KSB PUMPS COMPANY LIMITED

we make your world flow round !

Annual Report 2006

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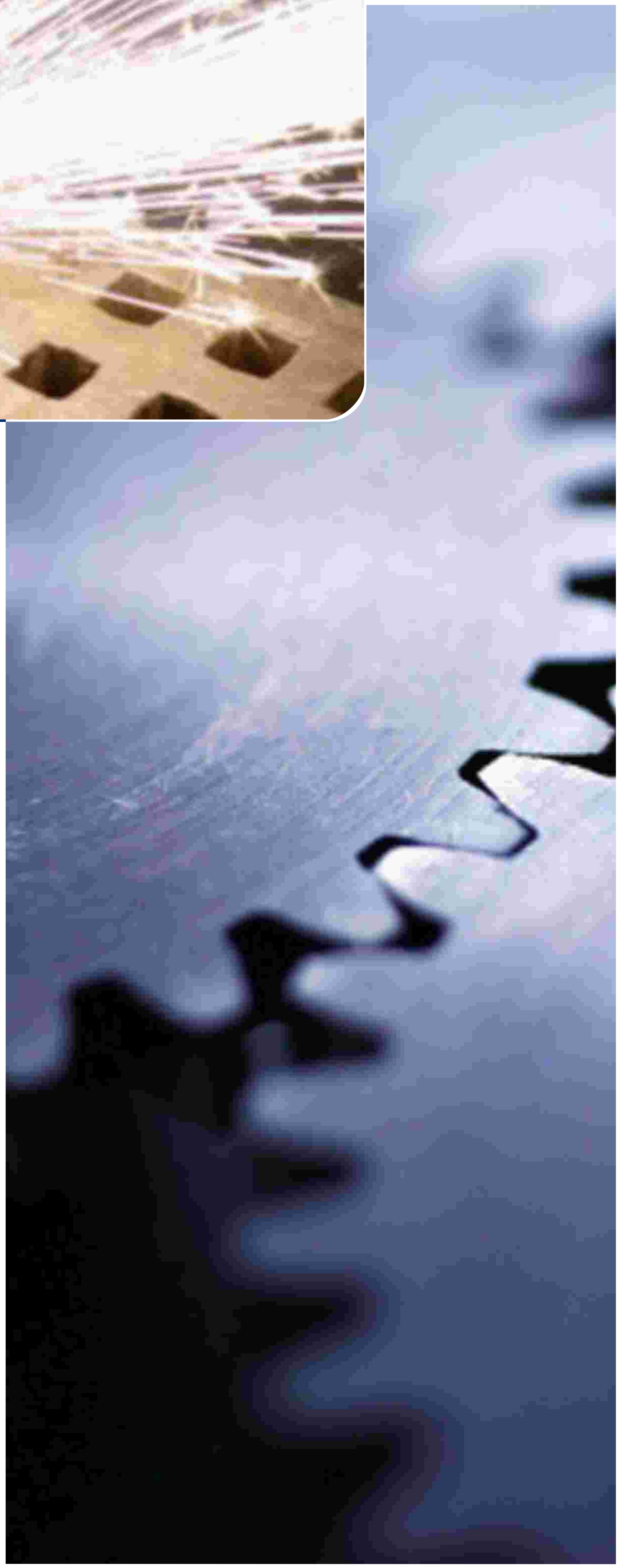

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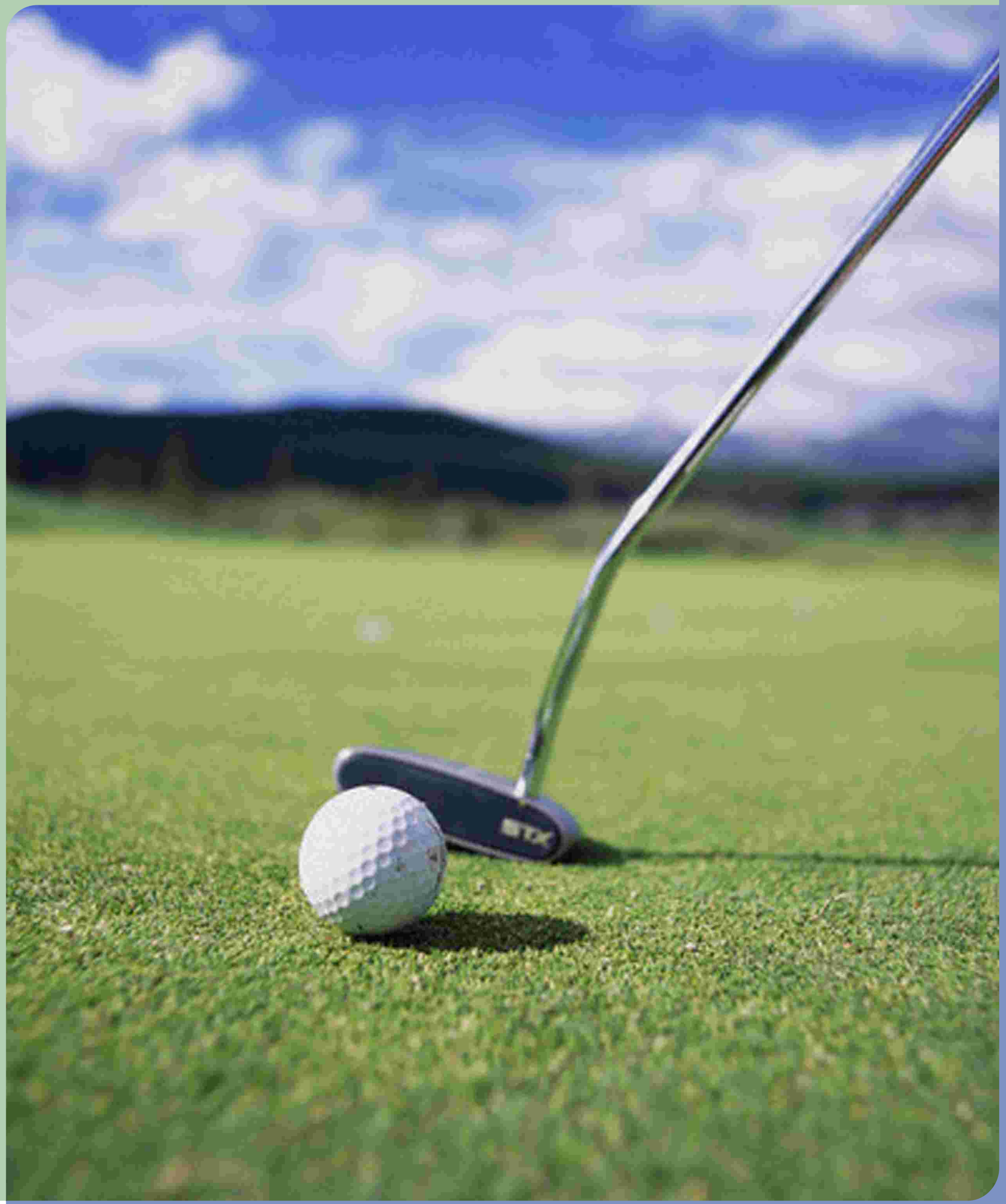

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Mission Statement

We manufacture and market a selected range of standard and engineered pumps and castings of world class quality. Our efforts are directed to have delighted customers in the water, sewage, oil, energy, industry and building services sectors.

In line with the Group strategy, we are committed to develop into a centre of excellence in water application pumps and be a strong regional player. We want to market valves, complete system solutions and foundry products including patterns for captive, automotive and other industries. We will develop a world class human resource with highly motivated and empowered employees.

The measure of our success is being a clear market leader, achieving quantum growth and providing attractive returns to stakeholders.

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Values

- We believe in self-esteem of our customers, suppliers and employees.
- We work as a team where every member owns the process with an entrepreneurial spirit.
- We work with professional honesty and integrity.
- We trust our employees and appreciate their contributions.
- We strive for continuous improvement to achieve excellence in all spheres of our activities.
- We are an equal opportunity employer and follow merit in human resources development.
- We fulfil moral obligation towards society and environment.

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Quality Assurance at the point of manufacture

Quality Principles

- Maximum satisfaction of our customers governs our actions.

  Our Customer sets the standard for the quality of our products and service. We meet our customer's range of requirements on schedule.

- Every employee is conscious of his responsibilities and contributes with his work towards realizing our customer's requirements.

  The internal customer / supplier relationship is predominant; the next person in the internal workflow is our customer; he obtains faultless work results.

- The promotion of quality conscience is an important task of the management.

  Continuous training and the availability of comprehensive information ensure that all employees are highly qualified. Management staff are models of realizing the quality concept.

- Prevention of errors precedes correction of errors. Correction of errors is not enough.

  Most important is to find the possible causes of errors and to eliminate them in a preventive and durable manner.

- The improvement of quality is an indispensable obligation.

  The initiative of each individual as regards continuous improvement of work flows, manner of working and job environment, is an important contribution towards personal success and satisfaction, and ensures our leading position in the market.

- Our suppliers are obliged to meet our quality requirements.

  In a fair and open partnership, we support our suppliers in pursuing common quality targets.

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Environment, Health & Safety Policy

KSB's vision allows for no compromises in our commitment to safety, health and responsible care for the environment.

Every Manager has the responsibility to maintain a safe working environment in which risks arising from the manufacture, storage, distribution and use of the Company's products are identified and controlled. The health and safety of our employees, of those who from time to time work with the Company, of our customers and of the general public are of fundamental importance to us and are necessarily safeguarded.

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KSB Pakistan
Introduction

KSB Pakistan is an affiliate Company of the world famous German KSB Group, which was founded in 1871. The KSB Group is among the leading companies in the field of pumps and valves with subsidiaries and affiliated companies all over the world. The KSB name stands for the highest standards of product and service quality.

KSB Pakistan was established in July 1959 in Lahore. The production facilities at Hassanabdal were completed in 1964 and a full-fledged foundry was commissioned in the same premises in 1980. Now the Company employs over 330 people and has Sales & Service Offices at Lahore, Karachi, Quetta, Rawalpindi, Hassanabdal, Peshawar and Multan. The Company is ISO 9001 certified by M/s. SGS Pakistan (Pvt.) Ltd. The Company also operates through a dealership network throughout the country. The Company operates a full-fledged Service Department comprising of qualified and experienced personnel capable of undertaking turnkey installation jobs and O&M Contracts.

KSB Pakistan became a public limited Company in 1979 providing a broader base for local participation. The Company's shares are traded on both the Karachi and Lahore Stock Exchanges. The Company received the Merit Trophy for exports of the Federation of Pakistan Chambers of Commerce and Industry and top Company award for exemplary payment to the shareholders by Karachi Stock Exchange. Another award for corporate excellence and Good Management Practice was bestowed on the Company by the Management Association of Pakistan.

During the last four decades, the Company has rapidly expanded its production range to include a large variety of pumps to serve various sectors of the economy. The new pumps for local production have been selected to particularly meet the requirements of sugar, paper and other process and chemical industries apart from meeting the requirements of drinking water supply, sewage disposal and surface drainage schemes. The latest additions have been pumps of large capacity which are specifically meant for irrigation and drainage applications. Pumps are produced in various metallurgical executions including cast iron, Ni-resist cast iron, bronze and stainless steel. The range of submersible pump sets use KSB submersible motors ranging from 3 HP to over 100 HP.

KSB Pakistan has been the major supplier to the vitally important salinity control and reclamation projects (SCARPS) installed by WAPDA. In the agricultural sector, KSB's name is synonymous with productivity and reliability. The latest technology and know how has been made available to KSB Pakistan's customers.

KSB pumps are produced strictly in accordance with the design and specifications of KSB AG, Germany in order to maintain standards of the highest quality. Comprehensive inspection and test bed facilities are available at Works, Hassanabdal to ensure compliance with these quality standards. The production facilities are also being regularly modernised and extended to cope with the challenges of new product technology. The foundry is capable of producing sophisticated automotive components apart from pump and valves castings and is a leading supplier of tractor components castings in the country.

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Sales Offices

KSB represented at the 2nd Auto & Auto Parts Exhibition along with the chief Guest Mr. Majid Aziz, Chairman Karachi Stock Exchange

Lahore
Gardee Trust Building,
Napier Road, Lahore.
Ph : 042-111 572 786
Fax : 042-7236922
E-mail : farrukh@ksbpak.com

Rawalpindi
309, A3-Peshawar Road, Westridge 1,
Opp. Valley Clinic, Rawalpindi.
Ph : 051-111 572 786
Fax : 051-5472612
E-mail : ksbrwp@ksbpak.com

Karachi
501, 5th Floor, Faiyaz Centre,
3-A, Sindhi Muslim Co-operative Housing Society
Opposite FTC Building,
Shahrah-e-Faisal, Karachi.
Ph : 021-111 572 786
Fax: 021-4388302
E-mail : akif.zia@ksbpak.com

Multan
85-A, Qasim Road,
Opp. Metro Plaza,
Multan Cantt.
Ph : 061-111 572 786
Fax : 061-4541784
E-mail : ksbmul@ksbpak.com

Quetta
House No. 9-14/142-E,
Barganza Villa,
3-Zarghoon Road, Quetta.
Ph : 081-111 572 786
Fax : 081-2843220
E-mail : ksbqta@ksbpak.com

Peshawar
Office No. 7, 3rd Floor
The Mall Towers,
35-The Mall,
Peshawar.
Ph : 091-111 572 786
Fax : 091-5278919
E-mail : ksbpsh@ksbpak.com

Company Information

The Largest mega water supply project in Asia namely K-III Project Karachi being inaugurated by the President General Pervez Mushraf. KSB participates as an EPC contractor.

