

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

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 December 2006**

 **ERNST & YOUNG**

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

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 December 2006**


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

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 2006 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 Regulation 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.

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 2006 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: 25 Muharram 1428H  
(13 February 2007)

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

**CONSOLIDATED BALANCE SHEET**

As at 31 December 2006

	<i>Note</i>	2006 SR	2005 SR
<b><u>ASSETS</u></b>			
CURRENT ASSETS:			
Cash and cash equivalents	4	130,663,431	120,270,792
Trade accounts receivable	5	321,145,796	341,462,249
Amounts due from related parties	6	7,974,739	8,055,005
Inventories	7	186,686,979	174,070,522
Prepayments and other receivables	8	25,593,910	23,305,363
Investment held to maturity	10	7,497,199	-
<b>TOTAL CURRENT ASSETS</b>		<b>679,562,054</b>	<b>667,163,931</b>
LONG TERM TRADE RECEIVABLES	5	17,314,753	17,888,771
INVESTMENTS IN AVAILABLE FOR SALE SECURITIES	9	1,433,094,928	1,520,313,742
INVESTMENTS HELD TO MATURITY	10	-	7,498,581
PROPERTY, PLANT AND EQUIPMENT	11	221,473,046	197,812,258
INTANGIBLE ASSETS	12	50,917,530	55,393,311
		<b>2,402,362,311</b>	<b>2,466,070,594</b>
<b><u>LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY</u></b>			
CURRENT LIABILITIES:			
Accounts payable and accruals	13	176,608,147	203,745,167
Amounts due to related parties	6	2,754,760	3,789,147
Zakat and income tax	14	14,077,728	15,217,394
Amounts due to shareholders	15	118,482,491	109,688,829
<b>TOTAL CURRENT LIABILITIES</b>		<b>311,923,126</b>	<b>332,440,537</b>
Employees' terminal benefits	16	82,124,652	71,729,025
<b>TOTAL LIABILITIES</b>		<b>394,047,778</b>	<b>404,169,562</b>
MINORITY INTERESTS	17	13,579,247	13,632,024
SHAREHOLDERS' EQUITY:			
Share capital	18	600,000,000	600,000,000
Statutory reserve	19	300,000,000	300,000,000
Consensual reserve	20	50,578,156	45,326,491
General reserve	21	220,000,000	220,000,000
Retained earnings		114,051,771	84,368,344
Unrealized gains on revaluation of investments in available for sale securities	9	710,105,359	798,574,173
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>1,994,735,286</b>	<b>2,048,269,008</b>
		<b>2,402,362,311</b>	<b>2,466,070,594</b>

The attached notes 1 to 34 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 2006

	<i>Note</i>	2006 SR	2005 SR
Sales		727,838,041	648,895,484
Cost of sales		<u>419,421,289</u>	<u>377,824,102</u>
<b>GROSS PROFIT</b>		<b>308,416,752</b>	<b>271,071,382</b>
<b>EXPENSES</b>			
Selling and marketing	22	(159,795,337)	(134,639,126)
General and administration	23	<u>(40,537,685)</u>	<u>(34,530,757)</u>
<b>INCOME FROM MAIN OPERATIONS</b>		<b>108,083,730</b>	<b>101,901,499</b>
Restructuring expenses	24	(4,793,135)	(11,857,836)
Investments income, net	25	-	8,112,006
Other income	26	<u>7,626,282</u>	<u>3,073,997</u>
<b>INCOME BEFORE MINORITY PARTNERS' INTERESTS IN NET INCOME OF SUBSIDIARIES</b>		<b>110,916,877</b>	<b>101,229,666</b>
Minority partners' interests in net income of subsidiaries	17	<u>(5,883,574)</u>	<u>(5,080,033)</u>
<b>NET INCOME FOR THE YEAR</b>		<b><u>105,033,303</u></b>	<b><u>96,149,633</u></b>
Basic earnings per share	27	<u>1,75</u>	<u>1,60</u>

The attached notes 1 to 34 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 2006

	2006 SR	2005 SR
<b>OPERATING ACTIVITIES</b>		
Net income for the year	105,033,303	96,149,633
Adjustments for:		
Depreciation	15,928,647	15,848,080
Amortization	4,475,781	5,310,909
Gain on disposal/sale of property, plant and equipment, net	(438,988)	(13,589)
Provision for doubtful debts	1,159,494	500,000
Employees' terminal benefits	10,395,627	3,246,939
	<u>136,553,864</u>	<u>121,041,972</u>
Changes in operating assets and liabilities:		
Trade accounts receivable	19,730,977	(49,659,226)
Inventories	(12,616,457)	(35,507,405)
Prepayments and other receivables	(2,288,547)	608,250
Amounts due to/from related parties	(954,121)	1,350,892
Accounts payable and accruals	(27,137,020)	46,120,959
Zakat and income tax paid	(13,617,838)	(10,046,701)
Net cash from operating activities	<u>99,670,858</u>	<u>73,908,741</u>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(39,749,382)	(16,971,170)
Proceeds from sale of property, plant and equipment	598,935	40,000
Net change in intangible assets	-	(2,988,684)
Net change in investments	(1,248,618)	4,032,853
Net cash used in investing activities	<u>(40,399,065)</u>	<u>(15,887,001)</u>
<b>FINANCING ACTIVITIES</b>		
Net change in amounts due to shareholders and proposed dividends	(47,426,377)	(48,732,472)
Minority interests	(52,777)	(519,629)
Board of directors' remuneration	(1,400,000)	(1,400,000)
Net cash used in financing activities	<u>(48,879,154)</u>	<u>(50,652,101)</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>10,392,639</b>	<b>7,369,639</b>
Cash and cash equivalents at the beginning of the year	<u>120,270,792</u>	<u>112,901,153</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (NOTE 4)</b>	<b><u>130,663,431</u></b>	<b><u>120,270,792</u></b>
<b><u>SUPPLEMENTAL INFORMATION ON NON-CASH TRANSACTIONS</u></b>		
Unrealized (losses) gains on revaluation of investments in available for sale securities	<u>(88,468,814)</u>	<u>456,107,685</u>

The attached notes 1 to 34 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 2006

	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 2004	600,000,000	300,000,000	40,519,009	220,000,000	60,462,841	342,466,488	1,563,448,338
Net income for the year	-	-	-	-	96,149,633	-	96,149,633
Transfer to consensual reserve	-	-	4,807,482	-	(4,807,482)	-	-
Unrealized gains on revaluation of investments in available for sale securities (note 9)	-	-	-	-	-	456,107,685	456,107,685
Provision for zakat and income tax (note 14)	-	-	-	-	(10,395,519)	-	(10,395,519)
Dividends and zakat	-	-	-	-	(55,641,129)	-	(55,641,129)
Directors' remuneration	-	-	-	-	(1,400,000)	-	(1,400,000)
Balance at 31 December 2005	<u>600,000,000</u>	<u>300,000,000</u>	<u>45,326,491</u>	<u>220,000,000</u>	<u>84,368,344</u>	<u>798,574,173</u>	<u>2,048,269,008</u>
Net income for the year	-	-	-	-	105,033,303	-	105,033,303
Transfer to consensual reserve	-	-	5,251,665	-	(5,251,665)	-	-
Unrealized gains 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	<u><u>600,000,000</u></u>	<u><u>300,000,000</u></u>	<u><u>50,578,156</u></u>	<u><u>220,000,000</u></u>	<u><u>114,051,771</u></u>	<u><u>710,105,359</u></u>	<u><u>1,994,735,286</u></u>

The attached notes 1 to 34 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 2006

### 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%

(\*) These companies have been incorporated during the second quarter of 2006, and have not performed any activity during the year ended 31 December 2006.

### 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 2006

**2. BASIS OF CONSOLIDATION (continued)**

- 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.

**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 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 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 2006

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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**

Consultation, technical know-how and product and software development costs, being treated as intangible assets, are amortized on straight line method at the lower of their estimated periods of benefit or seven years.

