

BOSNALIJEK d.d.

SARAJEVO

Financial statements for the year
ended 31 December 2005
and independent auditor's report

Contents

	Page
Responsibility for the Financial Statements	1
Independent auditor's report	2
Statement of income	3
Balance sheet	4
Statement of changes in shareholders' equity	5
Statement of cash flows	6
Notes to financial statements	7-20

Responsibility for the Financial Statements

Management is responsible for ensuring that the financial statements of Bosnalijek d.d. (the "Company") are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB), which give a true and fair view of the state of affairs and results of the Company for that period.

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

In preparing those financial statements, the responsibilities of Management include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Management is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time, the financial position of the Company. Management must also ensure that the financial statements comply with the Accounting Law of Bosnia and Herzegovina. Management is also responsible for safeguarding the assets of the Company, and hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of Management


Edin Arslanagić, Director

Bosnalijek d.d.

Jukićeva 53

71 000 Sarajevo

Bosnia and Herzegovina

17 February 2006

Independent Auditors' Report

To the Shareholders of Bosnalijek d.d. :

We have audited the accompanying financial statements of Bosnalijek d.d. (the "Company") which comprise the balance sheet as at 31 December 2005 and the related statement of income, statement of changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements, taken as a whole, based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2005, and of the results of its operations, changes in equity and its cash flows and for the year then ended in accordance with International Financial Reporting Standards.


Deloitte d.o.o.

Sarajevo, Bosnia and Herzegovina

17 February 2006

Bosnalijek d.d.
Statement of income
for the year ended 31 December 2005
(All amounts are expressed in thousands of KM)

	Note	2005	2004
Revenue	4	82,210	69,297
Cost of sales	5	<u>(32,244)</u>	<u>(27,371)</u>
Gross profit		51,172	41,926
Selling, administrative and general expenses	6	<u>(35,367)</u>	<u>(30,701)</u>
Profit from operations		14,629	11,225
Interest income		8	10
Interest expenses		(1,518)	(739)
IFC put option expense	22	(1,405)	(1,264)
Foreign exchange (losses) gains, net		<u>(262)</u>	<u>172</u>
Loss from financial activities		(3,177)	(1,821)
Other income	7	1,910	669
Other expenses	8	<u>(5,759)</u>	<u>(2,498)</u>
Loss from other activities		(3,849)	(1,829)
Profit before tax		7,603	7,575
Income tax expense	9	<u>-</u>	<u>-</u>
Net profit for the year		7,603	7,575
Earnings per share	10	0.0013	0.0013

The accompanying notes form an integral part of these financial statements.

Bosnalijek d.d.
 Balance sheet
 as at 31 December 2005
 (All amounts are expressed in thousands of KM)

	Note	2005	2004
ASSETS			
Non-current assets			
Property, plant and equipment	11	95,944	72,943
Intangible assets	12	2,801	1,449
Non-current receivables	13	907	968
		<u>99,652</u>	<u>75,360</u>
Current assets			
Current portion of non-current receivables	13	447	25
Inventories	14	15,432	17,202
Trade receivables	15	25,930	24,885
Other receivables	16	2,351	3,121
Cash and cash equivalents	17	1,694	924
		<u>45,854</u>	<u>46,157</u>
TOTAL ASSETS		<u>145,506</u>	<u>121,517</u>
EQUITY AND LIABILITIES			
Equity and Reserves			
Share capital	18	51,116	51,116
Reserves		16,333	10,027
Retained earnings		17,658	16,361
		<u>85,107</u>	<u>77,504</u>
Non-current liabilities			
Long-term loans	19	13,671	10,045
Obligations under finance leases	20	43	-
Deferred income	21	163	200
		<u>13,877</u>	<u>10,245</u>
Current liabilities			
Current portion of long-term loans	19	6,613	3,433
Current portion of obligations under finance leases	20	28	-
Trade payables	22	11,785	11,954
Short-term loans	23	23,758	14,253
Other payables	24	4,338	4,128
		<u>46,522</u>	<u>33,768</u>
TOTAL EQUITY AND LIABILITIES		<u>145,506</u>	<u>121,517</u>

The accompanying notes form an integral part of these financial statements.