Board of Directors

Dr. Augus Lee	Chairman
Mohammad Masud Akhtar	Managing Director
R. D. Ahmad	
Sikandar M. Khan	
Aezaz Hussain	
Asif Jameel	
Tonjes Cerovsky	
Hasan Aziz Bilgrami	(Nominee NIT)

Company Secretary
Sajid Mahmood Awan

Management

Mohammad Masur Akhtar	Chief Executive
Sajid Mahmood Awan	Finance & Administration
Pervez Iqbal Mughal	HR & Quality
Ghazanfarullah Khan	Production
Nadeem Hamid Butt	Sales & Marketing

Auditors
A.F. Ferguson & Co.
Chartered Accountants

Bankers
ABN. Amro Bank N.V.
Deutsche Bank AG
Metropolitan Bank Limited
MCB Bank Limited
NIB Bank Limited

Legal Advisors
Orr Dignam & Co.
Mandviwala & Zafar

Audit Committee

Hasan Aziz Bilgrami	Chairman
R. D. Ahmad	Member
Aezaz Hussain	Member

Registered Office
16/2 Sir Aga Khan Road Lahore-54000.
Ph : 042-6304173, 6370969
Fax : 042-6368878, 6366192
Email:info@ksbpak.com

Works
Hazara Road, Hassanabdal.
Ph : 0572-520236
Fax : 0572-520237
Email : info@ksbpak.com

Notice of Annual General Meeting

Notice is hereby given that the 50th Annual General Meeting of the members of KSB Pumps Company Limited, will be held on Thursday, the 26th April, 2007, at 4.00 p.m. at Hotel Holiday Inn, Egerton Road, Lahore, to transact the following business:

1. To confirm the minutes of the last annual general meeting held on April 18, 2006.

2. To consider and adopt the audited accounts of the Company for the year ended December 31, 2006 and report of Auditors and Directors thereon.

3. To approve and declare dividend of 40% for the financial year ended December 31, 2006 as recommended by the Directors.

4. To appoint auditors and fix their remuneration. M/s. A.F. Ferguson & Co., Chartered Accountants, the retiring auditors offer themselves for re-appointment as auditors of the Company.

BY ORDER OF THE BOARD

SAJID MAHMOOD AWAN
Company Secretary

April 03, 2007
Lahore

KSB co-sponsored the 1st International Foundry Congress & Exhibition held in Lahore. Federal Minister for Industries, Production & Special Initiatives expressing his views.

NOTES:

1. A member entitled to attend and vote at this meeting is entitled to appoint another member as proxy. Proxies in order to be effective must be received at the Registered Office of the Company not later than 48 hours before the time appointed for the meeting. If a member appoints more than one proxy and more than one instruments of proxy are deposited by a member with the Company, all such instruments of proxy shall be rendered invalid. Every proxy shall have the right to attend, speak and vote in place of the member appointing him/her at the meeting.

2. The Share Transfer Books of the Company will remain closed from 18th April 2007 to 26th April 2007 (both days inclusive). Transfers received in order at the Registered Office of the Company by the close of business on 17th April 2007 will be in time to be passed for payment of dividend to the transferees.

3. The CDC account/sub account holders and/or the persons whose securities are in group account and their registration details are up-loaded as per the regulations, shall for identification purpose have to produce their original Computerized National Identity Card (CNIC) or original passport at the time of attending the meeting.

   In case of corporate entity, the Board of Directors' resolution / power of attorney with specimen signature of the nominee shall be produced at the time of the meeting.

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Directors' Report to the Shareholders

Mohammad Masud Akhtar
Chief Executive

The Board of Directors of KSB Pumps Company Limited is pleased to present their Annual Report along with the Audited Financial Statements for the year ended December 31, 2006.

THE ECONOMY

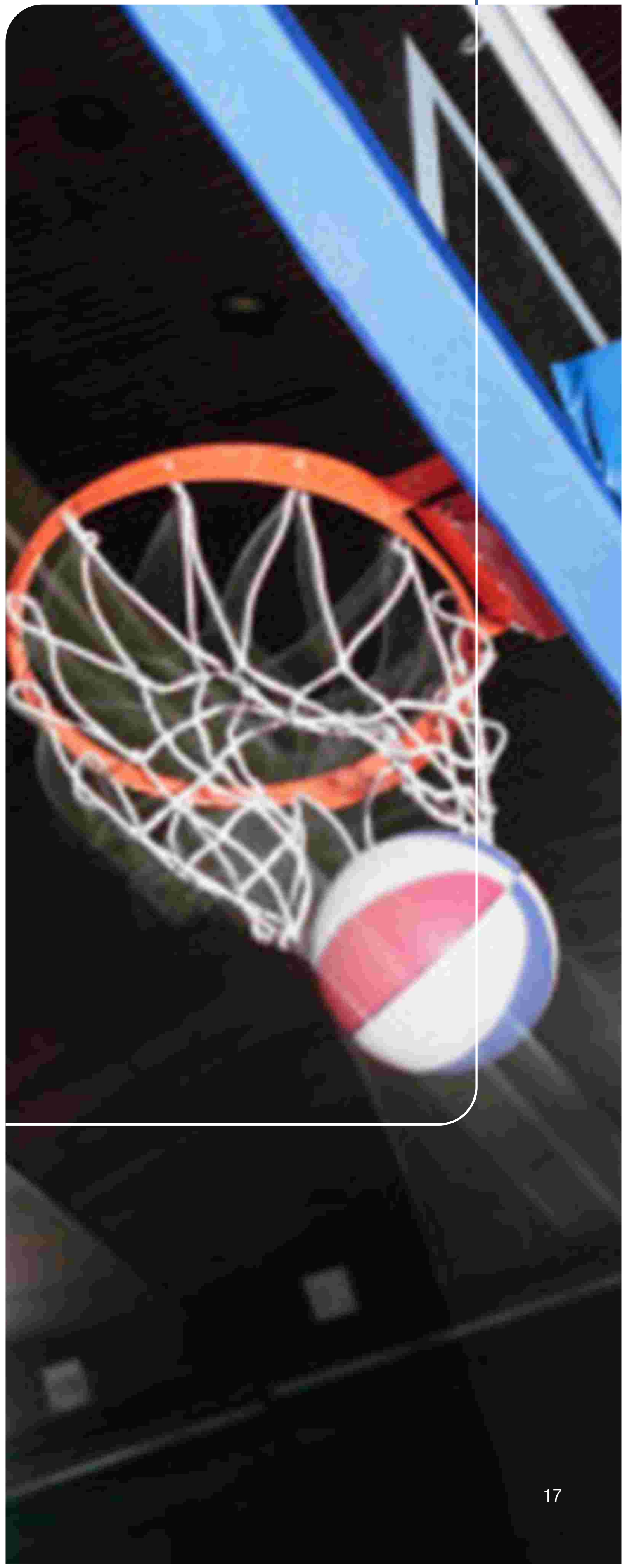
During the financial year 2005-06, Pakistan's economy continued its remarkable performance, which was reflected through the GDP growth rate of 6.6%. The economy has so far successfully managed to withstand the setback caused by ever rising energy prices and devastating earthquake that struck the northern areas of the country in October 2005. The country is facing challenges in the shape of higher inflation rate.

Investment is a key determinant of growth. During the fiscal year 2005-06, domestic fixed investment in real term grew by 10.3% as against 9.3% of last year. Foreign Direct Investment has become an important source of private external finance for developing countries. Foreign Direct Investment in 2005-06 reached $3.5 billion - the highest ever in the country's history, as against $1.5 billion in the same period last year, thus registering an increase of 131%.

FINANCIAL RESULTS

The year 2006 yet again proved to be the best in your Company's history where record sale of Rs. 1.40 billion (2005 : Rs.1.25 billion) has been achieved, which is 12% higher than last year. Profit for the year after tax as a result improved from Rs. 89.9 million to Rs. 126.4 million, tremendous increase of 41%. Order intake for the year under review increased by 34% as compared to last year. Earnings per share has been increased to Rs. 10.53 in 2006 as compared to Rs. 7.49 in the previous year.

Your Company achieved these milestones at the time when raw material and manufacturing costs were showing substantial increase and yet was able to reduce cost by 3% of sale. You will be pleased that cash equivalent at the end of year 2006 was Rs. 136 million as compared to Rs. 120 million in 2005. Better control and working capital management resulted in reduction of finance cost significantly from Rs. 11 million in 2005 to Rs. 6.0 million in the year 2006 i.e. a decrease of 45%.



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Dr. Augus Lee, Chairman & Mr. Mohammad Masud Akhtar Chief Executive

The comparative financial results for the year 2006 as against 2005 are as follows:

	2006	2005
	RUPEES IN '000	
Sales	1,401,145	1,252,166
Gross Profit	425,025	338,096
Operating Profit	196,633	155,696
Profit Before Tax	190,843	145,024
Profit After Tax	126,393	89,909
Earnings per Share (Rupees)	10.53	7.49

FUTURE OUTLOOK

Our consistent outstanding performance is based on excellence of our products and strong brand image. Strategic Marketing & Product Portfolio Department is focusing on development of new products and monitoring life cycle of existing products. Product portfolio review and up-gradation remains as one of the priorities of Company to meet the upcoming market challenges.

Your Company is registering a sustainable growth in the project business. We are providing complete solutions to customers in water, industry and waste water segments. The Company is offering turnkey solutions to customers, which bring an edge over its competitors. Company has also won desalination projects, which is a unique achievement and it will reinforce our position in this upcoming segment.

Your Company has embarked on getting certificate of Quality, Safety, Health and Environment (QSHE) Standards and expects to achieve certification in 2007, which will be unique accomplishment for foundry based engineering industry.

Concurrently, Company is also planning to upgrade its manufacturing facilities and adopt state of the art lean production practices. Substantial investments are planned towards up-gradation of Foundry processes which will reduce the costs and improve the productivity. Likewise investment in Computerized Numeric Control (CNC) machines is planned for the current year.

Management is considering switching over to a fully integrated and comprehensive Enterprise Resource Planning (ERP) system in the coming year. Company is in the process of evaluating the different options with co-ordination of KSB-Group. We are confident that this change will improve the efficiency.

Pump shaft grinding in operation

HUMAN RESOURCE

We realize that employees are most valuable assets, therefore, we ensure that all our employees enjoy the most accommodating policies. Human Resource Manual was implemented during the year under review. Continuous and consistent information is vital for engaging employees. Management staff meetings and weekly news bulletin named "KSB E-News" have improved open communication across the business.

Your Company has acquired the services of Hewitt Associates for creating job description for all key roles and creating a Job Evaluation framework for grading all identified roles. Moreover, compensation and benefits for all key roles will be benchmarked with other indicator comparator organizations. This evaluation process will enable employees to reach their highest potential, and at the same time motivate them to achieve the performance levels and results required for a high performing organization.

The office block at Hassanabdal is being renovated to provide an excellent work environment and to cultivate more effective working relationship among the employees at all levels.

