

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

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2007

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
SAUDI PHARMACEUTICAL INDUSTRIES AND MEDICAL APPLIANCES
CORPORATION (SPIMACO - ADDWAEIH)**

Scope of Audit

We have audited the accompanying consolidated balance sheet of Saudi Pharmaceutical Industries and Medical Appliances Corporation (SPIMACO - ADDWAEIH), a Saudi joint stock company (the Corporation), and its subsidiaries (the Group) as of 31 December 2007 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These consolidated financial statements are the responsibility of the Group's management and have been prepared by them in accordance with Article 123 of Regulations for Companies and submitted to us together with all the information and explanations which we required. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable degree of assurance to enable us to express an opinion on the consolidated financial statements.

Unqualified Opinion

In our opinion, the consolidated financial statements taken as a whole:

- i) present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2007 and the results of its operations and its cash flows for the year then ended in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia.
- ii) comply with the requirements of the Regulations for Companies and the Corporation's By-Laws in so far as they affect the preparation and presentation of the consolidated financial statements.

for Ernst & Young

Fahad M. Al Toaimi
Certified Public Accountant
Registration No. 354

Riyadh: 9 Safar 1429H
(16 February 2008)

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Note	2007 SR	2006 SR
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash and cash equivalents	4	170,320,702	130,663,431
Trade accounts receivable	5	400,447,436	321,145,796
Amounts due from related parties	6	14,070,366	7,974,739
Inventories	7	189,084,140	186,686,979
Prepayments and other receivables	8	28,486,078	25,593,910
Investment held to maturity		-	7,497,199
TOTAL CURRENT ASSETS		802,408,722	679,562,054
LONG TERM TRADE RECEIVABLES	5	8,303,001	17,314,753
INVESTMENTS IN AVAILABLE FOR SALE SECURITIES	9	2,282,000,333	1,431,844,928
INVESTMENT IN AN ASSOCIATED COMPANY	10	742,703	1,250,000
PROPERTY, PLANT AND EQUIPMENT	11	210,284,038	221,473,046
INTANGIBLE ASSETS	12	53,203,110	50,917,530
		3,356,941,907	2,402,362,311
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
CURRENT LIABILITIES:			
Accounts payable and accruals	13	222,742,422	176,608,147
Amounts due to related parties	6	5,874,926	2,754,760
Zakat and income tax	14	16,195,562	14,077,728
Amounts due to shareholders	15	116,310,282	118,482,491
TOTAL CURRENT LIABILITIES		361,123,192	311,923,126
Employees' terminal benefits	16	96,741,963	82,124,652
TOTAL LIABILITIES		457,865,155	394,047,778
SHAREHOLDERS' EQUITY:			
Share capital	17	600,000,000	600,000,000
Statutory reserve	18	300,000,000	300,000,000
Consensual reserve	19	56,671,371	50,578,156
General reserve	20	220,000,000	220,000,000
Retained earnings		158,576,306	114,051,771
Unrealized gains on revaluation of investments in available for sale securities	9	1,548,282,783	710,105,359
SHAREHOLDERS' EQUITY		2,883,530,460	1,994,735,286
MINORITY INTERESTS	21	15,546,292	13,579,247
TOTAL SHAREHOLDERS' EQUITY		2,899,076,752	2,008,314,533
		3,356,941,907	2,402,362,311

The attached notes 1 to 32 form part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF INCOME

Year ended 31 December 2007

	<i>Note</i>	2007 SR	2006 SR
Sales		797,747,949	727,838,041
Cost of sales		471,133,405	419,421,289
GROSS PROFIT		326,614,544	308,416,752
EXPENSES:			
Selling and marketing	22	(190,972,062)	(159,795,337)
General and administration	23	(37,910,520)	(40,537,685)
INCOME FROM MAIN OPERATIONS		97,731,962	108,083,730
Investment income		21,832,633	-
Share in loss of an associated company	10	(507,297)	-
Other income	24	12,272,437	7,626,282
Financial charges		(1,381,168)	-
Restructuring expenses		-	(4,793,135)
INCOME BEFORE MINORITY PARTNERS' INTERESTS IN NET INCOME OF A SUBSIDIARY		129,948,567	110,916,877
Minority partners' interests in net income of a subsidiary	21	(8,084,278)	(5,883,574)
NET INCOME FOR THE YEAR		121,864,289	105,033,303
Basic earnings per share	25	2,03	1,75

The attached notes 1 to 32 form part of these consolidated financial statements.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2007

