

BOARD OF DIRECTORS' ANNUAL REPORT

Dear Shareholders,

On behalf of the Board of Directors and myself, I welcome you to the 39th Annual General Meeting of your Company.

The year 2016 continued to be a challenging year. Although the US economy has shown some signs of growth, Europe, Japan, China and other large economies continued to struggle with either negative growth or negligible growth. Commodities prices have also remained near their historic lows. Lower oil prices have forced reduction in government spending across the GCC, resulting in a clear slowdown in many sectors including construction. Socio-political situation in the neighboring countries like Syria, Yemen, Iraq and Iran which have been the export market for UAE, have remained volatile.

Dear Shareholders,

Despite these global challenges, we have been able to achieve higher sales volumes by developing new markets and new products. Your company has started selling oil well cement which has received all established quality approvals including API. We have also started exporting our products to new markets in Asia, Africa and GCC. Cement prices in the UAE market have witnessed steep decline during the year due to significant over-capacity which will remain challenge for a foreseeable future.

The company has enhanced its Paper Sacks manufacturing capacity to 150 million bags per annum. The enhanced capacity has started improving the net profits of this unit. Gulf Rope Factory has also been improving its sales and the bottom line steadily.

Finance

Your company has attained sale of AED 613 Million and gross profit of AED 69 million compared to AED 637 Million and AED 77 Million respectively for 2015. As explained earlier, lower sales and lower gross margins were due to steep decline in the selling price. The net profit attained from all our activities was AED 64 Million, which was 3% better than 2015. In view of limited net profit and challenging economic conditions, the Board of Directors has recommended 8% Cash Dividend to the Shareholders.

Looking Ahead

The Board of directors has taken several steps to sustain the profitability of the company in the longer run. Having gained the experience of successfully installing and running the Waste Heat Recovery Power Plant, the Board of Directors has approved the installation of a 40 MW coal based captive power plant at the factory which will reduce our electricity costs and the cost of production substantially. Sharjah Electricity and Water Authority has already given in-principle approval for the project.

This power plant will be built as per the latest technology and will comply with the stringent emission standards of UAE. This will be a first of its kind green energy plant in the Middle East where approximately 25% of the fuel will be waste wood and other recycled waste. We are closely working with Bee'ah and other government organizations for recycled waste.

Your Board has also approved construction of two residential towers at its plot in Dubai Sports City after detailed due diligence. These towers are expected to be completed in two years' time. Due to its proximity to the new airport, global village and the new theme parks, these towers will generate steady rental income and provide opportunity for capital gains.

Your company has already secured bank finance for the above projects at attractive rates.

In respect of the investment in an associate in India, the Board of Directors has approved joint development of the land held by the associate along with its Indian partner and a leading developer in India after tax and legal advice from prominent experts in India. This project is expected to generate good profits over next seven years.

While the above projects will help to sustain the company's profitability in longer term, we see a challenging year ahead. Governments across the region have responded to the impact of low oil prices by cutting subsidies, shelving or delaying infrastructure projects and reducing other government spending. Value Added Tax is being implemented with effect from January 2018. Tight liquidity and tough market conditions are expected to continue for 2017. However, economic drives like Expo 2020 in UAE and 2022 world cup in Qatar is expected to improve the demand for our product that will see us through the difficult year ahead.

Finally, it gives us the honour to express our sincere gratitude to H.H. Dr. Shaikh Sultan Bin Mohamed Al Qassimi, Ruler of Sharjah and Member of Supreme Council for his continuous guidance and support.

I would also like to thank the Fellow Board Members, Management and Employees of the company for their dedicated efforts and devotion in achieving the Company's objectives.

*Ahmed Abdulla Al Noman
Chairman*