Signed on behalf of the Company on 17 February 2006

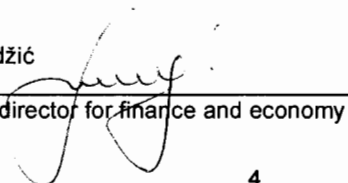
Edin Arslanagić

Director



Šefik Handžić

Executive director for finance and economy



Bosnalijek d.d.
Statement of changes in equity
for the year ended 31 December 2005
(All amounts are expressed in thousands of KM)

	Share capital	Reserves	Retained earnings	Total
Balance at 31 December 2003	48,965	1,756	17,057	67,778
Business combination with Sanofarm (see Note 2)	2,151	-	-	2,151
Transfer (from) / to	-	8,271	(8,271)	-
Net profit for the year	-	-	7,575	7,575
Balance at 31 December 2004	51,116	10,027	16,361	77,504
Transfer (from) / to	-	6,306	(6,306)	-
Net profit for the year	-	-	7,603	7,603
Balance at 31 December 2005	51,116	16,333	17,658	85,107

The accompanying notes form an integral part of these financial statements.

Bosnalijek d.d.
Statement of cash flows
for the year ended 31 December 2005
(All amounts are expressed in thousands of KM)

	2005	2004
Operating activities		
Net profit for the year	7,603	7,575
Adjustments for:		
Depreciation and amortization	8,708	7,051
Loss (gain) on disposal of property, plant and equipment	349	(1)
Adjustment of property, plant and equipment	-	10
Write-off of raw materials and finished goods	2,178	382
Increase in allowance for bad and doubtful trade receivables	645	1,089
Adjustment for IFC convertible loan cost	1,405	1,264
Depreciation for donated equipment	(58)	(57)
Adjustment for cash flow from investing and financing activities	1,423	687
<i>Cash flow before changes in operating assets and liabilities:</i>	<u>22,253</u>	<u>18,000</u>
Increase in non-current receivables	(361)	(148)
Increase in inventories	(408)	(4,275)
Increase in trade receivables	(1,690)	(7,613)
Decrease in other receivables	770	1,760
Increase in deferred income	21	163
Increase in trade payables	11,391	4,218
Increase in other payables	210	869
<i>Cash flow from operating activities</i>	<u>32,186</u>	<u>12,974</u>
Interest paid	(1,431)	(697)
Income tax paid	-	(174)
Net cash from operating activities	<u>30,755</u>	<u>12,103</u>
Investing activities		
Purchase of property, plant and equipment	(43,752)	(20,335)
Purchase of intangible assets	(1,806)	(889)
Proceeds from disposal of property, plant and equipment	588	48
Interest received	8	10
Net cash used in investing activities	<u>(44,962)</u>	<u>(21,166)</u>
Financing activities		
Increase in obligations under finance leases	71	-
Proceeds from long-term loans, net of repayments	6,806	5,990
Proceeds from short-term loans, net of repayments	8,100	3,061
Net cash provided by financing activities	<u>14,977</u>	<u>9,051</u>
Net increase (decrease) in cash and cash equivalents	<u>770</u>	<u>(12)</u>
Cash and cash equivalents at beginning of year	<u>924</u>	<u>936</u>
Cash and cash equivalents at end of year	<u>1,694</u>	<u>924</u>

The accompanying notes form an integral part of these financial statements.

Bosnalijek d.d.
Notes to financial statements
for the year ended 31 December 2005

(All amounts are expressed in thousands of KM)

1. GENERAL

Bosnalijek d.d. (the "Company") is a joint-stock company incorporated in the Federation of Bosnia and Herzegovina with the registered address Jukićeva 53, 71 000 Sarajevo. The Company is primarily engaged in the production and wholesale trade of pharmaceuticals, veterinary medicine products, disinfectants and similar products.

As of 31 December 2005, the Company employed 536 employees (2004, 505 employees).

