

Directors' Report

Appropriations

The appropriations approved by the Board of Directors are as follows

	(Rs. 000)
Profit for the year after taxation	612,981
Un-appropriated profit from prior year	467,047
Transferred from surplus on revaluation of buildings	13,443
Disposable profit for appropriation	1,093,471
Final dividend for the year ended 30 June 2006	(128,368)
Issuance of bonus shares 2006	(141,204)
Interim dividend for the year ended 30 June 2007	(142,274)
Transfer to General Reserves	(197,000)
Unappropriated profit carried forward	484,625

Subsequent Effects

Proposed Issue of bonus shares in the ratio of 33 shares for every 100 shares held	187,802
Proposed final dividend on 56,909,614 shares of Rs. 10 each at Rs. 1.25 per share	71,137
Transfer to General Reserves	225,000
	483,939



Meeting of the Board of Directors

The Directors of International Industries Limited are pleased to submit the 59th Annual Report and audited accounts for the year ended 30 June 2007.

BOARD OF DIRECTORS

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

National Economy

The upward momentum that Pakistan's economy has sustained over the last four years continued for yet another year. In the midst of an extraordinary surge in oil prices, Pakistan experienced dynamism in the agricultural and services sectors and the emergence of a new investment cycle with investment rates reaching new highs. This resulted in GDP growth being 6.6% and Pakistan becoming one of the fastest growing economies in the Asian Region.

Global Steel Scenario

Steel is the world's third largest commodity. The last decade has witnessed a steep growth in the consumption of steel. The world average consumption of steel is 188kgs per capita. The demand for steel is expected to rise at a rate higher than the GDP growth in those countries where the per capita consumption of steel is less than the world average. As such there will be a strong growth in the consumption of steel in Pakistan (at present 35 kgs per capita), India (at present 40 kgs per capita), Middle East, Russia and Brazil and the demand for steel in developed markets will weaken. World steel production is expected to cross 1200 million tons in 2007. The world steel tube demand would approximate 8% or 98 million tons per annum.

OPERATIONS OF THE COMPANY

Production

After consolidation in 2005 your company continued to make strategic investments necessary to sustain profitability and to maintain its position as the leading pipe manufacturer in the country.

During the year three new pipe mills have been added to meet the increased demand for galvanized pipe and steel tube and also to make structural pipe and sections available locally. In addition the pipe galvanizing capacity was increased by 25%.

A second extrusion plant was added to our plastic pipe division more than doubling its capacity.

A fourth 1 MW Gas Engine was also commissioned this year and we continue to obtain further benefits from our co-generation facility.

Sales

Despite the pressure of increased zinc and steel prices domestic volume sales increased by 16% over the previous year.

In the Export market however there was only a 1% increase in volume sales primarily due to the fact that the Chinese exported to the European markets at extremely competitive prices. We withdrew from these markets and concentrated on the near home markets of South Asia and the Middle East.

Financial

By the Grace of Allah your company has earned after tax profit of Rs. 613 million which is 15% higher than Rs. 533 million of the previous year. This was achieved despite the additional impact of Rs.33 million on account of borrowings for capital expenditure.

Salaries, wages and benefits have been high this year, mainly on account of additional staff appointed to run the plants added during the year. Increased fuel prices have caused freight rates to increase which have resulted in the reduction of margins.

Sustained productivity, timely decisions in buying raw materials at the right price, obtaining the best available selling prices, sound financial measures and controlling expenses wherever possible enabled an increase in earning per share.

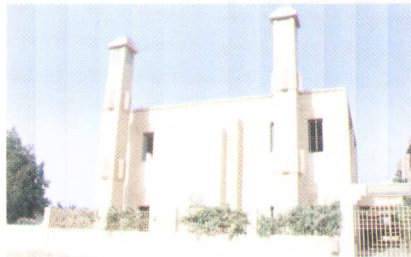
The management of your company continues to be cost conscious and is maximizing its efforts to monitor and control expenditure. Several initiatives have been taken to optimize manufacturing, selling and administrative expenses.

The key operating and financial data for the seven years is summarized on pages 38 and 39.

Social Responsibilities



In collaboration with The Citizen's Foundation a school built in Landhi.



A Masjid built with assistance of the Company



Contributed to Amir Sultan Chinoy Chair at the AKUH

The Company is committed to achieving sustained commercial success and growing shareholder value. We do this not just by meeting our goals, but also by operating in a socially responsible manner. In the past in collaboration with The Citizens Foundation we have set up schools in areas close to the Factory so that the children of our employees have an opportunity to receive a higher level of education.

In the current year the company has substantially contributed to the "Amir Sultan Chinoy Chair" at the Aga Khan University Hospital a permanent endowment fund honoring our founder Managing Director. We continue to make donations to other recognized social causes in the fields of health and education.

SAFETY AND ENVIRONMENT

Operational safety continues to receive the highest priority. The Company complies with internationally recognized safety management systems and has acquired the Occupational Health Safety Administration System OHSAS-18001 certification in relation to control of work related to health and safety risk. The Company remains committed to meeting environmental standards and achieving excellence in this area. It has maintained its environmental management system ISO-14001 to ensure that its environmental practices meet international standards.

CONTRIBUTION TO NATIONAL EXCHEQUER

During the current year the Company contributed an amount of Rs. 1,775 million to the exchequer through direct and indirect taxes. Export of pipe, valued at US \$ 32.6 million has contributed towards improving the country's balance of payments.

EXCELLENCE AWARDS

Our dedication and commitment to the best practices of governance has enabled us to continue our legacy of meritorious and excellence awards. The Company has for the seventh consecutive year received the "Best Export Performance Trophy for Export of Engineering Products – Mechanical". We have also been ranked amongst the "Top Twenty Five Companies" on the Karachi Stock Exchange for the fifth consecutive year.



Receiving KSE Top 25 Companies Award

HUMAN RESOURCE DEVELOPMENT

Your Company pays special attention on the training of its employees. All new employees have to go through an Orientation Training Program - internal and external. Training courses are held on a regular basis and are mandatory.

The Company has an approved two year apprenticeship program where theoretical and practical training is imparted prior to offering regular employment to successful candidates. An adult education scheme is being implemented in an attempt to have a fully literate work force.

BUSINESS RISKS

While the economy is growing and performing well, record high Zinc prices, rising prices of steel, inflation, rising interest rates and changes of tariff may have some adverse impact on sales growth. Intense competition by expected new market entrants is yet another potential risk.

On the other hand, expected infrastructure development and opportunities in building construction are positive indicators. Our goal is not only to depend on the local market but to capture opportunities available in regional markets. Increased volume export sales on account of intense price competition remains a tall order but one which your company intends to try its very best to fulfill.

FUTURE PROSPECTS

As reported last year the Company has diversified into manufacturing of polyethylene pipes. The trial orders were well received in the market in terms of quality. During the year we have supplied pipes to the Gas companies and to UNICEF. Keeping in view the demand for polyethylene pipes a second extruder has also been installed. The prospects look good and we hope to attain a reasonable share of the market over the ensuing year.

A 42 acre piece of land in close proximity to the existing factory has been bought. A 19 MW power plant is currently under construction and should Inshallah be complete in the first quarter of the next financial year. This power plant is to feed a Cold Rolling Mill and Galvanizing sheet plant which Management is considering given that a demand exists in the country. The surplus power in the interim will be sold to the grid.

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 if the management and 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 the continued success of your Company.



Receiving Best Export Performance Trophy

For and on behalf of
International Industries Ltd.

J.R. Rahim
Chairman

Dated: 26 July 2007
Karachi: