

**Saudi Pharmaceutical Industries and Medical Appliances
Corporation (SPIMACO - ADDWAEIH) and Its Subsidiaries
(Saudi Joint Stock Company)
Riyadh – Saudi Arabia
CONSOLIDATED FINANCIAL STATEMENTS
31 December 2010**

Saudi Pharmaceutical Industries and Medical Appliances
Corporation (SPIMACO - ADDWAEIH) and Its
Subsidiaries

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SAUDI ACCOUNTANTS

(I. ALSOBAYEL CO.)

(REG.2)

I.AL-SOBAYEL, - M. EL-DAMEGH

L.NO. (76) 1981 L. NO. (95) 1982



المحاسبون السعوديون

(إبراهيم السبييل وشركاه)

سجل ٢

إبراهيم السبييل - محمد الدامغ

ت (٧٦) عام ١٤٠١ هـ - ت (٩٥) عام ١٤٠٢ هـ

Chartered Accountants

محاسبون قانونيون

AUDITOR'S REPORT

THE STOCKHOLDERS

Saudi Pharmaceutical Industries and Medical Appliances Corporation
(SPIMACO – ADDWAEIH) and its subsidiaries .

(Saudi Joint Stock Corporation)

Riyadh, Saudi Arabia

We have audited the consolidated statement of balance sheet of Saudi pharmaceutical industries and medical appliances corporation (SPIMACO – ADDWAEIH) and its subsidiaries (Saudi Joint Stock Corporation) for the year ended on December 31, 2010, and the related consolidated statement of income, consolidated statement of cash flow and consolidated statement of change in shareholders equity for the year then ended and the notes from (1) to (33) which form an integral part of these financial statements and which are prepared by the corporation according to the Article No. (123) of company's regulations which were given to us with all details and information we need.

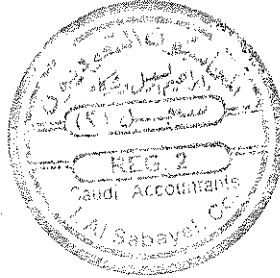
Our Audit was made in accordance with the generally accepted auditing standards and accordingly, included such tests of the accounting records and such auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above, and the accompanying notes from Nos.(1) to (33), taken as a whole:

- Present fairly in all materials aspects the financial position of Saudi pharmaceutical industries and medical appliances corporation and its subsidiaries (joint Stock Corporation.) as of 31 December 2010, and the results of its operations for the year then ended.
- In conformity with the generally accepted accounting principles, and provisions of the Saudi Companies Law with regards to the preparation and presentation of the financial statements being all prepared in compliance with the recorded data and accounting information on the company's computer in English language.

SAUDI ACCOUNTANTS,

MOHAMMED AL-DAMEGH



5 / 03 / 1432 H

8 / 02 / 2011 G

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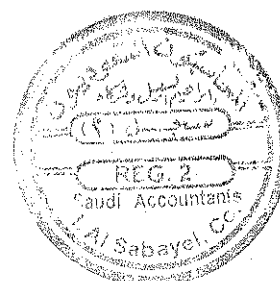
Saudi Pharmaceutical Industries and Medical Appliances Corporation
(SPIMACO - ADDWAEIH) and Its Subsidiaries

CONSOLIDATED BALANCE SHEET

31 December 2010G

	Note	2010 SR	2009 SR
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash and cash equivalents	4	347,175,235	106,621,573
Trade accounts receivable	5	543,611,671	473,612,515
Amounts due from related parties	6	14,603,044	18,706,863
Inventories	7	200,058,622	195,177,670
Prepayments and other receivables	8	37,706,802	30,268,861
TOTAL CURRENT ASSETS		1,143,155,374	824,387,482
LONG TERM TRADE RECEIVABLES	5	15,013,698	10,847,258
INVESTMENTS IN AVAILABE FOR SALE SECURITIES	9	2,053,096,560	1,635,766,807
INVESTMENT IN AN ASSOCIATED COMPANY	10	14,854,666	10,271,098
PROPERTY, PLANT AND EQUIPMENT	11	203,921,638	206,462,008
INTANGIBLE ASSETS	12	25,618,751	34,751,069
		3,455,660,687	2,722,485,722
<u>LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY</u>			
CURRENT LIABILITIES:			
Islamic murabaha financing	13	-	60,000,000
Accounts payable and accruals	14	219,962,454	209,603,671
Amounts due to related parties	6	5,423,471	6,540,215
Zakat and income tax	15	18,726,364	16,661,889
Amounts due to shareholders	16	126,973,893	122,995,790
TOTAL CURRENT LIABILITIES		371,086,182	415,801,565
Employees' terminal benefits	17	127,916,721	111,625,408
TOTAL LIABILITIES		499,002,903	527,426,973
SHAREHOLDERS' EQUITY:			
Share capital	18	784,375,000	600,000,000
Statutory reserve	19	410,625,000	300,000,000
Consensual reserve	20	79,651,253	70,825,003
General reserve	21	220,000,000	220,000,000
Retained earnings		268,761,794	230,342,933
Unrealized gains on revaluation of investments in available for sale securities	9	1,174,188,268	756,858,515
SHAREHOLDERS' EQUITY		2,937,601,315	2,178,026,451
MINORITY INTERESTS	22	19,056,469	17,032,298
TOTAL SHAREHOLDERS' EQUITY		2,956,657,784	2,195,058,749
		3,455,660,687	2,722,485,722

* The attached notes form part of these consolidated financial statements.