Management

Supervisory Board

Hasan Muratović Ph D	Chairman
Ljunora Mavrić	Member
Abdul-Umid Šalaka	Member
Midhat Vehabović	Member
Rifat Klopić	Member

Management

Edin Arslanagić	Director
Akif Mujezin	Executive director for production management
Ljiljana Kamberović	Executive director for operations development
Šefik Handžić	Executive director for finance and economy

Audit Committee

Sead Sarvan	Chairman from 24 June 2005
Idriz Mujčinović	Chairman until 24 June 2005
Ibrahim Imamović	Member
Rabija Avduli	Member

2. BUSINESS COMBINATION

Business Combination with "Sanofarm" d.d. Sarajevo (Sanofarm)

On 1 January 2004, the Company merged with Sanofarm and became its legal successor. The Company acquired 100% of the outstanding voting common shares of Sanofarm in exchange for 215,115 issued common shares of the Company with a fair value of 2,151,150 KM. As a result of the business combination, the Company has acquired the following assets and liabilities as of 1 January 2004:

Description	'000 KM
Property, plant and equipment	4,336
Inventory	1,204
Other assets	39
Liabilities for loans	(1,401)
Trade payables	(51)
Other payables	(1,976)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), as published by the International Accounting Standards Board. The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. The financial statements are presented in Convertible marks since that is the functional currency of the Company. The Convertible mark (KM) is officially tied to the Euro (EUR 1 = KM 1.95583).

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. These estimates are based on the information available as at the date of the consolidated financial statements and actual results could differ from those estimates.

Certain amounts in the previous year financial statements have been reclassified to conform to the current year presentation.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed to the customer. Sales of services are recognized net of sales taxes and discounts when the services have been provided.

Interest income is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable.

Borrowing costs

Borrowing costs are charged to the statement of income in the period incurred.

Leasing

Leases are classified as finance 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.

The Company as lessee

Assets held under finance leases are recognised as assets of the Company at their fair value at the date of acquisition or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance 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. Finance charges are charged to the statement of income in the period incurred.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Foreign currencies

Transactions in currencies other than KM are initially recorded at the rates of exchange prevailing on the date of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates ruling on the balance sheet date. Foreign exchange profits and losses arising on exchange are included in net profit or loss for the period.

Bosnalijek d.d.
Notes to financial statements
for the year ended 31 December 2005

(All amounts are expressed in thousands of KM)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

The Company has no defined post-retirement benefit plans for its employees or management in Bosnia and Herzegovina or abroad. The Company makes contributions on behalf of its employees to mandatory state pension plans. Any future payments to employees are the responsibility of Bosnia and Herzegovina and accordingly the Company has no outstanding liabilities for post employment benefits for either for its present or former employees.

Taxation

Income 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 never taxable or deductible. The Company'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 amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized 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.

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 profit 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 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.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes the purchase price and directly associated cost of bringing the asset to a working condition for its intended use. Maintenance and repairs, replacements and improvements of minor importance are expensed as incurred. Significant improvements and replacement of assets are capitalised. Gains or losses on the retirement or disposal of fixed assets are included in the statement of income in the period they occur.

Properties in the course of construction are carried at cost, less impairment loss, if any. Depreciation commences when the assets are ready for their intended use. Depreciation is charged so as to write-off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following annual bases:

Buildings	20 to 33 years (3% - 5%)
Machinery, equipment and software	3 to 7 years (14.3% - 33.3%)

Assets held under finance leases are depreciated over their expected useful life or, where shorter, the term of the relevant lease.

Intangible assets

Intangible assets are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

Cash and cash equivalents include demand accounts and fixed deposits with an original maturity of three months or less.

Impairment

At each balance sheet date, the Company reviews the carrying amounts of its tangible 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 (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the greater of net selling price 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is land or buildings other than investment property carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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 recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is comprised of 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. Cost is calculated using the weighted average method. Net realizable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets

The Company's principal financial assets are cash and cash equivalents, trade receivables, other receivables and short-term loan receivables.

Trade receivables, other receivables and short-term loan receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities and equity

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Debt instruments issued which carry a right to convert to equity that is dependent on the outcome of uncertainties beyond the control of both the Company and the holder are classified as liabilities except where the possibility of non-conversion is remote.

