

Pumps • Valves • Systems



Right wherever you need us.

You'll find KSB in more than 100 countries around the world. We have been in Pakistan for over 45 years, serving customers in the water, waste water industrial, energy and building service sectors and providing high-quality innovative pumps, valves and systems. With experts at six sales offices, three service centres and dealers around Pakistan, we ensure everything at your site runs exactly as it should. We are on call whenever you need us.

KSB Pumps Company Limited

16/2, Sir Aga Khan Road, Lahore. Tel: +92-42-6304173-4 UAN: 111-572-786
www.ksb.com.pk



KSB Pumps Company Limited

ANNUAL REPORT 2007



Design by: Mohsin & Javed Umer Print by: Dynamic Printer

Annual Report
2007





Contents

Mission Statement	02
Values	03
Quality Principles	05
Environment, Health & Safety Policy	07
Introduction	08
Sales Offices	10
Company Information	11
Notice of Annual General Meeting	12
Directors' Report to the Shareholders	14
Highlights	22
Key Financial Data	24
Pattern of Shareholding	25
Information as required under the Code of Corporate Governance	26
Statement of Compliance with the Code of Corporate Governance	27
Review Report to the Members	31
Auditors' Report to the Members	34
Balance Sheet	36
Profit and Loss Account	38
Cash Flow Statement	39
Statement of Changes in Equity	40
Notes to the Financial Statements	41



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 center 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.



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 fulfill moral obligation towards society and environment.





Quality Principles

- **Maximum satisfaction of our customers governs our actions.**

Our Customers set 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.







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.



Members of Management Committee (L to R) Mr. Saeed Zafar, Mr. Kamran Mangol, Mr. Iqbal Nafar, Mr. Masood Akhtar, Mr. Ghazanfarullah Khan, Mr. Nadeem Butt, Mr. Sajid Awan and Miss Sumeera Malik

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. The Company is ISO 9001 certified since 1994 and lately has added ISO-14001 and 18001 certifications for complete Integrated Management System certified by TÜV, Germany. Now the Company employs over 350 people, operates through its Sales Offices at Lahore, Karachi,

Quetta, Rawalpindi, Hassanabdal, Peshawar and Multan and through a dealership network throughout the country. In addition, the Company has a full-fledged Service Department comprising 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 Karachi and Lahore Stock Exchanges. The Company received the Merit Trophy for exports of the Federation of Pakistan Chambers of Commerce and Industry (FPCCI) and Top Company Award for exemplary payment to the shareholders by Karachi Stock Exchange. Another award for Corporate Excellence and good Management practices was bestowed on the Company by the



Management Association of Pakistan.

During the last thirty years, the Company has rapidly expanded its production range to include a large variety of pumps to serve various business segments. KSB believes in continuous innovations and adds new solutions for the customers in its production range particularly to 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 while also in special metallurgy for sea water desalination. State of the art material construction such as grey cast iron, austenitic cast iron (D-2), bronzes and high grade stainless steel are used.

KSB Pakistan's special area of expertise is to deliver complete system solutions as an EPC contractor. The recent examples have been K-III project and

construction of sewage disposal station for MDA Multan.

KSB Pakistan has been the major supplier to the vitally important salinity control and reclamation projects (SCARP) 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/automobile castings in the country.

Amarex-KRT Pump





Sales Offices

Lahore

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

Multan

85-A, Qasim Road, Opp. Metro Plaza,
Multan Cantt.
Ph : (061) 111 572 786
Fax : (061) 4541784
E-mail : ksbul@ksb.com.pk

Rawalpindi

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

Quetta

House No. 9-14/142-E,
Barganza Villa, 3-Zarghoon Road,
Quetta.
Ph : (081) 111 572 786
Fax : (081) 2843220
E-mail : ksbrqta@ksb.com.pk

Karachi

501, 5th Floor, Faiyaz Centre,
3-A, Sindhi Muslim Co-oprative
Housing Society, Opposite FTC
Building, Shahrah-e-Faisal,
Karachi.
Ph : (021) 111 572 786
Fax : (021) 4388302
E-mail : imran.ali@ksb.com.pk

Peshawar

Office No. 7, 3rd Floor, The Mall
Towers, 35-The Mall,
Peshawar.
Ph : (091) 111 572 786
Fax : (091) 5278919
E-mail : ksbspsh@ksb.com.pk





Pressure Boosting System Hyamat V, for economised operation in Textile Units & Buildings

Company Information

Board of Directors

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

Company Secretary

Sajid Mahmood Awan

Management

Mohammad Masud Akhtar	Chief Executive
Sajid Mahmood Awan	Finance & Administration
Ghazanfarullah Khan	Production
Nadeem Hamid Butt	Projects & Sales

Auditors

A.F. Ferguson & Co. Chartered Accountants

Legal Advisors

Mandviwala & Zafar

Bankers

ABN Amro Bank N.V.
Deutsche Bank AG
MCB Bank Limited
Allied Bank Limited
NIB Bank Limited

Audit Committee

Hasan Aziz Bilgrami	Chairman
R. D. Ahmad	Member
Tonjes Cerovsky	Member

Registered Office

16/2 Sir Aga Khan Road
Lahore - 54000.
Ph : (042) 6304173, 6370969
Fax : (042) 6368878, 6366192
E-mail : info@ksb.com.pk

Works

Hazara Road, Hassanabdal.
Ph : (0572) 520236
Fax : (0572) 520237
E-mail : info@ksb.com.pk





Notice of Annual General Meeting

Notice is hereby given that the 51st Annual General Meeting of the members of KSB Pumps Company Limited, will be held on Tuesday, the 25th March, 2008, at 4.00 p.m. at Hotel Holiday Inn, 25-26 Egerton Road, Lahore, to transact the following business:

1. To confirm the minutes of the last annual general meeting held on April 26, 2007.
2. To consider and adopt the audited accounts of the Company for the year ended December 31, 2007 and report of Auditors and Directors thereon.
3. To approve and declare dividend of 70% for the financial year ended December 31, 2007 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

March 03, 2008
Lahore





Mr. Sajid M. Awan receiving a shield from Sardar Sikandar Hayat Bosan, Federal Minister for Food, Agriculture & Livestock

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 March, 2008 to 25th March, 2008 (both days inclusive). Transfers received in order at the Registered Office of the Company by the close of business on 17th March, 2008 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.





Mohammad Masud Akhtar
Chief Executive



Directors' Report to the Shareholders

The Directors are pleased to present the Annual Report along with the Audited Financial Statements for the year ended December 31, 2007 together with Auditor's report thereon.



Mr. Masud Akhtar is sharing his views with Raheela Naseem Managing Editor Business Monthly in an exclusive interview

The Economy

Pakistan's economy witnessed a moderate recovery during the year 2007 with GDP growth rate reaching 7.0% as compared with 6.6% growth seen in the year 2006. The continued strong performance of the service sector made the major contribution during the year 2007. Within the industrial sector, the highest growth was observed in the manufacturing and construction sub-sector during the year. The disinflation process, however, slowed somewhat, with average inflation persisting 7.8%. The per capita income grew by 11% over last year, which is indicative of steady improvement in average level of prosperity.

During the fiscal year 2006-07, national savings rose sharply by 19.8% raising its share in GDP to 18.0%. The sustained high pace of growth in the economy is also reflected in a record level of

investment during the year 2007, with the investment to GDP ratio rising to a record high of 23.0%. Strong capital inflow boosted the overall balance of payment, but the current account deficit widened for the third consecutive year. A surge in Foreign Direct Investment flows and portfolio inflows resulted in a record high surplus in the financial account.

Financial Results

Your Company has achieved Rs. 2 billion order intake during the year 2007. Sales has been increased to Rs. 1.66 billion (2006 : Rs.1.40 billion), which is 19% higher than last year. A marvelous increase of 35% in profit after tax achieved during the year. Earnings per share has been increased to Rs. 14.22 in 2007 as compared to Rs. 10.53 in the previous year, a fabulous increase of 35%.

Cash equivalent increased by 61%





at the end of year 2007 as compared to last year. Other income increased by 36% due to better working capital management and investment of fund. Average collection period from debtors has been reduced considerably. The balance sheet indicates total assets of Rs. 1.082 billion representing increase of 30% over the previous year.

The comparative financial results for the year 2007 as against 2006 are as follows:

	2007	2006
	RUPEES IN '000	
Sales	1,664,543	1,401,145
Gross Profit	466,091	427,225
Operating Profit	236,405	196,633
Profit Before Tax	227,992	190,843
Profit After Tax	170,680	126,393
Earnings per Share (Rupees)	14.22	10.53

Future Outlook

The year 2007 has been another tremendous year for KSB Pakistan with landmark achievement of 2.0 billion order intake. The fact that the company has managed to double its order intake, in just two years, makes this achievement even more eminent.

Besides conducive economic conditions, this growth can be attributed to consistent focus on system solutions with some remarkable breakthroughs, more organized market penetration and enhanced operational efficiency.