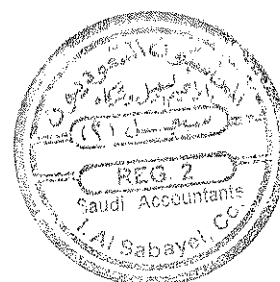
Saudi Pharmaceutical Industries and Medical Appliances Corporation
(SPIMACO - ADDWAEIH) and Its Subsidiaries

CONSOLIDATED STATEMENT OF INCOME

31 December 2010G

	Note	2010 SR	2009 SR
Sales		1,037,640,980	950,741,212
Cost of sales		(551,238,264)	(531,149,429)
GROSS PROFIT		486,402,716	419,591,783
EXPENSES			
Selling and marketing	23	(271,926,585)	(231,981,585)
General and administration	24	(48,646,734)	(41,522,750)
INCOME FROM MAIN OPERATIONS		165,829,397	146,087,448
Investments income, net		25,131,052	24,249,021
Share in loss of an associated Company		(1,302,132)	(1,230,358)
Financial charges	13	(181,253)	(1,217,987)
Other income	25	2,831,880	1,517,387
INCOME BEFORE EXTRA ORDINARY ITEMS AND MINORITY PARTNERS' INTERESTS IN NET INCOME OF SUBSIDIARIES		192,308,944	169,405,511
Minority partners' interests in net income of subsidiaries	22	(12,543,278)	(11,300,803)
Extra ordinary items – capital increase expenses	26	(3,240,670)	(3,301,073)
NET INCOME FOR THE YEAR		176,524,996	154,803,635
Basic earnings per share	27	2,25	2,58

* The attached notes form part of these consolidated financial statements .



Saudi Pharmaceutical Industries and Medical Appliances Corporation
(SPIMACO - ADDWAEIH) and Its Subsidiaries

CONSOLIDATED STATEMENT OF CASH FLOWS
31 December 2010G

	2010 SR	2009 SR
OPERATING ACTIVITIES		
Net income for the year	176,524,996	154,803,635
Adjustments for:		
Depreciation	20,309,685	20,105,965
Amortization	9,485,873	9,623,038
Share in loss of an associated Company	1,302,132	1,230,358
(Gain) Loss on disposal/sale of property, plant and equipment, net	(184,077)	63,606
Provision for doubtful debts	-	2,000,000
Employees' terminal benefits	22,486,522	16,406,673
	<u>229,925,131</u>	<u>204,233,275</u>
Changes in operating assets and liabilities:		
Trade accounts receivable	(74,165,596)	(14,753,211)
Inventories	(4,880,952)	7,876,216
Prepayments and other receivables	(7,437,941)	(2,979,465)
Amounts due to/from related parties	2,987,075	(14,216,555)
Accounts payable and accruals	10,362,853	(29,915,033)
Zakat and income tax paid	(14,613,809)	(12,986,451)
Paid Employees' terminal benefits	(6,195,209)	(12,809,119)
Net cash from operating activities	<u>135,981,552</u>	<u>124,449,657</u>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(17,812,138)	(21,904,414)
Proceeds from sale of property, plant and equipment	226,900	154,950
Net change in intangible assets	(353,556)	(71,067)
Net change in investments	(5,885,699)	(19,918)
Net cash used in investing activities	<u>(23,824,493)</u>	<u>(21,840,449)</u>
FINANCING ACTIVITIES		
Proceeds from capital increase	295,000,000	-
Islamic murabaha financing	(60,000,000)	20,000,000
Net change in amounts due to shareholders and proposed dividends	(106,827,568)	(80,394,238)
Minority interests	2,024,171	3,133,321
Board of directors' remuneration	(1,400,000)	(1,400,000)
Board of directors' remuneration -Subsidiary Company	(400,000)	-
Net cash used in financing activities	<u>128,396,603</u>	<u>(58,660,917)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	<u>240,553,662</u>	<u>43,948,291</u>
Cash and cash equivalents at the beginning of the year	<u>106,621,573</u>	<u>62,673,282</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (NOTE 4)	<u><u>347,175,235</u></u>	<u><u>106,621,573</u></u>
<u>SUPPLEMENTAL INFORMATION ON NON-CASH TRANSACTIONS</u>		
Unrealized gains (losses) on revaluation of investments in available for sale securities	<u>417,329,753</u>	<u>727,762,817</u>

* The attached notes form part of these consolidated financial statements.