APPROPRIATION

RESULT FOR THE YEAR	Rupees '000'
Profit for the year before providing for taxation	190,843
Provision for taxation	64,450
Profit after taxation	**126,393**
Un-appropriated profit brought forward	71
Available for appropriation	**126,464**
Appropriated as under	
- Transfer to general reserve	78,000
- Proposed dividend @ Rs. 4 per share (40%)	48,000
	126,000
Un appropriated profit vcarried forward	**464**

AUDITORS

The present auditors, A.F. Ferguson & Co., Chartered Accountants, retire and offer themselves for

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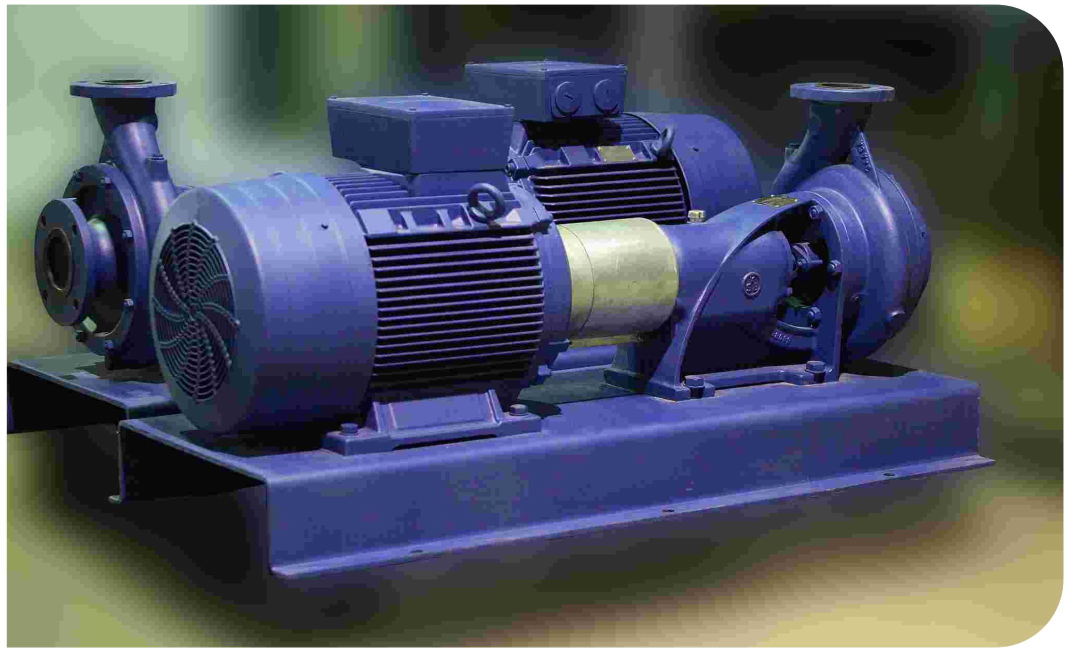

Pumps for HVACR and industrial applications

reappointment. As suggested by the Audit Committee the Board of Directors has recommended their reappointment as auditors of the Company for the year ending December 31, 2007 at a fee to be mutually agreed.

STATEMENT OF ETHICS AND BUSINESS PRACTICES

The Board has already adopted the Statement of Ethics and Business Practices. All employees are informed of this statement and are required to observe these rules of conduct in relation to business and regulations.

MATERIAL CHANGES

There have been no material changes since December 31, 2006 and the company has not entered into any commitment, which would affect its financial position at the date.

HOLDING COMPANY

The Company's holding company is KSB Aktiengesellschaft, Germany.

BOARD OF DIRECTORS

Since the last Annual Report two casual vacancies occurred on the Board, due to resignation of Mr. Arif Ijaz and Mr. Syed Zamanat Abbas, were filled by the appointment of Mr. Mohammad Masud Akhtar and Mr. Tonjes Cerovsky.

The Board wishes to place on record their sincere appreciation for the valuable services rendered by the outgoing Directors.

BOARD OF DIRECTORS MEETING

During the year four Board Meetings were held and the number of Meetings attended by each Director is given hereunder:

Board of Directors Meeting - from left to right Dr. Augus Lee, Mr. Masud Akhtar, Mr. Sajid Awan (Company Secretary), Mr. Sikandar M. Khan and Mr. Asif Jameel.

S.No.	Name of Director	No. of Meetings Attended	
1.	Dr. Augus Lee	4	
2.	Mr. M. Masud Akhtar	2	Appointed - August, 2006
3.	Mr. Tonjes Cerovsky	3	Appointed - April, 2006
4.	Mr. R. D. Ahmad	4	
5.	Mr. Asif Jameel	3	
6.	Mr. Hasan Aziz Bilgrami	2	
7.	Mr. Aezaz Hussain	4	
8.	Mr. Sikandar M. Khan	2	
9.	Mr. Arif Ijaz	2	Resigned - April, 2006
10.	Mr. S. Zamanat Abbas	1	Resigned - March, 2006

Leave of absence was granted to Directors who could not attend the Board Meetings.

AUDIT COMMITTEE

An Audit Committee of the Board has been in existence since the enforcement of the Code of Corporate Governance comprising of the following members:

1.	Mr. Hasan Aziz Bilgrami	-	Chairman	Non Executive Director.
2.	Mr. R. D. Ahmad	-	Member	Non Executive Director.
3.	Mr. Aezaz Hussain	-	Member	Non-Executive Director.

During the year four meetings of the Committee were held. The Committee has its terms of reference which were determined by the Board of Directors in accordance with the guidelines provided in the listing regulations.

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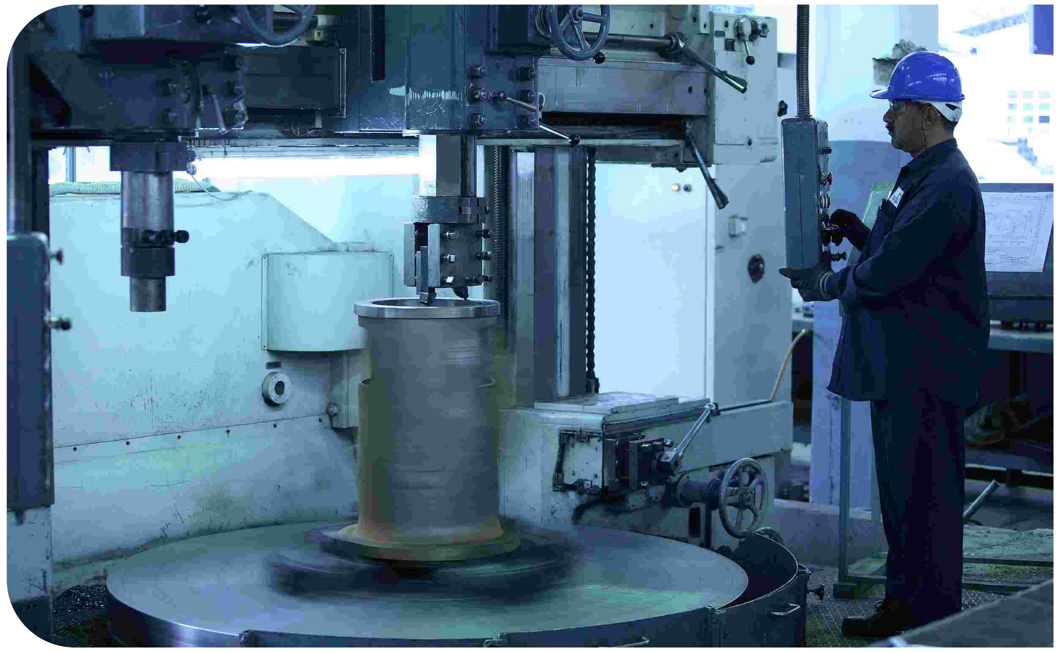
Board of Directors Meeting - from right to left Mr. R.D. Ahmad, Mr. Aezaz Hussain, Mr. Hassan Aziz Bilgrami and Mr. Tonjes Cerovsky

CORPORATE AND FINANCE REPORTING FRAME WORK

- The financial statements together with the notes thereon have been drawn up by the Management in conformity with the Companies Ordinance, 1984. These statements present fairly the Company's state of affairs, the results of its operations, cash flow and changes in equity.
- Proper books of accounts of the Company have been maintained.
- Appropriate accounting policies have been consistently applied in the preparation of financial statements and accounting estimates are based on reasonable and prudent judgement.
- The International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the Company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the Listing Regulations.
- There has been no departure from the best practices of transfer pricing.
- The key operating and financial data for the last six years is annexed.



Machining of Discharge head in progress on new vertical turret lathe.

- The value of investments including accrued interest based on respective audited accounts of funds are as follows:

  1. Provident Fund
     31.12.2005 Rs. 75.706 mio.
  2. Gratuity Fund
     31.12.2005 Rs. 40.067 mio.

- No trading of shares by CEO, Directors, Company Secretary, CFO, their spouses and minor children has been carried out.

PATTERN OF SHAREHOLDING

The statement of pattern of the shareholding of the Company as at December 31, 2006 is annexed with the report.

On behalf of the Board

Mohammad Masud Akhtar
Chief Executive

March 14, 2007
Lahore

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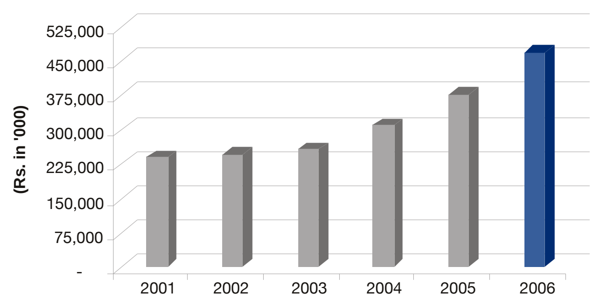
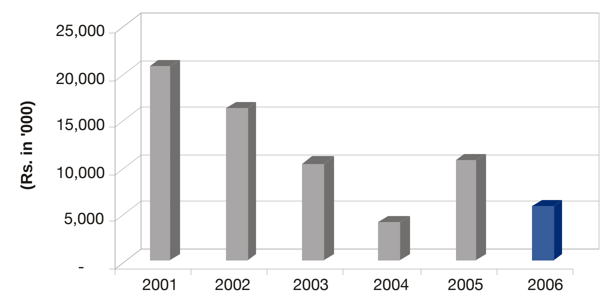
Highlights

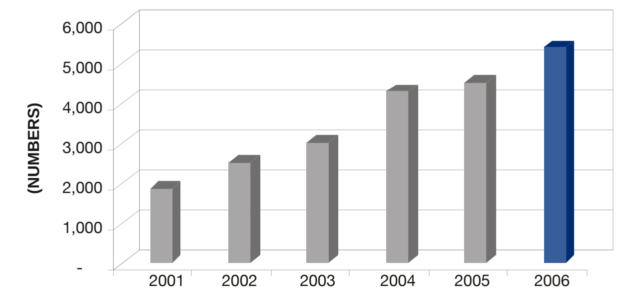
SHAREHOLDERS EQUITY



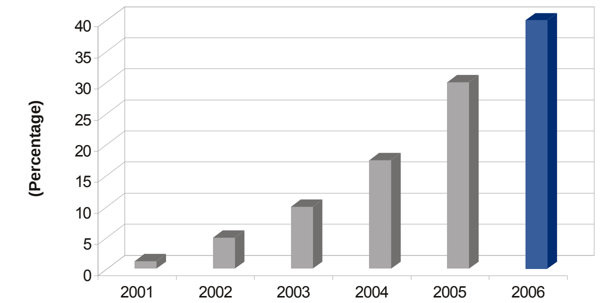
FINANCE COST



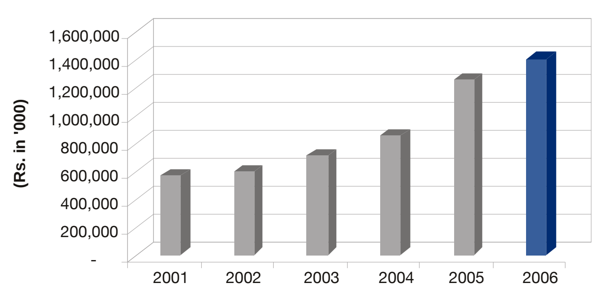
NO. OF PUMPS PRODUCED



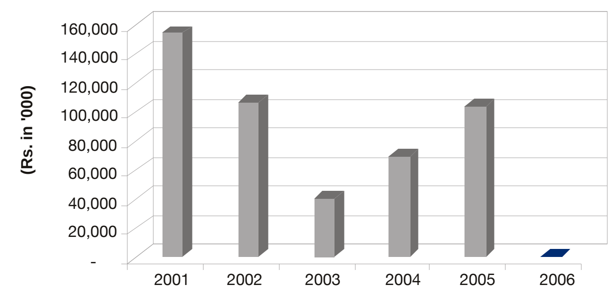
CASH DIVIDEND



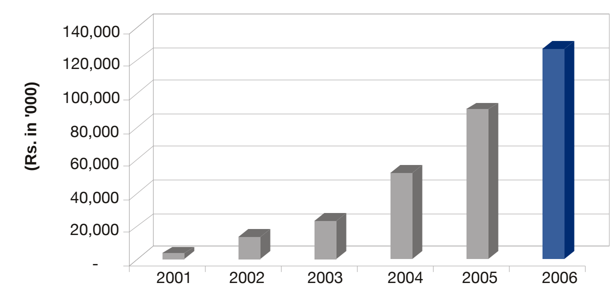
SALES



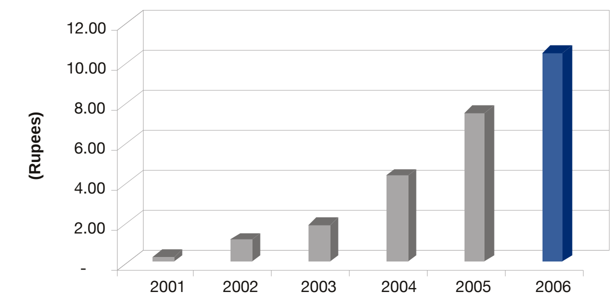
SHORT TERM FINANCES - SECURED



NET PROFIT



EARNINGS PER SHARE



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Key Financial Data

(Rs in '000)

