Hikma Pharmaceuticals PLC

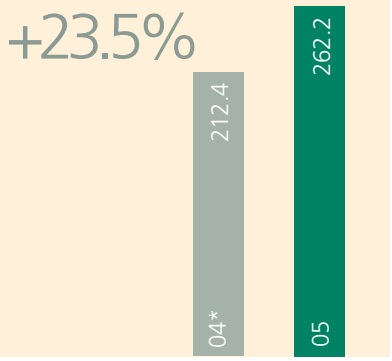
Annual Report 2005

A strategy for growth

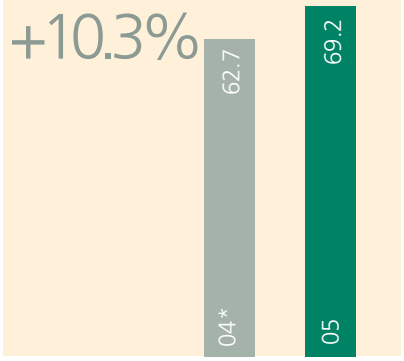
Contents

Financial highlights

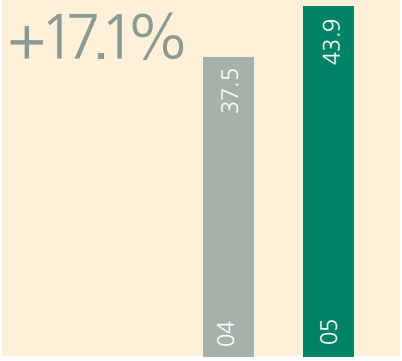
Revenue ($ million)



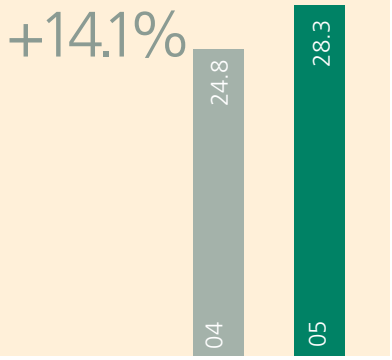
Operating profit ($ million)



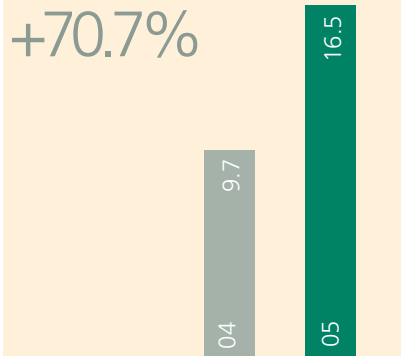
Profit attributable to shareholders ($ million)



Diluted earnings per share (cents)



R&D costs ($ million)



*2004 figures restated to reflect a change in the presentation of the results of our associate, IPO costs and Medicaid rebates. Further information is given in Note 2 to the consolidated financial statements.

Hikma is a multinational pharmaceutical group dedicated to improving quality of life of people in the markets it serves through the development, manufacture and marketing of a broad range of generic and in-licensed pharmaceutical products

Operational highlights

- Achieved revenue growth for the Group of 23.5% with particularly strong performance in the Branded and Injectable businesses
- Maintained gross margins for the Group at 51.8%
- Increased investment in R&D by 70.7% to 6.3% of revenue
- Delivered 17.1% growth in profit attributable to shareholders
- Listed on London Stock Exchange with a market capitalisation at year end of £675 million ($1.2 billion)
- Expanded into the lyophilised segment of the injectables market
- Received FDA approval of the manufacturing facilities of our associate in Saudi Arabia
- Launched ten new products*, received 98 regulatory approvals and submitted 73 regulatory filings during the year

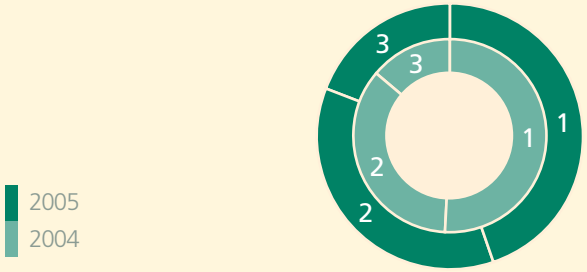
*New pharmaceutical compounds that are being launched for the first time by the Group or, for the first time, within a new business segment.

Group at a glance

Diversified business

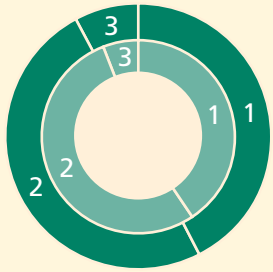
Revenue by business segment

	2005	2004
1. Generic Pharmaceuticals	**43.9%**	50.0%
2. Branded Pharmaceuticals	**35.5%**	34.8%
3. Injectable Pharmaceuticals	**18.8%**	13.6%



Revenue by region

	2005	2004
1. Middle East and North Africa	**42.4%**	40.4%
2. United States	**49.8%**	53.3%
3. Europe	**7.8%**	5.9%



Broad product portfolio

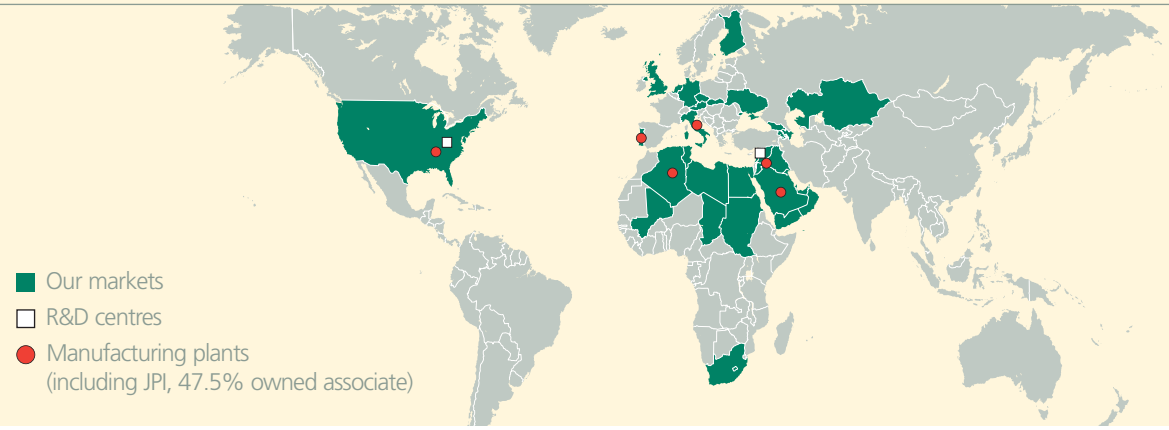
Hikma sells 115 generic pharmaceutical products in 256 dosage strengths and forms in 34 countries. Hikma also sells 25 pharmaceutical products under promotion and distribution agreements with, or licences from, 12 originator pharmaceutical companies and one generic pharmaceutical company. The majority of Hikma's operations are in the United States, the Middle East and North Africa (MENA) and Europe.

Generic	2005 revenue	Products
	$115.2 million	**36** non-branded solid generic products

Branded	2005 revenue	Products
	$93.0 million	**48** branded generic products **17** products under licence and/or promotion and distribution agreements

Injectable	2005 revenue	Products
	$49.3 million	**31** branded and non-branded injectable products **8** products under licence and/or promotion and distribution agreements

Broad geographic coverage



Key markets	Top products
US	ABC codeine Chloroquine phosphate Folic acid Lisinopril Lithium carbonate SR

Key markets	Top products
Algeria, Jordan, Saudi Arabia	Amoclan Oprazole Penamox Prograf Suprax

Key markets	Top products
MENA, US, Europe	Cefazolin sodium Ceftizoxime sodium Ceftriaxone sodium Cefuroxime sodium Ciprofloxacin

Chairman and Chief Executive's review

"We are confident that the strength and diversity of our business will enable us to continue to deliver organic growth at the Group level, and we will continue to look for new opportunities to grow through acquisition."

Overview

I am pleased to report that 2005 was an extremely successful year for Hikma Pharmaceuticals PLC. We have achieved a strong set of financial results driven by new product launches, better product targeting and enhanced sales and marketing capabilities, combined with a continued focus on API sourcing, manufacturing and operational efficiencies. Our performance in 2005 reinforces our track record of delivering growth and demonstrates the underlying strength of our diverse business model.

On 1 November 2005 we successfully completed our initial public offering on the London Stock Exchange and on 19 December 2005 we joined the FTSE 250. Through the offer we raised gross proceeds of $124 million (£70.0 million) to be used to repay debt and fund capital investment projects across our core businesses. As of 31 December 2005, our market capitalisation was $1.2 billion (£675 million). Through our listing we have enhanced our international profile, gained financial flexibility to grow our business both organically and through acquisition, and enabled global investors to support our development.

Financial results

The Group performed well across all businesses in 2005, achieving revenue of $262.2 million, up 23.5% from 2004. Gross margin for the Group remained stable at 51.8%. Operating profit grew by 10.3% to $69.2 million, while operating margins decreased to 26.4%, compared to 29.5% in 2004, primarily as a result of increased investment in R&D and sales and marketing. The Group's profit for the year increased by 17.1% to $43.9 million and diluted earnings per share grew by 14.1% to 28.3 cents.

Business highlights

We ended 2005 with a total of 140 products in our portfolio in 303 dosage strengths and forms, including the ten products launched during the year and 25 under-licence products*. During 2005 we were granted 98 regulatory approvals. In addition, we submitted a total of 73 regulatory filings, including 37 new product applications**. As of 31 December 2005, we had a total of 88 pending approvals and 90 products under development across our three main business segments – Generic, Branded and Injectable Pharmaceuticals.

In our Branded and Injectable Pharmaceuticals businesses, we put considerable effort into developing our sales and marketing capabilities, especially in the MENA region. We achieved market share gains in Saudi Arabia and maintained our market leading position in Jordan. We also expanded into the technically challenging lyophilised segment of the injectables market with the acquisition of the Italian manufacturing business, IBPP, in March 2005. In December 2005, our Generic Pharmaceuticals business successfully renewed its sales contract with the Department of Veterans Affairs, an agency of the government of the United States, for the supply of Lisinopril.

Board appointments

In anticipation of our IPO, three Non-Executive Directors were appointed to the Board in October. In addition, Ali Al-Husry joined the Board as a Non-Executive Director, having served as a Director of Hikma Pharma Limited and other Group companies since 1991. Ali is Chairman and CEO of Export & Finance Bank in Jordan, as well as being a director of a number of other organisations.

Sir David Rowe-Ham joined the Board as senior independent Non-Executive Director and took up the position of Chairman of the Nomination Committee. A Chartered Accountant, Sir David is Chairman of Olayan Europe Ltd., BNP Paribas South Asia Investment Co Ltd and Coral Products PLC.

Michael Ashton joined the Board as a Non-Executive Director and took up the position of Chairman of the Remuneration Committee. Michael has been the chief executive of a number of pharmaceutical companies and has over 32 years of experience in the pharmaceutical industry.

Breffni Byrne also joined the Board as a Non-Executive Director, taking up the position of Chairman of the Audit Committee. Also a Chartered Accountant, Breffni is Chairman of NCB Stockbrokers and a director of Irish Life and Permanent plc, Coillte Teoranta (the Irish state forestry company), Adsteam Europe Limited and other companies.

Dividend

The Board has recommended a pro rata final dividend for the period from flotation to 31 December 2005 of 0.89 cents per share (approximately 0.5 pence per share) equivalent to approximately 5.34 cents on a full year basis. The proposed final dividend will be paid on 30 May 2006 to shareholders on the register on 28 April 2006, subject to approval at the Annual General Meeting.

Developments in 2006

Early in 2006, we announced FDA approval of the manufacturing facilities of JPI, our associate company in Saudi Arabia, for the manufacture of oral cephalosporin products for sale in the US market. The construction of our new cephalosporin plant in Portugal is well underway and on track to begin production in the first half of 2007. The construction of our new penicillin plant in Jordan and the expansion of our lyophilised injectable plant in Italy are scheduled for completion in 2007. All three projects, as well as the approval of the JPI facility, will significantly increase our manufacturing capacity and allow us to meet the growing demand across our core businesses.

In 2006, we are planning to expand the penetration of our injectable products across the United States, Europe and the MENA region, through new product launches and greater investment in sales and marketing, including recent senior sales and marketing appointments. Our sales in Europe will be further enhanced by agreements signed in the beginning of 2006 with Hospira, Inc., a global specialty pharmaceutical and medication delivery company, for the supply and distribution of injectable products in European markets.

In early 2006, the Algerian Ministry of Labour and Social Security Affairs announced changes to its reimbursement system, including the introduction of reference pricing for a number of reimbursable products. This new legislation is expected to impact current pricing of some, but not all, of our products sold in Algeria. We expect to be able to minimise the effect of these price declines by introducing new products and by increasing the sales volume, through greater promotion of those Hikma products that are on the reference price list but that have potential for sales growth.

Outlook

Our listing on the London Stock Exchange marks the beginning of an exciting new phase in Hikma's development. In 2006, we will continue to improve the breadth and quality of our product range and delivery of operational efficiencies with continued investment in research and development, sales and marketing and human resources.

Prospects for the Group's overall business performance are positive. We expect to continue our trend of strong revenue growth, especially in our Branded and Injectable businesses, through a focus on existing products, the launch of new products and expansion into new markets. This will be driven by the strength of our sales and marketing teams. We expect the pricing environment in the United States to remain competitive. However, we will work diligently to minimise the effects of this pricing pressure on our Generic business by introducing new products and retaining our strategic focus on reducing raw material costs.

We are confident that the strength and diversity of our business will enable us to continue to deliver organic growth at the Group level, and we will continue to look for new opportunities to grow through acquisition.

Samih Darwazah
Chairman and CEO

*Launches include only new pharmaceutical compounds that are being launched for the first time by the Group or, for the first time within another business segment.
**Filings include filings for new products, which include pharmaceutical compounds not yet launched by the Group and existing compounds being introduced into new regions and countries, and line extensions.

Strong marketing capabilities in the MENA region

Strong brands can gain significant market share in the MENA region where, for the most part, the markets focus on branded generic products. Hikma has some of the strongest brands in the region and a long-standing reputation for quality products.

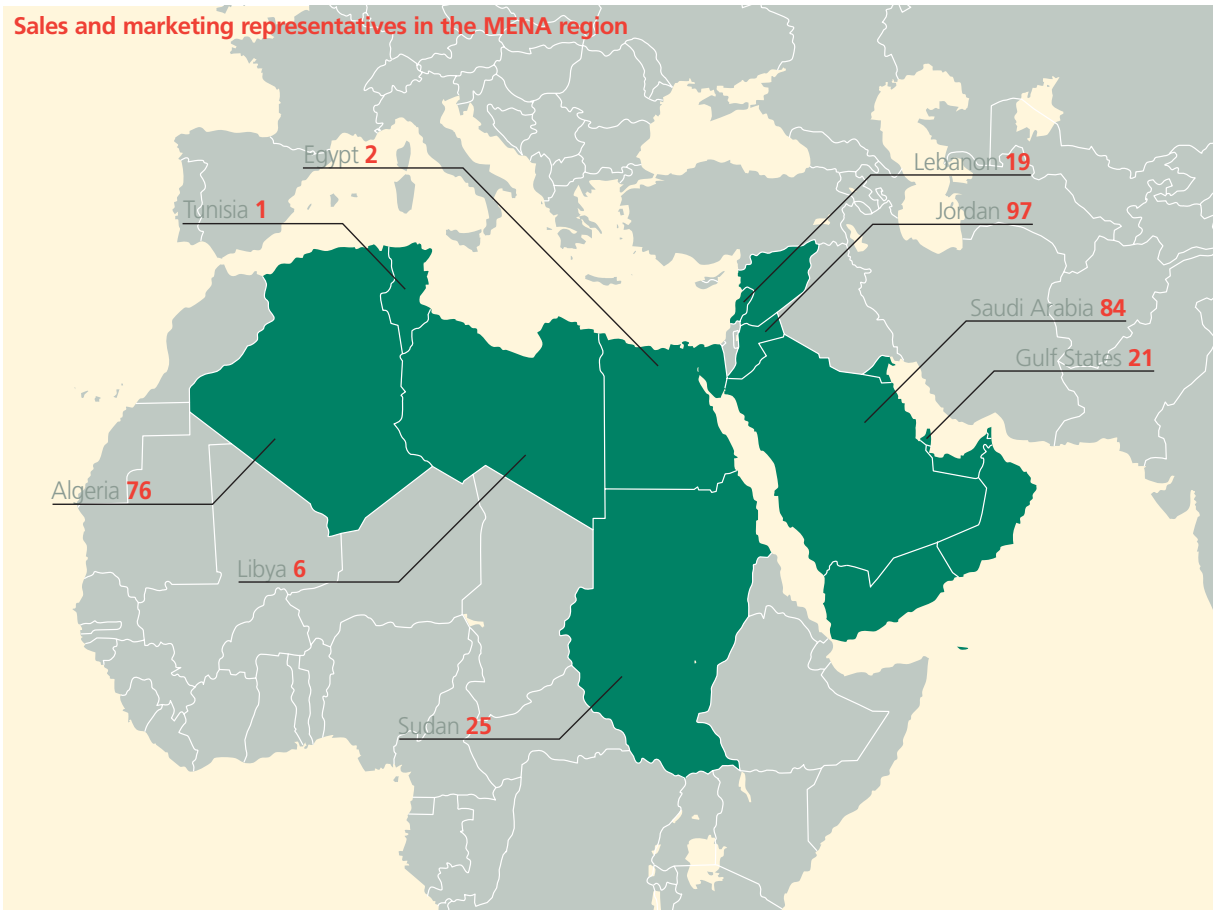
Our large and experienced sales force is unique in the MENA region where it has established strong relationships with physicians, hospitals, pharmacies and purchasing groups for hospitals. These relationships, combined with our commitment to quality, explain how our products have been able to become market leaders. Three of Hikma's top ten selling products in Jordan, for example, are ranked in the top three by sales in their respective therapeutic categories.*

Our strong position in the MENA region also makes us an attractive partner for multinational pharmaceutical companies seeking access to this region – as our portfolio of under licence products demonstrates. These partnerships also help to enhance our reputation in the market as a quality producer and market leader.

280 Branded and 51 Injectable sales and marketing representatives market Hikma products across a total of 13 countries

We have 25 products under licence or under promotion and distribution agreements in the MENA region – including 17 Branded and 8 Injectable products

A powerful combination of quality products and extensive sales and marketing capabilities



*Source: IMS.


CHIEF
PHARMACIST

A successful research and development team

Our research and development team consists of 127 professionals and scientists with expertise in areas such as pharmaceutical formulation, process optimisation, analytical chemistry and drug delivery. Hikma has particular expertise in developing technically challenging products such as injectables, complex formulations, unstable compounds and sustained release tablets and capsules.

When identifying and developing new generic pharmaceutical products, Hikma looks for products that have a strong market potential and that are in complementary or fast growing therapeutic categories. We also try to identify products for which we would have an advantage sourcing the active pharmaceutical ingredient ("API"), for which we have a particular expertise in the development or manufacturing process, and for which we can expand our offering through line extensions.

In 2005, we received 98 product approvals across a range of therapeutic categories including Anti-Infective, Central Nervous System ("CNS"), and Alimentary Tract and Metabolism. With a strong pipeline of products pending approval in these and other therapeutic categories, we believe we are well-positioned to continue this trend.

Our historical success in research and development is illustrated in our having obtained 1,039 regulatory approvals since 1995, including 40 ANDA approvals by the FDA

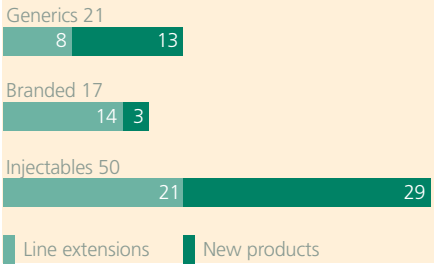
Hikma looks for products that have a strong market potential and that are in complementary or fast growing therapeutic categories

A significant pipeline

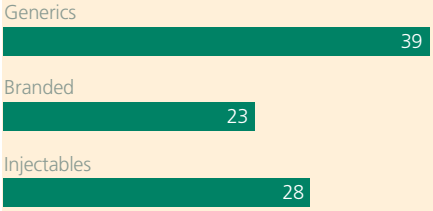
We currently have the strongest pipeline we have ever had, with 88 pending approvals and 90 products under development. Our pipeline focuses primarily on the Anti-Infective, Cardiovascular, and CNS therapeutic categories, and we are beginning to develop a presence in Anti-Neoplastics & Immunomodulating Agents and Dermatology.

The 13 new products pending approval in our Generic Pharmaceuticals business fall primarily in the Anti-Infective and Cardiovascular therapeutic categories. In the MENA region, our Branded business has two new Cardiovascular products pending approval. In our Injectable pipeline, which is our most extensive, we have 29 new products pending approval and 28 products under development. In this segment, we see exciting opportunities in the CNS and Anti-Neoplastics & Immunomodulating Agents categories.

Pending approvals



New products under development



A commitment to quality manufacturing

Our multiple manufacturing facilities provide us with the flexibility to select the most appropriate manufacturing strategy for a particular product, taking into account factors such as cost, regulatory requirements and capacity. For example, because our facilities in Jordan and Saudi Arabia are FDA approved, we have the flexibility to produce products for the US market in the MENA region, at a lower cost. In some markets, like Algeria, having a local manufacturing presence is essential for building market share as regulations can restrict the range of products that can be imported. Our newly acquired injectable plant in Italy has provided extra capacity needed to meet demand for our injectable products in European markets.

We are dedicated to maintaining the highest standards at our manufacturing facilities, as our FDA approval record attests – all of our facilities are FDA approved, bar Algeria and Italy, which were added this year. This is of particular importance in our Injectable Pharmaceuticals business, where the manufacturing process is more technically challenging than for solid or liquid products and where production is subject to very strict quality and anti-contamination controls. We are making considerable investment in these facilities, dedicating $20 million of the IPO proceeds to the construction of a new cephalosporin plant in Portugal and $8 million for the expansion of the existing lyophilised injectable plant in Italy.

United States
Solid pharmaceuticals

Jordan
Solid, semi-solid and liquid pharmaceuticals and API

Portugal
Injectable pharmaceuticals

Italy
Injectable pharmaceuticals

Algeria
Solid, semi-solid and liquid pharmaceuticals

Saudi Arabia (JPI)
Solid, semi-solid and liquid pharmaceuticals

We have the flexibility to select the most appropriate manufacturing strategy, taking into account cost, regulatory requirements and capacity

API sourcing strength

Our dedicated API sourcing team is responsible for identifying and securing API and other raw materials for the Group. Hikma has relationships with approximately 84 suppliers of API including relationships spanning more than ten years with 26 of its suppliers. We believe that we are the main customer for 20 of our suppliers. We source several APIs from suppliers in Asia that have a lower cost base and therefore offer lower API prices than their Western competitors.

We also have the capability to manufacture a limited amount of the API required for some of our finished products. This capability is currently being utilised to manufacture five APIs that the Group believes would be either difficult or expensive to source from third parties. Going forward, we will look to manufacture a growing proportion of the API that we use in our products in order to maximise the cost advantages gained by producing API for captive use and to increase both the volume and the breadth of our API production. As of 31 December 2005, Hikma had seven APIs under development.

We are focused on developing strong relationships with a broad range of API suppliers

A commitment to our people

Since the Company was founded in 1978, a key priority has been investment in employee training and development. New employee training, on the job training, job rotation, coaching and mentoring and succession planning are all part of our training and development programmes. We also believe strongly in continuing education and sponsor a number of employees annually to pursue higher education.

Developing our people is an integral part of our appraisal system, through which senior managers are encouraged to identify future managers and to focus on building their leadership skills. We are committed to promoting from within, as evidenced by the fact that most of the members of our senior management team have worked for the Company for many years, developing their skills and experience in a variety of different roles throughout the Group.

By focusing on our people, we now benefit from qualified and satisfied employees and through their dedication to Hikma we have achieved enormous success.

We attribute our success to our qualified and satisfied employees

Business and financial review

Hikma is a multinational pharmaceutical group focused on developing, manufacturing and marketing a broad range of generic and in-licensed pharmaceutical products in solid, semi-solid, liquid and injectable final dosage forms

This business and financial review has been prepared solely to provide additional information to shareholders as a body to assess the Company's strategies and the potential for those strategies to succeed, and should not be relied on by any other party or for any other purpose. This review contains forward-looking statements that have been made by the Directors in good faith based on the information available to them up to the time of their approval of this report and should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

The Directors, in preparing this review, have been guided by the Accounting Standards Board's 2003 Statement on Operating and Financial Reviews. The Directors will seek to comply fully with the 2006 Reporting Statement in the Company's next annual report and accounts.

Our business

Hikma is a multinational pharmaceutical group focused on developing, manufacturing and marketing a broad range of generic and in-licensed pharmaceutical products in solid, semi-solid, liquid and injectable final dosage forms. At the end of 2005, we had 115 generic pharmaceutical products in 256 dosage strengths and forms in our product portfolio. Hikma also sells 25 pharmaceutical products under promotion and distribution agreements with, or licences from, 12 originator pharmaceutical companies and one generic pharmaceutical company.

The majority of our operations are in the United States, the Middle East and North Africa and Europe.

Our strategy for growth is to build a strong and diverse product portfolio; to expand our geographic reach; to develop and leverage our global research and development capabilities and API sourcing strengths; and to continue to maintain the very high standards of our manufacturing capabilities.

Across our three core businesses – Generic, Branded and Injectable Pharmaceuticals, we have three key strategic aims:

1. Consolidate our strong market position in the MENA region by launching new products, expanding our geographic reach and increasing market share;
2. Grow our Injectable Pharmaceuticals business by successfully launching new products into the MENA region, United States and Europe and strengthening our sales and marketing network; and
3. Continue to pursue profitable growth in the United States by focusing on high margin, niche product opportunities.

We have made significant progress in 2005 towards achieving these objectives. We have maintained and, in some cases, increased our market share in key markets in the MENA region, where we have also expanded into new markets and launched new products. We have nearly doubled revenue in our Injectable Pharmaceutical business through a combination of new product launches and increased focus on sales and marketing. In the challenging US generic market, where pricing has become more competitive and margin pressure increased in the second half of the year, we have delivered solid revenue growth and maintained gross margins for the year of 54.1%.

Our progress on our strategic objectives is monitored by the Board by reference to five key financial performance indicators applied on a Group-wide and segmental basis. These same indicators are used by executive management to manage the business. Performance in 2005 against these indicators is set out in the table below, together with the prior year performance data.

Hikma's key performance indicators	Year ended 31 December		
	2005	2004	Change
Revenue growth	**23.5%**	14.1%	+9.4%
Gross margin	**51.8%**	51.1%	+0.7%
Operating margin	**26.4%**	29.5%	–3.1%
R&D costs as a percentage of revenue	**6.3%**	4.6%	+1.7%
Profit attributable to shareholders ($ million)	**43.9**	37.5	+17.1%

Group performance

Revenue for the Group increased by 23.5% to $262.2 million, compared to $212.4 million in the prior year period. The increase was primarily due to strong increases in revenue in both the Injectable and Branded Pharmaceuticals businesses, as well as a solid performance from our Generic Pharmaceuticals business.

In 2005, 43.9% of revenue was generated by our Generic Pharmaceuticals business, 35.5% of revenue was generated by our Branded Pharmaceuticals business and 18.8% by our Injectables business. 49.8% of revenue was generated in the United States, while 42.4% of revenue was generated in the MENA region and 7.8% in Europe.

The Group's cost of sales increased by 21.6% to $126.4 million, compared to $103.9 million for the prior year period. Cost of sales represented 48.2% of Group revenue, compared to 48.9% for the prior year period. The Group's gross profit increased by 25.2% to $135.8 million, compared to $108.4 million in the prior year period. Group gross margins for 2005 were 51.8% of revenue, compared to 51.1% in the prior year period. On a segmental basis, gross margins improved in the Branded and Injectable Pharmaceuticals businesses, and remained stable in the Generic Pharmaceuticals business despite margin pressure in the second half of the year.

Group operating expenses grew in 2005 by 48.9% to $70.0 million, compared to $47.1 million for the prior year period. Sales and marketing expenses increased by 38.7% to $27.4 million, due primarily to a significant increase in sales and marketing headcount in the MENA region for both the Branded and Injectable Pharmaceuticals businesses. Sales and marketing expenses represented 10.4% of Group revenue in 2005, compared to 9.3% in the prior year period.

	Year ended 31 December	
	2005	2004
Total S&M expenses ($ million)	**27.4**	19.7
As a percentage of revenue	**10.4%**	9.3%

The Group's general and administrative expenses increased by 49.8% to $22.6 million, compared to $15.1 million in the prior year period. The change can be attributed to an increase in corporate expenses, which increased by $1.7 million to $8.2 million as we strengthened corporate functions in preparation for our public listing. In addition, we saw an increase in general and administrative expenses in our Generic Pharmaceuticals business, especially with respect to consulting and IT costs related to the implementation of SAP. The increase also reflects the consolidation of general and administrative expenses of IBPP in Italy, the subsidiary acquired during the first half of 2005. General and administrative expenses represented 8.6% of Group revenue in 2005, compared to 7.1% in the prior year period.

	Year ended 31 December	
	2005	2004
Total investment in G&A ($ million)	**22.6**	15.1
As a percentage of revenue	**8.6%**	7.1%

Business and financial review continued

Investment in R&D for the Group increased by 70.7% to $16.5 million, compared to $9.7 million in the prior year period. This increase can be attributed primarily to the Generic Pharmaceuticals business, where we saw an increase in the number of ANDA filings and associated bio-equivalency costs and the hiring of new scientists and technicians for the R&D centre in Jordan. Total investment in R&D represented 6.3% of Group revenue in 2005, compared to 4.6% in the prior year period.

	Year ended 31 December	
	2005	2004
Total investment in R&D ($ million)	**16.5**	9.7
As a percentage of revenue	**6.3%**	4.6%

Other operating expenses increased by $1.0 million to $3.6 million, compared to $2.6 million in the prior year period, primarily as a result of the cost of setting up the new manufacturing facilities in Algeria that commenced operations early in 2006.

Other operating income increased by $1.4 million to $2.0 million, compared to $0.6 million in the prior year period, consisting mainly of management fees from JPI.

Share of results of associates, now included in operating profit as they are considered to be core to the Group's activities, were $1.4 million in 2005, compared to $0.7 million in the prior year period.

Operating profit for the Group increased by 10.3% to $69.2 million, compared to $62.7 million in the prior year period. Group operating margin declined 3.1% to 26.4% in 2005, compared to 29.5% of revenue in the prior year period.

Research & Development

In the year to 31 December 2005, Hikma submitted 73 regulatory filings, including 19 ANDAs. These included filings for new products, which include pharmaceutical compounds not yet launched by the Company and existing compounds being introduced into new regions and countries, and line extensions (the registration of new dosage strengths or forms of existing products).

	Filings in 2005	**New product filings in 2005**	**Pending approvals as of 31 Dec 2005**	**Pending approvals of new products as of 31 Dec 2005**
Generic Pharmaceuticals				
United States	**14**	**10**	**21**	**13**
Branded Pharmaceuticals				
MENA region	**16**	**5**	**8**	**2**
Europe	**4**	**1**	**9**	**1**
	20	**6**	**17**	**3**
Injectable Pharmaceuticals				
United States	**5**	**5**	**16**	**13**
MENA region	**23**	**11**	**23**	**11**
Europe	**11**	**5**	**11**	**5**
	39	**21**	**50**	**29**
	73	**37**	**88**	**45**

We estimate that the currently marketed equivalent products of the 45 new products covered by the Group's pending approvals had sales of approximately $9.0 billion in the year ended 31 December 2005 in the markets covered by the pending approvals.

At 31 December 2005, we had a total of 90 products under development, the majority of which should receive several marketing authorisations, including separate marketing authorisations in differing strengths and/or product forms between 2006 and 2009.

Generic Pharmaceuticals

Generic Pharmaceuticals remains our largest business in terms of revenue, contributing 43.9 % of total Group revenue in 2005, compared to 50.0% in the prior year period. As in 2004, all Generic Pharmaceutical revenues were generated in the United States.

Revenue in our Generic Pharmaceuticals business increased by 8.5% to $115.2 million, compared to $106.2 million in the prior year period. The change was primarily due to an increase in sales volumes offset by price declines. During the year, two new products were launched.

Revenue from the Generic Pharmaceuticals business top-ten sellers represented 68.6% of Generic Pharmaceutical revenue in 2005. Leading products included Lisinopril, Folic acid and Lithium carbonate SR.

In December 2005 we successfully renewed our sales contract with the Department of Veterans Affairs, an agency of the government of the United States, for the supply of Lisinopril. This renewal represented the exercise of the 3rd Option Year for the contract with a contract period between 21 December 2005 and 20 December 2006. All other terms and conditions of the contract, including pricing, remain unchanged. Lisinopril accounted for 33.4% of Generic Pharmaceuticals revenue and 14.7% of Group revenue in 2005.

Cost of sales of the Generic Pharmaceuticals business increased by 8.4% to $52.9 million, compared to $48.8 million in the prior year period. Cost of sales of the Generic Pharmaceuticals business represented 45.9% of the Generic business's total revenue in 2005, unchanged from the prior year period.

Gross profit of the Generic Pharmaceuticals business increased by 8.3% to $62.3 million, compared to $57.5 million in the prior year period. The Generic Pharmaceuticals business's gross margin remained stable at 54.1%, despite a significant reduction in gross margin in the second half of the year resulting from increased pricing pressure.

Generic Pharmaceuticals operating profit decreased by 5.6% to $38.8 million. Operating margins in the Generic Pharmaceuticals business decreased to 33.6% of revenue, compared to 38.6% in the prior year period. The decrease in operating margin can be attributed to an increase in investment in R&D as a result of increased spending on bio-equivalence studies in both the United States and Jordan as well as an increase in general and administrative expenses related to personnel, consulting and IT-related activities.

Branded Pharmaceuticals

The pharmaceutical market in the MENA region tends to be a branded market, in which patented, generic and OTC pharmaceutical products are marketed under specific brand names. Our Branded Pharmaceuticals business manufactures branded generic pharmaceutical products for sale across the MENA region and, increasingly, Europe.

Revenue in our Branded Pharmaceuticals business increased by 25.7% to $93.0 million, compared to $74.0 million in the prior year period. The increase was due primarily to an increased focus on our strongest products and to the strengthening of our sales and marketing efforts across the region.

In line with our strategic objectives for the Branded Pharmaceuticals business, we launched five new products* in 2005. We also restructured our sales and marketing capabilities across the MENA region, creating separate sales teams for Branded and Injectable products. We ended the year with 280 Branded sales and marketing representatives across the MENA region.

*New pharmaceutical compounds that are being launched for the first time within a business segment.

Business and financial review continued

Algeria, Saudi Arabia and Jordan remained the Branded Pharmaceuticals business's three key markets in 2005. In 2005 our market share in Algeria increased slightly to 3.2%, compared to 3.0% in the prior year period, maintaining our position as the seventh largest pharmaceutical manufacturer and second largest generic pharmaceutical manufacturer by value in the Algerian market. During the year we increased the number of medical reps and launched a number of new products into the market. The completion of our manufacturing facilities in Algeria at the end of 2005, and the subsequent approval of the facilities by the Algerian Ministry of Health in early 2006, will enable us to produce products locally for the Algerian market. Our new local presence should also help to expedite the registration of new products for this market.

In early 2006, the Algerian Ministry of Labour and Social Security Affairs announced changes to its reimbursement system, including the introduction of reference pricing for a number of reimbursable products. This new legislation is expected to impact current pricing of some, but not all, of our products sold in Algeria. We expect to be able to minimise the effect of these price declines by introducing new products and by increasing the sales volume, through greater promotion of those Hikma products that are on the reference price list but that have potential for sales growth.

A strong performance in Saudi Arabia was driven, in part, by the launch of new products and to a restructuring of the sales force, which included management changes and increased specialisation by the medical reps. In Saudi Arabia, our combined market share in value terms, including that of our associate business JPI, increased to 3.5% in 2005, compared to 3.1% in the prior year period, making us the sixth largest player in the Saudi Arabian market.

In Jordan we gave particular focus to our key products and better product targeting. As in Algeria and Saudi Arabia, we also launched new products in the Jordanian market. We maintained our position as market leader for the full year, with a market share of 6.4% in value terms.

In line with our strategy of expanding our geographic reach in the MENA region, we established our own distribution company in Lebanon in 2005, which will enable us to register more products and give us more control of our sales and distribution operations in this growing market.

Revenue from the Branded Pharmaceuticals business top-ten sellers represented 80.2% of Branded Pharmaceutical revenue in 2005. Leading products included Amoclan, Prograf and Suprax.

Cost of sales of the Branded Pharmaceuticals business increased by 14.5% to $39.3 million, compared to $34.3 million in the prior year period. Cost of sales of the Branded Pharmaceuticals business represented 42.3% of the business's total revenue, compared to 46.4% in the prior year period. Gross profit of the Branded Pharmaceuticals business increased by 35.3% to $53.7 million, compared to $39.7 million in the prior year period. The Branded Pharmaceuticals business's gross margin increased to 57.8%, compared to 53.6% in the prior year period. This improvement in gross profit margin reflects efficiency improvements in our production planning process and increased economies of scale as well as an improvement in product and geographical sales mix.

Branded Pharmaceuticals' operating profit increased by 28.2% in 2005, to $28.8 million. Operating margins in the Branded Pharmaceuticals business were 30.9% in 2005, up from 30.3% in 2004.

Injectable Pharmaceuticals

Our Injectable Pharmaceuticals business manufactures injectable generic pharmaceutical products in powder, liquid and lyophilised forms for sale across the MENA region, the United States and Europe. Injectable Pharmaceuticals is our fastest growing and most geographically diverse business, contributing 18.8% of total Group revenue in 2005, compared to 13.6% in the prior year period.

Revenue in our Injectable Pharmaceuticals business increased by 70.8% to $49.3 million, compared to $28.9 million in the prior year period. The increase was due primarily to strong performances in all key geographic regions, driven by enhanced sales and marketing efforts and new product launches.

Revenues were particularly strong in the United States, where we launched a new form of cefazoline in the first quarter of 2005 and secured sales contracts with three new customers. In the MENA region, a strong performance was driven by the development of a dedicated sales force of 51 sales representatives and the introduction of new products. In Europe, the acquisition of IBPP in Italy and our newly established operations in Germany, which included four sales and marketing employees at year end, helped to boost Injectable Pharmaceuticals sales.

Revenue from the Injectable Pharmaceuticals business's top-ten sellers represented 69.0% of Injectable Pharmaceuticals revenue in 2005, compared to 86.9% in the prior year period. Cephalosporins continue to be the segment's top sellers, while leading liquid injectables included Diclofenac sodium, Ciprofloxacin and Atracurium. We also successfully launched our Injectable portfolio's first pre-filled syringe product, HIBOR, an in-licensed low molecular weight heparin for the MENA region.

Cost of sales of the Injectable Pharmaceuticals business increased by 61.8% to $30.9 million, compared to $19.1 million in the prior year period. Cost of sales of the Injectable Pharmaceuticals business represented 62.6% of the business's total revenue compared to 66.3% in the prior year period. Gross profit of the Injectable Pharmaceuticals business increased by 89.7% to $18.4 million, compared to $9.7 million in the prior year period. The Injectable Pharmaceuticals business's gross margin increased to 37.4%, compared to 33.7% in the prior year period. The increase in gross profit margin reflects the increased scalability of the business as we achieved higher utilisation rates and as fixed manufacturing expenses decreased as a percentage of sales.

Injectable Pharmaceuticals' operating profit increased by 107.3% to $8.5 million, compared to $4.1 million in the prior year period, despite increased spending on R&D and sales and marketing. Injectable operating margins improved to 17.2% in 2005, up from 14.1% in the prior year period. The increased scalability of the business also explains this improvement in operating margin.

During the year, we focused on developing our sales and marketing capabilities across all geographies and ended the year with 51 sales reps in the MENA region and nine in Europe – five in Portugal and four in Germany. Since the beginning of 2006, we have added four additional sales and marketing employees in Europe – two sales reps in Germany, a sales director for the Benelux and a sales rep in Italy. We have also enhanced our injectable presence in the US through the appointment of a General Manager and a VP Sales & Marketing.

Also in 2005 construction began on our new Cephalosporin plant in Portugal, which will host three new production lines, warehouses and laboratory facilities. The plant is on track to begin production in the first half of 2007.

Other businesses

Other businesses, which include primarily Arab Medical Containers, a manufacturer of plastic specialised packaging, and International Pharmaceuticals Research Centre, which conducts bio-equivalency studies, had aggregate revenue in 2005 of $4.7 million, or 1.8% of total Group revenue.

Financial performance

Flotation costs

Flotation costs related to our listing on the London Stock Exchange ("IPO") recognised in the income statement were $1.4 million in 2005, compared to $0.4 million in the prior year period. The direct costs of the issue of new shares of $10.8 million have been charged to the share premium account.

Finance income

The Group's financing income includes interest income and net foreign exchange gains from non-trading activities. Financing income increased by $1.3 million to $1.6 million in 2005, compared to $0.3 million the prior year period. The increase was due primarily to interest earned on proceeds generated from the Group's IPO and interest generated from cash deposits in the United States.

Business and financial review continued

Finance costs
Financing costs increased by $1.4 million to $5.2 million, compared to $3.8 million in the prior year period. This increase relates primarily to borrowings for working capital purposes in the Branded and Injectable Pharmaceuticals' segments.

Profit before tax
Profit before tax for the Group increased by $5.4 million, or 9.1%, from $59.0 million in 2004 to $64.4 million in 2005.

Tax
The Group had tax expenses of $19.5 million in 2005. The effective tax rate was 30.2%, a year on year decrease of 5.1%. The tax rate decrease was due to a shift in the geographic mix towards lower tax countries, particularly in the MENA region as well as to a change in the geographic mix of the origin of production to product sourcing from subsidiaries in lower tax countries.

Minority interest
The profit attributable to Hikma's minority interest increased from $0.7 million in 2004 to $1.1 million in 2005.

Profit for the year
The Group's profit for the year attributable to equity holders of the parent grew by 17.1% to $43.9 million for the year ended 31 December 2005.

Earnings per share
Diluted earnings per share for the year to 31 December 2005 were 28.3 cents, up 14.1% from 24.8 cents in 2004.

Dividend
The Board has recommended a pro rata final dividend for the period from float to 31 December 2005 of 0.89 cents per share (approximately 0.5 pence) equivalent to approximately 5.34 cents on a full year basis. The proposed final dividend will be paid on 30 May 2006 to shareholders on the register on 28 April 2006, subject to approval at the Annual General Meeting.

Cash flow and investment
Net cash inflow from operating activities was $32.7 million in the year to 31 December 2005 compared to $32.8 million in the year to 31 December 2004. Net working capital increased by $24.1 million, primarily due to the relatively higher portion of sales generated in the MENA region, where collection periods are generally higher, as well as to higher receivables in our Generic business. Debtor days increased slightly from 103 days in 2004 to 108 days in 2005. Meanwhile, inventory days increased from 156 days to 168 days primarily due to higher levels of raw materials.

Net cash used in investing activities was $16.4 million in the year to 31 December 2005 compared to $25.4 million in the same period in 2004. The most significant investing activities in 2005 were purchases of property, plant and equipment amounting to $23.4 million, offset by the realisation of investments in cash deposits of $7.7 million.

Total cash paid for the purchase of businesses was $0.8 million. This expenditure was mainly on the acquisition of IBPP in Italy.

Net cash from financing activities in the twelve months to 31 December 2005 was $77.4 million compared to net cash used in financing activities of $5.4 million in the year to 31 December 2004. Significant financing activities in 2005 included $124.9 million generated from the issue of new shares.

Capital expenditure
Capital expenditures were driven primarily by investment in our new facilities in Algeria, the new cephalosporin plant in Portugal and the construction of a new quality control laboratory and research and development facility in Jordan. During the year the Group also made regular investments in upgrading and maintaining existing facilities.

