

**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, 2005**

**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, 2005**

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Ref: 10341FS05-consol

Independent Auditor's Report

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, 2005 and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial position of Air Arabia Company L.L.C. (Air Arabia) and Subsidiary - Sharjah as of December 31, 2005 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 23, 2006

Deloitte & Touche

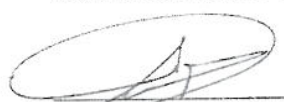
**Air Arabia Company L.L.C. (Air Arabia) and Subsidiary
Sharjah – United Arab Emirates**

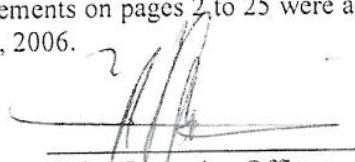
**Consolidated Balance Sheet
At December 31, 2005
(In Arab Emirates Dirhams)**

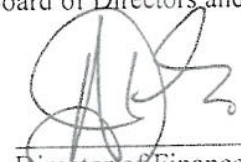
	Notes	December 31, 2005	December 31, 2004
ASSETS			
Current assets			
Cash and cash equivalents	5	99,560,477	47,641,582
Trade and other receivables	6	<u>35,841,403</u>	<u>15,516,478</u>
Total current assets		<u>135,401,880</u>	<u>63,158,060</u>
Non-current assets			
Available-for-sale investments	7	20,073,863	1,788,036
Deferred charges	8	4,998,121	4,270,766
Aircraft lease deposits		16,060,225	7,888,526
Investment property	9	14,062,500	14,812,500
Property and equipment	10	<u>4,118,372</u>	<u>2,723,849</u>
Total non-current assets		<u>59,313,081</u>	<u>31,483,677</u>
Total Assets		<u>194,714,961</u>	<u>94,641,737</u>
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	11	56,058,620	24,456,731
Deferred income		41,721,457	15,345,203
Due to related parties	12	<u>3,695,418</u>	<u>4,070,435</u>
Total current liabilities		<u>101,475,495</u>	<u>43,872,369</u>
Non-current liabilities			
Due to related parties	12	8,250,000	11,250,000
Provision for employees' end of service indemnity	13	<u>2,514,824</u>	<u>1,073,400</u>
Total non-current liabilities		<u>10,764,824</u>	<u>12,323,400</u>
Total Liabilities		<u>112,240,319</u>	<u>56,195,769</u>
Capital and reserves			
Share capital	14	50,000,000	10,000,000
Statutory reserve		3,214,298	5,178
Investments revaluation reserve		14,056,057	1,336,557
Retained earnings/(accumulated losses)		<u>15,204,287</u>	<u>(12,895,767)</u>
		82,474,642	(1,554,032)
Shareholders' current account		-	40,000,000
Total equity		<u>82,474,642</u>	<u>38,445,968</u>
Total Liabilities and Equity		<u>194,714,961</u>	<u>94,641,737</u>

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

The consolidated financial statements on pages 2 to 25 were approved by the Board of Directors and authorised for issue on May 23, 2006.


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, 2005
(In Arab Emirates Dirhams)**

	Notes	Year ended December 31, 2005	Year ended December 31, 2004
Revenue	15	411,180,821	181,307,908
Cost of sales	16	(345,971,854)	(157,435,990)
Gross profit		65,208,967	23,871,918
Selling and marketing costs	17	(20,741,245)	(11,819,594)
General and administrative expenses	18	(17,419,369)	(13,811,902)
Operating profit/(loss)		27,048,353	(1,759,578)
Finance costs		(434,790)	(333,592)
Other income		303,322	564,218
Investment revenues	19	4,392,289	1,099,415
Profit/(loss) for the year	20	31,309,174	(429,537)

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 Equity
For the year ended December 31, 2005
(In Arab Emirates Dirhams)**

	Share capital	Statutory reserve	Investments revaluation reserve	Retained earnings/ (accumulated losses)	Total
Balance at December 31, 2003	10,000,000	-	-	(12,461,052)	(2,461,052)
Gains on available-for-sale investments directly recognised in equity	-	-	1,336,557	-	1,336,557
Loss for the year	-	-	-	(429,537)	(429,537)
Total recognised income and expense for the year	-	-	1,336,557	(429,537)	907,020
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)
Gains on available-for-sale investments directly recognised in equity	-	-	12,719,500	-	12,719,500
Profit for the year	-	-	-	31,309,174	31,309,174
Total recognised income and expense for the year	-	-	12,719,500	31,309,174	44,028,674
Transfer from shareholders' current account	40,000,000	-	-	-	40,000,000
Transfer to statutory reserve	-	3,209,120	-	(3,209,120)	-
	40,000,000	3,209,120	-	(3,209,120)	40,000,000
Balance at December 31, 2005	50,000,000	3,214,298	14,056,057	15,204,287	82,474,642
	=====	=====	=====	=====	=====

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, 2005
(In Arab Emirates Dirhams)**