	2007 SR	2006 SR
OPERATING ACTIVITIES		
Net income for the year	121,864,289	105,033,303
Adjustments for:		
Depreciation	18,618,644	15,928,647
Amortization	9,578,972	4,475,781
Share in loss of an associated company	507,297	
Gain on disposal/sale of property, plant and equipment, net	(26,699)	(438,988)
Provision for doubtful debts	3,000,000	1,159,494
Employees' terminal benefits	14,617,311	10,395,627
	<u>168,159,814</u>	<u>136,553,864</u>
Changes in operating assets and liabilities:		
Trade accounts receivable	(73,289,888)	19,730,977
Inventories	(2,397,161)	(12,616,457)
Prepayments and other receivables	(2,892,168)	(2,288,547)
Related party balances	(2,975,461)	(954,121)
Accounts payable and accruals	46,134,275	(27,137,020)
Zakat and income tax paid	(12,504,788)	(13,617,838)
	<u>120,234,623</u>	<u>99,670,858</u>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(17,166,481)	(39,749,382)
Proceeds from sale of property, plant and equipment	35,999	598,935
Net change in intangible assets	(2,137,006)	-
Net change in investments	(4,480,782)	(1,248,618)
	<u>(23,748,270)</u>	<u>(40,399,065)</u>
FINANCING ACTIVITIES		
Net change in amounts due to shareholders and proposed dividends	(57,396,127)	(47,426,377)
Minority interests	1,967,045	(52,777)
Board of directors' remuneration	(1,400,000)	(1,400,000)
	<u>(56,829,082)</u>	<u>(48,879,154)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	<u>39,657,271</u>	<u>10,392,639</u>
Cash and cash equivalents at the beginning of the year	<u>130,663,431</u>	<u>120,270,792</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (NOTE 4)	<u><u>170,320,702</u></u>	<u><u>130,663,431</u></u>
<u>Supplemental Information on Non-Cash Transactions</u>		
Unrealized gains (losses) on revaluation of investments in available for sale securities	838,177,424	(88,468,814)
Amounts transferred from projects in progress to intangible assets	9,727,546	-

The attached notes 1 to 32 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

Year ended 31 December 2007

	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 31 December 2005	600,000,000	300,000,000	45,326,491	220,000,000	84,368,344	798,574,173	2,048,269,008
Net income for the year	-	-	-	-	105,033,303	-	105,033,303
Transfer to consensual reserve	-	-	5,251,665	-	(5,251,665)	-	-
Unrealized losses on revaluation of investments in available for sale securities (note 9)	-	-	-	-	-	(88,468,814)	(88,468,814)
Provision for zakat and income tax (note 14)	-	-	-	-	(12,478,172)	-	(12,478,172)
Dividends and zakat	-	-	-	-	(56,220,039)	-	(56,220,039)
Directors' remuneration	-	-	-	-	(1,400,000)	-	(1,400,000)
Balance at 31 December 2006	600,000,000	300,000,000	50,578,156	220,000,000	114,051,771	710,105,359	1,994,735,286
Net income for the year	-	-	-	-	121,864,289	-	121,864,289
Transfer to consensual reserve	-	-	6,093,215	-	(6,093,215)	-	-
Unrealized gains on revaluation of investments in available for sale securities (note 9)	-	-	-	-	-	838,177,424	838,177,424
Provision for zakat and income tax (note 14)	-	-	-	-	(14,622,621)	-	(14,622,621)
Dividends and zakat	-	-	-	-	(55,223,918)	-	(55,223,918)
Directors' remuneration	-	-	-	-	(1,400,000)	-	(1,400,000)
Balance at 31 December 2007	600,000,000	300,000,000	56,671,371	220,000,000	158,576,306	1,548,282,783	2,883,530,460

The attached notes 1 to 32 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 2007

1 ACTIVITIES

Saudi Pharmaceutical Industries and Medical Appliances Corporation (SPIMACO - ADDWAEIH), is a Saudi Joint Stock Company 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 the (SPIMACO - ADDWAEIH) 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%

(*) This company has been incorporated during the first quarter of 2007 as closed Saudi joint stock company with a share capital amounting to SR 800,000,000 consisting of in-kind shares amounting to SR 660,261,400 and cash shares amounting to SR 139,738,600.

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2007

2 BASIS OF CONSOLIDATION (continued)

- Minority interest is shown within shareholders' equity in the consolidated balance sheet. 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.

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.