Despite the economic challenges being forecasted ahead, management believes that this momentum can be upheld with a combination of internal and external strategic measures. Externally, the focus clearly would be on emerging business segments like waste water, energy and





Participants of Strategy Review Meeting held in September 2007 at Royal Palm Lahore.

building services consolidating simultaneously the bigger segments like water and industry with enhanced value to the customers both in terms of products and service.

Internally, the focus will continue on improving operational efficiencies with production concepts like "lean manufacturing" which are more relevant to our emerging business needs requiring a more diverse product portfolio with competitive prices. The product portfolio is also being rejuvenated in a structured way targeting the changing customer needs and emerging market trends.

The Company has set up a well equipped workshop in Karachi for assembling, repairing and overhauling of pumps. It will reduce lead time and improve services to our esteem customers. All these measures together will ensure stability and sustainability over long term.

Human Resource

Performance Management System has been implemented in the Company. Individual objectives of the employees have been linked with the compensation to increase the efficiency and to motivate the employees. A Management Trainee program has been introduced and fresh graduates have been inducted in the Company to cater the future human resource needs of the organization. Foreign and local training programs are the part of the Company's philosophy.

Appropriation

Result For The Year	Rupees '000'
Profit for the year before providing for taxation	227,992
Provision for taxation	57,313
Profit after taxation	170,679
Un-appropriated profit brought forward	464
Available for appropriation	171,143
Appropriated as under	
Transfer to general reserve	87,000
Proposed dividend @ Rs. 7.0 per share (70%)	84,000
	171,000
Un appropriated profit carried forward	143





KSB's stall at the seminar on Water & Waste Water products held at Pearl Continental Hotel Lahore in May 2007

Auditors

The present auditors, A.F. Ferguson & Co., Chartered Accountants, retire and offer themselves for 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, 2008 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, 2007

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 resignations of Mr. Aezaz Hussain and Mr. Asif Jameel and were filled by the appointment of Mr. Willi Enderle and Mr. Zahid Hussain. Mr. Willi Enderle appointed in April, 2007 resigned in October, 2007. This vacancy was filled by the appointment of Mr. Jan Stoop. The Board wishes to place on record its sincere appreciation for the valuable services rendered by the outgoing Directors.





From (L to R) Mr. Omer, Mr. Sohalb, Mr. Kamran, Mr. Waheed, Mr. Nadeem, Mr. Ghazanfar & Mr. Hasan at the KSB stall on 42nd Annual Convention of Pakistan Society of Sugar Technologists held at Avari Hotel Lahore in August 2007

Board of Directors Meetings

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

S. No.	Name of Director	No. of Meetings Attended
1.	Dr. Augus Lee	4
2.	Mr. M. Masud Akhtar	4
3.	Mr. Tonjes Cerovsky	4
4.	Mr. R. D. Ahmad	2
5.	Mr. Asif Jameel	1 Resigned - April, 2007
6.	Mr. Hasan Aziz Bilgrami	2
7.	Mr. Aezaz Hussain	1 Resigned - April, 2007
8.	Mr. Sikandar M. Khan	2
9.	Mr. Willi Enderle	2 Appointed - April, 2007 & resigned October, 2007
10.	Mr. Zahid Hussain	3 Appointed - April, 2007

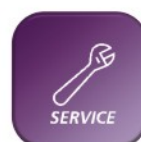
Leave of absence was granted to Directors who could not attend the Board Meetings.

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. Tonjes Cerovsky - 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.





Feed Water Pump type CHT-C for high pressure boilers up to 400 bar

Corporate and Financial 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.
- The value of investments



KSB Valve Type BOAX B



KSB Valve Type ISORIA 20

including accrued interest based on respective audited accounts of funds are as follows:

1. Provident Fund
31-12-2006 Rs. 86.759 million.
 2. Gratuity Fund
31-12-2006 Rs. 47.472 million.
- 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, 2007 is annexed with the report.