Saudi Pharmaceutical Industries and Medical Appliances Corporation (SPIMACO - ADDWAEIH) and Its Subsidiaries
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

31 DECEMBER 2010

	Share capital SR	Statutory reserve SR	Consensual reserve SR	General reserve SR	Retained earnings SR	Unrealized gains on revaluation of investments in available for sale securities SR	Total SR
Balance at 1 January 2009	600,000,000	300,000,000	63,084,822	220,000,000	184,578,205	29,095,698	1,396,758,725
Net income for the year	-	-	-	-	154,803,635	-	154,803,635
Transfer to consensual reserve	-	-	7,740,181	-	(7,740,181)	-	-
Unrealized gains on revaluation of investments in available for sale securities (note 9)	-	-	-	-	-	727,762,817	727,762,817
Provision for zakat and income tax	-	-	-	-	(15,748,177)	-	(15,748,177)
Dividends and zakat	-	-	-	-	(84,150,549)	-	(84,150,549)
Board of Directors' remuneration	-	-	-	-	(1,400,000)	-	(1,400,000)
Balance at 31 December 2009	600,000,000	300,000,000	70,825,003	220,000,000	230,342,933	756,858,515	2,178,026,451
Capital Increase (notes 18 & 19)	184,375,000	110,625,000	-	-	-	-	295,000,000
Net income for the year	-	-	-	-	176,524,996	-	176,524,996
Transfer to consensual reserve	-	-	8,826,250	-	(8,826,250)	-	-
Unrealized gains on revaluation of investments in available for sale securities (note 9)	-	-	-	-	-	417,329,753	417,329,753
Provision for zakat and income tax	-	-	-	-	(16,674,214)	-	(16,674,214)
Dividends and tax	-	-	-	-	(110,805,671)	-	(110,805,671)
Board of Directors' remuneration	-	-	-	-	(1,400,000)	-	(1,400,000)
Board of Directors' remuneration – Subsidiary Company	-	-	-	-	(400,000)	-	(400,000)
Balance at 31 December 2010	784,375,000	410,625,000	79,651,253	220,000,000	268,761,794	1,174,188,268	2,937,601,315

* The attached notes form part of these consolidated financial statements

Saudi Pharmaceutical Industries and Medical Appliances Corporation
(SPIMACO - ADDWAEIH) and Its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2010

1- ACTIVITIES

Saudi Pharmaceutical Industries and Medical Appliances Corporation (SPIMACO - ADDWAEIH), is a Saudi Joint Stock Corporation formed pursuant to the Ministerial resolution No. 884 dated 10 Jumada Awwal 1406H. The Corporation operates under commercial registration No. 1131006650 dated 6 Rajab 1406H corresponding to 16 March 1986, with branches in Riyadh, Jeddah and Dammam, registered under commercial registrations No. 1010134224, 1131006650/001 and 1131006650/004, respectively. The address of the head office is at P O Box 2597, Buraidah.

The Corporation is engaged in the manufacturing, production, development and marketing of medicinal products and pharmaceutical formulations, medical supplies, basic and intermediary med-petrochemicals and their derivatives, and investments in related industries, inside and outside the Kingdom.

The subsidiary Companies owned by the Corporation are as follows:

<i>Subsidiary company</i>	<i>Commercial registration number</i>	<i>Country of incorporation</i>	<i>Principal activity</i>	<i>Direct/ Indirect Shareholding</i>
ARAC Healthcare Company Ltd. (ARAC)	1010075320	Saudi Arabia	Sale and distribution of pharmaceutical products	100%
Arabian Medical Products Manufacturing Company Ltd. (ENAYAH)	1010089052	Saudi Arabia	Production of medical consumables	51%
Pharmaceutical Industries for Development Co. (**)	1010219726	Saudi Arabia	Establishment of medical centers	100%
Pharmaceutical industries for Marketing Co. (**)	1010219725	Saudi Arabia	Retail and wholesale trading of chemical industries.	100%
Pharmaceutical industries for Distribution Co. (**)	1010219722	Saudi Arabia	Retail and wholesale trading of medical systems and chemical industries.	100%
Saudi Dawaucom Co. (*)	1010235735	Saudi Arabia	Investments in petrochemical sector.	100%
Spimaco Misr for Marketing Co. (**)	35177	Egypt	Retail & Wholesale trading & medical advertising services, marketing of medicines & pharmaceutical products, toll manufacturing and providing consultations for pharmaceutical, nutritional & cosmetics products trading.	100%
Spimaco Misr for Marketing Co. (**)	35176	Egypt	Retail & Wholesale trading & medical advertising services, marketing of medicines & pharmaceutical products, toll manufacturing and providing consultations for pharmaceutical, nutritional & cosmetics products trading.	100%
Spimaco Egypt Co. (**)	36022	Egypt	Import, export, selling, marketing, distribution and toll manufacturing of pharmaceutical products and cosmetics and nutritional products and rendering technical consultation services (except for legal and financial consultancy)	100%

(*) Under Liquidation

(**) These companies have not performed any activity during the year ended 31 December 200

Saudi Pharmaceutical Industries and Medical Appliances Corporation
(SPIMACO - ADDWAEIH) and Its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2010

2. BASIS OF CONSOLIDATION

- These consolidated financial statements include assets, liabilities and results of operations of Saudi Pharmaceutical Industries and Medical Appliances Corporation (SPIMACO - ADDWAEIH) (the Corporation) and its subsidiaries (the Group) listed in note (1) above.
- A subsidiary Company is that in which the Corporation has, directly or indirectly, a long term investment comprising an interest of more than 50% in the voting capital or over which it exerts practical control. A subsidiary Company is consolidated from the date on which the Corporation obtains control until the date that control ceases.
- Subsidiaries' financial statements for the same period are prepared using accounting policies consistent with those used by the Corporation.
- All significant inter-company accounts and transactions, as well as gains (losses) arising from transactions with subsidiaries have been eliminated on consolidation.
- Minority interest is shown in the consolidated balance sheet separate from non-current liabilities and shareholders' equity. Minority partners' interest in net income of subsidiaries is shown in the consolidated statement of income separate from results of the main operations.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The significant accounting policies adopted are as follows:

Accounting convention

The consolidated financial statements are prepared under the historical cost convention except for the measurement of fair value of investments in available for sale securities.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Accounts receivable

Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined as follows:

Raw materials and spare parts	-	Purchase cost on a weighted average method
Finished goods and work in progress	-	Cost of direct labour and materials plus attributable overheads based on a normal level of activity, using standard cost which approximates weighted average.

A provision for slow moving inventories is estimated as needed.

Accounts payable and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the suppliers or not

Provisions

Provisions are recognized when the Corporation has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and may be measured reliably.

Saudi Pharmaceutical Industries and Medical Appliances Corporation
(SPIMACO - ADDWAEIH) and Its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

a) Investments in available for sale securities

Investments, that are bought neither with the intention of being held to maturity nor for trading purposes, are stated at fair value and are included under non-current assets unless they will be sold in the next fiscal year. Changes in fair value are credited or charged to the consolidated statement of changes in shareholders' equity. A decline in value considered to be other than temporary, is charged to the consolidated statement of income. Income from such investments is recognized when officially declared.

Fair value is determined by reference to the market value if an open market exists or on the basis of most recent financial statements. Otherwise, cost is considered to be the fair value. Where partial holdings are sold, these are accounted for on a weighted average basis

b) Investments in associated companies

Associated Company in which the Corporation has a long term investment comprising interest between 20% to 50% of the voting capital and over which it exerts significant influence.

Investments in associated companies are accounted for under the equity method whereby the original cost of investment is adjusted by the post acquisition retained earnings and reserves of those companies based on their latest financial statements.

Property, plant and equipment / Depreciation

Land and projects in progress are not depreciated. The cost less estimated residual value of other property, plant and equipment is depreciated on a straight line basis over the estimated useful lives of the assets.

Expenditure for repairs and maintenance are charged to income. Betterments that increase the value or materially extend the life of the related assets are capitalized.

Intangible assets / Amortization

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized if the product or process is technically and commercially feasible and the group has resources to complete development. The expenditure capitalized includes the cost of materials, direct labour and an appropriate proportion of overheads. Other intangible assets are stated at cost less accumulated amortization and impairment loss, if any. Subsequent expenditure on capitalized intangible assets is capitalized only when it increases the future economical benefits embodied in the specific asset to which it relates. All other subsequent expenditures are expensed as incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. The group has no indefinite intangible assets. In tangible assets with finite lives re amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of the future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

The amortization expense on intangible assets with finite lives is recognized in the consolidated statements of income on a straight line method over their useful lives.

Impairment

An assessment is made at each balance sheet date to determine whether there is an objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of the asset is determined and any impairment loss is recognized by the difference between the asset's recoverable amount and the carrying value. Impairment loss is included in the consolidated statement of income.

Employees' terminal benefits

Provision is made for amounts payable under the Saudi Arabian Labor Law applicable to employees' accumulated periods of service at the consolidated balance sheet date.

Operating leases

Operating lease payments are recognized as an expense in the consolidated statement of income on a straight line basis over the lease term.

Saudi Pharmaceutical Industries and Medical Appliances Corporation
(SPIMACO - ADDWAEIH) and Its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2010

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Zakat and income tax

Zakat and income tax are provided for each Company separately, in accordance with Saudi Arabian fiscal regulations.

Provision for Zakat for the Corporation and its consolidated subsidiaries, is charged to the equity accounts of the Saudi shareholders. Provision for income tax is charged to the equity account of the foreign shareholder. Deferred income taxes, if significant, arising from the tax effects of temporary differences between taxable income and financial income are recognized during the period in which such differences arise, and are adjusted when the related temporary differences are reversed.

Foreign currencies

Transactions in foreign currencies are recorded in Saudi Riyals at the rate of exchange ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the consolidated balance sheet date. All exchange differences are taken to the consolidated statement of income.

Cash and cash equivalents

For the purpose of consolidated statement of cashflows, cash and cash equivalents consist of bank balances and cash, Islamic Murabaha deposits.

Revenue

Sales revenue is recognized upon the delivery of goods and the issuance of invoices to customers. Other revenue is recognized when earned.

Expenses

Selling and marketing expenses are those that specifically relate to salesmen, warehousing, advertising, delivery vehicles as well as provision for doubtful debts. All other operating expenses are classified as general and administration expenses.

