

Balance Sheet


as at December 31, 2005

	Note	2005 Rupees	2004 Rupees
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised capital 15,000,000 (2004: 15,000,000) ordinary shares of Rs 10 each		<u>150,000,000</u>	<u>150,000,000</u>
Issued, subscribed and paid up capital 12,000,000 (2004: 12,000,000) ordinary shares of Rs 10 each	5	120,000,000	120,000,000
General reserve		167,000,000	136,000,000
Unappropriated profit		90,071,304	52,162,269
		<u>377,071,304</u>	<u>308,162,269</u>
NON-CURRENT LIABILITIES			
Employees' retirement and other benefits	6	18,183,442	16,901,070
Liabilities against assets subject to finance lease	7	-	2,261,088
		<u>18,183,442</u>	<u>19,162,158</u>
CURRENT LIABILITIES			
Current portion of liabilities against assets subject to finance lease	7	-	1,833,674
Short term running finances - secured	8	103,217,976	69,163,577
Trade and other payables	9	324,931,419	251,865,080
Provisions for other liabilities and charges	10	20,575,248	18,579,818
Accrued finance cost		1,734,986	658,978
		<u>450,459,629</u>	<u>342,101,127</u>
CONTINGENCIES AND COMMITMENTS			
	11		
		<u>845,714,375</u>	<u>669,425,554</u>

	Note	2005 Rupees	2004 Rupees
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	12	74,400,675	60,978,203
Investment property	13	2,927,967	3,050,937
Assets subject to finance lease	14	-	3,251,990
Capital work-in-progress	15	1,166,124	497,706
Long term loans and deposits	16	3,386,220	3,777,195
Deferred taxation	17	6,000,000	10,115,000
		87,880,986	81,671,031
CURRENT ASSETS			
Stores, spares and loose tools	18	29,934,278	23,084,131
Stock-in-trade	19	200,334,844	164,709,577
Trade debts	20	322,262,065	162,687,710
Advances, deposits, prepayments and other receivables	21	78,336,141	54,037,454
Income tax recoverable		7,341,775	47,870,637
Cash and bank balances	22	119,624,286	135,365,014
		757,833,389	587,754,523
		845,714,375	669,425,554

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


Arif Ijaz
 Chief Executive



Dr. August Lee
 Chairman

Profit and Loss Account
for the year ended December 31, 2005

	Note	2005 Rupees	2004 Rupees
Sales	23	1,252,165,877	853,673,833
Cost of sales	24	(914,069,866)	(641,509,467)
Gross profit		338,096,011	212,164,366
Distribution and marketing expenses	25	(115,954,108)	(95,542,763)
Administration expenses	26	(79,775,166)	(60,746,654)
Other operating expenses	27	(14,292,986)	(5,960,790)
Other operating income	28	27,622,097	34,788,645
Profit from operations		155,695,848	84,702,804
Finance cost	29	(10,671,813)	(4,028,461)
Profit before taxation		145,024,035	80,674,343
Taxation	30	(55,115,000)	(28,631,000)
Profit for the year		89,909,035	52,043,343
Earnings per share - basic and diluted	36	7.49	4.34

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


Arif Ijaz
Chief Executive


Dr. August Lee
Chairman


Cash Flow Statement

for the year ended December 31, 2005

	Note	2005 Rupees	2004 Rupees
Cash flows from operating activities:			
Cash generated from operations	31	23,506,157	62,557,487
Employees' retirement and other benefits paid		(3,768,573)	(10,510,966)
Finance cost paid		(9,595,805)	(4,296,893)
Taxes (paid)/refund		(10,471,138)	38,650,358
Net decrease/(increase) in long term loans and deposits		390,975	(1,643,153)
Net cash generated from operating activities		61,616	84,756,833
Cash flows from investing activities:			
Fixed capital expenditure		(28,081,693)	(19,171,708)
Proceeds from sale of property, plant and equipment		3,229,524	1,678,612
Net cash used in investing activities		(24,852,169)	(17,493,096)
Cash flows from financing activities:			
Dividend paid		(20,909,812)	(11,955,482)
Payment of finance lease liabilities		(4,094,762)	(2,414,482)
Net cash used in financing activities		(25,004,574)	(14,369,964)
Net (decrease)/increase in cash and cash equivalents		(49,795,127)	52,893,773
Cash and cash equivalents at the beginning of the year		66,201,437	13,307,664
Cash and cash equivalents at the end of the year	32	16,406,310	66,201,437

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


Arif Ijaz
 Chief Executive


Dr. August Lee
 Chairman


Statement of Changes in Equity

for the year ended December 31, 2005

	Share capital	General reserves	Unappropriated Profit	Total
	Rupees	Rupees	Rupees	Rupees
Balance as at January 1, 2004 as previously reported	120,000,000	136,000,000	12,118,926	268,118,926
Effect of change in accounting policy:				
Transfer to general reserve for the year ended December 31, 2003 declared subsequent to year end (note 39)	-	(10,800,000)	10,800,000	-
Balance as at January 1, 2004 - restated	120,000,000	125,200,000	22,918,926	268,118,926
Final dividend for the year ended December 31, 2003	-	-	(12,000,000)	(12,000,000)
Transfer to general reserve	-	10,800,000	(10,800,000)	-
Profit for the year	-	-	52,043,343	52,043,343
Balance as at December 31, 2004 - restated	120,000,000	136,000,000	52,162,269	308,162,269
Final dividend for the year ended December 31, 2004	-	-	(21,000,000)	(21,000,000)
Transfer to general reserve	-	31,000,000	(31,000,000)	-
Profit for the year	-	-	89,909,035	89,909,035
Balance as at December 31, 2005	120,000,000	167,000,000	90,071,304	377,071,304

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


Arif Ijaz
 Chief Executive


Dr. August Lee
 Chairman

Notes to the Financial Statements

for the year ended December 31, 2005

1. The Company and its operations

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

2. Statement of compliance

2.1 Basis of preparation

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan 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 that are not yet effective

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:

	Effective from
i) IAS 19 - (Amendments) - Employee benefits	January 1, 2006
ii) IAS 1 - Presentation of financial statements - capital disclosure	January 1, 2007

Adoption of the above amendments would result in an impact on the nature and extent of disclosures made in the future financial statements of the Company.