**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 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 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 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2006

**4 CASH AND CASH EQUIVALENTS**

	2006 SR	2005 SR
Islamic Murabaha deposits	102,956,196	77,500,000
Bank balances and cash	27,707,235	39,770,792
Time deposits (related to a subsidiary company)	-	3,000,000
	<u>130,663,431</u>	<u>120,270,792</u>

**5 TRADE ACCOUNTS RECEIVABLE**

	2006 SR	2005 SR
<u>Accounts receivable - current portion, net</u>		
Private sector	255,954,422	266,413,147
Ministry of Health	31,020,193	41,873,888
Other governmental institutions	49,461,449	47,749,598
	<u>336,436,064</u>	<u>356,036,633</u>
Less: Provision for doubtful debts	(15,290,268)	(14,574,384)
	<u>321,145,796</u>	<u>341,462,249</u>
<u>Accounts receivable - non current</u>		
Ministry of Health	1,368,420	2,203,889
Other governmental institutions	15,946,333	15,684,882
	<u>17,314,753</u>	<u>17,888,771</u>

Accounts receivable are classified as current or non-current based on the arrangements with customers and the management's estimates regarding the settlements of these balances.

**6 RELATED PARTY TRANSACTIONS AND BALANCES**

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

	2006 SR	2005 SR
<b>Amounts due from affiliates:</b>		
Arabian Health Care Supply Corp	7,974,739	7,930,408
Olayan Kimberly Clark Arabia	-	124,597
	<u>7,974,739</u>	<u>8,055,005</u>
<b>Amounts due to affiliates:</b>		
Kimberly Clark Corporation, USA	2,754,760	3,789,147
	<u>2,754,760</u>	<u>3,789,147</u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

31 December 2006

**6 RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

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:

	2006 SR	2005 SR
Sales	21,674,598	22,027,486
Purchase of materials and services	10,871,125	9,813,010
Royalties	1,688,112	1,628,234

**7 INVENTORIES**

	2006 SR	2005 SR
Finished goods	87,014,422	78,214,202
Raw materials	68,931,925	65,722,030
Spare parts	12,457,076	11,202,682
Work in progress	11,063,255	13,588,558
Goods in transit	7,991,496	6,086,358
	<u>187,458,174</u>	<u>174,813,830</u>
Less: Provision for slow moving inventories	(771,195)	(743,308)
	<u>186,686,979</u>	<u>174,070,522</u>

**8 PREPAYMENTS AND OTHER RECEIVABLES**

	2006 SR	2005 SR
Employees' advances and receivables	15,050,874	12,861,391
Zakat overpayment for prior years (Note 26)	2,966,272	-
Advances to suppliers	2,691,805	3,650,893
Prepayments	2,108,303	1,533,727
Accrued income	69,502	98,294
Other receivables	7,817,841	10,299,997
	<u>30,704,597</u>	<u>28,444,302</u>
Less: Provision for other doubtful assets	(5,110,687)	(5,138,939)
	<u>25,593,910</u>	<u>23,305,363</u>

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

31 December 2006

**9 INVESTMENTS IN AVAILABLE FOR SALE SECURITIES**

	2006		2005	
	<u>Shareholding</u> %	<u>Value</u> (SR)	<u>Shareholding</u> %	<u>Value</u> (SR)
<b>Quoted</b>				
National Industrialization Company	5.25	614,436,900	-	-
Saudi Industrial Investment Group (SIIG)	3.12	248,586,975	3.12	876,146,544
Yanbu National Petrochemical Co. (YANSAB)	1.9	265,109,625	1.9	107,115,000
<b>Unquoted</b>				
Arabian Industrial Fibers Co. (Ibn Rushd)	10	256,331,200	10	312,981,420
Tassili Arab Pharmaceutical Co. (TAPHYCO)- Algiers	22	11,753,150	22	11,753,150
Qaseem Medical Services Company	10.99	10,000,000	10.99	10,000,000
CAD Middle East Pharmaceutical Industries Company	25	1,250,000	-	-
National Petrochemical Industrialization Co.		-	8	160,800,000
		<u>1,407,467,850</u>		<u>1,478,796,114</u>
<b>Investments in mutual funds</b>				
Balanced Income Fund		11,300,138		15,654,163
Riyad Equity Fund 2		4,489,767		10,819,169
Al Rajhi GCC Equity Fund		9,837,173		15,044,296
		<u>25,627,078</u>		<u>41,517,628</u>
		<u>1,433,094,928</u>		<u>1,520,313,742</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 2006.

