



Chairman's Report

Dear Shareholders

On behalf of the Board of Directors, I am pleased to present the nineteenth annual report of Gulf Mushroom Products Co. (SAOG) for the financial year ended 31 December 2016

Preview of Results

In spite of current market conditions due to steep decline in global oil prices and intense competition supported by weak Euro your Company has been able to maintain its sales performance.

Due to its logistical advantages and consistent production and availability of high quality freshly produced mushrooms every day your company was successful in reducing the impact of intense price completion. Company achieved a sales growth (metric tons) of 3% despite heavy competition and also improved its gross profitability by achieving new milestones in production efficiency.

The revenues of the company for the year ended 31 December 2016 were RO 6.270 million compared to RO 6.192 million in 2015 , an increase of 1%. The gross profit in 2016 was RO 2.402 million compared to RO 2.285 million in 2015 , an increase of 5% .

Net profit after tax for the year ended 31 December 2016 was RO 317,000 compared to RO 314,000 in 2015 , an increase of 1% .

Exports during the year 2016 were RO 5.531 million (88% of total sales) compared to RO 5.515 million (89% of total sales) during 2015 . The Company is very proud of its contribution to the country's non-oil revenues.

The net assets of the company (including land revaluation reserve) as at 31 December 2016 were RO 6.034 million compared to RO 5.717 million as at 31 December 2015

During the year the Company achieved a total production of 3,844 metric tons of different varieties of fresh mushrooms compared to 3,747 metric tons in the previous year, an increase of 3% due to improved production efficiency.

Company's profitability has been affected since 2013 by its continued dependence on outsourced compost at much higher cost due to the closure of its own compost manufacturing plant on the order of the Ministry of Environment & Climate Affairs. Company's new compost plant which is scheduled to be commissioned during the second quarter of 2017 is expected to improve the margins in due course.

Technical Expertise

Growing mushrooms in the desert is very challenging and requires complete climate control with high technology. Company has a very hi-tech plant and is constantly updating itself with latest technological improvements to further improve the quality and yields of its fresh mushroom products. Company is well invested in its dedicated team of mushroom growers and composters



and there is regular exchange of knowledge with global industry experts.

Quality and safety certifications

High product quality and safety is a key area of engagement in the Company. Company has an expert quality control team to manage company's quality control program and to ensure compliance with adopted quality control & safety standards and best practices. Company is holding HACCP certification given by TUV SUD Management Service GmbH, Germany, for having established and applying an internationally recognized food safety management system. Training is imparted to all production workers every year and HACCP audit and external surveillance are being conducted at regular intervals.

Capacity Expansion

As announced earlier company is constructing a new state-of-art compost manufacturing plant in Thumrait, Salalah and 12 new mushroom growing rooms in Barka so as to increase the original mushroom production capacity by 100%. Both projects are expected to be commissioned during the second quarter of 2017. The new compost plant will bring to an end Company's dependence on outsourced compost and will improve its profitability. New growing rooms will increase mushroom production capacity and efficiency and help the company to establish better consistency in exports.

Dividends Policy

Company has a policy of providing consistent returns to its shareholders after considering liquidity requirements for operational and capacity expansion purposes. In line with this policy Company has been distributing dividends and/or bonus every year since 2009. For the year ended 31 December 2016 the board is again pleased to propose bonus shares at 10% of Company's paid up share capital which is subject to approval of shareholders. Share price and dividend history for the last seven years is shown in the table below-

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

* subject to shareholders' approval

Corporate Governance

Company follows high standards in corporate governance and is committed to fully complying with all 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 was constituted during the year to assist in essential matters relating to the Board of directors and senior executives. The interests of all



stakeholders is safeguarded by prudent risk management, developing sound internal controls and by adopting best corporate practices. Company has internal systems, policies and procedures to assist the management in discharging their functions in line with corporate governance 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 believes that organizational success comes from happy and successful employees. Accordingly Company strives to increase its employee potential and well-being by adopting a sound remuneration structure including bonus and incentive schemes, welfare and training programs and conducting regular performance appraisals. Company is fully compliant 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 2016 your Company has employed 128 Omani employees out of total 361 employees amounting to 35.46% Omanization.