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 investments is recognized when 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 held to maturity

Investments held to maturity are stated at cost adjusted for amortization of premium or discounts, if any. Provision is made for any permanent decline in the value of such investments. Income from such investments is recognized on the accrual basis.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2007

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Investment in associated companies

Associated company is this 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 sufficient resources to complete development. The expenditure capitalized includes the cost of materials, direct labor 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 economic 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. Intangible assets with finite lives are 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 useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of 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 statement 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.

Zakat and income tax

Zakat and income tax are provided for in accordance with Saudi Arabian fiscal regulations on the basis of the consolidated financial statements of the Corporation and its effectively wholly owned subsidiaries.

Provision for zakat for the Corporation and its effectively wholly owned 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2007

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and time deposits.

Business segment

A segment is a distinguishable component of the Group whether in producing/selling products or providing services (business segment), or in providing/selling products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The business segment is adopted by the Group because it carries out most of its activities in the Kingdom of Saudi Arabia.

Revenue

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

	2007 SR	2006 SR
Islamic Murabaha deposits	132,544,729	102,956,196
Bank balances and cash	37,775,973	27,707,235
	<u>170,320,702</u>	<u>130,663,431</u>

5 TRADE ACCOUNTS RECEIVABLE

	2007 SR	2006 SR
<u>Accounts receivable - current portion, net</u>		
Private sector	314,707,728	255,954,422
Ministry of Health	48,363,386	31,020,193
Other governmental institutions	55,035,780	49,461,449
	<u>418,106,894</u>	<u>336,436,064</u>
Less: Provision for doubtful debts	(17,659,458)	(15,290,268)
	<u>400,447,436</u>	<u>321,145,796</u>
<u>Accounts receivable - non current</u>		
Ministry of Health	1,062,660	1,368,420
Other governmental institutions	7,240,341	15,946,333
	<u>8,303,001</u>	<u>17,314,753</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2007

6 RELATED PARTY TRANSACTIONS AND BALANCES

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

	2007 SR	2006 SR
Amounts due from related parties:		
Arabian Health Care Supply Corp (An affiliate)	8,932,020	7,974,739
CAD Middle East for Pharmaceutical Industries (An associated company)	5,138,346	-
	<u>14,070,366</u>	<u>7,974,739</u>
Amounts due to related parties:		
Kimberly Clark Corporation (An affiliate)	5,874,926	2,754,760
	<u>5,874,926</u>	<u>2,754,760</u>

The Group has transactions with related parties during its normal course of business. The following are the details of the major related party transactions during the year ended 31 December:

	2007 SR	2006 SR
Sales	26,146,691	21,674,598
Purchase of materials and services	9,802,730	10,871,125
Financing	5,000,000	-
Royalties	2,149,374	1,688,112

7 INVENTORIES

	2007 SR	2006 SR
Raw materials	82,791,397	68,931,925
Finished goods	76,229,031	87,014,422
Spare parts	13,340,471	12,457,076
Work in progress	10,181,557	11,063,255
Goods in transit	7,571,213	7,991,496
	<u>190,113,669</u>	<u>187,458,174</u>
Less: Provision for slow moving inventories	(1,029,529)	(771,195)
	<u>189,084,140</u>	<u>186,686,979</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2007

8 PREPAYMENTS AND OTHER RECEIVABLES

	2007 SR	2006 SR
Employees' advances and receivables	18,755,265	15,050,874
Advances to suppliers	3,436,467	2,691,805
Prepayments	2,916,479	2,108,303
Zakat overpayment for prior years (Note 24)	-	2,966,272
Accrued income	57,209	69,502
Other receivables	3,320,658	2,707,154
	<u>28,486,078</u>	<u>25,593,910</u>

9 INVESTMENTS IN AVAILABLE FOR SALE SECURITIES

	2007		2006	
	<u>Shareholding</u> %	<u>Value</u> (SR)	<u>Shareholding</u> %	<u>Value</u> (SR)
<u>Quoted</u>				
National Industrialization Company (NIC)	5.25%	917,070,000	5.25%	614,436,900
Saudi Industrial Investment Group (SIIG)	3.12%	470,914,763	3.12%	248,586,975
Yanbu National Petrochemical Co. (YANSAB)	1.9%	565,031,625	1.9%	265,109,625
<u>Unquoted (a)</u>				
Arabian Industrial Fibers Co. (Ibn Rushd) (b)	4.17%	256,331,200	10%	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%	10,000,000
		<u>2,243,078,738</u>		<u>1,406,217,850</u>
<u>Investments in mutual funds (c)</u>				
Balanced Income Fund		15,684,522		11,300,138
Riyad Equity Fund 2		7,068,738		4,489,767
Al Rajhi GCC Equity Fund		16,168,335		9,837,173
		<u>38,921,595</u>		<u>25,627,078</u>
		<u>2,282,000,333</u>		<u>1,431,844,928</u>

