,686</b>
<b>Cash flows from investing activities</b>			
Fixed capital expenditure		(19,171,708)	(13,984,691)
Sale proceeds of property, plant and equipment		1,678,612	1,711,303
Sale proceeds of property acquired in satisfaction of claim		-	5,400,000
<b>Net cash used in investing activities</b>		<b>(17,493,096)</b>	<b>(6,873,388)</b>
<b>Cash flows from financing activities</b>			
Dividends paid		(11,955,482)	(6,016,846)
Lease rentals paid		(2,414,482)	(2,015,191)
<b>Net cash used in financing activities</b>		<b>(14,369,964)</b>	<b>(8,032,037)</b>
<b>Net increase in cash and cash equivalents</b>		<b>52,893,773</b>	<b>90,592,261</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>13,307,664</b>	<b>(77,284,597)</b>
<b>Cash and cash equivalents at the end of the year</b>	29	<b>66,201,437</b>	<b>13,307,664</b>



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The annexed notes form an integral part of these financial statements.

Arif Ijaz  
Chief Executive

Dr. Agus Susanto  
Chairman

## STATEMENT OF CHANGES IN EQUITY

for the year ended December 31, 2004

	Share capital	General reserves	Unappropriated Profit	Total
	Rupees	Rupees	Rupees	Rupees
<b>Balance as at January 1, 2003 as previously reported</b>	<b>120,000,000</b>	<b>125,200,000</b>	<b>77,003</b>	<b>245,277,003</b>
Effect of change in accounting policy (note 6.4)				
Final dividend for the year ended December 31, 2002 declared subsequent to year end	-	-	6,000,000	6,000,000
<b>Balance as at January 1, 2003 as restated</b>	<b>120,000,000</b>	<b>125,200,000</b>	<b>6,077,003</b>	<b>251,277,003</b>
Final dividend for the year ended December 31, 2002 @ Rs 0.50 per share	-	-	(6,000,000)	(6,000,000)
Net profit for the year	-	-	22,841,923	22,841,923
Transfer to general reserve	-	10,800,000	(10,800,000)	-
<b>Balance as at December 31, 2003 as restated</b>	<b>120,000,000</b>	<b>136,000,000</b>	<b>12,118,926</b>	<b>268,118,926</b>
Final dividend for the year ended December 31, 2003 @ Rs 1.00 per share	-	-	(12,000,000)	(12,000,000)
Net profit for the year	-	-	52,043,343	52,043,343
Transfer to general reserve	-	31,000,000	( 31,000,000)	-
<b>Balance as at December 31, 2004</b>	<b>120,000,000</b>	<b>167,000,000</b>	<b>21,162,269</b>	<b>308,162,269</b>

The annexed notes form an integral part of these financial statements.



**Arif Ijaz**  
Chief Executive



**Dr. Agus Susanto**  
Chairman

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended December 31, 2004

### 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

2.1.1 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.

2.1.2 During the year, the SECP substituted the Fourth Schedule to the Companies Ordinance, 1984 which is effective from financial year ending on or after July 5, 2004. This has resulted in change in accounting policy pertaining to capitalization of exchange differences as referred to in note 2.17 and recognition of dividend proposed subsequent to the year end (note 6.4) and certain reclassification of previous year figures (note 37).

#### 2.2 Accounting convention

The financial statements have been prepared under the historical cost convention, except for recognition of certain employee retirement benefits at present value.

#### 2.3 Employees' retirement and other 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 valuation of the gratuity fund was conducted as at December 31, 2004. The actual return on the plan assets was Rs 4.278 million (2003: Rs.3.837). 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	6% per annum
Expected rate of return	8% per annum
Discount rate	8% 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. Actuarial valuation was carried as at December 31, 2004 using the Projected unit credit method. Provision has been made to cover the obligation on the basis of actuarial valuation and charged to income currently. The amount recognized in the balance sheet represents the present value of defined benefit

obligation adjusted for unrecognized actuarial gains and losses. Actuarial gains and losses are recognized immediately as per the requirements of IAS 19. Following significant assumptions have been used in the valuation of scheme:

Expected rate of increase in salary level	7% per annum
Discount rate	8% per annum

- (c) 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. Actuarial valuation was carried as at December 31, 2004 using the Projected unit credit method. Provision has been made to cover the obligation on the basis of actuarial valuation and charged to income currently. The amount recognized in the balance sheet represents the present value of defined benefit obligation adjusted for unrecognized actuarial gains and losses. Actuarial gains and losses are recognized immediately as per the requirements of IAS 19. Following significant assumptions have been used in valuation of scheme:

Expected rate of increase in salary level	7% per annum
Discount rate	8% per annum

- (d) The company operates an approved contributory provident fund for all employees. During the year Rs 4.456 million (2003: Rs 3.985 million) has been charged as expense.



## 2.4 Taxation

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### 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

Property, plant and equipment 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.

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 tube wells	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 Investment property

Property not held for own use or for sale in the ordinary course of business is classified as investment property. The investment property of the Company comprises buildings and is valued using the cost method i.e., at cost less any accumulated depreciation and any identified impairment loss.

Depreciation on buildings is charged to profit on the straight line method so as to write off the historical cost of a building over its estimated useful life at the rate of 2.50% per annum. The full annual rate of depreciation is applied on the cost of additions, while no depreciation is charged on assets deleted during the year. Impairment loss or its reversal, if any, is also charged to income. Where an impairment loss is recognised, the depreciation charge is adjusted in the future periods to allocate the building's revised carrying amount over its estimated useful life.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognised as an income or expense.

## 2.7 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 2.5. 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.

## **2.8 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.

## **2.9 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.

## **2.10 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.

## **2.11 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.

## **2.12 Borrowings**

Borrowings are recorded at the proceeds received. Finance cost is accounted for on an accrual basis and is included in current liabilities to the extent of the amount remaining unpaid.

## **2.13 Trade and other payables**

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.

## **2.14 Derivative financial instruments**

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

## **2.15 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.

## **2.16 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.

## 2.17 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 transaction or on the date when fair values are determined.

Exchange differences are included in profit currently.

During the current year, the company in pursuance of substituted Fourth Schedule to the Companies Ordinance, 1984 has changed its accounting policy with respect to capitalisation of exchange differences as referred to in note 2.1.2 to the financial statements. Previously exchange differences on loans utilized for the acquisition of property, plant and equipment were capitalised and all other exchange differences were charged to income. The company now charges all exchange differences to profit and loss account.

The change in accounting policy as referred to above has no effect on the amounts reported for the current year.

## 2.18 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.

## 2.19 Impairment

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists, the assets recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment losses are charged to income.

	2004 Rupees	2003 Rupees
<b>3. Issued, subscribed and paid up capital</b>		
973,100 (2003: 973,100) ordinary shares of Rs 10 each fully paid in cash	<b>9,731,000</b>	9,731,000
8,000 (2003: 8,000) ordinary shares of Rs 10 each issued as fully paid against property	<b>80,000</b>	80,000
11,018,900 (2003: 11,018,900) ordinary shares of Rs 10 each issued as fully paid bonus shares	<b>110,189,000</b>	110,189,000
	<b>120,000,000</b>	120,000,000

As at December 31, 2004 KSB AG, Germany held 7,066,341 (2003: 7,066,341) shares of the Company.

	2004 Rupees	2003 Rupees
<b>4. Employees' retirement and other benefits</b>		
These are composed of:		
Gratuity fund - note 4.1	85,603	5,471,600
Ex-gratia scheme - note 4.2	10,378,347	12,159,793
Accumulating compensated absences	6,437,120	6,440,893
	<b>16,901,070</b>	<b>24,072,286</b>
<b>4.1 Gratuity fund</b>		
The amounts recognised in balance sheet are as follows:		
Present value of defined benefit obligation	36,687,603	31,843,000
Less fair value of plan assets	(38,111,000)	(29,510,000)
Add unrecognised actuarial gains	1,509,000	3,138,600
	<b>85,603</b>	<b>5,471,600</b>
Balance as at December 31		
Balance as at January 1	5,471,600	1,242,600
Add interest cost for the year	2,305,003	2,042,000
Add current service cost	2,544,000	2,326,000
Less expected return on plan assets	(2,144,000)	(1,998,000)
Add amortization of transitional liability	-	1,859,000
Charge for the year	<b>2,705,003</b>	<b>4,229,000</b>
	<b>8,176,603</b>	<b>5,471,600</b>
Less contribution by the Company	<b>(8,091,000)</b>	-
Balance as at December 31	<b>85,603</b>	<b>5,471,600</b>
<b>4.2 Ex-gratia</b>		
The amounts recognised in balance sheet are as follows:		
Balance as at January 1	12,159,793	11,152,297
Charge for the year	44,445	1,733,427
Payments made by the Company	(1,825,891)	(725,931)
Balance as at December 31	<b>10,378,347</b>	<b>12,159,793</b>

## 5. Liabilities against asset subject to finance lease

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

	2004			2003		
	Total payments	Finance charge	Principal	Total payments	Finance charge	Principal
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
2004	-	-	-	1,950,247	243,213	1,707,034
2005	1,731,685	248,282	1,483,403	750,369	25,464	724,905
2006	1,191,100	136,867	1,054,233	-	-	-
2007	1,245,592	38,737	1,206,855	-	-	-
	<b>4,168,377</b>	<b>423,886</b>	<b>3,744,491</b>	<b>2,700,616</b>	<b>268,677</b>	<b>2,431,939</b>

The value of minimum lease payments have been discounted at implicit interest rates ranging from 9% to 13.9% 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 installments for residual values between January 2005 and December 2007.

	2004 Rupees	2003 Rupees
<b>6. Trade and other payables</b>		
Trade creditors	- note 6.1	89,360,085
Accrued liabilities		50,965,680
Sales tax payable		67,854,097
Advances from customers		-
Interest free deposits, repayable on demand		9,024,502
Lease rental		94,915,798
Workers' profit participation fund	- note 6.2	74,052,128
Workers' welfare fund		1,208,942
Rent received in advance		350,271
Dividends	- note 6.3	4,510,700
Other liabilities		2,117,700
		1,410,000
		1,015,782
		559,857
		9,609,637
		210,773,467
	<b>270,795,169</b>	

6.1 Trade creditors include amount due to related parties of Rs 25.525 million (2003: Rs 10.176 million).

	2004 Rupees	2003 Rupees
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## 6.2 Workers' profit participation fund

Balance at beginning of the year	2,117,700	1,314,100
Allocation for the year	4,350,000	2,015,000
The amount available with the company for its business operations	<u>6,467,700</u>	<u>3,329,100</u>
Interest payable on funds utilized by the company	119,000	49,000
	<u>6,586,700</u>	<u>3,378,100</u>
Amount paid during the year	2,076,000	1,260,400
Balance at the end of the year	<u>4,510,700</u>	<u>2,117,700</u>

## 6.3 Dividends

Unclaimed	559,857	515,339
Proposed final - note 6.4 and note 6.5	-	-
	<u>559,857</u>	<u>515,339</u>

**6.4** The company, effective from current year, has not recognised the dividend, proposed subsequent to the year end, as a liability to comply with the substituted Fourth Schedule to the Ordinance, as referred to in note 2.1.2. Such a change in policy has been accounted for retrospectively and the comparative financial statements have been restated in accordance with the recommended benchmark treatment of IAS 8. Had there been no change, the unappropriated profit and current liabilities for the year ended December 31, 2004 would have been lower and higher respectively by Rs 21 million (2003: Rs 12 million).

**6.5** The Board of Directors have proposed a final dividend for the year ended December 31, 2004 of Rs 1.75 per share, amounting to Rs 21 million at their meeting held on March 21, 2005 for approval of members at the Annual General Meeting to be held on April 28, 2005. The financial statements do not reflect this dividend payable, as explained in note 6.4.

## 7. Short term finances - secured

Short term loans	-	15,000,000
Short term running finances - note 7.1	69,163,577	24,846,285
	<u>69,163,577</u>	<u>39,846,285</u>

**7.1** Finances available from commercial banks under mark-up arrangements amount to Rs 330 million (2003: Rs 270 million). The rates of mark-up range from Re 0.111 to Re 0.14 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 0.175 to Re 0.705 per Rs 1,000 per diem or a part thereof on the balance unpaid.

Of aggregate facility of letters of credit of Rs 230 million (2003: Rs 105 million) and guarantees of Rs 218 million (2003: Rs 135 million), the amounts utilized as at December 31, 2004 amount to Rs 41.203 million (2003: Rs 42.986 million) and Rs 119.156 million (2003: Rs 130.265 million) respectively.

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

## **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 Nil million (2003: Rs 0.361 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 (2003: 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**

Letters of credit other than for capital expenditure approximately Rs 41.203 million (2003: Rs 42.986 million).

## 9. Property, plant and equipment

9.1 The following is a statement of property, plant and equipment:

Description	Cost as at January 1, 2004	Additions/ Transfer * during the year	Disposals	Cost as at December 31, 2004	Accumulated depreciation as at January 1, 2004	Depreciation charge for the year	Transfer from assets subject to finance lease	Depreciation on disposals during the year	Accumulated depreciation as at December 31, 2004	Book value as at December 31, 2004
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Freehold land	1,372,520	-	-	1,372,520	-	-	-	-	-	1,372,520
Buildings on freehold land	31,090,007	-	-	31,090,007	19,828,532	942,757	-	-	20,771,289	10,318,718
Plant and machinery	87,819,835	5,812,993	-	93,632,828	76,123,679	2,520,269	-	-	78,643,948	14,988,880
Tools, jigs and attachments	31,250,110	922,871	-	32,172,981	22,393,088	1,837,964	-	-	24,231,052	7,941,929
Patterns	44,591,529	2,276,086	-	46,867,615	28,819,275	3,265,134	-	-	32,084,409	14,783,206
Other equipment and tube wells	6,002,847	3,236,735	-	9,239,582	4,959,804	670,695	-	-	5,630,499	3,609,083
Furniture and fixtures	6,404,095	228,710	(220,105)	6,412,700	5,188,614	293,720	-	(205,987)	5,276,347	1,136,353
Office machines and appliances	33,282,630	3,228,857	(61,300)	36,450,187	30,789,006	2,736,385	-	(61,300)	33,464,091	2,986,096
Vehicles	13,017,489	3,358,715 1,047,500*	(2,337,100)	15,086,604	9,754,478	1,935,308	1,047,500	(1,492,100)	11,245,186	3,841,418
<b>Rupees 2004</b>	<b>254,831,062</b>	<b>20,112,467</b>	<b>(2,618,505)</b>	<b>272,325,024</b>	<b>197,856,476</b>	<b>14,202,232</b>	<b>1,047,500</b>	<b>(1,759,387)</b>	<b>211,346,821</b>	<b>60,978,203</b>
Rupees 2003	244,388,049	13,905,669	(3,462,656)	254,831,062	189,018,422	12,293,071	-	(3,455,017)	197,856,476	56,974,586