3. Accounting convention

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

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. 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. 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) Defined benefit plans (note 4.2.1 and note 6)
- b) Provisions for other liabilities and charges (note 4.13 and note 10)
- c) Provision for doubtful debts and other amounts (note 4.9, note 20 and note 21)
- d) Provision for taxation (note 4.1 and note 30)

4. Summary of significant accounting policies

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 basis used in the computation of the taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilised.

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

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 5.374 million (2004: Rs 4.278 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	7% per annum
Expected rate of return	9% per annum
Discount rate	9% per annum

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

- (b) The Company operates an un-funded benefit scheme (ex-gratia) for its unionised staff. Under the scheme, members who have completed prescribed years of service with the Company are entitled to receive 20 days last drawn basic pay for each completed year of service. Provision has been made to cover the obligation on the basis of actuarial valuation and charged to income currently. The amount recognised in the balance sheet represents the present value of defined benefit obligation adjusted for unrecognised actuarial gains and losses. Projected unit credit method, using the following significant assumptions, is used for valuation of the scheme:

Expected rate of increase in salary level	8% per annum
Discount rate	9% 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	8% per annum
Discount rate	9% per annum

The latest actuarial valuation of all defined benefit plans was carried out as at December 31, 2005.

4.2.2 Defined contribution plans

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

Interest @ 4% per annum is payable to the fund on the balances utilised by the Company which is charged to profit.

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, without taking into account any residual value as considered im-material, at the following annual rates:

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

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

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

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.

Previously, full year's depreciation was charged on assets capitalised during the year while no depreciation was charged in the year of disposal. However, due to recent changes in IAS 16 "Property, plant and equipment" which are applicable for the financial years beginning on or after January 1, 2005, now the Company charges depreciation on additions to property, plant and equipment 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. Such a change has been accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors".

Had there been no change in the accounting estimate, the profit for the year and carrying value of property, plant and equipment would have been lower by Rs 3.193 million.

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, without taking into account any residual value as considered im-material. 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 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.

Previously, full year's depreciation was charged on assets capitalised during the year while no depreciation was charged in the year of disposal. However, due to recent changes in IAS 16 "Property, plant and equipment" which are applicable for the financial years beginning on or after January 1, 2005, now the Company charges depreciation on additions to property, plant and equipment 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. Such a change has been accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors". However the change has no effect on profit for the year.

4.6 Leases

4.6.1 The Company is the lessee:

Finance leases

Leases where the Company has substantially all the risks and rewards of ownership are classified as finance leases. At inception, finance leases are capitalised at the lower of present value of minimum lease payments under the lease agreement and the fair value of the assets acquired on lease. The related rental obligations, net of finance cost, are included in liabilities against assets subject to finance lease as referred to in note 7. The liabilities are classified as current and non-current depending upon the timing of the payments. Each lease payment is allocated between the liability and finance cost so as to achieve a constant rate on the balance outstanding. The interest element of the rental is charged to profit over the lease term. Assets acquired under finance lease are depreciated over the useful life of assets using the straight line method at rates given in note 4.3, without taking into account any residual value as considered im-material. Depreciation on leased assets is charged to income.

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

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

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.

Previously, full year's depreciation was charged on assets capitalised during the year while no depreciation was charged in the year of disposal. However, due to recent changes in IAS 16 "Property, plant and equipment" which are applicable for the financial years beginning on or after January 1, 2005, now the Company charges depreciation on additions to property, plant and equipment 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. Such a change has been accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors". However the change has no effect on profit for the year.

Operating leases

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:

Operating leases

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

4.7 Stores, spares and loose tools

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

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.

4.9 Trade debts

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

4.10 Cash and cash equivalents

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

4.11 Borrowings

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

4.12 Trade and other payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for the goods and/or services received, whether or not billed to the Company.

4.13 Provisions

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

4.14 Financial instruments

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

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

4.15 Offsetting of financial assets and financial liabilities

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

4.16 Impairment

The carrying amount of the assets is reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If such indication exists, the recoverable amount of such assets is estimated and the impairment losses are recognised in the profit and loss account currently.

Provisions for impairment are reviewed at each balance sheet date and adjusted to reflect the current best estimates. Changes in the provisions are recognised as income/expense currently.

4.17 Foreign currencies

All monetary assets and liabilities in foreign currencies are translated into rupees at exchange rates prevailing at the balance sheet date. Transactions in foreign currencies are translated into rupees at the spot rate. All non-monetary items are translated into rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined.

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

4.18 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 4.19.

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

4.19 Construction contracts

Contract costs are recognised when incurred.

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

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

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

The aggregate amount of costs incurred and recognised profits (less recognised losses) for contract in progress at the balance sheet date was Rs 202.60 million (2004: Rs 38.08 million).

4.20 Dividend

Dividend distribution to the shareholders is recognised as a liability in the period in which it is approved by the shareholders.

5. Issued, subscribed and paid up capital

2005 (Number of shares)	2004		2005 Rupees	2004 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, 2005, the holding Company KSB AG, Germany held 7,066,341 (2004: 7,066,341) shares of the Company.