Balance sheet
The Group's cash balance increased by $94.5 million in 2005 to $135.9 million, as a direct result of the Group's initial public offering of new shares as well as normal operating activities, which generated $124.9 million and $32.7 million, respectively. This was partially offset by capital expenditures, debt repayments and dividends.

The Group's net cash position at 31 December 2005 was $86.9 million, compared to a net debt position of $13.9 million at 31 December 2004. Net cash/debt is calculated as the total of investments in cash deposits, collateralised cash and cash and cash equivalents less bank overdrafts and the current and long-term portion of loans and obligations under finance leases.

Share price

The Group's share price closed at 404.75 pence on 30 December 2005, an increase of 39.6% since listing on the London Stock Exchange on 1 November 2005 at an offer price of 290 pence. The Group's total shareholder return for this period was 39.6%, compared to 14.4% for the FTSE 250 (30.2% for the full year) and 4.5% for the FTSE 350 pharmaceuticals sector (32.4% for the full year), with the stock outperforming both indices over the period. During this period the share's closing price ranged from a low of 277 pence in November 2005 to a high of 404.75 pence at 30 December 2005.

Risk Management

Operational risks

There are a number of factors that have or could in the future affect the Group's results of operations, including the following:

Regulatory

In common with other companies operating in the pharmaceutical industry, Hikma is subject to extensive regulation in all the markets in which it operates. There is no single worldwide harmonised set of regulations relating to the development, manufacture and sale of pharmaceutical products and we are therefore subject to different laws, regulations and codes depending on the regions or countries in which our businesses are operating.

In 2006 it is possible that regulatory changes could impact our businesses. In the United States, the Medicare Act 2003 will be fully implemented in 2006. Implementation is likely to increase the overall volume of drugs sold, as well as the government-funded share of existing volumes. Given the government's emphasis on containing costs, the generic share of the overall market should increase by volume albeit at lower prices. It is very difficult to predict what impact, if any, implementation of the Medicare Act will have on Hikma's profitability.

In early 2006, the Algerian Ministry of Labour and Social Security Affairs announced changes to its reimbursement system, including the introduction of reference pricing for a number of reimbursable products. This new legislation is expected to impact current pricing of some, but not all, of our products sold in Algeria. We expect to be able to minimise the effect of these price declines by introducing new products and by increasing the sales volume, through greater promotion of those Hikma products that are on the reference price list but that have potential for sales growth.

Industry, economic and political dynamics

The Group operates in diverse markets and geographic regions and is therefore subject to diverse industry, economic and political dynamics. However, we believe the geographic spread of our operations gives the Group unique strength and flexibility and also lessens the impact on the Group's results and financial conditions due to disruption in or any other extraordinary events at any one of our three businesses or a change in the economic conditions or political environment or sustained civil unrest in any particular market or country.

Business and financial review continued

Pricing Dynamics
Pricing for the Groups' products reflect a variety of factors, including changes in API and other raw material costs, intensity of competition, industry practice, governmental regulation and general market conditions. Generic pharmaceutical markets in the United States and Europe are extremely competitive and/or regulated by governments, both of which result in downward pressure on prices. We aim to maximise the margins we achieve on our products through competitive pricing strategies together with initiatives to minimise raw materials and other manufacturing and operating costs.

Government tender bids
Whilst the majority of Group sales have been to the private sector, each of our three businesses participates in government tenders. The timing and outcome of these tenders are unpredictable, and the Group's results could be affected by the gain or loss of a significant government contract.

Research and development and commercialisation of new products
The Group's results of operations may be impacted significantly by the timeliness of its research and development and product commercialisation activities. In order to bring a drug to market successfully, the Group must identify products for which it can generate attractive margins and growth, undertake the required research and development and obtain regulatory approvals. Additional costs may be incurred and sales opportunities lost if there is any significant delay in any of these steps. Given the importance of research and development, Hikma has expanded its investment in research and development, particularly in Jordan where it can benefit from lower labour and bio-equivalency costs.

API and other raw material costs
API costs make up a significant portion of our raw material costs. Whilst the prices of the API that the Group uses have in general fallen in recent years, these prices are volatile and can vary significantly from supplier to supplier. In some cases, increase in API and other raw material costs may not be able to be passed on to customers and can therefore have a significant impact on the Group's results. Hikma has a dedicated API sourcing function that has been successful in sourcing lower cost API's including sourcing through more competitive suppliers in Asia.

Seasonality
The Group's business, in particular the Branded Pharmaceuticals business, is seasonal, and it generally experiences higher net sales and net profit in the first half of each financial year, as compared to the second half of its financial year. Accordingly, the Group's outstanding borrowings historically have been higher during the first half of the financial year to finance the working capital requirements of the Group.

Timing of payments and concentration of customers
The Group has a significant volume of sales in the MENA region, where distributors are accustomed to relatively long credit periods. This is particularly the case in Algeria where customarily a significant number of customers make payments with post-dated cheques. The Group's net accounts receivable result in significant and variable working capital needs.

Financial risks

Treasury policy

The Group finances its operations by a mixture of cash flows from operations, short-term borrowings from banks and longer term loans from banks. The Group borrows principally in US Dollars at both floating and fixed rates of interest, using derivatives, where appropriate, to generate the desired effective currency profile and interest rate basis. The derivatives used for this purpose are principally interest rate swaps and forward foreign exchange contracts. The main risks arising from the Group's financial instruments are interest rate risk and foreign currency risk. These risks are managed by the Chief Financial Officer and overseen by the Board.

Interest rate risk

The Group manages its exposures to interest rate risks by changing the proportion of fixed rate debts and variable rates debts in its total debt portfolio. To manage this mix, the Group may enter into interest rates swap agreements, in which it exchanges the periodic payments based on notional amounts and agreed upon fixed and variable interest rates. Using these derivative financial instruments has not had a material impact on the Group's financial position at 31 December 2005. See Note 29 to the consolidated financial statements for a description of the Group's interest rate risks.

Foreign exchange risk

The majority of Group sales are in US Dollars or currencies pegged to the US Dollar. The Group's most significant foreign currency exposures relate to sales made in Europe, costs incurred in euro and sales to certain MENA region countries where currencies are not pegged to the US Dollar, in particular Algeria.

See Note 29 to the consolidated financial statements for a description of the Group's foreign exchange risks.

Inflation risk

Hikma believes it is not subject to material risk due to inflation in any of its core markets.

Critical accounting policies and estimates

The Group's accounting policies are more fully described in Note 2 to the consolidated financial statements. However, certain of the Group's accounting policies are particularly important to the presentation of the Group's results and require the application of significant judgement by the Group's management.

In applying these policies, the Group's management uses its judgement to determine the appropriate assumption to be used in the determination of certain estimates used in the preparation of the Group's results. These estimates are based on the Group's previous experience, the terms of existing contracts, information available from other outside sources and other factors, as appropriate.

The Group's management believes that, among others, the following accounting policies that involve management judgements and estimates are the most critical to understanding and evaluating the Group's financial results.

Revenue recognition

Revenue represents sales of products to external third parties and excludes inter-company income and value added taxes. Sales of goods are recognised when the risk of loss and title are transferred to customers and reliable estimates can be made of relevant deductions. The Group's revenue recognition policies require management to make a number of estimates, with the most significant relating to charge backs, product returns and rebates and price adjustments which vary by product arrangements and buying groups.

Business and financial review continued

In accordance with industry practice, the Group offers discounts or allowances to some of its customers or governmental authorities in the form of rebates, charge backs, price adjustments, discounts, promotional allowances or other allowances. Additionally, in certain countries sales may be made with a limited right of return under certain conditions. Accruals for these provisions are presented in the financial statements as reductions to gross sales and accounts receivable and within other current liabilities.

Provisions for rebates, promotional and other credits are estimated based on historical payment experience, estimated customer inventory levels and contract terms and are made at the time of sale. Provisions for other customer credits, such as price adjustments, returns and charge backs require management to make substantive judgements. The Group has extensive internal historical information on charge backs, rebates and customer returns and credits which it uses as the primary factor in determining the related reserve requirements. The Group believes that this historical data, in conjunction with periodic review of available third-party data, updated for any applicable changes in available information provides a reliable basis for its reserve estimates. There were no material changes in estimates associated with aggregate provisions in the years ended 31 December 2004 and 2005. The Group continually monitors the adequacy of procedures used to estimate these deductions from revenue by comparison of estimated amounts to actual experience.

Charge backs

The provision for charge backs is the most significant and complex estimate used in the recognition of revenue. In the United States, the Group sells its products directly to wholesalers, generic distributors, retail pharmacy chains and mail-order pharmacies. The Group also sells its products indirectly to independent pharmacies, managed care organisations, hospitals, and group purchasing organisations, collectively referred to as "indirect customers." The Group enters into agreements with its indirect customers to establish pricing for certain products. The indirect customers then independently select a wholesaler from which they purchase the products at agreed-upon prices. The Group will provide credit to the wholesaler for the difference between the agreed-upon price with the indirect customer and the wholesaler's invoice price. This credit is called a charge back. The provision for charge backs is based on historical sell-through levels by the Group's wholesale customers to the indirect customers, and estimated wholesaler inventory levels. As sales are made to the large wholesalers, the Group continually monitors the reserve for charge backs and makes adjustments when it believes that actual charge backs may differ from estimated reserves.

Returns and rebates

In the United States and certain other countries the Group has a product returns policy that allows some customers to return product within a specified period prior to and subsequent to the expiration date, in exchange for a credit to be applied to future purchases. The Group estimates its provisions for returns and rebates based on historical experience, changes to business practices and credit terms. Additionally, the Group considers, amongst other things, factors such as levels of inventory in the distribution channel, product dating and expiration period, and whether products have been discontinued, and makes adjustments to the provision for returns and rebates in the event that it appears that actual product returns may differ from established reserves.

Price adjustments

Price adjustments, also known as "shelf stock adjustments," are credits issued to reflect decreases in the selling prices of the Group's products that customers have remaining in their inventories at the time of the price reduction. Decreases in selling prices are discretionary decisions made by management to reflect competitive market conditions. Amounts recorded for estimated shelf stock adjustments are based upon specified terms with direct customers, estimated decreases in market prices and estimates of inventory held by customers. The Group regularly monitors these and other factors and evaluates the reserve as additional information becomes available.

Research and development

Our business is underpinned by our marketed products and development portfolio. The R&D expenditure on internal activities to generate these products is charged to the income statement in the year that it is incurred.

Purchases of intellectual property and product rights to supplement our R&D portfolio are capitalised as intangible assets. Such intangible assets are amortised from the launch of the underlying products and are tested for impairment. This policy is in line with practice adopted by other major pharmaceutical companies.

Goodwill and intangible assets

The Group has investments in goodwill and intangible assets as a result of acquisitions of businesses and purchases of such assets as marketing rights.

Under IFRS, goodwill is held at cost and tested annually for impairment, whilst intangibles are amortised over their estimated useful lives. Estimated useful lives are reviewed annually and impairment reviews are undertaken if events occur which indicate an impairment to the carrying values of the assets.

Contingent liabilities

In the normal course of business, contingent liabilities may arise from product-specific and general legal proceedings, from guarantees or from environmental liabilities connected with our current sites. The Group's management believes that potential liabilities have a low probability of crystallising or are very difficult to quantify reliably, and accordingly are treated as contingent liabilities. These are not provided for but are disclosed in the notes. Further details of these contingent liabilities are set out in Note 38 to the consolidated financial statements. Although there can be no assurance regarding the outcome of legal proceedings, we do not expect them to have a materially adverse effect on our financial position or profitability.

Tax

The Group provides for income tax according to the laws and regulations prevailing in the countries where it operates and the likelihood of settlement. Furthermore, the Group computes and records deferred tax assets according to IAS 12. The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Business and financial review continued

Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit. Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.
The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Inventory

Inventories are stated at the lower of cost and net kjs value. Purchased products are valued at acquisition cost and all other costs incurred in bringing each product to its present location and condition. Costs of own-manufactured products comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. In the balance sheet, inventory is primarily valued at standard cost, which approximates to historical cost determined on a moving average basis, and this value is used to determine the cost of sales in the income statement. Provisions are made for inventories with lower net realisable value or which are slow moving.

The Group's inventories generally have a limited shelf life and are subject to impairment as they approach their expiration dates. The Group regularly evaluates the carrying value of its inventories and when, in its opinion, factors indicate that impairment has occurred, it establishes a reserve against the inventories' carrying value. The Group's determination that a valuation reserve might be required, in addition to the quantification of such reserve, requires the Group to utilise significant judgement.

Accounts receivable and bad debt

The Group estimates, based on its historical experience, the level of debts that it believes will not be collected. Such estimates are made when collection of the full amount of the debt is no longer probable. These estimates are based on a number of factors including specific customer issues and industry, economic and political conditions. Bad debts are written off when identified.

Our people and society

As a listed company quoted on the London Stock Exchange, Hikma aims to conduct its business in an ethical and socially responsible manner and to act with integrity and professionalism. We place great importance on the interests of all our stakeholders including our employees, our customers, and our suppliers as well as the communities, and the environment in which we operate while recognising that our main accountability is to our shareholders.

During the course of 2006 the Company established an Ethics Committee to oversee the implementation of high standards of corporate governance and to monitor the Group's relationships with its customers, suppliers and stakeholders. The committee will ensure that all aspects of the Group's business in the markets in which it has operated, currently operates and will operate, including those which may be perceived to have less developed standards of governance, are conducted in accordance with high standards of business practice and ethical behaviour. To the extent that the Group receives or has received enquiries regarding its operations, its policy is to co-operate fully with such requests.

Employees and Health & Safety

Hikma is subject to the environmental, health and safety laws in the countries where we operate and in particular where we have manufacturing facilities. These laws govern activities and operations that may have adverse environmental and/or health and safety effects such as discharges to air and water, handling, storage and disposal practices for solid and hazardous wastes and general health, safety and welfare of employees and members of the public. Hikma has made, and will continue to make, expenditures to comply with existing environmental health and safety laws and new requirements arising from new or amended statutes and regulations.

Hikma recognises that attracting, retaining and motivating skilled people is essential to its success. We are committed to offering equal opportunities to all groups of people irrespective of background. Our aim is to recruit the best staff in the industry and we believe in maximising every employee's potential. We encourage in-house training and support staff in further advanced education and professional development where appropriate.

Hikma takes its responsibility to employee health and safety very seriously and it is our policy to comply fully with regulatory requirements and applicable industry best practice.

The Group recognises the benefit of adopting a sustainable development approach to its operations, and will make reasonable endeavours to operate within the broad concept of sustainable development. The Board recognises and accepts that concern for the environment and all employees is an integral and fundamental part of our corporate business strategy.

It is the intention of the Board to review the social and environmental policies in place across the Group during 2006, with the aim of formalising policies that can be applied effectively across the Group. In addition, the Board intends to identify appropriate measures to be used to monitor our performance against these policies.

Future outlook

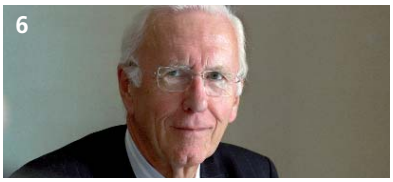
We believe the progress the Group has made in 2005 leaves us well-positioned to continue our track record of strong growth. We have made significant investment in both R&D and sales and marketing, and through our capital investment programme, we have expanded our manufacturing facilities. With 88 pending approvals and 90 products under development, our pipeline is stronger than ever.

We expect both our Branded and Injectable Pharmaceutical businesses to deliver strong sales growth in 2006, through a focus on key products, the launch of new products and expansion into new markets. Gross margins in our Branded business are expected to remain stable, and we see scope for improvement in gross margins in our Injectable business, through higher utilisation rates and lower fixed manufacturing expenses as a percentage of sales.

We expect the pricing environment in the United States to remain competitive. However, we will work diligently to minimise the effects of this pricing pressure on our Generic business by introducing new products and retaining our strategic focus on reducing raw material costs.

We are confident that the strength and diversity of our business will enable us to continue to deliver strong organic growth at the Group level. Furthermore, consolidation of our position in the MENA region remains a key strategic objective and we will continue to look for opportunities to expand our operations through acquisitions.

Board of Directors



1 Samih Darwazah
CEO and Chairman, 75

Samih Darwazah, a qualified pharmacist, worked for Eli Lilly from 1964 to 1976, before establishing Hikma Pharmaceuticals Ltd. in 1978. Between 1995 and 1996 he served as Minister of Energy and Mineral Resources in Jordan. He also founded the Jordan Trade Association and was a member of the Advisory Economic Council to His Majesty the King of Jordan. Samih holds a masters degree from the St. Louis College of Pharmacy, Missouri.

2 Mazen Darwazah
Vice-Chairman, 47

Mazen Darwazah joined Hikma in 1985 as a medical representative and has held several positions, including Chairman and CEO of Hikma Pharmaceuticals Limited – Jordan, Chairman of Trust Pharma Limited and Pharma Ixir Co. Ltd. He is a member of the Nomination Committee. He is a director of Jordan International Insurance Company, Export & Finance Bank and of several other organisations. From 2001 to 2003 he was the president of the Jordanian Association of Manufacturers of Pharmaceuticals and Medical Appliances, and has served as a member of the Jordanian Higher Education Counsel from 2003 to 2005. Mazen holds a degree from Beirut University, Lebanon.

3 Ali Al-Husry
Non-Executive Director, 48

Ali Al-Husry has been a director of Hikma Pharma Limited and other companies within the Hikma group since 1991. He is also serving as Chairman and Chief Executive Officer of Export & Finance Bank in Jordan. He is also a director of The Association of Banks in Jordan, the Jordanian Insurance Commission and several other organisations. He brings great financial experience to the Board as well as an in-depth knowledge of the MENA region. Ali has a degree in Mechanical Engineering from the University of Southern California and an M.B.A. from INSEAD, France.

4 Michael Ashton
Independent Non-Executive Director, 60

Michael Ashton was appointed to the Board in October 2005 and currently holds the position of Chairman of the Remuneration Committee. He is also a member of the Audit Committee and the Nomination Committee. Michael is a non-executive director of SkyePharma PLC.

5 Breffni Byrne
Independent Non-Executive Director, 60

Breffni Byrne was appointed to the Board in October 2005 and currently holds the position of Chairman of the Audit Committee. He is also a member of the Remuneration Committee. As a Chartered Accountant with over 30 years of experience in public practice, he has extensive experience in financial reporting, corporate governance and general financial and commercial matters. Breffni is Chairman of NCB Stockbrokers and a director of Irish Life and Permanent plc, Coillte Teoranta (the Irish state forestry company), Adsteam Europe Limited and other companies.

6 Sir David Rowe-Ham
Senior independent
Non-Executive Director, 70

Sir David Rowe-Ham was appointed to the Board in October 2005 and currently holds the position of Chairman of the Nomination Committee. He is also a member of the Audit Committee and the Remuneration Committee. Sir David, also a Chartered Accountant, brings to Hikma a wide experience in financial matters, corporate governance, public affairs and the development of listed companies. He is Chairman of Olayan Europe Ltd., BNP Paribas South Asia Investment Co. Limited and Coral Products PLC.

Senior management

1 Bassam Kanaan
Chief Financial Officer

Bassam joined Hikma in 2001 and was previously the CFO of PADICO, a public shareholding company. He is a board member of Zara Investments Co. in Jordan and served as board member of several large corporations including PALTEL and CEGCO in Jordan.
He qualified as a CPA in 1989 with Deloitte & Touche in Los Angeles where he worked as Audit Manager. He also qualified as a CFA in 2001. Bassam holds an Executive M.B.A. from Northwestern University and B.A. from Claremont McKenna College in the United States.

2 Nabil Rizk
CEO of Generic Pharmaceuticals and Head of Group R&D and API Sourcing

Nabil joined the Company in 1991 from Pioneer Pharmaceuticals, Inc., a division of Dow Chemical, where he worked as Vice President of Operations. From 1976 to 1983 he served in various capacities with Hudson Pharmaceuticals, a division of Cadence Corporation including as Manager of Quality Control and Quality Assurance and Laboratory Supervisor (Research & Development). Nabil holds a masters degree in Chemistry from the New Jersey Institute of Technology and a B.Sc. in Applied Chemistry from Cairo University.

3 Taghreed Al-Shunnar
General Manager of Branded Pharmaceuticals

Taghreed joined the Company in 1988 after graduating from the University of Jordan with a degree in Pharmacy. In 1995, she was made Marketing and Planning Director of Hikma Pharmaceuticals Limited and five years later appointed as the Executive Vice President.

4 Majda Labadi
General Manager of Injectable Pharmaceuticals

Majda joined the Company in 1985 as a purchasing manager at Hikma Pharmaceuticals Limited and held several positions there culminating in her current appointment in March 2001. Majda holds a masters degree in Health Economics and a B.A. from the American University of Beirut.

5 Gabriel Kalisse
General Manager of Generic Pharmaceuticals

Gabriel took up the position of General Manager of the Generic Pharmaceuticals business in 2006. Prior to this, he held the position of Chief Information Officer for the Group. Gabriel joined the Company in 1989 and during 1996–2001 served as the Group Chief Financial Officer and from 2001 to 2004 as the General Manager of Hikma Pharmaceuticals Limited – Jordan.
Gabriel holds an M.B.A. from INSEAD.

6 Henry Knowles
General Counsel and Company Secretary

Henry joined the Company in September 2005 in anticipation of the Company's listing on the London Stock Exchange. He is admitted as a solicitor in England and Wales and worked for the previous ten years at the international law firm, Ashurst, where he specialised in Corporate Law, gaining a wide knowledge of corporate and commercial issues in both domestic and international fields. Henry holds an M.A. in Social and Political Science from Cambridge University.

7 Susan Ringdal
Investor Relations Director

Susan joined the Company in November 2005, having previously worked for the pharmaceutical distribution and retail pharmacy group Alliance UniChem Plc as Investor Relations Manager.
She also has experience as an equity analyst at Morgan Stanley in London.
Susan holds a B.A. in History from Cornell University and an M.B.A from London Business School.

Report of the Directors

The Directors are pleased to present their report and audited financial statements for the year ended 31 December 2005. For the purposes of this report, "Company" means Hikma Pharmaceuticals PLC and "Group" means the Company and its subsidiaries and associated undertakings.

Principal activity

The principal activities of the Group are the development, manufacture and marketing of a broad range of generic and in-licensed pharmaceutical products in solid, semi-solid, liquid and injectable final dosage forms. Hikma's operations are conducted through three businesses: Generic Pharmaceuticals, Branded Pharmaceuticals and Injectable Pharmaceuticals. The majority of Hikma's operations are in the United States, the MENA region and Europe.

The Group's net sales, gross profit and operating profit are shown by business segment in Note 3 to the consolidated financial statements.

Business review and future development

A review of the development of the Group's business during the year, its position at the year end, future developments and business risks are given in the Chairman and Chief Executive's review and the Business and financial review.

Results and dividends

The Group's profit for the year attributable to shareholders in 2005 was $43.9 million. The Board is recommending a pro rata final dividend of 0.89 cents per share (approximately 0.5 pence) equivalent to approximately 5.34 cents on a full year basis. The proposed final dividend will be paid on 30 May 2006 to shareholders on the register on 28 April 2006, subject to approval at the Annual General Meeting.

Directors and their interests

The names of the Directors as at the date of this report, together with details of their backgrounds and abilities, are set out in the Directors' biographies on page 28. Details of the independence of Non-Executive Directors are set out in the Board report on corporate governance on pages 32 to 34.

The Executive Directors served the Group throughout the year, but were appointed to the Company on its incorporation on 8 September 2005.

Michael Ashton, Breffni Byrne and Sir David Rowe-Ham joined the Board as Non-Executive Directors on 14 October 2005. Ali Al-Husry also stepped up from the Board of Hikma Pharma Limited to the Board of the Company on 14 October 2005.

Details of Directors' share options are provided in the Board report on remuneration on pages 37 to 42.

Creditor payment policy

The Company's policy, which is also applied by the Group, is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. Trade creditors of the Company at 31 December 2005 were equivalent to 77 days' purchases, as compared to 58 days at 31 December 2004, based on the average daily amount invoiced by suppliers during the year.

Charitable and political contributions

During the year the Group made charitable donations of approximately $253,500, principally to local charities serving the communities in which the Group operates. In addition, the Group contributed approximately $210,000 in medicines to the Disaster Resource Network of the World Economic Forum for Tsunami relief efforts.

Hikma does not make political donations.

Share capital

In addition to the 51,311,193 Ordinary Shares issued as part of the share capital restructuring on the IPO, a further 260,456 Ordinary Shares were issued as a result of the exercise of the over-allotment option. As at 31 December 2005, the Company had 693 ordinary shareholders and 166,798,407 ordinary shares in issue. The 49,998 non-voting Redeemable Preference Shares of £1 each in the capital of the Company that were issued in conjunction with the incorporation of the Company have now been redeemed.

Substantial shareholdings

Since the date of the Company's IPO, the Company has not received any notifications pursuant to sections 198 to 208 of the Companies Act 1985 (Disclosure of interest in shares). At the time of the IPO, the following interest was established:

Name of holder	Number	Percentage held
Darhold Limited	52,649,972	31.6%

Auditors and AGM

In the case of each of the persons who are Directors of the Company at the date when this report was approved:

- so far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's auditors are unaware; and
- each of the Directors has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

The Annual General Meeting of the Company will be held at the London Underwriting Centre, 3 Minster Court, Mincing Lane, London EC3R 7DD on Thursday 25 May 2006, starting at 11.00 a.m. The Notice convening the meeting is given in a separate document accompanying this document, and includes a commentary on the business of the AGM, and notes to help shareholders exercise their rights at the meeting.

Approved by the Board of Directors and signed on its behalf

Henry Knowles
Company Secretary

Board report on corporate governance

Combined Code

The Board is responsible for and committed to meeting the standards of good corporate governance set out in the Combined Code on Corporate Governance published by the Financial Reporting Council in July 2003 (the "Combined Code"). This report, the Audit Committee report set out on pages 35 and 36 and the Board report on remuneration set out on pages 37 to 42 describe how the Board applied the Combined Code during the year under review. The Combined Code became effective for the Group on 1 November 2005 as a result of its listing on the London Stock Exchange. Prior to the IPO, the Group commissioned an independent review of its corporate governance which formed the basis for a strengthening of procedures in this area in anticipation of its obligations as a listed company.

The Listing Rules of the Financial Services Authority require UK-listed companies to report on their application of the principles of good governance and the extent of their compliance with the provisions of the Combined Code. This statement provides details on how the Group has applied these principles.

The Board

The Group is led and controlled by the Board of Directors. Its role is to determine long-term strategy; to monitor the achievement of business objectives; to ensure the Group has adequate available resources; to promote good corporate governance; and to ensure that the Group meets its responsibilities to shareholders, employers, customers and other stakeholders. There is a formal schedule of matters reserved to the Board for consideration and decision. This includes approval of strategic plans, approval of financial statements, the annual budget, material investment decisions, acquisitions and divestments, and review of the effectiveness of the Group's system of internal control.

The Board has delegated responsibility for the management of the Group, through the Chief Executive, to executive management.

Composition of the board

The Group has ensured that a majority of the Board comprises Non-Executive Directors. The Board currently comprises of the Chairman, who is also the Chief Executive, the Executive Vice Chairman and four Non-Executive Directors. The names of the Directors and their biographical details are set out on page 28. The Chief Executive and the Executive Vice Chairman were appointed to the Board on the incorporation of the Company on 8 September 2005. Each of the Non-Executive Directors joined the board on 14 October 2005.

As set out in the prospectus published by the Company in conjunction with the IPO (the "Prospectus"), the Company combines the roles of Chairman and Chief Executive, both these roles being held by Samih Darwazah, the founder of the Group.

The Board believes that notwithstanding the Combined Code's guidance that the roles of Chairman and Chief Executive should not be combined, at this important time in the Group's development and its transition from private to public company, the knowledge of the Group's business and the experience in guiding it to its current position brought to the Board by Mr Darwazah justifies his holding both positions.

Each of Michael Ashton, Breffni Byrne, and Sir David Rowe-Ham are independent Non-Executive Directors. The fourth Non-Executive Director, Ali Al-Husry, who brings great financial experience to the Board as well as an in-depth knowledge of the MENA region which is significant to the Group's business, is not treated as being independent as a result of his close links to the Darwazah family through Darhold Limited, the Company's largest shareholder.

The Non-Executive Directors who have diverse business backgrounds, skills and experience bring independent judgement to bear on issues of strategy, performance, resources, key appointments, standards of conduct and other matters presented. Since its flotation, the Company has complied with the Combined Code requirement that at least half of the Board, excluding the Chairman, should comprise independent Non-Executive Directors.

As set out in the Prospectus, it is the intention of the Board to recruit a further independent Non-Executive Director to complement the skills of the existing Directors.

The senior independent Director is Sir David Rowe-Ham.

Board procedures and support

Board procedures provide for timely, regular and necessary management information to be provided to Directors to enable them to fulfil their duties, with full Board papers circulated in advance of all Board and Committee meetings. The Company Secretary is charged with ensuring good information flows within the Board and its Committees, so that adequate information is provided to the Board before making decisions.

The Directors are able to obtain independent professional advice at the Company's expense in the performance of their duties as Directors. In addition, all Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that good board procedures are followed and that good corporate governance and compliance are implemented throughout the Group. The appointment and removal of the Company Secretary is a matter reserved for the Board.

Board meetings

Since incorporation of the Company on 8 September 2005 and during the period under review, the Board met on four occasions, with one of those meetings held since the IPO. The Company Secretary attended all Board Meetings and Committee Meetings. A table showing attendance at these meetings is set out below.

Meeting record	Board	Audit	Remuneration	Nomination
Number of meetings	4	1	1	–
Samih Darwazah	4	–	–	–
Mazen Darwazah	4	–	–	–
Ali Al Husry	3*	–	–	–
Michael Ashton	3*	1	1	–
Breffni Byrne	3*	1	1	–
Sir David Rowe-Ham	3*	1	1	–

*The Non-Executive Directors have attended all meetings since their appointment.

The Board maintains a close dialogue between Board meetings, ensuring that, amongst other things, the Non-Executive Directors are kept up to date with major developments in the Group's business.

Board performance evaluation

All Directors will be subject to election by shareholders at the first Annual General Meeting, and to re-election thereafter at intervals of no more than three years. The Non-Executive Directors have been appointed for an initial term of three years, which can be renewed and extended for not more than two further three-year terms.

The Chairman believes that the Non-Executive Directors bring a balance of skill and experience to the Board, and in the short time since the IPO have shown themselves to discharge their roles effectively and with commitment to the strategic aims of the Group. Biographies of the Non-Executive Directors are set out on page 28. As the Directors were only appointed late in 2005, formal evaluation of the performance of the Board, the Chairman, the Committee Chairmen and individual Directors was not undertaken during the period under review.

Executive Directors' service arrangements

The Chief Executive and the Executive Vice Chairman each have letters of appointment with the Company. In addition they hold their executive positions with the Group under applicable Jordanian labour regulations. The executive employment arrangements are for an indefinite term and, in accordance with Jordanian labour law, are terminable by either party on one month's notice. Further details are given in the Board report on remuneration.

Dialogue with shareholders

Communication with shareholders is a high priority and in addition to presentations at the time of the release of the annual and interim results, a regular dialogue with institutions is planned.

The Chief Financial Officer and other senior corporate executives have made a number of structured presentations to investors between the IPO and the year-end.

The principal ongoing communication with shareholders will be through the publication of the Company's Annual Report and Accounts and Interim Results, together with the opportunity to question the Board and Committees at the Annual General Meeting. The Company maintains a website (www.hikma.com) containing financial and other information which, following the required publicity blackout period after the IPO, is updated regularly. Additionally, the Company intends to present a balanced view of the Group's performance and prospects through the release of appropriate press announcements.

The Board will be kept apprised of the views of shareholders and the market in general through the feedback from the meeting programme and results presentations. Analysts' reports are also circulated to the Board members. The senior independent Director has undertaken to be available to shareholders if they have a concern that cannot be appropriately addressed through the Chairman/Chief Executive.

Board Committees

In accordance with the principles of good corporate governance and in compliance with the Combined Code, at the time of the IPO the Board established three committees – the Audit Committee, Nomination Committee and Remuneration Committee. The Group also has an Executive Committee comprising the Executive Directors and senior corporate management.

Each of the three Combined Code committees has terms of reference, which were adopted at the time of the IPO and will be reviewed at least yearly. Copies are published on the corporate website at www.hikma.com. Their Chairmen give reports of the committees' business to the Board.

Nomination Committee

The Nomination Committee consists of two independent Non-Executive Directors – Sir David Rowe-Ham (Committee Chairman) and Michael Ashton – and the Executive Vice Chairman, Mazen Darwazah. As required by the Combined Code, the majority of the members of the Committee are independent Non-Executive Directors and an independent Non-Executive Director holds the Chairmanship of the committee.

Board report on corporate governance continued

The Nomination Committee is responsible for succession planning and for ensuring that all appointments to the Board are made on objective criteria. In accordance with its terms of reference, the committee is required to take into account the skills, knowledge and experience of the Board in making its decisions and is able to use external search firms or open advertising to compile shortlists of candidates for the Board. It is also charged with reviewing the appropriateness of the size, structure and composition of the Board.

Because the IPO did not occur until the beginning of November 2005, the Nomination Committee did not meet in the period under review.

Remuneration Committee

The Remuneration Committee consists of the Company's three independent Non-Executive Directors – Michael Ashton (Committee Chairman), Breffni Byrne and Sir David Rowe-Ham – and consequently complies with the Combined Code membership requirements.

The committee met once between the IPO and the year end (with full attendance), and intends to meet at least twice a year in the future. The committee is responsible for setting and reviewing executive remuneration and that of the Company Secretary and is able to take external advice from consultants when required. A full report on the role of the Remuneration Committee is set out in the Board report on remuneration on pages 37 to 42.

Audit Committee

The Audit Committee consists of the Company's three independent Non-Executive Directors – Breffni Byrne (Committee Chairman), Michael Ashton and Sir David Rowe-Ham – and consequently complies with the Combined Code membership requirements.

The committee met once between the IPO and the year end (with full attendance), and intends to meet at least three times a year in the future. A full report of the role of the Audit Committee and the details of how it carried out its duties is set out in the Audit Committee report on pages 35 and 36.

Executive Committee

The Group also has an Executive Committee, made up of the Executive Directors and other senior management of the Group, which oversees the day to day operation of the Group's major manufacturing subsidiaries, implements the decisions of the Board, and makes recommendations for the Board's approval.

Internal Control

The Board has overall responsibility for the Group's systems of internal control and risk management. It is also responsible for monitoring the effectiveness of these systems on an ongoing basis. The system of internal control provides reasonable but not absolute assurance against material misstatement or loss.

The key elements are as follows:

- an organisation structure with clear operating and reporting procedures, authorisation limits, segregation of duties and delegated authority;
- annual budgets and long-term plans for the Group that identify risks and opportunities which are reviewed and approved by the Board;
- a comprehensive system of internal financial reporting which includes regular comparison of financial results and key performance indicators against budget;
- a clearly defined process for controlling capital expenditure including appropriate authorisation levels, which is approved by the Board on an ongoing basis; and
- written policies on procedures for all material functional areas.

During 2005 in anticipation of its obligations as a listed company, the Group commissioned Ernst & Young to undertake a top-level risk assessment review, followed by a review of financial and operating controls at the principal subsidiaries. Their findings have been reviewed by the Audit Committee and the results communicated to the Board.

Following on from the above projects, the Board (on the recommendation of the Audit Committee) has now appointed Ernst & Young to manage and execute the Group's internal audit function on a group-wide basis for a period of three years. This will involve a risk-driven approach to internal audit which will be overseen by the Audit Committee with ongoing reviews of risk identification, internal controls and systems in all major business areas with regular reporting of findings to the Audit Committee. Ernst & Young will have direct access to the Audit Committee and the Board Chairman.

The Board believes that with these arrangements now in place, the Group has addressed the requirements of "Internal Control" Guidance for Directors on the Combined Code (the "Turnbull Guidance"). The Board also confirms that a review of the effectiveness of the Group's systems of internal controls was conducted during the year.

Audit Committee report

The Combined Code requires that this Annual Report separately describes the work of the Audit Committee and how it discharges its responsibilities.

On 31 October 2005, the Board established an Audit Committee to oversee financial reporting and internal control matters and to maintain appropriate relationships with the Company's auditors. Hikma's Audit Committee comprises three members – Breffni Byrne, Michael Ashton and Sir David Rowe-Ham – all of whom are independent Non-Executive Directors, and whose qualifications are set out on page 28. The committee is chaired by Breffni Byrne, who is a Chartered Accountant and who is considered by the Board to have recent and relevant financial experience. No members of the committee have links with the Company's external auditors. The Company therefore considers that it complies with the Combined Code recommendation regarding the composition of the Audit Committee. The committee chairman receives additional remuneration to compensate him for his additional responsibilities.

The Audit Committee assists the Board in discharging its responsibilities with regard to financial reporting, external and internal audit and control, including reviewing the Company's annual financial statements, reviewing and monitoring the extent of the non-audit work undertaken by external auditors, and reviewing the effectiveness of the Company's internal audit activities, internal controls and risk management systems. The Audit Committee is also responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors, as well as the effectiveness of the audit process. The ultimate responsibility for reviewing and approving the annual report and accounts and the half-yearly reports remains with the Board.

The Audit Committee terms of reference, approved by the Board on 31 October 2005, clearly set out its authority and duties. These can be found on the Company's website at http://investors.hikma.com/hikma/governance.jsp and are summarised as follows:

- monitor the integrity of the financial statements and any other formal announcement relating to the Group's financial performance and review summary financial statements and significant financial returns to regulators;
- review and challenge accounting policies and accounting for significant or unusual transactions;
- review and challenge the adoption of accounting standards, estimates and judgements and the clarity of disclosure in financial reports;
- review and challenge compliance with stock exchange, UK Listing Authority and legal requirements including the requirements of the Combined Code;
- review arrangements for employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters;
- monitor and review the internal financial controls and the Group's overall risk identification and management systems;
- consider and approve the remit and effectiveness of the internal audit function, its annual plan, its resources and access to information and its freedom from management or other restrictions;
- review and monitor management's responsiveness to the findings and recommendations of the internal auditors;
- consider and make recommendations for appointment, reappointment and removal of the Company's external auditor, and oversee the relationship with the external auditor;
- review and monitor the quality, independence and objectivity of the external auditor (accounting for relevant UK and professional regulatory requirements) and approve their remuneration and terms of engagement;
- develop and implement a policy on the supply by the external auditor of non-audit services, taking into account relevant ethical guidance and potential conflicts of interest.

Audit Committee report continued

The Audit Committee will formally meet at least three times per year and otherwise as required. The Chief Executive, the Chief Financial Officer, other Directors and representatives from the finance function may be invited to attend meetings of the Audit Committee, from time to time as appropriate.

The Audit Committee met once between the date of the IPO and the year end, with the Chief Financial Officer, the Company Secretary and the external auditor in attendance. In accordance with the Combined Code, during this meeting the Audit Committee also met with the Group's external auditor without executive management present.

The committee reviewed the external audit plan for 2005 and the planned approach for internal audit for 2006. The committee also reviewed the results of a top-level risk assessment along with reviews of internal controls, both at Group level and for the principal subsidiaries, which had been undertaken by Ernst & Young during 2005.

In addition, the Audit Committee Chairman has met with the external auditor at the principal subsidiaries in the United States and Jordan and also met with Ernst & Young who have been appointed for a three year period to manage and execute the Group's internal audit function.

Attendance of members at committee meetings is shown in the Board report on corporate governance.

The Audit Committee has adopted a policy in relation to the provision of non-audit services by the external auditor. Fees paid in respect of audit, audit-related and non-audit services are outlined in Note 4 to the consolidated financial statements. Audit-related services are services carried out by the external auditor by virtue of its role as auditor and principally include assurance-related work, accounting advice and other procedures associated with the IPO.

In line with best practice the external auditor does not provide services such as information system design and valuation or advocacy work which could be considered to be inconsistent with the audit role. The committee has reviewed the non-audit services provided by the external auditor and is satisfied that the nature of these services has not compromised the auditor's independence.

Insurance

The Company maintains an appropriate level of Directors' and Officers' insurance in respect of action taken against Directors.

Compliance with the provisions of the Combined Code

Between the IPO and the year end, the Company applied the principles of the Combined Code, with the following exceptions:

Combined Code provisions A2.1, A2.2: the Combined Code requires that the positions of Chairman and Chief Executive are separate, with an independent Chairman leading the Board. For the reasons outlined above, the founder of the Group, Mr Samih Darwazah, currently occupies both roles.

Combined Code provisions A4.1, B2.1, C3.3: the Company adopted terms of reference for each of the Audit, Remuneration and Nomination Committees at the time of its IPO, but for technical reasons these were not displayed on the Company's website until after the year end.

Combined Code provision C.3.4: Because of the short period of time between the IPO and the year end, arrangements by which staff may, in confidence, raise concerns about possible improprieties in financial reporting or other matters had not been put in place. The Board plans to introduce such arrangements in 2006.

Going concern

The Board believes that the Group has adequate resources to continue operating for the foreseeable future. For this reason, it will adopt the going concern basis in preparing the accounts.

Board report on remuneration

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 (the "Regulations"). The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has implemented the principles of Good Governance relating to Directors' remuneration. As required by the Regulations, a separate resolution to approve this report will be proposed at the Annual General Meeting of the Company at which the annual accounts for the corresponding financial year will be laid.

The Regulations require the auditors to report to shareholders on the "auditable part" of the Board report on remuneration, and state whether in their opinion that part of the report has been properly compiled in accordance with the Companies Act 1985 (as amended by the Regulations). The report has therefore been divided into separate sections for unaudited and audited information.

Unaudited Information

Remuneration Committee

At the time of the IPO, the Group established a Remuneration Committee comprising three members – Michael Ashton (Committee Chairman), Breffni Byrne and Sir David Rowe-Ham – all of whom are independent Non-Executive Directors. The Company therefore considers that it complies with the Combined Code recommendations regarding the composition of the Remuneration Committee. None of the committee members has any personal financial interest (other than as shareholders), conflicts of interest arising from cross-directorships or day-to-day involvement in the running of the business.

The Remuneration Committee's role is to assist the Board in determining its responsibilities in relation to remuneration, including making recommendations to the Board on the Company's policy on executive remuneration, determining the individual remuneration and benefits package of each of the Executive Directors and recommending and monitoring the remuneration of senior management below Board level. The Board is then responsible for implementing the recommendations and agreeing the remuneration packages of individual Directors.

The Remuneration Committee will also be responsible for making recommendations for the grants of awards under any employee stock option plans. In accordance with the committee's terms of reference, no Director may participate in discussions relation to his own terms and conditions of remuneration. Subject to the limits set out in the Company's Articles of Association, Non-Executive Directors' fees are determined by the full Board.

Remuneration policy for Executive Directors

The aim of the Group's remuneration policy is to maximise the position of the Group in the global pharmaceutical sector by attracting, retaining and motivating the highest calibre of Executive Directors and senior executives with the relevant skills to achieve its business objectives. It will also seek to align the rewards of those individuals with the interests of shareholders by linking part of their remuneration package to personal performance and the success of the Group.

Determination of any discretionary element of the Executive Directors' remuneration package and the future measurement of their performance is undertaken by the Remuneration Committee. Remuneration packages for Executive Directors will be reviewed annually with the aim of referencing these to those of other companies of similar size, activities and complexity.

The remuneration package for Executive Directors comprises the following elements:

- a basic salary;
- director's fees;
- a performance-related annual cash bonus;
- share-related incentive schemes;
- benefits in kind; and
- post employment benefits.

As described below, a significant proportion of Executive Directors' remuneration is discretionary.

Basic salary

The basic salaries of the Executive Directors aim to be competitive with those of Directors and executives in similar positions and be appropriate and competitive with regard to the responsibilities involved.

The Remuneration Committee intends to conduct a full review of salaries during the course of 2006 and will implement a formal salary review system for Executive Directors. In deciding on appropriate levels of remuneration the committee intends to consider the Group as a whole and the responsibilities of the Executive Directors within the Group. Additionally, the committee will take account of the opinions of external consultants in the conduct of the salary review, to help gain an objective view on the appropriate levels and structure of executive remuneration.

Director's fees

As part of their remuneration, each of the Executive Directors receives Director's fees in respect of their position as a Director of the Company.