Description	2006	2005	2004	2003	2002	2001
Paid up Capital	120,000	120,000	120,000	120,000	120,000	120,000
Reserves	347,464	257,071	188,162	136,119	125,277	117,715
Net Worth / Sharesholders Equity	467,464	377,071	308,162	256,119	245,277	237,715
Long Term Liabilities	15,072	18,183	19,162	24,797	19,793	29,695
Short term running finances/ Bank borrowings	47	103,218	69,164	39,846	106,368	153,694
Creditors, accrued & other Liabilities	347,361	347,242	272,937	225,544	172,725	150,780
Total Liabilities & Equity	829,944	845,714	669,425	546,306	544,163	571,884
Fixed Assets	92,630	78,495	67,779	61,454	65,359	64,590
Long Term Loans and Deposits	2,798	4,136	3,777	2,134	1,862	1,709
Deferred Taxation	-	6,000	10,115	14,046	16,425	17,190
Current Assets	734,516	757,083	587,754	468,672	460,517	488,395
Total assets	829,944	845,714	669,425	546,306	544,163	571,884
Sales	1,401,145	1,252,166	853,674	703,675	589,559	562,010
Gross Profit	425,025	338,096	212,164	154,412	140,062	119,465
Operating Profit	196,633	155,696	84,703	47,968	38,849	29,113
Finance Cost	5,790	10,672	4,029	10,403	16,205	20,667
Profit before tax	190,843	145,024	80,674	37,565	22,644	8,446
Taxation	64,450	55,115	28,631	14,723	9,082	5,075
Net Profit	126,393	89,909	52,043	22,842	13,562	3,371
Gross Margin %	30.3	27.0	24.9	21.9	23.8	21.3
Return on Sales %	13.6	11.6	9.5	5.3	3.8	1.5
Current Ratio	2.1	1.7	1.7	1.8	1.7	1.6
Leverage Ratio (total Liab./Net Worth)	0.8	1.2	1.2	1.1	1.2	1.4
Earnings Per Share (Rs.)	10.5	7.5	4.3	1.9	1.1	0.28
Cash Dividend %	40	30	17.50	10	5	1.25
No. of Permanent Employees	330	331	328	331	337	335
No. of Pumps produced	5,362	4,499	4,276	2,995	2,491	1,870

Pattern of Shareholding as at December 31, 2006

No. of Shareholders	Shareholding				Total Shares Held
178	From	1	To	100	7,601
372	From	101	To	500	138,913
66	From	501	To	1,000	54,166
112	From	1,001	To	5,000	258,590
12	From	5,001	To	10,000	80,328
9	From	10,001	To	15,000	115,995
4	From	15,001	To	20,000	71,131
2	From	20,001	To	25,000	41,124
2	From	25,001	To	30,000	59,300
1	From	30,001	To	35,000	33,700
2	From	35,001	To	40,000	77,258
1	From	95,001	To	100,000	100,000
1	From	145,001	To	150,000	145,500
1	From	160,001	To	165,000	161,472
1	From	245,001	To	250,000	247,612
1	From	260,001	To	265,000	263,313
1	From	305,001	To	310,000	305,978
1	From	2,770,001	To	2,775,000	2,771,678
1	From	7,065,001	To	7,070,000	7,066,341
768					12,000,000

Categories of Shareholders	Number	Shares Held	Percentage
Individuals	751	1,606,779	13.39
Insurance Companies	2	252,612	2.11
Joint Stock Companies	9	7,135,164	59.46
Financial Institutions	3	2,933,324	24.44
Investment Companies	1	3,800	0.03
Mutual Fund	1	39,500	0.33
Others			
- Habib Bank Limited A/c Mohammed Amin Wakf Estate	1	28,821	0.24
	768	12,000,000	100

Information as Required Under the Code of Corporate Governance

WKF - A high pressure boiler feed pump

Shareholders' Category	Number of Shareholders	Number of Shares Held
Associated Companies, Undertakings and Related Parties		
KSB AG, Germany.	1	7,066,341
NIT and ICP		
Investment Corporation of Pakistan	Nil	Nil
National Bank of Pakistan, Trustee Department (NIT)	1	2,771,678
Directors		
Aezaz Hussain	1	500
Directors' spouses and minor children	Nil	Nil
CEO's spouse and minor children	Nil	Nil
Executives	Nil	Nil
Public Sector Companies and Corporations	Nil	Nil
Banks, Development Finance Institutions, Non Banking Finance Institutions, Insurance Companies, Modaraba, Mutual Funds and Joint Stock Companies	14	526,381
General Public	750	1,606,279
Others	1	28,821
Total	768	12,000,000

Shareholders holding 10% or more voting interest	Number of Shareholders	Number of Shares Held
KSB AG, Germany	1	7,066,341
National Bank of Pakistan Trustee Deptt. (NIT)	1	2,771,678

Statement of Compliance with the Code of Corporate Governance for the Year ended December 31, 2006

Pouring of molten metal in mould boxes

This statement is being presented to comply with the Code of Corporate Governance as contained in the listing regulations of Stock Exchanges of Pakistan for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non-executive Directors and minority representation on its Board. During the year 2006 Board included eight Directors. At present the CEO is the only Executive Director.

2. The Directors have confirmed that none of them is serving as a Director in more than ten listed companies, including this Company.

3. To the best of our knowledge all the resident Directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by the Directors and all employees of the Company.

5. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

6. All the powers of the Board have been duly exercised and decisions on material transactions have been taken by the Board.

KSB
Annual Report 2006

Two casual vacancies occurred on the Board due to resignations of Directors during the year were filled in within the stipulated time.

7. All the meetings of the Board were presided over by the Chairman. The Board met at least once in every quarter. Written notices of the Board meetings, along with agendas and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated within the statutory period.

8. The Company conducted in-house orientation for foreign resident Directors to apprise them of their duties and responsibilities. Other Directors being professionals and Directors of other local companies are already aware of their duties and responsibilities.

9. During the year appointments of new CEO, CFO and Company Secretary and Head of Internal Audit were approved by the Board of Directors.

10. The Directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

11. All quarterly, half yearly and annual financial statements presented to the Board for approval were duly signed by the CEO and the CFO before presenting to Board for its approval.

12. The Directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

13. The Company has complied with all the corporate and financial reporting requirements of the Code.

14. The Board has formed an audit committee. It comprises of three members, who are non-executive Directors including the chairman of the committee.

15. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

16. The Board has set out an effective internal audit function. The staff is considered to be suitably qualified and experienced for the purpose and is conversant with the policies and procedures of the Company and is involved in the internal audit function on a full time basis.

17. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

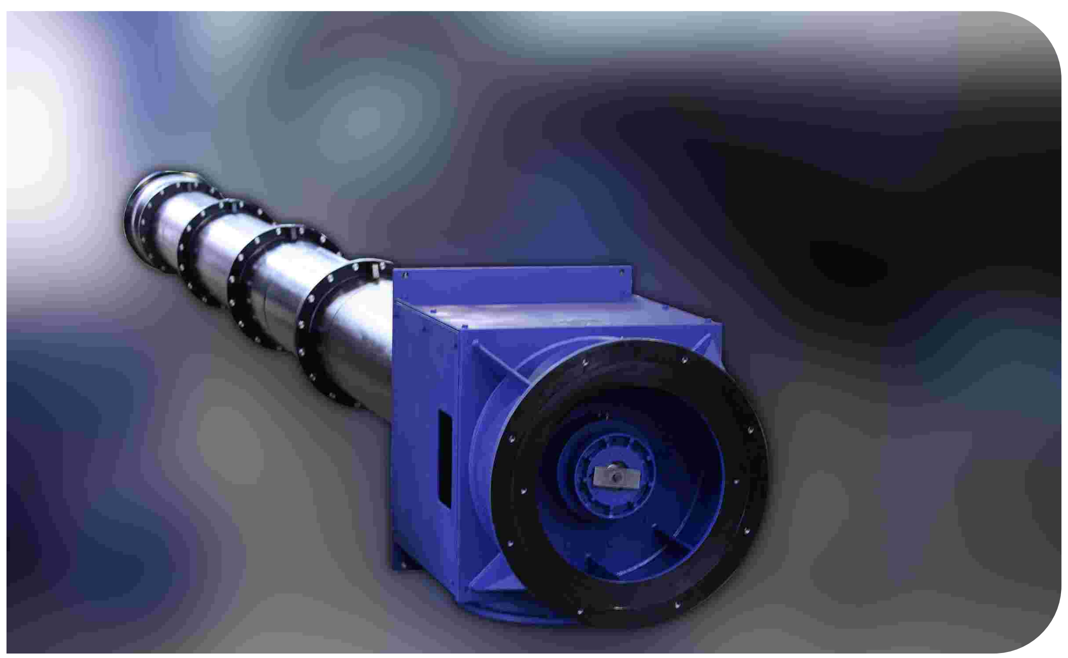
18. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

19. We confirm that all other material principles contained in the Code have been complied with.

For and on behalf of the Board

Mohammad Masud Akhtar
Chief Executive

March 14, 2007
Lahore.



SNW Pump - Manufactured for the Egyptian Irrigation Department

CNC Lathe machine in full swing

Review Report to the Members on Statement of Compliance With Best Practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the code of Corporate Governance prepared by the Board of Directors of KSB Pumps Company Limited to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange and Chapter XIII of the Lahore Stock Exchange, where the company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended December 31, 2006.

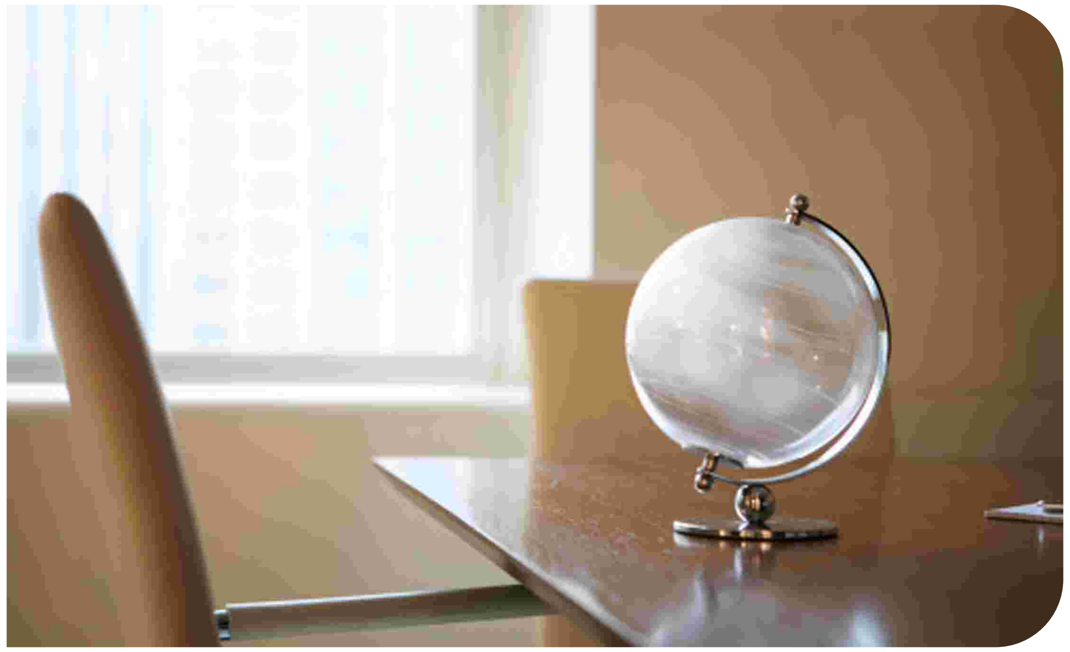
A. F. Ferguson & Co.
Chartered Accountants

March 14, 2007
Lahore

Financial Statements 2006

KSB
Annual Report 2006

Auditors' Report to the Members



We have audited the annexed balance sheet of KSB Pumps Company Limited as at December 31, 2006 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 the 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, 2006, 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 14, 2007
Lahore

Balance Sheet
as at December 31, 2006

	Note	2006 Rupees	2005 Rupees
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised capital 15,000,000 (2005: 15,000,000) ordinary shares of Rs 10 each		150,000,000	150,000,000
Issued, subscribed and paid up capital 12,000,000 (2005: 12,000,000) ordinary shares of Rs 10 each	5	120,000,000	120,000,000
General reserve		221,000,000	167,000,000
Unappropriated profit		126,463,948	90,071,304
		467,463,948	377,071,304
NON CURRENT LIABILITIES			
Employees' retirement and other benefits	6	7,756,073	11,650,166
Deferred liabilities	7	7,315,833	6,533,276
		15,071,906	18,183,442
CURRENT LIABILITIES			
Short term finances - secured	8	46,673	103,217,976
Trade and other payables	9	294,209,622	324,931,419
Provision for other liabilities and charges	10	25,040,912	20,575,248
Accrued finance cost		298,808	1,734,986
Provision for taxation		27,812,525	-
		347,408,540	450,459,629
CONTINGENCIES AND COMMITMENTS	11		
		829,944,394	845,714,375

The annexed notes 1 to 40 form an integral part of these financial statements.