6. Employees' retirement and other benefits

The amounts recognised in the balance sheet are as follows:

Gratuity fund	- note 6.1	997,278	85,603
Ex-gratia	- note 6.2	10,652,888	10,378,347
Accumulating compensated absences	- note 6.3	6,533,276	6,437,120
		18,183,442	16,901,070

	2005 Rupees	2004 Rupees
6.1 Gratuity fund		
Present value of defined benefit obligation	43,461,278	36,687,603
Fair value of plan assets	(42,423,000)	(38,111,000)
Unrecognised actuarial (losses)/gains	(41,000)	1,509,000
Liability as at December 31	<u>997,278</u>	<u>85,603</u>
Liability as at January 1	85,603	5,471,600
Charge to profit and loss account	3,062,000	2,705,003
Contribution by the Company	(2,150,325)	(8,091,000)
Liability as at December 31	<u>997,278</u>	<u>85,603</u>
6.2 Ex-gratia		
Present value of defined benefit obligation	10,935,068	10,232,581
Unrecognised actuarial (losses)/gains	(282,180)	145,766
Liability as at December 31	<u>10,652,888</u>	<u>10,378,347</u>
Liability as at January 1	10,378,347	12,159,793
Charge to profit and loss account	1,412,663	44,445
Payments made by the Company	(1,138,122)	(1,825,891)
Liability as at December 31	<u>10,652,888</u>	<u>10,378,347</u>

Charge to profit and loss account for the year comprises:

	Rupees			
	Gratuity fund		Ex-gratia	
	2005	2004	2005	2004
Current service cost	3,171,000	2,544,000	594,057	650,309
Interest cost for the year	2,958,000	2,305,003	818,606	855,847
Expected return on plan assets	(3,067,000)	(2,144,000)	-	-
Recognition of transitional (asset)	-	-	-	(1,461,711)
	<u>3,062,000</u>	<u>2,705,003</u>	<u>1,412,663</u>	<u>44,445</u>

	2005 Rupees	2004 Rupees
6.3 Accumulating compensated absences		
Liability as at January 1	6,437,120	6,440,893
Charge to profit and loss account	576,282	590,302
Payments made by the Company	(480,126)	(594,075)
Liability as at December 31	6,533,276	6,437,120

7. These have been repaid during the year.

8. Finances available from commercial banks under mark-up arrangements amount to Rs 330 million (2004: Rs 330 million). The rates of mark-up range from Re 0.2403 to Re 0.2643 per Rs 1,000 per diem or part thereof on the balance outstanding.

Of aggregate facility of letters of credit of Rs 170 million (2004: Rs 230 million) and guarantees of Rs 212 million (2004: Rs 218 million), the amounts utilised as at December 31, 2005 was Rs 49.353 million (2004: Rs 41.203 million) and Rs 87.118 million (2004: Rs 119.156 million) respectively.

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

9. Trade and other payables

Trade creditors	- note 9.1	85,328,720	89,360,085
Accrued liabilities	- note 9.2	75,969,996	49,274,279
Advances from customers			
- Contract work		16,560,000	23,642,168
- Others		132,170,602	71,273,630
		148,730,602	94,915,798
Interest free deposits, repayable on demand		433,410	1,208,942
Workers' profit participation fund	- note 9.3	8,012,200	4,510,700
Workers' welfare fund		2,252,000	1,410,000
Rent received in advance		-	1,015,782
Unclaimed dividend		650,045	559,857
Other liabilities		3,554,446	9,609,637
		324,931,419	251,865,080

9.1 Trade creditors include amount due to holding Company of Rs 4.282 million (2004: Rs 4.309 million) and associated undertakings of Rs 8.882 million (2004: Rs 21.783 million).

9.2 Accrued liabilities include amount due to holding Company of Rs 6.287 million (2004: Rs 0.924 million) and associated undertakings of Rs 10.383 million (2004: Rs 6.719 million).

	2005 Rupees	2004 Rupees
9.3 Workers' profit participation fund		
Opening balance	4,510,700	2,117,700
Provision for the year	7,752,000	4,350,000
Interest charged on funds utilised by the Company	249,000	119,000
	<u>12,511,700</u>	<u>6,586,700</u>
Less: Payments made during the year	4,499,500	2,076,000
Closing balance	<u>8,012,200</u>	<u>4,510,700</u>

10. Provisions for other liabilities and charges

Bonus to employees	- note 10.1	16,518,849	15,041,945
Sales incentive scheme	- note 10.2	4,056,399	3,537,873
		<u>20,575,248</u>	<u>18,579,818</u>

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

	Rupees		
	Bonus to employees	Sales incentive scheme	Total
Balance as at January 1	15,041,945	3,537,873	18,579,818
Additional provisions made during the year	16,518,849	4,056,399	20,575,248
Provisions used during the year	(13,559,954)	(2,771,474)	(16,331,428)
Provisions reversed during the year	(1,481,991)	(766,399)	(2,248,390)
Balance as at December 31	<u>16,518,849</u>	<u>4,056,399</u>	<u>20,575,248</u>

10.1 Bonus to employees

This provision presents bonus equal to seven months' basic salary and two 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, 2005 are expected to be utilised in the next financial year.

11. Contingencies and commitments

11.1 Contingencies

- (i) Liabilities, if any, which may arise from the outstanding warranties and guarantees to the customers as to performance, free of charge replacement of faulty materials or bad workmanship etc. are not ascertainable. Based on past experience, however, the amount of contingent loss, if any, arising from other warranties and guarantees is not likely to be material and no provision has, therefore, been made in these financial statements.
- (ii) The Deputy Director of Punjab Employees' Social Security Institution raised a demand of Rs 4.570 million (2004: Rs 4.570 million) being social security of contracted staff for the period from October 1994 to June 2002 not paid by the Company. The Company has challenged the demand in the High Court through a writ petition. The High Court has stayed the recovery of the amount. Pending adjudication, no provision has been made in these financial statements against the demand, as the Company's legal advisor is of the view that the demand is arbitrary and there are strong grounds for the decision to be in favour of the Company.
- (iii) Post dated cheques not provided for in the financial statements, furnished by the Company to the Collector of Customs to cover import levies in excess of 20% ad valorem on certain raw materials and components amounted to Rs 0.309 million (2004: Rs Nil). Liabilities under the post dated cheques can arise in respect of such raw materials which are not consumed within one year from the receipt thereof or till the expiry of extended period and such liability, if any, will be treated as part of the cost of such raw materials and components.
- (iv) Claims not acknowledged as debt Rs 2.79 million (2004: Rs 0.74 million).
- (v) The Company has issued bank guarantees of Rs 87.118 million (2004: Rs 119.156 million) against the performance of various contracts.

11.2 Commitments in respect of

Letters of credit other than for capital expenditure approximately Rs 49.353 million (2004: Rs 41.203 million).

