

Chairman's Report

Dear Shareholders

On behalf of the Board of Directors, I am pleased to present the twentieth annual report of Gulf Mushroom Products Co. (SAOG) for the financial year ended 31 December 2017

Preview of Results

During the year, the prevailing low oil prices, soft Euro and geopolitical disturbances continued to maintain pressure on company's sales volumes and profit margins. A significant increase in power tariff during the year also dented company's profitability. However your company has persevered against all these challenges and achieved 6% growth in sales revenue and was thus able to cover the increased operation costs and maintained its bottom line.

Your company continues to retain its competitive advantage in the region and outside due to favorable supply logistics and consistent production and availability of high quality fresh mushrooms on daily basis. The commissioning of 12 new growing rooms during the year has further strengthened this advantage.

The revenues of the company for the year ended 31 December 2017 were RO 6.628 million compared to RO 6.270 million in 2016, an increase of 6%. The gross profit in 2017 was RO 2.519 million compared to RO 2.402 million in 2016, an increase of 5%.

Net profit after tax for the year ended 31 December 2017 was RO 304000 compared to RO 317000 in 2016, a decrease of 4%.

Your company continues to take pride in its contribution to the country's non-oil revenues. Exports during the year 2017 net of sales discounts were RO 5.858 million (88% of total sales) compared to RO 5.531 million (88% of total sales) during 2016.

The net assets of the company (including land revaluation reserve) as at 31 December 2017 were RO 6.288 million compared to RO 6.034 million as at 31 December 2016

During the year the Company achieved a total production of 4,108 metric tons of different varieties of fresh mushrooms compared to 3,844 metric tons in the previous year, an increase of 7%.

For almost 5 years since 2013 your company's profitability was adversely affected due to dependence on imported compost at much higher cost pursuant to the closure of its compost manufacturing plant on the order of the Ministry of Environment & Climate Affairs. Company's new compost plant has been commissioned during the last quarter of 2017 and company has now stopped using imported compost. This is expected to improve the profit margins in the future.

Technical Expertise

Company is successfully growing fresh mushrooms since 1999 in extremely adverse climatic conditions by using a modern hi-tech mushroom plant with advanced Dutch technology. Company is constantly updating itself with latest technological improvements to further improve the quality and yields of its fresh mushrooms. Company has a panel of reputed consultants and

industry experts. Company also has a dedicated team of mushroom growers and composters who regularly interact with industry experts.

Quality and safety certifications

Company attaches high importance to quality and safety of product and process. Company has a trained and dedicated quality control team and a panel of external consultants to manage company's quality control program and ensure compliance with adopted standards and best practices. Company is certified for HACCP by a reputed and recognized international body for its food safety management system. During the year company was also certified for Global Good Agricultural Practices (Global GAP) by a reputed and recognized international body. Food safety and hygiene training is regularly imparted to all production workers and external surveillance and audits are conducted at regular intervals.

Capacity Expansion

Company has successfully commissioned its new state-of-art compost manufacturing plant in Thumrait, Salalah during the last quarter of 2017 and has stopped importing compost. Company has also commissioned 12 new mushroom growing rooms in Barka during the year. The new compost plant will improve company's profitability while the new growing rooms will increase mushroom production volumes and consistency and help the company to increase its share in international markets.

Dividends Policy

Company has a policy of utilizing its free reserves to provide consistent returns to its shareholders after considering liquidity requirements for operations and capacity development. In line with this policy Company has been ploughing back its profits since 2013 in its capacity expansion programs mentioned above without paying cash dividends. Company is very grateful to its shareholders for their patience and support. Share price and dividend history for the last eight years is shown in the table below—

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017
Share price at year end (RO)	0.400	0.520	0.478	0.510	0.430	0.426	0.386	0.336	0.306
Cash Dividend	20%	40%	25%	25%	-	-	-	-	-
Bonus shares	30%	-	10%	10%	20%	10%	15%	10%	-

Corporate Governance

Company is committed to full compliance with corporate governance regulations issued by the Capital Market Authority. In line with this policy Company has constituted two committees - Audit Committee and Nomination & Remuneration Committee. The audit committee is regularly reviewing the effectiveness of internal controls. The Nomination & Remuneration Committee assists in essential matters relating to the nomination and remuneration of the board of directors and executive management. Annual working plan for both the committees are approved by the board of directors. During the year company has adopted a succession plan for chairman and

executive management. Company has also carried out performance appraisal of the board of directors by an independent and competent professional firm. Company protects the interests of all stakeholders by prudent risk management, sound internal controls and best corporate practices. Company has internal systems, policies and procedures to assist the management in properly discharging their functions according to regulations and best practices. Reference may be made to the Management Discussion and Analysis Report and Report on Corporate Governance which reflect Company's commitment to the principles of sound corporate governance.

Human resources

Company regards its employees as the most critical resource for attaining company's objectives and strives to increase the employee potential by adopting a rewarding remuneration structure, production linked incentive schemes, welfare and training programs and by conducting regular performance appraisals. Company fully complies with Omani labor regulations. Company is proud to maintain a high percentage of Omanization in line with the directives of the government of His Majesty's Sultan Qaboos bin Said for increasing the employment opportunities for Omani people. As at 31 December 2017 your Company has employed 147 Omani employees out of total 384 employees amounting to 38.28% Omanization.