Board report on remuneration continued

Performance-related annual cash bonus

The Remuneration Committee believes that incentive compensation awarded should be tied to personal performance, the interests of the shareholders and the achievement of the Company's strategic goals. Historically, bonus payments have been assessed on the basis of personal and Group performance, and have comprised a significant proportion of executive remuneration.

During the course of 2006, the parameters for bonus awards will be further reviewed by the committee and expanded to take into account a broader spectrum of key performance indicators, to further align bonuses with the success of the Company and the interests of shareholders.

Other benefits

The Company provides other benefits in line with market practice. These principally include medical insurance/coverage, life insurance, and a company car.

Long-term incentives

Hikma Pharmaceuticals PLC 2004 Stock Option Plan

In October 2004, the Executive Directors were granted options over shares in Hikma Pharma Limited, a Jersey company (now a subsidiary of the Company) pursuant to the Hikma Pharma Limited 2004 Stock Option Plan (the "2004 Plan"), which is open to all Directors and employees of the Group. Under the 2004 Plan, options were awarded to qualifying employees on the basis of their anticipated contribution to the development of the Group. The exercise of options granted under the Plan was not dependent on any performance criteria. However, vesting and exercise of all options under the 2004 Plan was conditional on the successful listing of the Company's shares on the London Stock Exchange. At the time of the IPO, the 2004 Plan was renamed the Hikma Pharmaceuticals PLC 2004 Stock Option Plan, and awards over shares in Hikma Pharma Limited were converted to options over shares in the Company.

In line with institutional guidelines, it is the policy of the Remuneration Committee that the exercise price for new options granted under the 2004 Plan should be market price at the date of grant.

Hikma Pharmaceuticals PLC 2005 Long-Term Incentive Plan

At the time of the IPO, the Company adopted the Hikma Pharmaceuticals PLC 2005 Long-Term Incentive Plan ("LTIP"), pursuant to which awards may be made to Executive Directors and senior management. The LTIP was implemented to give the Group the opportunity to further incentivise Directors and senior management and link their long-term interests with those of the Group. The LTIP also supplements the Hikma Pharmaceuticals PLC 2004 Stock Option Plan, which was adopted in October 2004.

No awards have been made under the LTIP, and during the course of 2006 the Remuneration Committee will review the key performance criteria for awards thereunder. Awards to Directors will be made at the discretion of the Remuneration Committee.

The Company does not operate any long-term incentive schemes other than those detailed above. There are no amendments proposed to be made to the terms and conditions of any entitlement of any Executive Director to share options.

It is intended that the Remuneration Committee will fully review the Group's policy on the award of share options and other long-term incentives during the course of 2006.

Post-employment benefits

Government Social Security

Pursuant to applicable law, each of the Executive Directors receives contributions as a percentage of salary which are paid by the Group into government social security systems.

Hikma Pharmaceuticals Defined Contribution Retirement Benefit Plan (Jordan)

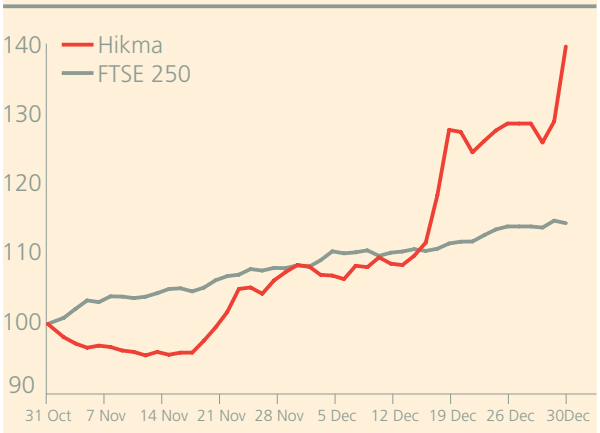
The Executive Directors participate in the Hikma Pharmaceuticals Defined Contribution Retirement Benefit Plan (the "Benefit Plan") in accordance with the Rules of the Benefit Plan relevant to employees of the Group based in Jordan. Under the Benefit Plan the Group matches employee contributions made to the Benefit Plan. These are fixed at 5% of applicable salary. Participants are entitled to 30% of the Group's contributions to the Benefit Plan after three years of employment with the Group, and 10% in each subsequent year. The participant's interest in the Group's contribution fully vests after ten years of employment.

The assets of the Benefit Plan are held separately to those of the Group. The only obligation of the Group in respect of the Benefit Plan is to make the specified contributions.

Total shareholder return

The following graph shows the Company's performance, measured by total shareholder return for the period 1 November 2005 to 31 December 2005. The performance is compared with the performance of the FTSE 250 Index also measured by total shareholder return. The FTSE 250 Index has been chosen on the basis that it is a recognisable reference point and the main index in which the Company's shares are included.

Total shareholder return
(pence, rebased to 100)



Source: Bloomberg

Shareholding policy

The Company encourages Directors to hold shares in the capital of the Company. However, in line with the provisions of the Combined Code on Corporate Governance, Non-Executive Directors do not participate in the share option or long-term incentive plans of the Company. A table setting out the Directors' interests in the share capital of the Company is set out in the audited section of this report.

Service arrangements

It is the intention of the Committee that prior to the Annual General Meeting the Chairman/Chief Executive and the Executive Vice Chairman will enter into new service agreements further formalising the terms of their appointment and setting out a notice period of one year for each appointment. It is anticipated that the letters of appointment to the Board of the Company would be terminated without the payment of compensation on execution of the new service agreements. It is intended that, on termination of the new service agreements the maximum amount of compensation payable to an Executive Director would be an amount of salary and benefits corresponding to the notice period.

During the course of 2006 the Remuneration Committee will review the Company policy on Executive service agreements, including formalising the Group's policy on notice periods. It is anticipated that this will be in line with the guidelines laid down in the Combined Code on Corporate Governance.

During the period under review, the Chairman/Chief Executive and the Executive Vice Chairman held their executive positions with the Group under applicable Jordanian labour regulations. Their appointments are for an indefinite term and, in accordance with Jordanian labour law, are terminable by either party on one month's notice.

The Chairman/Chief Executive and the Executive Vice Chairman also receive remuneration pursuant to letters of appointment with the Company for the provision of their services as Chairman and Vice Chairman of the Company, respectively. The annual remuneration under each of these letters of appointment is $69,840 (£40,000). The appointments, which took effect from 14 October 2005, are for an initial period of up to 36 months, following which the appointments will be reviewed on a yearly basis. Continuation of the appointments is dependent on satisfactory performance and, where appropriate, re-election at Annual General Meetings. These letters of appointment would terminate immediately on the termination of the relevant Executive Director's service arrangements.

In the event of termination of the existing service arrangements in respect of the Chairman/Chief Executive, compensation of one month of basic salary for each year of employment with the Group and interests in the Benefit Plan would be payable. This amount would not exceed one year's salary and benefits. In the event of termination of the existing service arrangements in respect of the Executive Vice Chairman, compensation would be payable in respect of accrued salary up to resignation, accrued vacation and interests in the Benefit Plan. The Letters of Appointment can be terminated without payment by the Company, other than in respect of accrued fees and expenses properly incurred.

Both Mr Samih Darwazah and Mr Mazen Darwazah who, during the period under review, did not have formal service agreements, will be proposed for re-election at the Annual General Meeting.

Board report on remuneration continued

Non-Executive Directors

All Non-Executive Directors have specific terms of engagement. Their remuneration is determined by the Board within the limits set by the Articles of Association and based on the level of fees paid to Non-Executive Directors of similar companies.

Each of the Non-Executive Directors has a letter of appointment with the Company. Each appointment is terminable on one month's notice from either the Company or the Director, but is envisaged to be for an initial period of up to 36 months. Continuation of the appointment is dependent on satisfactory performance and, where appropriate, re-election at Annual General Meetings. The basic fee paid to each of the Non-Executive Directors is $61,111 (£35,000).

The Non-Executive Directors receive further fees as follows: Mr. Ashton: $8,731 (£5,000) for Chairmanship of the Remuneration Committee; Sir David Rowe-Ham; $8,731 (£5,000) for the Chairmanship of the Nomination Committee; and Mr. Byrne: $20,953 (£12,000) for the Chairmanship of the Audit Committee. Each of the Non-Executive Directors is reimbursed expenses incurred properly and reasonably in the performance of their duties and attendance at Board meetings. The Non-Executive Directors do not participate in the Group's stock option plans. Each of the non-executive directors was appointed to the Board on 14 October 2005.

Each of the Non-Executive Directors, who do not have service contracts, will be proposed for re-election at the next Annual General Meeting.

Audited information

Aggregate Directors' remuneration for 2004/2005

The total amounts for directors' remuneration were as follows:

	2005 $	2004 $
Emoluments	**1,526,936**	1,420,194
Compensation for loss of office	**–**	–
Gains on exercise of share options	**–**	–
Amounts receivable under long-term incentive schemes	**–**	–
Money purchase pension contributions	**–**	–
Total	**1,526,936**	1,420,194

Directors' emoluments and compensation

Director	Fees/ Basic salary $	Other benefits $	Annual bonuses $	**2005 Total $**	2004 Total $
Executives					
Mr Samih Darwazah	375,818	54,691	500,000	**930,509**	911,549
Mr Mazen Darwazah	280,128	48,979	200,000	**529,107**	509,087
Non-Executives					
Mr Michael Ashton*	14,881	–	–	**14,881**	–
Mr Ali Al-Husry*	20,073	–	–	**20,073**	11,283
Mr Breffni Byrne*	17,485	–	–	**17,485**	–
Sir David Rowe-Ham*	14,881	–	–	**14,881**	–
Aggregate emoluments	723,266	103,670	700,000	**1,526,936**	1,431,477

*The emoluments of Mr Michael Ashton, Mr Breffni Byrne and Sir David Rowe-Ham are pro-rated from their date of appointment. The emoluments of Mr Samih Darwazah, Mr Mazen Darwazah and Mr Ali Al-Husry include their emoluments as Directors of Hikma Pharma Limited.

Directors' post-employment benefits

Each of the Executive Directors received contributions to the Hikma Pharmaceuticals Defined Contribution Retirement Benefit Plan (Jordan) during the year under review. The contributions paid by the Group were as follows:

Director	**2005 $**	2004 $
Mr Samih Darwazah	**5,042**	3,388
Mr Mazen Darwazah	**4,192**	3,899

Directors' interests in shares

	Preference shares of £1		Ordinary shares of 10 pence	
	Interests on appointment as a director	Interests as at 31 December 2005	Interests as at 1 January 2005 or on appointment as a director	Interests as at 31 December 2005
Executives:	8 September 2005		1 January 2005	
Mr Samih Darwazah	–	24,999	10,148,272*	1,074,506
Mr Mazen Darwazah	–	24,999	5,986,612*	561,958
Non-Executives:	14 October 2005		14 October 2005	
Mr Michael Ashton	–	–	–	–
Mr Ali Al-Husry	–	–	1,309,748*	1,109,748
Mr Breffni Byrne	–	–	–	10,000
Sir David Rowe-Ham	–	–	–	10,000
Total Shares	–	49,998	17,444,632	2,766,212

*Interests of the Executive Directors and Ali Al-Husry have been shown as of 1 January 2005 and have been adjusted to take account of the share for share exchange of Hikma Pharma Limited shares for Hikma Pharmaceuticals PLC shares and the share re-organisation undertaken on 31 October 2005 by the Company in connection with the IPO.

The Preference Shares held by the Executive Directors as at 31 December 2005 were redeemed by the Company on 9 February 2006. Otherwise, there have been no changes in the Directors' interests share capital between the 31 December and the date of this document.

Directors' share options

The aggregate emoluments disclosed above do not include any amounts for the value of options to acquire Ordinary Shares in the capital of the Company granted to or held by the Executive Directors.

Options granted under the 2004 Plan are not subject to performance criteria, though vesting of options under the 2004 Plan was conditional on the successful listing of the Company's share on the London Stock Exchange. Options became exercisable for the first time under the 2004 Plan during the period under review. However, no options were exercised by Directors during the year and no options expired unexercised. Furthermore, there were no variations to the terms and conditions of share options during the year.

Board report on remuneration continued

Hikma Pharmaceuticals PLC 2004 Stock Option Plan

Number of options

Director	On appointment as a director*	**As at 31 December 2005**	Exercise price ($)	Price paid for award	Date of exercise†	Date of Expiry
Mr Samih Darwazah	1,600,000	**1,600,000**	0.9075**	–	1 November 2005	11 October 2014
Mr Mazen Darwazah	800,000	**800,000**	0.9075**	–	1 November 2005	11 October 2014

*Share Options shown on appointment as a Director represent options under the 2004 Plan held over shares in Hikma Pharma Limited prior to its acquisition by Hikma Pharmaceuticals PLC in connection with the listing on the London Stock Exchange. Option numbers have been adjusted to take account of the share re-organisation undertaken by the Company on 31 October 2005 in connection with the IPO.

**Representing the Exercise Price of options following the share re-organisation undertaken on 31 October 2005. Options were awarded on 12 October 2004 with an Exercise price of $3.63.

†Share Options became exercisable following the successful listing of the Company's shares on the London Stock Exchange. Options under the 2004 Plan have phased vesting over five years, with 20% vesting each year on the anniversary of award.

The closing market price for the ordinary shares on 30 December 2005 was 404.75 pence. During the period from 1 November 2005 to the year end the share's closing price ranged from a low of 277 pence to a high of 404.75 pence.

Long-term incentive schemes

No awards have been made under the Hikma Pharmaceuticals 2005 Long-Term Incentive Scheme.

Audit

The emoluments and Directors' interests' information disclosed in the Board report on remuneration, which is required by Part 3 of Schedule 7A of the Companies Act 1985 (as amended), has been audited.

This report was approved by the Board of Directors on 28 March 2006 and signed on its behalf

Michael Ashton
Chairman of the Remuneration Committee

Statement of Directors' responsibilities

Directors' statements of responsibility in relation to the consolidated financial statements.

The Directors are required by law to prepare consolidated financial statements of Hikma Pharmaceuticals PLC and its subsidiaries (together "the Group") in accordance with the Companies' Act 1985, International Financial Reporting Standards and Article 4 of the IAS regulation.

The Directors are responsible for preparing the Annual Report and the financial statements.

International Accounting Standard 1 requires that the financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the Preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance.

The Directors confirm that the financial statements comply with these requirements.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and irregularities and the preparation of a Directors report and Directors' remuneration report which comply with the requirements of the Companies' Act 1985.

The Directors are responsible for the maintenance and integrity of the Company's website where the Group's Annual Report and accounts are available. Information published on the internet is accessible in many countries where legal requirements may differ from the United Kingdom's legislation relating to the preparation and dissemination of financial statements.

Independent auditors' report to the members of Hikma Pharmaceuticals PLC

We have audited the Group financial statements of Hikma Pharmaceuticals PLC for the year ended 31 December 2005 which comprise the consolidated income statement, the consolidated statement of recognised income and expenses, the consolidated balance sheet, the consolidated cash flow statement, and the related Notes 1 to 44. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

We have reported separately on the individual company financial statements of Hikma Pharmaceuticals PLC for the year ended 31 December 2005.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' remuneration report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted for use in the European Union are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the Group financial statements and the part of the Directors' remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the Group financial statements and the part of the Directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you if, in our opinion, the Directors' report is not consistent with the Group financial statements. We also report to you if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' transactions with the Company and other members of the Group is not disclosed.

We also report to you if, in our opinion, the Company has not complied with any of the four Directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long-term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Directors' report and the other information contained in the Annual Report for the above year as described in the contents section including the unaudited part of the directors' remuneration report and we consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements and the part of the Directors' remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements and the part of the Directors' remuneration report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error.
In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements and the part of the Directors' remuneration report described as having been audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended; and
- the Group financial statements and the part of the Directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

Separate opinion in relation to IFRS

As explained in Note 2 of the Group financial statements, the Group, in addition to complying with its legal obligation to comply with IFRS as adopted for use in the European Union, has also complied with the IFRS as issued by the International Accounting Standards Board. Accordingly, in our opinion the financial statements give a true and fair view, in accordance with IFRS, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, United Kingdom

28 March 2006

Consolidated income statement for the year ended 31 December 2005

	Notes	2005 $000's	2004 $000's (Restated see Note 2)
Continuing operations			
Revenue	3	**262,215**	212,377
Cost of sales	3	**(126,424)**	(103,937)
Gross profit	3	**135,791**	108,440
Sales and marketing costs		**(27,367)**	(19,728)
General and administrative expenses		**(22,610)**	(15,098)
Research and development costs		**(16,507)**	(9,672)
Other operating expenses	6	**(3,556)**	(2,552)
Other operating income	7	**2,008**	602
Share of results of associates	16	**1,449**	732
Operating profit		**69,208**	62,724
Flotation costs	8	**(1,426)**	(425)
Finance income	9	**1,562**	326
Finance costs	10	**(5,211)**	(3,825)
Other income		**276**	224
Profit before tax		**64,409**	59,024
Tax	11	**(19,452)**	(20,835)
Profit for the year	4	**44,957**	38,189
Attributable to:			
Minority interest		**1,090**	731
Equity holders of the parent		**43,867**	37,458
		44,957	38,189
Earnings per share (cents)			
Basic	13	**30.0**	26.3
Diluted	13	**28.3**	24.8

During the year the Group carried out a corporate restructuring including the introduction of a new holding company. The income statement has been prepared using merger accounting and is presented on a pro forma basis as if the new holding company had been in existence throughout both the current and prior periods. Further information is given in Note 2.

A consolidated income statement from the date of incorporation of the new holding company is given in Note 44.

Consolidated statement of recognised income and expenses for the year ended 31 December 2005

	2005 $000's	2004 $000's
Gains on revaluation of available-for-sale investments taken to equity	**980**	92
Gains on revaluation of fair value derivatives taken to equity	**164**	168
Exchange (loss)/gain on translation of foreign operations	**(1,941)**	1,158
Net (expenses)/income recognised directly in equity	**(797)**	1,418
Profit for the year	**44,957**	38,189
Total recognised income and expense for the year	**44,160**	39,607
Attributable to:		
Equity holders of the parent	**43,070**	38,876
Minority interests	**1,090**	731
	44,160	39,607

Consolidated balance sheet as of 31 December 2005

	Notes	2005 $000's	2004 $000's
Non-current assets			
Intangible assets	14	**7,735**	5,033
Property, plant and equipment	15	**91,209**	71,471
Interest in associate	16	**7,552**	6,103
Due from associate		**2,304**	1,613
Deferred tax assets	17	**1,506**	171
Available for sale investments	18	**1,439**	425
Financial and other non-current assets	19	**1,276**	1,189
		113,021	86,005
Current assets			
Inventories	20	**58,017**	44,365
Income tax recoverable		**1,320**	1,908
Trade and other receivables	21	**87,466**	63,732
Investment in cash deposits		**–**	7,692
Collateralised cash	22	**5,120**	–
Cash and cash equivalents	23	**135,959**	41,415
Other current assets		**1,891**	1,364
		289,773	160,476
Total assets		**402,794**	246,481
Current liabilities			
Bank overdrafts and loans	24	**21,146**	35,108
Obligations under finance leases	28	**797**	1,165
Trade and other payables	25	**48,849**	29,812
Income tax provision		**5,965**	4,646
Other provisions	26	**1,233**	829
Other current liabilities		**3,542**	1,672
		81,532	73,232
Net current assets		**208,241**	87,244
Non-current liabilities			
Long-term financial debts	27	**30,791**	24,291
Deferred income		**416**	591
Obligations under finance leases	28	**1,411**	2,448
Deferred tax liabilities	17	**1,162**	744
		33,780	28,074
Total liabilities		**115,312**	101,306
Net assets		**287,482**	145,175
Equity			
Share capital	31	**29,457**	25,269
Share premium	32	**110,074**	–
Treasury shares	33	**–**	(187)
Reserves	34	**144,350**	117,408
Equity attributable to equity holders of the parent		**283,881**	142,490
Minority interest	35	**3,601**	2,685
Total equity		**287,482**	145,175

The financial statements were approved by the Board of Directors and signed on its behalf by:

Samih Darwazah
Director

28 March 2006

Consolidated cash flow statement for the year ended 31 December 2005

	Notes	2005 $000's	2004 $000's
Net cash from operating activities	37	**32,713**	32,842
Investing activities			
Purchases of property, plant and equipment		**(23,423)**	(18,043)
Proceeds from disposal of property, plant and equipment		**873**	66
Purchase of intangible assets		**(562)**	(3,287)
Investment in financial and other assets		**(78)**	(643)
Disposal of financial and other assets		**–**	500
Investment in available for sale securities		**(35)**	(71)
Reduction of/(investment in) cash deposits		**7,692**	(4,111)
Acquisition of subsidiary		**(825)**	(690)
Cash acquired on acquisition of subsidiary		**4**	880
Net cash used in investing activities		**(16,354)**	(25,399)
Financing activities			
Proceeds from the sale of treasury shares		**346**	4,841
Purchase of treasury shares		**–**	(4,835)
Increase in collateralised cash		**(5,120)**	–
Increase in long-term financial debts		**25,583**	–
Repayment of long-term financial debts		**(20,895)**	(9,670)
(Repayments)/increase in short-term borrowings		**(15,659)**	6,990
Net (repayments)/increase in obligations under finance leases		**(3,109)**	1,011
Dividends paid		**(17,800)**	(3,766)
Proceeds from issue of new shares		**124,913**	–
Costs of issue of new shares		**(10,810)**	–
Net cash from/(used in) financing activities		**77,449**	(5,429)
Net increase in cash and cash equivalents		**93,808**	2,014
Cash and cash equivalents at beginning of year		**41,415**	39,301
Effect of foreign exchange rate changes		**736**	100
Cash and cash equivalents at end of year		**135,959**	41,415

Notes to the consolidated financial statements

1. Corporate restructuring

During the period the Group carried out a corporate restructuring including the introduction of a new holding company, Hikma Pharma PLC, incorporated in Great Britain as a public limited company on 8 September 2005. Hikma Pharma PLC changed its name to Hikma Pharmaceuticals PLC on 19 September 2005 and on 31 October 2005 Hikma Pharmaceuticals PLC acquired the issued share capital of Hikma Pharma Limited, the former holding company, for the issue of shares to shareholders on the basis of four shares for every one share held in Hikma Pharma Limited. Prior to 31 October 2005, Hikma Pharmaceuticals PLC had not commenced trading or made any profits or losses. On 1 November 2005 the shares of Hikma Pharmaceuticals PLC were listed on the London Stock Exchange.