12. Property, plant and equipment

	Cost as at January 1, 2005	Additions/ (deletions)	Transfers	Cost as at December 31, 2005	Accumulated depreciation as at January 1, 2005	Depreciation charge/ (deletions) for the year	Transfers	Accumulated depreciation as at December 31, 2005	Book value as at December 31, 2005
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Freehold land	1,372,520	-	-	1,372,520	-	-	-	-	1,372,520
Buildings on freehold land	31,090,007	-	-	31,090,007	20,771,289	900,366	-	21,671,655	9,418,352
Plant and machinery	93,632,828	9,585,010	-	103,217,838	78,643,948	2,485,935	-	81,129,883	22,087,955
Tools, jigs and attachments	32,172,981	1,378,537	-	33,551,518	24,231,052	1,770,742	-	26,001,794	7,549,724
Patterns	46,867,615	290,004	-	47,157,619	32,084,409	3,149,902	-	35,234,311	11,923,308
Other equipment and tube wells	9,239,582	355,660	-	9,595,242	5,630,499	696,842	-	6,327,341	3,267,901
Furniture and fixtures	6,412,700	381,550	-	6,794,250	5,276,347	259,116	-	5,535,463	1,258,787
Office machines and appliances	36,450,187	2,723,944	-	39,174,131	33,464,091	2,492,437	-	35,956,528	3,217,603
Vehicles	15,086,604	12,698,570 (798,500)	5,588,000	32,574,674	11,245,186	2,844,963 (798,500)	4,978,500	18,270,149	14,304,525
2005	272,325,024	27,413,275 (798,500)	5,588,000	304,527,799	211,346,821	14,600,303 (798,500)	4,978,500	230,127,124	74,400,675
2004	254,831,062	19,064,967 (2,618,505)	1,047,500	272,325,024	197,856,476	14,202,232 (1,759,387)	1,047,500	211,346,821	60,978,203

The cost of fully depreciated property, plant and equipment which are still in use as at December 31, 2005 is Rs 153.689 million (2004: Rs 140.203 million).

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

		2005 Rupees	2004 Rupees
Cost of sales	- note 24	11,686,332	12,437,699
Distribution and marketing expenses	- note 25	1,331,541	1,030,436
Administration expenses	- note 26	1,582,430	734,097
		14,600,303	14,202,232

12.2 Disposal of property, plant and equipment

Particulars of assets	Rupees			
	Cost	Accumulated depreciation	Book value	Sale proceeds
Vehicles having book value less than Rs 50,000 each	798,500	798,500	-	590,500
				Mode of disposal
				Negotiation

13. Investment property

	Cost as at January 1, 2005	Additions/ (deletions)	Cost as at December 31, 2005	Accumulated depreciation as at January 1, 2005	Depreciation charge/ (deletions) for the year	Accumulated depreciation as at December 31, 2005	Book value as at December 31, 2005
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Building on freehold land	4,918,800	-	4,918,800	1,867,863	122,970	1,990,833	2,927,967
2005	4,918,800	-	4,918,800	1,867,863	122,970	1,990,833	2,927,967
2004	4,918,800	-	4,918,800	1,621,923	122,970	1,867,863	3,050,937

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

13.2 Fair value of the investment property, based on the valuation carried out by an independent valuer, as at December 31, 2005 is Rs 68.856 million (2004: Rs 64.968 million).

14. Assets subject to finance lease

	Cost as at January 1, 2005	Additions / (deletions)	Transfers	Cost as at December 31, 2005	Accumulated depreciation as at January 1, 2005	Depreciation charge/ (deletions) for the year	Transfers	Accumulated depreciation as at December 31, 2005	Book value as at December 31, 2005
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Vehicles	9,111,320	- (3,523,320)	(5,588,000)	-	5,859,330	513,818 (1,394,648)	(4,978,500)	-	-
2005	9,111,320	- (3,523,320)	(5,588,000)	-	5,859,330	513,818 (1,394,648)	(4,978,500)	-	-
2004	6,635,500	3,523,320	1,047,500	9,111,320	5,721,250	1,185,580	1,047,500	5,859,330	3,251,990

2005
Rupees

2004
Rupees

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

Cost of sales	- note 24	-	652,069
Administration expenses	- note 26	513,818	533,511
		513,818	1,185,580

14.2 Disposal of assets subject to finance lease

Particulars of assets	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of disposal
		Rupees	Rupees	Rupees	Rupees	
Vehicles	EFU General Insurance Limited	3,523,320	1,394,648	2,128,672	2,639,024	Insurance claim

	2005 Rupees	2004 Rupees
15. Capital work-in-progress		
Advance for land	229,800	229,800
Plant and machinery [including in transit Rs 0.748 million (2004: Rs Nil)]	936,324	267,906
	<u>1,166,124</u>	<u>497,706</u>
16. Long term loans and deposits		
Loans to employees - considered good		
- Director	1,050,000	-
- Executives	1,570,000	2,240,000
- Others	3,048,457	2,784,845
	5,668,457	5,024,845
Less: Receivable within one year	3,023,757	2,090,170
	<u>2,644,700</u>	<u>2,934,675</u>
Security deposits	741,520	842,520
	<u>3,386,220</u>	<u>3,777,195</u>

Reconciliation of the carrying amount of loans to:

	Director		Executives	
	2005 Rupees	2004 Rupees	2005 Rupees	2004 Rupees
Balance as at January 1	-	-	2,240,000	-
Disbursements during the year	-	-	1,100,000	2,390,000
Re-classified during the year	1,275,000	-	(1,275,000)	-
Repayments during the year	(225,000)	-	(495,000)	(150,000)
Balance as at December 31	<u>1,050,000</u>	-	<u>1,570,000</u>	2,240,000

These represent un-secured interest free loans given to executives and other employees for house building, purchase of vehicles and for use in marriages of employees and their dependents. These are repayable in monthly instalments over a period of 24 to 48 months.

The maximum aggregate amount due from director and executives at any time during the year was Rs 1.275 million (2004: Rs Nil) and Rs 2.205 million (2004: Rs 2.24 million).