Significant financial liabilities include long-term loans, trade payables, short-term loans and other payables.

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

Trade and other payables are stated at their nominal value.

Reserves

Equity reserves are formed in accordance with the local legislation by allocating at least 10% of annual net profit, up to 25% of share capital of the Company.

4. REVENUE

	2005	2004
Domestic sales	71,136	60,392
Foreign sales	10,970	8,678
Services rendered	104	227
	<u>82,210</u>	<u>69,297</u>

5. COST OF SALES

	2005	2004
Raw materials	15,700	12,650
Merchandise	9,188	8,571
Employee expenses	3,762	3,186
Depreciation	1,852	1,593
Production services	914	766
Energy	520	471
Tools and consumable stores write-off	308	134
	<u>32,244</u>	<u>27,371</u>

Bosnalijek d.d.
Notes to financial statements
for the year ended 31 December 2005
(All amounts are expressed in thousands of KM)

6. SELLING, ADMINISTRATIVE AND GENERAL EXPENSES

	2005	2004
Employee expenses	11,207	9,367
Depreciation	6,856	5,458
Marketing	4,672	3,982
Non-production services	3,293	2,937
Entertainment	2,404	2,427
Per diems and travel expenses	1,647	1,234
Tools and consumable stores write-off	1,244	1,089
Production services	602	548
Energy	765	528
Bank Fees	707	375
Insurance premium	319	259
Other expenses	1,621	2,497
	<u>35,336</u>	<u>30,701</u>

7. OTHER INCOME

	2005	2004
Income from investments*	920	-
Subsequently approved discounts from suppliers	340	315
Collected trade receivables for which allowance was made (Note 15)	300	221
Donations (Note 21)	58	57
Inventory surplus	-	5
Gain on disposal of property, plant and equipment	-	1
Other	292	70
	<u>1,910</u>	<u>669</u>

* Income from investments in amount of KM 911 thousand relates to income from sale of apartment complex at Bjelašnica upon completion of construction works.

8. OTHER EXPENSES

	2005	2004
Write-off of obsolete and unusable raw materials	1,568	287
Donations and sponsorships	909	539
Allowance for bad and doubtful trade receivables (Note 15)	727	622
Subsequently approved discounts to customers	670	520
Write-off of finished goods	610	95
Loss upon disposal of property, plant and equipment	349	-
Other	926	435
	<u>5,759</u>	<u>2,498</u>

Bosnalijek d.d.
Notes to financial statements
for the year ended 31 December 2005
(All amounts are expressed in thousands of KM)

9. INCOME TAX EXPENSE

	2005	2004
Profit before tax	7,603	7,575
Non-deductible expenses	<u>2,273</u>	<u>2,297</u>
Taxable income	<u>9,876</u>	<u>9,872</u>
Income tax at the rate of 30%	2,963	2,962
Tax relief – 100% upon reinvestment of profit in property, plant and equipment	<u>(2,963)</u>	<u>(2,962)</u>
Tax expense for the year	<u>-</u>	<u>-</u>

10. EARNINGS PER SHARE

	2005	2004
Net profit for the purposes of basic earnings per share	7,603	7,575
Weighted average number of ordinary shares for the purposes of basic earnings per share	<u>5,843,276</u>	<u>5,843,276</u>
Earnings per share	<u>0.0013</u>	<u>0.0013</u>

Bosnalijek d.d.
Notes to financial statements
for the year ended 31 December 2005
(All amounts are expressed in thousands of KM)

11. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings	Machinery and equipment	Software	Assets under construction	Advances paid	Total
COST							
At 31 December 2004	2,325	65,983	31,809	1,188	9,081	3,246	113,632
Additions	-	1,260	6,087	94	35,952	359	43,752
Disposals	(2)	(1,289)	(505)	-	(128)	-	(1,924)
Transfers to other classes	-	-	-	-	(11,560)	-	(11,560)
Transfers	-	3,870	2,594	24	(3,242)	(3,246)	-
At 31 December 2005	2,323	69,824	39,985	1,306	30,103	359	143,900
ACCUMULATED DEPRECIATION							
At 31 December 2004	-	22,268	17,699	722	-	-	40,689
Charge for the year	-	3,163	4,818	273	-	-	8,254
Elimination on disposals	-	(568)	(419)	-	-	-	(987)
At 31 December 2005	-	24,863	22,098	995	-	-	47,956
CARRYING AMOUNT							
At 31 December 2005	2,323	44,961	17,887	311	30,103	359	95,944
At 31 December 2004	2,325	43,715	14,110	466	9,081	3,246	72,943

Included in machinery and equipment is KM 135 thousand (2004 - KM 469,984) in respect of assets held under finance leases (Note 20).