The corporate restructuring was accounted for using merger accounting principles. The results of the Company and its subsidiaries have been presented on a pro forma basis for the years ended 31 December 2005 and 31 December 2004 as the Directors believe this information is more meaningful to readers than information for the period from 8 September 2005 to 31 December 2005. The Directors believe that this presentation is necessary to present a true and fair view of the results of the Company and its subsidiaries for the period.

The Hikma Pharmaceuticals PLC consolidated statutory income statement and cash flow statement for the period from 8 September 2005, the date of incorporation, to 31 December 2005 is presented in Note 44, in order to comply with Section 226 of the Companies Act 1985.

2. Significant accounting policies

Basis of accounting

Hikma Pharmaceuticals PLC's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. The financial statements have also been prepared in accordance with IFRS adopted for use in the European Union and therefore comply with Article 4 of the EU IAS Regulation. The financial statements have been prepared under the historical cost convention, except for the revaluation to market of certain financial assets and liabilities.

The Group's previously published financial statements were also prepared in accordance with International Financial Reporting Standards. These International Financial Reporting Standards have been subject to amendment and interpretation by the International Accounting Standards Board and the financial statements presented for the years ended 31 December 2004 and 31 December 2005 have been prepared in accordance with those revised standards. Unless stated otherwise these policies are in accordance with the revised standards that have been applied throughout the year and prior years presented in this financial statements.

The currency used in the preparation of the accompanying consolidated financial statements is the US Dollar as the majority of the Company's business is conducted in US Dollars ($).

The significant accounting policies are set out below.

Restatement of prior year income statement comparatives

The following restatements had no effect on the profit for the 2004 financial year or on the net assets of the Group at 31 December 2004.

For the year ended 31 December 2005, the Group's share of results of associates has been included within operating profit as the Directors consider these activities to be operational activities and the 2004 comparative has been restated. Accordingly, management fees receivable from associates of $1,016,000 (2004: $333,000) are included in other operating income. In 2004 the management fees were included in other income.

Flotation costs totalling $425,000 incurred in 2004 were classified as general and administrative expenses. Following flotation, the 2004 comparatives have been restated to reflect these costs as non operational.

The prior year comparatives for revenue, sales and marketing costs, and general and administrative expenses have been restated to reflect a change in accounting policy for Medicaid rebates and associated administrative charges paid to the wholesale customers of the Generics division. The restatement has resulted in revenue, sales and marketing costs, and general and administrative expenses being decreased by $1,771,000, $1,334,000 and $437,000 respectively. This restatement had no effect on operating profits for the period.

2. Significant accounting policies continued

Basis of consolidation

The consolidated financial statements incorporate the results of Hikma Pharmaceuticals PLC (the "Company") and entities controlled by the Company (together the "Group"). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in the financial statements using the equity method of accounting except when classified as held for sale. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest in those associates are not recognised.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Notes to the consolidated financial statements continued

2. Significant accounting policies continued

Intangible assets

Intangible assets are valued at cost and reviewed at least annually for any impairment. Any resulting impairment loss is recorded in the income statement under general and administrative expenses.

(a) Goodwill: Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(b) Marketing rights: are amortised over their useful lives commencing in the year in which the rights first generate sales.

(c) Product files: product files are assigned indefinite useful lives which are reviewed for impairment at least annually; any impairment is recognised immediately in profit and loss and is not subsequently reversed.

(d) Purchased software: is amortised over three years.

Foreign currencies

For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in US Dollars, which is the functional currency of the Group, and the presentation currency for the consolidated financial statements.

Transactions in currencies other than local currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Gains and losses arising on retranslation are included in net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value and the related foreign exchange are recognised directly in equity.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such cumulative translation differences are recognised as income or as expenses in the period in which the operation is disposed.

Revenue recognition

Revenue is recognised in the income statement when goods or services are supplied or made available to external customers against orders received and when title and risk of loss passes to the customer.

Turnover represents net invoice value after the deduction of discounts and allowances given and accruals for estimated future rebates and returns. The methodology and assumptions used to estimate rebates and returns are monitored and adjusted regularly in the light of contractual and historical information and past experience. Value added tax and other sales taxes are excluded from revenue.

2. Significant accounting policies continued

Charge backs

The provision for charge backs is the most significant and complex estimate used in the recognition of revenue. In the USA the Group sells its products directly to wholesale distributors, generic distributors, retail pharmacy chains and mail-order pharmacies. The Group also sells its products indirectly to independent pharmacies, managed care organisations, hospitals, and Group purchasing organisations, collectively referred to as "indirect customers". The Group enters into agreements with its indirect customers to establish pricing for certain products. The indirect customers then independently select a wholesaler from which they purchase the products at agreed-upon prices. The Group will provide credit to the wholesaler for the difference between the agreed-upon price with the indirect customer and the wholesaler's invoice price. This credit is called a charge back. The provision for charge backs is based on historical sell-through levels by the Group's wholesale customers to the indirect customers, and estimated wholesaler inventory levels. As sales are made to the large wholesale customers, the Group continually monitors the reserve for chargebacks and makes adjustments when it believes that actual charge backs may differ from estimated reserves.

Returns and rebates

In certain countries and consistent with industry practice, the Group has a product return policy that allows selected customers to return the product within a specified period prior to and subsequent to the expiration date, in exchange for a credit to be applied to future purchases.

The Group estimates its provision for returns and rebates based on historical experience, changes to business practices and credit terms. While such experience has allowed for reasonable estimations in the past, history may not always be an accurate indicator of future returns. The Group continually monitors the provisions for returns and rebates, and makes adjustments when it believes that actual product returns may differ from established reserves. Generally, the reserve for returns and rebates increases as net sales increase.

Price adjustments

Price adjustments, also known as "shelf stock adjustments", are credits issued to reflect decreases in the selling prices of the Group's products that customers have remaining in their inventories at the time of the price reduction. Decreases in selling prices are discretionary decisions made by Group management to reflect competitive market conditions. Amounts recorded for estimated shelf stock adjustments are based upon specified terms with direct customers, estimated declines in market prices and estimates of inventory held by customers. The Group regularly monitors these and other factors and re-evaluates the reserve as additional information becomes available.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Dividend income

Income from investments is recognised when the shareholders' rights to receive payment have been established.

Leasing

Leases are classified as capital leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to income on a straight-line basis over the term of the operating lease.

Assets held under capital leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a capital lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Notes to the consolidated financial statements continued

2. Significant accounting policies continued

Government grants
Government grants relating to property, plant and equipment are treated as deferred income and released to the income statement over the expected useful lives of the assets concerned.

Research and development
Research and development expenses are fully charged to the income statement, as the Group considers that the regulatory and other uncertainties inherent in the development of its products generally mean that the recognition criteria in IAS 38 "Intangible assets" are not met. Where, however the recognition criteria are met, intangible assets will be capitalised and amortised over their useful economic life.

Retirement benefit costs
Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

Tax
The Group provides for income tax according to the laws and regulations prevailing in the countries where the Group operates. Furthermore, the Group computes and records deferred tax assets according to IAS 12 "Income Taxes".

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statements because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Share-based payment transactions
Employees (including Directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions").

2. Significant accounting policies continued

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which the share-based payments are granted. The fair value is determined using a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations (further details are given in Note 36). In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the market price of the shares of Hikma Pharmaceuticals PLC.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, on a straight-line basis over the vesting period based on the Group's estimate of shares that will eventually vest. No expense is recognised for awards that do not ultimately vest. Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the modification date. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for a cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

IFRS 2 "Share-based Payment" requires an expense to be recognised when the Group buys goods or services in exchange for share or rights over shares ("equity-settled transactions") or in exchange for other equivalent assets.

Property, plant and equipment

Property, plant and equipment have been valued at cost of acquisition and are depreciated, except for land, on a straight-line basis at the following depreciation rates:

Buildings	2% to 4%
Vehicles	10% to 20%
Machinery and equipment	5% to 20%
Fixtures and equipment	8% to 33%

Any additional costs that extend the useful life of property, plant and equipment are capitalised. Financing costs associated with the construction of property, plant and equipment are not capitalised. Property, plant and equipment which are financed by leases giving Hikma Pharmaceuticals PLC substantially all the risks and rewards of ownership are capitalised at the lower of the fair value of leased property and the present value of the minimum lease payments at the inception of the lease, and depreciated in the same manner as other property, plant and equipment over the shorter of the lease term or their useful life. Whenever the recoverable amount of an asset is impaired, the carrying value is reduced to the recoverable amount and the impairment loss is taken to the income statement. Projects under construction are carried at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Purchased products are valued at acquisition cost and all other costs incurred in bringing each product to its present location and condition. Cost of own-manufactured products comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. In the balance sheets, inventory is primarily valued at standard cost, which approximates to historical cost determined on a moving average basis, and this value is used to determine the cost of sales in the income statement. Net realisable value represents the estimated selling price in the ordinary course of business, less all estimated costs of completion and all estimated costs necessary to make the sale. Provisions are made for inventories with net realisable value lower than cost or for slow moving inventory.

Notes to the consolidated financial statements continued

2. Significant accounting policies continued

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Derivative financial instruments are used to manage exposure to market risks from treasury operations. The principal derivative instruments used by the Group are interest rate swaps and forward foreign exchange contracts. The Group does not hold or issue derivative financial instruments for trading or speculative purposes.

Derivative financial instruments are initially recognised in the balance sheet at cost and then remeasured at subsequent reporting dates to fair value. Hedging derivatives are classified on inception as fair value hedges, cash flow hedges or net investment hedges. Changes in the fair value of derivatives designed as fair value hedges are recorded in the income statement, with the changes in the fair value of the hedged asset or liability. Changes in the fair value of derivatives designed as cash flow hedges are recognised in equity. Amounts deferred in equity are transferred to the income statement in line with the hedged forecast transaction. Hedges of net investments in foreign entities are accounted for in a similar way to cash flow hedges.

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

Investments

Available for sale investments with quoted market prices are initially recognised at cost on acquisition and remeasured to their fair values at year-end. Gains or losses on remeasurement to fair value are recognised in shareholders' equity until the investments are sold, disposed of, or determined to be impaired, at which time the cumulative gains or loss relating to these investments previously recognised in equity is included in the income statement. Available for sale financial assets without market prices and the fair value of which cannot be reliably measured are stated at cost, less a provision for any impairment loss, which is taken to the income statement.

The fair value of quoted financial assets represents the closing price in the financial markets at the date of the financial statements. However, the fair value of unquoted financial assets, or those with no declared price are estimated by comparing the fair value of a similar financial instrument or through a discounted cash flow method.

Accounts receivable

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less and are subject to an insignificant risk of changes in value.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in profit or loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are not interest bearing and are stated at fair value.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

2. Significant accounting policies continued

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or income-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (income-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

New accounting policies and future requirements

The following IFRS and IFRIC interpretation have been issued by the IASB and are likely to affect future annual reports.

IFRS 7 "Financial instruments: disclosures" was issued in August 2005 and is required to be implemented by the Group from 1st January 2007. This new standard incorporates the disclosure requirements of IAS 32, which it supersedes, and adds further quantitative and qualitative disclosures in relation to financial instruments.

IFRIC 4 "Determining whether an arrangement contains a lease" was issued in December 2004 and is required to be implemented by the Group from 1 January 2006. The interpretation requires arrangements which may have the nature, but not the legal form, of a lease to be accounted for in accordance with IAS 17 "Leases". This interpretation is not expected to have a material impact on the Group.

Notes to the consolidated financial statements continued

3. Business and geographical segments

For management purposes, the Group is organised into three operating divisions – Generics, Branded and Injectables. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

	Generics 2005 $000's	Branded 2005 $000's	Injectable 2005 $000's	Corporate and others 2005 $000's	Group 2005 $000's
Revenue	115,208	93,012	49,303	4,692	262,215
Cost of sales	(52,861)	(39,297)	(30,883)	(3,383)	(126,424)
Gross profit	62,347	53,715	18,420	1,309	135,791
Result					
Segment result	38,765	28,764	8,486	(27)	75,988
Unallocated corporate expenses					(8,229)
Share of results of associates	–	1,449	–	–	1,449
Operating profit					69,208
Flotation costs					(1,426)
Finance income					1,562
Finance costs					(5,211)
Other income					276
Profit before tax					64,409
Tax					(19,452)
Minority interest					(1,090)
Profit for the year attributable to equity shareholders					43,867

Other information	Generics 2005 $000's	Branded 2005 $000's	Injectable 2005 $000's	Corporate and others 2005 $000's	Group 2005 $000's
Additions to property, plant and equipment assets (cost)	4,385	12,364	7,770	1,680	26,199
Acquisition of subsidiary's property, plant and equipment	–	–	9,857	–	9,857
Additions to intangible assets	–	282	3,939	–	4,221
Total property, plant and equipment and intangible assets (net book value)	25,600	33,844	30,408	9,092	98,944
Depreciation and amortisation	4,879	2,273	2,133	1,040	10,325
Total investment in associated companies	–	7,552	–	–	7,552
Balance sheet					
Assets					
Segment assets	122,831	140,631	50,219	89,113	402,794
Liabilities					
Segment liabilities	13,207	62,937	25,237	13,931	115,312

3. Business and geographical segments continued

	Generics 2004 $000's	Branded 2004 $000's	Injectable 2004 $000's	Corporate and others 2004 $000's	Group (Restated) 2004 $000's
Revenue	106,225	74,013	28,859	3,280	212,377
Cost of sales	(48,773)	(34,312)	(19,140)	(1,712)	(103,937)
Gross profit	57,452	39,701	9,719	1,568	108,440
Result					
Segment result	41,043	22,441	4,056	986	68,526
Unallocated corporate expenses					(6,534)
Share of results of associates	–	732	–	–	732
Operating profit					62,724
Flotation costs					(425)
Finance income					326
Finance costs					(3,825)
Other income					224
Profit before tax					59,024
Tax					(20,835)
Minority interest					(731)
Profit for the year attributable to equity shareholders					37,458

Other information	Generics 2004 $000's	Branded 2004 $000's	Injectable 2004 $000's	Corporate and others 2004 $000's	Group 2004 $000's
Additions to property, plant and equipment assets (cost)	6,139	8,340	2,133	1,432	18,044
Acquisition of subsidiary's property, plant and equipment	–	–	–	3,146	3,146
Additions to intangible assets	3,443	–	778	70	4,291
Total property, plant and equipment and intangible assets (net book value)	25,271	25,256	18,373	7,604	76,504
Depreciation and amortisation	2,036	2,505	1,412	727	6,680
Total investment in associated companies	–	6,103	–	–	6,103
Balance sheet					
Assets					
Segment assets	104,411	93,493	29,953	18,624	246,481
Liabilities					
Segment liabilities	16,818	45,783	18,998	19,707	101,306

Notes to the consolidated financial statements continued

3. Business and geographical segments continued

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Sales revenue by geographical market	
	2005 $000's	2004 $000's
United States	**130,454**	113,101
Europe	**20,445**	12,490
Middle East and North Africa	**111,283**	85,826
Rest of the world	**33**	960
	262,215	212,377

The following is an analysis of the additions to property, plant and equipment and intangible assets, an analysis of total property, plant and equipment and intangible assets and an analysis of total assets by the geographical area in which the assets are located:

	Additions* to property, plant and equipment and intangibles		Total property, plant and equipment and intangibles		Total assets	
	2005 $000's	2004 $000's	**2005 $000's**	2004 $000's	**2005 $000's**	2004 $000's
United States	**4,385**	9,582	**25,600**	25,271	**122,832**	104,411
Europe	**21,573**	2,912	**31,431**	18,373	**115,587**	30,377
Middle East and North Africa	**14,319**	12,987	**41,913**	32,860	**164,375**	111,693
	40,277	25,481	**98,944**	76,504	**402,794**	246,481

*Additions include property, plant and equipment and intangibles acquired with and arising on the acquisition of subsidiary undertakings.

4. Profit for the year

Profit for the year has been arrived at after charging/(crediting):

	For the years ended 31 December	
	2005 $000's	2004 $000's
Net foreign exchange gains	**(217)**	(282)
Research and development costs	**16,507**	9,672
Loss on sale of property, plant and equipment	**440**	390
Depreciation of property, plant and equipment	**8,909**	6,680
Amortisation and impairment of intangibles	**1,416**	–
Cost of inventories recognised as expense	**83,648**	67,237
Write-down of inventories	**855**	921
Staff costs (see Note 5)	**51,889**	36,894
Auditors' remuneration for audit services (see below)	**1,059**	439

A more detailed analysis of auditors' remuneration on a worldwide basis is provided below.

	2005 $000's	2004 $000's
Audit fees	**644**	409
Fees in connection with the float*	**212**	–
Other services	**203**	30
	1,059	439

*In addition, $1,995,000 of fees in relation to the float has been set off against the share premium account.

4. Profit for the year continued

A description of the work of the Audit Committee is set out in the Audit Committee report on pages 35 and 36 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

Included in the amount for audit services shown on the previous page are the audit fees of Hikma Pharmaceuticals PLC (company only) of $50,000.

5. Staff costs

The average monthly number of employees (including Executive Directors) was:

	2005 Number	2004 Number
Production	**1,052**	818
Selling and marketing	**363**	292
Research and development	**160**	122
General and administrative	**252**	195
	1,827	1,427

	2005 $000's	2004 $000's
Their aggregate remuneration comprised:		
Wages and salaries	**41,055**	29,662
Social security costs	**4,039**	2,702
Post employment benefits	**685**	615
End of service indemnity	**843**	615
Other*	**5,267**	3,300
	51,889	36,894

*Other staff costs mainly consist of health insurance, training, housing and living allowances.

6. Other operating expenses

The other operating expenses consist mainly of damaged and slow moving items and the cost of setting up the new manufacturing facilities in Algeria that commenced operations early in 2006.

7. Other operating income

The other operating income consists mainly of management fees from Al-Jazeera Pharmaceuticals Industries Co. – KSA and foreign exchange gains.

8. Flotation costs

The total costs of flotation were $12,661,000, of which costs incurred in issuing shares amounting to $10,810,000 have been charged against the share premium account. The remaining amount of $1,851,000 incurred as a result of the listing exercise, but which was not eligible to be set against the share premium, has been reflected in flotation costs within the income statement, of which $1,426,000 and $425,000 was recognised in the years ended 31 December 2005 and 2004, respectively.

9. Finance income

	For the years ended 31 December	
	2005 $000's	2004 $000's
Interest income	**1,562**	313
Net foreign exchange	**–**	13
	1,562	326

Notes to the consolidated financial statements continued

10. Finance costs

	For the year ended 31 December	
	2005 $000's	2004 $000's
Interest on bank overdrafts and loans	**3,437**	2,498
Interest on obligations under finance leases	**227**	436
Other bank charges	**1,547**	891
	5,211	3,825

11. Tax

	For the years ended 31 December	
	2005 $000's	2004 $000's
Current tax:		
UK current tax	**110**	–
Foreign tax	**19,596**	20,896
Deferred tax (Note 17)	**(254)**	(61)
	19,452	20,835

UK corporation tax is calculated at 30% of the estimated assessable profit for the year. At 31 December 2004 the Group was headed by Hikma Pharma Limited, a company incorporated in Jersey where the tax rate is zero.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2005 $000's
Profit before tax	**64,409**
Tax at the UK corporation tax rate of 30%	**19,323**
Tax effect of share of results of associates	**(435)**
Tax effect of expenses that are not deductible in determining taxable profit	**7**
Tax effect of exempted revenues	**(3,023)**
Tax effect of losses for which no deferred tax asset is recognised	**1,520**
Effect of different tax rates of subsidiaries operating in other jurisdictions	**2,427**
Other adjustments	**(367)**
Tax expense for the year	**19,452**

No reconciliation is provided for 2004 as the company was incorporated in Jersey where the tax rate is zero.

12. Dividends

	2005 $000's	2004 $000's
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 December 2004 of 5.0 cents per share (2003: 2.6 cents per share)	**7,120**	3,766
Pre-float interim dividend for the year ended 31 December 2005 of 7.5 cents per share	**10,680**	–
	17,800	3,766
Proposed final dividend for the year ended 31 December 2005 of 0.89 cents per share (2004: 5.0 cents per share)	**1,500**	7,120

The final dividend for the year ended 31 December 2004 and the pre-float interim dividend for the year ended 31 December 2005 were paid by Hikma Pharma Limited which is incorporated in Jersey.

13. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	2005 $000's	2004 $000's
Earnings		
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to equity holders of the parent	**43,867**	37,458

	Number	Number
Number of shares		
Weighted average number of Ordinary Shares for the purposes of basic earnings per share ('000)	**146,454**	142,400
Effect of dilutive potential Ordinary Shares:		
Share options ('000)	**8,402**	7,843
Weighted average number of ordinary shares for the purposes of diluted earnings per share ('000)	**154,856**	150,243
Basic/Cents	**30.0**	26.3
Diluted/Cents	**28.3**	24.8

14. Intangible assets

	Goodwill $000's	Marketing rights $000's	Product files $000's	Software $000's	Total $000's
Cost					
At 1 January 2004	1,350	–	–	–	1,350
Additions	70	778	–	3,443	4,291
At 1 January 2005	1,420	778	–	3,443	5,641
Additions	–	665	–	–	665
Acquisition of subsidiary's intangibles	975	–	2,581	–	3,556
Translation adjustments	–	(103)	–	–	(103)
At 31 December 2005	**2,395**	**1,340**	**2,581**	**3,443**	**9,759**
Amortisation					
At 1 January 2004, 31 December 2004 and 1 January 2005	(608)	–	–	–	(608)
Charge for the year	–	(102)	–	(1,064)	(1,166)
Impairment charge	–	–	–	(250)	(250)
At 31 December 2005	**(608)**	**(102)**	**–**	**(1,314)**	**(2,024)**
Carrying amount					
At 31 December 2005	**1,787**	**1,238**	**2,581**	**2,129**	**7,735**
At 31 December 2004	812	778	–	3,443	5,033

Goodwill of $1,350,000 arose on the acquisition of Arab Medical Containers in 1990. Goodwill of $70,000 arose on the acquisition of the Group's shares of IPRC and SPRC in 2004. The additions to goodwill in 2005 represent the acquisition of the Italian subsidiary (IBPP) (see Note 36). In accordance with International Accounting Standard 38 "Intangible Assets" ("IAS 38") the Group has tested its goodwill for impairment and assessed that the fair value exceeds its book value, therefore no impairment has been taken to the income statement.

