

**AIR ARABIA COMPANY L.L.C. (AIR ARABIA)
AND SUBSIDIARY
SHARJAH - UNITED ARAB EMIRATES**

**CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2004**

**Air Arabia Company L.L.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Consolidated Financial Statements and
Independent Auditor's Report
For the Year ended December 31, 2004**

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Independent Auditor's Report

To the Shareholders

Air Arabia Company L.L.C. (Air Arabia) and Subsidiary Sharjah - United Arab Emirates

We have audited the accompanying consolidated balance sheet of **Air Arabia Company L.L.C. (Air Arabia) and Subsidiary - Sharjah, United Arab Emirates** as of December 31, 2004 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **Air Arabia Company L.L.C. (Air Arabia) and Subsidiary - Sharjah** as of December 31, 2004 and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Also, in our opinion, the Company has maintained proper books of account. We obtained all the information which we considered necessary for our audit. According to the information available to us, there were no contraventions during the year of the U.A.E. Federal Commercial Companies Law No. 8 of 1984, as amended, or the Company's Articles of Association which might have materially affected the financial position of the Company or the results of its operations.

Sharjah
May 28, 2005

Deloitte & Touche

**Air Arabia Company L.L.C. (Air Arabia) and Subsidiary
Sharjah – United Arab Emirates**

**Consolidated Balance Sheet
As of December 31, 2004
(In Arab Emirates Dirhams)**

	Note	2004	2003
ASSETS			
Current assets			
Bank balances and cash	4	47,641,582	37,200,298
Trade and other receivables	5	15,516,478	6,320,373
Total current assets		63,158,060	43,520,671
Non-current assets			
Investments - available-for-sale	6	1,788,036	-
Deferred charges	7	4,270,766	-
Aircraft lease deposits		7,888,526	3,310,000
Investment property	8	14,812,500	-
Property and equipment	9	2,723,849	1,822,183
Total non-current assets		31,483,677	5,132,183
Total Assets		94,641,737	48,652,854
LIABILITIES AND SHAREHOLDERS' FUNDS			
Current liabilities			
Trade and other payables	10	39,801,934	10,953,727
Due to related parties	11	4,070,435	46,604
Total current liabilities		43,872,369	11,000,331
Non-current liabilities			
Due to related parties	11	11,250,000	-
Provision for employees' end of service indemnity	12	1,073,400	113,575
Total non-current liabilities		12,323,400	113,575
Total Liabilities		56,195,769	11,113,906
Shareholders' Equity			
Share capital	13	10,000,000	10,000,000
Statutory reserve		5,178	-
Cumulative changes in fair value of investments - available-for-sale		1,336,557	-
Accumulated losses		(12,895,767)	(12,461,052)
Shareholders' Deficit		(1,554,032)	(2,461,052)
Shareholders' current account	14	40,000,000	40,000,000
Total shareholders' funds		38,445,968	37,538,948
Total Liabilities and Shareholders' Funds		94,641,737	48,652,854

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

The consolidated financial statements on pages 2 to 23 were approved by the Board of Directors on May 28, 2005 and signed on its behalf by:


Chairman


Chief Executive Officer


Director of Finance

**Air Arabia Company L.L.C. (Air Arabia) and Subsidiary
Sharjah – United Arab Emirates**

**Consolidated Statement of Income
For the year ended December 31, 2004
(In Arab Emirates Dirhams)**

	<u>Note</u>	<u>Year ended December 31, 2004</u>	<u>Period from inception to December 31, 2003</u>
Revenue	15	181,307,908	6,401,013
Cost of sales	16	(157,435,990)	(11,352,585)
Gross profit/(loss)		23,871,918	(4,951,572)
Selling and marketing costs	17	(11,819,594)	(2,039,969)
General and administrative expenses	18	(13,811,902)	(5,469,511)
Loss from operations		(1,759,578)	(12,461,052)
Finance costs		(333,592)	-
Other income		<u>1,663,633</u>	<u>-</u>
Net loss for the year/period	19	(429,537) =====	(12,461,052) =====

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

**Air Arabia Company L.L.C. (Air Arabia) and Subsidiary
Sharjah – United Arab Emirates**

**Consolidated Statement of Changes in Shareholders' Equity
For the year ended December 31, 2004
(In Arab Emirates Dirhams)**