- (a) Investments in unquoted securities are stated at cost as their market value as at 31 December 2007 cannot be reliably measured.
- (b) Ibn Rushd's reported accumulated losses amounting to SR 3,275 million as reflected in its unaudited financial statements as at 31 December 2007 (2006: SR 2,620 million). Based on the management's estimates, the Corporation has reduced this investment by SR 98,688,900 against these losses.
- (c) Investments in mutual funds comprise investments in Saudi mutual funds and are recorded at the unit value declared as by the respective funds managers.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2007

9 INVESTMENTS IN AVAILABLE FOR SALE SECURITIES (continued)

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

	2007 SR	2006 SR
Cost:		
At the beginning of the year	721,739,569	721,739,569
Additions	11,977,981	-
	<u>733,717,550</u>	<u>721,739,569</u>
At the end of the year	<u>733,717,550</u>	<u>721,739,569</u>
Valuation adjustment:		
At the beginning the year	710,105,359	798,574,173
Unrealized gains (losses) during the year	838,177,424	(31,818,594)
Provision for decline in value	-	(56,650,220)
	<u>1,548,282,783</u>	<u>710,105,359</u>
At the end of the year	<u>1,548,282,783</u>	<u>710,105,359</u>
Carrying value	<u><u>2,282,000,333</u></u>	<u><u>1,431,844,928</u></u>

10 INVESTMENT IN ASSOCIATED COMPANY

This represents the company's interest @ 25% in the equity of CAD Middle East Pharmaceutical Industries Company (Mixed limited liability company). This Company has not performed any activity during the year ended 31 December 2007.

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

	2007 SR	2006 SR
At the beginning of the year	1,250,000	-
Additions	-	1,250,000
Share in the loss of associated company	(507,297)	-
	<u>742,703</u>	<u>1,250,000</u>
At the end of the year	<u><u>742,703</u></u>	<u><u>1,250,000</u></u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2007

11 PROPERTY, PLANT AND EQUIPMENT

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

Buildings	25 to 33.33 years	Computers	4 years
Machinery and equipment	3.33 to 10 years	Motor vehicles	4 years
Furniture and fixtures	4 to 10 years		

	<i>Land SR</i>	<i>Buildings SR</i>	<i>Machinery & equipment SR</i>	<i>Furniture & fixtures SR</i>	<i>Computers SR</i>	<i>Motor vehicles SR</i>	<i>Projects in progress SR</i>	<i>Total 2007 SR</i>	<i>Total 2006 SR</i>
Cost:									
At the beginning of the year	22,889,242	202,764,500	273,670,199	91,127,900	14,410,734	7,813,801	39,338,976	652,015,352	616,772,451
Additions	-	1,173,592	11,652,196	646,076	813,030	2,693,135	188,452	17,166,481	39,749,382
Disposals	-	-	(292,768)	-	(1,273,492)	(86,000)	-	(1,652,260)	(4,506,481)
Transfer to intangible assets (note 12)	-	-	-	-	-	-	(9,727,546)	(9,727,546)	
Transfers	-	5,922,833	19,542,727	1,132,902	122,262	-	(26,720,724)	-	-
At the end of the year	<u>22,889,242</u>	<u>209,860,925</u>	<u>304,572,354</u>	<u>92,906,878</u>	<u>14,072,534</u>	<u>10,420,936</u>	<u>3,079,158</u>	<u>657,802,027</u>	<u>652,015,352</u>
Depreciation:									
At the beginning of the year	-	88,150,767	241,288,798	83,612,356	13,097,582	4,392,803	-	430,542,306	418,960,193
Charge for the year	-	6,348,627	8,248,760	1,806,026	731,062	1,484,169	-	18,618,644	15,928,647
Disposals	-	-	(284,838)	-	(1,272,123)	(86,000)	-	(1,642,961)	(4,346,534)
At the end of the year	<u>-</u>	<u>94,499,394</u>	<u>249,252,720</u>	<u>85,418,382</u>	<u>12,556,521</u>	<u>5,790,972</u>	<u>-</u>	<u>447,517,989</u>	<u>430,542,306</u>
Net book value:									
At 31 December 2007	<u>22,889,242</u>	<u>115,361,531</u>	<u>55,319,634</u>	<u>7,488,496</u>	<u>1,516,013</u>	<u>4,629,964</u>	<u>3,079,158</u>	<u>210,284,038</u>	
At 31 December 2006	<u>22,889,242</u>	<u>114,613,733</u>	<u>32,381,401</u>	<u>7,515,544</u>	<u>1,313,152</u>	<u>3,420,998</u>	<u>39,338,976</u>		<u>221,473,046</u>