The Company has pledged land, buildings, machinery and equipment with a net book value of approximately KM 41,723 thousand (2004 – KM 30,314 thousand) to secure loans granted by IFC Washington, CBS Bank d.d. Sarajevo, HVB Central Profit banka d.d. Sarajevo, Investicijska banka Federacije BiH d.o.o. Sarajevo and Bosna Bank International d.d. Sarajevo.

Bosnalijek d.d.
Notes to financial statements
for the year ended 31 December 2005
(All amounts are expressed in thousands of KM)

12. INTANGIBLE ASSETS

	Licences	Intangibles in progress	Total
COST			
At 31 December 2004	1,420	298	1,718
Additions	14	1,792	1,806
At 31 December 2005	<u>1,434</u>	<u>2,090</u>	<u>3,524</u>
ACCUMULATED AMORTIZATION			
At 31 December 2004	269	-	269
Charge for the year	454	-	454
At 31 December 2005	<u>723</u>	<u>-</u>	<u>723</u>
CARRYING AMOUNT			
At 31 December 2005	<u>711</u>	<u>2,090</u>	<u>2,801</u>
At 31 December 2004	<u>1,151</u>	<u>298</u>	<u>1,449</u>

Bosnalijek d.d.
Notes to financial statements
for the year ended 31 December 2005
(All amounts are expressed in thousands of KM)

13. NON-CURRENT RECEIVABLES

	2005	2004
Deposits with UPI bank d.d. Sarajevo, held as collateral for loans granted to Company employees, maturing in 2018, bearing interest at the rate of 0.5% per annum	876	927
Receivables for rescheduled payments, maturing in 2006, interest-free	433	-
Receivables from employees	32	40
Receivables from other individuals	13	26
	<u>1,354</u>	<u>993</u>
Less: Current portion of non-current receivables	<u>(447)</u>	<u>(25)</u>
TOTAL	<u>907</u>	<u>968</u>

14. INVENTORIES

	2005	2004
Finished goods	7,198	9,238
Raw materials	5,304	4,036
Work-in-progress	2,930	3,928
	<u>15,432</u>	<u>17,202</u>

15. TRADE RECEIVABLES

	2005	2004
Trade receivables	28,235	26,845
Less: Allowance for bad and doubtful receivables	<u>(2,305)</u>	<u>(1,960)</u>
	<u>25,930</u>	<u>24,885</u>

Changes in the allowance for bad and doubtful receivables can be presented as follows:

	2005	2004
Balance at beginning of year	1,960	1,092
Additional allowance (Note 8)	727	622
Release due to collections (Note 7)	(300)	(221)
Release due to write-offs	(82)	(56)
Increase from acquisition of Sanofarm	-	523
	<u>2,305</u>	<u>1,960</u>
Balance at end of year	<u>2,305</u>	<u>1,960</u>

Bosnalijek d.d.
Notes to financial statements
for the year ended 31 December 2005
(All amounts are expressed in thousands of KM)

16. OTHER RECEIVABLES

	2005	2004
Prepaid income tax	1,758	1,758
Receivables from BBM d.o.o. Sarajevo for sold office space	324	-
Advances given	111	1,328
Receivables from prepaid expenses	96	-
Receivables from employees	62	13
Other	-	22
	2,351	3,121

17. CASH AND CASH EQUIVALENTS

	2005	2004
Current accounts	1,019	553
Foreign currency accounts	637	308
Cash on hand	38	63
	1,694	924