Corporate Social Responsibility

Company greatly appreciates the support of the community in its success and growth and as a good corporate citizen wants to give back to the community in the spirit of corporate social responsibility. Company has a formal CSR policy through which it supports regional schools, sports activities, municipal and other social causes. Company is also investing substantially in preserving and maintaining its environment.

Outlook

With its own compost manufacturing plant and new growing rooms scheduled to be commissioned during the year your company is ready to shake of its dependence on imported compost and achieve fresh milestones in production and profitability. The demand for natural, healthy and high value foods like fresh mushrooms is consistently on the rise across the globe driven by growing health awareness. With new production capacity Company is targeting to increase exports to new international markets. The regional oil based economies have been continuously focusing on diversifying into non-oil industries particularly the tourism sector which is a great driver of mushroom demand. The recent decision of OPEC to cut production to revive oil prices and Government's Tanfeedh program to boost economic diversification are very encouraging. Fresh investments are being made in integrated tourism complexes, food and hospitality projects in Oman and surrounding region which will go a long way to boost tourism in the region and driving demand for fresh mushrooms.

Your company is confident of achieving consistent growth in its 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 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 profit or loss and other comprehensive income for the year ended 31 December

	<i>Notes</i>	2016 RO	2015 RO
Sales	20.1	6,270,135	6,192,114
Cost of sales	20.2	(3,868,112)	(3,906,697)
Gross profit		2,402,023	2,285,417
Other income	23	21,987	37,741
Selling and distribution expenses	21	(634,261)	(648,841)
Administrative expenses	22	(711,986)	(721,902)
Impairment of property, plant and equipment		(116,312)	-
Loss on disposal of property, plant and equipment		(49,828)	(40,947)
Net profit before depreciation and finance costs		911,623	911,468
Depreciation of property, plant and equipment	6	(517,000)	(526,959)
Operating profit		394,623	384,509
Finance costs net of government grant		(30,678)	(33,281)
Net profit before tax		363,945	351,228
Income tax	24	(46,844)	(37,185)
Net profit for the year		317,101	314,043
Earnings per share – basic and diluted	25	0.009	0.009

The notes on pages 6 to 29 are an integral part of these financial statements.

The report of the Independent Auditors' is set forth on page 1.

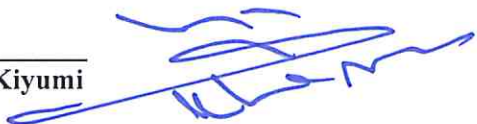
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Statement of financial position as at 31 December

	Notes	2016 RO	2015 RO
ASSETS			
Non-current assets			
Property, plant and equipment	6	11,053,410	7,414,388
Current assets			
Inventories	7	580,209	646,176
Trade and other receivables	8	1,342,927	1,112,277
Cash and bank balances	9	116,007	35,670
Total current assets		2,039,143	1,794,123
Total assets		13,092,553	9,208,511
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	10	3,438,452	2,989,958
Legal reserve	11	647,527	615,817
Special reserve	12	12,405	12,405
Revaluation reserve	13	1,462,756	1,462,756
Retained earnings		473,017	636,120
Total equity		6,034,157	5,717,056
LIABILITIES			
Non-current liabilities			
Commercial loan	15.2	4,753,944	1,245,583
Deferred tax liability	24	305,600	347,476
End of service benefits	16	237,473	211,405
Total non-current liabilities		5,297,017	1,804,464
Current liabilities			
Bank borrowings	17	319,069	-
Government soft loan	15.1	402,740	602,740
Commercial loan – current portion	15.2	-	61,449
Trade and other payables	18	952,556	960,462
Taxation	24	87,014	62,340
Total current liabilities		1,761,379	1,686,991
Total liabilities		7,058,396	3,491,455
Total equity and liabilities		13,092,553	9,208,511
Net assets per share	19	0.175	0.191

These financial statements were approved by the Board of Directors on 12 FEBRUARY 2017 and signed on their behalf by:


Khamis Mubarak Al Kiyumi
Chairman


Ali Mohamed Zaabanut
Director

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