4 - CASH AND CASH EQUIVALENTS

	2010 SR	2009 SR
Bank balances and cash	74,243,877	58,809,743
Islamic Murabaha deposits	272,931,358	47,811,830
	<u>347,175,235</u>	<u>106,621,573</u>

5- TRADE ACCOUNTS RECEIVABLE

	2010 SR	2009 SR
Accounts receivable - current portion, net		
Private sector	442,729,994	373,608,616
Other governmental institutions	64,368,881	57,417,546
Ministry of Health	<u>56,167,254</u>	<u>62,240,811</u>
	563,266,129	493,266,973
Less: Provision for doubtful debts	<u>(19,654,458)</u>	<u>(19,654,458)</u>
	<u>543,611,671</u>	<u>473,612,515</u>
Accounts receivable - non current		
Other governmental institutions	14,326,793	9,525,636
Ministry of Health	<u>686,905</u>	<u>1,321,622</u>
	<u>15,013,698</u>	<u>10,847,258</u>

Saudi Pharmaceutical Industries and Medical Appliances Corporation
(SPIMACO - ADDWAEIH) and Its Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
31 DECEMBER 2010

6- RELATED PARTY TRANSACTIONS AND BALANCES

Balances with related parties comprise the following as of 31 December:

	2010 SR	2009 SR
Amounts due from affiliates:		
Arabian Health Care Supply Corp (affiliate)	3,557,552	4,115,898
Tassili Arab Pharmaceutical Co. (TAPHYCO)- Algiers (affiliate)	10,908,332	8,621,767
CAD Middle East for Pharmaceutical Industries (associated company)	51,297	5,936,997
Olayan Kimberly Clark Arabia (affiliate)	85,863	32,201
	<u>14,603,044</u>	<u>18,706,863</u>
Amounts due to affiliates:		
Kimberly Clark Corporation, USA (affiliate)	<u>5,423,471</u>	<u>6,540,215</u>

The Group has transactions with related parties during its normal course of business. The following is a summary of the significant transactions with related parties as of 31 December:

	2010 SR	2009 SR
Sales	29,282,810	28,381,521
Purchase of materials and services	16,016,449	15,038,255
Financing	10,908,332	14,558,764
Royalties	3,023,281	2,933,487

7- INVENTORIES

	2010 SR	2009 SR
Finished goods	87,134,836	92,326,679
Raw materials	86,528,750	78,834,541
Spare parts	17,291,045	16,271,633
Work in progress	7,091,014	5,407,319
Goods in transit	3,174,947	3,436,208
	<u>201,220,592</u>	<u>196,276,380</u>
Less: Provision for slow moving inventories	<u>(1,161,970)</u>	<u>(1,098,710)</u>
	<u>200,058,622</u>	<u>195,177,670</u>

8- PREPAYMENTS AND OTHER RECEIVABLES

	2010 SR	2009 SR
Employees' advances and receivables	18,126,404	16,970,038
Advances to suppliers	8,211,476	5,124,089
Prepayments	4,389,275	3,954,956
Other receivables	6,979,647	4,219,778
	<u>37,706,802</u>	<u>30,268,861</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 DECEMBER 2010

9- INVESTMENTS IN AVAILABLE FOR SALE SECURITIES

	2010		2009	
	Shareholding %	Value (SR)	Shareholding %	Value (SR)
<u>Quoted</u>				
National Industrialization Company	5.25	943,895,833	5.25	679,218,279
Saudi Industrial Investment Group (SIIG)	3.12	304,606,575	3.12	304,606,575
Yanbu National Petrochemical Co. (YANSAB)	1.9	509,867,400	1.9	357,764,100
<u>Unquoted</u>				
Arabian Industrial Fibers Co. (Ibn Rushd)	4.17	256,331,200	4.17	256,331,200
Tassili Arab Pharmaceutical Co. (TAPHYCO)- Algiers	22	11,753,150	22	11,753,150
Qaseem Medical Services Company	10.99	21,978,000	10.99	21,978,000
		<u>2,048,432,158</u>		<u>1,631,651,304</u>
<u>Investments in mutual funds</u>				
Riyad Equity Fund 2		4,664,402		4,115,503
		<u>4,664,402</u>		<u>4,115,503</u>
		<u>2,053,096,560</u>		<u>1,635,766,807</u>

- a) Investments in unquoted securities are stated at cost as their market value of such investments cannot be reliably measured as at 31 December 2010.
- b) Ibn Rushd's reported accumulated losses amounted to SR 4,886 million as reflected in its financial statements as at 31 December 2009. Based on the management's estimates, the Corporation has reduced this investment by SR 98,668,800 against these losses.
- c) Investments in mutual funds comprise investments in Saudi mutual funds and are recorded at market price as reported by the respective funds managers as at 31 December 2010.

The movement of investments in the available for sale securities during the year was as follows:

	2010 SR	2009 SR
Cost:		
At the beginning of the year	878,908,292	878,908,292
At the end of the year	878,908,292	878,908,292
Valuation adjustment:		
At the beginning the year	756,858,515	29,095,698
Unrealized gains during the year	417,329,753	727,762,817
At the end of the year	1,174,188,268	756,858,515
Carrying value	<u>2,053,096,560</u>	<u>1,635,766,807</u>

10- INVESTMENTS IN ASSOCIATED COMPANY

This represents the Corporation's interest @ 25% in the equity of CAD Middle East Pharmaceutical Industries Company (Mixed Limited Liability Company). This Company has not performed any activities during the year ended 31 December 2010.

