

Directors' Report

It is with great pleasure that the Directors of the Company present the 55th Annual Report to the shareholders.

Board of Directors

Since the last report Mr. A.W. Zuberi has resigned from the Board and the casual vacancy created was filled by Mr. Masood Noorani.

The Board places on record its appreciation for the useful contribution made by Mr.A.W. Zuberi during his tenure as a Director. We welcome Mr. Masood Noorani on the Board and look forward to benefit from his vast experience in the corporate field.

The Board held four meetings during the period July 1, 2002 to June 30, 2003 at which the attendance of the Directors was as follows:

Mr. J.R. Rahim	3 / 4	Mr. Towfiq H. Chinoy	4 / 4
Mr. K.M.M. Shah	4 / 4	Mr. Kamal A. Chinoy	3 / 4
Mr. Zaka U. Khan	4 / 4	Mr. Mustapha A. Chinoy	2 / 4
Mr. M. Ateequllah	4 / 4	Mr. Kemal Shoaib	4 / 4
Mr. Zahid Zaheer	4 / 4	Mr. Tariq Iqbal Khan	1 / 4
Mr. A.W. Zuberi	0 / 1	Mr. Masood Noorani	3 / 3

Operations

During the past few years your Company has been making significant investments towards increasing capacities to enable it to take advantage of the increasing local demand and to tap into the potential of export markets.

A tube mill with an annual capacity of 65,000 tons and the ability to produce up to 6" pipes to conform to specifications laid down by the American Petroleum Institute came on stream at the end of fiscal year 01. The addition of this mill gave your Company the ability to supply natural gas distribution. As expected business from the oil and gas sector has been slow but is currently gathering momentum.

The Company has had three galvanizing plants since 1996. The capacities of two of the plants have been increased through introduction of more efficient newer technologies and the third plant is in the process of being similarly up-graded after which the total galvanizing capacity will increase to 120,000 M.tons per annum.

From time to time, the Company has been making investment in various sections of the Tube Mill with a view to removing bottle-necks, maintaining the overall efficiency of the plant and improving the quality of the product. In 2001-02, the pickling line which had out-lived its life was replaced and a nitrogen generating unit was added to improve the finish of annealed pipes. A re-winding line may need to be added in future to cope with higher demand.

The Improvement in the quality of the product has enabled your Company to increase its sales of Tubing. The output during the year of 38,314 M. tons is the highest the Company has achieved at this plant.

By the grace of Allah the Company crossed the 100,000 tons production milestone for the year.

Sales

In volume terms domestic sales have grown by 16% in the year under review. Galvanizing registered a growth of 6.8% whereas CR Tubing has grown by 23% over the previous year. Pipes and Cold Rolled Strip have almost doubled.

The volume of exports have increased by 43% from 20,000 tons to almost 29,000 tons in the year under review.

Combined Sales at 110,725 tons are 21.8% higher than the previous year's volume.

Financial Results

The net sales value has increased from Rs. 2.559 billion last year to Rs. 3.232 billion in the year ending June 30, 2003 showing an increase of 26.3%. However, as indicated in the Directors' Report to the shareholders last year, the rising international steel prices have reduced gross profit substantially.

The management of your Company has managed to achieve a gross profit of Rs. 508 million, marginally higher than the previous year. Careful management of foreign exchange rates has resulted in an exchange gain of Rs. 26.4 million and placement of surplus short-term investments enabled the Company to earn an income of Rs. 7.8 million. A loss of Rs. 8.7 million was incurred on disposal of the discarded firing systems of the old galvanizing plants leaving the other income at Rs. 27.3 million. The operating profit at Rs. 364 million is marginally lower than the previous year.

Reduction in interest rates has benefited your Company quite significantly and despite a higher level of borrowing, the financial charges are 35% lower than the previous year. The operating profit before tax of Rs. 283 million is 16% higher than the previous year.

Tax was short provided last year to the extent of Rs. 9.2 million, which is being provided in the current year. The impact of this has been more than neutralised by a reversal in the deferred tax liability of Rs. 17.2 million. The current year's tax liability thus works out to Rs. 94 million. A reduction in the deferred tax liability of Rs. 12.8 million has been adjusted in the prior year's figures taken directly to reserves, restating the prior year's figures. The profit after tax of Rs. 274.8 million thus arrived at translates into an earning per share of Rs. 13.36.

We confirm and the auditors in their report to the members have also certified that:

- a) The financial statements have been drawn up in conformity with the requirements of the Companies Ordinance 1984 and present fairly the state of its affairs, operating results, cash flow and changes in equity.
- b) Proper books of accounts have been maintained in the manner required under the Companies Ordinance 1984.
- c) Appropriate accounting policies have been consistently applied in preparation of the financial statements except for the change in accounting policy as stated in Note 2.5 of the financial statements which has concurrence of external auditors and accounting estimates of management, reasonable and prudent judgment.
- d) International Accounting Standards as applicable in Pakistan have been followed in the preparation of the financial statements.
- e) The internal control system is being effectively implemented and monitored.
- f) There are no significant doubts about the Company's ability to continue as a going concern.
- g) There has been no material departure from the best practices of corporate governance as detailed by the listing regulations.