On behalf of the Board

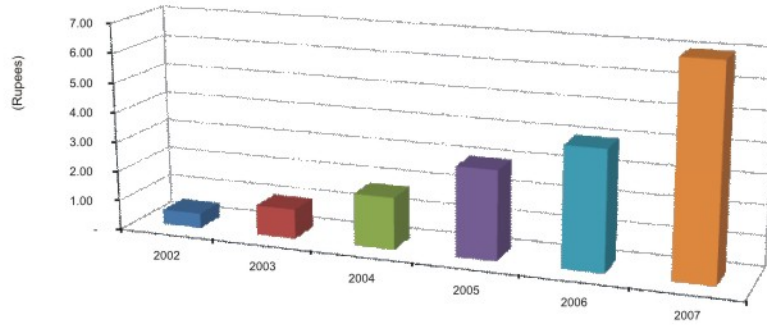


Mohammad Masud Akhtar
Chief Executive
February 21, 2008
Lahore

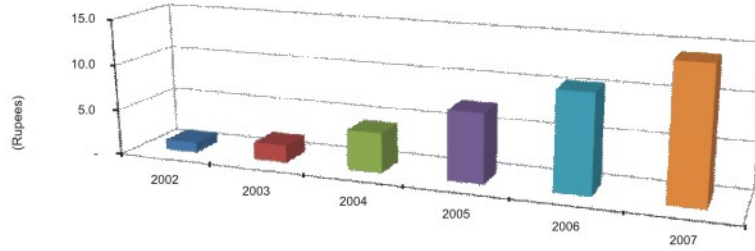


Highlights

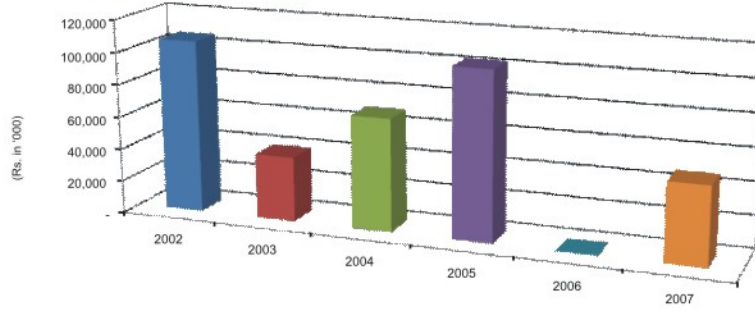
Cash Dividend Per Share



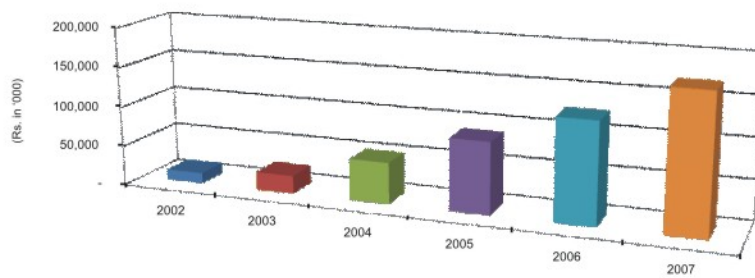
Earnings Per Share



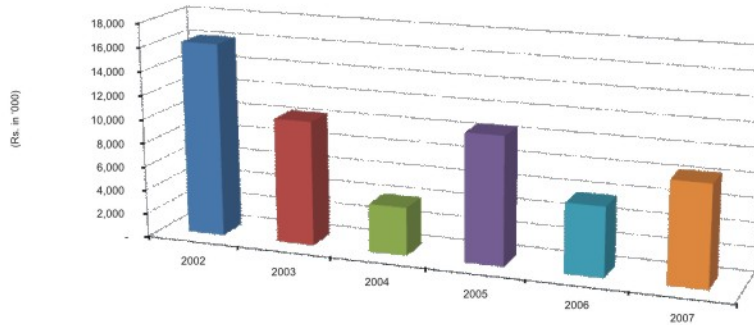
Short Term Finances



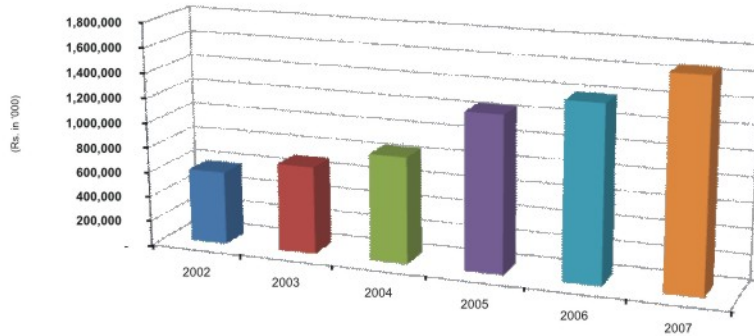
Net Profit



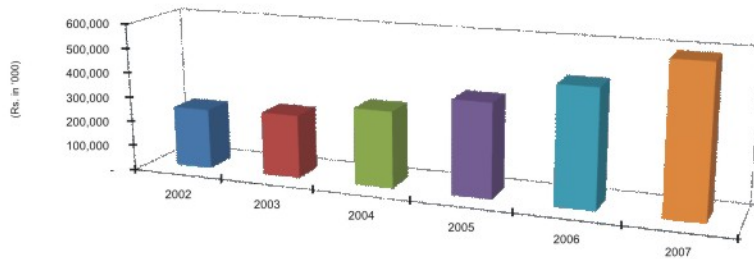
Finance Cost



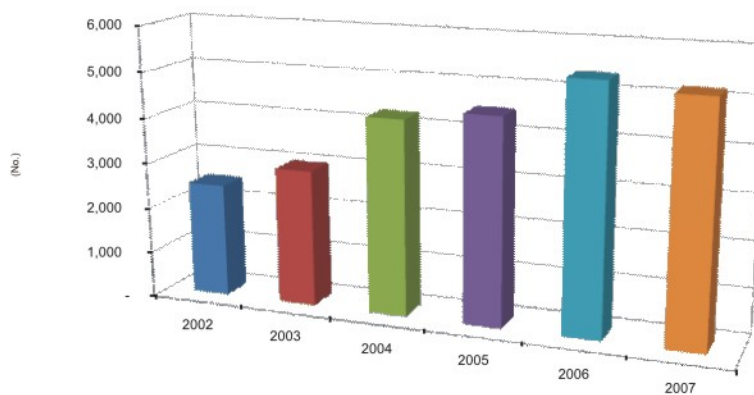
Sales



Shareholders Equity



No. of Pumps Produced



Key Financial Data

(Rs In '000)

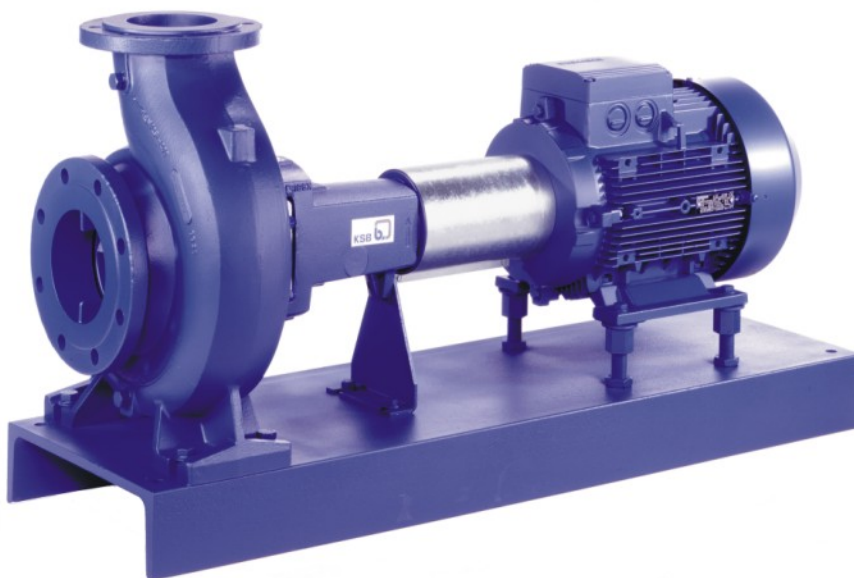
Description	2007	2006	2005	2004	2003	2002
Paid up Capital	120,000	120,000	120,000	120,000	120,000	120,000
Reserves	470,143	347,464	257,071	188,162	136,119	125,277
Net Worth / Shareholders Equity	590,143	467,464	377,071	308,162	256,119	245,277
Long Term Liabilities	32,602	15,072	18,183	19,162	24,797	19,793
Short term finances	47,795	47	103,218	69,164	39,846	106,368
Creditors, accrued & other Liabilities	411,413	347,361	347,242	272,937	225,544	172,725
Total Liabilities & Equity	1,081,953	829,944	845,714	669,425	546,306	544,163
Fixed Assets	152,303	92,630	78,495	67,779	61,454	65,359
Long Term Loans and Deposits	8,336	2,798	4,136	3,777	2,134	1,862
Deferred Taxation	-	-	6,000	10,115	14,046	16,425
Current Assets	921,314	734,516	757,083	587,754	468,672	460,517
Total assets	1,081,953	829,944	845,714	669,425	546,306	544,163
Sales	1,664,543	1,401,145	1,252,166	853,674	703,675	589,559
Gross Profit	466,091	427,225	338,096	212,164	154,412	140,062
Operating Profit	236,405	196,633	155,696	84,703	47,968	38,849
Finance Cost	8,413	5,790	10,672	4,029	10,403	16,205
Profit before tax	227,992	190,843	145,024	80,674	37,565	22,644
Taxation	57,313	64,450	55,115	28,631	14,723	9,082
Net Profit	170,679	126,393	89,909	52,043	22,842	13,562
Gross Margin %	28.0	30.5	27.0	24.9	21.9	23.8
Return on Sales %	13.7	13.6	11.6	9.5	5.3	3.8
Current Ratio	2.0	2.1	1.7	1.7	1.8	1.7
Leverage Ratio (total Liab./Net Worth)	0.8	0.8	1.2	1.2	1.1	1.2
Earnings Per Share (Rs.)	14.2	10.5	7.5	4.3	1.9	1.1
Cash Dividend %	70	40	30	17.50	10	5
No. of Permanent Employees	319	330	331	328	331	337
No of Pumps produced	5,189	5,362	4,499	4,276	2,995	2,491

Pattern of Shareholding

as at December 31, 2007

<u>Number of Shareholders</u>	<u>S h a r e h o l d i n g</u>				<u>Total shares held</u>
197	From	1	To	100	8,388
356	From	101	To	500	132,211
51	From	501	To	1,000	40,378
88	From	1,001	To	5,000	199,352
8	From	5,001	To	10,000	58,165
4	From	10,001	To	15,000	51,764
2	From	15,001	To	20,000	34,069
2	From	25,001	To	30,000	58,821
1	From	40,001	To	45,000	43,900
1	From	50,001	To	55,000	50,500
1	From	60,001	To	65,000	62,100
1	From	135,001	To	140,000	136,772
1	From	201,001	To	205,000	202,100
1	From	225,001	To	230,000	228,800
1	From	245,001	To	250,000	247,612
1	From	301,001	To	305,000	301,071
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
719					12,000,000

<u>Categories of shareholders</u>	<u>Number</u>	<u>Shares held</u>	<u>Percentage</u>
Individuals	699	1,461,737	12.18
Insurance Companies	2	252,012	2.10
Joint Stock Companies	13	7,348,706	61.24
Financial Institutions	3	2,908,624	24.24
Investment companies	1	100	0.00
Others			
- Habib Bank Limited	1	28,821	0.24
A/c Mohammed Amin			
Wakf Estate			
	719	12,000,000	100



Horizontal Volute Casing Pump Type Etanorm for Industrial & HVAC applications

Information as required under the Code of Corporate Governance

<u>Shareholders' Category</u>	<u>Number of Shareholders</u>	<u>Number of Shares Held</u>
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	Nil	Nil
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	17	671,423
General Public	699	1,461,737
Others	1	28,821
Total	719	12,000,000

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





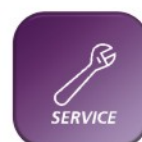
Shake hands after signing the MOU ceremony with ZTBL

Statement of Compliance with the Code of Corporate Governance for the Year ended December 31, 2007

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 2007 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 NBFIs 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. Three 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 agenda 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. 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.
10. 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.

11. 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.
12. The Company has complied with all the corporate and financial reporting requirements of the Code.
13. The Board has formed an audit committee. It comprises of three members, who are non-executive Directors including the chairman of the committee.
14. 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.

15. 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.
16. 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





Training participants from Pakistan in Germany

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.

For and on behalf of the Board



Mohammad Masud Akhtar
Chief Executive

February 21, 2008
Lahore.



17. 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.

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



Review Report to the Members on Statement of Compliance with the 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 Karachi Stock Exchange and Chapter XIII of 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 enquiries 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, 2007.

