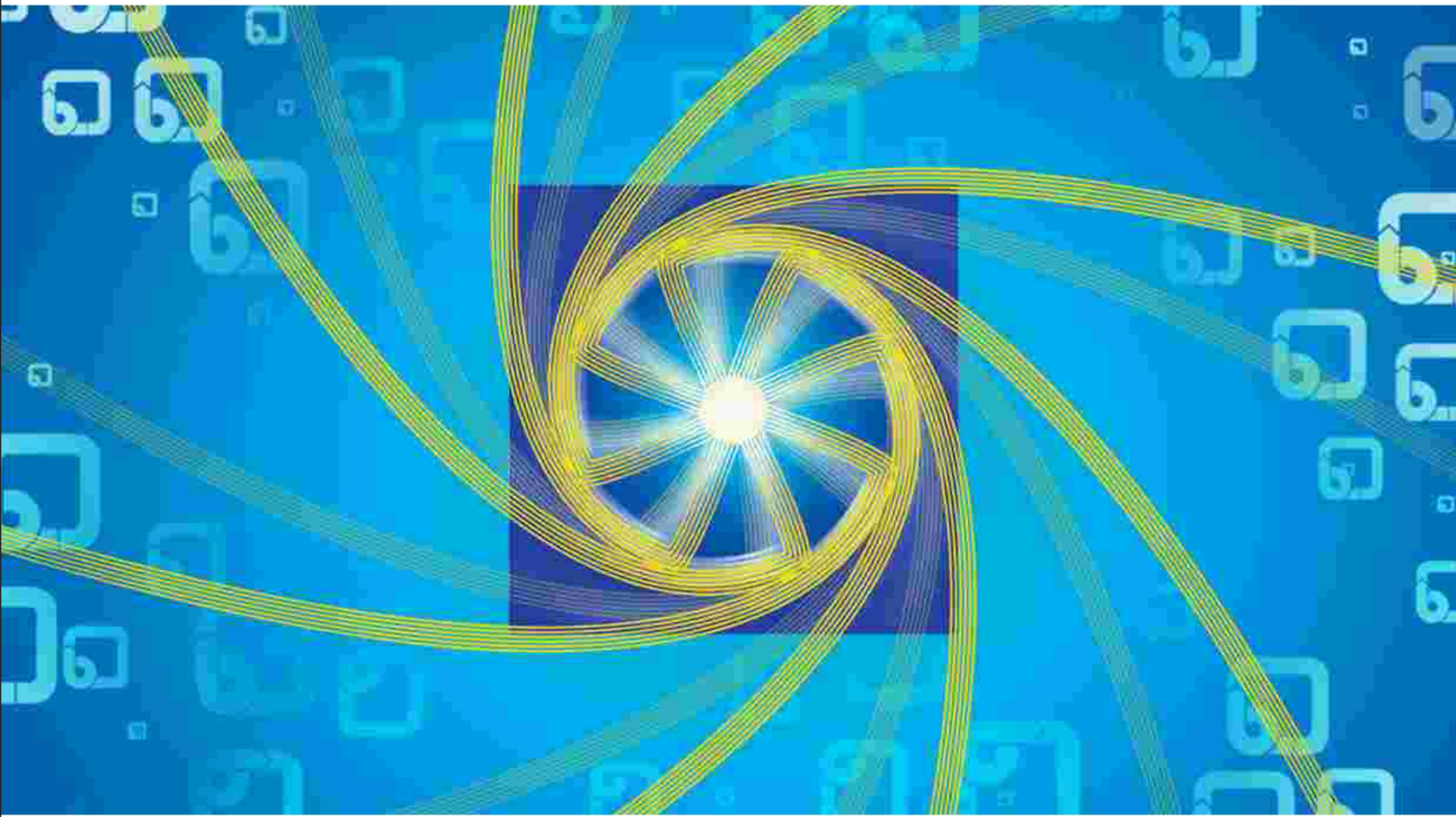
KSB Pumps Company Limited

Annual Report 2008



50 Glorious Years of Setting Standards

KSB

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 to 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.

Corporate Social Responsibility

At KSB Pumps Company Limited, Pakistan, we see Corporate Social Responsibility as the link that joins the Organization, including internal and external stakeholders to a brighter future for Pakistan. This is a Management steered endeavour that brings together the business and ethical national interest activities resulting in tangible and intangible gains for the youth of Pakistan.

Working under the name of KSB Care, our Corporate Social Responsibility program is focused to provide a sustainable infrastructure and basic amenities to underprivileged students at schools in the rural areas of Pakistan, around our Production Facility in Hassanabdal. This is a sound and sustainable program which addresses the needs of these deprived schools by provision of uniforms for students, assistance in strengthening the infrastructure and making available comfortable classroom environments for effective learning. The initiative works around various school facilities and attends to ensuring that the institutes have sufficient space to accommodate students and in some cases the efforts are directed at improving the already available space.

Going forward, KSB Care envisions broadening its scope and including scholarships for capable students from these areas. It is our program's aim to provide the needed learning environment and platform for children who are seen as the torchbearers of our future. The reach and purpose of our initiative, described here, is evidence of the importance that KSB Pumps Company Limited, Pakistan, attaches to Corporate Social Responsibility.

Govt. Girls Elementary School, Shahia, Hassanabdal completely renovated by the company

Uniforms distribution by the company at Boys Higher Secondary School, Hassanabdal

KSB Pakistan - Introduction

KSB Works Hassanabdal

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 and 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 the 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.

50 years of KSB Pakistan

KSB Pumps was one of the first multinational companies to invest in a young Pakistan, in 1959. At the time this was the new frontier, a country that had come into being a scant decade before and was full of promise for people who wanted to develop it. Great infrastructure had to be built up; indeed the very framework of the country had to be put in place.

The pump, be it ever so humble, was needed everywhere. Agriculture couldn't be done without the pump bringing in water, and Pakistan was and still is an agricultural country. Power plants and homes had to bring in water and take out sewage, and needed the pump. Perhaps it wasn't so humble after all.

That was 1959. In the half century that followed, KSB developed pumps and valves for many applications, in a wide variety of designs, sizes and materials. In the areas of building services, technology related to water and waste water, and energy, few enterprises worked without KSB, and slowly KSB pumps became, if not a household name, then at least a part of the foundation the households were made of. Fifty years on, and we at KSB Pakistan are proud to announce the 50th anniversary of the great endeavor that is the company and its services. We've come a long way from when the first KSB office was opened.

The celebrations to commemorate the golden jubilee of KSB Pakistan will be held all through the year, with a special event planned for fall 2009.

For the achievement it is, fifty years of providing service in making the structure of the country is no mean feat.

KSB may have been one of the first multinationals to come to Pakistan, but now it is enmeshed in the very fabric of the country… and that's even better.

Unveiling ceremony of KSB Golden Jubilee Logo

Board of Directors

Dr. Augus Lee
Chairman Board of Directors

Dr. Lee is a PhD. in Engineering, from the Technical University, Berlin, Germany. He is the Chairman of the Board of Directors of KSB Pumps Company Limited, Pakistan. In addition to this he is also the President for KSB Asia Pacific Region.

Mr. Mohammad Masud Akhtar
Managing Director

Mr. Akhtar is the Chief Executive Officer of KSB Pakistan. He is an Electrical Engineer by profession and has a Masters degree in Management of Technology from Pennsylvania USA. He has an extensive and diversified experience in Sales, Marketing, Operations and Manufacturing areas.

Mr. Jan Stoop
Director

Mr. Stoop is a member of Board of Management for KSB AG and is responsible for Sales. He has 36 years of experience in the establishment and expansion of pump manufacturing companies. He was also the Managing Director for the Dutch KSB subsidiary DP Industries B.V.

Mr. Tonjes Cerovsky
Director

Mr. Cerovsky is the Managing Director for KSB Thailand. He is a Director and member of Audit Committee for KSB Pakistan.

Mr. Hasan Aziz Bilgrami
Director

Mr. Bilgrami is a Director and the Chairman of the Audit Committee of KSB Pakistan. He is the President and CEO of BankIslami Pakistan Limited. He has recently been elected as President of ICMAP. His other engagements include Director BankIslami Modaraba Investments Limited.

Mr. Sajid Mahmood Awan
Director

Mr. Awan is the Director Finance and Company Secretary for KSB Pakistan. He has more than 15 years of professional experience in multinational environments in Asia, Africa and Middle East.

Mr. Zahid Hussain
Director

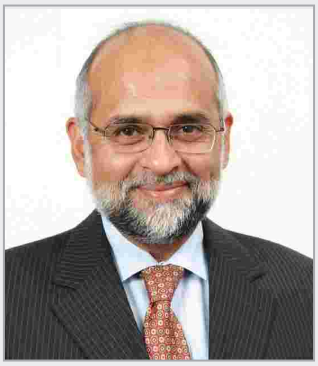
Mr. Hussain is the Managing Director/CEO of Oil and Gas Development Company. His other engagements include the Directorship of Clariant Pakistan Limited, General Tyre & Rubber Company Limited, Gandhara Nissan Limited, Mari Gas Company Limited, Service Industries Limited, Siemens Pakistan and SSGC Limited.

Mr. R. D. Ahmad
Director

Mr. Ahmad is a Senior Consultant with Orr Dignam & Co. He has previously served as the Chairman for Islamabad Stock Exchange (G) Limited. He is also on the Board of Directors of Sigma Motors Ltd. and Pakistan Poverty Alleviation Fund.

Mr. Mohammad Masud Akhtar
Chief Executive Officer

Mr. Sajid Mahmood Awan
Director Finance & Company Secretary



Mr. Ghazanfar Ullah Khan
Director Technical

Management Committee

Mr. Nadeem Hamid Butt
Director Sales & Projects

Mr. Kamran Khan Mangol
GM Strategic Marketing &
Product Management

Mr. Iqbal M. Nafar
Senior GM Materials

Mr. Saeed Zafar
GM Customer Service

Ms. Sanam Mujeeb Sheikh
Manager Human Resource

Sales Offices

Lahore

16/2 Sir Aga Khan Road, Lahore.
Ph: (042) 111 572 786, 6304173
Fax: (042) 6366192, 6368878
Email: info@ksb.com.pk

Multan

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Multan Cantt.
Ph: (061) 111 572 786
Fax: (061) 4541784
Email: ksbmul@ksb.com.pk

Rawalpindi

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

Peshawar

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35-The Mall, Peshawar.
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Email: ksbpsh@ksb.com.pk

Karachi

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

Quetta

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

Company Information

Board of Directors

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

Company Secretary

Sajid Mahmood Awan

Management

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

Auditors

A.F. Ferguson & Co. — Chartered Accountants

Legal Advisors

Mandviwala & Zafar

Bankers

Royal Bank of Scotland
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
Email: info@ksb.com.pk

Works

Hazara Road, Hassanabdal
Ph: (057) 2520236
Fax: (057) 2520237
Email: info@ksb.com.pk

Service Office

Gardee Trust Building, Napier Road, Lahore.
Ph: (042) 7364845, 7238343, 7311661, 7355238
Fax: (042) 7236922
Email: saeed.zafar@ksb.com.pk

Workshop

Plot No.6, Street No.26, Korangi Industrial Area,
Near G.P.O, Korangi, Karachi.
Ph: (021) 5070498
Email: munir.iqbal@ksb.com.pk

Notice of Annual General Meeting

Notice is hereby given that the 52nd Annual General Meeting of the members of KSB Pumps Company Limited, will be held on Thursday, the 23rd April, 2009, at 4.00 p.m. at Hotel Holiday Inn, 25-26 Egerton Road, Lahore, to transact the following business:

A. Ordinary Business

1. To confirm the minutes of the Extraordinary General Meeting held on April 25, 2008.
2. To consider and adopt the audited accounts of the Company for the year ended December 31, 2008 and report of Auditors and Directors thereon.
3. To approve and declare dividend of 43% for the financial year ended December 31, 2008 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.