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Cumulative changes in fair value of investments - available-for- sale</u>	<u>Accumulated losses</u>	<u>Total</u>
Capital introduced	10,000,000	-	-	-	10,000,000
Net loss for the period	-	-	-	(12,461,052)	(12,461,052)
Balance at December 31, 2003	10,000,000	-	-	(12,461,052)	(2,461,052)
Increase in fair value of investments - available-for-sale not recognized in the statement of income	-	-	1,336,557	-	1,336,557
Net loss for the year	-	-	-	(429,537)	(429,537)
Transfer to statutory reserve	-	5,178	-	(5,178)	-
Balance at December 31, 2004	10,000,000	5,178	1,336,557	(12,895,767)	(1,554,032)

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

**Air Arabia Company L.L.C. (Air Arabia) and Subsidiary
Sharjah – United Arab Emirates**

**Consolidated Statement of Cash Flows
For the year ended December 31, 2004
(In Arab Emirates Dirhams)**

	Year ended December 31, 2004	Period from inception to December 31, 2003
Cash flows from operating activities		
Net loss for the year/period	(429,537)	(12,461,052)
Adjustment for:		
Depreciation of property and equipment	926,516	107,193
Depreciation of investment property	187,500	-
Amortization of deferred charges	690,484	-
Provision for employees' end of service indemnity	985,504	113,575
Interest income	(536,915)	-
Rental income	(750,000)	-
Interest expense	333,592	-
Operating profit/(loss) before changes in operating assets and liabilities	1,407,144	(12,240,284)
Increase in trade and other receivables	(9,196,105)	(6,320,373)
Increase in aircraft lease deposits	(4,578,526)	(3,310,000)
Increase in trade and other payables	28,848,207	10,953,727
Increase in due to related parties	1,023,831	46,604
Cash generated from/(used in) operations	17,504,551	(10,870,326)
Employees' end of service indemnity paid	(25,679)	-
Interest paid	(333,592)	-
Net cash from/(used in) operating activities	17,145,280	(10,870,326)
Cash flows from investing activities		
Purchase of property and equipment	(1,828,182)	(1,929,376)
Purchase of investments - available-for-sale	(451,479)	-
Increase in deferred charges	(4,961,250)	-
Interest received	536,915	-
Net cash used in investing activities	(6,703,996)	(1,929,376)
Cash flows from financing activities		
Capital introduced	-	10,000,000
Increase in shareholders' current account	-	40,000,000
Net cash from financing activities	-	50,000,000
Net increase in cash and cash equivalents	10,441,284	37,200,298
Cash and cash equivalents, at the beginning of the year/period	37,200,298	-
Cash and cash equivalents, at the end of the year/period	47,641,582	37,200,298
	=====	=====

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

**Air Arabia Company L.L.C. (Air Arabia) and Subsidiary
Sharjah – United Arab Emirates**

**Notes to the Consolidated Financial Statements
For the year ended December 31, 2004**

1. Establishment and operations

Air Arabia Company L.L.C. (Air Arabia) - Sharjah (the "Company") is formed pursuant to Amiri Decree No. (2) of the year 2002, issued by H. H. Sheikh Sultan Bin Mohammed Al Qassimi, the Ruler of Sharjah on January 28, 2003 and is incorporated as a limited liability company. The Company operates in the United Arab Emirates under a trade license issued by the Economic Development Department of the Government of Sharjah and Air Operator's Certificate Number AC 2 issued by the General Civil Aviation Authority, United Arab Emirates. The address of the Company's registered office is P. O. Box 132, Sharjah, United Arab Emirates.

The licensed activities of the Company are international commercial air transportation, aircraft trading, aircraft rental, aircraft rent, aircraft spare parts trading, travel and tourist agencies, airlines companies representative office, passengers transport, air cargo agents, documents transfer services, telecommunications devices trading and aircraft repairs and maintenance. To date the principal operations comprise international commercial air transportation operating out of Sharjah, United Arab Emirates.

At December 31, 2004 the Group had 265 employees (2003: 134 employees).

2. Basis of consolidation

The consolidated financial statements of Air Arabia Company L.L.C. (Air Arabia) and Subsidiary (the "Group") incorporate the financial statements of the Company and a fully owned enterprise controlled by the Company (its subsidiary) made up to December 31, each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

All significant intercompany transactions and balances between group enterprises are eliminated on consolidation.