Corporate Social Responsibility

Company appreciates the role of the community in the success of any organization. As a good corporate citizen company has a formal CSR policy and supports regional schools, sports activities, municipal and other social causes. Company has also invested substantially in preserving and maintaining its environment.

Outlook

With the commissioning of the new compost manufacturing plant and new growing rooms during the year company is looking forward to achieving fresh milestones in production and profitability. Global economy has shown a clear sign of recovery in 2017 and the global growth rate has been projected to further rise in 2018 which is encouraging for your company's exports. The demand for natural and nutritious fresh foods like fresh mushrooms is consistently on the rise across the globe driven by expanding food & hotel industry, increasing adoption of international cuisine in local food habits and growing health awareness. With its new production capacity your company is confident of boosting its exports by entering new international markets. The recently announced opening of the new international airport with advanced cargo handling facilities is very encouraging for your company's exports. The ongoing investments in integrated tourism complexes, food and hospitality projects in Oman and the surrounding region will promote tourism and demand for fresh mushrooms in the region.

Your company is confident of crossing new milestones of growth in turnover and profits in the years to come.

Acknowledgements

On behalf of the Board of Directors, I take this opportunity to express our deep gratitude to His Majesty Sultan Qaboos Bin Said for leading the country along the road of growth and prosperity by his wise leadership and progressive vision. We thank His Majesty's wise government for its

strong support and assistance to the private sector. The Board of Directors would like to express its deep gratitude for the Ministry of Commerce and Industry, the Ministry of Finance, the Ministry of Agriculture and Fisheries, the Ministry of Environment and Climate Affairs, the Ministry of Housing, the Capital Market Authority and the Higher Council for Planning & Development for their guidance and support extended to the Company. I thank the respectable shareholders for their steady confidence in the Company. I would also like to thank the management team and the staff of the Company for their dedication and sincere efforts towards achieving the goals of the Company.

Chairman of the Board of Directors

GULF MUSHROOM PRODUCTS CO. SAOG

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Statement of financial position as at 31 December 2017

	<i>Notes</i>	2017 RO	2016 RO
ASSETS			
Non-current assets			
Property, plant and equipment	6	<u>14,185,427</u>	<u>11,053,410</u>
Current assets			
Inventories	7	979,653	580,209
Trade and other receivables	8	1,668,657	1,342,927
Cash and bank balances	9	<u>25,262</u>	<u>116,007</u>
Total current assets		<u>2,673,572</u>	<u>2,039,143</u>
Total assets		<u>16,858,999</u>	<u>13,092,553</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	10	3,782,297	3,438,452
Legal reserve	11	677,885	647,527
Special reserve	12	12,405	12,405
Revaluation reserve	13	1,412,890	1,462,756
Retained earnings		<u>402,396</u>	<u>473,017</u>
Total equity		<u>6,287,873</u>	<u>6,034,157</u>
LIABILITIES			
Non-current liabilities			
Commercial loan	15.2	7,325,281	4,753,944
Deferred tax liability	24	429,681	305,600
End of service benefits	16	<u>263,106</u>	<u>237,473</u>
Total non-current liabilities		<u>8,018,068</u>	<u>5,297,017</u>
Current liabilities			
Bank borrowings	17	731,074	319,069
Government soft loan	15.1	-	402,740
Commercial loan – current portion	15.2	588,787	-
Trade and other payables	18	1,222,859	952,556
Provision for income tax	24	<u>10,338</u>	<u>87,014</u>
Total current liabilities		<u>2,553,058</u>	<u>1,761,379</u>
Total liabilities		<u>10,571,126</u>	<u>7,058,396</u>
Total equity and liabilities		<u>16,858,999</u>	<u>13,092,553</u>
Net assets per share	19	<u>0.166</u>	<u>0.175</u>

Statement of profit or loss and other comprehensive income
for the year ended 31 December 2017

	<i>Notes</i>	2017 RO	2016 RO
<u>Sales</u>	<u>20.1</u>	<u>6,628,405</u>	<u>6,270,135</u>
<u>Direct costs</u>	<u>20.2</u>	<u>(4,109,658)</u>	<u>(3,868,112)</u>
Other income	23	5,114	21,987
Selling and distribution expenses	21	(708,905)	(634,261)
Administrative expenses	22	(796,787)	(711,986)
Impairment of property, plant and equipment		-	(116,312)
Loss on disposal of property, plant and equipment		-	(49,828)
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Earnings before depreciation and finance costs		1,018,169	911,623
Depreciation of property, plant and equipment	6	<u>(546,449)</u>	<u>(517,000)</u>
Operating profit		471,720	394,623
Finance costs		<u>(83,575)</u>	<u>(30,678)</u>
Profit before tax		388,145	363,945
Income tax	24	<u>(84,563)</u>	<u>(46,844)</u>
Profit for the year		<u>303,582</u>	<u>317,101</u>
Other comprehensive income:			
Impact of change in tax rate on land revaluation surplus	24	<u>(49,866)</u>	-
Total comprehensive income for the year		<u>253,716</u>	<u>317,101</u>
Earnings per share – basic and diluted	25	<u>0.008</u>	<u>0.008</u>