The movement of investment in associated Company during the year was as follows:

	2010 SR	2009 SR
At the beginning of the year	10,271,098	11,481,539
Additions	5,750,000	-
Share in loss of associated Company	(1,302,132)	(1,230,358)
Share in loss of associated Company	135,700	19,917
At the end of the year	<u>14,854,666</u>	<u>10,271,098</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2010

11- PROPERTY, PLANT AND EQUIPMENT

The estimated useful lives of the assets for the calculation of depreciation are as follows:

	Buildings SR	25 to 33.33 years 3.33 to 10 years 4 to 10 years Machinery & equipment SR	Furniture & fixtures SR	Computers SR	Motor vehicles SR	Projects in progress SR	Total 2010 SR	Total 2009 SR
Cost:								
At the beginning of the year	29,346,742	210,428,137	94,354,524	15,458,149	12,794,341	15,613,589	689,541,960	669,020,533
Additions	-	3,268	1,484,624	791,656	3,064,095	10,193,491	17,812,138	21,904,414
Disposals	-	-	(1,359,466)	(1,441,448)	(1,240,662)	-	(4,087,849)	(1,382,987)
Transfers	-	-	108,193	143,907	-	(3,919,514)	-	-
At the end of the year	29,346,742	210,431,405	94,587,875	14,952,264	14,617,774	21,887,566	703,266,249	689,541,960
Depreciation:								
At the beginning of the year	-	107,331,699	88,868,195	13,869,638	8,231,006	-	483,079,952	464,138,417
Charge for the year	-	6,425,484	1,824,145	859,851	2,597,669	-	20,309,685	20,105,965
Disposals	-	-	(1,326,852)	(1,441,449)	(1,230,452)	-	(4,045,026)	(1,164,430)
At the end of the year	-	113,757,183	89,365,488	13,288,040	9,598,223	-	499,344,611	483,079,952
Net book value:								
At 31 December 2010	29,346,742	96,674,222	5,222,387	1,664,224	5,019,551	21,887,566	203,921,638	
At 31 December 2009	29,346,742	103,096,438	5,486,329	1,588,511	4,563,335	15,613,589	206,462,008	

The plot of land on which the factory is constructed at the industrial Zone in Buraidah has been leased from the Ministry of Commerce and Industry for a nominal rent for a period of 25 years expiring during 2012 (corresponding to 1433 H), renewable for further period.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2010

12- INTANGIBLE ASSETS

The estimated useful lives of the intangible assets for the calculation of amortization are as follows:

Consultation and technical know-how fees	8 years
Product development costs	7 years
Computer software and consultation	7 years

	2010 SR	2009 SR
Cost:		
Consultation and technical know-how fees	66,563,105	66,563,105
Product development cost	42,431,283	42,433,320
Computer software and consultation	27,003,741	26,648,149
	<u>135,998,129</u>	<u>135,644,574</u>
Less: Accumulated amortization	(110,379,378	(100,893,505)
	<u>25,618,751</u>	<u>34,751,069</u>

Product development cost relates to products that are still under development as of 31 December 2010 and 2009.

The movement of intangible assets for the year ended 31 December is as follows:

	2010 SR	2009 SR
Cost:		
At the beginning of the year	135,644,574	135,573,508
Additions during the year	355,592	71,066
Disposals	(2,037)	-
At the end of the year	<u>135,998,129</u>	<u>135,644,574</u>
Amortization:		
At the beginning of the year	100,893,505	91,270,467
Provided during the year	9,485,873	9,623,038
At the end of the year	<u>110,379,378</u>	<u>100,893,505</u>
Net book value	<u>25,618,751</u>	<u>34,751,069</u>

13- ISLAMIC MURABAHA FINANCING

- a) This represents the portion of a short term Islamic Murabaha Financing facility agreement signed with a local bank in Saudi Arabia during the year; the facility agreement covers a period of three years and will end at 1 June 2011. The sealing of the facility amounted to SR 100,000,000. No facilities has been used as at 31 December 2010.
- b) A number of 18,341,400 shares of National Industrialization Company owned by the Corporation is mortgaged to the bank against the Financing facility agreement. The mortgage has been removed over these shares as at 31 December 2010.
- c) The amount of financial charges of SR 181,253 recognized during the year ended 31 December 2010 (2009:SR1,217,987)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2010

14- ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	2010 SR	2009 SR
Trade accounts payable	160,031,660	159,362,277
Accrued expenses	58,688,744	49,098,135
Other payables	1,242,050	1,143,259
	<u>219,962,454</u>	<u>209,603,671</u>

15- ZAKAT AND INCOME TAX

a) The Group's zakat and tax liabilities comprise zakat and income tax calculated on the basis of the unconsolidated financial statements for each Company separately.

b) The movement in provision

The movement in zakat and income tax provisions is as follows:

Zakat

	2010 SR	2009 SR
At the beginning of the year	12,385,988	10,625,388
Provided during the year	9,455,223	8,889,324
Paid during the year	(9,328,897)	(7,128,724)
At the end of the year	<u>12,512,314</u>	<u>12,385,988</u>

Income Tax

At the beginning of the year	4,275,901	3,274,775
Provided during the year	9,730,848	6,858,853
Prior year adjustments	-	(8,274)
Paid during the year	(7,792,699)	(5,849,453)
At the end of the year	<u>6,214,050</u>	<u>4,275,901</u>
	<u>18,726,364</u>	<u>16,661,889</u>

c) Status of assessments

The Group's companies have filed zakat and income tax declaration up to 2009, and obtained the final zakat and tax certificate up to 2009.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2010

16- AMOUNTS DUE TO SHAREHOLDERS

These represent dividends declared in prior years and amounts due to shareholders attributable to shares issued in prior years. Such amounts have not been claimed by the respective shareholders.