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## 9.2 Disposal of property, plant and equipment

Details of certain property, plant and equipment sold during the year is as follows:

Description	Cost	Accumulated depreciation	Book value	Sale proceeds	Particulars of purchaser	Mode of disposal
	Rupees	Rupees	Rupees	Rupees		
Vehicles	845,000	-	845,000	917,000	Mr Ahsan Farooq Butt	Negotiation
Items having book value less than Rs 50,000 each	1,773,505	1,759,387	14,118	761,612	Various	
	<b>2,618,505</b>	<b>1,759,387</b>	<b>859,118</b>	<b>1,678,612</b>		

9.3 The depreciation/amortization charge for the year has been allocated as follows:

		Investment property	Property, plant and equipment	Assets subject to finance lease	2004	2003
		Rupees	Rupees	Rupees	Rupees	Rupees
Cost of goods sold	- note 21	-	12,437,699	652,069	13,089,768	10,603,903
Distribution and marketing expenses	- note 22	-	1,030,436	-	1,030,436	1,492,536
Administration expenses	- note 23	122,970	734,097	533,511	1,390,578	1,978,477
		<b>122,970</b>	<b>14,202,232</b>	<b>1,185,580</b>	<b>15,510,782</b>	<b>14,074,916</b>

## 10. Investment property

	Cost as at January 1, 2004	Additions during the year	Cost as at December 31, 2004	Accumulated depreciation as at January 1, 2004	Depreciation charge for the year	Depreciation on disposals during the year	Accumulated depreciation as at December 31, 2004	Book value as at December 31, 2004
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Building on freehold land	4,918,800	-	4,918,800	1,744,893	122,970	-	1,867,863	3,050,937
<b>Rupees 2004</b>	<b>4,918,800</b>	<b>-</b>	<b>4,918,800</b>	<b>1,744,893</b>	<b>122,970</b>	<b>-</b>	<b>1,867,863</b>	<b>3,050,937</b>
Rupees 2003	4,918,800	-	4,918,800	1,621,923	122,970	-	1,744,893	3,173,907

Depreciation charge for the year has been allocated to administration expenses.

Fair value of the investment property, based on the valuation carried out by an independent valuer, as at December 31, 2004 is Rs 64.968 million.

## 11. Assets subject to finance lease

	Cost as at January 1, 2004	Additions/ transfer * during the year	Cost as at December 31, 2004	Accumulated depreciation as at January 1, 2004	Depreciation charge for the year	Transfers to fixed assets	Accumulated depreciation as at December 31, 2004	Book value as at December 31, 2004
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Vehicles	6,635,500	3,523,320	9,111,320	5,721,250	1,185,580	(1,047,500)	5,859,330	3,251,990
		(1,047,500)*						
<b>Rupees 2004</b>	<b>6,635,500</b>	<b>2,475,820</b>	<b>9,111,320</b>	<b>5,721,250</b>	<b>1,185,580</b>	<b>(1,047,500)</b>	<b>5,859,330</b>	<b>3,251,990</b>
Rupees 2003	5,416,500	1,219,000	6,635,500	4,062,375	1,658,875	-	5,721,250	914,250



## 12. Capital work in progress

This consists of:

	2004 Rupees	2003 Rupees
Advance for land	229,800	229,800
Plant and machinery	267,906	161,165
	<b>497,706</b>	<b>390,965</b>

## 13. Long term loans - unsecured - considered good

These are composed of:

		2004 Rupees	2003 Rupees
Loans to executives - interest free	- note 13.1	2,240,000	-
Loans to employees - interest free		2,784,845	2,654,926
		<b>5,024,845</b>	<b>2,654,926</b>
Current portion		(2,090,170)	(1,073,404)
		<b>2,934,675</b>	<b>1,581,522</b>