	2005 Rupees	2004 Rupees
17. Deferred taxation		
This comprises temporary differences relating to:		
Employees' retirement and other benefits	5,186,085	6,812,986
Provision for doubtful debts	3,440,436	6,893,585
Accelerated tax depreciation allowances	(4,347,443)	(3,892,985)
Others	1,720,922	301,414
	<u>6,000,000</u>	<u>10,115,000</u>
18. Stores, spares and loose tools		
Stores	14,582,809	10,328,389
Spares	7,869,181	7,579,943
Loose tools	7,482,288	5,175,799
	<u>29,934,278</u>	<u>23,084,131</u>
19. Stock-in-trade		
Raw materials [including in transit Rs 4.786 million (2004: Rs 30.529 million)]	103,666,650	87,031,805
Work-in-process	66,212,848	50,585,119
Finished goods	30,455,346	27,092,653
	<u>200,334,844</u>	<u>164,709,577</u>
19.1 Stock-in-trade, having cost of Rs 23.224 million (2004: Rs 27.207 million) are being carried at net realisable value of Rs 3.724 million (2004: 5.397 million).		
19.2 Work-in-process amounting to Rs 3.647 million (2004: Rs 3.49 million) is held with various contractors for machining services.		
20. Trade debts - unsecured		
Considered good		
- Related parties - note 20.1	23,169,489	12,745,145
- Others	299,092,576	149,942,565
	<u>322,262,065</u>	<u>162,687,710</u>
Considered doubtful	12,062,852	18,385,488
	<u>334,324,917</u>	<u>181,073,198</u>
Less: Provision for doubtful debts - note 20.2	12,062,852	18,385,488
	<u>322,262,065</u>	<u>162,687,710</u>

	2005 Rupees	2004 Rupees
20.1 Related parties		
Holding company		
- KSB Aktiengesellschaft, Germany	12,683,128	8,409,800
Associated undertakings		
- KSB Ajax Pumps pty. Limited, Australia	1,100,095	267,903
- KSB Ajax Pumps pty. Limited, New Zealand	430,653	-
- KSB Middle East FZE, Dubai, U.A.E	3,954,126	-
- KSB Pumps (S.A.) (Pty) Limited, South Africa	530,402	-
- KSB Pompy I Armatura, Poland	3,666,825	-
- KSB-Pompa, Armatur Sanayi, Turkey	536,836	-
- KSB Pumps Company Limited, Thailand	-	907,052
- PT. KSB, Indonesia	-	1,620,360
- Millat Tractors Limited	267,424	1,540,030
	<u>23,169,489</u>	<u>12,745,145</u>

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

20.2 Provision for doubtful debts

Opening balance	18,385,488	19,557,733
Provision for the year	3,200,000	3,500,000
	<u>21,585,488</u>	<u>23,057,733</u>
Less: Bad debts written off against provision	9,522,636	4,672,245
Closing balance	<u>12,062,852</u>	<u>18,385,488</u>

	2005 Rupees	2004 Rupees
21. Advances, deposits, prepayments and other receivables		
Current portion of long term loans to employees	3,023,757	2,090,170
Short term advances to employees		
- considered good - note 21.1	4,238,620	4,927,942
Advances to suppliers and contractors		
- Considered good	6,527,550	3,887,599
- Considered doubtful	283,479	283,479
	6,811,029	4,171,078
Trade deposits and prepayments		
- Considered good	27,162,734	23,975,707
- Considered doubtful	1,056,963	1,310,469
	28,219,697	25,286,176
Letters of credit, deposits and opening charges	2,323,056	1,053,556
Sales tax receivable	25,035,184	12,243,223
Other receivables		
- Considered good	1,859,075	1,722,179
- Considered doubtful	210,965	210,965
	2,070,040	1,933,144
Due from related parties - note 21.2	8,166,165	4,137,078
	79,887,548	55,842,367
Less: Provision for doubtful amounts - note 21.3	1,551,407	1,804,913
	78,336,141	54,037,454

21.1 Included in short term advances to employees is amount due from executives of Rs 0.035 million (2004: 0.211 million).

21.2 Due from related parties

Holding company

- KSB Aktiengesellschaft, Germany 4,865,962 3,568,307

Associated undertakings

- KSB Services GmbH, Germany 347,172 57,032

- KSB S.A. Cedex, France 2,953,031 511,739

8,166,165 4,137,078

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

	2005 Rupees	2004 Rupees
21.3 Provision for doubtful amounts		
Opening balance	1,804,913	494,444
Provision for the year	-	1,310,469
	<u>1,804,913</u>	<u>1,804,913</u>
Less: Amount written off against provision	253,506	-
	<u>1,551,407</u>	<u>1,804,913</u>

22. Cash and bank balances

At banks on:		
- Deposit accounts	40,000,000	60,000,000
- Saving accounts	52,258,658	63,642,478
- Current accounts	54,741	1,370,751
	<u>92,313,399</u>	<u>125,013,229</u>
Cash in hand including cheques in hand of Rs 26.771 million (2004: Rs 9.510 million)	27,310,887	10,351,785
	<u>119,624,286</u>	<u>135,365,014</u>

22.1 The balances in saving and deposit accounts bear mark-up which ranges from 3% to 10.75% per annum.

23. Sales

Local Sales	- note 23.1	1,196,335,488	851,056,814
Export Sales		101,603,147	72,876,693
		<u>1,297,938,635</u>	<u>923,933,507</u>
Less: Sales Tax		45,772,758	70,259,674
		<u>1,252,165,877</u>	<u>853,673,833</u>

23.1 Sales are inclusive of revenue from rendering of contract and services of Rs 164.52 million (2004: Rs 24.99 million) and Rs 106.917 million (2004: Rs 31.41 million) respectively.