18. SHARE CAPITAL

	2005	2004
5,843,276 common shares with nominal value of KM 10	58,432	58,432
Less: International Finance Corporation (IFC) conversion option	(7,316)	(7,316)
	51,116	51,116

The ownership structure as of 31 December 2005 and 2004 can be summarised as follows:

	2005		2004	
	% share		% share	
Federation of Bosnia and Herzegovina	28.90	16,884	28.90	16,884
World Bank, Washington D.C. USA (IFC)	12.52	7,316	12.52	7,316
Other	58.58	34,232	58.58	34,232
	100.00	58,432	100.00	58,432

IFC loan conversion option was exercised in August 2001 and the Company increased its share capital by the amount of 7,316 thousand. These shares have been restated as debt as required by International Financial Reporting Standards due to the existence of a Put Option, which gives the IFC the right to require the Company to repurchase the shares.

If the IFC were to sell their shares at any time in the five years prior to the expiry of the Put Option Agreement on 9 August 2006, the Put Option would lapse and the shares would be restated in the accounts at KM 7,316 thousand plus or minus a discount or premium.

Bosnalijek d.d.
Notes to financial statements
for the year ended 31 December 2005
(All amounts are expressed in thousands of KM)

19. LONG-TERM LOANS

	2005	2004
IFC, Washington, maturing on 15.12.2012, with the interest at the rate of EURIBOR	5,867	-
HVB Central Profit banka d.d. Sarajevo, maturing on 07.04.2009, with interest at the rate of EURIBOR + 3% per annum	5,417	6,436
HVB Central Profit banka d.d. Sarajevo, maturing on 15.11.2011, with interest at the rate of EURIBOR + 3.5% per annum	3,944	-
Investicijska banka Federacije BiH d.o.o. Sarajevo, maturing on 06.02.2008, at interest rates ranging between 4% and 7% per annum	1,488	1,774
Investicijska banka Federacije BiH d.o.o. Sarajevo, maturing on 27.08.2008, with interest at the rate of EURIBOR + 3% per annum	1,335	1,636
IFC, Washington, maturing on 18.10.2006, with the interest at the rate of LIBOR + 3%	1,237	2,062
CBS bank d.d. Sarajevo, maturing on 26.09.2007, interest rate EURIBOR +3% per annum	786	1,180
HVB Central Profit banka d.d. Sarajevo, maturing 01.09.2007, with interest at the rate of 4% per annum	150	250
HVB Central Profit banka d.d. Sarajevo – Canton Sarajevo, maturing on 05.09.2006, with interest at the rate of LIBOR + 1.5% per annum	60	140
	<u>20,284</u>	<u>13,478</u>
Less: current portion of long-term loans	<u>(6,613)</u>	<u>(3,433)</u>
	<u>13,671</u>	<u>10,045</u>
Amounts are due for settlement as follows:		
Within one year	6,613	3,433
In the second year	6,702	3,950
In the third to fifth years inclusive	6,969	6,095
	<u>20,284</u>	<u>13,478</u>

Bosnalijek d.d.
Notes to financial statements
for the year ended 31 December 2005
(All amounts are expressed in thousands of KM)

20. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments	Present value of minimum lease payments
	2005	2005
Amounts payable under finance leases:		
Within one year	38	28
In the second to fifth year inclusive	62	43
	<u>100</u>	<u>71</u>
Less: future finance charges	(29)	-
Present value lease obligations	<u>71</u>	<u>71</u>
Less: amount due within 12 months	(28)	(28)
Amount due for settlement after 12 months	<u>43</u>	<u>43</u>

The Company leases 5 vehicles with net book value of KM 135 thousand. The average term of finance leases entered into is 5 years. The interest rate inherent in the leases is fixed at the contract date for all of the lease term and the average effective interest rate contracted approximates 8.83% per annum. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. All lease obligations are denominated in euro.

The fair value of the Company's finance lease obligations approximates their carrying amount. The Company's obligations under finance leases are secured by the lessor's charge over the leased assets.

21. DEFERRED INCOME

Deferred income is comprised of donated equipment, which is amortised into income at the same rate as the depreciation expense recognised for the respective equipment.