	2004 Rupees	2003 Rupees
<b>13.1 Reconciliation of the carrying amount of loans to executives</b>		
Balance at beginning of the year	-	-
Disbursements during the year	<b>2,390,000</b>	-
Repayments during the year	<b>(150,000)</b>	-
Balance at end of the year	<b>2,240,000</b>	-
<b>13.2</b> The loans to employees including executives amounting to Rs 3.981 million (2003: Rs 1.069 million) are for house building and purchase of vehicles and are repayable in monthly installments over a period of 24 - 48 months. The remaining loans are mostly for use in marriages of employees and their dependents. The maximum amount outstanding at the end of any month in respect of loans to executives was Rs 2.240 million (2003: Rs 1.116 million).		
<b>14. Deferred taxation</b>		
This comprises temporary differences relating to:		
Employees' retirement and other benefits	<b>6,812,986</b>	7,470,499
Provision for doubtful debts	<b>6,893,585</b>	6,845,207
Accelerated tax depreciation allowances	<b>(3,892,985)</b>	(3,281,863)
Others	<b>301,414</b>	3,012,157
	<b>10,115,000</b>	14,046,000
<b>15. Stores, spares and loose tools</b>		
Stores	<b>10,328,389</b>	13,424,916
Spares	<b>7,579,943</b>	8,329,114
Loose tools	<b>5,175,799</b>	4,890,592
	<b>23,084,131</b>	26,644,622
<b>15.1</b> Included in stores, spares and loose tools are certain items having cost of Rs.4.462 million, which have been written down to net realizable value amounting to Nil.		
<b>16. Stock in trade</b>		
Raw materials including in transit Rs 30.529 million (2003: Rs 6.784 million)	<b>87,031,805</b>	67,507,776
Work in process	<b>50,585,119</b>	38,183,589
Finished goods	<b>27,092,653</b>	11,859,509
	<b>164,709,577</b>	117,550,874
<b>16.1</b> Included in stock in trade are certain items, having cost of Rs.27.207 million, which have been written down to net realizable value of Rs 5.397 million.		
<b>16.2</b> Included in work in progress are raw components valuing Rs 3.490 million (2003: Rs 1.066 million) held with various contractors for machining services.		

		2004 Rupees	2003 Rupees
<b>17. Trade debts</b>			
Considered good - unsecured			
- Due from related parties	- note 17.1	<b>12,745,145</b>	2,883,601
- Others		<b>149,942,565</b>	125,658,565
		<b>162,687,710</b>	128,542,166
Considered doubtful		<b>18,385,488</b>	19,557,733
		<b>181,073,198</b>	148,099,899
Less: Provision for doubtful debts	- note 17.2	<b>(18,385,488)</b>	(19,557,733)
		<b>162,687,710</b>	128,542,166
<b>17.1 Due from related parties</b>			
Millat Tractors Limited		<b>1,540,030</b>	-
KSB Aktiengesellschaft, Germany		<b>8,409,800</b>	2,712,276
KSB Ajax Pumps pty. Limited, Australia		<b>267,903</b>	-
KSB Ajax Pumps pty. Limited, New Zealand		-	59,487
KSB Amri (A.P) Pte Limited, Singapore		-	43,065
PT KSB Indonesia		<b>1,620,360</b>	-
National Refinery Limited		-	68,773
KSB Pumps Company Limited Thailand		<b>907,052</b>	-
		<b>12,745,145</b>	2,883,601



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

**17.2** Trade Debts written off against provision during the year amount to Rs 4.672 million.

	2004 Rupees	2003 Rupees
<b>18. Advances, deposits, prepayments and other receivables</b>		
Current portion of long term loans to employees - note 13	2,090,170	1,073,404
Short term advances to employees- considered good - note 18.1	4,927,942	3,378,991
Advances to suppliers and contractors		
- Considered good	3,887,599	1,891,610
- Considered doubtful	283,479	283,479
	<b>4,171,078</b>	2,175,089
Trade deposits and prepayments		
- Considered good	23,975,707	12,975,292
- Considered doubtful	1,310,469	-
	<b>25,286,176</b>	12,975,292
Letters of credit, deposits and opening charges	1,053,556	1,195,156
Sales tax receivable	12,243,223	-
Other receivables		
- Considered good	1,722,179	2,496,240
- Considered doubtful	210,965	210,965
	<b>1,933,144</b>	2,707,205
Due from related parties - note 18.2	4,137,078	7,879,314
	<b>55,842,367</b>	31,384,451
Less: Provision for doubtful amounts	(1,804,913)	(494,444)
	<b>54,037,454</b>	30,890,007
<b>18.1</b> Included in short term advances to employees is amount due from chief executive and executives of Nil (2003: Rs 0.002 million ) and Rs 0.211 million (2003: 0.081 million) respectively.		
<b>18.2 Due from related parties</b>		
KSB Aktiengesellschaft, Germany	3,568,307	7,305,336
KSB Services GmbH, Germany	57,032	241,172
KSB S.A. Cedex, France	511,739	11,728
KSB AMRI (AP) Pte Limited, Singapore	-	321,078
	<b>4,137,078</b>	7,879,314

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

	2004 Rupees	2003 Rupees
<b>19. Cash and bank balances</b>		
At banks		
- on deposit accounts	60,000,000	58,177
- on saving accounts	63,642,478	3,565,502
- on current accounts	1,370,751	26,081,683
	<u>125,013,229</u>	<u>29,705,362</u>
Cash in hand including cheques in hand of Rs 9.510 million (2003: Rs 22.853 million)	<u>10,351,785</u>	<u>23,448,587</u>
	<u>135,365,014</u>	<u>53,153,949</u>

**19.1** The balances in saving and deposit accounts bear mark-up which ranges from 2.5% to 6% per annum.



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**20. Sales**

Gross sales		
Local sales	851,056,814	738,242,346
Export Sales	72,876,693	57,805,938
	<u>923,933,507</u>	<u>796,048,284</u>
Less Sales Tax	(70,259,674)	(92,373,666)
	<u>853,673,833</u>	<u>703,674,618</u>