b) During 2006, the company's share in National Petrochemical Industrialization Company (a closed Saudi joint stock company) amounting to SR 160,800,000 (8% of the share capital) has been transferred against 12,227,600 shares in National Industrialization Company - Saudi joint stock company - (5.25% share capital) due to the merger of National Petrochemical Industrialization Company with National Industrialization Company.

c) Ibn Rushd's reported accumulated losses amounted to SR 2,620 million as reflected in its unaudited interim financial statements as at 31 December 2006 (2005: SR 2,101 million). Based on the management's estimates, the company has reduced this investment by SR 56,650,220 (2005: SR 42,018,580) against these losses.

d) Investments in mutual funds comprise investments in Saudi mutual funds and are recorded at market price as reported 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 2006

**9 INVESTMENTS IN AVAILABLE FOR SALE SECURITIES (continued)**

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

	2006 SR	2005 SR
<b>Cost:</b>		
At the beginning of the year	721,739,569	450,947,148
Additions	1,250,000	270,792,421
	<u>722,989,569</u>	<u>721,739,569</u>
At the end of the year	722,989,569	721,739,569
<b>Valuation adjustment:</b>		
At the beginning the year	798,574,173	342,466,488
Unrealized (losses) gains during the year	(31,818,594)	498,126,265
Provision for decline in value	(56,650,220)	(42,018,580)
	<u>710,105,359</u>	<u>798,574,173</u>
At the end of the year	710,105,359	798,574,173
<b>Carrying value</b>	<u><u>1,433,094,928</u></u>	<u><u>1,520,313,742</u></u>

**10 INVESTMENTS HELD TO MATURITY**

This represents investment in closed-ended mutual funds which will be matured during 2007.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 December 2006

### 11 PROPERTY, PLANT AND EQUIPMENT

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

	Land SR	Buildings SR	Machinery & equipment SR	Furniture & fixtures SR	Computers SR	Motor vehicles SR	Projects in progress SR	Total 2006 SR	Total 2005 SR
<b>Cost:</b>									
At the beginning of the year	15,534,850	202,748,085	258,907,268	90,325,420	13,751,341	5,334,084	30,171,403	616,772,451	610,188,025
Additions	7,354,392	16,415	18,002,132	856,034	679,343	3,673,244	9,167,822	39,749,382	16,971,170
Disposals	-	-	(3,239,201)	(53,803)	(19,950)	(1,193,527)	-	(4,506,481)	(10,386,744)
Transfers	-	-	-	249	-	-	(249)	-	-
At the end 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
<b>Depreciation:</b>									
At the beginning of the year	-	81,951,515	238,860,209	81,698,730	12,005,385	4,444,354	-	418,960,193	413,472,446
Charge for the year	-	6,199,252	5,523,888	1,959,829	1,110,622	1,135,056	-	15,928,647	15,848,080
Disposals	-	-	(3,095,299)	(46,203)	(18,425)	(1,186,607)	-	(4,346,534)	(10,360,333)
At the end of the year	-	88,150,767	241,288,798	83,612,356	13,097,582	4,392,803	-	430,542,306	418,960,193
Net book value:									
At 31 December 2006	22,889,242	114,613,733	32,381,401	7,515,544	1,313,152	3,420,998	39,338,976	221,473,046	
At 31 December 2005	15,534,850	120,796,570	20,047,059	8,626,690	1,745,956	889,730	30,171,403		197,812,258

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 2006

**12 INTANGIBLE ASSETS**

	2006 SR	2005 SR
Cost:		
Consultation and technical know-how fees	66,330,690	66,330,690
Product development cost	42,539,678	42,539,678
Computer software and consultation	13,999,880	13,999,880
	<u>122,870,248</u>	<u>122,870,248</u>
Less: Accumulated amortization	(71,952,718)	(67,476,937)
	<u>50,917,530</u>	<u>55,393,311</u>

Product development cost relates to products that are still under development as of 31 December 2006 and 2005.