Marketing rights were acquired in 2005 and 2004 and are being amortised over a period of three to five years from the time they generate sales.

Product files were acquired at 14 March 2005 on the acquisition of the Italian subsidiary (IBPP). The product files have an indefinite useful life and are being reviewed for impairment test at least annually.

Software represents the new Enterprise Resource Planning solution (ERP) that the Company implemented in January 2005. An impairment charge of $250,000 has been recognised during 2005 in relation to software which no longer has any beneficial interest to the Group.

Notes to the consolidated financial statements continued

15. Property, plant and equipment

	Land and buildings $000's	Vehicles $000's	Machinery and equipment $000's	Fixtures and equipment $000's	Projects under construction $000's	Total $000's
Cost						
At 1 January 2004	32,299	4,154	53,870	7,279	1,835	99,437
Additions	2,332	1,055	10,411	2,243	5,149	21,190
Disposals	(10)	(1,354)	(3,228)	(753)	(1)	(5,346)
Transfers	2,095	–	221	–	(2,316)	–
Translation adjustment	871	39	879	282	133	2,204
At 1 January 2005	**37,587**	**3,894**	**62,153**	**9,051**	**4,800**	**117,485**
Additions	736	1,066	8,085	2,681	13,631	26,199
Acquisition of subsidiary	3,440	56	6,249	112	–	9,857
Disposals	(208)	(349)	(885)	(1,009)	(17)	(2,468)
Transfers	2,543	–	2,401	465	(5,409)	–
Translation adjustment	(1,807)	(47)	(2,560)	(237)	(190)	(4,841)
At 31 December 2005	**42,291**	**4,620**	**75,443**	**11,063**	**12,815**	**146,232**
Accumulated depreciation						
At 1 January 2004	5,799	2,504	31,102	3,303	–	42,708
Charge for the year	1,114	479	4,500	1,243	–	7,336
Disposals	(1)	(1,269)	(2,960)	(656)	–	(4,886)
Translation adjustment	283	26	393	154	–	856
At 1 January 2005	7,195	1,740	33,035	4,044	–	46,014
Charge for the year	1,121	573	5,908	1,307	–	8,909
Acquisition of subsidiary	475	14	2,710	45	–	3,244
Disposals	–	(250)	(653)	(251)	–	(1,154)
Transfers	(12)	–	(316)	328	–	–
Translation adjustment	(577)	(44)	(1,222)	(147)	–	(1,990)
At 31 December 2005	**8,202**	**2,033**	**39,462**	**5,326**	**–**	**55,023**
Net book value						
31 December 2005	**34,089**	**2,587**	**35,981**	**5,737**	**12,815**	**91,209**
Net book value						
31 December 2004	30,392	2,154	29,118	5,007	4,800	71,471

The net book value of the Group's machinery and equipment includes an amount of $3,341,000 (2004: $5,273,000) in respect of assets held under finance lease.

As at 31 December 2005 the Group had pledged property, plant and equipment, having a carrying value of $31,538,000 of which an amount of $6,743,000 was pledged to International Finance Corporation.

In 1994, the Portuguese Government granted Hikma Farmacêutica an amount of Euro 1,600,000 to build the Company's factory in accordance with the SINPEDIP programme. The grant amount is being released to the income statement over the period necessary to match it with the assets' life. The carrying value of the grant as of 31 December 2005 was $416,000 (31 December 2004: $591,000).

The Directors were not aware of any significant contractual commitments other than those disclosed in the accounts as of 31 December 2005 (2004: $1,600,000).

The amount of borrowing costs that was capitalised on the projects under construction is $300,000 (2004: nil).

16. Interest in associate

Summarised financial information in respect of the Group's 47.5% interest in the Ordinary Shares of Al-Jazeera Pharmaceutical Industries Co. – incorporated in KSA is set out below:

	For the years ended 31 December	
	2005 $000's	2004 $000's
Total assets	**47,773**	40,690
Total liabilities	**(31,874)**	(27,842)
Net assets	**15,899**	12,848
Interest in associate	**7,552**	6,103
Revenues	**30,371**	23,347
Profit	**3,050**	1,541
Share of result of associate	**1,449**	732

Profit is stated after management fees of $1,061,000 (2004: $333,000) paid to the Group.

17. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

	Tax losses $000's	Deferred R&D costs $000's	Reserves and others $000's	Interest rate swaps $000's	Amortis-able assets $000's	Fixed assets $000's	Stock options $000's	Software develop-ment $000's	Total $000's
At 1 January 2004	–	(129)	(482)	(91)	(50)	1,284	–	–	532
Charge to income	–	(28)	(1,620)	91	6	300	–	1,312	61
Exchange differences	–	(14)	–	–	–	(6)	–	–	(20)
At 1 January 2005	–	(171)	(2,102)	–	(44)	1,578	–	1,312	573
Charge/(credit) to income	–	(128)	213	(19)	17	287	(214)	(410)	(254)
Charge/(credit) to equity	–	–	–	–	–	–	(960)	–	(960)
Acquisition of subsidiary	(357)	–	–	–	–	651	–	–	294
Exchange differences	43	29	–	–	–	(69)	–	–	3
As 31 December 2005	**(314)**	**(270)**	**(1,889)**	**(19)**	**(27)**	**2,447**	**(1,174)**	**902**	**(344)**

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2005 $	2004 $
Deferred tax liabilities	**1,162**	744
Deferred tax assets	**(1,506)**	(171)
	(344)	573

A deferred tax asset on unused tax losses totalling $226,000 has not been recognised in the year due to the unpredictability of future profit streams. These losses may be carried forward indefinitely. In addition there is a deferred tax asset of approximately $310,000 on other deductible temporary differences which has not been recognised due to uncertainty regarding the tax treatment of the profits against which these differences will reverse.

Notes to the consolidated financial statements continued

18. Available for sale investments

The investment in available for sale securities represents investments in listed equity securities and unlisted securities that are recorded at the fair value based on either quoted market price for listed companies or using other valuation methods for unlisted companies.

	As at 31 December	
	2005 $000's	2004 $000's
Listed companies	**1,185**	171
Non-listed companies*	**254**	254
	1,439	425

*Included in this amount is an investment in a non-listed US company (MENA Innovative Technologies Inc.) of $141,000 (2004: $141,000) that represents 32.5% of its common share for which the management does not exert significant influence as it has no representation on the Board of Directors of the company.

19. Financial and other non-current assets

	As at 31 December	
	2005 $000's	2004 $000's
Investments recorded at cost	**488**	488
Amounts due from investments recorded at cost	**511**	554
Other financial assets	**277**	147
	1,276	1,189

Investments at cost represent the Group's share of 32% (2004: 32%) and 49% (2004: 49%) in Societe Hikma Pharma – Tunisia and Societe D'Industries Pharmaceutiques Ibn Al Baytar S.A. – Tunisia, over which the Company does not exert significant influence due to a number of factors including its limited representation on the Board of Directors of these companies.
On 17 March 2005 the Group signed an agreement with Societe D'Industries Pharmaceutiques Ibn Al Baytar S.A. – Tunisia, to sell the Group's share in Societe Hikma Ibn Al Baytar Limited – Tunisia for a total value equivalent to Tunisian Dinar 400,000 ($333,000) to be paid in four instalments within nine months from 17 March 2005. In the year to 31 December 2005 the Group has received three instalments totalling $241,000, which have been recognised as other income in the income statement as the net book value of the investment amounted to one US Dollar.

Amounts due from investments recorded at cost include $162,000 (2004: $162,000), and $459,000 (2004: $554,000) due from Societe Hikma Pharma – Tunisia and Societe D'Industries Pharmaceutiques Ibn Al Baytar S.A. – Tunisia, respectively. While the remaining amount of $188,000 (2004: $514,000) represents the amount due form Societe Hikma Ibn Al Baytar Limited – Tunisia, which was sold to Societe D'Industries Pharmaceutiques Ibn Al Baytar S.A. – Tunisia as mentioned above. The amounts due from Societe Hikma Pharma – Tunisia and Societe Hikma Ibn Al Baytar Limited – Tunisia are stated after provision for doubtful debts of $298,000 (2004: $676,000).

20. Inventories

	As at 31 December	
	2005 $000's	2004 $000's
Finished goods	**14,868**	14,777
Work-in-progress	**13,150**	7,890
Raw and packing materials	**24,247**	17,791
Goods in transit	**5,752**	3,907
	58,017	44,365

Goods in transit include inventory held at third parties whilst in transit between Group companies.

21. Trade and other receivables

	As at 31 December	
	2005 $000's	2004 $000's
Trade receivables	**77,441**	60,151
Other prepayments	**5,389**	1,762
Interest receivable	**217**	30
Employee advances	**68**	29
Value added tax recoverable	**3,889**	1,733
Other receivables	**462**	27
	87,466	63,732

Trade receivables are stated net of provisions for chargebacks in the US, doubtful debts and expired goods as follows:

	As at 31 December	
	2005 $000's	2004 $000's
Charge backs	**15,828**	18,125
Doubtful debts	**4,408**	3,432
Expired goods	**1,693**	1,216
	21,929	22,773

22. Collateralised cash

Collateralised cash represents an amount equal to 105% of bank facilities granted to the Group's Algerian operations.

23. Cash and cash equivalents

	As at 31 December	
	2005 $000's	2004 $000's
Cash on hand and at banks	**33,405**	13,864
Time deposits	**1,194**	2,562
Money market deposits	**101,025**	24,980
Restricted cash	**335**	9
	135,959	41,415

Cash and cash equivalents include highly liquid investments with maturities of three months or less.

24. Bank overdrafts and loans

	As at 31 December	
	2005 $000's	2004 $000's
Overdrafts	**866**	13,283
Import and export financing	**5,208**	13,013
Short-term loans	**7,267**	103
Current portion of long-term loans (Note 27)	**7,805**	8,619
Fair value of derivative financial instruments	**–**	90
	21,146	35,108

Notes to the consolidated financial statements continued

24. Bank overdrafts and loans continued

	2005 %	2004 %
The weighted average interest rates paid were as follows:		
Bank overdrafts	**4.16**	3.30
Bank loans (including the non-current bank loans)	**5.14**	4.89

Import and export financing represent short-term financing for the ordinary trading activities of the business.

25. Trade and other payables

	As at 31 December	
	2005 $000's	2004 $000's
Trade payables	**26,738**	16,612
Accrued expenses	**16,537**	10,332
Employees' provident fund*	**2,301**	1,563
VAT and sales tax payables	**1,425**	854
Dividends payable	**841**	93
Social security withholdings	**416**	118
Income tax withholdings	**378**	182
Other payables	**213**	58
	48,849	29,812

*The employees' provident fund liability represents outstanding contributions to the Hikma Pharmaceuticals Limited – Jordan retirement benefit plan on which the fund receive 5% interest.

26. Other provisions

Other provisions represent the end of service indemnity provisions of Hikma Pharmaceuticals Limited – Jordan, Istituto Biochimico Pavese Pharma S.P.A (Italy), and Pharma Ixir Co. Ltd (Sudan). This provision represents a one month salary payable for each year employed for certain individuals in accordance with the agreements for the Group employees for Hikma Pharmaceuticals Limited – Jordan and Pharma Ixir Co, Ltd. Regarding IBPP, the staff leaving indemnity is not funded, and all calculations necessary to determine the annual expense are determined in accordance with Italian law. The annual accrual for staff indemnity is calculated by dividing the employees' remuneration for the year by 13.5 and it is subject to revaluation on a yearly basis.

Movements on the provision of end of service indemnity:

	2005 $000's
1 January	**829**
Addition	**733**
Utilisation	**(300)**
Translation adjustments	**(29)**
31 December	**1,233**

As at 31 December 2005, the balance of IBPP's provision for end of service indemnity was $327,000.

27. Long-term financial debts

	As at 31 December	
	2005 $000's	2004 $000's
Total debts	**38,596**	32,910
Less: current portion of debts	**(7,805)**	(8,619)
Long-term financial debts	**30,791**	24,291

	As at 31 December	
	2005 $000's	2004 $000's
Breakdown by maturity:		
Under one year	**7,805**	8,619
In the second year	**8,737**	7,901
In third year	**8,357**	5,683
In the fourth year	**7,532**	4,634
In the fifth year	**4,065**	3,302
Thereafter	**2,100**	2,771
	38,596	32,910
Breakdown by currency:		
US Dollar	**22,302**	19,846
Euro	**6,184**	6,255
Jordanian Dinar	**9,989**	6,446
Algerian Dinar	**121**	363
Long-term financial debts	**38,596**	32,910

At 31 December 2005, import and export financing, short-term loans and the current and long-term portion of long-term loans total $51,071,000 (2004: $46,026,000).

At 31 December 2005, loans and import and export financing of $36,344,000 (2004: $22,985,000), were arranged at fixed interest rates.

The other borrowings at 31 December 2005 of $14,727,000 (2004: $23,041,000) are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

Loans amounting to $9,993,000 (2004: $13,475,000) are secured on property, plant and equipment.

28. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2005 $000's	2004 $000's	**2005 $000's**	2004 $000's
Amounts payable under finance leases:				
Within one year	**838**	1,297	**797**	1,165
In the second to fifth years inclusive	**1,441**	2,595	**1,411**	2,448
	2,279	3,892	**2,208**	3,613
Less: interest lease charges	**(71)**	(279)	**–**	–
Present value of minimum lease payments payable	**2,208**	3,613	**2,208**	3,613

It's the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is two years (2004: two years). For the year ended 31 December 2005, the average effective borrowings rate was between 5.4% and 6% (2004: between 4.8% and 5.95%). All leases are on fixed repayment basis and no arrangement has been entered into for contingent rental payment.

Notes to the consolidated financial statements continued

29. Financial policies for risk management and their objectives

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables, finance lease receivables and investments.

The Group's credit risk is primarily attributable to its trade and finance lease receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Market risk

The Group is exposed to foreign exchange and interest rates risk. Management actively monitors these exposures to manage the volatility relating to these exposures by entering into a variety of derivatives financial instruments. The Group's objective is to reduce, where it is deemed appropriate to do so, fluctuations in earnings and cash flow associated with changes in interest rates and foreign currency rates. It is the Group policy and practice to use derivative financial instruments to manage exposures to interest rates and foreign currency fluctuations.

Foreign exchange risk

The Group uses the US Dollar as its reporting currency and is therefore exposed to foreign exchange movements primarily in European, Algerian and Japanese currencies. Consequently it enters into various contracts, which change in value as foreign exchange rates change to hedge against the risk of movement in foreign denominated assets and liabilities.

Interest rate risk

The Group manages its exposures to interest rate risks by changing the proportion of fixed rate debt and variable rate debt in its total debt portfolio. To manage this mix, the Group may enter into interest rates swap agreements, in which it exchanges the periodic payments based on notional amounts and agreed upon fixed and variable interest rates. Using the above-mentioned derivative financial instruments has not had a material impact on the Group's financial position at 31 December 2005 or the Group's results of operations for the year then ended.

Fair value of financial assets and liabilities:

The fair value of financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair value:

- Cash and cash equivalents – approximates to the carrying amount.
- Short-term loans and overdrafts – approximates to the carrying amount because of the short maturity of these instruments.
- Long-term loans – approximates to the carrying amount in the case of floating rate bank loans and other loans.
- Forward exchange contracts – based on market prices and exchange rates at the balance sheet date.
- Receivables and payables – approximates to the carrying amount.
- Provisions – approximates to the carrying amount.
- Lease obligations – approximates to the carrying value.

The fair value of the Group's financial assets and liabilities do not materially differ form their fair value.

30. Derivative financial instruments

Currency derivatives

The Group utilises currency derivatives to hedge significant future transactions and cash flows. The Group is a party to a variety of foreign currency forward contracts and options in the management of its exchange rate exposures. The instruments purchased are primarily denominated in the currencies of the Group's principal markets.

At the balance sheet date, total notional amount of outstanding forward foreign exchange contracts that the Group has committed are as below:

	2005 $000's	2004 $000's
Foreign exchange forward contracts (Euro)	**414**	–
Foreign exchange forward contracts (Yen)	**300**	–
Foreign exchange option contracts (Euro)	**–**	1,020

These arrangements are designed to address significant exchange exposures.

At 31 December 2005 and 2004, the fair value of the Group's currency derivatives is estimated to be $709,648 and $1,016,647 respectively. The fair valuation of the currency derivatives that are designated and effective as cash flow hedge resulted in a loss of $4,847 and a loss of $3,128 for the years ended 31 December 2005 and 2004 respectively that has been deferred in equity. These amounts are based on market values of equivalent instruments at the balance sheet date.

Interest rate swaps

The Group uses interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. Contracts with original nominal values of $19.5 million as at 31 December 2004 increased to $28 million as at 31 December 2005 have fixed interest payments at rates ranging from 2.8% to 5.4% for periods up until 2012 and have floating interest receipts ranging from LIBOR to LIBOR plus 1.5%.

The fair value of swaps entered into by the Group is estimated at a favourable value of $208,310 and a favourable value of $121,892 as at 31 December 2005 and 2004 respectively. These amounts are based on market values provided by the banks that originated the swaps and are based on equivalent instruments at the balance sheet date. Some of these interest rate swaps are designated as effective cash flow hedges and the fair value thereof has been deferred in equity totalling $126,333 and $32,386 for the years ended 31 December 2005 and 2004 respectively, and the remainder are designated as ineffective cash flow hedges of which the change in their fair value has been taken to earnings. A gain of $171,483 and $81,328 for the years ended 31 December 2005 and 2004 respectively have been recognised in the income statement.

31. Share capital

	2005 $000's	2004 $000's
Authorised:		
500,000,000 Ordinary Shares of 10p each	**88,700**	88,700
49,998 non-voting, Redeemable Preference Shares of £1 each	**90**	90
Issued and fully paid – included in shareholders' equity 166,798,407 Ordinary Shares of 10p each	**29,457**	25,269
Issued and fully paid – included in liabilities		
49,998 non-voting, Redeemable Preference Shares of £1 each	**90**	–

The Company was incorporated on 8 September 2005 with an authorised share capital of £50,000 divided into two Ordinary Shares of £1 each and 49,998 non-voting, Redeemable Preference Shares of £1 each.

The two Ordinary Shares of £1 each were transferred on 8 September 2005 as subscriber shares at a price of £1 each to the two Executive Directors, and on 15 September 2005 all the Preference Shares were allotted to the Executive Directors. The Company redeemed the Preference Shares at par on 9 February 2006. At 31 December 2005 the Preference Shares were recorded as a financial liability within other current liabilities.

On 31 October 2005, the two Ordinary Shares of £1 each were subdivided into 10 Ordinary Shares of 10 pence each and the authorised Ordinary Share capital of the Company was increased to £50 million by the creation of an additional 499,999,980 Ordinary Shares of 10 pence each.

Notes to the consolidated financial statements continued

31. Share capital continued

On 31 October 2005, the Company acquired the entire issued share capital of Hikma Pharma Limited pursuant to a share exchange offer, following which it became the holding company of the Group. Under the terms of the share exchange, shareholders in Hikma Pharma Limited received four Ordinary Shares in the Company for every one share held in Hikma Pharma Limited. Total shares issued and fully paid were 142,400,020 Ordinary Shares of 10 pence each.

On 1 November 2005, and as a result of a placing, 24,137,931 Ordinary Shares of 10 pence each were issued at a price of 290p per Ordinary Share.

On 30 November 2005, the Company allotted 260,456 Ordinary Shares at a price of 290 pence per Ordinary Share pursuant to the exercise of an over-allotment option.

32. Share premium

	Share premium $000's
Balance at 1 January 2004, 31 December 2004 and 1 January 2005	–
Premium arising on issue of Equity Shares	120,725
Expenses of issue of Equity Shares	(10,810)
Treasury Shares	159
Balance at 31 December 2005	**110,074**

33. Treasury shares

	2005 $000's	2004 $000's
Balance at 1 January	**(187)**	(193)
Sale of Treasury Shares	**346**	4,841
Purchase of Treasury Shares	**–**	(4,835)
Transfer to share premium	**(159)**	–
Balance at 31 December	**–**	(187)

The number of shares held at 31 December 2004 was 91,743 shares.

34. Reserves

	Merger reserve $000's	Retained earnings $000's	Cumulative translation reserve $000's	Total reserve $000's
At 1 January 2004	33,920	48,043	190	82,153
Cost of equity settled employee share scheme	–	145	–	145
Dividends on Ordinary Shares	–	(3,766)	–	(3,766)
Profit for the year	–	37,458	–	37,458
Cumulative effect of change in fair value of available for sale investments	–	92	–	92
Cumulative effect of change in fair value of financial derivatives	–	168	–	168
Currency translation gain	–	–	1,158	1,158
At 31 December 2004	33,920	82,140	1,348	117,408
Cost of equity settled employee share scheme	–	712	–	712
Deferred tax arising on stock options	–	960	–	960
Dividends on Ordinary Shares	–	(17,800)	–	(17,800)
Profit for the year	–	43,867	–	43,867
Cumulative effect of change in fair value of available for sale investments	–	980	–	980
Cumulative effect of change in fair value of financial derivatives	–	164	–	164
Currency translation gain	–	–	(1,941)	(1,941)
At 31 December 2005	**33,920**	**111,023**	**(593)**	**144,350**

35. Minority interest

	2005 $000's	2004 $000's
At 1 January	**2,685**	697
Minority interest share of profit	**1,090**	731
Other movements including foreign exchange	**(174)**	1,257
At 31 December	**3,601**	2,685

36. Acquisition of subsidiary

On 14 March 2005, the Group acquired 100% of the issued share capital of Istituto Biochimico Pavese Pharma S.P.A (IBPP) located in Italy for cash consideration of Euro 500,000 ($673,100) and deferred consideration of Euro 500,000 to be paid in 2006 subject to certain conditions. The IBPP business concerns the antiseptic manufacturing of injectable products (solutions and lyophilized powders) in vials and ampoules.