**20.1** Sales are inclusive of revenue from rendering of services of Rs 31.410 million (2003: Rs 55.763 million).

		2004 Rupees	2003 Rupees
<b>21.</b>	<b>Cost of goods sold</b>		
	Raw material consumed	- note 21.1 <b>394,515,069</b>	284,298,650
	Salaries, wages, amenities and staff welfare	- note 21.2 <b>83,742,627</b>	79,172,585
	Staff training	<b>461,765</b>	166,225
	Electricity and power	<b>23,028,281</b>	23,530,034
	Stores and spares consumed	- note 21.3 <b>49,513,881</b>	42,493,318
	Insurance	<b>1,539,356</b>	928,885
	Travelling and conveyance	<b>16,329,680</b>	14,715,253
	Postage and telephone	<b>3,654,812</b>	3,674,880
	Rent, rates and taxes	<b>1,041,859</b>	730,305
	Repairs and maintenance	<b>5,280,174</b>	3,247,473
	Packing and forwarding	<b>15,220,841</b>	12,109,086
	Outside services	<b>61,506,225</b>	54,746,832
	Depreciation	- note 9.3 <b>13,089,768</b>	10,603,903
	Royalty	<b>815,041</b>	109,200
	Other expenses	<b>12,550,582</b>	7,712,124
		<b>682,289,961</b>	538,238,753
	Less: Cost of capital assets produced	<b>(1,269,617)</b>	(1,539,842)
		<b>681,020,344</b>	536,698,911
	(Increase)/decrease in work in process	<b>(12,401,530)</b>	3,442,792
	Cost of goods manufactured	<b>668,618,814</b>	540,141,703
	(Increase)/decrease in finished goods	<b>(17,298,659)</b>	9,120,897
		<b>651,320,155</b>	549,262,600

**21.1** Included in cost of sales is raw material of Rs 19.743 million and finished goods of Rs 2.066 million written down to net realizable value.

**21.2** Included in salaries, wages, amenities and staff welfare is Rs 13.697 million (2003: Rs 16.999 million) in respect of employees retirement and other benefits inclusive of golden handshake scheme for employees.

**21.3** Included in stores and spares consumed is Rs 4.462 million in respect of write down of stores and spares to net realizable value.

		2004 Rupees	2003 Rupees
<b>22. Distribution and marketing expenses</b>			
Salaries, wages, amenities and staff welfare	- note 22.1	25,921,592	19,859,461
Travelling, conveyance and representations		13,900,441	10,094,486
Rent, rates and taxes		1,834,903	2,002,701
Publicity charges		3,360,865	3,260,460
Electricity, gas and water		2,204,557	1,753,993
Postage and telephone		3,836,879	3,589,223
Printing and stationery		1,803,210	1,367,430
Repairs and maintenance		924,553	2,000,299
Commission expenses		20,919,087	18,836,190
Bad debts written off		-	3,321,287
Provision for doubtful debts		3,500,000	2,678,713
Provision for doubtful receivables		1,310,469	210,965
Depreciation	- note 9.3	1,030,436	1,492,536
Other expenses		5,201,373	2,494,919
		<b>85,748,365</b>	<b>72,962,663</b>



**22.1** Included in salaries, wages, amenities and staff welfare is Rs 1.686 million (2003: Rs 2.191 million) in respect of employees retirement and other benefits.

### 23. Administration expenses

Salaries, wages, amenities and staff welfare	- note 23.1	35,438,481	27,793,972
Staff training		3,316,227	518,420
Travelling, conveyance and representations		8,473,034	5,741,207
Rent, rates and taxes		797,296	857,667
Electricity, gas and water		1,422,024	1,257,014
Postage and telephone		1,890,843	1,899,438
Printing and stationery		1,841,934	1,472,046
Repairs and maintenance		816,692	1,819,789
Professional services	- note 23.2	3,644,096	3,668,762
Depreciation	- note 9.3	1,390,578	1,978,477
Other expenses		1,699,159	1,948,072
		<b>60,730,364</b>	<b>48,954,864</b>

**23.1** Included in salaries, wages, amenities and staff welfare is Rs 2.366 million (2003: Rs 3.058 million) in respect of employees retirement and other benefits.

**2004**  
**Rupees**                      **2003**  
**Rupees**

**23.2 Professional services**

The charges for professional services include the following in respect of auditors' services:

Statutory audit	150,000	150,000
Review of half yearly accounts	75,000	75,000
Audit of funds, consolidation forms and sundry services	110,000	367,500
Taxation services	1,676,000	1,100,000
Out of pocket expenses	111,316	108,052
	<b>2,122,316</b>	<b>1,800,552</b>

**24. Other operating expenses**

Workers' profit participation fund	4,350,000	2,015,000
Workers' welfare fund	1,410,000	670,000
Donations <span style="float: right;">- note 24.1</span>	200,790	75,000
	<b>5,960,790</b>	<b>2,760,000</b>

**24.1 Donations**

None of the directors or their spouses had any interest in the donations charged in the financial statements.