	Note	2006 Rupees	2005 Rupees
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	12	**89,474,424**	74,400,675
Investment property	13	**2,804,997**	2,927,967
Capital work in progress	14	**350,835**	1,166,124
Long term loans and deposits	15	**2,798,026**	3,386,220
Deferred taxation	16	**-**	6,000,000
		95,428,282	87,880,986
CURRENT ASSETS			
Stores, spares and loose tools	17	**41,113,551**	29,934,278
Stock-in-trade	18	**267,057,463**	200,334,844
Trade debts	19	**214,193,118**	322,262,065
Advances, deposits, prepayments and other receivables	20	**76,086,126**	78,336,141
Income tax recoverable		**-**	7,341,775
Cash and bank balances	21	**136,065,854**	119,624,286
		734,516,112	757,833,389
		829,944,394	845,714,375

Mohammad Masud Akhtar
Chief Executive

R. D. Ahmad
Director

Dr. Augus Lee
Chairman

Profit and Loss Account

for the year ended December 31, 2006

	Note	2006 Rupees	2005 Rupees
Sales	22	1,401,145,129	1,252,165,877
Cost of sales	23	(976,120,485)	(914,069,866)
Gross profit		425,024,644	338,096,011
Distribution and marketing expenses	24	(159,195,044)	(115,954,108)
Administration expenses	25	(80,305,002)	(79,775,166)
Other operating expenses	26	(19,285,851)	(14,292,986)
Other operating income	27	30,394,266	27,622,097
Profit from operations		196,633,013	155,695,848
Finance cost	28	(5,790,369)	(10,671,813)
Profit before tax		190,842,644	145,024,035
Taxation	29	(64,450,000)	(55,115,000)
Profit for the year		126,392,644	89,909,035
Earnings per share - basic and diluted	36	10.53	7.49

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

The annexed notes 1 to 40 form an integral part of these financial statements.

Mohammad Masud Akhtar	**R. D. Ahmad**	**Dr. Augus Lee**
Chief Executive	Director	Chairman

Cash Flow Statement

for the year ended December 31, 2006

	Note	2006 Rupees	2005 Rupees
Cash flows from operating activities			
Cash generated from operations	31	**222,542,184**	23,506,157
Finance cost paid		**(7,226,547)**	(9,595,805)
Taxes paid		**(22,295,700)**	(10,471,138)
Payments for accumulating compensated absences		**(1,045,431)**	(480,126)
Employees' retirement and other benefits paid		**(9,388,279)**	(3,288,447)
Net decrease in long term loans and deposits		**588,194**	390,975
Net cash from operating activities		**183,174,421**	61,616
Cash flows from investing activities			
Fixed capital expenditure		**(29,377,464)**	(28,081,693)
Proceeds from sale of property, plant and equipment		**1,649,470**	3,229,524
Net cash used in investing activities		**(27,727,994)**	(24,852,169)
Cash flows from financing activities			
Dividend paid		**(35,833,556)**	(20,909,812)
Payment of finance lease liabilities		**-**	(4,094,762)
Net cash used in financing activities		**(35,833,556)**	(25,004,574)
Net (decrease) / increase in cash and cash equivalents		**119,612,871**	(49,795,127)
Cash and cash equivalents at the beginning of the year		**16,406,310**	66,201,437
Cash and cash equivalents at the end of the year	32	**136,019,181**	16,406,310

The annexed notes 1 to 40 form an integral part of these financial statements.

Mohammad Masud Akhtar	**R. D. Ahmad**	**Dr. Augus Lee**
Chief Executive	Director	Chairman

Statement of Changes in Equity

for the year ended December 31, 2006

	Share capital	General reserves	Unappropriated Profit	Total
	Rupees	Rupees	Rupees	Rupees
Balance as at December 31, 2004	**120,000,000**	**136,000,000**	**52,162,269**	**308,162,269**
Final dividend for the year ended December 31, 2004 Rs. 1.75 per share	-	-	(21,000,000)	(21,000,000)
Transfer to general reserve	-	31,000,000	(31,000,000)	-
Profit for the year	-	-	89,909,035	89,909,035
Balance as at December 31, 2005	**120,000,000**	**167,000,000**	**90,071,304**	**377,071,304**
Final dividend for the year ended December 31, 2005 Rs 3.00 per share	-	-	(36,000,000)	(36,000,000)
Transfer to general reserve	-	54,000,000	(54,000,000)	-
Profit for the year	-	-	126,392,644	126,392,644
Balance as at December 31, 2006	**120,000,000**	**221,000,000**	**126,463,948**	**467,463,948**

The annexed notes 1 to 40 form an integral part of these financial statements.

Mohammad Masud Akhtar
Chief Executive

R. D. Ahmad
Director

Dr. Augus Lee
Chairman

Notes to the Financial Statements

for the year ended December 31, 2006

1. Legal status and nature of business

KSB Pumps Company Limited (a KSB group company) was incorporated in Pakistan on July 18, 1959 under the Companies Act, 1913 (now the Companies Ordinance, 1984) and is listed on the Karachi and Lahore Stock Exchanges. The company is principally engaged in the manufacture and sale of industrial pumps, valves, castings and related parts. The registered office of the company is situated at KSB Building, Sir Aga Khan Road, Lahore.

2. Statement of compliance

2.1 These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the 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 (SECP) differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 Standards, interpretations and amendments to published approved accounting standards

2.2.1 Amendments to published standards effective in 2006

IAS 19 (Amendment) - 'Employees Benefits' is mandatory for Company's accounting period beginning on January 01, 2006. Its adoption by the Company only impacts the format and extent of disclosures presented in the financial statements.

2.2.2 Amendments to published standards not yet effective

Certain amendments to IAS 1 'Presentation of financial statements' - Capital Disclosure have been published that are applicable to the Company's financial statements covering annual periods, beginning on or after January 01, 2007. Adoption of these amendments would impact the nature and extent of disclosures made in the future financial statements of the company.

3. Basis of measurement

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

The preparation of financial statements in conformity with the above requirements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the company's accounting policies. The matters involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in the respective notes to the financial statements.

4. Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

4.1 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 bases 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.

4.2 Employees' retirement and other benefits

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

4.2.1 Defined benefit plans

(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 actual return on the plan assets was Rs 6,587 million (2005: Rs.5.374 million). The actual returns on plan assets represent the difference between the fair value of plan assets at beginning of the year and end of the year after adjustments for contributions made by the company as reduced by benefits paid during the year.

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

Expected rate of increase in salary level	8% per annum
Expected rate of return	10% per annum
Discount rate	10% per annum

The Company's policy with regard to actuarial gains/losses is to follow minimum recommended approach under IAS 19 " Employee benefits".

(b) The company operates an un-funded benefit scheme (ex-gratia) for its unionised 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. Provision has been made to cover the obligation on the basis of actuarial valuation and charged to income currently. The amount recognised in the balance sheet represents the present value of defined benefit obligation adjusted for unrecognised actuarial gains and losses. Projected unit credit method, using the following significant assumptions, is used for valuation of the scheme:

Expected rate of increase in salary level	9% per annum
Discount rate	10% per annum

The Company's policy with regard to actuarial gains/losses is to follow minimum recommended approach under IAS 19 " Employee benefits".

(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. Provision has been made to cover the obligation on the basis of actuarial valuation and charged to income currently. The amount recognised in the balance sheet represents the present value of defined benefit obligation. Actuarial gains/losses are recognised immediately under IAS 19 "Employee benefits". Projected unit credit method, using the following significant assumptions, is used for valuation of the scheme:

Expected rate of increase in salary level	9% per annum
Discount rate	10% per annum

The latest actuarial valuation of all defined benefit plans was carried out as at December 31, 2006.

4.2.2 Defined contribution plans

The company operates an approved contributory provident fund for all employees. Equal monthly contribution are made by the Company and employees to the fund in accordance with the fund rules.

Retirement benefits are payable to staff on completion of prescribed qualifying period of service under these schemes.

4.3 Property, plant and equipment

Property, plant and equipment except freehold land are stated at cost less accumulated depreciation and any identified impairment loss. Freehold land is 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 property, plant and equipment is charged to profit using the straight line method so as to write off the depreciable amount of the assets over their estimated 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 assets' residual values and useful lives are reviewed, at each financial year end, and adjusted if impact on depreciation is significant.

Depreciation on additions to property, plant and equipment is charged from the month in which an asset is acquired or capitalized, while no depreciation is charged for the month in which the asset is disposed off.

The Company assesses at each balance sheet date whether there is any indication that property, plant and equipment may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognised in income currently. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognised, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to income during the period in which they are incurred.

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.

4.4 Capital work in progress

Capital work in progress is stated at cost less any identified impairment loss.

4.5 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 accumulated depreciation and identified impairment loss.

Depreciation on buildings is charged to profit on the straight line method so as to write off the depreciable amount of a building over its estimated useful life at the rate of 2.5% per annum. Depreciation on additions is charged from the month in which an asset is acquired or capitalised while no depreciation is charged for the month in which the asset is disposed off.

The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted if impact on depreciation is significant.

The Company assesses at each balance sheet date whether there is any indication that investment property may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognised in income currently. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognised, the depreciation charge is adjusted in the future periods to allocate the asset'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.

4.6 Operating Leases

4.6.1 The company is the lessee:

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit on a straight-line basis over the lease term.

4.6.2 The company is the lessor:

Assets leased out under operating leases are included in investment property as referred to in note 13. These are depreciated over their expected useful lives on the basis consistent with similar owned property, plant and equipment. Rental income under operating leases (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

4.7 Store, spares and loose tools

Stores and spares are valued at the lower of moving average cost and net realisable value. Items in transit are valued at cost comprising invoice value plus other charges paid thereon.

Net realisable value signifies the estimated selling price in the ordinary course of business less costs necessarily to be incurred to make the sale. Provision is made in the financial statements for obsolete and slow moving stores and spares based on management estimate.

4.8 Stock-in-trade

Stock of raw materials except for those in transit, work-in-process and finished goods are valued principally at the lower of moving average cost and net realisable value. Cost of work-in-process and finished goods comprise cost of direct materials, labour and appropriate manufacturing overheads. Materials in transit are stated at cost comprising invoice value and other charges paid thereon.

Net realisable value signifies the estimated selling price in the ordinary course of business less costs necessary to be incurred in order to make the sale. Provision is made in the financial statements for obsolete and slow moving stock in trade based on management estimate.

4.9 Trade debts

Trade debts are carried at original invoice amount less an estimate made for doubtful debts based on a review of all outstanding amounts at the year end. Bad debts are written off when identified.

4.10 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 in 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 short term running finances.

4.11 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.

4.12 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 the future for the goods and/or services received, whether or not billed to the company.

4.13 Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

4.14 Financial instruments

Financial assets and financial liabilities are recognised at the time when the company becomes a party to the contractual provisions of the instrument and de-recognised when the company loses control of contractual rights that comprise the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of the financial assets and financial liabilities is included in the profit and loss account currently.

Financial instruments carried on the balance sheet include trade debts, advances, deposits, other receivables, cash and bank balances, short term running finances, accruals, provisions, unclaimed dividends and other payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

4.15 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements only when there is a legally enforceable right to set off the recognised amount and the company intends either to settle on a net basis or to realise the assets and to settle the liabilities simultaneously.

4.16 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 transaction or on the date when fair values are determined.

All exchange differences are charged to the profit and loss account.

4.17 Revenue recognition

Revenue from sale of products is recognised 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. Contract revenue is recognised in accordance with the policy as referred to in note 4.18.

Return on deposits is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.

4.18 Construction contracts

Contract costs are recognised when incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The company uses the ‘percentage of completion method’ to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

Gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings are carried in balance sheet as assets and included in trade debts. Gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses) is included in trade and other payables.

The aggregate amount of costs incurred and recognised profits (less recognised losses) for contract in progress at the balance sheet date was Rs 208.440 million (2005: Rs 203.601 million).

4.19 Dividend

Dividend distribution to the Company's shareholders is recognised as a liability in the period in which the dividends are approved.

5. Issued, subscribed and paid up capital

2006 (Number of shares)	2005 (Number of shares)		2006 Rupees	2005 Rupees
973,100	973,100	Ordinary shares of Rs 10 each fully paid in cash	**9,731,000**	9,731,000
8,000	8,000	Ordinary shares of Rs 10 each issued as fully paid against property	**80,000**	80,000
11,018,900	11,018,900	Ordinary shares of Rs 10 each issued as fully paid bonus shares	**110,189,000**	110,189,000
12,000,000	12,000,000		**120,000,000**	120,000,000

As at December 31, 2006, the holding Company KSB AG, Germany held 7,066,341 (2005: 7,066,341) shares of the Company.