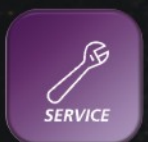


A.F. Ferguson & Co.
Chartered Accountants
February 21, 2008
Lahore





Financial Statements 2007





Auditors' Report to the Members

We have audited the annexed balance sheet of KSB Pumps Company Limited as at December 31, 2007 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, 2007 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
February 21, 2008
Lahore



Balance Sheet

as at December 31, 2007

	Note	2007 Rupees	2006 Rupees
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised capital 15,000,000 (2006: 15,000,000) ordinary shares of Rs 10 each		<u>150,000,000</u>	<u>150,000,000</u>
Issued, subscribed and paid up capital 12,000,000 (2006: 12,000,000) ordinary shares of Rs 10 each	5	120,000,000	120,000,000
General reserve		299,000,000	221,000,000
Unappropriated profit		<u>171,143,515</u>	<u>126,463,948</u>
		590,143,515	467,463,948
NON CURRENT LIABILITIES			
Employees' retirement and other benefits	6	<u>13,633,980</u>	<u>7,756,073</u>
Deferred liabilities	7	<u>18,967,885</u>	<u>7,315,833</u>
		32,601,865	15,071,906
CURRENT LIABILITIES			
Short term finances - secured	8	<u>47,795,183</u>	<u>46,673</u>
Trade and other payables	9	<u>359,893,403</u>	<u>294,209,622</u>
Provision for other liabilities and charges	10	<u>29,537,562</u>	<u>25,040,912</u>
Accrued finance cost		<u>755,866</u>	<u>298,808</u>
Provision for taxation		<u>21,225,634</u>	<u>27,812,525</u>
		459,207,648	347,408,540
CONTINGENCIES AND COMMITMENTS	11	<u>1,081,953,028</u>	<u>829,944,394</u>



Mohammad Masud Akhtar
Chief Executive

	Note	2007 Rupees	2006 Rupees
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	12	147,471,046	89,474,424
Investment property	13	2,399,146	2,804,997
Capital work in progress	14	2,432,400	350,835
Long term loans and deposits	15	8,336,162	2,798,026
		160,638,754	95,428,282
CURRENT ASSETS			
Stores, spares and loose tools	16	43,466,139	41,113,551
Stock-in-trade	17	244,880,895	267,057,463
Trade debts - unsecured	18	250,060,993	214,193,118
Advances, deposits, prepayments and other receivables	19	115,895,577	76,086,126
Cash and bank balances	20	267,010,670	136,065,854
		921,314,274	734,516,112
		1,081,953,028	829,944,394

The annexed notes 1 to 39 form an integral part of these financial statements.



Dr. Augustus Lee
Chairman

Profit and Loss Account

for the year ended December 31, 2007

	Note	2007 Rupees	2006 Rupees
Sales	21	1,664,543,336	1,401,145,129
Cost of sales	22	(1,198,452,822)	(973,920,366)
Gross profit		466,090,514	427,224,763
Distribution and marketing expenses	23	(161,897,710)	(159,195,044)
Administration expenses	24	(90,562,325)	(82,505,121)
Other operating expenses	25	(18,654,463)	(19,285,851)
Other operating income	26	41,429,383	30,394,266
Profit from operations		236,405,399	196,633,013
Finance cost	27	(8,413,048)	(5,790,369)
Profit before tax		227,992,351	190,842,644
Taxation	28	(57,312,784)	(64,450,000)
Profit for the year		170,679,567	126,392,644
Earnings per share	35	14.22	10.53

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

The annexed notes 1 to 39 form an integral part of these financial statements.



Mohammad Masud Akhtar
Chief Executive



Dr. August Lee
Chairman

Cash Flow Statement

for the year ended December 31, 2007

	Note	2007 Rupees	2006 Rupees
Cash flows from operating activities			
Cash generated from operations	30	276,881,400	222,542,184
Finance cost paid		(7,955,990)	(7,226,547)
Taxes paid		(53,899,675)	(22,295,700)
Payments for accumulating compensated absences		(637,935)	(1,045,431)
Employees' retirement and other benefits paid		(362,822)	(9,388,279)
(Increase)/decrease in long term loans and deposits		(5,538,136)	588,194
Net cash from operating activities		208,486,842	183,174,421
Cash flows from investing activities			
Fixed capital expenditure		(78,381,135)	(29,377,464)
Proceeds from sale of property, plant and equipment		881,000	1,649,470
Net cash used in investing activities		(77,500,135)	(27,727,994)
Cash flows from financing activities			
Dividend paid		(47,790,401)	(35,833,556)
Net cash used in financing activities		(47,790,401)	(35,833,556)
Net increase in cash and cash equivalents		83,196,306	119,612,871
Cash and cash equivalents at the beginning of the year		136,019,181	16,406,310
Cash and cash equivalents at the end of the year	31	219,215,487	136,019,181

The annexed notes 1 to 39 form an integral part of these financial statements.



Mohammad Masud Akhtar
Chief Executive




Dr. August Lee
Chairman

Statement of Changes in Equity

for the year ended December 31, 2007

	Share capital	General reserve	Unappropriated profit	Total
	(R u p e e s)			
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
Final dividend for the year ended December 31, 2006 Rs 4.00 per share	-	-	(48,000,000)	(48,000,000)
Transfer to general reserve	-	78,000,000	(78,000,000)	-
Profit for the year	-	-	170,679,567	170,679,567
Balance as at December 31, 2007	120,000,000	299,000,000	171,143,515	590,143,515

The annexed notes 1 to 39 form an integral part of these financial statements.



Mohammad Masud Akhtar
Chief Executive



Dr. August Lee
Chairman

Notes to the Financial Statements

for the year ended December 31, 2007

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. Basis of preparation

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

The following amendments to existing standards have been published that are applicable to the Company's financial statements covering annual periods, beginning on or after the following dates:

2.2.1 Amendments to published standards effective in current year

Amendments to IAS 1 'Presentation of Financial Statements' - Capital disclosure is mandatory for the Company's accounting period beginning on January 01, 2007. It's 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 23 'Borrowing Costs' have been published that are applicable to the Company's financial statements covering annual periods, beginning on or after January 01, 2009. Adoption of these amendments would require the Company to capitalise the borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing these borrowing costs will be removed. Its adoption will not have any impact on the Company's financial statements.

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 Company's significant accounting policies are stated in note 4. Not all of these significant policies require the management to make difficult, subjective or complex judgments or estimates. The following is intended to provide an understanding of the policies the management considers critical because of their complexity, judgment of estimation involved in their application and their impact on these financial statements. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. These judgments involve assumptions or estimates in respect of future events and the actual results may differ from these estimates. The areas involving a higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

a) Retirement benefits

The Company uses the valuation performed by an independent actuary as the present value of its retirement benefit obligations. The valuation is based on assumptions as mentioned in note 4.2

b) Provision for taxation

The Company takes into account the current income tax law and the decisions taken by appellate authorities. Instances where the Company's view differs from the view taken by the income tax department at the assessment stage and where the Company considers that its views on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

c) Useful life and residual values of property, plant and equipment

The Company reviews the useful lives of property, plant and equipment on regular basis. Any change in estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge and impairment.

4. 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 recognised for all taxable temporary differences and deferred tax assets are recognised 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 6.755 million (2006: Rs 6.587 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

Plan assets include long-term Government bonds and equity instruments of listed companies. Return on Government bonds and debt is at fixed rates, however, due to increased volatility of share prices in recent months, there is no clear indication of return on equity shares therefore it has been assumed that the yield on equity shares would match the return on debt.

The Company is expected to contribute Rs 6.165 million to the gratuity fund.

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, 2007.

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. The Company's estimate of the residual value of its property, plant and equipment as at December 31, 2007 has not required any adjustment as its impact is considered insignificant.

Depreciation on additions to property, plant and equipment 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 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's estimate of the residual value of its investment property as at December 31, 2007 has not required any adjustment as its impact is considered insignificant.

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. They 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 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 finances, accruals, provisions, unclaimed dividends and other payables. All financial assets and liabilities are initially measured at cost, which is the fair value of consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value or cost as the case may be. 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 373.665 million (2006: Rs 208.440 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

2007 (Number of shares)	2006		2007 Rupees	2006 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, 2007, the holding Company KSB AG, Germany held 7,066,341 (2006: 7,066,341) shares of the Company.

		2007 Rupees	2006 Rupees
6. Employees' retirement and other benefits			
These are composed of:			
Gratuity fund	- note 6.1	976,842	(3,413,847)
Ex-gratia scheme	- note 6.2	12,657,138	11,169,920
		<u>13,633,980</u>	<u>7,756,073</u>

6.1 Gratuity fund

Present value of defined benefit obligation		54,798,733	46,830,807
Fair value of plan assets		(48,142,815)	(48,992,439)
Unrecognised actuarial losses		(5,679,076)	(1,252,215)
Liability / (asset) as at December 31		<u>976,842</u>	<u>(3,413,847)</u>
(Asset) / liability as at January 1		(3,413,847)	997,278
Charged to profit and loss account		4,390,689	3,912,000
Contribution by the Company		-	(8,323,125)
Liability / (asset) as at December 31		<u>976,842</u>	<u>(3,413,847)</u>

The movement in the present value of defined benefit obligation is as follows:

Present value as at January 1		46,830,807	43,461,278
Current service cost		4,595,585	3,822,000
Interest cost		4,807,741	4,017,000
Benefits paid		(8,127,724)	(8,340,578)
Experience loss		6,692,324	3,871,107
Present value as at December 31		<u>54,798,733</u>	<u>46,830,807</u>

The movement in fair value of plan assets is as follows:

Fair value as at January 1		48,992,439	42,423,000
Expected return on plan assets		5,012,637	3,927,000
Company's contributions		-	8,323,125
Benefits paid		(8,127,724)	(8,340,578)
Experience gain		2,265,463	2,659,892
Fair value as at December 31		<u>48,142,815</u>	<u>48,992,439</u>

Plan assets are comprised of as follows:

Debt		45,654,236	45,981,070
Mixed Funds		988,630	1,904,486
Cash		1,499,949	1,106,883
		<u>48,142,815</u>	<u>48,992,439</u>

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				
	2007	2006	2005	2004	2003
As at December 31					
Present value of defined benefit obligation	54,798,733	46,830,807	43,461,278	36,688,278	31,884,000
Fair value of plan assets	48,142,815	48,992,439	42,423,000	38,111,000	29,510,000
Surplus / (deficit)	<u>(6,655,918)</u>	<u>2,161,632</u>	<u>(1,038,278)</u>	<u>1,422,722</u>	<u>(2,374,000)</u>
Experience adjustment on obligation	12%	8%	9%	10%	4%
Experience adjustment on plan assets	6%	5%	5%	6%	7%

	2007	2006
	Rupees	Rupees
6.2 Ex-gratia Scheme		
Present value of defined benefit obligation	12,863,542	10,678,171
Unrecognised actuarial (losses)/gains	(206,404)	491,749
Liability as at December 31	12,657,138	11,169,920
Liability as at January 1	11,169,920	10,652,888
Charged to profit and loss account	1,850,040	1,582,186
Payments made by the Company	(362,822)	(1,065,154)
Liability as at December 31	12,657,138	11,169,920

7. Deferred liabilities

Deferred taxation	- note 7.1	11,000,000	1,000,000
Accumulating compensated absences	- note 7.2	7,967,885	6,315,833
		18,967,885	7,315,833

7.1 Deferred taxation

This comprises temporary differences relating to:

Employees' retirement and other benefits	(6,000,000)	(5,208,307)
Accelerated tax depreciation allowances	17,000,000	7,491,824
Others	-	(1,283,517)
	11,000,000	1,000,000

7.2 Accumulating compensated absences

Liability as at January 1	6,315,833	6,533,276
Charged to profit and loss account	2,289,987	827,988
Payments made by the Company	(637,935)	(1,045,431)
Liability as at December 31	7,967,885	6,315,833

8. Short term finances - secured

Finances available from commercial banks under mark-up arrangements amount to Rs 390 million (2006: Rs 424.728 million). The rates of mark-up range from Re 0.2797 to Re 0.2838 per Rs 1,000 per diem or part thereof on the balance outstanding.

Of aggregate facility of letters of credit of Rs 270 million (2006: Rs 105.932 million) and guarantees of Rs 450 million (2006: Rs 84.340 million), the amounts utilised as at December 31, 2007 was Rs 161.920 million (2006: Rs 35.784 million) and Rs 129.604 million (2006: Rs 62.903 million) respectively.

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

		2007 Rupees	2006 Rupees
9. Trade and other payables			
Trade creditors	- note 9.1	111,759,956	108,108,853
Accrued liabilities	- note 9.2	74,633,181	61,217,195
Advances from customers	- note 9.3	142,165,734	97,761,552
Interest free deposits, repayable on demand		-	39,603
Workers' profit participation fund	- note 9.4	13,679,700	11,284,200
Workers' welfare fund	- note 9.5	5,516,154	3,900,000
Rent received in advance		1,241,768	3,104,417
Unclaimed dividends		1,026,088	816,489
Other liabilities		9,870,822	7,977,313
		359,893,403	294,209,622

9.1 Trade creditors include amount due to holding company of Rs 15.438 million (2006: Rs 2.812 million) and associated undertakings of Rs 8.961 million (2006: Rs 7.396 million).

9.2 Accrued liabilities include amount due to holding company of Rs 6.199 million (2006: Rs 7.287 million) and associated undertakings of Rs 5.743 million (2006: Rs 9.519 million). Due to associated undertaking includes amount due to provident fund of Rs 1.160 million (2006: Rs Nil).

9.3 Advances from customers include Rs 30.175 million (2006: Rs 23.356 million) in respect of gross amount due to customers for contract work, and advances from holding company and associated companies of Rs 1.669 million (2006: Rs Nil) and Rs 0.395 million (2006: Rs. 0.365 million) respectively.

		2007 Rupees	2006 Rupees
9.4 Workers' profit participation fund			
Balance at beginning of the year		11,284,200	8,012,200
Allocation for the year	- note 25	12,245,000	10,226,000
Interest payable on funds utilised by the Company	- note 27	1,426,500	1,047,000
		24,955,700	19,285,200
Less: Payments made during the year		11,276,000	8,001,000
		13,679,700	11,284,200

		2007 Rupees	2006 Rupees
10. Provision for other liabilities and charges			
Bonus to employees	- note 10.1	18,287,562	17,480,912
Sales incentive scheme	- note 10.2	11,250,000	7,560,000
		<u>29,537,562</u>	<u>25,040,912</u>

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

	Rupees		
	Bonus to employees	Sales incentive scheme	Total
Balance as at January 1, 2007	17,480,912	7,560,000	25,040,912
Additional provisions made during the year	18,287,562	11,630,957	29,918,519
Provisions used during the year	(16,645,486)	(7,940,957)	(24,586,443)
Provisions reversed during the year	(835,426)	-	(835,426)
Balance as at December 31, 2007	<u>18,287,562</u>	<u>11,250,000</u>	<u>29,537,562</u>

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, 2007 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) 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 0.070 million (2006: Rs 0.574 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.

(iii) The Company has issued guarantees of Rs 129.604 million (2006: Rs 95.846 million) against the performance of various contracts.

11.2 Commitments in respect of

Letters of credit other than for capital expenditure approximately Rs 161.920 million (2006: Rs 35.784 million).

12. Property, plant and equipment

	Rupees								
	Cost as at January 1, 2007	Additions/ (deletions)	Transfers in / (out)	Cost as at December 31, 2007	Accumulated depreciation as at January 1, 2007	Depreciation charge/ (deletions) for the year	Transfers in / (out)	Accumulated depreciation as at December 31, 2007	Book value as at December 31, 2007
Freehold land	1,372,520	-	-	1,372,520	-	-	-	-	1,372,520
Buildings on freehold land	31,090,007	-	518,800	31,608,807	22,541,526	829,402	222,949	23,593,877	8,014,930
Plant and machinery	119,622,289	47,299,740	-	166,922,029	84,383,433	4,079,141	-	88,462,574	78,459,455
Tools, jigs and attachments	33,862,961	3,905,126	-	37,768,087	27,538,874	1,846,092	-	29,384,966	8,383,121
Patterns	47,157,619	1,725,098	-	48,882,717	37,960,330	2,644,636	-	40,604,966	8,277,751
Other equipment and tube wells	12,347,499	4,780,080 (767,543)	-	16,360,036	7,141,166	1,171,920 (767,543)	-	7,545,543	8,814,493
Furniture and fixtures	7,244,655	1,295,350	-	8,540,005	5,785,004	350,185	-	6,135,189	2,404,816
Office machines and appliances	43,612,628	6,016,606 (718,878)	-	48,910,356	38,674,850	3,747,901 (718,878)	-	41,703,873	7,206,483
Vehicles	31,889,565	11,277,570 (1,501,848)	-	41,665,287	14,700,136	3,929,522 (1,501,848)	-	17,127,810	24,537,477
2007	328,199,743	76,299,570 (2,988,269)	518,800	402,029,844	238,725,319	18,598,799 (2,988,269)	222,949	254,558,798	147,471,046
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

The cost of fully depreciated property, plant and equipment which are still in use as at December 31, 2007 is Rs 177.107 million (2006: Rs 164.259 million).

	2007 Rupees	2006 Rupees
Cost of sales	14,434,148	11,794,144
Distribution and marketing expenses	2,606,341	1,975,451
Administration expenses	1,558,310	585,133
	18,598,799	14,354,728

12.2 Disposal of property, plant and equipment

Particulars of assets	Sold to	Rupees				Mode of disposal
		Cost	Accumulated depreciation	Book value	Sale proceeds	
Vehicles						
Employees						
	Mr. Muhammad Shehzad	434,000	434,000	-	215,000	Negotiation
	Mr. Rehan Kazmi	473,848	473,848	-	227,000	Negotiation
Outsiders						
	Mr. Haider Mehdi	594,000	594,000	-	439,000	Advertisement
		1,501,848	1,501,848	-	881,000	

12.3 Included in deletions for the year is an amount of Rs 1.486 million (2006: Nil) in respect of fully depreciated assets written off.