**25. Other operating income**

Recovery of trade debts previously written off	127,437	184,956
Commission	14,742,145	6,644,024
Rental income	3,412,836	3,592,200
Sale of scrap	3,066,924	3,262,590
Profit on bank accounts	1,230,805	91,969
Sundry	3,563,693	2,381,821
Profit on sale of property acquired in satisfaction of claim	-	372,931
Profit on sale of property, plant and equipment	819,494	1,703,664
Provisions no longer considered necessary written back and unclaimed balances	7,825,311	-
	<b>34,788,645</b>	<b>18,234,155</b>

**26. Finance cost**

Interest on workers' profit participation fund	119,000	49,000
Mark up on finance lease	136,050	537,007
Mark up on short term running finances - secured	1,817,855	5,120,147
Bank and other charges	1,955,556	4,697,009
	<b>4,028,461</b>	<b>10,403,163</b>



	2004 Rupees	2003 Rupees
<b>27. Provision for taxation</b>		
Current year		
- Current	24,700,000	12,790,000
- Deferred	3,931,000	1,201,600
	<b>28,631,000</b>	13,991,600
Prior year		
- Current	-	(445,440)
- Deferred	-	1,177,400
	-	731,960
	<b>28,631,000</b>	14,723,560
	<b>2004</b>	2003
	%	%

#### 27.1 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	2.77	6.92
Tax effect under presumptive tax regime and others	(2.28)	(4.68)
Prior year effect	-	1.95
Average effective tax rate charged to profit and loss account	<b>35.49</b>	39.19

	2004 Rupees	2003 Rupees
<b>28. Cash generated from operations</b>		
Profit before taxation	80,674,343	37,565,483
Adjustment for non cash charges and other items:		
Depreciation	15,510,782	14,074,916
Profit on sale of property, plant and equipment	(819,494)	(1,703,664)
Profit on sales of property acquired in satisfaction of claim	-	(372,931)
Employees' benefits	3,339,750	7,061,407
Provision for doubtful debts	3,500,000	2,678,713
Bad debts written off	-	3,321,287
Provision for other receivables	1,310,469	210,965
Stores and spares written off	4,461,998	1,813,179
Stock-in-trade written off	21,809,392	4,608,088
Provisions no longer considered necessary written back and unclaimed balances	(7,825,311)	-
Finance cost	4,028,461	10,403,163
Working capital changes - note 28.1	(63,432,903)	58,708,662
	<b>62,557,487</b>	138,369,268

	2004 Rupees	2003 Rupees
<b>28.1 Working capital changes</b>		
(Increase)/decrease in current assets:		
Stores and spares	(901,507)	(2,227,225)
Stock in trade	(68,968,095)	22,165,936
Trade debts	(37,645,544)	(3,750,564)
Advances, deposits, prepayments and other receivables	(24,457,916)	(4,548,044)
	<b>(131,973,062)</b>	11,640,103
Increase in current liabilities:		
Trade and other payables	68,540,159	47,068,559
	<b>(63,432,903)</b>	58,708,662
<b>29. Cash and cash equivalents</b>		
Cash and cash equivalents comprise the following items		
Cash and bank balances	- note 19 135,365,014	53,153,949
Short term finances	- note 7 (69,163,577)	(39,846,285)
	<b>66,201,437</b>	13,307,664



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### 30. Remuneration of directors and executives

#### 30.1 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	
	2004 Rupees	2003 Rupees	2004 Rupees	2003 Rupees
<b>Number of persons</b>	<b>1</b>	<b>1</b>	<b>6</b>	<b>5</b>
Remuneration	2,477,400	2,251,560	6,000,975	4,517,172
Bonus	750,000	660,000	1,293,605	139,786
Retirement benefits	454,190	412,786	988,820	785,002
House rent allowance	1,114,860	1,013,196	2,415,583	1,926,828
Utilities	247,740	225,156	536,791	428,196
Leave fare assistance	-	273,112	192,000	192,000
Medical and other expenses	48,169	37,715	160,000	90,000
	<b>5,092,359</b>	4,873,525	<b>11,587,774</b>	8,078,984

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.

#### 30.2 Directors fee

Aggregate amount charged in the accounts for the year for fees to 8 directors (2003: 6) was Rs 9,000 (2003: Rs 7,500).

### 31. Related 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 30.

	2004 Rupees	2003 Rupees
<b>Holding company</b>		
Sales	16,969,334	19,703,319
Purchases	31,894,254	13,076,718
Commission income	13,680,662	3,658,220
Royalty	815,041	109,200
<b>Associated undertakings</b>		
Sales	33,925,592	9,847,943
Purchases	27,003,707	8,771,597
Services received	345,435	672,820
Commission income	555,629	800,173
Commission expense	4,280,825	3,607,881

All transactions with related parties are carried out at commercial terms and conditions.