6. Employees' retirement and other benefits

These are composed of:

Gratuity fund	- note 6.1	**(3,413,847)**	997,278
Ex-gratia Scheme	- note 6.2	**11,169,920**	10,652,888
		7,756,073	11,650,166

		2006 Rupees	2005 Rupees
6.1	**Gratuity fund**		
	Present value of defined benefit obligation	**46,830,807**	43,461,278
	Fair value of plan assets	**(48,992,439)**	(42,423,000)
	Unrecognised actuarial (losses) / gains	**(1,252,215)**	(41,000)
	Liability / (asset) as at December 31	**(3,413,847)**	997,278
	Liability as at January 1	**997,278**	85,603
	Charged to profit and loss account	**3,912,000**	3,062,000
	Contribution by the company	**(8,323,125)**	(2,150,325)
	Liability / (asset) as at December 31	**(3,413,847)**	997,278
	The movement in the present value of defined benefit obligation is as follows:		
	Present value as at January 1	**43,461,278**	36,688,278
	Current service cost	**3,822,000**	3,171,000
	Interest cost	**4,017,000**	2,958,000
	Benefits paid	**(8,340,578)**	(3,213,000)
	Experience (gain) / loss	**3,871,107**	3,857,000
	Present value as at December 31	**46,830,807**	43,461,278
	The movement in fair value of plan assets is as follows:		
	Fair value as at January 1	**42,423,000**	38,111,000
	Expected return on plan assets	**3,927,000**	3,067,000
	Company's contributions	**8,323,125**	2,151,000
	Benefits paid	**(8,340,578)**	(3,213,000)
	Experience gain / (loss)	**2,659,892**	2,307,000
	Fair value as at December 31	**48,992,439**	42,423,000
	Plan assets are comprised of as follows:		
	Debt	**45,981,070**	38,979,370
	Mixed Funds	**1,904,486**	950,623
	Cash	**1,106,883**	2,493,007
		48,992,439	42,423,000

The present value of defined benefit obligation, the fair value of plan assets and the surplus or deficit of gratuity fund is as follows:

					Rupees
	2006	**2005**	**2004**	**2003**	**2002**
As at December 31					
Present value of defined benefit obligation	**46,830,807**	43,461,278	36,688,278	31,884,000	28,866,000
Fair value of plan assets	**48,992,439**	42,423,000	38,111,000	29,510,000	28,159,000
Surplus / (deficit)	**2,161,632**	(1,038,278)	1,422,722	(2,374,000)	(707,000)
Experience adjustment on obligation	**8%**	9%	10%	4%	5%
Experience adjustment on plan assets	**5%**	5%	6%	7%	3%

		2006 Rupees	2005 Rupees
6.2	**Ex-gratia**		
	Present value of defined benefit obligation	**10,678,171**	10,935,068
	Unrecognised actuarial (losses)/gains	**491,749**	(282,180)
	Liability as at December 31	**11,169,920**	10,652,888
	Liability as at January 1	**10,652,888**	10,378,347
	Charged to profit and loss account	**1,582,186**	1,412,663
	Payments made by the company	**(1,065,154)**	(1,138,122)
	Liability as at December 31	**11,169,920**	10,652,888

7. Deferred liabilities

Deferred taxation	- note 7.1	**1,000,000**	-
Accumulating compensated absences	- note 7.2	**6,315,833**	6,533,276
		7,315,833	6,533,276

7.1 Deferred taxation

This comprises temporary differences relating to:

Employees' retirement and other benefits	**(5,208,307)**	-
Accelerated tax depreciation allowances	**7,491,824**	-
Others	**(1,283,517)**	-
	1,000,000	-

	2006 Rupees	2005 Rupees
7.2 Accumulating compensated absence		
Liability as at January 1	**6,533,276**	6,437,120
Charged to profit and loss account	**827,988**	576,282
Payments made by the company	**(1,045,431)**	(480,126)
Liability as at December 31	**6,315,833**	6,533,276

8. Short term finances - secured

Finances available from commercial banks under mark-up arrangements amount to Rs 424.728 million (2005: Rs 330 million). The rates of mark-up range from Re 0.2479 to Re 0.3104 per Rs 1,000 per diem or part thereof on the balance outstanding.

Of aggregate facility of letters of credit of Rs 105.932 million (2005: Rs 170 million) and guarantees of Rs 84.340 million (2005: Rs 212 million), the amounts utilised as at December 31, 2006 was Rs 35.784 million (2005: Rs 49.353 million) and Rs 62.903 million (2005: Rs 87.118 million) respectively.

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

9. Trade and other payables

		2006 Rupees	2005 Rupees
Trade creditors	- note 9.1	**108,108,853**	85,328,720
Accrued liabilities	- note 9.2	**61,217,195**	75,969,996
Advances from customers	- note 9.3	**97,761,552**	148,730,602
Interest free deposits, repayable on demand		**39,603**	433,410
Workers' profit participation fund	- note 9.4	**11,284,200**	8,012,200
Workers' welfare fund		**3,900,000**	2,252,000
Rent received in advance		**3,104,417**	-
Unclaimed dividends		**816,489**	650,045
Other liabilities		**7,977,313**	3,554,446
		294,209,622	324,931,419

9.1 Trade creditors include amount due to holding company of Rs 2.812 million (2005: Rs 4.282 million) and associated undertakings of Rs 7.396 million (2005: Rs 8.882 million).

9.2 Accrued liabilities include amount due to holding company of Rs 7.287 million (2005: Rs 6.287 million) and associated undertakings of Rs 9.519 million (2005: Rs 10.383 million).

9.3 Advances from customers include Rs 23.356 million (2005: Rs 15.560 million) in respect of gross amount due to customers for contract work.

			2006 Rupees	2005 Rupees
9.4	**Workers' profit participation fund**			
	Balance at beginning of the year		**8,012,200**	4,510,700
	Allocation for the year	- note 26	**10,226,000**	7,752,000
	Interest payable on funds utilized by the company	- note 28	**1,047,000**	249,000
			19,285,200	12,511,700
	Less: Payments made during the year		**8,001,000**	4,499,500
	Balance at the end of the year		**11,284,200**	8,012,200

10. Provisions for other liabilities and charges

		2006 Rupees	2005 Rupees
Bonus to employees	- note 10.1	**17,480,912**	16,518,849
Sales incentive scheme	- note 10.2	**7,560,000**	4,056,399
		25,040,912	20,575,248

Movement in provisions for other liabilities and charges during the year is as follows:

Rupees

	Bonus to employees	**Sales incentive scheme**	**Total**
Balance as at January 1	16,518,849	4,056,399	20,575,248
Additional provisions made during the year	14,956,147	7,241,933	22,198,080
Provisions used during the year	(13,994,084)	(3,738,332)	(17,732,416)
Balance as at December 31	**17,480,912**	**7,560,000**	**25,040,912**

10.1 Bonus to employees

This provision presents bonus equal to seven months' basic salary and three months' basic salary payable to unionised and management staff respectively.

10.2 Sales incentive scheme

The sales incentive is payable to staff in consideration of achieving specific target in a stipulated time period.

All provisions as at December 31, 2006 are expected to be utilised in the next financial year.

11. Contingencies and commitments

11.1 Contingencies

(i) 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 financial statements.

(ii) The Deputy Director of Punjab Employees' Social Security Institution raised a demand of Rs 4.570 million (2005: 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 financial statements 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.

(iii) Post dated cheques not provided for in the financial statements, 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 0.574 million (2005: Rs 0.309 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.

(iv) Claims not acknowledged as debt Rs 0.74 million (2005: Rs 2.79 million).

(v) The company has issued bank guarantees of Rs 95.846 million (2005: Rs 87.118 million) against the performance of various contracts.

11.2 Commitments in respect of

Letters of credit other than for capital expenditure approximately Rs 35.784 million (2005: Rs 49.353 million).

12. Property, plant and equipment

	Cost as at January 1, 2006	Additions/ (deletions)	Transfers	Cost as at December 31, 2006	Accumulated depreciation as at January 1, 2006	Depreciation charge/ (deletions) for the year	Transfers	Accumulated depreciation as at December 31, 2006	Book value as at December 31, 2006
	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	21,671,655	869,871	-	22,541,526	8,548,481
Plant and machinery	103,217,838	16,404,451	-	119,622,289	81,129,883	3,253,550	-	84,383,433	35,238,856
Tools, jigs and attachments	33,551,518	311,443	-	33,862,961	26,001,794	1,537,080	-	27,538,874	6,324,087
Patterns	47,157,619	-	-	47,157,619	35,234,311	2,726,019	-	37,960,330	9,197,289
Other equipment and tube wells	9,595,242	2,752,257	-	12,347,499	6,327,341	813,825	-	7,141,166	5,206,333
Furniture and fixtures	6,794,250	450,405	-	7,244,655	5,535,463	249,541	-	5,785,004	1,459,651
Office machines and appliances	39,174,131	4,438,497	-	43,612,628	35,956,528	2,718,322	-	38,674,850	4,937,778
Vehicles	32,574,674	5,835,700 (6,520,809)	-	31,889,565	18,270,149	2,186,520 (5,756,533)	-	14,700,136	17,189,429
2006	**304,527,799**	**30,192,753 (6,520,809)**	**-**	**328,199,743**	**230,127,124**	**14,354,728 (5,756,533)**	**-**	**238,725,319**	**89,474,424**
2005	272,325,024	27,413,275 (798,500)	5,588,000	304,527,799	211,346,821	14,600,303 (798,500)	4,978,500	230,127,124	74,400,675

The cost of fully depreciated property, plant and equipment which are still in use as at December 31, 2006 is Rs 164.259 million (2005: Rs 153.689 million).

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

		2006 Rupees	2005 Rupees
Cost of sales	- note 23	**11,794,144**	11,686,332
Distribution and marketing expenses	- note 24	**1,975,451**	1,331,541
Administration expenses	- note 25	**585,133**	1,582,430
		14,354,728	14,600,303

12.2 Disposal of property, plant and equipment

Particulars of assets	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
		Rupees	Rupees	Rupees	Rupees	
Vehicles						
	Employees					
	Mr. Zamanat Abbas	1,118,135	978,370	139,765	140,000	Negotiation
	Mr. Tariq Waheed	1,033,674	409,163	624,511	635,670	Company Policy
Vehicles having book value less than Rs 50,000 each		4,369,000	4,369,000	-	873,800	Negotiation
		6,520,809	5,756,533	764,276	1,649,470	

13. Investment property

	Cost as at January 1, 2006 Rupees	Additions/ (deletions) Rupees	Cost as at December 31, 2006 Rupees	Accumulated depreciation as at January 1, 2006 Rupees	Depreciation charge/ (deletions) for the year Rupees	Accumulated depreciation as at December 31, 2006 Rupees	Book value as at December 31, 2006 Rupees
Building on freehold land	4,918,800	-	4,918,800	1,990,833	122,970	2,113,803	2,804,997
2006	**4,918,800**	**-**	**4,918,800**	**1,990,833**	**122,970**	**2,113,803**	**2,804,997**
2005	4,918,800	-	4,918,800	1,867,863	122,970	1,990,833	2,927,967

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

13.2 Fair value of the investment property, based on the valuation carried out by an independent valuer, as at December 31, 2006 is Rs 62.491 million (2005: Rs 68.856 million).

		2006 Rupees	2005 Rupees
14. Capital work in progress			
Advance for land		**229,800**	229,800
Plant and machinery [including in transit Rs. NIL (2005: Rs. 0.748 million)]		**121,035**	936,324
		350,835	1,166,124
15. Long term loans and deposits			
Loans to employees - considered good			
- Director		**-**	1,050,000
- Executives		**900,000**	1,570,000
- Others		**2,904,288**	3,048,457
		3,804,288	5,668,457
Less: Receivable within one year	- note 20	**2,140,242**	3,023,757
		1,664,046	2,644,700
Security deposits		**1,133,980**	741,520
		2,798,026	3,386,220

Reconciliation of the carrying amount of loans to:

	Director		Executives	
	2006	2005	**2006**	2005
	Rupees	Rupees	**Rupees**	Rupees
Balance as at January 1	**1,050,000**	-	**1,570,000**	2,240,000
Disbursements during the year	**-**	-	**-**	1,100,000
Re-classification during the year	**-**	1,275,000	**-**	(1,275,000)
Repayments during the year	**(1,050,000)**	(225,000)	**(670,000)**	(495,000)
Balance as at December 31	**-**	1,050,000	**900,000**	1,570,000

These represent un-secured interest free loans given to executives and other employees for house building, purchase of vehicles and for use in marriages of employees and their dependents. These are repayable in monthly installments over a period of 24 to 60 months.

The maximum aggregate amount due from director and executives at any time during the year was Rs 1.025 million (2005: Rs 1.275 million) and Rs 1.535 million (2005: Rs 2.205 million) respectively.