13. Investment property

	Rupees								
	Cost as at January 1, 2007	Additions/ (deletions)	Transfers in / (out)	Cost as at December 31, 2007	Accumulated depreciation as at January 1, 2007	Depreciation charge/ (deletions) for the year	Transfers in / (out)	Accumulated depreciation as at December 31, 2007	Book value as at December 31, 2007
Building on freehold land	4,918,800	-	(518,800)	4,400,000	2,113,803	110,000	(222,949)	2,000,854	2,399,146
2007	4,918,800	-	(518,800)	4,400,000	2,113,803	110,000	(222,949)	2,000,854	2,399,146
2006	4,918,800	-	-	4,918,800	1,990,833	122,970	-	2,113,803	2,804,997

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, 2007 is Rs 75.351 million (2006: Rs 62.491 million).

	2007 Rupees	2006 Rupees
14. Capital work in progress		
Advance for land	229,800	229,800
Plant and machinery	-	121,035
Advance for vehicles	2,202,600	-
	<u>2,432,400</u>	<u>350,835</u>

15. Long term loans and deposits

Loans to employees - considered good		
- Chief Executive	5,540,000	-
- Executives	171,846	900,000
- Others	5,232,302	2,904,288
	<u>10,944,148</u>	<u>3,804,288</u>
Less: Receivable within one year	- note 19	-
	<u>3,859,766</u>	<u>2,140,242</u>
	<u>7,084,382</u>	<u>1,664,046</u>
Security deposits	1,251,780	1,133,980
	<u>8,336,162</u>	<u>2,798,026</u>

Reconciliation of the carrying amount of loans to:

	Director		Executives	
	2007	2006	2007	2006
Balance as at January 1	-	1,050,000	900,000	1,570,000
Disbursements during the year	5,600,000	-	-	-
Repayments during the year	(60,000)	(1,050,000)	(728,154)	(670,000)
Balance as at December 31	<u>5,540,000</u>	<u>-</u>	<u>171,846</u>	<u>900,000</u>

These represent un-secured interest free loans, other than loan to Chief executive officer which is secured against his personal property. Loans are 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 48 months.

The maximum aggregate amount due from director and executives at any time during the year was Rs 5.600 million (2006: Rs 1.025 million) and Rs 0.900 million (2006: Rs 1.535 million) respectively.

	2007 Rupees	2006 Rupees
16. Stores, spares and loose tools		
Stores	18,822,764	19,730,244
Spares	13,303,327	10,995,488
Loose tools	11,340,048	10,387,819
	<u>43,466,139</u>	<u>41,113,551</u>

16.1 Stores and spares, having cost of Rs 4.749 million (2006: Rs 4.525 million) are being carried at net realisable value and an amount of Rs 0.224 million (2006: Rs 2.594 million) has been charged to cost of sales, being the cost of inventory written down during the year.

	2007 Rupees	2006 Rupees
17. Stock in trade		
Raw materials [including in transit Rs 10.970 million (2006: Rs 10.256 million)]	126,472,988	122,032,594
Work in process	69,717,874	78,850,428
Finished goods	48,690,033	66,174,441
	<u>244,880,895</u>	<u>267,057,463</u>

17.1 Stock-in-trade, having cost of Rs 32.593 million (2006: Rs 34.714 million) are being carried at net realisable value and an amount of Rs 9.917 million (2006: 14.861 million) has been charged to cost of sales, being the cost of inventory written down during the year.

17.2 Work-in-process amounting to Rs 2.882 million (2006: Rs 2.401 million) is held with various contractors for machining services.

	2007 Rupees	2006 Rupees
18. Trade debts - unsecured		
Considered good		
- Related parties - note 18.1	38,373,250	34,557,924
- Others	211,687,743	179,635,194
	<u>250,060,993</u>	<u>214,193,118</u>
Considered doubtful	37,760,498	34,546,528
	<u>287,821,491</u>	<u>248,739,646</u>
Less: Provision for doubtful debts - note 18.2	(37,760,498)	(34,546,528)
	<u>250,060,993</u>	<u>214,193,118</u>

18.1 Related parties

Holding Company

- KSB Aktiengesellschaft, Germany 23,301,663 10,920,331

Associated undertakings

- Pt KSB Indonesia	1,397,779	5,730,365
- KSB Ajax Pumps Pty. Limited, Australia	-	3,300
- KSB Ajax Pumps Pty. Limited, New Zealand	245,400	-
- KSB Mörck AB, Sweden	352,088	2,294,490
- KSB Amri (A.P) Pte Ltd.	40,184	-
- KSB Pumps Company Limited Thailand	725,620	211,992
- KSB Company Limited, Taiwan	2,896,579	-
- KSB Pompy Armatura, Poland	-	2,883,460
- KSB S.A. Cedex, France	-	3,506,882
- KSB Pumps Limited, India	1,158,902	-
- KSB GMBH - Services	542,900	-
- Millat Tractors Limited	7,029,664	7,026,430
- General Tyre & Rubber Company	682,471	1,880,674
- Service Industries Textiles	-	100,000
	<u>38,373,250</u>	<u>34,557,924</u>

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

18.2 Provision for doubtful debts

Opening balance	34,546,528	12,062,852
Provision for the year - note 23	7,516,884	25,200,000
	<u>42,063,412</u>	<u>37,262,852</u>
Less: Bad debts written off against provision	4,302,914	2,716,324
Closing balance	<u>37,760,498</u>	<u>34,546,528</u>

		2007 Rupees	2006 Rupees
19. Advances, deposits, prepayments and other receivables			
Current portion of long term loans to employees	- note 15	3,859,766	2,140,242
Short term advances to employees- considered good	- note 19.1	4,359,406	3,575,592
Advances to suppliers and contractors			
- Considered good		30,741,109	9,853,773
- Considered doubtful		283,479	283,479
		31,024,588	10,137,252
Due from related parties	- note 19.2	5,902,995	7,742,005
Trade deposits and prepayments			
- Considered good		36,036,382	26,729,625
- Considered doubtful		6,300,353	5,445,783
		42,336,735	32,175,408
Letters of credit, deposits and opening charges		1,905,056	10,120,826
Profit receivable on bank deposits		4,430,137	1,257,540
Sales tax receivable		18,049,568	13,693,347
Other receivables			
- Considered good		10,611,158	973,176
- Considered doubtful		210,965	210,965
		10,822,123	1,184,141
		122,690,374	82,026,353
Less: Provision for doubtful amounts	- note 19.3	6,794,797	5,940,227
		115,895,577	76,086,126

19.1 Included in short term advances to employees is amount due from executives of Rs 0.230 million (2006: Rs 0.021 million).

		2007 Rupees	2006 Rupees
19.2 Due from related parties			
Holding company			
- KSB Aktiengesellschaft, Germany		5,839,908	19,690
Associated undertakings			
- KSB S.A. Cedex, France		63,087	29,691
Post employment benefit plans			
- KSB Pumps Company Limited - Staff Provident Fund		-	7,692,624
		5,902,995	7,742,005

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

19.3 Provision for doubtful amounts

Opening balance		5,940,227	1,551,407
Provision for the year	- note 23	854,570	4,732,520
		6,794,797	6,283,927
Less: Amount written off against provision		-	343,700
Closing balance		6,794,797	5,940,227

20. Cash and bank balances

At banks			
- on deposit accounts		180,000,000	60,000,000
- on saving accounts		3,941,214	304,840
- on current accounts		65,938,932	50,350,921
		249,880,146	110,655,761
Cash in hand [including cheques in hand of Rs 15.214 million (2006: Rs 23.991 million)]			
		17,130,524	25,410,093
		267,010,670	136,065,854

20.1 The balances in saving and deposit accounts bear mark-up which ranges from 3% to 11.00% per annum.

		2007 Rupees	2006 Rupees
21. Sales			
Local sales	- note 21.1	1,537,356,584	1,305,612,202
Export sales		170,877,522	136,299,090
		1,708,234,106	1,441,911,292
Less: Sales Tax		(43,690,770)	(40,766,163)
		1,664,543,336	1,401,145,129

21.1 Sales are inclusive of revenue from rendering of contract and services of Rs 172.873 million (2006: Rs 4.839 million) and Rs. 18.799 million (2006: Rs. 41.172 million) respectively.