	2005 Rupees	2004 Rupees
24. Cost of sales		
Raw material consumed	559,987,131	392,449,554
Salaries, wages, amenities and staff welfare - note 24.1	81,053,982	83,742,627
Staff training	1,138,666	461,765
Electricity and power	26,238,770	23,028,281
Stores and spares consumed	61,446,582	49,513,881
Insurance	1,420,849	1,539,356
Travelling and conveyance	22,120,101	16,329,680
Postage and telephone	4,089,250	3,654,812
Rent, rates and taxes	1,111,776	1,041,859
Repairs and maintenance	8,814,435	5,280,174
Legal and professional charges	11,665,048	7,194,012
Packing expense	10,816,459	5,410,153
Outside services	121,220,379	61,506,225
Depreciation on:		
- Property, plant and equipment - note 12.1	11,686,332	12,437,699
- Leased assets - note 14.1	-	652,069
Royalty	4,744,691	815,041
Other expenses	5,627,183	5,356,570
	933,181,634	670,413,758
Opening work-in-process	50,585,119	38,183,589
Less: Closing work-in-process	66,212,848	50,585,119
	(15,627,729)	(12,401,530)
Cost of goods manufactured	917,553,905	658,012,228
Opening stock of finished goods	27,092,653	11,859,509
Less: Closing stock of finished goods	30,455,346	27,092,653
	(3,362,693)	(15,233,144)
	914,191,212	642,779,084
Less: Cost of capital assets manufactured	121,346	1,269,617
	914,069,866	641,509,467
Cost of goods manufactured include the following in respect of:		
Contract cost	127,997,000	23,281,000
Raw material written off	4,109,271	-
Stores and spares written off	970,543	-

24.1 Salaries, wages and other benefits include following in respect of retirement and other benefits:

	2005 Rupees	2004 Rupees
Gratuity fund	1,080,384	1,074,396
Ex-gratia	1,299,650	40,885
Accumulating compensated absences	375,928	435,472
Provident fund	2,411,146	2,398,860
	5,167,108	3,949,613

25. Distribution and marketing expenses

Salaries, wages, amenities and staff welfare - note 25.1	29,296,688	25,311,262
Staff training	711,603	594,040
Travelling, conveyance and representations	13,990,313	13,900,441
Rent, rates and taxes	2,332,729	1,834,903
Publicity charges	2,996,610	3,360,865
Electricity, gas and water	2,003,967	2,204,557
Postage and telephone	4,151,668	3,836,879
Printing and stationery	1,878,276	1,803,210
Repairs and maintenance	2,162,695	924,553
Forwarding expense	16,319,087	9,810,688
Commission expenses	32,690,216	20,919,087
Provision for doubtful debts	3,200,000	3,500,000
Provision for doubtful amounts	-	1,310,469
Depreciation on property, plant and equipment - note 12.1	1,331,541	1,030,436
Other expenses	2,888,715	5,201,373
	115,954,108	95,542,763

25.1 Salaries, wages and other benefits include following in respect of retirement and other benefits:

Gratuity fund	623,664	776,355
Accumulating compensated absences	74,131	57,290
Provident fund	867,696	733,180
	1,565,491	1,566,825

		2005 Rupees	2004 Rupees
26. Administration expenses			
Salaries, wages, amenities and staff welfare	- note 26.1	45,064,730	36,048,811
Staff training		1,471,793	2,722,187
Travelling, conveyance and representations		10,886,029	8,473,034
Rent, rates and taxes		941,107	797,296
Electricity, gas and water		1,431,261	1,422,024
Postage and telephone		2,380,567	1,890,843
Printing and stationery		1,813,990	1,841,934
Repairs and maintenance		2,236,669	816,692
Professional services	- note 26.2	4,438,713	3,644,096
Depreciation on:			
- Property, plant and equipment	- note 12.1	1,582,430	734,097
- Investment property	- note 13.1	122,970	122,970
- Leased assets	- note 14.1	513,818	533,511
Other expenses		6,891,089	1,699,159
		79,775,166	60,746,654
26.1 Salaries, wages and other benefits include following in respect of retirement and other benefits:			
Gratuity fund		1,357,952	854,252
Ex-gratia		113,013	3,560
Accumulating compensated absences		126,223	97,540
Provident fund		1,774,294	1,323,698
		3,371,482	2,279,050
26.2 Professional services			
The charges for professional services include the following in respect of auditors' services for:			
Statutory audit		165,000	150,000
Review of half yearly financial statements		75,000	75,000
Audit of funds, consolidation forms and sundry services		225,000	110,000
Taxation services		1,015,000	1,676,000
Out of pocket expenses		124,211	111,316
		1,604,211	2,122,316

	2005 Rupees	2004 Rupees
27. Other operating expenses		
Workers' profit participation fund	7,752,000	4,350,000
Workers' welfare fund	2,252,000	1,410,000
Exchange Loss	1,317,928	-
Donations	- note 27.1 2,971,058	200,790
	<u>14,292,986</u>	<u>5,960,790</u>

27.1 None of the directors and their spouses had any interest in any of the donees.

28. Other operating income

Income from financial assets

Profit on bank accounts	2,565,363	1,230,805
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Income from non-financial assets

Commission income	5,180,602	14,742,145
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Rental income on investment property	3,180,828	3,412,836
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Scrap sales	4,041,316	3,066,924
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Profit on sale of property, plant and equipment	1,100,852	819,494
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Recovery of trade debts previously written off	168,750	127,437
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Provisions no longer considered necessary and unclaimed balances written back	10,960,336	7,825,311
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Sundry income	424,050	3,563,693
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	<u>25,056,734</u>	<u>33,557,840</u>
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	<u>27,622,097</u>	<u>34,788,645</u>
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29. Finance cost

Mark-up on:

- Finance lease	799,735	136,050
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- Short term running finances	6,533,820	1,817,855
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- Employees' provident fund	136,000	-
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Interest on workers' profit participation fund	249,000	119,000
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Bank and other charges	2,953,258	1,955,556
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	<u>10,671,813</u>	<u>4,028,461</u>
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	2005 Rupees	2004 Rupees
30. Taxation		
For the year		
- Current	51,000,000	24,700,000
- Deferred	970,000	3,931,000
	<u>51,970,000</u>	<u>28,631,000</u>
Prior year		
- Current	-	-
- Deferred	3,145,000	-
	<u>3,145,000</u>	<u>-</u>
	<u>55,115,000</u>	<u>28,631,000</u>
	2005 %	2004 %
30.1 Tax charge reconciliation		
Numerical reconciliation between the average effective tax rate and the applicable tax rate:		
Applicable tax rate	35.00	35.00
Tax effect of amounts that are:		
- Not deductible for tax purposes	1.49	2.77
Tax effect under presumptive tax regime and others	(0.21)	(2.28)
Effect of change in prior year's tax	1.72	-
	<u>38.00</u>	<u>35.49</u>
Average effective tax rate charged to profit and loss account		
	2005 Rupees	2004 Rupees
31. Cash generated from operations		
Profit before taxation	145,024,035	80,674,343
Adjustments for:		
Depreciation on:		
- Property, plant and equipment	14,600,303	14,202,232
- Investment property	122,970	122,970
- Leased assets	513,818	1,185,580
Profit on sale of property, plant and equipment	(1,100,852)	(819,494)
Employees' retirement and other benefits	5,050,945	3,339,750
Provision for doubtful debts	3,200,000	3,500,000
Provision for other receivables	-	1,310,469
Stores, spares and loose tools written off	970,543	4,461,998
Stock-in-trade written off	4,109,271	21,809,392
Provisions no longer considered necessary and unclaimed balances written back	(10,960,336)	(7,825,311)
Finance cost	10,671,813	4,028,461
Working capital changes - note 31.1	(148,696,353)	(63,432,903)
	<u>23,506,157</u>	<u>62,557,487</u>

	2005 Rupees	2004 Rupees
31.1 Working capital changes		
(Increase) in current assets:		
Stores, spares and loose tools	(7,820,690)	(901,507)
Stock-in-trade	(39,734,538)	(68,968,095)
Trade debts	(162,774,355)	(37,645,544)
Advances, deposits, prepayments and other receivables	(24,298,687)	(24,457,916)
	<u>(234,628,270)</u>	<u>(131,973,062)</u>
Increase in current liabilities:		
Trade and other payables	83,936,487	56,891,194
Provisions for other liabilities and charges	1,995,430	11,648,965
	<u>(148,696,353)</u>	<u>(63,432,903)</u>

32. Cash and cash equivalents

Cash and cash equivalents comprise the following items:

Cash and bank balances	- note 22	119,624,286	135,365,014
Short term running finances	- note 8	(103,217,976)	(69,163,577)
		<u>16,406,310</u>	<u>66,201,437</u>

33. Remuneration of Chief Executive, Directors and Executives

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

	Chief Executive		Director		Executives	
	2005 Rupees	2004 Rupees	2005 Rupees	2004 Rupees	2005 Rupees	2004 Rupees
Managerial remuneration	3,541,212	2,477,400	1,066,640	-	5,951,668	6,000,975
Bonus	1,812,000	750,000	256,481	-	930,132	1,293,605
Contribution to gratuity and provident fund	712,871	454,190	195,550	-	937,548	988,820
House rent	624,918	1,114,860	479,992	-	2,301,248	2,415,583
Utilities	138,870	247,740	106,664	-	511,396	536,791
Leave fare assistance	-	-	32,000	-	184,000	192,000
Medical and other expenses	400,058	48,169	26,667	-	153,333	160,000
	<u>7,229,929</u>	<u>5,092,359</u>	<u>2,163,994</u>	<u>-</u>	<u>10,969,325</u>	<u>11,587,774</u>
Number of persons	1	1	1	-	6	6

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

33.3 Aggregate amount charged in the financial statements for the year for fee to 7 directors (2004: 8 directors) was Rs 33,500 (2004: Rs 9,000).

34. Related party transactions

The related parties comprise holding company, associated undertakings, other related group companies, key management personnel and post employment benefit plan. The company in the normal course of business carries out transactions with various related parties. Amounts due from and to related parties are shown under receivables and payables, amounts due from key management personnel are shown under receivables and remuneration of key management personnel is disclosed in note 33. Other significant transactions with related parties are as follows:

	2005 Rupees	2004 Rupees
Holding company		
Sales	27,796,245	16,969,334
Purchases	15,525,015	31,894,254
Commission income	1,937,940	13,680,662
Royalty	4,744,691	815,041
Associated undertakings		
Sales	23,150,588	33,925,592
Purchases	68,116,215	27,003,707
Services received	524,350	345,435
Commission income	3,214,889	555,629
Commission expense	10,011,871	4,280,825
Post employment benefit plan		
Expense charged in respect of:		
- Gratuity fund	3,062,000	2,705,003
- Provident fund	5,053,136	4,455,738

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

35. Plant capacity and production

	Capacity		Number	
	2005	2004	2005	2004
Power driven pumps	5,000	5,000	4,499	4,276

Actual production reflects change in product mix and market demand.

36. Earnings per share

36.1 Basic earnings per share

		2005 Rupees	2004 Rupees
Profit for the year	Rupees	89,909,035	52,043,343
Weighted average number of shares outstanding during the year	Numbers	12,000,000	12,000,000
Earnings per share	Rupees	7.49	4.34