**Air Arabia Company L.L.C. (Air Arabia) and Subsidiary
Sharjah – United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2004**

2. Basis of consolidation (continued)

Subsidiary

Details of the Company's subsidiary at December 31, 2004 is as follows:

<u>Name of subsidiary</u>	<u>Place of incorporation and operation</u>	<u>Proportion of ownership interest</u>	<u>Proportion of voting power held</u>	<u>Principal activity</u>
Red Marketing Communications (FZE)	Sharjah Airport International Free Zone, U.A.E.	100%	100%	Providing marketing, advertisement agency and communication service.

Red Marketing Communications (FZE) was registered as a Free Zone Establishment, fully owned by the Company, and the financial statements of this subsidiary from the date of inception on May 3, 2004 to December 31, 2004 are consolidated in these financial statements.

3. Summary of significant accounting policies

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These consolidated financial statements are presented in United Arab Emirates Dirhams (AED) since that is the currency of the country in which the Company is domiciled. The following is a summary of the significant accounting policies adopted:

Basis of accounting

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments.

Revenue recognition

Passenger revenue is recognized in the period in which the service is provided. Unearned revenue represents flight seats sold but not flown and is included in current liabilities as deferred income.

Service income is recognized when the service is rendered.

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

**Air Arabia Company L.L.C. (Air Arabia) and Subsidiary
Sharjah – United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2004**

3. Summary of significant accounting policies (continued)

Revenue recognition (continued)

Dividend income from investments is recognized when the shareholders' right to receive payment has been established.

Leases

All of the Group's lease contracts are of an operating lease nature and are accounted for as operating leases, where the rental charges are charged to the consolidated statement of income on a straight-line basis over the terms of the relevant lease.

Rental income from operating leases is recognized on a straight line basis over the term of the relevant lease.

Foreign currencies

Transactions denominated in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing on the balance sheet date. Gains and losses arising from foreign currency transactions are included in the consolidated statement of income.

Provision for employees' end of service indemnity

Provision for employees' end of service indemnity is made in accordance with the U.A.E. labour laws, and is based on current remuneration and cumulative years of service at the balance sheet date.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and any identified impairment loss.

**Air Arabia Company L.L.C. (Air Arabia) and Subsidiary
Sharjah – United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2004**

3. Summary of significant accounting policies (continued)

Property and equipment (continued)

Depreciation is charged so as to write off the cost of assets, over their estimated useful lives, using the straight-line method, as follows.

	<u>Years</u>
EDP equipment	3 - 4
Office equipment	3
Furniture and fixture	2 - 4
Aircraft rotables and equipments	3 - 10
Motor vehicles	3

Investment property

Investment property comprises land and building and is accounted under the cost model of IAS 40. Investment property is stated at cost less accumulated depreciation and any identified impairment loss. Depreciation is charged so as to write off the cost of investment property, other than land, over the estimated useful lives, using the straight-line method over 20 years.

Deferred charges

Deferred charges comprise aircraft upgrade certification costs which are amortized on the straight-line method over the remaining lease periods of the aircrafts.

Impairment

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 (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Impairment losses, if any, are included in the consolidated statement of income.

**Air Arabia Company L.L.C. (Air Arabia) and Subsidiary
Sharjah – United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2004**

3. Summary of significant accounting policies (continued)

Statutory reserve

In accordance with United Arab Emirates Federal Commercial Companies Law No. 8 of 1984, as amended, the Company has established a statutory reserve by appropriation of 10% of net profit for each year until the reserve equals 50% of the paid up share capital. This reserve is not available for distribution except as stipulated by the Law.

Financial instruments

Financial assets and financial liabilities are recognized on the Group's consolidated balance sheet when the Group has become a party to the contractual provisions of the instrument.

Trade and other receivables

Trade and other receivables are stated at their nominal value.

Aircraft lease deposits

Aircraft lease deposits are stated at their nominal value.

Investments in securities

Investments in securities are recognized on a trade-date basis and are initially measured at cost.

The Group's investments are classified as available-for-sale, and are measured at subsequent reporting dates at fair value. The unrealized gains and losses for investments - available-for-sale are recognized directly in equity, until the security is disposed off or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the consolidated statement of income.

Trade and other payables

Trade and other payables are stated at their nominal value.

Due to related parties

Amounts due to related parties are stated at their nominal value.

**Air Arabia Company L.L.C. (Air Arabia) and Subsidiary
Sharjah – United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2004**

3. Summary of significant accounting policies (continued)

Aircraft maintenance

Provision is made for the overhaul of leased airframes, engines and auxiliary power units by making appropriate charges to the consolidated statement of income calculated with reference to the number of hours or cycles operated during the year as per the operating lease agreements.

Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reasonably estimated.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, banks' current accounts and deposits with an original maturity of three months or less at date of placement, free of any encumbrances.

4. Bank balances and cash

	December 31,	
	2004	2003
	AED	AED
Cash on hand	75,815	1,210,414
Bank balances:		
Current accounts	24,072,641	35,989,884
Time deposits	<u>23,493,126</u>	-
	<u>47,641,582</u>	<u>37,200,298</u>

**Air Arabia Company L.L.C. (Air Arabia) and Subsidiary
Sharjah – United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2004**

5. Trade and other receivables

	December 31,	
	2004	2003
	AED	AED
Trade receivables	10,272,278	2,697,454
Aircraft lease deposits	-	2,205,000
Prepaid expenses	4,154,676	1,296,573
Advances and other receivables	<u>1,089,524</u>	<u>121,346</u>
	15,516,478	6,320,373
	=====	=====

6. Investments - available-for-sale

	2004
	AED
Purchased during the year	451,479
Increase in fair value during the year	<u>1,336,557</u>
Fair value, at the end of the year	1,788,036
	=====

7. Deferred charges

	Amount
	AED
Cost	
Addition during the year	<u>4,961,250</u>
At December 31, 2004	<u>4,961,250</u>
Amortization	
Charge for the year	<u>690,484</u>
At December 31, 2004	<u>690,484</u>
Carrying amount	
At December 31, 2004	4,270,766
	=====

**Air Arabia Company L.L.C. (Air Arabia) and Subsidiary
Sharjah – United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2004**

8. Investment property

	<u>Amount</u> <u>AED</u>
Cost	
Additions	<u>15,000,000</u>
At December 31, 2004	<u>15,000,000</u>
Depreciation	
Charge for the year	<u>187,500</u>
At December 31, 2004	<u>187,500</u>
Carrying amount	
At December 31, 2004	<u>14,812,500</u> =====

Investment property comprises a building constructed by the Group on a plot of land granted by the Government of Sharjah. The construction of the building was financed by Sharjah Airport International Free Zone, a related party and later the building was leased to this related party for a period of 50 years from October 1, 2004 at an annual rent of AED 3 million for the first five years and at AED 3.3 million annually for the balance of forty five years. The rental income from the investment property amounting to AED 3 million per annum for the first five years of the lease amounting to AED 15 million are offset against annual repayment due against the financing obtained for the investment property.

The property rental income earned by the Group during the year amounted to AED 750,000 (2003: Nil) and direct operating expenses arising on the investment property amounted to AED 187,500 (2003: Nil).

At December 31, 2004 the fair value of investment property amounted to AED 15 million.

**Air Arabia Company L.L.C. (Air Arabia) and Subsidiary
Sharjah – United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2004**

9. Property and equipment

	EDP equipment AED	Office equipment AED	Furniture and fixture AED	Aircraft rotables and equipments AED	Motor vehicles AED	Total AED
Cost						
At December 31, 2003	1,177,450	258,653	236,773	-	256,500	1,929,376
Additions	841,223	5,134	574,634	407,191	-	1,828,182
At December 31, 2004	2,018,673	263,787	811,407	407,191	256,500	3,757,558
Accumulated depreciation						
At December 31, 2003	65,419	14,370	13,154	-	14,250	107,193
Charge for the year	510,919	89,107	169,276	71,714	85,500	926,516
At December 31, 2004	576,338	103,477	182,430	71,714	99,750	1,033,709
Carrying amount						
At December 31, 2004	1,442,335	160,310	628,977	335,477	156,750	2,723,849
At December 31, 2003	1,112,031	244,283	223,619	-	242,250	1,822,183

**Air Arabia Company L.L.C. (Air Arabia) and Subsidiary
Sharjah – United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2004**

10. Trade and other payables

	December 31,	
	2004	2003
	AED	AED
Trade payables	7,935,775	4,054,835
Deferred income	15,345,203	4,266,828
Accrued expenses	12,753,374	2,160,080
Advance from customers	2,280,153	-
Other payables	1,487,429	471,984
	39,801,934	10,953,727
	=====	=====

11. Related party transactions

The Group enters into transactions with companies and entities that fall within the definition of a related party as contained in International Accounting Standard No. 24. Related parties comprise companies under common ownership and/or common management and control and key management personnel.