The net assets acquired in the transaction and the goodwill arising are set out below:

	Book value $000's	Fair value adjustment $000's	Fair value $000's
Net assets acquired			
Product files	1,222	1,359	2,581
Property, plant and equipment	5,464	1,148	6,612
Deferred taxes	357	(651)	(294)
Financial assets	1	–	1
Inventory	346	–	346
Other current assets	159	–	159
Accounts receivable, net	1,529	(106)	1,423
Cash and cash equivalents	4	–	4
Trade accounts payable	(1,207)	–	(1,207)
Capital lease obligations	(541)	–	(541)
Bank overdrafts and loans	(2,164)	–	(2,164)
Provision for end of service indemnity	(288)	–	(288)
Other current liabilities	(1,797)	(1,256)	(3,053)
Long-term financial debts	(1,894)	–	(1,894)
Capital lease obligations	(1,163)	–	(1,163)
	28	494	522
Goodwill			976
Total consideration			1,498
Satisfied by:			
Cash			673
Deferred consideration			673
Directly attributable costs			152
			1,498
Net cash outflow arising on acquisition			
Cash consideration			673
Cash and cash equivalents acquired			(4)
			669

Directly attributable acquisition costs include legal and accounting costs incurred in the preparation of the acquisition contracts and in performing due diligence activities.

The Group placed significant emphasis on the value of property, plant and equipment in making the decision to acquire IBPP. The property, plant and equipment of IBPP complement the Group's Injectables business.

Notes to the consolidated financial statements continued

36. Acquisition of subsidiary continued

The losses of IBPP from the date of acquisition that are included in the Group's income statement for the period amounted to $526,000.

If the acquisition of IBPP had been completed on the first day of the financial year, Group revenues for the year would have been $262,914,000 and the Group's profit attributable to equity holders of the parent would have been $42,986,000.

37. Net cash from operating activities

	2005 $000's	2004 $000's
Profit before tax and minority interest	**64,409**	59,024
Adjustments for:		
Depreciation, amortisation and impairment of		
Property, plant and equipment	**8,909**	6,680
Intangible assets	**1,416**	–
Financial assets	**–**	92
Results from associated companies	**(1,449)**	(732)
Losses on disposal of property, plant and equipment	**440**	390
Movement on provisions	**404**	372
Deferred income	**(174)**	(54)
Cumulative effect of change in fair value of derivatives	**164**	168
Stock options granted	**713**	145
Deferred tax	**(252)**	41
Interest and bank charges	**5,211**	3,826
Cash flow before working capital	**79,791**	69,952
Change in trade and other receivables	**(22,311)**	(10,426)
Change in due from associate	**(691)**	(1,080)
Change in other current assets	**(369)**	(1,700)
Income tax recoverable	**588**	(707)
Change in inventories	**(13,306)**	4,563
Change in trade and other payables	**16,064**	1,955
Change in other current liabilities	**(4,029)**	(6,532)
Cash generated by operations	**55,737**	56,025
Income tax paid	**(17,800)**	(19,458)
Interest paid	**(5,224)**	(3,725)
Net cash generated from operating activities	**32,713**	32,842

38. Contingent liabilities

The Group was contingently liable for letters of guarantee and letters of credit totalling $11.1 million and $7.1 million as of 31 December 2005 and 2004, respectively.

The Group guaranteed 47.5% of a loan granted to its associate Al-Jazeera Pharmaceutical Industries by Saudi Industrial Development Fund (SIDF) for a total equivalent value of $11.2 million and $13.3 million for the years ended 31 December 2005 and 2004, respectively.

The integrated nature of the Group's worldwide operations, involving significant investment in research and strategic manufacture at a limited number of locations, with consequential cross-border supply routes into numerous end-markets, gives rise to complexity and delay in negotiations with revenue authorities as to the profits on which individual Group companies are liable to tax. Disagreements with, and between, revenue authorities as to intra-Group transactions, in particular the price at which goods and services should be transferred between Group companies in different tax jurisdictions, can produce conflicting claims from revenue authorities as to the profits to be taxed in individual territories. Resolution of such issues is ongoing.

In common with many other companies in the pharmaceutical industries the Group is subject to certain legal and product liability claims from time to time. Whilst provisions have been made for probable losses that management deems to be reasonable or appropriate there are inherent uncertainties connected with these estimates.

The Group does not expect the resolution of uncertainties to have a material effect on the consolidated financial statements.

39. Hikma Pharmaceuticals PLC equity settled share option scheme

During the year ended 31 December 2005, the Company had one share-based compensation scheme settled by equity instruments. The options over these instruments are settled in equity once exercised.

Details of the grants under the scheme are shown below:

2005

Type of arrangement	General employee share option plan
Date of grant	13 October 2005
Number granted	1,600,000
Contractual life	Ten years
Vesting conditions	20% per year for five years beginning on the first anniversary of the grant date

The estimated fair value of each share option granted in the general employee share option plan is $0.74. This was calculated by applying a binomial option pricing model. The model inputs were the share price at grant date of $4.50, exercise price of $4.50, expected volatility of 26.2%, expected dividend yield of 6.67%, expected contractual life of 7.5 years, and a risk-free interest rate of 4.54%. To allow for the effects of early exercise, it was assumed that the employees would exercise the options immediately after vesting date.

2004

Type of arrangement	General employee share option plan
Date of grant	12 October 2004
Number granted	9,520,000
Contractual life	Ten years
Vesting conditions	20% per year for five years beginning on the first anniversary of the grant date

The estimated fair value of each share option granted in the general employee share option plan is $0.35. This was calculated by applying a binomial option pricing model. The model inputs were the share price at grant date of $0.91, exercise price of $0.91, expected volatility of 44.8%, expected dividend yield of 3.85%, expected contractual life of 7.5 years, and a risk-free interest rate of 4.22%. To allow for the effects of early exercise, it was assumed that the employees would exercise the options after vesting date.

Further details of the general employee share option plan are as follows:

	Number of options	Weighted average exercise price $
Outstanding at 1 January 2005	9,520,000	0.91
Granted during the year	1,600,000	4.50
Outstanding at 31 December 2005	11,120,000	1.42
Exercisable at 31 December 2005	1,904,000	0.91

A stock based compensation charge of $712,000 (2004: $145,000) has been recorded in the income statement as part of general and administrative costs.

Notes to the consolidated financial statements continued

40. Operating lease arrangements

	2005 $000's	2004 $000's
Minimum lease payments under operating leases recognised in income for the year	**655**	492

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2005 $000's	2004 $000's
Within one year	**1,421**	857
In the second to fifth years inclusive	**4,320**	1,689
After five years	**4,726**	–
	10,467	2,546

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of one to 7.5 years.

41. Related party balances

Transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this Note. Transactions between the Group and its associate and other related parties are disclosed below.

Trading transactions:

During the year, Group companies entered into the following transactions with related parties:

Al-Jazeera Pharmaceuticals Industries: is a related party of the Group because it is considered an associate company with ownership percentage of 47.5%. Total purchases from Al-Jazeera Pharmaceuticals Industries during 2005 amounted to $3,619,000 and total sales amounted to $1,905,000. Balances due from Al-Jazeera Pharmaceuticals Industries at the end of 2005 amounted to $2,304,000. Management fees due to the Group amounted to $1,016,000 as at 31 December (2004: $333,000). Sales of goods were made at the Group's usual list prices and purchases were made at market price discounted to reflect the quantity of goods purchased and the relationship between the parties.

Darhold Limited: is a related party of the Group because it is considered one of the major shareholders of Hikma Pharmaceuticals PLC with ownership percentage of 31.6% at the end of 2005 (2004: nil). During the year 2005, the Group has paid administrative expense on behalf of Darhold Limited for a total amount of $34,000 of which the balance due to the Group by year end amounted to $21,000 (2004: nil).

Export & Finance Bank – Jordan: is a related party of the Group because two board members of the Bank are also Board members at Hikma Pharmaceuticals PLC total cash balances at Export & Finance Bank – Jordan were $5,180,000 (2004: $40,774). Loans and overdrafts granted by Export & Finance Bank to the Group amounted to $1,201,000 (2004: $1,028,000) with interest rates ranging between 1 to 1.25% + LIBOR.Total interest expense incurred against Group facilities was $107,000 (2004: $102,000).

Jordan International Insurance Co: is a related party of the Group because one board member of the company is also a Board member at Hikma Pharmaceuticals PLC.Total insurance premiums paid by the Group to Jordan International Insurance Co in the year 2005 were $1,185,000 (2004: $834,000). The Group's insurance expense for Jordan International Insurance Co contracts in the year 2005 was $967,000 (2004: $928,000).The amounts due to Jordan International Insurance Co at 2005 year end were $78,000 (2004: $284,000).

Mena Innovative Technology: is a related party of the Group because the majority shareholder is Mr. Nabil Rizk's wife – the head of the Generics business. Total purchases during the year 2005 were $67,000. Purchases were made at market price discounted to reflect the quantity of goods purchased and the relationship between the parties. The amounts due to Mena Innovation Technology at 2005 year end were $10,000 (2004: $6,000).

Tunisian Companies: Amounts due from Tunisian companies include $162,000 (2004: $162,000), 188,000 (2004: $514,000) and $459,000 (2004: $554,000) due form Societe Hikma Pharma – Tunisia, Societe Hikma Ibn Al Baytar Limited – Tunisia and Societe D'Industries Pharmaceutiques Ibn Al Baytar S.A. – Tunisia, respectively. The amounts due from Societe Hikma Pharma – Tunisia and Societe Hikma Ibn Al Baytar Limited – Tunisia are stated after provision for doubtful debts of $298,000 (2004: $676,000).

West-ward Pharmaceuticals – USA: Certain expenses of the Chairman were paid in the USA by West-ward Pharmaceuticals and reimbursed by the Chairman. At 31 December 2005, the balance outstanding amounted to $120,000 (2004: nil) which has been repaid since the year end.

41. Related party balances continued

Remuneration of key management personnel

The remuneration of the two Executive Directors and the key management personnel of the Group are set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of the individual Directors is provided in the audited part of the Board report on remuneration on pages 40 to 42.

	2005 $000's	2004 $000's
Short-term employee benefits	**4,342**	3,665
Share-based payment	**414**	91
Post employment benefits	**53**	33
Other benefits	**171**	139
	4,980	3,928

42. Hikma Pharmaceuticals PLC main subsidiaries

The main subsidiaries of Hikma Pharmaceuticals PLC are as follows:

Company's name	Established in	**Ownership % Ordinary Shares 2005**	Ownership % Ordinary Shares 2004
Hikma Pharmaceuticals Co.	Jordan	**100**	100
Trust Pharma Co.	Algeria	**100**	100
Hikma Farmacêutica	Portugal	**100**	100
West-ward Pharmaceutical Corp.	USA	**100**	100
Pharma Ixir Co.	Sudan	**51**	51
Istituto Biochimico Pavese Pharma S.P.A (IBPP)	Italy	**100***	–

*Acquired during the year.

43. Hikma Pharmaceuticals PLC defined contribution retirement benefit plan

Hikma Pharmaceuticals PLC has defined contribution retirement plans in two of its subsidiaries: West-ward Pharmaceuticals – USA and Hikma Pharmaceuticals Jordan. The details of each contribution plan are as follows:

Hikma Pharmaceuticals – Jordan: The Group currently has an employee saving plan wherein the Group fully matches employee's contributions, which are fixed at 5% of salary. Employees are entitled to 30% of the Group contributions after three years of employment with the Group and 10% for each subsequent year. Employees fully vest in the Group contributions after ten years of employment. The Group's contributions were $410,000 and $321,000 for the years ended 2005 and 2004 respectively.

West-ward – USA: (401 (k) salary saving plan). Prior to 2001, West-ward – USA established a 401 (k) defined contribution plan, which allows all eligible employees to defer a portion of their income through contributions to the plan. All employees not covered by any collective bargaining agreement are eligible after being employed for one year. Employees can defer up to 25% of their gross salary into the plan, not to exceed $14,000 and $13,000 for 2005 and 2004, respectively, not including catch-up contributions available to eligible employees as outlined by the Internal Revenue Service. The company matches 40% of the employees' eligible contribution. Employer contributions vest 0% after one year of service, 50% after two years of service and 100% after three years of service. Employees are considered to have completed one year of service for purposes of vesting upon the completion of 1,000 hours of service at any time during a plan year. Employer contributions to the plan as at 31 December 2005 and 2004 amounted to $275,000 and $294,000 respectively.

The assets of the plans are held separately from those of the Group. The only obligation of the Group with respect to the retirement benefit plans is to make specified contributions.

Notes to the consolidated financial statements continued

44. Hikma Pharmaceuticals PLC

Consolidated income statement from date of incorporation on 8 September 2005 to 31 December 2005

	2005 $000's
Net sales	90,822
Cost of sales	(45,600)
Gross profit	45,222
Sales and marketing	(9,842)
General and administrative	(9,182)
Research and development	(6,858)
Other operating expenses, net	2,867
Share of results of associate	1,383
Operating profit	23,590
Flotation costs	(1,426)
Finance income	831
Finance cost	(1,789)
Other expense	(1,088)
Profit before tax	20,118
Tax	(4,376)
Profit for the period	15,742
Attributable to:	
Equity holders of the parent	15,466
Minority interest	276
	15,742

The profit and loss account above is required by the Companies Act 1985 and covers the first statutory accounting reference period of Hikma Pharmaceuticals PLC from its date of incorporation on 8 September 2005 to 31 December 2005.

Disclosure notes for this period are not presented as the Directors do not believe they would provide meaningful information to users of the accounts.

Directors' remuneration for this period is included within the amounts disclosed in the Board report on remuneration on pages 37 to 42 which include remuneration for the period from 8 September or, if later, date of appointment until the year end.

44. Hikma Pharmaceuticals PLC continued

Consolidated cash flow statement from date of incorporation on 8 September 2005 to 31 December 2005

	$000's
Net cash from operating activities	20,847
Cash flows from investing activities	
Purchases of property, plant and equipment	(14,747)
Proceeds from disposal of property, plant and equipment	873
Purchase of intangible assets	89
Investment in financial and other assets	(593)
Investment in available for sale securities	(16)
Acquisition of subsidiary	(40)
Net cash used in investing activities	(14,434)
Cash flows from financing activities	
Increase in collateralised cash	(5,120)
Increase in long-term financial debts	5,471
Repayment of long-term financial debts	(20,500)
Repayment of short-term financial debts	(15,041)
Payment of capital lease obligations	(2,310)
Dividends paid	(10,835)
Proceeds on issue of new shares	124,913
Payments on issue of new shares	(10,810)
Net cash generated from financing activities	65,768
Net increase in cash and cash equivalents	72,181
Cash and cash equivalents at the beginning of the period	61,164
Net effect of foreign exchange rate changes	2,297
Cash and cash equivalents at period end	135,642

Notes to the consolidated financial statements continued

44. Hikma Pharmaceuticals PLC continued

Consolidated cash flow statement from date of incorporation on 8 September 2005 to 31 December 2005

	$000's
Profit before tax	20,118
Adjustments for:	
Depreciation, amortisation and impairment of:	
Property, plant and equipment	3,950
Intangible assets	522
Results from associated companies	(1,383)
Losses on disposal of property, plant and equipment	556
Movements on provision	375
Deferred revenue	(46)
Cumulative effect of change in fair value of derivatives	236
Stock options granted	273
Deferred tax	(744)
Interest and bank charges	2,089
Cash flow before working capital	25,946
Change in accounts receivables	6,155
Change in other current assets	(3,484)
Change in inventories	(992)
Change in trade accounts payable	(7,318)
Change in other current liabilities	8,186
Cash generated by operations	28,493
Income tax paid	(5,545)
Interest paid	(2,101)
Net cash generated from operating activities	20,847

Directors' responsibilities

Company Law requires the Directors to prepare accounts and Notes for each financial year, which give a true and fair view of the state of affairs of the Company as at the end of the financial year and the income statement of the Company for that period.

In preparing those accounts and Notes the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed.

The Directors are responsible for ensuring proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the accounts and Notes comply with the Companies Act 1985. They are also responsible for the Company's system of internal control, for safeguarding of the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Independent auditors' report to the members of Hikma Pharmaceuticals PLC

We have audited the individual company financial statements of Hikma Pharmaceuticals PLC for the year ended 31 December 2005 which comprise the balance sheet, the cash flow statement and the related Notes 1 to 9. These individual company financial statements have been prepared under the accounting policies set out therein.

The corporate governance statement and the Directors' remuneration report are included in the Group annual report of Hikma Pharmaceuticals PLC for the year ended 31 December 2005. We have reported separately on the Group financial statements of Hikma Pharmaceuticals PLC for the year ended 31 December 2005 and on the information in the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted for use in the European Union are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the individual company financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the individual company financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you if, in our opinion, the Directors' report is not consistent with the individual company financial statements. We also report to you if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the Directors' report and the other information contained in the annual report for the above year as described in the contents section. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the individual company financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the individual company financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the individual company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the individual company financial statements.

Opinion

In our opinion:

- the individual company financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union as applied in accordance with the requirements of the Companies Act 1985, of the state of the Company's affairs as at 31 December 2005; and
- the individual company financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, United Kingdom

28 March 2006.

Company balance sheet as of 31 December 2005

	Notes	2005 $000's
Non-current assets		
Investment in subsidiary	2	**740,298**
Due from subsidiaries		**54,000**
		794,298
Current assets		
Other current assets		**422**
Cash and cash equivalents	3	**58,732**
Dividends receivable		**1,500**
		60,654
Total assets		**854,952**
Current liabilities		
Other payables	4	**994**
Other current liabilities		**354**
Income tax provision		**110**
		1,458
Non-current liabilities		
Due to subsidiaries		**4,836**
Total liabilities		**6,294**
Net assets		**848,658**
Equity		
Share capital	7	**29,457**
Share premium account	8	**817,443**
Retained earnings	9	**1,758**
Equity attributable to equity holders to the parent		**848,658**

The financial statements were approved by the Board of Directors and signed on its behalf by:

Samih Darwazah
Director

28 March 2006

Company statement of changes in equity for the period ended 31 December 2005

	Notes	Paid up capital $000's	Share premium $000's	Retained earnings $000's	Total $000's
At 8 September 2005	8	–	–	–	–
Issue of share capital		**29,457**	**817,443**	–	**846,900**
Net income for the period	9	–	–	**1,758**	**1,758**
At 31 December 2005		**29,457**	**817,443**	**1,758**	**848,658**

As permitted by Section 230 of the Companies Act 1985, the income statement of the Company is not presented as part of these accounts.

Cash flow statement for the period ended 31 December 2005

	2005 $000's
Profit before tax	1,695
Stock options granted	172
Change in other current assets	(422)
Change in other payables	994
Change in other current liabilities	354
Net cash used in operating activities	2,793
Investing activities	
Change in amounts due from subsidiaries	(49,164)
Change in dividends receivable	(1,500)
Investment in subsidiary	(7,500)
Net cash used in investing activities	(58,164)
Financing activities	
Proceeds from share issuance	124,913
Costs of share issue	(10,810)
Net cash from financing activities	114,103
Net increase in cash and cash equivalents	58,732
Cash and cash equivalents at beginning of period	–
Cash and cash equivalents at end of period	58,732

Notes to the separate financial statements

1. Significant accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 1985. As permitted by that Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards and UK law.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in Note 2 to the consolidated financial statements with the addition of the policy as noted below.

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

2. Investment in subsidiary

Investment in subsidiary represents 100% share in Hikma Pharma Limited – Jersey, the cost method is being used to account for this investment.

3. Financial assets

Cash and cash equivalents

These comprise cash held by the company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

4. Financial liabilities

Other payables

The Directors consider that the carrying amount of other payables approximates to their fair value.

5. Staff costs

Hikma Pharmaceuticals PLC currently has two employees; total compensation paid to them amounted to $117,000 of which salaries and wages compromise an amount of $73,000 the remaining balance of $44,000 represent social security and other benefits.

6. Stock options

The details of the stock compensation scheme were provided in Note 39 to the consolidated financial statements. The number of options granted to the employees of the Company (including Directors) was 2,560,000 and the total amount of the compensation expenses charged to income statement is $172,000.

7. Share capital

	2005 $000's
Authorised:	
500,000,000 Ordinary Shares of 10 pence each	88,700
49,998 non-voting, redeemable preference shares of £1 each	90
Issued and fully paid – included in shareholders' equity 166,798,407 Ordinary Shares of 10 pence each	29,457
Issued and fully paid – included in liabilities 49,998 non-voting, redeemable preference shares of £1 each	90

The details of the issue of the share capital in the period are given in Note 31 to the consolidated financial statements.

8. Share premium

	Share premium $000's
Balance at 8 September 2005	–
Premium arising on issue of equity shares	828,253
Expenses of issue of equity shares	(10,810)
Balance at 31 December 2005	817,443

9. Retained earnings

Included in the retained earnings an amount of $172,000 represents the current year charge of stock option expenses.

Shareholder information

2006 financial calendar

29 March	2005 preliminary results and final dividend announced
26 April	2005 final dividend ex-dividend date
28 April	2005 final dividend record date
25 May	Annual General Meeting
30 May	2005 final dividend paid to shareholders
13 September*	2006 interim results and interim dividend announced
20 September*	2006 interim dividend ex-dividend date
22 September*	2006 interim dividend record date
20 October*	2006 interim dividend paid to shareholders

*Provisional date.

Shareholding enquiries

Enquiries or information concerning existing shareholdings should be directed to the Company's registrars, Capita Registrars either:

– in writing to Shareholder Services, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU;

– by telephone from within the UK on 0870 162 3100;

– by telephone from outside the UK on +44 20 8639 2157; or

– through the website www.capitaregistrars.co.uk.

Changes of address should be promptly notified to the registrars.

Website

Press releases, the share price and other information on the Group are available on the Company's website www.hikma.com.

Share listings

The Company's shares are listed on the London Stock Exchange. They are listed under EPIC – HIK, SEDOL – B0LCW08 GB and ISIN – GB00B0LCW083.

Further information on this market, its trading systems and current trading in Hikma Pharmaceuticals PLC shares can be found on the London Stock Exchange website www.londonstockexchange.com.

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