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2007

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

	2007 SR	2006 SR
Cost:		
Consultation and technical know-how fees	66,458,545	66,330,690
Product development costs	42,542,553	42,539,678
Computer software and consultation	25,733,702	13,999,880
	<u>134,734,800</u>	<u>122,870,248</u>
Less: Accumulated amortization	<u>(81,531,690)</u>	<u>(71,952,718)</u>
	<u><u>53,203,110</u></u>	<u><u>50,917,530</u></u>

Product development costs relate to products that are still under development as of 31 December 2007 and 2006.

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

	2007 SR	2006 SR
Cost:		
At the beginning of the year	122,870,248	122,870,248
Additions during the year	2,137,006	-
Transferred from projects in progress (note 11)	9,727,546	-
	<u>134,734,800</u>	<u>122,870,248</u>
At the end of the year	<u>134,734,800</u>	<u>122,870,248</u>
Amortization:		
At the beginning of the year	71,952,718	67,476,937
Provided during the year	9,578,972	4,475,781
	<u>81,531,690</u>	<u>71,952,718</u>
At the end of the year	<u>81,531,690</u>	<u>71,952,718</u>
Net book value	<u><u>53,203,110</u></u>	<u><u>50,917,530</u></u>

13 ACCOUNTS PAYABLE AND ACCRUALS

	2007 SR	2006 SR
Trade accounts payable	180,984,817	133,759,814
Accrued expenses	37,995,972	39,587,160
Other payables	3,761,633	3,261,173
	<u>222,742,422</u>	<u>176,608,147</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2007

14 ZAKAT AND INCOME TAX

a) The Group's zakat and tax liabilities comprise zakat and income tax calculated on the basis of the consolidated financial statements of the Company and its effectively wholly owned subsidiaries.

b) The movement in provision

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

Zakat

	2007 SR	2006 SR
At the beginning of the year	9,301,647	11,437,403
Provided during the year	8,952,293	7,702,091
Prior year adjustments	(24,257)	-
Paid during the year	(7,830,507)	(9,837,847)
At the end of the year	10,399,176	9,301,647

Income Tax

At the beginning of the year	4,776,081	3,779,991
Provided during the year	5,694,586	4,776,081
Paid during the year	(4,674,281)	(3,779,991)
At the end of the year	5,796,386	4,776,081
	16,195,562	14,077,728

c) Status of assessments

- The Corporation has filed zakat and income tax declarations up to 2006, and obtained the final zakat and tax certificates up to 2006. The Corporation has also received the zakat and income tax assessments up to 2000.
- ARAC Healthcare Company Ltd. (ARAC) (A subsidiary company) has obtained the final zakat certificates up to 2006.
- Arabian Medical Products Manufacturing Company Limited (A subsidiary company) has obtained the final zakat certificates up to 2004.
- Pharmaceutical Industries for Development Co., Pharmaceutical Industries for Marketing Co. and Pharmaceutical Industries for Distribution Co. (subsidiary companies) are in process of registration with the Department of Zakat and Income tax and filing their zakat declarations for 2007.

15 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2007

16 EMPLOYEES' TERMINAL BENEFITS

	2007 SR	2006 SR
Balance at the beginning of the year	82,124,652	71,729,025
Charge during the year	17,135,533	17,481,462
Payments during the year	(2,518,222)	(7,085,835)
	96,741,963	82,124,652
	96,741,963	82,124,652

17 SHARE CAPITAL

Authorised and paid up share capital consists of 60 million (2006 - 60 million shares) of SR 10 each and is held at as 31 December as follows:

	<i>Shareholding %</i>	
	2007	2006
Saudi Shareholders	80%	80%
Non-Saudi shareholder - Arab Company for Drug Industries and Medical Appliances, Jordan	20%	20%

18 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 distribution.

19 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.

20 GENERAL RESERVE

The statutory reserve in excess of 50% of the share capital of the Corporation was transferred to the general reserve during 2001 as approved by Corporation's General Assembly.