Changes in deferred income can be presented as follows:

	2005	2004
Balance at beginning of year	200	94
Donated equipment received	21	163
Release to income (Note 7)	(58)	(57)
Balance at end of year	<u>163</u>	<u>200</u>

22. TRADE PAYABLES

	2005	2004
Trade payables – foreign	8,781	9,739
Trade payables – domestic	3,004	2,215
	<u>11,785</u>	<u>11,954</u>

Bosnalijek d.d.
Notes to financial statements
for the year ended 31 December 2005

(All amounts are expressed in thousands of KM)

23. SHORT-TERM LOANS

	2005	2004
HVB Central Profit banka d.d. Sarajevo, working capital loans maturing on 15.06.2006 (2004-25.05.2005) with interest at the rate of 5.5% per annum	3,000	2,750
HVB Central Profit banka d.d Sarajevo, working capital loan for financing of building and equipment of PDC maturing on 15.04.2006 with interest of the rate of Euribor + 3,75 % per annum.	6,845	-
IFC Convertible Loan (see Note 18)	9,009	7,603
Bosna Bank International d.d. Sarajevo, partnership agreement for purchase of raw materials and semi-finished products expiring in 2006, with profit margin ranging between 9.60% and 10.49%	2,904	-
Raiffeisen bank d.d. BiH Sarajevo, working capital loan maturing on 07.04.2006 (2004-07.04.2005) with interest at the rate of EURIBOR+3.75% per annum	2,000	3,000
Triglav BH osiguranje d.d. Sarajevo, working capital loan maturing on 26.12.2005 with interest at the rate of 6% per annum	-	900
	<u>23,758</u>	<u>14,253</u>

24. OTHER PAYABLES

	2005	2004
Salaries	3,000	1,763
Contributions	720	894
Salary taxes	157	166
Accrued interest	87	38
Bonuses	57	271
Accrued expenses	46	780
Other taxes	-	139
Advances	-	50
Other	13	27
	<u>4,338</u>	<u>4,128</u>

25. CONTINGENT LIABILITIES

As of 31 December 2005, court proceedings were initiated against the Company in the total amount of KM 497 thousand related to former employee and supplier litigation issues. Management is of the opinion that these court proceedings are without merit and therefore, no amounts have been recorded in the accompanying financial statements. Amounts, if any, will be recorded in the period of settlement, if settlement occurs.

26. CAPITAL COMMITMENTS

At 31 December 2005, the Company had capital commitments for 2006 in the amount of KM 7,645 thousand and for 2007 in the amount of KM 3,430 (2004 - KM 24,612 thousand for 2005 and KM 9,979 thousand for 2006).

27. RELATED PARTY TRANSACTIONS

Directors' and executives' remuneration

The remuneration of directors and Supervisory Board members during the year was as follows:

	2005	2004
Gross salaries	502	583
Bonuses	724	719
Other benefits	69	69
	<u>1,295</u>	<u>1,371</u>

28. OTHER FINANCIAL ASSETS AND LIABILITIES

Trade and other receivables comprise amounts receivable for the sale of goods. The average credit period taken on sale of goods is 113 days (2004 – 113). An allowance has been made for estimated irrecoverable amounts from the sale of goods of KM 2,305 thousand (2004 – KM 1,960 thousand). This allowance has been determined by reference to past default experience. Management considers that the carrying amount of trade and other receivables approximates to their fair value.

Credit risk

The Company's credit risk is primarily attributable to its trade and other receivables. The amounts presented in the balance sheet are net of allowance for doubtful receivables, estimated by the Company's Management based on prior experience and the current economic environment. The Company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Trade and other payables comprise amounts outstanding for trade purchases and ongoing costs. Management considers that the carrying amount of trade and other payables approximates to their fair value.

Foreign currency risk

The Company raises funds from loans and other liabilities. Therefore, the Company is exposed to market risk related to possible foreign currency fluctuations. The Company does not have financial instruments to reduce these risks.

Interest rate risk

Interest rate risk is the risk that the value of the Company's long-term debt will fluctuate due to changes in market interest rates. The Company does not have financial instruments to reduce these risks.