B. Special Business

To consider, and if thought fit, to pass the following resolution for the capitalization of Rs.12,000,000 (Rupees twelve million only) out of the profits of the Company by issue of bonus shares in the ratio of 1:10 i.e. one bonus share for every 10 existing ordinary shares held, as recommended by the Directors.

RESOLVED THAT:

A sum of Rs.12,000,000 (Rupees twelve million only) out of the profits of the Company available for appropriation as at December 31, 2008 be capitalized and applied towards issue of fully paid bonus shares in the ratio of 1:10 i.e. one bonus share for every ten existing ordinary shares held by the members whose names appear on the Members Register on April 15, 2009. These bonus shares shall rank pari passu in all respects with the existing shares but shall not be eligible for the dividend declared for the year ended December 31, 2008.

That the Company Secretary be authorized and empowered to give effect to this resolution and to do or cause to do all acts, deeds and things that may be necessary or required for issue, allotment and distribution of bonus shares including export of bonus shares in respect of non-resident shareholders.

Dr. Lee, Chairman KSB Pumps Company Limited, addressing at the 51st AGM, held on March 25, 2008

FURTHER RESOLVED THAT:

All fractions of bonus shares be consolidated and sold at the stock market and as the proceeds will be minimal the same be donated to charitable institutions as the Directors in their discretion may select.

STATEMENT UNDER SECTION 160(1)(b) OF THE COMPANIES ORDINANCE, 1984

Issuance of Bonus Shares

The Board of Directors are of the view that the Company's financial position and its reserves justify this capitalization for the issue of Bonus Shares in the ratio of one bonus share for every ten ordinary shares held i.e. 10%.

The Directors of the Company, directly or indirectly, are not personally interested in this issue, except to the extent of their shareholding in the Company.

Lahore : April 01, 2009

BY ORDER OF THE BOARD
SAJID MAHMOOD AWAN
Company Secretary

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 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 16th April, 2009 to 23rd April, 2009 (both days inclusive). Transfers received in order by the close of business on 15th April 2009 will be in time to be passed for payment of dividend and bonus shares 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.

Participants at the 51st AGM


KSB

Chairman's Review

Dear Members,

It gives me great pleasure to share with you the outstanding achievements that KSB Pakistan has attained in its 50 glorious years of existence in the country. KSB Pakistan was established in 1959 in Lahore. In 1964 the construction of the production facility was completed in Hassanabdal and by 1980 fully functional Foundry operations were commissioned on the Factory Premises. Over these 50 magnificent years of operations in Pakistan, KSB has not only set up an effective network of Sales Offices throughout the Country but also operates through Dealership channels to increase the breadth and effectiveness of its reach to its customers. Since 1979 the Company has been a Public Limited entity, providing a broad base for local participation. Its shares are listed and traded on both Karachi and Lahore Stock Exchanges.

KSB Pakistan now employs over 350 people. It is through the commitment and hard work of our Human Resource that the Company has peaked to stupendous heights of growth and success. My gratitude to the people of KSB Pakistan for their untiring support and to its Management for a visionary and encouraging leadership; together they have turned all challenges into opportunities for the business. Their zealous efforts have yielded fruit in the shape of us being able to introduce almost 18 models of Pumps with unmatched quality standards over the last 50 years. As part of product upgradation program the largest selling centrifugal pump ETA Alt has been replaced with Etanorm, the most efficient and competitive product in the industry. Moviboost has been launched to fulfill the market requirement for quality pressure booster set and other new products have also been introduced for de-watering, irrigation and sea water intake applications. The result of our employee efforts do not stop here. Our diligent workforce has delivered unparalleled quality in their work allowing us to earn certifications of ISO 9001, ISO 14001 and ISO 18001 for completing Integrated Management Systems by TUV, Germany. Our brilliant accomplishments are further reflected in our total payouts of Cash Dividends and Bonus Shares of PKR 447,000,000 and 94,000,000 respectively, from 1979 till 2007. We have also successfully introduced the concept of turnkey Project based business approach and completed mega projects like KIII for the Karachi Water and Sewage Board and are currently executing large waste water projects for WASA, Multan Development Authority.

To make our production facilities truly state–of the–art we have introduced modern equipment and machinery such as CNC machines supporting the principles of LEAN cellular manufacturing. To enhance the product offering we have tapped into the Valves market and are shifting to a solution based business approach, including system solutions. This approach offers end-to-end solutions to customers addressing their problems with well rounded answers. Our Customer Service centers across Pakistan work round the year to provide 24/7 service to our customers to ensure continued operation of their plant and machinery. We are also venturing into introducing a Franchise Channel, which will not only serve as the extension of our business under a brand commitment but would also develop the dealership network for standard pumps.

Despite a global economic meltdown, KSB Pakistan has achieved a commendable turnover of PKR 1,876 billion in 2008 and a net profit of PKR 171 million. I would like to congratulate the management and the employees for this wonderful performance.

I would like to thank the shareholders for their continued support and confidence reposed in their company. I would also take this opportunity to express gratitude to the Management for their commitment and futurist leadership throughout the journey of 5 decades. I would especially like to thank all the employees of the company for their contribution and devotion in making KSB Pakistan a leading pump supplier in the country.

Going forward, I see the Company prospering in Pakistan with its high quality principles and committed human resource and wish the Company good luck and many more 50 glorious years in Pakistan!

Dr. Augus Lee
Chairman

Message from the Chairman Supervisory Board and Board of Management

The Supervisory Board and Board of Management congratulate KSB Pumps Company Limited on completing 50 years of operations in Pakistan. KSB Pakistan is the first KSB subsidiary in Asia to achieve this honor and we at KSB AG Germany are truly proud of this accomplishment.

KSB AG is committed to its customer base worldwide by investing into expansion programs and developing expertise to all parts of the globe. This achievement by KSB Pakistan is a clear demonstration of KSB commitment to Pakistan and to the company itself.

KSB Pakistan has been a successful Global Manufacturing Network (GMN) Company, by virtue of attaining world class quality manufacturing and selling expertise, thereby extending the reach of KSB to newer markets worldwide.

The Supervisory Board and Board of Management are thankful to our local shareholders of KSB Pumps Company Limited for the trust reposed in the company. Our gratitude to the management and employees of KSB Pakistan for continuous commitment to the growth of the company, we look forward to a glorious future spanning many more 50 years of market leadership through visionary management, innovation, technological development and customer satisfaction.

Dr. Hans-Joachim Jacob
Chairman of the Supervisory Board

Klaus Kühborth
Member of Supervisory Board

Dr. Wolfgang Schmitt
Chairman of Board of Management

Jan Stoop
Member Board of Management

Dr. Dieter-Heinz Hellmann
Member Board of Management

Dr. Peter Buthmann
Member Board of Management

Mohammad Masud Akhtar
Chief Executive Officer

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, 2008 together with Auditor's report thereon.

GOLDEN JUBILEE YEAR-2009

2009 means celebrations for KSB Pakistan as it completes 50 glorious years of setting standards and being the market leader in the field of Pumps, Valves and Systems. Our adherence to a chain of business values has made KSB a name that stands for the highest standards of product and service quality. In the half century KSB Pakistan developed pumps and valves for many applications, in a wide variety of designs, sizes and materials.

THE ECONOMY

The world economy is engulfed in an economic crisis, being described as the worst since the Great Depression. The world stock markets have fallen, major banking institutions have collapsed or been bought out and governments have had to come up with rescue packages to bail out some large banks and financial institutions.

Pakistan's economy continues to go through a period of high inflation, declining foreign exchange reserves and faces overall stress in the aftermath of the global economic crisis. The rise in global commodity prices has been a predominant factor in derailing the macro economic fundamentals of the country and it is feared that the erosion of purchasing power and sustained inflationary expectations for the future may lead to a wage-price spiral. In order to avoid a balance of payment crisis and to stabilize the economy, the country may have to borrow more from international donor agencies.

Domestic production was hit by the energy shortages, disappointing harvest of key cash crops, and policy uncertainty during the transitions of the government. Consequently real GDP Growth declined to 5.8% in the fiscal year 2008 (GDP Growth rate is envisaged 3.4% for the period from July to December 2008). Annualized CPI inflation soared to 23.3 percent during the year compared with 7.8% in the preceding year.

FINANCIAL RESULTS

Your Company has managed to achieve an order intake of Rs. 2,034 million in the year 2008. Sales have been increased by 12.7% (2008: Rs. 1.88 billion) as compared to last year (2007: Rs. 1.66 billion). Gross Profit has been increased by 8.91% (2008: Rs. 507.6 million as compared to Rs. 466.1 million in the year 2007). Profit before tax is Rs. 233.9 million as compared to Rs. 227.9 million in the 2007. Earnings per share is Rs. 14.22.

The comparative financial results for the year 2008 as against 2007 are as follows:

	2008 Rupees in '000	2007 Rupees in '000
Sales	1,876,445	1,664,543
Gross Profit	507,610	466,090
Operating Profit	245,558	236,405
Profit Before Tax	233,919	227,992
Profit After Tax	170,688	170,680
Earnings per Share (Rupees)	14.22	14.22

THE COMPANY

Product Development

2008 has been a great year in terms of technological progress. Phenomenal leaps were made in terms of product development. We continued with our legacy of innovation and growth and successfully launched three products i.e. ***moviBOOST*** (Your smart pressure manager), **Etanorm** (our global best seller) and **ZORO** (وعدہ معیارکا). Each product is specifically designed keeping in mind the target market requirements. Other than that, various product trainings and market surveys related to our different products were conducted throughout the year.

A market analysis and a consumer perception survey was conducted to gauge the market size across all business sectors and to estimate competitor's market share. It helped us in knowing consumer's perception about KSB Pumps and its current market standing.

We successfully managed to pull-off the promotional strategies all along the year which helped us in strengthening our leadership position in the market.

Sales

Year 2008 has been tough for all businesses segments including KSB, yet we have managed to maintain the Order Intake above Rs. 2 billion.

During the year we have won strategic orders in the Fertilizer sector worth above Rs. 200 million and for water supply and sewage disposal in Punjab worth above Rs. 220 million. Order intake of Energy segment witnessed a phenomenal growth of 354% and 144% in Building Service as compared to the year 2007. Our Zaree pump order intake was the highest in the last six years.

Production

The turnaround of the manufacturing infrastructure continued in full swing throughout 2008. The new medium frequency induction furnace was successfully commissioned in the Foundry in the year 2008. With the induction of three CNC machines all cells planned initially in the LEAN manufacturing concept are completed and functional. Material Department has been shifted from Lahore to Hassanabdal for improving efficiency and better coordination. The Made by KSB (Mbk) certification of KSB Pakistan was successfully completed in the year thus enabling us to continue manufacturing of tubular casing pumps for export.

Service

During the year we have revamped our Service Department and have added human capital, tools and vehicles to provide efficient services to our valued customers. A new automated customer complaint handling system is operative in the Service Department.