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

	2006 SR	2005 SR
Cost:		
At the beginning of the year	122,870,248	119,881,564
Additions during the year	-	2,988,684
	<u>122,870,248</u>	<u>122,870,248</u>
At the end of the year	122,870,248	122,870,248
Amortization:		
At the beginning of the year	67,476,937	62,166,028
Provided during the year	4,475,781	5,310,909
	<u>71,952,718</u>	<u>67,476,937</u>
At the end of the year	71,952,718	67,476,937
Net book value	<u>50,917,530</u>	<u>55,393,311</u>

**13 ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

	2006 SR	2005 SR
Trade accounts payable	133,759,814	160,134,142
Accrued expenses	39,587,160	40,301,856
Provision for expired sold goods	-	1,894,614
Other payables	3,261,173	1,414,555
	<u>176,608,147</u>	<u>203,745,167</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

31 December 2006

**14 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

	2006 SR	2005 SR
At the beginning of the year	11,437,403	10,913,247
Provided during the year	7,702,091	6,856,171
Prior year adjustments	-	(240,643)
Paid during the year	(9,837,847)	(6,091,372)
At the end of the year	<u>9,301,647</u>	<u>11,437,403</u>

Income Tax

At the beginning of the year	3,779,991	4,358,872
Provided during the year	4,776,081	3,779,991
Paid during the year	(3,779,991)	(4,358,872)
At the end of the year	<u>4,776,081</u>	<u>3,779,991</u>
	<u>14,077,728</u>	<u>15,217,394</u>

c) **Status of assessments**

- The corporation has filed zakat and income tax declaration up to 2005, and obtained the final zakat and tax certificate up to 2004. The company 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 2005.
- Arabian Medical Products Manufacturing Company Limited (A subsidiary company) has obtained the final zakat certificates up to 2004.

**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.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

31 December 2006

**16 EMPLOYEES' TERMINAL BENEFITS**

	2006 SR	2005 SR
Balance at the beginning of the year	71,729,025	68,482,086
Charge during the year	17,481,462	12,885,277
Payments during the year	<u>(7,085,835)</u>	<u>(9,638,338)</u>
Balance at the end of the year	<u>82,124,652</u>	<u>71,729,025</u>

**17 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:

	2006 SR	2005 SR
At the beginning of the year	13,632,024	14,151,653
Share in earnings of the subsidiary company	5,883,574	5,080,033
Dividends	(5,880,000)	(4,998,000)
Share in provision of zakat and income tax	(667,628)	(601,662)
Share in zakat and income tax refunded	611,277	-
	<u>13,579,247</u>	<u>13,632,024</u>

**18 SHARE CAPITAL**

Authorised and paid up share capital consists of 60 million (2005 - 12 million shares) of SR 10 each (2005 - SR 50 each) and is held as follows as 31 December 2006:

	<u>Shareholding %</u>	
	<u>2006</u>	<u>2005</u>
Saudi Shareholders	80%	80%
Non-Saudi shareholder - Arab Company for Drug Industries and Medical Appliances, Jordan	20%	20%

In accordance with Capital Market Authority's resolution dated 27 March 2007 the Corporation's shares were split into five share for each share, effective 15 April 2006. Accordingly, the number of shares of the Corporation has been increased from 12 million of SR 50 each to 60 million shares of SR 10 each. Earnings per share have been restated retroactively in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia.