At the balance sheet date, amounts due to related parties were as follows:

	December 31,	
	2004	2003
	AED	AED
Current		
Sharjah Airport Authority - U.A.E., Shareholder	1,325,035	46,604
Sharjah Airport International Free Zone - U.A.E. (see Note 8)	2,745,400	-
	4,070,435	46,604
	=====	=====

**Air Arabia Company L.L.C. (Air Arabia) and Subsidiary
Sharjah – United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2004**

11. Related party transactions (continued)

At the balance sheet date, amounts due to related parties were as follows: (continued)

	December 31,	
	2004	2003
	AED	AED
Non - current		
Sharjah Airport International Free Zone - U.A.E. (see Note 8)	11,250,000	-
	=====	=====

Transactions

During the year, the Group entered into the following transactions with related parties who are not members of the Group:

	Year ended December 31, 2004	Period from inception to December 31, 2003
	AED	AED
Service income	254,600	-
Rental income	750,000	-
Purchase of investment property (see Note 8)	15,000,000	-

Transactions with related parties were carried out at terms agreed with the management.

During the year, the Group obtained a waiver letter from Sharjah Airport Authority (a shareholder) for all ground handling, landing and parking charges due for the period from inception of the Company to December 31, 2005. The Group's Head Office is located in premises provided free of charge by Sharjah Airport Authority.

**Air Arabia Company L.L.C. (Air Arabia) and Subsidiary
Sharjah – United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2004**

12. Provision for employees' end of service indemnity

Movements in the net liability were as follows:

	<u>2004</u> AED	<u>2003</u> AED
Balance, at the beginning of the year/period	113,575	-
Amounts charged to income	985,504	113,575
Amounts paid	(25,679)	-
Balance, at the end of the year/period	1,073,400 =====	113,575 =====

13. Share capital

	<u>December 31,</u> <u>2004</u> AED	<u>2003</u> AED
Issued and fully paid: 10,000 shares of AED 1,000 each	10,000,000 =====	10,000,000 =====

The shareholders and the shares held by them as of the balance sheet date were as follows:

	<u>No. of shares</u>	<u>Percentage of shareholding</u>	<u>Amount</u> AED
Department of Civil Aviation, Government of Sharjah, U.A.E.	6,000	60	6,000,000
Sharjah Airport Authority, Government of Sharjah, U.A.E.	<u>4,000</u>	<u>40</u>	<u>4,000,000</u>
	10,000 =====	100 =====	10,000,000 =====

**Air Arabia Company L.L.C. (Air Arabia) and Subsidiary
Sharjah – United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2004**

14. Shareholders' current account

	December 31,	
	2004	2003
	AED	AED
Department of Civil Aviation, Government of Sharjah, U.A.E.	24,000,000	24,000,000
Sharjah Airport Authority, Government of Sharjah, U.A.E.	<u>16,000,000</u>	<u>16,000,000</u>
	40,000,000	40,000,000
	=====	=====

15. Revenue

An analysis of the Group's revenue is as follows:

	Year ended December 31,	Period from inception to December 31,
	2004	2003
	AED	AED
Passenger revenue	179,663,650	6,667,536
Baggage revenue	4,967,069	91,599
Service income	336,253	-
Sales commission and expenses	<u>(3,659,064)</u>	<u>(358,122)</u>
	181,307,908	6,401,013
	=====	=====

**Air Arabia Company L.L.C. (Air Arabia) and Subsidiary
Sharjah – United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2004**

16. Cost of sales

	Year ended December 31, 2004 <u>AED</u>	Period from inception to December 31, 2003 <u>AED</u>
Aircraft expenses:		
Lease rentals	26,151,070	2,185,742
Fuel	51,623,858	2,088,366
Maintenance expenses	26,090,226	1,638,524
Ground and technical handling charges	15,708,519	1,139,997
Landing and overflying charges	8,905,734	504,605
Insurance	4,602,635	789,022
Other operating costs	3,771,915	721,914
Staff costs	<u>20,582,033</u>	<u>2,284,415</u>
	157,435,990 =====	11,352,585 =====

17. Selling and marketing costs

	Year ended December 31, 2004 <u>AED</u>	Period from inception to December 31, 2003 <u>AED</u>
Staff costs	3,544,864	473,048
Advertisement expenses	6,688,362	1,316,816
Reservation management expenses	<u>1,586,368</u>	<u>250,105</u>
	11,819,594 =====	2,039,969 =====