		2007 Rupees	2006 Rupees
22. Cost of sales			
Raw material consumed		739,361,778	669,236,659
Salaries, wages, amenities and staff welfare	- note 22.1	108,233,345	89,627,033
Staff training		1,859,878	1,007,255
Electricity and power		28,730,715	28,138,222
Stores and spares consumed		75,520,805	79,662,664
Insurance		1,792,352	1,037,717
Traveling and conveyance		17,134,505	16,751,972
Postage and telephone		2,585,508	2,169,031
Rent, rates and taxes		1,542,790	1,143,426
Repairs and maintenance		16,939,372	11,078,232
Legal & Professional charges		3,331,752	1,718,425
Packing expenses		17,202,803	14,969,681
Outside services		130,717,525	81,414,990
Depreciation on property, plant and equipment	- note 12.1	14,434,148	11,794,144
Royalty		4,042,000	5,295,339
Other expenses		9,530,678	7,232,251
		1,172,959,954	1,022,277,041
Opening work-in-process		78,850,428	66,212,848
Less: Closing work-in-process	- note 17	69,717,874	78,850,428
		9,132,554	(12,637,580)
Cost of goods manufactured		1,182,092,508	1,009,639,461
Opening stock of finished goods		66,174,441	30,455,346
Less: Closing stock of finished goods	- note 17	48,690,033	66,174,441
		17,484,408	(35,719,095)
		1,199,576,916	973,920,366
Less: Cost of capital assets manufactured		(1,124,094)	-
		1,198,452,822	973,920,366

Cost of sales include the following in respect of:

Contract cost		136,231,091	9,894,820
Raw material written off		2,654,760	3,852,111
Work-in-process written off		5,118,179	5,541,623
Finished goods written off		2,144,543	5,466,798
Stores, spares and loose tools written off		223,782	2,594,511

22.1 Salaries, wages, amenities and staff welfare

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

	2007 Rupees	2006 Rupees
Gratuity fund		
Current service cost	1,678,376	1,412,384
Interest cost	1,755,859	1,484,445
Expected return on plan assets	<u>(1,830,690)</u>	<u>(1,451,186)</u>
	1,603,545	1,445,643
Ex-gratia		
Current service cost	771,312	589,631
Interest cost	<u>1,052,919</u>	<u>970,333</u>
	1,824,231	1,559,964

In addition to above, salaries, wages, amenities and staff welfare include Rs 3.262 million (2006: Rs 2.708 million) and Rs 1.358 million (2006: Rs 0.488 million) in respect of provident fund contribution by the Company and accumulating compensated absences respectively.

		2007 Rupees	2006 Rupees
23. Distribution and marketing expenses			
Salaries, wages, amenities and staff welfare	- note 23.1	48,462,489	37,572,945
Staff training		3,028,926	642,572
Traveling, conveyance and representations		15,199,317	14,344,176
Rent, rates and taxes		2,975,272	2,767,286
Publicity charges		5,576,845	7,296,171
Electricity, gas and water		2,388,618	2,354,978
Postage and telephone		3,349,682	3,694,795
Printing and stationery		1,964,357	1,629,300
Repairs and maintenance		1,009,534	1,359,577
Forwarding expenses		19,149,092	16,715,046
Commission expenses		41,890,255	36,203,140
Provision for:			
- Doubtful debts	- note 18.2	7,516,884	25,200,000
- Doubtful receivables	- note 19.3	854,570	4,732,520
Depreciation on property, plant and equipment	- note 12.1	2,606,341	1,975,451
Other expenses		<u>5,925,528</u>	<u>2,707,087</u>
		161,897,710	159,195,044

23.1 Salaries, wages, amenities and staff welfare

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

	2007 Rupees	2006 Rupees
Gratuity fund		
Current service cost	1,285,660	954,644
Interest cost	1,345,012	1,003,351
Expected return on plan assets	<u>(1,402,334)</u>	<u>(980,871)</u>
	1,228,338	977,124

In addition to above, salaries, wages, amenities and staff welfare include Rs 1.421 million (2006: Rs 1.113 million) and Rs 0.395 million (2006: Rs 0.127 million) in respect of provident fund contribution by the Company and accumulating compensated absences respectively.

		2007 Rupees	2006 Rupees
24. Administration expenses			
Salaries, wages, amenities and staff welfare	- note 24.1	51,836,472	45,367,108
Staff training		492,431	1,172,360
Traveling, conveyance and representations		11,530,385	13,242,212
Rent, rates and taxes		1,381,362	872,496
Electricity, gas and water		2,406,924	1,784,132
Postage and telephone		4,878,467	4,489,547
Printing and stationery		1,907,767	1,937,110
Repairs and maintenance		2,799,187	2,506,399
Professional services	- note 24.2	7,531,657	6,093,499
Depreciation on:			
- Property, plant and equipment	- note 12.1	1,558,310	585,133
- Investment property	- note 13.1	110,000	122,970
Other expenses		4,129,363	4,332,155
		<u>90,562,325</u>	<u>82,505,121</u>

24.1 Salaries, wages, amenities and staff welfare

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

		2007 Rupees	2006 Rupees
Gratuity fund			
Current service cost		1,631,547	1,454,974
Interest cost		1,706,868	1,529,208
Expected return on plan assets		(1,779,611)	(1,494,946)
		<u>1,558,804</u>	<u>1,489,236</u>
Ex-gratia			
Current service cost		10,914	8,398
Interest cost		14,898	13,821
		<u>25,812</u>	<u>22,219</u>

In addition to above, salaries, wages, amenities and staff welfare include Rs 2.051 million (2006: Rs 1.624 million) and Rs 0.517 million (2006: Rs 0.214 million) in respect of provident fund contribution by the Company and accumulating compensated absences respectively.

		2007 Rupees	2006 Rupees
24.2 Professional services			
The charges for professional services include the following in respect of auditors' services for:			
Statutory audit		218,500	189,750
Review of half yearly financial statements		100,000	82,500
Audit of funds, consolidation forms and sundry services		301,000	310,300
Taxation services		1,380,000	1,400,000
Out of pocket expenses		184,783	114,065
		<u>2,184,283</u>	<u>2,096,615</u>

25. Other operating expenses

Workers' profit participation fund	- note 9.4	12,245,000	10,226,000
Workers' welfare fund		4,653,000	3,451,201
Donations	- note 25.1	162,010	474,725
Exchange loss		1,594,453	5,133,925
		<u>18,654,463</u>	<u>19,285,851</u>

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

	2007 Rupees	2006 Rupees
26. Other operating income		
Income from financial assets		
Profit on bank accounts	14,228,005	2,521,575
Income from non-financial assets		
Commission Income	7,498,895	11,558,727
Rental income on investment property	4,144,332	3,677,535
Scrap sales	4,120,800	3,959,238
Profit on sale of property, plant and equipment	881,000	885,194
Recovery of trade debts previously written off	-	112,551
Provisions no longer considered necessary and unclaimed balances written back	8,532,986	6,175,762
Sundry income	2,023,365	1,503,684
	<u>27,201,378</u>	<u>27,872,691</u>
	<u>41,429,383</u>	<u>30,394,266</u>
27. Finance cost		
Mark-up on short term finances	2,149,095	2,068,709
Interest on workers' profit participation fund	1,426,500	1,047,000
Bank and other charges	4,837,453	2,674,660
	<u>8,413,048</u>	<u>5,790,369</u>
28. Taxation		
For the year		
- Current	62,000,000	57,450,000
- Deferred	8,700,000	2,700,000
	<u>70,700,000</u>	<u>60,150,000</u>
Prior year		
- Current	(14,687,216)	-
- Deferred	1,300,000	4,300,000
	<u>(13,387,216)</u>	<u>4,300,000</u>
	<u>57,312,784</u>	<u>64,450,000</u>
	2007	2006
	%	%
28.1 Tax charge reconciliation		
Numerical reconciliation between the average effective tax rate and the applicable tax rate:		
Applicable tax rate	35.00	35.00
Tax effect of amounts that are:		
- Not deductible for tax purposes	0.02	0.09
Tax effect under presumptive tax regime and others	(4.01)	(3.57)
Effect of change in prior year's tax	(5.87)	2.25
Average effective tax rate charged to profit and loss account	<u>25.14</u>	<u>33.77</u>

29. Rates of exchange

Foreign currency liabilities have been translated into Rupees at US \$ 1.6247 (2006: US \$ 1.6399), EURO 1.1017 (2006: EURO 1.2424), GBP 0.8131 (2006: GBP 0.8376), DHR 5.9666 (2006: DHR 6.1501), SFR 1.8245 (2006: SFR 1.9976), YEN 181.9174 (2006: YEN 195.2362) and HK \$ 12.6743 (2006: HK \$ 12.8205) equal to Rs 100. Foreign currency assets have been translated at US \$ 1.6300 (2006: US \$ 1.6453) equal to Rs 100.

	2007 Rupees	2006 Rupees
30. Cash generated from operations		
Profit before taxation	227,992,351	190,842,644
Adjustment for:		
Depreciation on:		
- Property, plant and equipment	18,598,799	14,354,728
- Investment property	110,000	122,970
Profit on sale of property, plant and equipment	(881,000)	(885,194)
Accumulating compensated absences	2,289,987	827,988
Employees' retirement and other benefits	6,240,729	5,494,186
Provision for doubtful debts	7,516,884	25,200,000
Provision for doubtful receivables	854,570	4,732,520
Stores, spares and loose tools written off	223,782	2,594,511
Stock-in-trade written off	9,917,482	14,860,532
Provisions no longer considered necessary and unclaimed balances written back	(8,532,986)	(6,175,762)
Finance cost	8,413,048	5,790,369
Working capital changes - note 30.1	4,137,754	(35,217,308)
	<u>276,881,400</u>	<u>222,542,184</u>

30.1 Working capital changes

(Increase)/decrease in current assets:

Stores, spares and loose tools	(2,576,370)	(13,773,784)
Stock-in-trade	12,259,086	(81,583,151)
Trade debts	(43,384,759)	82,868,947
Advances, deposits, prepayments and other receivables	(40,664,021)	(2,482,505)
	<u>(74,366,064)</u>	<u>(14,970,493)</u>

Increase/(decrease) in current liabilities:

Trade and other payables	74,007,168	(24,712,479)
Provision for other liabilities and charges	4,496,650	4,465,664
	<u>4,137,754</u>	<u>(35,217,308)</u>

31. Cash and cash equivalents

Cash and cash equivalents comprise the following items:

Cash and bank balances - note 20	267,010,670	136,065,854
Short term finances - note 8	(47,795,183)	(46,673)
	<u>219,215,487</u>	<u>136,019,181</u>

32. Remuneration of Chief Executive, Directors and Executives

32.1 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:

	Rupees					
	Chief Executive		Director		Executives	
	2007	2006	2007	2006	2007	2006
Short term employee benefits						
Managerial remuneration	5,520,000	3,190,854	-	293,326	22,358,366	9,162,808
Bonus	1,088,670	3,362,500	-	88,887	3,676,747	1,394,344
House rent	-	-	-	131,997	8,776,208	3,613,515
Utilities	-	-	-	29,333	1,950,299	745,739
Leave fare assistance	-	-	-	8,000	-	263,000
Medical and other expenses	102,350	43,012	-	8,333	692,071	299,167
	<u>6,711,020</u>	<u>6,596,366</u>	<u>-</u>	<u>559,876</u>	<u>37,453,690</u>	<u>15,478,573</u>
Post employment benefits						
Contribution to gratuity and provident fund	1,012,000	584,990	-	53,776	3,575,496	1,472,173
Other long term benefits						
Accumulating compensated absences	-	-	-	-	3,509,266	1,905,232
	<u>7,723,020</u>	<u>7,181,356</u>	<u>-</u>	<u>613,652</u>	<u>44,538,452</u>	<u>18,855,978</u>
Number of persons	1	1	-	1	26	9

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

32.3 Aggregate amount charged in the financial statements for the year for fee to 7 directors (2006: 7 directors) was Rs 52,500 (2006: Rs 57,500).

33. Related party transactions

The related parties comprise holding company, associated undertakings, other related group companies, key management personnel and post employment benefit plans. 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:

	2007 Rupees	2006 Rupees
Holding company		
Sales	93,204,227	68,917,100
Purchases	23,966,740	22,755,922
Commission income	5,820,218	7,932,628
Royalty	4,042,000	5,295,339
Associated undertakings		
Sales	84,437,827	78,076,599
Purchases	36,022,138	21,540,267
Commission income	699,052	3,079,799
Commission expense	16,728,134	13,593,674
Other related parties		
Sale of property, plant and equipment	-	213,800
Post employment benefit plan		
Expense charged in respect of:		
- Gratuity fund	4,390,687	3,912,000
- Ex-gratia scheme	1,850,043	1,582,186
- Accumulated compensated absences	2,289,987	827,988
- Provident fund	6,734,105	5,444,559

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

34. Plant capacity and production

	Capacity		Actual production	
	2007	2006	2007	2006
	Number			
Power driven pumps	6,000	6,000	5,189	5,362

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

35. Earnings per share

35.1 Basic earnings per share

Profit for the year	Rupees	170,679,567	126,392,644
Weighted average number of ordinary shares	Numbers	12,000,000	12,000,000
Earnings per share	Rupees	14.22	10.53

35.2 Diluted earnings per share

A diluted earnings per share has not been presented as the Company does not have any convertible instruments in issue as at December 31, 2007 and December 31, 2006 which would have any effect on the earnings per share if the option to convert is exercised.

36. Financial assets and liabilities

	Interest/mark up bearing				Non interest bearing				Total		Credit risk	
	Maturity up to one year	Maturity after one year but within 5 years	Maturity after 5 years	Sub total	Maturity up to one year	Maturity after one year but within 5 years	Maturity after 5 years	Sub total	2007	2006	2007	2006
Financial assets												
On balance sheet												
Long term loans and deposits	-	-	-	-	-	8,336,162	-	8,336,162	8,336,162	2,798,026	8,336,162	2,798,026
Trade debts	-	-	-	-	250,060,993	-	-	250,060,993	250,060,993	214,193,119	250,060,993	214,193,119
Advances, deposits, prepayments and other receivables	-	-	-	-	42,853,624	-	-	42,853,624	42,853,624	29,336,072	42,853,624	29,336,072
Cash and bank balances	183,941,214	-	-	183,941,214	83,069,456	-	-	83,069,456	267,010,670	136,065,854	249,880,146	134,646,869
	183,941,214	-	-	183,941,214	375,984,073	8,336,162	-	384,320,235	568,261,449	382,393,071	551,130,925	380,974,086
Off balance sheet	-	-	-	-	-	-	-	-	-	-	-	-
Total	183,941,214	-	-	183,941,214	375,984,073	8,336,162	-	384,320,235	568,261,449	382,393,071	551,130,925	380,974,086
Financial liabilities												
On balance sheet												
Employees' retirement and other benefits	-	-	-	-	-	-	13,633,980	13,633,980	13,633,980	7,756,073	13,633,980	7,756,073
Accumulating compensated absences	-	-	-	-	-	-	7,967,885	7,967,885	7,967,885	6,315,833	7,967,885	6,315,833
Short term finances - secured	47,795,183	-	-	47,795,183	-	-	-	-	47,795,183	46,673	47,795,183	46,673
Trade and other payables	-	-	-	-	198,531,815	-	-	198,531,815	198,531,815	178,159,453	198,531,815	178,159,453
Provisions for other liabilities and charges	-	-	-	-	29,537,562	-	-	29,537,562	29,537,562	25,040,912	29,537,562	25,040,912
Accrued finance cost	-	-	-	-	755,866	-	-	755,866	755,866	298,808	755,866	298,808
	47,795,183	-	-	47,795,183	228,825,243	-	21,601,865	250,427,108	298,222,291	217,617,752	298,222,291	217,617,752
Off balance sheet												
Guarantees	-	-	-	-	129,603,736	-	-	129,603,736	129,603,736	95,846,628	129,603,736	95,846,628
Letters of credit other than for capital expenditure	-	-	-	-	161,920,109	-	-	161,920,109	161,920,109	35,784,241	161,920,109	35,784,241
	-	-	-	-	291,523,845	-	-	291,523,845	291,523,845	131,630,869	291,523,845	131,630,869
Total	47,795,183	-	-	47,795,183	520,349,088	-	21,601,865	541,950,953	589,746,136	349,248,621	589,746,136	349,248,621
On balance sheet gap	136,146,031	-	-	136,146,031	147,158,830	8,336,162	(21,601,865)	133,893,127	270,039,158	164,775,319	270,039,158	164,775,319
Off balance sheet gap	-	-	-	-	(291,523,845)	-	-	(291,523,845)	(291,523,845)	(131,630,869)	(291,523,845)	(131,630,869)

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

36.1 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 36 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 minimise 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 568.621 million (2006: Rs 382.393 million), the financial assets which are subject to credit risk amounted to Rs 551.131 million (2006: Rs 380.974 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 minimised.

(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.

36.1.2 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders through repurchase of shares, issue new shares or sell assets to reduce debt. As the company is a wholly equity financed corporation, with working capital lines, capital comprises all components of equity (shares capital, general reserve, and retained earnings) as mentioned on the face of balance sheet, and is raised as required, through the approval of the BOD.

36.2 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.

37. Date of authorisation for issue

These financial statements were authorised for issue on February 21, 2008 by the board of directors of the Company.

38. Events after the balance sheet date

The Board of Directors have proposed a final dividend for the year ended December 31, 2007 of Rs. 7.00 (2006: Rs. 4.00) per share, amounting to Rs. 84.0 million (2006: 48.0 million) at their meeting held on February 21, 2008 for approval of members at the Annual General Meeting to be held on March 25, 2008. The board has also proposed transfer of Rs. 87.0 million (2006: 78.0 million) to general reserve from unappropriated profit. These financial statements do not reflect this dividend payable and other appropriations.

39. Corresponding figures

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

	Rupees
Postage and telephone expense classified under Administration expenses instead of Cost of sales	2,200,119

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



Mohammad Masud Akhtar
Chief Executive



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 members(s) of KSB
 Pumps Co. Ltd. and holder(s) _____ shares as per Share Register folio

of _____ number

(No. of shares)

_____ and/or CDC participant I.D. _____ and sub account
 No. _____ 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 Tuesday March 25, 2008 and at any adjournment thereof.

Signed this _____ day
 of _____ 2008.

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 along with the participants ID number and their account number at the time of attending the Annual General Meeting in order to facilitate their identification.

AFFIX
CORRECT
POSTAGE

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