17- EMPLOYEES' TERMINAL BENEFITS

	2010 SR	2009 SR
Balance at the beginning of the year	111,625,408	108,027,854
Charge during the year	22,486,522	16,406,673
Payments during the year	(6,195,209)	(12,809,119)
Balance at the end of the year	<u>127,916,721</u>	<u>111,625,408</u>

18- SHARE CAPITAL

The General Assembly in its Extra – Ordinary meeting held on 26 December 2009, has approved the increase of the corporation's capital by offering a number of 18,437,500 right issue subscription share. As at 13 January 2010 the right issue subscription was complete for the shares at a price of SR 16 per share (SR 10 as Par value and SR 6 as premium), and during the first quarter ending 31 March 2010, all regulatory procedures have been finalized and the Corporation's Commercial Registration and the Article of Association has been adjusted. Accordingly the authorized and paid up share capital consisted of 78,437,500 shares (2009: 60,000,000 shares) of SR 10 each (2009: SR 10 each) and is held as follows as 31 December 2010:

	<i>Shareholding %</i>	
	<u>2010</u>	<u>2009</u>
Saudi Shareholders	80%	80%
Non-Saudi shareholder - Arab Company for Drug Industries and Medical Appliances, Jordan	20%	20%

The movement in share capital is as follows:

	2010 SR	2009 SR
Balance at the beginning of the year	600,000,000	600,000,000
Addition during the year –par value	184,375,000	-
Addition during the year –premium	110,625,000	-
Transferred to Statutory Reserve	(110,625,000)	-
Balance at the end of the year	<u>784,375,000</u>	<u>600,000,000</u>

19- STATUTORY RESERVE

In accordance with Saudi Arabian Regulations for Companies, the Corporation maintains a reserve that equals one-half of its share capital. This reserve is not available for dividend distribution. During the current year, and according to the Corporation's Article of Association, the premium value generated from the increase in share capital of the Corporation has been transferred to this reserve. Such transfer increased the reserve more than it's required value to be over one-half of its share capital.

The movement in share capital is as follows:

	2010 SR	2009 SR
Balance at the beginning of the year	300,000,000	300,000,000
Transferred during the year	110,625,000	-
Balance at the end of the year	<u>410,625,000</u>	<u>300,000,000</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2010

20- CONSENSUAL RESERVE

In accordance with the Corporation's By-Laws, 5% of the annual net income is required to be transferred to a consensual reserve until this reserve equals 25% of the share capital, and will be used as authorized by the Corporation's General Assembly.

21- GENERAL RESERVE

The statutory reserve in excess of 50% of the share capital of the Corporation was transferred to the general reserve during 2001 and will be used to face any losses in the corporation's investments as approved by Corporation's General Assembly.

22- MINORITY INTEREST

Minority interest represents the part of the net results of operations and of the net assets of Arabian Medical Products Manufacturing Company Limited (ENAYAH) attributable to interests not owned by the parent Company.

The minority partners' share in the subsidiary Company is analysed as follows:

	2010 SR	2009 SR
At the beginning of the year	17,032,298	13,898,978
Share in earnings of the subsidiary Company	12,543,278	11,300,803
Dividends	(9,800,000)	(7,840,000)
Share in Board of Directors' remuneration	(600,000)	-
Share in provision of zakat and income tax	(1,319,120)	(1,211,961)
Share in zakat and income tax refunded	1,200,013	884,478
	<u>19,056,469</u>	<u>17,032,298</u>

23- SELLING AND MARKETING EXPENSES

	2010 SR	2009 SR
Advertising, promotions and provision for expired inventories	121,868,044	102,113,521
Salaries and related costs	98,623,841	89,155,495
Sales commission	19,620,669	9,769,237
Freight and custom duties	10,770,078	9,019,628
Travel and training	7,453,439	6,783,789
Provision for doubtful debts	-	2,000,000
Depreciation and amortization	2,709,917	2,491,947
Office supplies	1,975,311	2,012,518
Legal and professional fees	1,619,684	1,370,463
Insurance	1,542,931	1,552,885
Utilities	1,143,658	825,090
Telephone and postage	997,216	945,263
Rent	973,594	1,241,001
Other	2,628,203	2,700,748
	<u>271,926,585</u>	<u>231,981,585</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2010