**Air Arabia Company L.L.C. (Air Arabia) and Subsidiary
Sharjah – United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2004**

18. General and administrative expenses

	Year ended December 31, <u>2004</u> AED	Period from inception to December 31, <u>2003</u> AED
Staff costs	7,478,367	2,001,237
Legal and professional fees	473,495	1,552,185
Travel and accommodation costs	927,461	875,142
Communication costs	873,191	255,932
Printing and stationary	479,322	232,136
Depreciation of property and equipment	854,802	107,193
Other expenses	<u>2,725,264</u>	<u>445,686</u>
	<u>13,811,902</u>	<u>5,469,511</u>

19. Net loss for the year/period

Net loss for the year/period is arrived at after charging the following expenses:

	Year ended December 31, <u>2004</u> AED	Period from inception to December 31, <u>2003</u> AED
Staff costs	31,605,264	4,758,700
Depreciation of property and equipment	926,516	107,193
Depreciation of investment property	187,500	-
Amortization of deferred charges	690,484	-

**Air Arabia Company L.L.C. (Air Arabia) and Subsidiary
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**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2004**

20. Operating lease arrangements

	Year ended December 31, 2004 AED	Period from inception to December 31, 2003 AED
Minimum lease payment under operating leases recognized in income for the year/period	23,233,346	2,185,742

The Company has entered into agreements to lease five Airbus A 320 aircraft, four of which were delivered over the course of 2003 and 2004, while the remaining one will be delivered in 2005. At the balance sheet date, the Company had outstanding lease commitments against the above four operating lease aircraft (2003: 2 aircrafts) as follows:

	December 31, 2004 AED	2003 AED
2004	-	2,858,530
2005	33,433,798	-
2006	29,747,773	-
2007	28,229,998	-
2008 and thereafter	37,973,036	-
	129,384,605	2,858,530

The obligations for the remaining 1 aircraft to be delivered in 2005 (2003: 4 aircrafts, to be delivered in 2004 and 2005) is as follows:

	December 31, 2004 AED	2003 AED
2004	-	6,411,171
2005	9,725,568	34,192,911
2006	10,609,710	34,192,911
2007	10,609,710	34,192,911
2008	10,609,710	34,192,911
2009 and thereafter	11,493,853	17,096,456
	53,048,551	160,279,271

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**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2004**

21. Contingent liabilities

	December 31,	
	2004	2003
	AED	AED
Letter of credit	735,000	2,653,920
Letters of guarantee	1,751,995	-

22. Financial instruments

Financial instruments represent any contractual agreement that is creating a financial asset and financial liability or an equity instrument. Financial assets comprise bank balances and cash, trade and other receivables, investments - available-for-sale and aircraft lease deposits. Financial liabilities comprise trade and other payables and due to related parties.

Interest rate risk

The Group's exposure to interest rate risk relates to its time deposits with banks. At December 31, 2004, the time deposits carried an interest rate of 1.75% to 7% per annum (2003: Nil).

Exchange rate risk

There are no significant exchange rate risks as substantially all financial assets and financial liabilities are denominated in Arab Emirates Dirhams or US Dollars to which the Dirhams is fixed.

Fuel price risk

The airline industry is exposed to fluctuations in the price of jet fuel. The Group closely monitors the actual cost of fuel against forecasted cost.

Aircraft lease foreign currency exchange rate risk

There are no significant exchange rate risks as all aircraft lease rental agreements are made in US Dollars to which the UAE Dirham is fixed.

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**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2004**

22. Financial instruments (continued)

Credit risk

Financial assets, which potentially expose the Group to concentration of credit risk, comprise principally banks' current accounts and trade and other receivables.

The Group's bank accounts are placed with high credit quality financial institutions.

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

There is no concentration of credit risk to debtors outside the industry in which the Group operates.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Group is exposed to market risk with respect to its investments in financial instruments.

Fair values

The fair values of financial assets and liabilities at year-end approximate their carrying amounts in the balance sheet.

23. Comparative amounts

Certain amounts for the prior period were reclassified to conform with current year presentation. The financial statements of prior period were for the period from inception on January 28, 2003 to December 31, 2003 and accordingly the comparative amounts for the statement of income, changes in shareholders' equity, cash flows and related notes are not directly comparable. Further, the financial statements of Red Marketing Communications (FZE) from the date of inception on May 3, 2004 to December 31, 2004 are consolidated in these financial statements (see Note 2).