	2006	2005
	Rupees	Rupees

16. Deferred taxation

This comprises temporary differences relating to:

Employees' retirement and other benefits	**-**	5,186,085
Provision for doubtful debts	**-**	3,440,436
Accelerated tax depreciation allowances	**-**	(4,347,443)
Others	**-**	1,720,922
	-	6,000,000

17. Stores, spares and loose tools

Stores	**19,730,244**	14,582,809
Spares	**10,995,488**	7,869,181
Loose tools	**10,387,819**	7,482,288
	41,113,551	29,934,278

		2006 Rupees	2005 Rupees
18. Stock in trade			
Raw materials [including in transit Rs 10.256 million (2005: Rs 4.786 million)]		**122,032,594**	103,666,650
Work in process		**78,850,428**	66,212,848
Finished goods		**66,174,441**	30,455,346
		267,057,463	200,334,844

18.1 Stock-in-trade, having cost of Rs 34.714 million (2005: Rs 23.224 million) are being carried at net realisable value and an amount of Rs 14.861 million (2005: Rs 4.109 million) has been charged to cost of sales, being the cost of inventory written down during the year.

18.2 Work-in-process amounting to Rs 2.401 million (2005: Rs 3.647 million) is held with various contractors for machining services.

19. Trade debts - unsecured

Considered good			
- Related parties	- note 19.1	**34,557,924**	23,593,289
- Others		**179,635,194**	298,668,776
		214,193,118	322,262,065
Considered doubtful		**34,546,528**	12,062,852
		248,739,646	334,324,917
Less: Provision for doubtful debts	- note 19.2	**(34,546,528)**	(12,062,852)
		214,193,118	322,262,065

19.1 Related parties

Holding Company		
- KSB Aktiengesellschaft, Germany	**10,920,331**	12,683,128
Associated undertakings		
- KSB Ajax Pumps pty. Limited, Australia	**3,300**	1,100,095
- KSB Ajax Pumps pty. Limited, New Zealand	**-**	430,653
- KSB Middle East PZE, Dubai, UAE	**-**	3,954,126
- KSB Pumps (S.A.) (Pty) Limited, South Africa	**-**	530,402
- KSB Pompy Armatura, Poland	**2,883,460**	3,666,825
- KSB Pompa Armatura Sanayi, Turkey	**-**	536,836
- KSB Pumps Company Limited Thailand	**211,992**	-
- PT KSB, Indonesia	**5,730,365**	-
- KSB S.A. Cedex, France	**3,506,882**	-
- KSB Mörck AB, Sweden	**2,294,490**	-
- Millat Tractors Limited	**7,026,430**	267,424
- General Tyre and Rubber Company	**1,880,674**	270,800
- Service Industries Textiles	**100,000**	153,000
	34,557,924	23,593,289

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

		2006 Rupees	2005 Rupees
19.2 Provision for doubtful debts			
Opening balance		**12,062,852**	18,385,488
Provision for the year	- note 24	**25,200,000**	3,200,000
		37,262,852	21,585,488
Less: Bad debts written off against provision		**2,716,324**	9,522,636
Closing balance		**34,546,528**	12,062,852

20. Advances, deposits, prepayments and other receivables

Current portion of long term loans to employees	- note 15	**2,140,242**	3,023,757
Short term advances to employees			
- considered good	- note 20.1	**3,575,592**	4,238,620
Advances to suppliers and contractors			
- Considered good		**9,853,773**	6,527,550
- Considered doubtful		**283,479**	283,479
		10,137,252	6,811,029
Due from related parties	- note 20.2	**7,742,005**	8,838,664
Trade deposits and prepayments			
- Considered good		**26,729,625**	27,162,734
- Considered doubtful		**5,445,783**	1,056,963
		32,175,408	28,219,697
Letters of credit, deposits and opening charges		**10,120,826**	2,323,056
Profit receivable on bank deposits		**1,257,540**	371,096
Sales tax receivable		**13,693,347**	25,035,184
Other receivables			
- Considered good		**973,176**	815,480
- Considered doubtful		**210,965**	210,965
		1,184,141	1,026,445
		82,026,353	79,887,548
Less: Provision for doubtful amounts	- note 20.3	**5,940,227**	1,551,407
		76,086,126	78,336,141

20.1 Included in short term advances to employees is amount due from executives of Rs 0.021 million (2005: Rs 0.035 million).

			2006 Rupees	2005 Rupees
20.2	**Due from related parties**			
	Holding company			
	- KSB Aktiengesellschaft, Germany		**19,690**	5,213,134
	Associated undertakings			
	- KSB S.A. Cedex, France		**29,691**	2,953,031
	Post employment benefit plans			
	- KSB Pumps Company Limited Staff Provident Fund		**7,692,624**	672,499
			7,742,005	8,838,664

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

			2006 Rupees	2005 Rupees
20.3	**Provision for doubtful amounts**			
	Opening balance		**1,551,407**	1,804,913
	Provision for the year	- note 24	**4,732,520**	-
			6,283,927	1,804,913
	Less: Amount written off against provision		**343,700**	253,506
	Closing balance		**5,940,227**	1,551,407

21. Cash and bank balances

		2006 Rupees	2005 Rupees
At banks			
- on deposit accounts		**60,000,000**	40,000,000
- on saving accounts		**304,840**	29,668
- on current accounts		**50,350,921**	52,283,731
		110,655,761	92,313,399
Cash in hand [including cheques in hand of Rs 23.991 million (2005: Rs 26.771 million)]		**25,410,093**	27,310,887
		136,065,854	119,624,286

21.1 The balances in saving and deposit accounts bear mark-up which ranges from 0.25% to 12.00% per annum.

22. Sales

		2006 Rupees	2005 Rupees
Local sales	- note 22.1	**1,305,612,202**	1,196,335,488
Export Sales		**136,299,090**	101,603,147
		1,441,911,292	1,297,938,635
Less: Sales Tax		**(40,766,163)**	(45,772,758)
		1,401,145,129	1,252,165,877

22.1 Sales are inclusive of revenue from rendering of contract and services of Rs 4.839 million (2005: Rs 165.520 million) and Rs. 41.172 million (2005: Rs. 106.917 million) respectively.

23. Cost of sales

		2006 Rupees	2005 Rupees
Raw material consumed		**669,236,659**	559,987,131
Salaries, wages, amenities and staff welfare	- note 23.1	**89,627,033**	81,053,982
Staff training		**1,007,255**	1,138,666
Electricity and power		**28,138,222**	26,238,770
Stores and spares consumed		**79,662,664**	61,446,582
Insurance		**1,037,717**	1,420,849
Traveling and conveyance		**16,751,972**	22,120,101
Postage and telephone		**4,369,150**	4,089,250
Rent, rates and taxes		**1,143,426**	1,111,776
Repairs and maintenance		**11,078,232**	8,814,435
Legal & Professional charges		**1,718,425**	11,665,048
Packing expenses		**14,969,681**	10,816,459
Outside services		**81,414,990**	121,220,379
Depreciation on property, plant and equipment	- note 12.1	**11,794,144**	11,686,332
Royalty		**5,295,339**	4,744,691
Other expenses		**7,232,251**	5,627,183
		1,024,477,160	933,181,634
Opening work-in-process		**66,212,848**	50,585,119
Less: Closing work-in-process		**78,850,428**	66,212,848
		(12,637,580)	(15,627,729)
Cost of goods manufactured		**1,011,839,580**	917,553,905
Opening stock of finished goods		**30,455,346**	27,092,653
Less: Closing stock of finished goods		**66,174,441**	30,455,346
		(35,719,095)	(3,362,693)
		976,120,485	914,191,212
Less: Cost of capital assets manufactured		**-**	121,346
		976,120,485	914,069,866

Cost of sales include the following in respect of:

	2006	2005
Contract cost	**9,894,820**	127,997,000
Raw material written off	**3,852,111**	4,109,271
Work-in-process written off	**5,541,623**	-
Finished goods written off	**5,466,798**	-
Stores, spares and loose tools written off	**2,594,511**	970,543

		2006 Rupees	2005 Rupees

23.1 Salaries, wages, amenities and staff welfare

Salaries, wages, amenities and staff welfare include following in respect of retirement and other benefits:

	2006 Rupees	2005 Rupees
Gratuity fund		
Current service cost	1,412,384	1,118,843
Interest cost	1,484,445	1,043,689
Expected return on plan assets	(1,451,186)	(1,082,148)
	1,445,643	1,080,384
Ex-gratia		
Current service cost	589,631	546,532
Interest cost	970,333	753,118
	1,559,964	1,299,650

In addition to above, salaries, wages, amenities and staff welfare include Rs 2.708 million (2005: Rs 2.411 million) and Rs 0.488 million (2005: Rs 0.376 million) in respect of provident fund contribution by the company and accumulating compensated absences respectively.

24. Distribution and marketing expenses

		2006 Rupees	2005 Rupees
Salaries, wages, amenities and staff welfare	- note 24.1	37,572,945	29,296,688
Staff training		642,572	711,603
Traveling, conveyance and representations		14,344,176	13,990,313
Rent, rates and taxes		2,767,286	2,332,729
Publicity charges		7,296,171	2,996,610
Electricity, gas and water		2,354,978	2,003,967
Postage and telephone		3,694,795	4,151,668
Printing and stationery		1,629,300	1,878,276
Repairs and maintenance		1,359,577	2,162,695
Forwarding expenses		16,715,046	16,319,087
Commission expenses		36,203,140	32,690,216
Provision for:			
- Doubtful debts	- note 19.2	25,200,000	3,200,000
- Doubtful receivables	- note 20.3	4,732,520	-
Depreciation on property, plant and equipment	- note 12.1	1,975,451	1,331,541
Other expenses		2,707,087	2,888,715
		159,195,044	115,954,108

		2006 Rupees	2005 Rupees

24.1 Salaries, wages, amenities and staff welfare

Salaries, wages, amenities and staff welfare include following in respect of retirement and other benefits:

	2006 Rupees	2005 Rupees
Gratuity fund		
Current service cost	**954,644**	645,865
Interest cost	**1,003,351**	602,481
Expected return on plan assets	**(980,871)**	(624,682)
	977,124	623,664

In addition to above, salaries, wages, amenities and staff welfare include Rs 1.113 million (2005: Rs 0.868 million) and Rs 0.127 million (2005: Rs 0.74 million) in respect of provident fund contribution by the company and accumulating compensated absences respectively.

25. Administration expenses

		2006 Rupees	2005 Rupees
Salaries, wages, amenities and staff welfare	- note 25.1	**45,367,108**	45,064,730
Staff training		**1,172,360**	1,471,793
Traveling, conveyance and representations		**13,242,212**	10,886,029
Rent, rates and taxes		**872,496**	941,107
Electricity, gas and water		**1,784,132**	1,431,261
Postage and telephone		**2,289,428**	2,380,567
Printing and stationery		**1,937,110**	1,813,990
Repairs and maintenance		**2,506,399**	2,236,669
Professional services	- note 25.2	**6,093,499**	4,438,713
Depreciation on:			
- Property, plant and equipment	- note 12.1	**585,133**	1,582,430
- Investment property	- note 13.1	**122,970**	122,970
- Leased assets		**-**	513,818
Other expenses		**4,332,155**	6,891,089
		80,305,002	79,775,166

	2006 Rupees	2005 Rupees
25.1 Salaries, wages, amenities and staff welfare		
Salaries, wages, amenities and staff welfare include following in respect of retirement and other benefits:		
Gratuity fund		
Current service cost	**1,454,974**	1,406,292
Interest cost	**1,529,208**	1,311,829
Expected return on plan assets	**(1,494,946)**	(1,360,169)
	1,489,236	1,357,952
Ex-gratia		
Current service cost	**8,398**	47,525
Interest cost	**13,821**	65,488
	22,219	113,013

In addition to above, salaries, wages, amenities and staff welfare include Rs 1.624 million (2005: Rs 1.774 million) and Rs 0.214 million (2005: Rs 0.126 million) in respect of provident fund contribution by the company and accumulating compensated absences respectively.