FUTURE OUTLOOK

Global growth in 2009 is expected to fall to its lowest rate i.e. ½ percent. A sustained economic recovery will not be possible until the financial sector's functionality is restored and credit markets are unclogged.

For Pakistan's economy, year 2009 is still considered tough with GDP growth aimed at less than 3%, yet with the government settling down and releasing development funds, we expect major orders from Segment Waste Water in Central & Southern Punjab. Orders from PHED and WASA in water supply projects in Punjab are likely to pick up in the year 2009.

KSB is now focused on providing the complete solution to the customers. For imported high-end market, our focus is on key accounts and general industry where the priority is based on product features and lifecycle costs. Therefore, we will be focusing to increase our market share, while targeting to sell our product on enhanced features.

ZORO

Etanorm

moviBOOST

Building Service continues to be lucrative for which KSB plans to expand its product range and establish alternate Sales Channel basically focusing on its dealership network. Energy projects in Pakistan are ripe and remain in the active focus through promotion of KSB Regional and Group products. Zaree and agriculture segments are promising big business as KSB has lined itself up with channel development and introduction of suitable product line which is market oriented.

Business Type "GT" philosophy "made by KSB" AG will be implemented in KSB Pakistan in the year 2009. The business type defines a uniform process framework for the offer and order processing within the entire "customer-to-customer" process. Also, it defines different manufacturing strategies for different products (Make-to-order, Assemble-to-order and combination of both etc.) based on products behavior in the market.

We started to work on establishing a new Sales Channel by implementing Franchise concept. Market research revealed great potential for pumps related to domestic consumers.

Overall, KSB has prepared itself well from the point of view of products, channel development and strategic human resources to meet the challenges and achieving its budget for 2009.

Valves and Energy team at the 6th Pakistan Oil, Gas and Energy Exhibition (POGEE), held during May 2008

HUMAN RESOURCE

We have developed an in-house training Resource Centre for KSB Pakistan to fulfill the training needs of our employees. Succession planning of key positions has been completed in line with the Group Policy. A batch of Management Trainees has been inducted to develop human resource capital in the year 2008 as well. Performance Management is now operating effectively in the Company. We are in the process of implementation of Human Resource Policies of the APAC Region in the Company.


Mr. Masud Akhtar along with Mr. Anees-ur-Rehman, Honorary Counsel General, Republic of Germany,at the launch ceremony of Moviboost in Lahore

APPROPRIATION

RESULT FOR THE YEAR	Rupees in '000
Profit for the year before providing for taxation	233,919
Provision for taxation	63,231
Profit after taxation	170,688
Un-appropriated profit brought forward	143
Available for appropriation	170,831
Appropriated as under	
- Transfer to general reserve	107,000
- Proposed dividend @ Rs.4.30 per share (43%)	51,600
- Bonus shares @ 10%	12,000
	170,600
Un-appropriated profit carried forward	231

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, 2009 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, 2008 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

On completion of term of the Directors, elections were held on 25.04.2008 and accordingly Board of Directors was reconstituted. The Board wishes to place on record its sincere appreciation for the valuable services rendered by the outgoing Directors.

BOARD OF DIRECTORS MEETING

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

Sr. No.	Name of Director	No. of meetings attended
1.	Dr. Augus Lee	3
2.	Mr. M. Masud Akhtar	4
3.	Mr. Tonjes Cerovsky	4
4.	Mr. Sajid Mahmood Awan	3
5.	Mr. Jan Stoop	1
6.	Mr. R. D. Ahmad	4
7.	Mr. Hasan Aziz Bilgrami	4
8.	Mr. Sikandar M. Khan	1
9.	Mr. Zahid Hussain	2

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 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.

Mr. Masud Akhtar, Mr. Nadeem Hamid Butt & Mr. Kamran Khan at the KSB stall along with the team on HVACR Exhibition held at Fortress Stadium Lahore

CORPORATE AND FINANCIAL REPORTING FRAMEWORK

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

1.	Provident Fund 31.12.2007	:	Rs. 88.499 million.
2.	Gratuity Fund 31.12.2007	:	Rs.41.807

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, 2008 is annexed with the report.

On behalf of the Board

Mohammad Masud Akhtar
Chief Executive Officer
March 05, 2009
Lahore

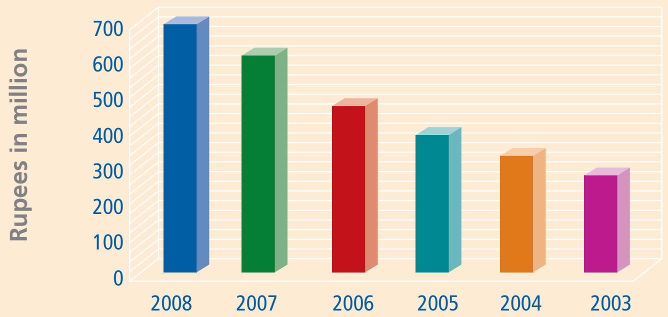
(L-R) Mr. Ehsan Ahmed, Mr. Masud Akhtar and Mr. Asim Nawab at International Congress and Foundry Exhibition


Winning team of the KSB Cricket Tournament held in Hassanabdal

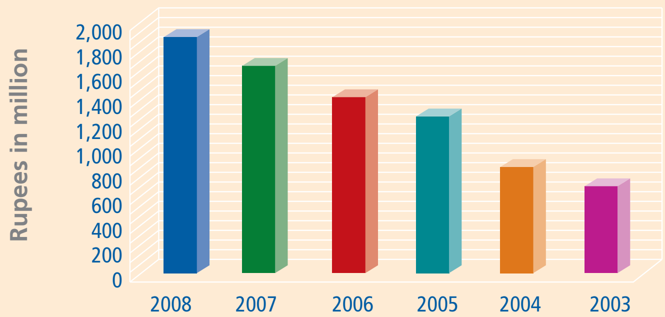

Team building activity at Rohtas Fort

Highlights 6 Years

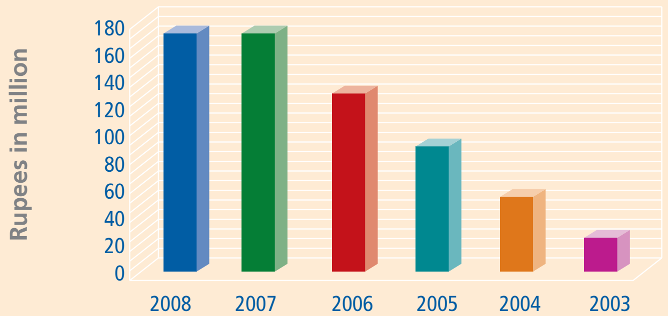
Equity



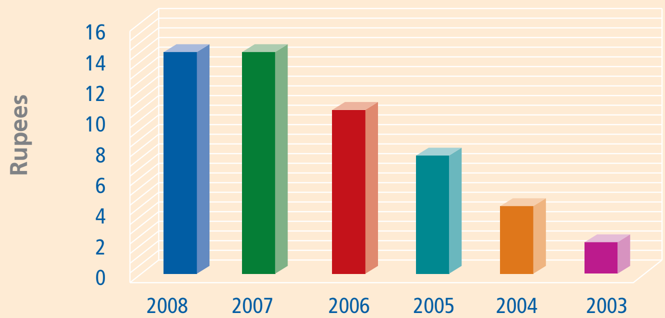
Sales

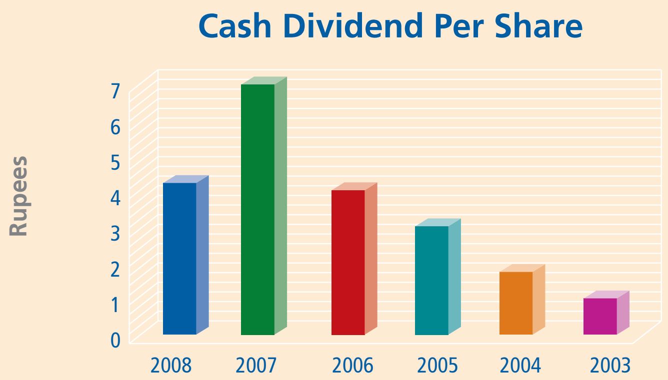


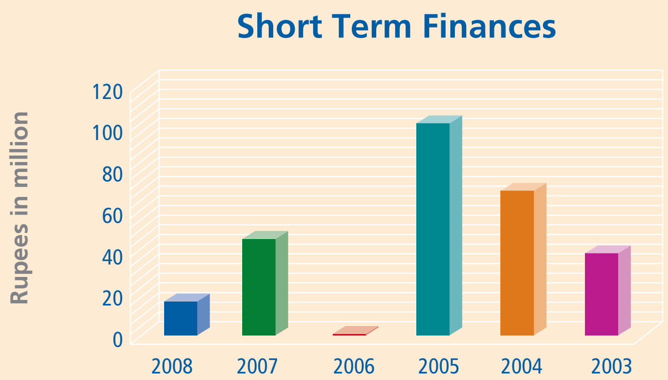
Net Profit

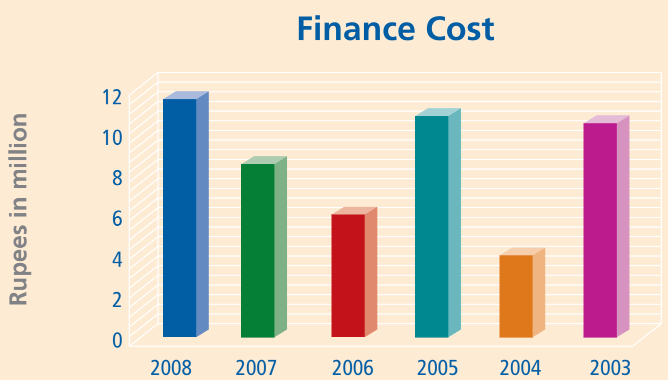


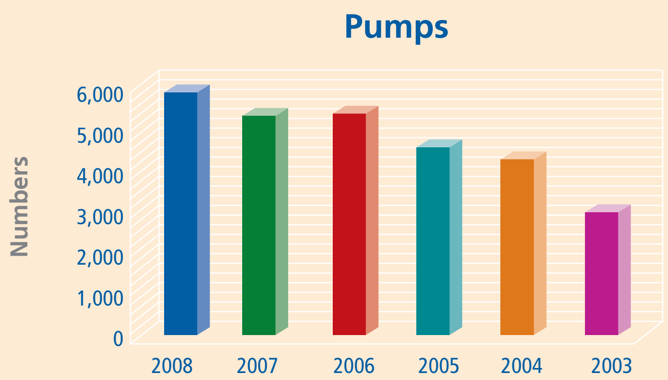
Earnings Per Share




Cash Dividend Per Share
Rupees
7
6
5
4
3
2
1
0
2008
2007
2006
2005
2004
2003


Short Term Finances
Rupees in million
120
100
80
60
40
20
0
2008
2007
2006
2005
2004
2003


Finance Cost
Rupees in million
12
10
8
6
4
2
0
2008
2007
2006
2005
2004
2003


Pumps
Numbers
6,000
5,000
4,000
3,000
2,000
1,000
0
2008
2007
2006
2005
2004
2003