**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.

**20 CONSENSUAL RESERVE**

In accordance with the Corporation's By-Laws, 5% of the annual net income, after deducting zakat, 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2006

**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 as approved by Corporation's General Assembly.

**22 SELLING AND MARKETING EXPENSES**

	2006 SR	2005 SR
Salaries and related costs	66,888,669	58,597,715
Advertising and promotions	39,722,137	30,071,230
Sales discount, allowances and expired goods	22,028,850	16,894,841
Sales commission	6,804,345	8,479,637
Freight	5,820,914	5,901,794
Travel and training	4,772,596	4,149,510
Legal and professional fees	3,201,198	1,617,460
Depreciation and amortization	1,906,622	1,494,239
Royalties	1,688,112	1,628,234
Office supplies	1,405,941	1,076,817
Provision for doubtful debts	1,159,494	500,000
Telephone and postage	786,776	832,029
Rent	767,314	681,956
Utilities	695,133	680,558
Other	2,147,236	2,033,106
	<u>159,795,337</u>	<u>134,639,126</u>

**23 GENERAL AND ADMINISTRATION EXPENSES**

	2006 SR	2005 SR
Salaries and related costs	27,097,350	20,450,834
Depreciation and amortization	4,598,184	4,792,600
Legal and professional fees	1,529,877	421,326
Utilities	1,160,873	924,239
Travel and training	1,057,662	802,502
Shareholders' register management expenses	1,040,726	948,476
Repairs and maintenance	728,638	782,780
Donations and hospitality	671,741	2,679,997
Office Supplies	574,272	346,704
Insurance	363,194	460,958
Telephone and postage	312,334	263,524
Rent	246,175	246,762
Other	1,156,659	1,410,055
	<u>40,537,685</u>	<u>34,530,757</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 December 2006

**24 RESTRUCTURING EXPENSES**

This item consists of the following:

	2006 SR	2005 SR
Compensations paid to staff	4,793,135	10,927,836
Professional and consulting fees	-	930,000
	<u>4,793,135</u>	<u>11,857,836</u>

**25 INCOME FROM INVESTMENTS, NET**

	2006 SR	2005 SR
Income from Saudi Government Development Bonds	-	3,473,431
Income from manual funds, net	-	1,650,863
Dividends	-	2,987,712
	<u>-</u>	<u>8,112,006</u>

**26 OTHER INCOME**

	2006 SR	2005 SR
Zakat overpayment for prior years	2,966,272	-
Commission earned	2,827,775	2,031,672
Recovery of bad debts	444,003	-
Gain on disposal/sale of property, plant and equipment, net	438,988	13,589
Rent income	331,090	460,540
Miscellaneous	618,154	568,196
	<u>7,626,282</u>	<u>3,073,997</u>

**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 1,096,137 (2005 : SR 952,732) has been recognized as an expense in the consolidated statement of income in respect of operating leases.

**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.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

31 December 2006

**29 SEGMENTAL INFORMATION (continued)**

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</i>	<i>Investment</i>	<i>Total</i>
	SR	SR	SR
<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
<i>As of 31 December 2005</i>			
Revenue	651,969,481	8,112,006	660,081,487
Gross profit	271,071,382	8,112,006	279,183,388
Net book value of property, plant and equipment	197,812,258	-	197,812,258
Total assets	938,258,271	1,527,812,323	2,466,070,594
Total liabilities	404,169,562	-	404,169,562

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 34,287,791 (2005 : SR 32,649,289) during its normal course of business

The Corporation has guaranteed, in proportion of its shareholding in Ibn Rushed, the syndicated commercial loans refinanced by the Public Investment Fund amounting to SR 318.8 million as at 31 December 2006 and 2005.

**31 RISK MANAGEMENT**

**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.

**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.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**

31 December 2006

**31 RISK MANAGEMENT (continued)**

**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 112,513,441 (2005: SR 111,658,891) due in foreign currencies principally in US dollars, Swiss Francs and Euros.

**32 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.

**33 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS AND DIVIDENDS**

The board of directors in its meeting held on 7 Safar 1428H (corresponding to 25 February 2007), has approved the consolidated financial statements and proposed an amount of SR 60,000,000 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.

**34 COMPARATIVE FIGURES**

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