	<u>Actual capacity</u> Nos.	<u>Actual production</u>	
		2004 Nos.	2003 Nos.
<b>32. Plant capacity and production</b>			
Power driven pumps	5,000	4,276	2,995
Actual production reflects change in product mix and market demand.			
<b>33. Number of employees</b>			
Number of employees at year end		330	331
<b>34. Earnings per share</b>			
<b>34.1 Basic earnings per share</b>			
Profit for the year	Rupees	52,043,343	22,841,923
Average number of shares outstanding during the year	Nos.	12,000,000	12,000,000
Earnings per share	Rupees	4.34	1.90
<b>34.2 Diluted earnings per share</b>			

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

## 35. Financial instruments

### 35.1 Financial assets and liabilities

	Interest/mark-up bearing			Non interest/mark-up bearing			Total		Credit risk	
	Maturity upto one year	Maturity one to five years	Sub total	Maturity upto one year	Maturity one to five years	Sub total	2004	2003	2004	2003
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
<b>Financial assets</b>										
<b>On balance sheet</b>										
Loans to employees	-	-	-	2,090,170	2,934,675	5,024,845	5,024,845	2,654,926	5,024,845	2,654,926
Security deposits	-	-	-	-	842,520	842,520	842,520	552,520	842,520	552,520
Trade debts	-	-	-	162,687,710	-	162,687,710	162,687,710	128,542,166	162,687,710	128,542,166
Advances, deposits, prepayments and other receivables	-	-	-	26,093,780	-	26,093,780	26,093,780	18,192,631	26,093,780	18,192,631
Cash and Bank balances	123,642,478	-	123,642,478	11,722,536	-	11,722,536	135,365,014	53,153,949	134,523,229	52,557,980
	123,642,478	-	123,642,478	202,594,196	3,777,195	206,371,391	330,013,869	203,096,192	329,172,084	202,500,223
<b>Off balance sheet</b>	-	-	-	-	-	-	-	-	-	-
	123,642,478	-	123,642,478	202,594,196	3,777,195	206,371,391	330,013,869	203,096,192	329,172,084	202,500,223
<b>Financial liabilities</b>										
<b>On balance sheet</b>										
Short term finances	69,163,577	-	69,163,577	-	-	-	69,163,577	39,846,285		
Liabilities against assets subject to finance lease	1,483,403	2,261,088	3,744,491	-	-	-	3,744,491	2,431,939		
Interest and mark up accrued	658,978	-	658,978	-	-	-	658,978	1,063,460		
Trade and other payables	350,271	-	350,271	168,032,761	-	168,032,761	168,383,032	121,910,264		
	71,656,229	2,261,088	73,917,317	168,032,761	-	168,032,761	241,950,078	165,251,948		
<b>Off balance sheet</b>										
Contingencies and commitments	-	-	-	-	-	-	-	360,500		
Letters of credit	-	-	-	41,203,000	-	41,203,000	41,203,000	42,986,000		
Guarantees	-	-	-	119,156,000	-	119,156,000	119,156,000	130,265,000		
	-	-	-	160,359,000	-	160,359,000	160,359,000	173,611,500		
	71,656,229	2,261,088	73,917,317	328,391,761	-	328,391,761	402,309,078	338,863,448		
<b>On balance sheet gap</b>	51,986,249	(2,261,088)	49,725,161	34,561,435	3,777,195	38,338,630	88,063,791	37,844,244		
<b>Off balance sheet gap</b>	-	-	-	(160,359,000)	-	(160,359,000)	(160,359,000)	(173,611,500)		

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

The company has no financial asset or liability having maturity after five years.

### **35.2 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 35 and cash flow risk associated with accrued interests in respect of borrowings as referred to in note 7.

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.

### **35.3 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 330.014 million (2003: Rs. 203.096 million), the financial assets which are subject to credit risk amounted to Rs 329.172 million (2003: Rs 202.500 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.



### **35.4 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.

### **35.5 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.

### **35.6 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.

### 35.7 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.

### 36. Date of approval of accounts

These financial statements were authorised for issue on March 21, 2005 by the Board of Directors of the Company.

### 37. Corresponding figures

Consequent to substitution of Fourth Schedule to the Companies Ordinance, 1984, as referred to in note 2.1.2, and for more appropriate presentation of financial statements, previous year's figures have been re-arranged and re-classified wherever necessary for purposes of comparison. Major changes made during the year were as follows:

- Long Term Deposits amounting to Rs 0.552 million, previously included in Long Term Advances have been classified separately .
- Sales, previously presented net of sales tax, have been presented as Gross sales amounting to Rs 796.048 less Sales Tax amounting to Rs 92.374 million.
- Distribution and marketing expenses amounting to Rs 72.963 million, previously included in Administration expenses, have been classified separately.
- Consequent to change in definition of executive in substituted Fourth Schedule to the Ordinance, corresponding figures of remuneration of directors and executives as referred to in note 30 have been restated.
- Investment property amounting to Rs 3.174 million, previously included in property, plant and equipment has been classified separately .
- Interest and mark up accrued amounting to Rs 1.063 million, previously included in trade and other payables has been classified separately .



**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 28, 2005 and at any adjournment thereof.

Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2005.



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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.