

# Directors' Report



Meeting of the Board of Directors

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We are pleased to submit our 60th Annual Report and audited accounts for the year ended 30th June, 2008.

Messrs J.R. Rahim, Towfiq H. Chinoy, K.M.M. Shah, Zakaullah Khan, Kamal A. Chinoy, Mustapha A. Chinoy, Kemal Shoaib, Fuad Azim Hashimi, Javaid Anwar, Syed Salim Raza and Riyaz T. Chinoy were elected Directors for 3 years on 30th August, 2007.

The Board would like to record its appreciation for their services and valuable contributions made by the outgoing Directors Messrs M. Ateequllah and Zahid Zaheer.

The economy was able to prosper despite the unstable political environment throughout 2007-08 but continued political instability and increased policy uncertainty pose a risk to the economy. The country's economy grew by 5.78% in the year under review which was about 1% less than last year.

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## GLOBAL STEEL SCENARIO

Steel consumption after being centered in the developed world for more than a century has been rising in emerging economies as investments take place in infrastructure, housing and the transport and industrial sectors. Growth will largely depend on how these economies continue to grow subsequent to increases in Oil and Food prices and the consequential inflation.

## COMPANY'S OPERATIONS

### Sales

Total sales almost crossed 180,000 tons with export sales crossing 50,000 tons for the first time in your company's history. Overall sales have exhibited a consistent growth over the years. Domestic sales, however, of galvanized pipes registered a small decline.

Our volumes of precision steel tubes increased by 13% and we hope to continue to gain a larger share of this growing market. Despite political instability and doubling of steel costs your company managed to increase by the grace of Allah sales by 22% to a total Rs.12.6 billion and export sales by 54% to a value of US \$ 47 million.

### Production

During the year your company made major repairs and technological investments necessary to sustain its position as the market leader in the country.

Production capacity now exists which will allow us to take advantage of any sudden demands and improve our order processing time.

## FINANCIAL

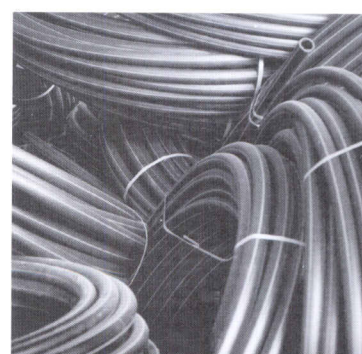
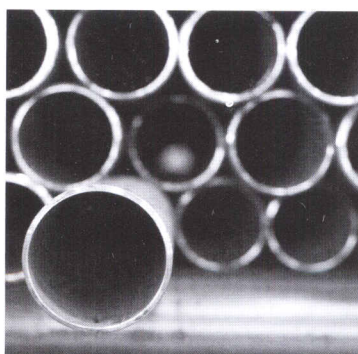
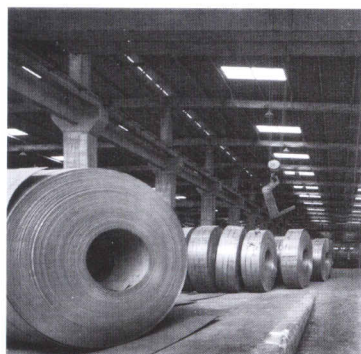
Margins fell in the first half on the back of rising steel prices and freight costs. Advance purchases of steel at economical prices eased cost pressures in the 2nd half of the year. The depreciation in the Rupee/US Dollar parity has forced us to provide for Rs.137 million on account of an exchange loss.

Salaries, wages and benefits remained high on account of staff appointed to run additional plants coupled with salary rises to help employees stave off inflation. In compliance with the requirement of IAS 39 pertaining to forward currency transactions Rs.49 million are included in the profit and loss account as unrealized gain.

Land and Buildings were revalued in line with International accounting standards to align values with the current market.

The Company contributed Rs.1,940 million to the National exchequer in the form of duties and taxes. By the grace of Allah, your company earned an after tax profit of Rs. 705 million which is 14% higher than Rs.612 million of the previous year in spite of an exponential increase in costs which translates into an earning of Rs.8.47 per share.

Sustained financial results enable profitability growth and provide for superior shareholder value. Our financial statements reflect an organized investment plan for the success of a flexible business enterprise.





## Appropriations

The appropriations approved by the Board of Directors are as follows

|  | (Rs. 000) |
|--|-----------|
| Profit for the year after taxation                   | 705,303   |
| Un-appropriated profit from prior year               | 484,625   |
| Transferred from surplus on revaluation of buildings | 12,596    |
| Disposable profit for appropriation                  | 1,202,524 |
| Final dividend for the year ended 30 June 2007       | (71,137)  |
| Issuance of bonus shares 2007                        | (187,802) |
| Interim dividend for the year ended 30 June 2008     | (75,690)  |
| Issuance of bonus shares 2008                        | (75,689)  |
| Transfer to General Reserves                         | (225,000) |
| Unappropriate profit carried forward                 | 567,206   |

## Subsequent Effects

|   |         |
|---|---------|
| Proposed issue of bonus shares in the ratio of 2 shares for every 10 shares held  | 166,518 |
| Proposed final dividend on 83,258,764 shares of Rs. 10 each at Rs. 1.50 per share | 124,888 |
| Transfer to General reserves  | 275,000 |
|   | 566,406 |

## SOCIAL RESPONSIBILITIES

The Company continues with its tradition of contributing 2.5% of its profit after tax towards meeting responsibilities in this area.