Vertical Analysis

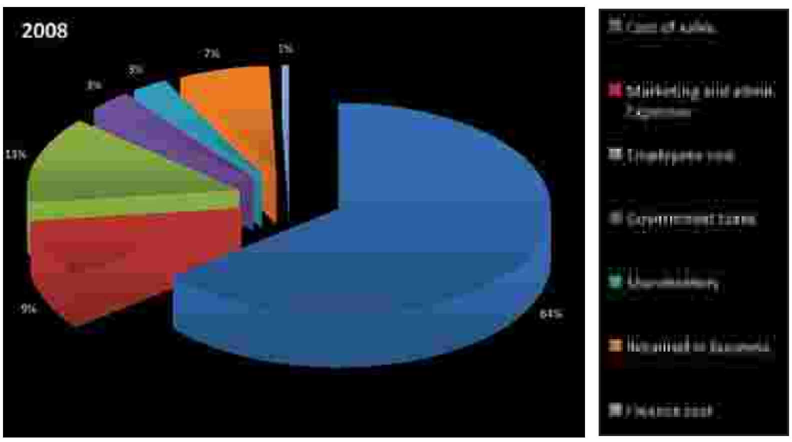
	2008 Rs. in '000	%age	2007 Rs. in '000	%age
Balance Sheet				
Net worth / shareholders' equity	**676,832**	55.57%	**590,143**	54.54%
Non-current liabilities	42,302	3.47%	32,602	3.01%
Short-term running finances/bank borrowings	16,421	1.35%	47,795	4.42%
Creditors, accrued and other liabilities	482,455	39.61%	411,413	38.03%
Total liabilities and equity	**1,218,010**	100.00%	**1,081,953**	100.00%
Fixed assets	219,108	17.99%	152,303	14.08%
Long term loans and deposits	7,885	0.65%	8,336	0.77%
Current assets	991,017	81.36%	921,314	85.15%
Total Assets	**1,218,010**	100.00%	**1,081,953**	100.00%
Profit and Loss Account				
Sales	1,876,445	100.00%	1,664,543	100.00%
Cost of sales	(1,368,835)	-72.95%	(1,198,453)	-72.00%
Gross profit	507,610	27.05%	466,090	28.00%
Distribution and marketing costs	(192,937)	-10.28%	(161,898)	-9.73%
Administrative expenses	(110,034)	-5.86%	(90,562)	-5.44%
Other operating expenses	(15,368)	-0.82%	(18,654)	-1.12%
Other operating income	56,287	3.00%	41,429	2.49%
Operating profit	245,558	13.09%	236,405	14.20%
Finance cost	(11,639)	-0.62%	(8,413)	-0.51%
Profit before tax	233,919	12.47%	227,992	13.70%
Taxation	(63,231)	-3.37%	(57,313)	-3.44%
Profit for the year	**170,688**	9.10%	**170,680**	10.25%

Horizontal Analysis

	2008	2007	Change	%age
	Rs. in '000			
Balance Sheet				
Net worth / shareholders' equity	**676,832**	**590,143**	**86,689**	**14.69%**
Non-current liabilities	42,302	32,602	9,700	29.75%
Short-term running finances/bank borrowings	16,421	47,795	(31,374)	-65.64%
Creditors, accrued and other liabilities	482,455	411,413	71,042	17.27%
Total liabilities and equity	**1,218,010**	**1,081,953**	**136,057**	**12.58%**
Fixed assets	219,108	152,303	66,805	43.86%
Long term loans and deposits	7,885	8,336	(451)	-5.41%
Current assets	991,017	921,314	69,703	7.57%
Total Assets	**1,218,010**	**1,081,953**	136,057	12.58%
Profit and Loss Account				
Sales	1,876,445	1,664,543	211,902	12.73%
Cost of sales	(1,368,835)	(1,198,453)	(170,382)	14.22%
Gross profit	507,610	466,090	41,520	8.91%
Distribution and marketing costs	(192,937)	(161,898)	(31,039)	19.17%
Administrative expenses	(110,034)	(90,562)	(19,472)	21.50%
Other operating expenses	(15,368)	(18,654)	3,286	-17.62%
Other operating income	56,287	41,429	14,858	35.86%
Operating profit	245,558	236,405	9,153	3.87%
Finance cost	(11,639)	(8,413)	(3,226)	38.35%
Profit before tax	233,919	227,992	5,927	2.60%
Taxation	(63,231)	(57,313)	(5,918)	10.33%
Profit for the year	**170,688**	**170,680**	**8**	0.01%

Statement of Value Addition

	2008 Rs. in '000	%age	2007 Rs. in '000	%age
Value Addition				
Net sales	1,876,445	97.09	1,664,543	97.57
Other income	56,287	2.91	41,429	2.43
	1,932,732	100.00	1,705,972	100.00
Value Distribution				
Cost of sales (excluding employees' cost)	1,233,116	63.80	1,077,541	63.16
Marketing and admn. expenses (excluding employees' cost)	172,028	8.90	147,888	8.67
Employees' cost				
- Salaries, wages, amenities and staff welfare	241,659	12.50	208,531	12.22
- Workers' profit participation fund	12,500	0.65	12,245	0.72
	254,159	13.15	220,776	12.94
Government				
- Taxes	63,231	3.27	57,313	3.36
- Workers' welfare fund	2,647	0.14	4,653	0.27
	65,878	3.41	61,966	3.63
Shareholders				
- Dividend	51,600	2.67	84,000	4.92
- Bonus shares	12,000	0.62		
	63,600	3.29	84,000	4.92
Retained in business				
- Depreciation	25,224	1.31	18,709	1.10
- Retained profit	107,088	5.54	86,679	5.08
	132,312	6.85	105,388	6.18
Finance cost	11,639	0.60	8,413	0.49
	1,932,732	100.00	1,705,972	100.00



Key Financial Data for 6 Years

	2008	2007	2006	2005	2004	2003
	Rupees in '000					
Balance Sheet						
Paid up capital	120,000	120,000	120,000	120,000	120,000	120,000
Reserves	556,832	470,143	347,464	257,071	188,162	148,119
Net worth / sharesholders' equity	**676,832**	**590,143**	**467,464**	**377,071**	**308,162**	**268,119**
Non-current liabilities	42,302	32,602	15,072	18,183	19,162	24,797
Short-term running finances/bank borrowings	16,421	47,795	47	103,218	69,164	39,846
Creditors, accrued & other liabilities	482,455	411,413	347,361	347,242	272,937	213,544
Current liabilities	498,876	459,208	347,408	450,460	342,101	253,390
Total liabilities	**541,178**	**491,810**	**362,480**	**468,643**	**361,263**	**278,187**
Total liabilities & equity	**1,218,010**	**1,081,953**	**829,944**	**845,714**	**669,425**	**546,306**
Fixed assets	219,108	152,303	92,630	78,495	67,779	61,454
Long term loans and deposits	7,885	8,336	2,798	3,386	3,777	2,134
Deferred taxation		-	-	6,000	10,115	14,046
Current assets	991,017	921,314	734,516	757,833	587,754	468,672
Total assets	**1,218,010**	**1,081,953**	**829,944**	**845,714**	**669,425**	**546,306**
Profit and Loss						
Sales	1,876,445	1,664,543	1,401,145	1,252,166	853,674	703,675
Cost of goods sold	(1,368,835)	(1,198,453)	(976,120)	(914,070)	(651,320)	(549,263)
Gross profit	507,610	466,090	425,025	338,096	202,354	154,412
Distribution and marketing cost	(192,937)	(161,897)	(159,195)	(115,954)	(85,748)	(72,963)
Administrative expenses	(110,034)	(90,562)	(80,305)	(79,775)	(60,730)	(48,955)
Other operating expenses	(15,368)	(18,654)	(19,286)	(14,293)	(5,961)	(2,760)
Other operating income	56,287	41,429	30,394	27,622	34,789	18,234
Operating profit	245,558	236,406	196,633	155,696	84,703	47,968
Finance cost	(11,639)	(8,413)	(5,790)	(10,672)	(4,029)	(10,403)
Profit before tax	233,919	227,993	190,843	145,024	80,674	37,565
Taxation	(63,231)	(57,313)	(64,450)	(55,115)	(28,631)	(14,723)
Net profit	**170,688**	**170,680**	**126,393**	**89,909**	**52,043**	**22,842**

Key Performance Indicators

Description		2008	2007	2006	2005	2004	2003
Gross Margin	%	27.05	28.00	30.33	27.00	23.70	21.94
Net profit to Sales	%	9.10	10.25	9.02	7.18	6.10	3.25
Return on equity	%	25.22	28.92	27.04	23.84	16.89	8.92
Return on capital employed	%	34.15	37.96	40.75	39.39	25.88	16.38
Return on assets	%	14.97	16.55	15.93	11.89	8.38	6.09
EBITDA	Rs. in '000	270,782	255,115	211,111	170,419	100,214	62,043
EBITDA margin	%	14.43	15.33	15.07	13.61	11.74	8.82
Inventory turnover ratio	Times	2.4	2.9	2.3	2.6	2.2	2.4
Inventory turnover in number of days	Days	149	125	161	140	165	155
Debtor turnover ratio	Times	4.91	6.66	6.54	3.89	5.25	5.47
Collection period	Days	74	55	56	94	70	67
Creditor turnover	Times	3.05	3.33	3.32	2.81	2.41	2.61
Credit turnover in number of days	Days	120	110	110	130	152	140
Operating cycle	Days	104	70	106	104	83	82
Total assets turnover ratio	Times	1.54	1.54	1.69	1.48	1.28	1.29
Fixed assets turnover ratio	Times	8.56	10.93	15.13	15.95	12.59	11.45
Price earning ratio	Times	16.24	13.96	7.59	8.21	10.72	13.13
Cash dividend per share	Rupees	4.30	7.00	5.00	3.00	1.75	1.00
Bonus shares	%	10.00	-	-	-	-	-
Dividend yield ratio	Times	0.02	0.04	0.06	0.05	0.04	0.04
Dividend pay out ratio	Times	0.30	0.49	0.47	0.40	0.40	0.53
Dividend cover ratio	Times	3.31	2.03	2.11	2.50	2.48	1.90
Earnings per share	Rupees	14.22	14.22	10.53	7.49	4.34	1.90
Number of shares	No. in '000	12,000	12,000	12,000	12,000	12,000	12,000
Current ratio	Times	1.99	2.01	2.11	1.68	1.72	1.85
Acid test ratio	Times	1.20	1.38	1.23	1.17	1.17	1.28
Debt equity ratio		2 : 98	8 : 92	1 : 99	27 : 73	22 : 78	16 : 84
Interest cover ratio	Times	21.10	28.10	33.96	14.59	21.02	4.61
Break-up value per share	Rupees	56.40	49.18	38.96	31.42	25.68	22.34
Market value of shares - year end	Rupees	230.98	198.60	79.90	61.55	46.50	25.00
Market value of shares - high	Rupees	230.98	294.95	97.00	71.85	46.45	29.00
Market value of shares - low	Rupees	152.25	75.10	63.00	38.00	21.05	13.00

Summary of cash flow statement

Rs. in '000

	2008	2007	2006	2005	2004	2003
Operating activities	14,955	208,487	183,174	62	84,757	105,498
Investing activities	(91,583)	(77,500)	(27,728)	(24,852)	(17,493)	(6,873)
Financing activities	(83,634)	(47,790)	(35,836)	(25,005)	(14,370)	(8,032)
Changes in cash/cash equivalent	(160,262)	83,197	119,610	(49,795)	52,894	90,593
Cash and cash equivalent- closing balance	58,963	219,215	136,019	16,406	66,201	13,308