36.2 Diluted earnings per share

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

37. Financial assets and liabilities

							Rupees	
	Interest/mark-up bearing			Non-interest bearing			2005 Total	2004 Total
	Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total		
Financial assets								
Long term loans and deposits	-	-	-	-	3,386,220	3,386,220	3,386,220	3,777,195
Trade debts	-	-	-	322,262,065	-	322,262,065	322,262,065	162,687,710
Advances, deposits, prepayments and other receivables	-	-	-	39,321,146	-	39,321,146	39,321,146	28,183,950
Cash and bank balances	92,258,658	-	92,258,658	27,365,628	-	27,365,628	119,624,286	135,365,014
	92,258,658	-	92,258,658	388,948,839	3,386,220	392,335,059	484,593,717	330,013,869
Off balance sheet	-	-	-	-	-	-	-	-
Total	92,258,658	-	92,258,658	388,948,839	3,386,220	392,335,059	484,593,717	330,013,869
Financial liabilities								
Employees' retirement and other benefits	-	-	-	-	18,183,442	18,183,442	18,183,442	16,901,070
Liabilities against assets subject to finance lease	-	-	-	-	-	-	-	4,094,762
Short term running finances	103,217,976	-	103,217,976	-	-	-	103,217,976	69,163,577
Trade and other payables	-	-	-	162,036,604	-	162,036,604	162,036,604	149,803,214
Provisions for other liabilities and charges	-	-	-	20,575,248	-	20,575,248	20,575,248	18,579,818
Accrued finance cost	-	-	-	1,734,986	-	1,734,986	1,734,986	658,978
	103,217,976	-	103,217,976	184,346,838	18,183,442	202,530,280	305,748,256	259,201,419
Off balance sheet								
Guarantees	-	-	-	87,118,000	-	87,118,000	87,118,000	119,156,000
Letters of credit other than for capital expenditure	-	-	-	49,353,000	-	49,353,000	49,353,000	41,203,000
	-	-	-	136,471,000	-	136,471,000	136,471,000	160,359,000
Total	103,217,976	-	103,217,976	320,817,838	18,183,442	339,001,280	442,219,256	419,560,419
On balance sheet gap	(10,959,318)	-	(10,959,318)	204,602,001	(14,797,222)	189,804,779	178,845,461	70,812,450
Off balance sheet gap	-	-	-	(136,471,000)	-	(136,471,000)	(136,471,000)	(160,359,000)

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

37.1 Financial risk management objectives

The company's activities expose it to a variety of financial risks, including the effects of changes in foreign exchange rates, market interest rates such as Karachi Inter-Bank Offered Rate and Treasury bills rate, credit and liquidity risk associated with various financial assets and liabilities respectively as referred to in note 37 and cash flow risk associated with accrued finance cost in respect of borrowings as referred to in note 8.

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

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

(a) Concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed completely to perform as contracted. The company's credit risk is primarily attributable to its trade debts and its balances at banks. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. The company has no significant concentration of credit risk as exposure is spread over a large number of counter parties in case of trade debts. Out of the total financial assets of Rs 484.594 million (2004: Rs 330.014 million), the financial assets which are subject to credit risk amounted to Rs 484.054 million (2004: Rs 329.172 million). To manage exposure to credit risk, the company applies credit limits to its customers.

(b) Currency risk

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

(c) Interest rate risk

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

(d) Liquidity risk

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

37.2 Fair value of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date.

38. Date of authorisation for issue

These financial statements were authorised for issue on March 17, 2006 by the board of directors of the company.

39. Events after the balance sheet date

The Board of Directors have proposed a final dividend for the year ended December 31, 2005 of Rs 3.00 per share, amounting to Rs 36.00 million at their meeting held on March 17, 2006 for approval of members at the Annual General Meeting to be held on April 18, 2006. The board has also proposed transfer of Rs 54.00 million to general reserve from unappropriated profit.

Previously appropriations other than dividends made subsequent to the balance sheet date were recorded in the statement of changes in equity. The company, effective from current year, has not recorded such appropriations in its statement of changes in equity as it is considered more appropriate for the purpose of presentation. Such a change in accounting policy has been accounted for retrospectively and comparative financial statements have been restated in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors". However the change has no effect on the current or prior years shareholders' equity.


40. Corresponding figures

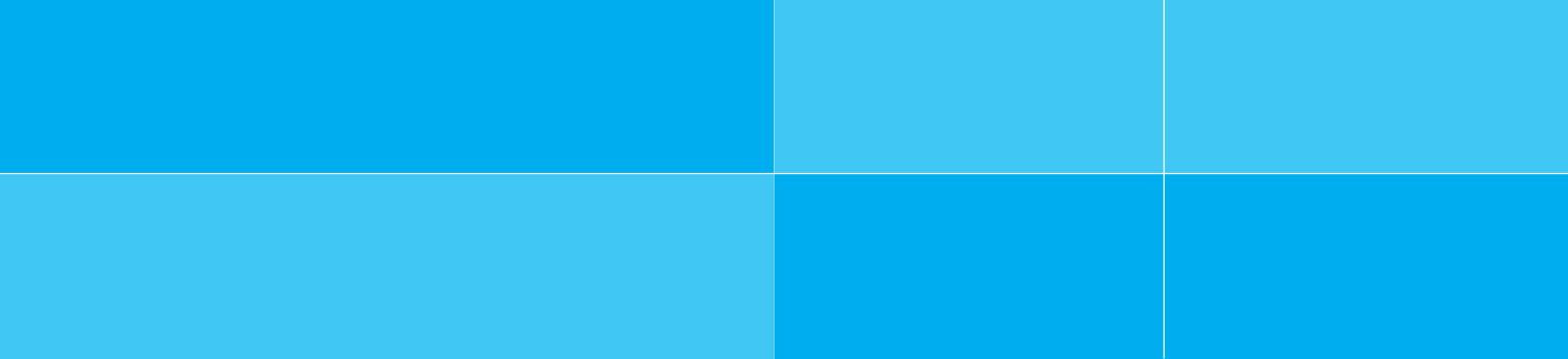
Previous year's figures have been rearranged, wherever necessary for the purposes of comparison. Significant re-arrangements made are as follows:

	Rupees
Classified separately from trade and other payables	
- Provisions for other liabilities and charges	18,579,818
Classified as distribution and marketing expenses instead of cost of sales	
- Forwarding expense	9,810,688

The above figures have been re-arranged as the re-classification made is considered more appropriate for the purpose of presentation.


Arif Ijaz
Chief Executive


Dr. August Lee
Chairman



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

I/We _____
of _____
in the district of _____ being member(s) of KSB
Pumps Co. Ltd. and holder(s) of _____ shares as per Share Register folio number
(No. of shares) _____ and/or CDC participant I.D. No. _____ and sub account No.
_____ hereby appoint _____
of _____ as my/our
proxy to attend and vote for me/us on my/our behalf at the annual general meeting of the company to be
held on Tuesday April 18, 2006 and at any adjournment thereof.

Signed this _____ day of _____ 2006.

Witness

Signature _____

Name _____

Address _____

NIC No. _____

Signature on
Rs. 5.00
Revenue
Stamp

Note:

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