We continue to support the two Citizen Foundation schools that were constructed by our sponsorship. We have also made a substantial contribution to the Hub School being built by the Ahmed Jaffer Foundation. Your Company has established the I.I.L Mentoring Scholarship at The NED University whereby 50 scholarships are awarded to deserving Engineering students every year.



In collaboration with The Citizen Foundation, a school built in Landhi

## HUMAN RESOURCE DEVELOPMENT

Your Company lays special emphasis on improving internal communications, in addition to professional development and training to enable employees to implement corporate objectives. Your Company also has an adult education scheme which has increased our workforce literacy rate to 81%.

We adhered to our commitment to foster an environment that promotes open dialogue between managers and employees. Management conducted various meetings with the Labour Union to improve relationships during negotiations aimed at enhancement in staff emoluments. A two year agreement was signed with the collective bargaining agent in the year under review.

## BUSINESS RISKS

The economy is confronting the challenges of high oil and food prices, rising interest rates and a trade deficit on current account. Major fluctuation in Steel Prices as has been the case in the last six months also continues.

Opportunities exist in infrastructure development and housing construction. Export markets also provide better opportunities than in the past.

Doubling of steel price between the beginning and end of the financial year has placed a considerable strain on the liquidity of the Company. Increased interest rates will also adversely effect margins.

The equity injected through the Rights issue

will considerably assist in improving our ability to borrow directly or through suppliers' credit.

## FUTURE OUTLOOK

The project which is estimated to cost Rs.8 billion is planned to be financed through equity of Rs.4.0 billion and a matching debt of Rs.4.0 billion. The Board of Directors in its meeting held on July 28, 2008 has in principle decided that the management of the company prepare a scheme whereby the Company's downstream project comprising of 250,000 tons per annum cold rolling mill and a 150,000 tons per annum metal coating steel plant to be located at Landhi, Karachi and the 18 MW gas fired power plant already constructed and operational at that plot inclusive of all assets and liabilities of the Company relating to the Project will be separated from the Company and will be hived down to a subsidiary, which is intended initially to be a substantially wholly owned subsidiary of the Company and eventually at least a 55% owned subsidiary of the Company, through a court process under the Companies Ordinance 1984. The subsidiary would be a public limited Company listed on the stock exchanges in Pakistan.

The above scheme could make it possible to introduce international equity partners with technical expertise which would enable the project to achieve global status. A loan agreement has been signed with IFC under which they will give a loan equivalent to Rs.400 million to IIL for the new project. When shares of the subsidiary are offered to the general public, IFC will have the option to convert the loan to equity. A dialogue is going on with other potential investors.



A consortium of four banks, namely Habib Bank Limited, Standard Chartered Bank (Pakistan) Limited, United Bank Limited and Bank Al-Habib Limited have agreed to provide Rs.4.0 billion of Debt.

Capital expenditure of Rs.1,556 million has so far been incurred on the project which has been financed by the company. Major payments for plant and machinery will be required to be made over the next twelve months for which additional capital will be required, hence the Company has decided to raise further capital of Rs. 1,040,734,550 through the issue of 20,814,691 ordinary shares of Rs. 10 each at a premium of Rs.40 per share, to be offered to the Members whose names appear on the Register of Members as at the close of business on 18 August 2008 in proportion to their respective shareholdings in the Company as rights shares, that is, in the proportion of 1 right share for every 4 shares held by the Members as at that date.

The project is *Inshallah* expected to be commissioned in July 2010. Your company has also decided to expand your Polyethylene pipe division which is being relocated on a 10 acre site already purchased located alongside the proposed Cold Rolled and Metal coated steel sheet project. By the 3rd quarter of this financial year we will *Inshallah* launch a PEX solution for hot water.

Keeping pace with developments, your company has initiated business process re-engineering and to remain in line with best practice in information technology, your company is implementing Oracle's EBS, an enterprise resource planning (ERP) solution.

## EXCELLENCE AWARDS

Our dedication and commitment to the best practices of governance has enabled us to continue our legacy of meritorious and excellence awards. Your Company has received the following awards during the year:

- 1) "Best Export Performance Trophy for Export of Engineering Products– Mechanical" in 2006-07. (8th consecutive year)
- 2) "Top 25 Companies" in 2007 on the Karachi Stock Exchange (7th consecutive year)
- 3) Best Corporate Report Award in 2007-2nd position in Engineering (2nd consecutive year)
- 4) Environment Excellence Award for 2008 by the National Forum for Environment and Health.



Receiving the Best Corporate Report Award



Receiving the Best Export Performance Trophy



Receiving the Environment Excellence Award

## ACKNOWLEDGEMENTS

The Directors of your Board would like to take this opportunity to thank the management and staff, without which none of this would have been possible. We would also like to thank our bankers and valued customers all of whom have made our task so pleasant.

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

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

For and on behalf of  
International Industries Ltd.

J.R. Rahim  
Chairman

Karachi:  
Dated: 28 July 2008