Pattern of Shareholding as at December 31, 2008

Number of Shareholders		Shareholders			Total shares held
196	From	1	To	100	7,642
348	From	101	To	500	129,534
47	From	501	To	1,000	37,453
88	From	1,001	To	5,000	192,858
10	From	5,001	To	10,000	68,107
3	From	10,001	To	15,000	36,764
2	From	15,001	To	20,000	34,069
1	From	20,001	To	25,000	21,400
2	From	25,001	To	30,000	58,821
2	From	40,001	To	45,000	86,600
1	From	60,001	To	65,000	62,100
1	From	135,001	To	140,000	136,772
1	From	150,001	To	155,000	152,000
1	From	245,001	To	250,000	247,612
1	From	280,001	To	285,000	283,200
1	From	300,001	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
708					12,000,000

Categories of shareholders	Number	Shares held	Percentage
Individuals	684	1,378,334	11.49
Insurance Companies	2	252,012	2.1
Joint Stock Companies	15	7,401,509	61.68
Financial Institutions	4	2,909,124	24.24
Investment Companies	1	8,800	0.07
Mutual Funds	1	21,400	0.18
Others			
- Habib Bank Limited A/c Mohammed Amin Wakf Estate	1	28,821	0.24
	708	12,000,000	100

Information as Required Under the Code of Corporate Governance

Shareholders' Category	Number of Shareholders	Number of Shares Held
Associated Companies, Undertakings and Related Parties		
KSB AG, Germany.	1	7,066,341
NIT and ICP		
Investment Corporation of Pakistan	Nil	Nil
National Bank of Pakistan, Trustee Department (NIT)	1	2,771,678
Directors	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	21	754,826
General Public	684	1,378,334
Others	1	28,821
Total	**708**	**12,000,000**

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

Statement of Compliance With the Code of Corporate Governance for the Year Ended December 31, 2008

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 2008, the Board included eight Directors. At present the CEO and CFO are the only Executive Directors.

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

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

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

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

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

7. Three meetings of the Board were presided over by the Chairman while one meeting was presided over by the Chief Executive Officer in the absence of 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. On expiry of the term of the Board of Directors of the Company, election of the Directors was held on 25.04.2008 and the Board was reconstituted.

9. 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.

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

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

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

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

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

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

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

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

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

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

For and on behalf of the Board

Mohammad Masud Akhtar
Chief Executive Officer
March 05, 2009
Lahore.

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 the Karachi Stock Exchange and Chapter XIII of the Lahore Stock Exchange where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to 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, 2008.

A.F. Ferguson & Co
Chartered Accountants
March 05, 2009
Lahore

Auditors' Report to the Members

We have audited the annexed balance sheet of KSB Pumps Company Limited as at December 31, 2008 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 Companyís 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, 2008 and of the profit, its cash flows and changes in equity for the year then ended; and

(d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

A.F. Ferguson & Co
Chartered Accountants
March 05, 2009
Lahore

BALANCE SHEET
AS AT DECEMBER 31, 2008

EQUITY AND LIABILITIES	Note	2008 Rupees	2008 Rupees
SHARE CAPITAL AND RESERVES			
Authorised capital			
15,000,000 (2007: 15,000,000) ordinary shares of Rs 10 each		150,000,000	150,000,000
Issued, subscribed and paid up capital			
12,000,000 (2007: 12,000,000) ordinary shares of Rs 10 each	5	120,000,000	120,000,000
General reserve		386,000,000	299,000,000
Unappropriated profit		170,831,724	171,143,515
		676,831,724	590,143,515
NON CURRENT LIABILITIES			
Employees' retirement and other benefits	6	14,656,168	13,633,980
Deferred liabilities	7	27,645,883	18,967,885
		42,302,051	32,601,865
CURRENT LIABILITIES			
Finances under mark-up arrangements - secured	8	16,421,278	47,795,183
Trade and other payables	9	448,845,265	359,893,403
Provision for other liabilities and charges	10	32,153,159	29,537,562
Accrued finance cost		1,456,927	755,866
Provision for taxation		-	21,225,634
		498,876,629	459,207,648
CONTINGENCIES AND COMMITMENTS	11		
		1,218,010,404	1,081,953,028

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

Chairman

ASSETS	Note	2008 Rupees	2008 Rupees
NON-CURRENT ASSETS			
Property, plant and equipment	12	190,799,312	147,471,046
Investment property	13	2,289,146	2,399,146
Capital work in progress	14	26,019,820	2,432,400
Long term loans and deposits	15	7,885,266	8,336,162
		226,993,544	160,638,754
CURRENT ASSETS			
Stores, spares and loose tools	16	46,333,060	43,466,139
Stock-in-trade	17	348,155,372	244,880,895
Trade debts	18	382,278,554	250,060,993
Advances, deposits, prepayments and other receivables	19	138,875,926	115,895,577
Cash and bank balances	20	75,373,948	267,010,670
		991,016,860	921,314,274
		1,218,010,404	1,081,953,028

Chief Executive

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2008

	Note	2008 Rupees	2007 Rupees
Sales	21	1,876,445,136	1,664,543,336
Cost of sales	22	(1,368,834,662)	(1,198,452,822)
Gross profit		507,610,474	466,090,514
Distribution and marketing costs	23	(192,936,951)	(161,897,710)
Administrative expenses	24	(110,034,446)	(90,562,325)
Other operating expenses	25	(15,368,343)	(18,654,463)
Other operating income	26	56,287,292	41,429,383
Profit from operations		245,558,026	236,405,399
Finance costs	27	(11,638,741)	(8,413,048)
Profit before tax		233,919,285	227,992,351
Taxation	28	(63,231,076)	(57,312,784)
Profit for the year		170,688,209	170,679,567
Earnings per share - basic	35	14.22	14.22

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.

Chairman **Chief Executive**

CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2008

	Note	2008 Rupees	2007 Rupees
Cash flows from operating activities			
Cash generated from operations	30	121,371,213	276,881,400
Finance cost paid		(10,937,680)	(7,955,990)
Taxes paid		(87,346,618)	(53,899,675)
Payments for accumulating compensated absences		(1,194,808)	(637,935)
Employees' retirement and other benefits paid		(7,474,973)	(362,822)
Decrease/(increase) in long term loans and deposits		537,619	(5,538,136)
Net cash from operating activities		14,954,753	208,486,842
Cash flows from investing activities			
Fixed capital expenditure		(92,300,462)	(78,381,135)
Proceeds from sale of property, plant and equipment		717,000	881,000
Net cash used in investing activities		(91,583,462)	(77,500,135)
Cash flows from financing activities			
Dividend paid		(83,634,108)	(47,790,401)
Net cash used in financing activities		(83,634,108)	(47,790,401)
Net (decrease)/increase in cash and cash equivalents		(160,262,817)	83,196,306
Cash and cash equivalents at the beginning of the year		219,215,487	136,019,181
Cash and cash equivalents at the end of the year	31	58,952,670	219,215,487

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

Chairman **Chief Executive**

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2008

Rupees

	Share capital	General Reserves	Unappropriated Profit	Total
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
Final dividend for the year ended December 31, 2007 Rs 7.00 per share	-	-	(84,000,000)	(84,000,000)
Transfer to general reserve	-	87,000,000	(87,000,000)	-
Profit for the year	-	-	170,688,209	170,688,209
Balance as at December 31, 2008	120,000,000	386,000,000	170,831,724	676,831,724

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

Chairman **Chief Executive**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

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 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

- IFRIC 14, ' IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction' is effective from January 01, 2008. IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. It is not expected to have any significant impact on the Company's 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 Companys' 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.

- IAS 1 (Revised), 'Presentation of financial statements' is effective from January 01, 2009. The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in performance statement, but Company can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Adoption of these amendments would impact the nature and extent of disclosures made in the future financial statements of the Company
.

- IFRS 7 'Financial Instruments : Disclosures' is effective from January 01, 2009. It requires disclosures about the significance of financial instruments for the Company's financial position and performance, as well as quantitative and qualitative disclosure on the nature and extent to risks, however, it will not have any impact on the classification and valuation of the Company's financial instruments.

2.2.3 Standards and interpretations to existing standards that are not applicable to the Company and not yet effective

Standards or Interpretations	Effective date (accounting periods beginning on or after)
IFRS 2 - Share based payment	January 01, 2009
IFRS 8 - Operating segments	January 01, 2009
IFRIC 12 - Service concession arrangements	January 01, 2009
IFRIC 13 - Customer loyalty programmes	January 01, 2009
IFRIC 15 - Accounting for agreements for the construction of real estate	January 01, 2009
IFRIC 16 - Hedge of net investment in a foreign operation	January 01, 2009

In addition to the above, a new standard 'IFRS 4 - Insurance Contracts' has been issued by the International Accounting Standards Board and has been adopted by the Institute of Chartered Accountants of Pakistan (ICAP) but the notification from SECP is still awaited and, hence, presently do not form part of the local financial reporting framework.

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) Employee 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 4.005 million (2007: Rs 6.755 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	13% per annum
Expected rate of return	15% per annum
Discount rate	15% 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 7.229 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	14% per annum
Discount rate	15% 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	14% per annum
Discount rate	15% per annum

The latest actuarial valuation of all defined benefit plans was carried out as at December 31, 2008.

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 and10%
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, 2008 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, 2008 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 finances under mark up arrangements.

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, finances under mark up arrangements, 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

Foreign currency transactions are translated into Pak Rupees using the exchange rates prevailing at the dates of the transactions. All monetary assets and liabilities in foreign currencies are translated into Pak Rupees at exchange rates prevailing at the balance sheet date. All non-monetary items are translated into Pak 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.

The financial statements are presented in Pak Rupees, which is the Company’s functional and presentation currency.

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.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

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 657.120 million (2007: Rs 374.895 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

2008	2007		2008	2007
(Number of shares)			Rupees	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, 2008, the holding company KSB AG, Germany held 7,066,341 (2007: 7,066,341) shares of the Company.