24- GENERAL AND ADMINISTRATION EXPENSES

	2010	2009
	SR	SR
Salaries and related costs	29,518,969	27,381,231
Depreciation and amortization	3,847,115	3,629,000
Legal and professional fees	4,578,429	1,925,632
Travel and training	2,538,332	818,629
Board of Directors' related expenses	1,596,802	802,783
Utilities	1,164,026	1,361,209
Repairs and maintenance	682,763	321,252
Office Supplies	670,832	640,162
Insurance	662,119	376,742
Conferences and Exhibitions	600,000	15,000
Shareholders' register management expenses	537,030	400,000
Rent	374,111	445,539
Non commercial advertising	364,444	569,327
Telephone and postage	297,932	366,874
Other	1,213,830	2,469,370
	<u>48,646,734</u>	<u>41,522,750</u>

25- OTHER INCOME

	2010	2009
	SR	SR
Commission earned	1,119,916	99,991
Rent income	550,932	641,490
Scrap sales	389,330	385,277
Gain on disposal/sale of property, plant and equipment, net	184,077	-
Miscellaneous	587,625	390,629
	<u>2,831,880</u>	<u>1,517,387</u>

26- EXTRA ORDINARY ITEMS – CAPITAL INCREASE EXPENSES

This represents consultation and professional fees incurred due to the proposal of the Board of Directors to increase the corporation's capital.

27- BASIC EARNINGS PER SHARE

Basic earnings per share are calculated on the basis of the net income for the year, divided by the weighted average number of shares outstanding during the year.

28- OPERATING LEASES

During the current year, an amount of SR 1,600,287 (2009 : SR 1,686,540) has been recognized as an expense in the consolidated statement of income in respect of operating leases

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29- SEGMENTAL INFORMATION

These are attributable to Group's activities and business approved by the management to be used as a basis for the financial reporting and being consistent with the internal reporting process. Transactions between business segments are conducted on an arm's length basis.

The segments results and assets comprise items that are directly attributable to a certain segment and items that can reasonably be allocated between various business segments.

The Group is organized into the following main segments:

- | | |
|--|---|
| 1- Medical and pharmaceutical production | Comprises manufacturing, production, development and marketing of medicinal products and pharmaceutical formulations, medical supplies and production of medical consumables. |
| 2- Investment | Comprises investments in available of sale securities and investments held to maturity. |

	<i>Medical SR</i>	<i>Investment SR</i>	<i>Total SR</i>
<i>As of 31 December 2010</i>			
Revenue	1,040,472,860	23,828,920	1,064,301,780
Gross profit	486,402,716	-	486,402,716
Net book value of property, plant and equipment	203,921,638	-	203,921,638
Total assets	1,387,709,461	2,067,951,226	3,455,660,687
Total liabilities	499,002,903	-	499,002,903
<i>As of 31 December 2009</i>			
Revenue	952,258,599	23,018,663	975,277,262
Gross profit	419,591,783	-	419,591,783
Net book value of property, plant and equipment	206,462,008	-	206,462,008
Total assets	1,076,447,817	1,646,037,905	2,722,485,722
Total liabilities	527,426,973	-	527,426,973

Substantially, all the Group's operating assets are located in the Kingdom of Saudi Arabia. The primary market for the Group's products is the Middle East. It is not practicable to disclose information pertaining to individual geographic areas.

30- CONTINGENT LIABILITIES

The Corporation's bankers have issued, on its behalf, letters of guarantee and acceptances limited to SR 51.3 million (2009 : SR 63.6 million) during its normal course of business

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2010

31- RISK MANAGEMENT

a- Commission rate risk

The Group is subject to commission rate risk on its commission bearing assets and liabilities, including Islamic Murabaha deposits, and time deposits.

b- Credit risk

The Group seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables. At the consolidated balance sheet date, no significant concentrations of credit risk were identified by the management.

c- Liquidity risk

The Group limits its liquidity risk by ensuring that bank facilities are available. The Group's terms of sales require amounts to be paid normally between 60 to 180 days of date of sale. Trade payables are normally settled within 120 days of the date of purchase.

d- Currency risk

The Group is subject to fluctuations in foreign exchange rates in the normal course of its business. The Group did not undertake significant transactions in currencies other than Saudi Riyals, US Dollars, Swiss Francs and Euros during the year.

Trade payables include an amount of SR 108,513,991 (2009: SR 98,516,778) due on foreign currencies principally in US dollars, Swiss Francs, Sterling Pound and Euros.

e- FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arms length transaction. Financial instruments comprise financial assets and financial liabilities.

The Group's financial assets consist of cash and cash equivalents and receivables, and its financial liabilities consist of accounts payable and accrued expenses.

The fair values of financial instruments are not materially different from their carrying amounts.

32- APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS AND DIVIDENDS

The board of directors in its meeting held on 16 Rabe' 1 1432H (corresponding to 19 February 2010), has approved the consolidated financial statements and proposed an amount of SR 117,656,250 as dividend before deducting income taxes and SR 1,400,000 as board of directors' remuneration. Proposed dividends and board of directors' remuneration are not shown as liabilities in the consolidated financial statements.

The above are subject to the approval of the shareholders at the Annual General Assembly Meeting.

33- COMAPRATIVE FIGURES

Certain figures of prior year have been reclassified to conform to the presentation in the current year .