25.2 Professional services

	2006 Rupees	2005 Rupees
The charges for professional services include the following in respect of auditors' services for:		
Statutory audit	**189,750**	165,000
Review of half yearly financial statements	**82,500**	75,000
Audit of funds, consolidation forms and sundry services	**310,300**	225,000
Taxation services	**1,400,000**	1,015,000
Out of pocket expenses	**114,065**	124,211
	2,096,615	1,604,211

26. Other operating expenses

		2006 Rupees	2005 Rupees
Workers' profit participation fund	- note 9.4	**10,226,000**	7,752,000
Workers' welfare fund		**3,451,201**	2,252,000
Donations	- note 26.1	**474,725**	2,971,058
Exchange Loss		**5,133,925**	1,317,928
		19,285,851	14,292,986

26.1 None of the directors and their spouses had any interest in any of the donees during the year.

		2006 Rupees	2005 Rupees
27.	**Other operating income**		
	Income from financial assets		
	Profit on bank accounts	2,521,575	2,565,363
	Income from non-financial assets		
	Commission Income	11,558,727	5,180,602
	Rental income on investment property	3,677,535	3,180,828
	Scrap sales	3,959,238	4,041,316
	Profit on sale of property, plant and equipment	885,194	1,100,852
	Recovery of trade debts previously written off	112,551	168,750
	Provisions no longer considered necessary and unclaimed balances written back	6,175,762	10,960,336
	Sundry income	1,503,684	424,050
		27,872,691	25,056,734
		30,394,266	27,622,097
28.	**Finance cost**		
	Mark-up on:		
	- Finance lease	-	799,735
	- Short term running finances	2,068,709	6,533,820
	- Employees' provident fund	-	136,000
	Interest on workers' profit participation fund - note 9.4	1,047,000	249,000
	Bank and other charges	2,674,660	2,953,258
		5,790,369	10,671,813
29.	**Taxation**		
	For the year		
	- Current	57,450,000	51,000,000
	- Deferred	2,700,000	970,000
		60,150,000	51,970,000
	Prior year - deferred	4,300,000	3,145,000
		64,450,000	55,115,000

	2006 %	2005 %

29.1 Tax charge reconciliation

	2006 %	2005 %
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	**0.09**	1.49
Tax effect under presumptive tax regime and others	**(3.56)**	(0.21)
Effect of change in prior year's tax	**2.25**	1.72
Average effective tax rate charged to profit and loss account	**33.78**	38.00

30. Rates of exchange

Foreign currency liabilities have been translated into Rupees at US $ 1.6399 (2005: 1.6686), EURO 1.2424 (2005: 1.4094), GBP 0.8376 (2005: 0.9686), DHR 6.1501 (2005: 6.2578), SFR 1.9976 (2005: 2.1939), YEN 195.2362 (2005: 196.3865) and HK $ 12.8205 (2005: 13.0719) equal to Rs 100. Foreign currency assets have been translated at US $1.6453 (2005: US $ 1.6742) equal to Rs 100.

31. Cash generated from operations

		2006 Rupees	2005 Rupees
Profit before taxation		**190,842,644**	145,024,035
Adjustment for:			
Depreciation on:			
- Property, plant and equipment		**14,354,728**	14,600,303
- Investment property		**122,970**	122,970
- Leased assets		**-**	513,818
Profit on sale of property, plant and equipment		**(885,194)**	(1,100,852)
Accumulating compensated absences		**827,988**	576,282
Employees' retirement and other benefits		**5,494,186**	4,474,663
Provision for doubtful debts		**25,200,000**	3,200,000
Provision for other receivables		**4,732,520**	-
Stores, spares and loose tools written off		**2,594,511**	970,543
Stock-in-trade written off		**14,860,532**	4,109,271
Provisions no longer considered necessary and unclaimed balances written back		**(6,175,762)**	(10,960,336)
Finance cost		**5,790,369**	10,671,813
Working capital changes	- note 31.1	**(35,217,308)**	(148,696,353)
		222,542,184	23,506,157

		2006 Rupees	2005 Rupees

31.1 Working capital changes

		2006 Rupees	2005 Rupees
(Increase)/decrease in current assets:			
Stores, spares and loose tools		**(13,773,784)**	(7,820,690)
Stock-in-trade		**(81,583,151)**	(39,734,538)
Trade debts		**82,868,947**	(162,774,355)
Advances, deposits, prepayments and other receivables		**(2,482,505)**	(24,298,687)
		(14,970,493)	(234,628,270)
Increase/(decrease) in current liabilities:			
Trade and other payables		**(24,712,479)**	83,936,487
Provisions for other liabilities and charges		**4,465,664**	1,995,430
		(35,217,308)	(148,696,353)

32. Cash and cash equivalents

Cash and cash equivalents comprise the following items:

		2006 Rupees	2005 Rupees
Cash and bank balances	- note 21	**136,065,854**	119,624,286
Short term finances	- note 8	**(46,673)**	(103,217,976)
		136,019,181	16,406,310

33. Remuneration of Chief Executive, Directors and Executives

33.1 The aggregate amount charged in the financial statements for the year for remuneration, including certain benefits, to the chief executive, full time working director and executives of the Company is as follows:

	Chief Executive		Director		Executives	
	2006 Rupees	2005 Rupees	**2006 Rupees**	2005 Rupees	**2006 Rupees**	2005 Rupees
Short term employee benefits						
Managerial remuneration	**3,190,854**	3,541,212	**293,326**	1,066,640	**9,162,808**	5,951,668
Bonus	**3,362,500**	1,812,000	**88,887**	256,481	**1,394,344**	930,132
House rent	**-**	624,918	**131,997**	479,992	**3,613,515**	2,301,248
Utilities	**-**	138,870	**29,333**	106,664	**745,739**	511,396
Leave fare assistance	**-**	-	**8,000**	32,000	**263,000**	184,000
Medical and other expenses	**43,012**	400,058	**8,333**	26,667	**299,167**	153,333
	6,596,366	6,517,058	**559,876**	1,968,444	**15,478,573**	10,031,777
Post employment benefits						
Contribution to gratuity and provident fund	**584,990**	712,871	**53,776**	195,550	**1,472,173**	937,548
Other long term benefits						
Accumulating compensated absences	**-**	-	**-**	-	**1,905,232**	1,297,443
	7,181,356	7,229,929	**613,652**	2,163,994	**18,855,978**	12,266,768
Number of persons	**1**	1	**1 ***	1	**9**	6

33.2 The Company also provides its chief executive, director and some of its executives with company maintained cars, free residential telephones and mobile phones. In addition, the director has also been provided with rent free furnished accommodation.

33.3 Aggregate amount charged in the financial statements for the year for fee to 7 directors (2005: 7 directors) was Rs 57,500 (2005: Rs 33,500).

33.4 Managerial remuneration & Bonus includes an amount of Rs 1.3 million & Rs 3.362 million respectively paid to previous Chief Executive, who resigned during the year with effect from April 18, 2006.

* The director has resigned during the year on March 02, 2006.

34. Related party transactions

The related parties comprise holding company, associated undertakings, other related group companies, key management personnel and post employment benefit plan. 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 33. Other significant transactions with related parties are as follows:

	2006 Rupees	2005 Rupees
Holding company		
Sales	**68,917,100**	27,796,245
Purchases	**22,755,922**	15,525,015
Commission income	**7,932,628**	1,937,940
Royalty	**5,295,339**	4,744,691
Associated undertakings		
Sales	**78,076,599**	23,150,588
Purchases	**21,540,267**	68,116,215
Services received	**-**	524,350
Commission income	**3,079,799**	3,214,889
Commission expense	**13,593,674**	10,011,871
Other related parties		
Sale of property, plant and equipment	**213,800**	-
Post employment benefit plan		
Expense charged in respect of:		
- Gratuity fund	**3,912,000**	3,062,000
- Ex-gratia	**1,582,186**	1,412,663
- Accumulated compensated absences	**827,988**	576,282
- Provident fund	**5,444,559**	5,053,136

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

35. Plant capacity and production

	Capacity		Actual Production	
	2006	**2005**	**2006**	**2005**
				Number
Power driven pumps	**6,000**	5,000	**5,362**	4,499

The variance of actual production from capacity is on account of the product mix.

			2006 Rupees	2005 Rupees

36. Earnings per share

36.1 Basic earnings per share

		2006	2005
Profit for the year	Rupees	**126,392,644**	89,909,035
Weighted average number of ordinary shares	Numbers	**12,000,000**	12,000,000
Earnings per share	Rupees	**10.53**	7.49

36.2 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.

37. Financial assets and liabilities

Rupees

	Interest/mark-up bearing				Non-interest bearing				Total		Credit risk	
	Maturity upto one year	Maturity after one year but within 5 years	Maturity after 5 years	Sub total	Maturity upto one year	Maturity after one year but within 5 years	Maturity after 5 years	Sub total	2006 Total	2005 Total	2006	2005
Financial assets												
On balance sheet												
Long term loans and deposits	-	-	-	-	-	2,798,026	-	2,798,026	**2,798,026**	3,386,220	**2,798,026**	3,386,220
Trade debts	-	-	-	-	214,193,119	-	-	214,193,119	**214,193,119**	322,262,065	**214,193,119**	322,262,065
Advances, deposits, prepayments								-				
and other receivables					29,336,072	-	-	29,336,072	**29,336,072**	39,321,146	**29,336,072**	39,321,146
Cash and bank balances	96,213,902	-	-	96,213,902	39,851,952	-	-	39,851,952	**136,065,854**	119,624,286	**134,646,869**	119,084,410
	96,213,902	-	-	96,213,902	283,381,143	2,798,026	-	286,179,169	**382,393,071**	484,593,717	**380,974,086**	484,053,841
Off balance sheet	-	-	-	-	-	-	-	-	-	-		
Total	96,213,902	-	-	96,213,902	283,381,143	2,798,026	-	286,179,169	**382,393,071**	484,593,717	**380,974,086**	484,053,841
Financial liabilities												
On balance sheet												
Employees' retirement and other benefits	-	-	-	-	-	-	7,756,073	7,756,073	**7,756,073**	11,650,166		
Accumulating compensated absences						-	6,315,833	6,315,833	**6,315,833**	6,533,276		
Short term finances - secured	46,673	-	-	46,673	-	-	-	-	**46,673**	103,217,976		
Trade and other payables	-	-	-	-	178,159,453	-	-	178,159,453	**178,159,453**	162,036,604		
Provisions for other liabilities and charges	-	-	-	-	25,040,912	-	-	25,040,912	**25,040,912**	20,575,248		
Accrued finance cost	-	-	-	-	298,808	-	-	298,808	**298,808**	1,734,986		
	46,673	-	-	46,673	203,499,173	-	14,071,906	217,571,079	**217,617,752**	305,748,256		
Off balance sheet												
Guarantees	-	-	-	-	95,846,628	-	-	95,846,628	**95,846,628**	87,118,000		
Letters of credit other than for capital												
expenditure	-	-	-	-	35,784,241	-	-	35,784,241	**35,784,241**	49,353,000		
	-	-	-	-	131,630,869	-	-	131,630,869	**131,630,869**	136,471,000		
Total	46,673	-	-	46,673	335,130,042	-	14,071,906	349,201,948	**349,248,621**	442,219,256		
On balance sheet gap	96,167,229	-	-	96,167,229	79,881,970	2,798,026	(14,071,906)	68,608,090	**164,775,319**	178,845,461		
Off balance sheet gap	-	-	-	-	(131,630,869)	-	-	(131,630,869)	**(131,630,869)**	(136,471,000)		

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

37.1 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 Karachi Inter-Bank Offered Rate and Treasury bills rate, credit and liquidity risk associated with various financial assets and liabilities respectively as referred to in note 37 and cash flow risk associated with accrued finance cost in respect of borrowings as referred to in note 8.

The company finances its operations through equity, borrowings and management of working capital with a view to maintain 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.

(a) 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. The company's credit risk is primarily attributable to its trade debts and its balances at banks. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. The company has no significant concentration of credit risk as exposure is spread over a large number of counter parties in case of trade debts. Out of the total financial assets of Rs 382.393 million (2005: Rs 484.594 million), the financial assets which are subject to credit risk amounted to Rs 380.974 million (2005: Rs 484.054 million). To manage exposure to credit risk, the company applies credit limits to its customers.

(b) 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.

(c) 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.

(d) 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.

37.2 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. Fair value is determined on the basis of objective evidence at each reporting date.

38. Date of authorisation for issue

These financial statements were authorised for issue on March 14, 2007 by the board of directors of the company.

39. Events after the balance sheet date

The Board of Directors have proposed a final dividend for the year ended December 31, 2006 of Rs 4.00 (2005: Rs 3.00) per share, amounting to Rs 48 million (2005: Rs 36 million) at their meeting held on March 14, 2007 for approval of members at the Annual General Meeting to be held on April 26, 2007. The board has also proposed transfer of Rs 78 million (2005: Rs 54 million) to general reserve from unappropriated profit. These financial statements do not reflect this dividend payable and other appropriations.

40. Corresponding figures

Corresponding figures have been re-arranged, wherever necessary, for the purpose of comparison. Significant re-arrangement made is as follows:

	Rupees
Accumulating compensated absences classified as Deferred liabilities instead of Employees' retirement and other benefits	6,315,833

The above figure has been re-arranged as the reclassification made is considered appropriate for purposes of presentation.

Mohammad Masud Akhtar
Chief Executive

R. D. Ahmad
Director

Dr. Augus Lee
Chairman

Form of Proxy

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 ______________ (No. of shares) shares as per Share Register folio number ______________ 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 26, 2007 and at any adjournment thereof.

Signed this ______________________ day of ______________________ 2007.

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.

GLOBAL Products
GLOBAL Quality

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