6. Employees' retirement and other benefits

		2008 Rupees	2007 Rupees
These are composed of:			
Gratuity fund	- note 6.1	84,134	976,842
Ex-gratia scheme	- note 6.2	14,572,034	12,657,138
		14,656,168	13,633,980

6.1 Gratuity fund

	2008 Rupees	2007 Rupees
Present value of defined benefit obligation	57,344,278	54,798,733
Fair value of plan assets	(51,584,648)	(48,142,815)
Unrecognised actuarial losses	(5,675,496)	(5,679,076)
Liability as at December 31	84,134	976,842
Liability as at January 1	976,842	(3,413,847)
Charged to profit and loss account	6,382,057	4,390,689
Contribution by the Company	(7,274,765)	-
Liability as at December 31	84,134	976,842
The movement in the present value of defined benefit obligation is as follows:		
Present value as at January 1	54,798,733	46,830,807
Current service cost	5,722,309	4,595,585
Interest cost	5,510,128	4,807,741
Benefits paid	(6,694,775)	(8,127,724)
Experience (gain)/loss	(1,992,117)	6,692,324
Present value as at December 31	57,344,278	54,798,733
The movement in fair value of plan assets is as follows:		
Fair value as at January 1	48,142,815	48,992,439
Expected return on plan assets	4,865,703	5,012,637
Contribution by the Company	7,274,765	-
Benefits paid	(6,694,775)	(8,127,724)
Experience gain/(loss)	(2,003,860)	2,265,463
Fair value as at December 31	51,584,648	48,142,815
Plan assets are comprised as follows:		
Debt	47,818,778	45,654,236
Mixed Funds	(313,987)	988,630
Cash	4,079,857	1,499,949
	51,584,648	48,142,815

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

	2008	2007	2006	2005	2004 Rupees
As at December 31					
Present value of defined benefit obligation	57,344,278	54,798,733	46,830,807	43,461,278	36,688,278
Fair value of plan assets	51,584,648	48,142,815	48,992,439	42,423,000	38,111,000
(Deficit)/surplus	(5,759,630)	(6,655,918)	2,161,632	(1,038,278)	1,422,722
Experience adjustment on obligation	10%	12%	8%	9%	10%
Experience adjustment on plan assets	-2%	6%	5%	5%	6%

		2008 Rupees	2007 Rupees
6.2 Ex-gratia			
Present value of defined benefit obligation		13,686,936	12,863,542
Unrecognised actuarial gains/(losses)		885,098	(206,404)
Liability as at December 31		14,572,034	12,657,138
Liability as at January 1		12,657,141	11,169,920
Charged to profit and loss account		2,115,101	1,850,040
Payments made by the Company		(200,208)	(362,822)
Liability as at December 31		14,572,034	12,657,138
7. Deferred liabilities			
Deferred taxation	- note 7.1	18,000,000	11,000,000
Accumulating compensated absences	- note 7.2	9,645,883	7,967,885
		27,645,883	18,967,885
7.1 Deferred taxation			
This comprises temporary differences relating to:			
Employees' retirement and other benefits		(7,700,000)	(6,000,000)
Accelerated tax depreciation allowances		25,700,000	17,000,000
		18,000,000	11,000,000
7.2 Accumulating compensated absence			
Liability as at January 1			
Charged to profit and loss account		7,967,885	6,315,833
Payments made by the Company		2,872,806	2,289,987
Liability as at December 31		(1,194,808)	(637,935)
		9,645,883	7,967,885

8. Finances under mark up arrangements - secured

Finances available from commercial banks under mark up arrangements amount to Rs 716 million (2007: Rs 390 million). The rates of mark up range from Re 0.4318 to Re 0.4721 per Rs 1,000 per diem or part thereof on the balance outstanding.

Of aggregate facility of letters of credit of Rs 498 million (2007: Rs 270 million) and guarantees of Rs 766 million (2007: Rs 450 million), the amounts utilised as at December 31, 2008 was Rs 35.626 million (2007: Rs 161.920 million) and Rs 168.234 million (2007: Rs 129.604 million) respectively.

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

		2008 Rupees	2007 Rupees
9. Trade and other payables			
Trade creditors	- note 9.1	175,306,933	111,759,956
Accrued liabilities	- note 9.2	89,286,523	74,633,181
Advances from customers	- note 9.3	145,014,859	142,812,734
Workers' profit participation fund	- note 9.4	15,521,014	13,679,700
Workers' welfare fund		4,700,000	5,516,154
Rent received in advance		2,151,232	1,241,768
Unclaimed dividends		1,391,980	1,026,088
Other liabilities		15,472,724	9,223,822
		448,845,265	359,893,403

9.1 Trade creditors include amount due to holding company of Rs 37.880 million (2007: Rs 15.438 million) and associated undertakings of Rs 47.894 million (2007: Rs 8.961 million).

9.2 Accrued liabilities include amount due to holding company of Rs 4.230 million (2007: Rs 6.199 million) and associated undertakings of Rs 7.651 million (2007: Rs 5.743 million). Due to associated undertaking includes amount due to provident fund of Rs 1.483 million (2007: Rs 1.160 million).

9.3 Advances from customers include Rs 70.755 million (2007: Rs 30.882 million) in respect of gross amount due to customers for contract work, and advances from holding company and associated companies of Rs 0.172 million (2007: Rs 1.669 million) and Rs 0.418 million (2007: 0.395 million) respectively.

		2008 Rupees	2007 Rupees
9.4 Workers' profit participation fund			
Balance at beginning of the year		13,679,700	11,284,200
Allocation for the year	- note 25	12,500,000	12,245,000
Interest payable on funds utilized by the company	- note 27	1,736,918	1,426,500
		27,916,618	24,955,700
Less: Payments made during the year		12,395,604	11,276,000
Balance at the end of the year		15,521,014	13,679,700

		2008 Rupees	2007 Rupees

10. Provisions for other liabilities and charges

		2008 Rupees	2007 Rupees
Bonus to employees	- note 10.1	20,533,068	18,287,562
Sales incentive scheme	- note 10.2	11,620,091	11,250,000
		32,153,159	29,537,562

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

	Bonus to Employees	Sales Incentive scheme	Total
			Rupees
Balance as at January 1, 2008	18,287,562	11,250,000	29,537,562
Additional provisions made during the year	21,404,873	11,620,091	33,024,964
Provisions used during the year	(19,159,367)	(11,250,000)	(30,409,367)
Balance as at December 31, 2008	20,533,068	11,620,091	32,153,159

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, 2008 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 Nil (2007: Rs 0.070 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 168.234 million (2007: Rs 129.604 million) against the performance of various contracts.

11.2 Commitments in respect of:

Letters of credit other than for capital expenditure approximately Rs 35.626 million (2007: Rs 161.920 million).

12. Property, plant and equipment

2008

	Cost as at January 1, 2008	Additions/ (deletions)	Transfers in/ (out)	Cost as at December 31, 2008	Accumulated depreciation as at January 1, 2008	Depreciation charge/ (deletions) for the year	Transfers in/ (out)	Accumulated depreciation as at December 31, 2008	Rupees Book value as at December 31, 2008
Freehold land	1,372,520	-	-	1,372,520	-	-	-	-	1,372,520
Buildings on freehold land	31,608,807	711,760	-	32,320,567	23,593,877	843,592	-	24,437,469	7,883,098
Plant and machinery	166,922,029	22,429,554	-	189,351,583	88,462,574	7,908,679	-	96,371,253	92,980,330
Tools, jigs and attachments	37,768,087	6,791,717	-	44,559,804	29,384,966	1,761,532	-	31,146,498	13,413,306
Patterns	48,882,717	3,133,751	-	52,016,468	40,604,966	2,349,691	-	42,954,657	9,061,811
Other equipment and tube wells	16,360,036	15,945,608 -	-	32,305,644	7,545,543	2,463,026	-	10,008,569	22,297,075
Furniture and fixtures	8,540,005	2,360,530 (914,659)	-	9,985,876	6,135,189	421,521 (844,691)	-	5,712,019	4,273,857
Office machines and appliances	48,910,356	5,257,958 (269,678)	-	53,898,636	41,703,873	4,280,352 (269,677)	-	45,714,548	8,184,088
Vehicles	41,665,287	12,082,164 (768,261)	-	52,979,190	17,127,810	5,085,812 (567,659)	-	21,645,963	31,333,227
2008	402,029,844	68,713,042 (1,952,598)	-	468,790,288	254,558,798	25,114,205 (1,682,027)	-	277,990,976	190,799,312

2007

	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	Rupees 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

The cost of fully depreciated property, plant and equipment which are still in use as at December 31, 2008 is Rs 191.698 million (2007: Rs 177.107 million).

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

		2008 Rupees	2007 Rupees
Cost of sales	- note 22	18,721,775	14,434,148
Distribution and marketing costs	- note 23	3,586,866	2,606,341
Administrative expenses	- note 24	2,805,564	1,558,310
		25,114,205	18,598,799

12.2 Disposal of property, plant and equipment

2008

Particulars of assets	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
		Rupees				
Furniture and fixtures	**Outsiders**					
	M/s Techno Builder	763,300	747,170	16,130	41,000	Negotiation
Vehicles	**Outsiders**					
	Mr. Liaqat Ali Khan	768,261	567,660	200,601	610,000	Tender
Other assets with book value less than Rs 50,000		421,037	367,197	53,840	66,000	-
		1,952,598	1,682,027	270,571	717,000	

2007

Particulars of assets	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
		Rupees				
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 Nil (2007: 1.486 million) in respect of fully depreciated assets written off.

13. Investment property

	Cost as at January 1, 2008	Additions/ (deletions)	Transfers in/ (out)	Cost as at December 31, 2008	Accumulated depreciation as at January 1, 2008	Depreciation charge/ (deletions) for the year	Transfers in/ (out)	Accumulated depreciation as at December 31, 2008	Book value as at December 31, 2008
	Rupees								
Building on freehold land	4,400,000	-	-	4,400,000	2,000,854	110,000	-	2,110,854	2,289,146
2008	4,400,000	-	-	4,400,000	2,000,854	110,000	-	2,110,854	2,289,146
2007	4,918,800	-	(518,800)	4,400,000	2,113,803	110,000	(222,949)	2,000,854	2,399,146

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

13.2 Fair value of the investment property, based on the valuation carried out by an independent valuer, as at December 31, 2008 is Rs 69.483 million (2007: Rs 75.351 million).

		2008 Rupees	2007 Rupees

14. Capital work in progress

	2008 Rupees	2007 Rupees
Advance for land	229,800	229,800
Plant and machinery	25,790,020	-
Advance for vehicles	-	2,202,600
	26,019,820	2,432,400

15. Long term loans and deposits

		2008 Rupees	2007 Rupees
Loans to employees - considered good			
- Director		4,140,000	5,540,000
- Executives		-	171,846
- Others		6,258,375	5,232,302
		10,398,375	10,944,148
Less: Receivable within one year	- note 19	3,946,489	3,859,766
		6,451,886	7,084,382
Security deposits		1,433,380	1,251,780
		7,885,266	8,336,162

Reconciliation of the carrying amount of loans to:

	Director		Executives	
	2008	2007	2008	2007
Balance as at January 1	5,540,000	-	171,846	900,000
Disbursements during the year	-	5,600,000	-	-
Repayments during the year	(1,400,000)	(60,000)	171,846	(728,154)
Balance as at December 31	4,140,000	5,540,000	-	171,846

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 60 months.

The maximum aggregate amount due from director and executives at any time during the year was Rs 5.540 million (2007: Rs 5.600 million) and Rs 0.172 million (2007: Rs 0.900 million) respectively.

16. Stores, spares and loose tools

	2008 Rupees	2007 Rupees
Stores	20,250,256	18,822,764
Spares	12,571,961	13,303,327
Loose tools	13,510,843	11,340,048
	46,333,060	43,466,139

16.1 Stores and spares, having cost of Rs 9.221 million (2007: Rs 4.749 million) are being carried at net realisable value and an amount of Rs 3.079 million (2007: 0.224 million) has been charged to cost of sales, being the cost of inventory written down during the year.

17. Stock in trade

	2008 Rupees	2007 Rupees
Raw materials [including in transit Rs 19.172 million (2007: Rs 10.970 million)]	188,287,534	126,472,988
Work-in-process	93,231,810	69,717,874
Finished goods	66,636,028	48,690,033
	348,155,372	244,880,895

17.1 Stock-in-trade, having cost of Rs 27.818 million (2007: Rs 32.593 million) are being carried at net realisable value and an amount of Rs 3.144 million (2007: Rs 9.917 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 0.416 million (2007: Rs 2.882 million) is held with various contractors for machining services.

