

Directors' Report

The Directors of International Industries Ltd. are pleased to submit the 58th Annual Report and the audited accounts for the year ended 30 June 2006.

BOARD OF DIRECTORS

There has been no change in the constitution of the Board since the last Annual Report.

OPERATIONS

The 3 megawatt power plant which your company installed last year came into operation in the month of November 2005 and has been operating satisfactorily.

The plants including slitters, tube mills, galvanizing plants and the cold rolling mill operated satisfactorily. The production of saleable goods at 159,608 M. Tons is 7% higher than the previous year.

SALES

Movements in the world steel prices during the year under review have had an adverse impact on the normal volume growth which your company has been achieving over the past decade.

When the prices were falling at the beginning of the year the customers preferred to wait for cheaper purchases. Sales, therefore dropped.

In the Domestic market, the sales volume at 112,102 M. Tons is 2% higher than the previous year's sale. Export sales at 40,621 M. Tons are just marginally more than last year.

FINANCIAL

The net sales value at Rs.7.674 billion is 8% higher than the previous year. By the grace of Allah the management of your Company was able to buy raw materials at the right price which enabled it to achieve better gross margins in the later half of the year. The gross profit of Rs.1.241 billion is 42% higher than the corresponding previous year's figure.

Legal and professional expenses have been high this year, causing the administration expenses to increase by 32% over last year.

Rs.20.0 million more were allocated to advertising and sales promotion to enable the company to participate in exhibitions and to promote sales. The selling expenses have therefore increased to Rs.76.7 million.



The shortage of trucks and the increased fuel prices have caused freight rates to increase sharply. Although the availability of the trucks has improved somewhat, the rates have not decreased proportionately. Transportation is an area of concern for the management of your Company.

The major contributor to the other income is the profit earned on placement of funds on deposit, which during the year amounted to Rs.53.2 million. The slight depreciation in the rupee versus the dollar has resulted in an exchange loss of Rs.6.7 million. The net other income is Rs.50 million.

Interest rates have been increasing steadily over the past year and are expected to further increase. On a higher average borrowing the interest cost has increased from Rs.105 million last year to Rs.180 million in the year under review. However, if the profit earned on deposit is reduced from the interest paid, the net financial expenses are Rs.127 million.

The profit before tax of Rs.726 million reflects an increase of 44% over the previous year's figure of Rs.503 million. The profit after tax of Rs.534 million translates into an earning of Rs.12.47 per share which by the grace of Allah is 43% higher than the previous year.

The Key Operating and Financial Data for the last seven years is summarized on pages 30 - 31.

APPROPRIATIONS

The appropriations approved by the Board of Directors are as follows:

	(Rs. 000)
Profit for the year after taxation	533,558
Un-appropriated profit from prior year	165,345
Transferred from surplus on revaluation of buildings	14,181
Disposable profit for appropriation	713,084
Final dividend for the year ended 30 June 2005	(160,459)
Interim dividend for the year ended 30 June 2006	(85,578)
Unappropriated profit carried forward	467,047
Subsequent Effects	
Proposed issue of bonus shares in the ratio of 33 shares for every 100 shares held	141,204
Proposed final dividend on 42,789,184 shares of Rs.10 each at Rs 3.00 per share	128,368
	269,572

SOCIAL RESPONSIBILITIES

Our role as a corporate citizen is as important to us as satisfaction of our customers. We at IIL understand the duties of being a responsible corporate citizen and stand true to our conviction and promise to work for the betterment and prosperity of the people of Pakistan.

The management and employees of your Company consider Health, Safety and Environment an integral part of their activities and way of life. Your Company provides and maintains, so far as reasonably practicable, plant equipment, systems and working conditions which are safe and without risk to the health of all employees, visitors, contractors and the public. Management has maintained its strong commitment to a safe environment in all its operations throughout the year.

As a commitment to comply with International Standards, the Company is in the process of obtaining certification to international safety standard, OHSAS 18001.

FUTURE PROSPECTS

The Company has diversified into manufacturing of polyethylene pipes which are preferred by some consumers as an alternative to steel pipes. The gas companies use polyethylene pipes for transmission / distribution in addition to steel pipes. Your Company has supplied a small trial order and is now set to acquire bigger orders. A fairly large market exists for polyethylene pipes in the telecommunication industry where these pipes are used as ducts for casing optic fibre cables. Your Company will consider adding capacity in this area of business.

Your Company is now looking at alternative projects into which it can venture. The following twelve months will therefore be spent carrying out feasibility studies for identification of possible projects.

In its present line of business, the Company is adding a fourth galvanizing plant and two new tube mills so that the capacities are available to take advantage of opportunities for growth.

Fluctuations in the international prices of steel and zinc remain a cause of concern but the management of your Company believes that the following twelve months will see some stability in this area.



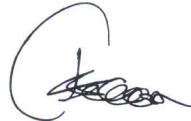
ACKNOWLEDGEMENTS

The Directors of your Board would like to take this opportunity of thanking the dynamic management and dedicated staff, bankers and our valued customers who have made our task so pleasant.

The Board is confident that if the management and the employees of the Company continue to work with the devotion and zeal that has been their hallmark, the Company will Inshallah continue to prosper.

We pray to Almighty Allah for continued success of your Company.

For and on behalf of
International Industries Ltd.



J.R. Rahim
Chairman

Karachi:
Dated: 27 July 2006