21 MINORITY INTEREST

Minority interests represent a portion 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:

	2007 SR	2006 SR
At the beginning of the year	13,579,247	13,632,024
Share in earnings of the subsidiary company	8,084,278	5,883,574
Dividends	(5,880,000)	(5,880,000)
Share in provision for zakat and income tax	(910,930)	(667,628)
Share in zakat and income tax refunded	673,697	611,277
	15,546,292	13,579,247
	15,546,292	13,579,247

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2007

22 SELLING AND MARKETING EXPENSES

	2007 SR	2006 SR
Salaries and related costs	77,052,659	66,888,669
Advertising, promotions and provision for expired inventories	73,399,860	61,750,987
Freight and custom duties	10,531,979	6,918,100
Sales commission	8,541,513	6,804,345
Travel and training	6,097,418	4,772,596
Provision for doubtful debts	3,000,000	1,159,494
Legal and professional fees	2,715,903	3,201,198
Royalties	2,149,374	1,688,112
Depreciation and amortization	2,001,035	1,906,622
Office supplies	1,629,405	1,405,941
Rent	873,677	767,314
Telephone and postage	825,170	786,776
Utilities	632,273	695,133
Other	1,521,796	2,147,236
	<u>190,972,062</u>	<u>159,795,337</u>

23 GENERAL AND ADMINISTRATION EXPENSES

	2007 SR	2006 SR
Salaries and related costs	26,792,021	27,097,350
Depreciation and amortization	4,084,767	4,598,184
Travel and training	1,477,742	1,057,662
Legal and professional fees	1,081,704	1,529,877
Utilities	947,529	1,160,873
Shareholders' register management expenses	339,431	1,040,726
Office Supplies	342,410	574,272
Repairs and maintenance	313,704	728,638
Insurance	312,246	363,194
Telephone and postage	309,060	312,334
Rent	248,425	246,175
Donations and entertainment	78,283	671,741
Other	1,583,198	1,156,659
	<u>37,910,520</u>	<u>40,537,685</u>

24 OTHER INCOME

	2007 SR	2006 SR
Commission earned	6,356,110	2,827,775
Reversal of unclaimed payable	3,776,579	-
Recovery of bad debts	840,777	444,003
Rental income	745,137	331,090
Gain on disposal/sale of property, plant and equipment, net	26,699	438,988
Zakat overpayment for prior years	-	2,966,272
Miscellaneous	527,135	618,154
	<u>12,272,437</u>	<u>7,626,282</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2007

25 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.

26 OPERATING LEASES

During the current year, an amount of SR 1,122,102 (2006 : SR 1,096,137) has been recognized as an expense in the consolidated statement of income in respect of operating leases.

27 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 and investment in an associated company. |

	<i>Medical and pharmaceutical production</i>	<i>Investment</i>	<i>Total</i>
	SR	SR	SR
<i>As of 31 December 2007</i>			
Revenue	810,020,386	21,325,336	831,345,722
Gross profit	326,614,544	-	326,614,544
Net book value of property, plant and equipment	210,284,038	-	210,284,038
Total assets	1,074,198,871	2,282,743,036	3,356,941,907
Total liabilities	457,865,155	-	457,865,155
<i>As of 31 December 2006</i>			
Revenue	735,464,323	-	735,464,323
Gross profit	308,416,752	-	308,416,752
Net book value of property, plant and equipment	221,473,046	-	221,473,046
Total assets	961,770,184	1,440,592,127	2,402,362,311
Total liabilities	394,047,778	-	394,047,778

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.

28 CONTINGENT LIABILITIES

The Group's bankers have issued, on its behalf, letters of guarantee and acceptances limited to SR 38.7 million (2006 : SR 34.2 million) during its normal course of business

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2007

29 RISK MANAGEMENT

Commission rate risk

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

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.

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.

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 131,903,294 (2006: SR 80,453,841) due in foreign currencies principally in US dollars, Swiss Francs and Euros.

30 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, receivables and investments. Its financial liabilities consist of accounts payable and accrued expenses.

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

31 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS AND DIVIDENDS

The board of directors in its meeting held on 12 Safar 1429H (corresponding to 19 February 2008), has approved the consolidated financial statements and proposed an amount of SR 90,000,000 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.

32 COMPARATIVE FIGURES

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

G:\AABS\SPIMACO\Audit\2007\F S Consold. - 2007 (SPIMACO).doc

06.10.2007

15.3.2008