The key operating and financial data of the past seven years are given on pages 47 & 48. The pattern of shareholding is given on pages 45 & 46.

Note 2.3 of financial statements on staff retirement benefits provides the information about the investments of the provident and gratuity funds.

Directors' Report

During the fiscal year July 1, 2002 to June 30, 2003, the trading in shares of the Company by the Directors, CFO, CEO, Company Secretary and their spouses and minor children is as follows:

On 19-08-02	Mr. Towfiq H. Chinoy, CEO, bought 442,500 shares
On 18-09-02	Mrs. Pia K. Chinoy, spouse of Mr. Kamal A. Chinoy, Director, bought 80,000 shares
On 18-09-02	Mr. K.M.M. Shah, Director bought 10,000 shares
On 18-09-02	Mr. M. Ateequallah, Director, bought 10,000 shares
On 18-09-02	Mr. Mustapha A. Chinoy, Director, bought 350,000 shares

Appropriations

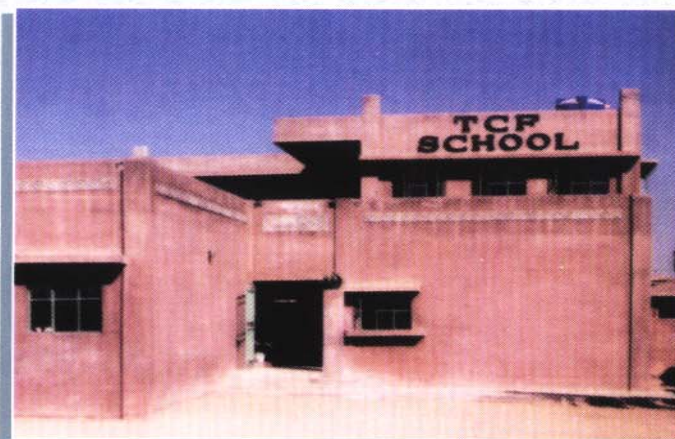
The Directors are pleased to recommend as follows:

The profit for the year amounts to	(Rs. 000)
Amount of un-appropriated profit brought forward from previous year	189,317
	13,583
	<u>202,900</u>
The Directors recommend:	
Interim dividend already paid at the rate of Rs. 2.50 per share (25%)	35,430
Final dividend at the rate of Rs. 4.50 per share (45%)	63,783
15% Bonus Shares	21,267
Transfer to General Reserve	82,000
	<u>202,480</u>
Leaving an un-appropriated profit carried forward to next year	417
	<u>202,900</u>

Social responsibilities

The management of your Company has been mindful of its social responsibility. We were the first corporates in Pakistan to adopt environmental standards and obtain certification under ISO 14001.

The Company in 1999 in collaboration with The Citizens Foundation set up a school in the Landhi area. Last year the Company helped to build a mosque opposite the factory. We have now identified a site of land on which we plan to set up a school with The Citizens Foundation located opposite the factory so that the children of our employees will have an opportunity to receive a higher level of education. In addition to this the Company is a regular donor to reputable organizations involved in providing health and educational services.



In 1999, the Company in collaboration with The Citizens Foundation built a school in Landhi. A second site opposite the factory has been selected for another school.



The Company helped build this Mosque opposite the factory, in 2002.

Achievements

For a number of years the Company has been receiving export trophies. In the year 2000-2001, the Company received the trophy for highest export of non-traditional items. In the following year, the Company has been awarded the trophy for the highest export in the field of Engineering (mechanical). The Company also received award for the Top 25 companies from the Pakistan Stock Exchange for its performance in the year 2000-2001.

Future Prospects

The Company is examining the possibility of installing a plant to make light gauge tubes if the demand exists. If the results of our studies warrant it we shall Inshallah expand our production in this range. The steel prices in the international market continue to remain firm and this trend is likely to continue. The gross margins are therefore not expected to improve. The increase in profits will therefore have to come from increase in volume, which the management and the Company will Inshallah try to achieve.

The economic recovery which the country has been witnessing in the past two years is expected to continue into the next year also and if it is supported by political and democratic reforms, it will result in very conducive environment for domestic growth.

The process of reconstruction in Afghanistan appears to be gaining momentum and this presents a good opportunity for your Company's product in the years ahead. There are also expectations that sales in other export markets will also grow.

Being the leading welded steel pipe maker of the Country, your Company looks to the future with enthusiasm and expectation.

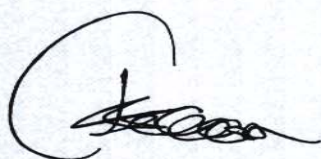
Staff and Acknowledgement

On behalf of the Board, I would like to take this opportunity of thanking the management, bankers and our valued customers who have made our task so pleasant.

I am confident that if the management and employees of the Company continue to show the same devotion and zeal that has been their hallmark, the Company will Inshallah continue to grow.

I pray to Allah for continued success of your Company.

For & on behalf of
International Industries Limited



J.R. Rahim
Chairman