18. Trade debts - unsecured

		2008 Rupees	2007 Rupees
Considered good			
- Related parties	- note 18.1	29,651,756	38,373,250
- Others		352,626,798	211,687,743
		382,278,554	250,060,993
Considered doubtful		44,936,894	37,760,498
		427,215,448	287,821,491
Less: Provision for doubtful debts	- note 18.2	(44,936,894)	(37,760,498)
		382,278,554	250,060,993

18.1 Related parties

	2008	2007
Holding Company		
- KSB Aktiengesellschaft, Germany	10,759,569	23,301,663
Associated undertakings		
- Pt KSB Indonesia	915,656	1,397,779
- KSB Ajax Pumps pty. Limited, New Zealand	-	245,400
- KSB Mörck AB, Sweden	79,600	352,088
- KSB Amri (A.P) Pte Ltd.	-	40,184
- KSB Pumps Company Limited Thailand	1,405,934	725,620
- KSB Company Limited, Taiwan	4,791,924	2,896,579
- KSB Pompy Armatura, Poland	2,446,062	-
- KSB S.A. Cedex, France	5,359,308	-
- KSB Pumps Limited, India	-	1,158,902
- KSB GMBH - Services	-	542,900
- KSB Pumps and Valves (Pty) Limited	2,480,600	-
- KSB Pompa Armatur	1,301,283	-
- Millat Tractors Limited	-	7,029,664
- General Tyre & Rubber Company	111,820	682,471
	29,651,756	38,373,250

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

		2008 Rupees	2007 Rupees
18.2 Provision for doubtful debts			
Opening balance		37,760,498	34,546,528
Provision for the year	- note 23	19,863,065	7,516,884
		57,623,563	42,063,412
Less: Bad debts written off against provision		12,686,670	4,302,914
Closing balance		44,936,893	37,760,498
19. Advances, deposits, prepayments and other receivables			
Current portion of long term loans to employees	- note 15	3,946,489	3,859,766
Short term advances to employees- considered good	- note 19.1	5,224,238	4,359,406
Advances to suppliers and contractors			
- Considered good		26,448,887	30,741,109
- Considered doubtful		283,479	283,479
		26,732,366	31,024,588
Due from related parties	- note 19.2	8,389,212	5,902,995
Trade deposits and prepayments			
- Considered good		53,302,099	36,036,382
- Considered doubtful		7,932,742	6,300,353
		61,234,841	42,336,735
Letters of credit, deposits and opening charges		9,186,756	1,905,056
Profit receivable on bank deposits		136,119	4,430,137
Claims recoverable from Government			
- Sales tax		20,564,970	18,049,568
- Income tax		9,889,908	-
		30,454,878	18,049,568
Other receivables			
- Considered good		1,787,248	10,611,158
- Considered doubtful		210,965	210,965
		1,998,213	10,822,123
		147,303,112	122,690,374
Less: Provision for doubtful amounts	- note 19.3	8,427,186	6,794,797
		138,875,926	115,895,577

19.1 Included in short term advances to employees is amount due from executives of Rs 0.211 million (2007: 0.230 million).

		2008 Rupees	2007 Rupees
19.2 Due from related partie			
Holding company			
- KSB Aktiengesellschaft, Germany		7,937,117	5,839,908
Associated undertakings			
- KSB S.A. Cedex, France		452,095	63,087
		8,389,212	5,902,995

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

19.3 Provision for doubtful amounts

		2008 Rupees	2007 Rupees
Opening balance		6,794,797	5,940,227
Provision for the year	- note 23	1,782,402	854,570
		8,577,199	6,794,797
Less: Amount written off against provision		150,013	-
Closing balance		8,427,186	6,794,797

20. Cash and bank balances

	2008 Rupees	2007 Rupees
At banks		
- on deposit accounts	-	180,000,000
- on saving accounts	41,784,552	3,941,214
- on current accounts	18,947,830	65,938,932
	60,732,382	249,880,146
Cash in hand [including cheques in hand of Rs 13.267 million (2007: Rs 15.214 million)]	14,641,566	17,130,524
	75,373,948	267,010,670

20.1 The balances in saving and deposit accounts bear mark up which ranges from 5% to 9.75% per annum.

21. Sales

		2008 Rupees	2007 Rupees
Local sales	- note 21.1	1,784,252,039	1,537,356,584
Export sales		127,641,843	170,877,522
		1,911,893,882	1,708,234,106
Less: Sales tax		(35,448,746)	(43,690,770)
		1,876,445,136	1,664,543,336

21.1 Sales are inclusive of revenue from rendering of contract and services of Rs 282.225 million (2007: Rs 172.873 million) and Rs 22.994 million (2007: Rs 18.799 million) respectively.

22. Cost of sales

		2008 Rupees	2007 Rupees
Raw material consumed		934,303,425	739,361,778
Salaries, wages, amenities and staff welfare	- note 22.1	117,219,351	108,233,345
Staff training		1,032,153	1,859,878
Electricity and power		34,039,951	28,730,715
Stores and spares consumed		72,763,313	75,520,805
Insurance		1,620,460	1,792,352
Traveling and conveyance		20,172,363	17,134,505
Postage and telephone		3,577,756	2,585,508
Rent, rates and taxes		2,508,398	1,542,790
Repairs and maintenance		17,863,706	16,939,372
Legal & professional charges		6,876,047	3,331,752
Packing expenses		21,506,547	17,202,803
Outside services		146,571,887	130,717,525
Depreciation on property, plant and equipment	- note 12.1	18,721,775	14,434,148
Royalty		4,230,000	4,042,000
Other expenses		9,347,126	9,530,678
		1,412,354,258	1,172,959,954
Opening work-in-process		69,717,874	78,850,428
Less: Closing work-in-process		93,231,810	69,717,874
		(23,513,936)	9,132,554
Cost of goods manufactured		1,388,840,322	1,182,092,508
Opening stock of finished goods		48,690,033	66,174,441
Less: Closing stock of finished goods		66,636,028	48,690,033
		(17,945,995)	17,484,408
		1,370,894,327	1,199,576,916
Less: Cost of capital assets manufactured		(2,059,665)	(1,124,094)
		1,368,834,662	1,198,452,822

Cost of sales include the following in respect of:

	2008 Rupees	2007 Rupees
Contract cost	222,312,000	136,231,091
Raw material written off	1,353,541	2,654,760
Work-in-process written off	1,424,104	5,118,179
Finished goods written off	366,423	2,144,543
Stores, spares and loose tools written off	3,079,283	223,782

	2008 Rupees	2007 Rupees

22.1 Salaries, wages, amenities and staff welfare

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

	2008 Rupees	2007 Rupees
Gratuity fund		
Current service cost	2,112,502	1,678,376
Interest cost	2,034,171	1,755,859
Expected return on plan assets	(1,796,269)	(1,830,690)
Recognition of loss	5,657	-
	2,356,061	1,603,545
Ex-gratia		
Current service cost	821,216	771,312
Interest cost	1,274,667	1,052,919
	2,095,883	1,824,231

In addition to above, salaries, wages, amenities and staff welfare include Rs 3.917 million (2007: Rs 3.262 million) and Rs 1.536 million (2007: Rs 1.358 million) in respect of provident fund contribution by the Company and accumulating compensated absences respectively.

23. Distribution and marketing costs

		2008 Rupees	2007 Rupees
Salaries, wages, amenities and staff welfare	- note 23.1	60,069,950	48,462,489
Staff training		1,429,671	3,028,926
Traveling, conveyance and representations		20,634,554	15,199,317
Rent, rates and taxes		3,404,716	2,975,272
Publicity charges		8,399,561	5,576,845
Electricity, gas and water		2,416,341	2,388,618
Postage and telephone		3,690,359	3,349,682
Printing and stationery		1,407,514	1,964,357
Repairs and maintenance		6,516,479	1,009,534
Forwarding expenses		18,946,342	19,149,092
Commission expenses		35,528,204	41,890,255
Provision for:			
- Doubtful debts	- note 18.2	19,863,065	7,516,884
- Doubtful receivables	- note 19.3	1,782,402	854,570
Depreciation on property, plant and equipment	- note 12.1	3,586,866	2,606,341
Other expenses		5,260,927	5,925,528
		192,936,951	161,897,710

23.1 Salaries, wages, amenities and staff welfare

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

Gratuity fund

	2008 Rupees	2007 Rupees
Current service cost	1,752,621	1,285,660
Interest cost	1,687,635	1,345,012
Expected return on plan assets	(1,490,261)	(1,402,334)
Recognition of loss	4,693	-
	1,954,688	1,228,338

In addition to above, salaries, wages, amenities and staff welfare include Rs 1.943 million (2007: Rs 1.421 million) and Rs 0.411 million (2007: Rs 0.395 million) in respect of provident fund contribution by the Company and accumulating compensated absences respectively.

24. Administrative expenses

		2008 Rupees	2007 Rupees
Salaries, wages, amenities and staff welfare	- note 24.1	64,369,856	51,836,472
Staff training		1,191,972	492,431
Traveling, conveyance and representations		13,825,542	11,530,385
Rent, rates and taxes		996,245	1,381,362
Electricity, gas and water		3,472,297	2,406,924
Postage and telephone		6,166,730	4,878,467
Printing and stationery		1,592,311	1,907,767
Repairs and maintenance		3,408,263	2,799,187
Professional services	- note 24.2	6,151,513	7,531,657
Depreciation on:			
- Property, plant and equipment	- note 12.1	2,805,564	1,558,310
- Investment property	- note 13.1	110,000	110,000
Other expenses		5,944,153	4,129,363
		110,034,446	90,562,325

24.1 Salaries, wages, amenities and staff welfare

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

	2008 Rupees	2007 Rupees
Gratuity fund		
Current service cost	1,857,186	1,631,547
Interest cost	1,788,322	1,706,868
Expected return on plan assets	(1,579,173)	(1,779,611)
Recognition of loss	4,973	-
	2,071,308	1,558,804
Ex-gratia		
Current service cost	7,528	10,914
Interest cost	11,686	14,898
	19,214	25,812

In addition to above, salaries, wages, amenities and staff welfare include Rs 2.398 million (2007: Rs 2.051 million) and Rs 0.925 million (2007: Rs 0.517 million) in respect of provident fund contribution by the Company and accumulating compensated absences respectively.

		2008 Rupees	2007 Rupees
24.2 Professional services			
The charges for professional services include the following in respect of auditors' services for:			
Statutory audit		250,000	218,500
Review of half yearly financial statements		150,000	100,000
Audit of funds, consolidation forms and sundry services		416,000	301,000
Taxation services		455,000	1,380,000
Out of pocket expenses		97,953	184,783
		1,368,953	2,184,283
25. Other operating expenses			
Workers' profit participation fund	- note 9.4	12,500,000	12,245,000
Workers' welfare fund		2,646,843	4,653,000
Donations	- note 25.1	221,500	162,010
Exchange loss		-	1,594,453
		15,368,343	18,654,463

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

	2008 Rupees	2007 Rupees
26. Other operating income		
Income from financial assets		
Profit on bank accounts	11,479,079	14,228,005
Income from non-financial assets		
Commission Income	9,143,554	7,498,895
Rental income on investment property	4,359,710	4,144,332
Scrap sales	4,385,047	4,120,800
Profit on disposal of property, plant and equipment	446,429	881,000
Provisions no longer considered necessary and unclaimed balances written back	9,038,702	8,532,986
Exchange gain	15,523,414	-
Sundry income	1,911,357	2,023,365
	44,808,213	27,201,378
	56,287,292	41,429,383
27. Finance costs		
Mark up on finances under mark up arrangements	6,281,520	2,149,095
Interest on workers' profit participation fund	1,736,918	1,426,500
Bank and other charges - note 9.4	3,620,303	4,837,453
	11,638,741	8,413,048
28. Taxation		
For the year		
- Current	67,000,000	62,000,000
- Deferred	7,000,000	8,700,000
	74,000,000	70,700,000
Prior year		
- Current	(10,768,924)	(14,687,216)
- Deferred	-	1,300,000
	(10,768,924)	(13,387,216)
	63,231,076	57,312,784

28.1 Tax charge reconciliation

	2008 %	2007 %
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
Tax effect under presumptive tax regime and others	(0.27)	(4.01)
Effect of change in prior year's tax	(7.70)	(5.87)
Average effective tax rate charged to profit and loss account	27.03	25.14

29. Rates of exchange

Foreign currency liabilities have been translated into Pak Rupees at US $ 1.2674 (2007: US $ 1.6247), EURO 0.9000 (2007: EURO 1.1017), GBP 0.8780 (2007: GBP 0.8131), DHR 4.655 (2007: DHR 5.9666), SFR 1.3414 (2007: SFR 1.8245), YEN 114.495 (2007: YEN 181.9174), and HK$ 9.8232 (2007: HK$ 12.6743) equal to Rs 100. Foreign currency assets have been translated at US $ 1.2706 (2007: US $ 1.6300) equal to Rs 100.

		2008 Rupees	2007 Rupees

30. Cash generated from operations

Profit before taxation		233,919,285	227,992,351
Adjustments for:			
Depreciation on:			
- Property, plant and equipment		25,114,205	18,598,799
- Investment property		110,000	110,000
Gain on disposal of property, plant and equipment		(446,429)	(881,000)
Accumulating compensated absences		2,872,806	2,289,987
Employees' retirement and other benefits		8,497,158	6,240,729
Provision for doubtful debts		44,936,894	7,516,884
Provision for doubtful receivables		8,427,186	854,570
Stores, spares and loose tools written off		3,079,283	223,782
Stock-in-trade written off		3,144,068	9,917,482
Provisions no longer considered necessary and unclaimed balances written back		(9,038,702)	(8,532,986)
Finance costs		11,638,741	8,413,048
Exchange gain		(15,523,414)	-
Working capital changes	- note 30.1	(195,359,868)	4,137,754
		121,371,213	276,881,400

30.1 Working capital changes

(Increase)/decrease in current assets:		
Stores, spares and loose tools	(5,946,204)	(2,576,370)
Stock-in-trade	(106,418,545)	12,259,086
Trade debts	(134,095,972)	(43,384,759)
Advances, deposits, prepayments and other receivables	(21,604,350)	(40,664,021)
	(268,065,071)	(74,366,064)
Increase/(decrease) in current liabilities:		
Trade and other payables	70,089,606	74,007,168
Provision for other liabilities and charges	2,615,597	4,496,650
	(195,359,868)	4,137,754

31. Cash and cash equivalents

Cash and cash equivalents comprise the following items:

Cash and bank balances	- note 20	75,373,948	267,010,670
Finances under mark-up arrangements	- note 8	(16,421,278)	(47,795,183)
		58,952,670	219,215,487

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		Executive	
	2008	**2007**	**2008**	**2007**	**2008**	**2007**
Short term employee benefits						
Managerial remuneration	6,480,000	5,520,000	1,874,100	-	27,124,224	22,358,366
Bonus	4,054,500	1,088,670	450,000	-	7,930,110	3,676,747
House rent	-	-	816,962	-	12,205,901	8,776,208
Utilities	-	-	181,546	-	2,712,422	1,950,299
Leave fare assistance	-	-	-	-	-	-
Medical and other expenses	-	102,350	240,000	-	5,850,440	692,071
	10,534,500	6,711,020	3,562,608	-	55,823,097	37,453,690
Post employment benefits						
Contribution to gratuity and provident fund	1,296,000	1,012,000	338,386	-	5,131,413	3,575,496
Other long term benefits						
Accumulating compensated absences	-	-	-	-	5,178,975	3,509,266
	11,830,500	7,723,020	3,900,994	-	66,133,485	44,538,452
Number of persons	**1**	**1**	**1**	**-**	**36**	**26**

32.2 The Company also provides its chief executive, director and some of its executives with company maintained cars, free residential telephones and mobile phones.

32.3 Aggregate amount charged in the financial statements for the year for fee to 7 directors (2007: 7 directors) was Rs 55,000 (2007: Rs 52,500).

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 32. Other significant transactions with related parties are as follows:

	2008	2007
Holding company		
Sales	17,714,130	93,204,227
Purchases	62,057,229	23,966,740
Commission income	7,655,755	5,820,218
Royalty	4,230,000	4,042,000
Associated undertakings		
Sales	50,461,701	84,437,827
Purchases	246,047,890	36,022,138
Commission income	389,007	699,052
Commission expense	12,407,429	16,728,134
Post employment benefit plan		
Expense charged in respect of:		
- Gratuity fund	6,403,877	4,390,687
- Ex-gratia scheme	2,115,097	1,850,043
- Accumulated compensated absences	2,872,806	2,289,987
- Provident fund	8,259,112	6,734,105

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

34. Plant capacity and production

	Number			
	Capacity		Actual production	
	2008	2007	2008	2007
Power driven pumps	6,000	6,000	5832	5382

Actual production includes 509 (2007: 193) imported pumps assembled during the year in-house.
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**	170,688,209	170,679,567
Weighted average number of ordinary shares	**Numbers**	12,000,000	12,000,000
Earnings per share	**Rupees**	14.22	14.22

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, 2008 and December 31, 2007 which would have any effect on the earnings per share if the option to convert is exercised.

36. Financial assets and liabilities

	2008									Rupees
	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	2008	2008
Financial assets										
On balance sheet										
Long term loans and deposits	-	-	-	-	-	7,885,266	-	7,885,266	7,885,266	7,885,266
Trade debts	-	-	-	-	382,278,554	-	-	382,278,554	382,278,554	382,278,554
Advances, deposits, prepayments and other receivables	-	-	-	-	44,713,946	-	-	44,713,946	44,713,946	44,713,946
Cash and bank balances	41,784,552	-	-	41,784,552	33,589,396	-	-	33,589,396	75,373,948	60,732,382
	41,784,552	-	-	41,784,552	460,581,896	7,885,266	-	468,467,162	510,251,714	495,610,148
Off balance sheet	-	-	-	-	-	-	-	-	-	-
Total	41,784,552	-	-	41,784,552	460,581,896	7,885,266	-	468,467,162	510,251,714	495,610,148
Financial liabilities										
On balance sheet										
Employees' retirement and other benefits	-	-	-	-	-	-	14,656,168	14,656,168	14,656,168	
Accumulating compensated absences	-	-	-	-	-	-	9,645,883	9,645,883	9,645,883	
Finances under mark up arrangements - secured	16,421,278	-	-	16,421,278	-	-	-	-	16,421,278	
Trade and other payables	-	-	-	-	225,236,082	-	-	225,236,082	225,236,082	
Provisions for other liabilities and charges	-	-	-	-	32,153,159	-	-	32,153,159	32,153,159	
Accrued finance cost	-	-	-	-	1,456,927	-	-	1,456,927	1,456,927	
	16,421,278	-	-	16,421,278	258,846,168	-	24,302,051	283,148,219	299,569,497	
Off balance sheet										
Guarantees	-	-	-	-	168,234,171	-	-	168,234,171	168,234,171	
Letters of credit other than for capital expenditure	-	-	-	-	35,625,726	-	-	35,625,726	35,625,726	
	-	-	-	-	203,859,897	-	-	203,859,897	203,859,897	
Total	16,421,278	-	-	16,421,278	462,706,065	-	24,302,051	487,008,116	503,429,394	
On balance sheet gap	25,363,274	-	-	25,363,274	201,735,728	7,885,266	(24,302,051)	185,318,943	210,682,217	
Off balance sheet gap	-	-	-	-	(203,859,897)	-	-	(203,859,897)	(203,859,897)	

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

	2007									Rupees
	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	2007
Financial assets										
On balance sheet										
Long term loans and deposits	-	-	-	-	-	8,336,162	-	8,336,162	8,336,162	8,336,162
Trade debts	-	-	-	-	250,060,993	-	-	250,060,993	250,060,993	250,060,993
Advances, deposits, prepayments and other receivables	-	-	-	-	42,853,624	-	-	42,853,624	42,853,624	42,853,624
Cash and bank balances	183,941,214	-	-	183,941,214	83,069,456	-	-	83,069,456	267,010,670	249,880,146
	183,941,214	-	-	183,941,214	375,984,073	8,336,162	-	384,320,235	568,261,449	551,130,925
Off balance sheet	-	-	-	-	-	-	-	-	-	
Total	183,941,214	-	-	183,941,214	375,984,073	8,336,162	-	384,320,235	568,261,449	551,130,925
Financial liabilities										
On balance sheet										
Employees' retirement and other benefits	-	-	-	-	-	-	13,633,980	13,633,980	13,633,980	
Accumulating compensated absences	-	-	-	-	-	-	7,967,885	7,967,885	7,967,885	
Finances under mark up arrangements - secured	47,795,183	-	-	47,795,183	-	-	-	-	47,795,183	
Trade and other payables	-	-	-	-	198,531,815	-	-	198,531,815	198,531,815	
Provisions for other liabilities and charges	-	-	-	-	29,537,562	-	-	29,537,562	29,537,562	
Accrued finance cost	-	-	-	-	755,866	-	-	755,866	755,866	
	47,795,183	-	-	47,795,183	228,825,243	-	21,601,865	250,427,108	298,222,291	
Off balance sheet										
Guarantees	-	-	-	-	129,603,736	-	-	129,603,736	129,603,736	
Letters of credit other than for capital expenditure	-	-	-	-	161,920,109	-	-	161,920,109	161,920,109	
	-	-	-	-	291,523,845	-	-	291,523,845	291,523,845	
Total	47,795,183	-	-	47,795,183	520,349,088	-	21,601,865	541,950,953	589,746,136	
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	
Off balance sheet gap	-	-	-	-	(291,523,845)	-	-	(291,523,845)	(291,523,845))	

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 costs 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 510.252 million (2007: Rs 568.261 million), the financial assets which are subject to credit risk amounted to Rs 495.610 million (2007: Rs 551.131 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.

(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 March 05, 2009 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, 2008 of Rs 4.30 (2007: Rs 7.00) per share, amounting to Rs 51.6 million (2007: Rs 84 million) and a bonus share issue of 10% (2007: Nil) i.e. 1 share for every 10 shares held on the existing issued, subscribed and paid up capital of the company at their meeting held on March 05, 2009 for approval of members at the Annual General Meeting to be held on April 23, 2009. The Board has also recommended transfer of Rs 107.0 million (2007: Rs 87 million) to general reserve from unappropriated profit. These financial statements do not reflect this dividend payable, bonus issue 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
Advances due to customers relating to projects classifed under advances from customers instead of other liabilities	647,000

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

Chairman **Chief Executive**

Form of Proxy

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

I/We ____

of ____

in the district of ______________________________ being member(s) of KSB Pumps Co. Ltd. and holder(s) of ______________________ shares as per Share Register folio number
(No. of shares)

______________________ and/or CDC participant I.D. ______________________ and sub account No. ______________________ hereby appoint ______________________

of ____ as my/our proxy to attend and vote for me/us on my/our behalf at the Annual General Meeting of the company to be held on Thursday, April 23, 2009 and at any adjournment thereof.

Signed this ______________________ day of ______________________ 2009.

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 Computerized National Identity Card or Passport along with the participant's ID number and their account number at the time of attending the Annual General Meeting in order to facilitate their identification.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