	Year ended December 31, 2005	Year ended December 31, 2004
Operating activities		
Profit/(loss) for the year	31,309,174	(429,537)
Adjustment for:		
Depreciation of property and equipment	1,409,639	926,516
Depreciation of investment property	750,000	187,500
Amortisation of deferred charges	1,407,778	690,484
Provision for employees' end of service indemnity	1,574,503	985,504
Profit from disposal of investments held for trading	(1,752,312)	-
Interest income	(389,977)	(536,915)
Rental income	(3,000,000)	(750,000)
Finance costs	434,790	333,592
Operating cash flows before movements in working capital	31,743,595	1,407,144
Increase in trade and other receivables	(20,324,925)	(9,196,105)
Increase in aircraft lease deposits	(8,171,699)	(4,578,526)
Increase in trade and other payables	31,601,889	17,769,832
Increase in deferred income	26,376,254	11,078,375
(Decrease)/increase in due to related parties	(375,017)	1,023,831
Cash generated from operations	60,850,097	17,504,551
Employees' end of service indemnity paid	(133,079)	(25,679)
Interest paid	(434,790)	(333,592)
Net cash from operating activities	<u>60,282,228</u>	<u>17,145,280</u>
Investing activities		
Purchase of property and equipment	(2,804,162)	(1,828,182)
Purchase of investments held for trading	(657,558)	-
Proceeds on disposal of investments held for trading	2,409,870	-
Purchase of available-for-sale investments	(5,566,327)	(451,479)
Increase in deferred charges	(2,135,133)	(4,961,250)
Interest received	389,977	536,915
Net cash used in investing activities	<u>(8,363,333)</u>	<u>(6,703,996)</u>
Net increase in cash and cash equivalents	51,918,895	10,441,284
Cash and cash equivalents at the beginning of the year	47,641,582	37,200,298
Cash and cash equivalents at the end of the year	<u>99,560,477</u>	<u>47,641,582</u>

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, 2005

1. General information

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 "Group" comprises Air Arabia Company L.L.C. (Air Arabia) and Subsidiary (see Note 3). 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.

2. Adoption of new and revised International Financial Reporting Standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on January 1, 2005. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group's presentations and disclosure in the financial statements as required by the following International Accounting Standards:

Presentation of financial statements (IAS 1)
Property, plant and equipment (IAS 16)
Related party disclosures (IAS 24)
Financial Instruments: Disclosure and Presentation (IAS 32)
Financial Instruments Recognition and Measurement (IAS 39)

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

IFRS 6 *Exploration for and Evaluation of Mineral Resources*
IFRS 7 *Financial Instruments: Disclosures*

**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, 2005**

2. Adoption of new and revised International Financial Reporting Standards (continued)

IFRIC 4 *Determining whether an Arrangement contains a Lease*

IFRIC 5 *Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*

IFRIC 6 *Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*

IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*

IFRIC 8 *Scope of IFRS 2*

IFRIC 9 *Reassessment of Embedded Derivatives*

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

3. Significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards. For the purpose of the consolidated financial statements, the results and financial position of Group are expressed in United Arab Emirates Dirhams, which is the functional currency of the Group and the presentation currency for the consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis, except for measurement at fair value of financial instruments. The principal accounting policies adopted are set out below.

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 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.

**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, 2005**

3. Significant accounting policies (continued)

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.

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

Subsidiary

Details of the Company's subsidiary at December 31, 2005 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.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts.

Passenger revenue is recognised 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 recognised 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.

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

**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, 2005**

3. Significant accounting policies (continued)

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 recognised on a straight line basis over the term of the relevant lease.

Foreign currencies

Transactions in currencies other than the Group's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on 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.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the year. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

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.

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.

**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, 2005**

3. Significant accounting policies (continued)

Property and equipment

Property and equipment, except properties under construction, are stated at cost, less accumulated depreciation and any identified impairment losses.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, 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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement when incurred.

Depreciation is charged so as to write off the cost of assets, other than properties under construction, 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 equipment	3 - 10
Motor vehicles	3

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

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.

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 discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

**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, 2005**

3. Significant accounting policies (continued)

Impairment (continued)

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. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is 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 recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, 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.

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 amortised on the straight-line method over the remaining lease periods of the aircrafts.

Financial instruments

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

Trade receivables

Trade receivables are stated at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

Aircraft lease deposits

Aircraft lease deposits are stated at fair 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, 2005**

3. Significant accounting policies (continued)

Financial instruments (continued)

Due from related parties

Due from related parties are stated at fair value.

Investments

Investments of the Group are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

Investments of the Group are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the year. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed off or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the year. Impairment losses recognised in profit or loss for available-for-sale investments are not subsequently reversed through profit or loss.

For investments traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of the business on the balance sheet date.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability. The accounting policies adopted for specific financial liabilities are set out below.

Trade payables

Trade payables are stated at fair 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, 2005**

3. Significant accounting policies (continued)

Financial instruments (continued)

Deferred income

Deferred income is stated at fair value.

Due to related parties

Due to related parties are stated at fair value.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Aircraft maintenance

Accruals are made for the overhaul of leased airframes, engines and auxiliary power units by making appropriate charges to the profit or loss calculated with reference to the number of hours or cycles operated during the year as per the operating lease agreements.

4. Critical accounting judgments and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, which are described in Note 3, management has made judgments that have the most significant effect on the amounts recognised in the financial statements and applied certain assumptions, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, as discussed below:

Property and equipment

The cost of property and equipment is depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, the repair and maintenance program and technological obsolescence arising from changes and the residual value. The management has not considered any residual value as it is deemed immaterial.

**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, 2005**

**4. Critical accounting judgments and key sources of estimation uncertainty
(continued)**

Allowance for doubtful debts

Allowance for doubtful debts, if any, is determined using a combination of factors to ensure that the trade receivables are not overstated due to uncollectibility. The allowance for doubtful debts for all customers is based on a variety of factors, including the overall quality and aging of the receivables, continuing credit evaluation of the customers' financial conditions and collateral requirements from customers in certain circumstances.

5. Cash and cash equivalents

	December 31,	
	2005	2004
	AED	AED
Cash on hand	423,589	109,917
Bank balances:		
Current accounts	32,772,412	24,038,539
Call deposits	37,046,752	-
Time deposits	<u>29,317,724</u>	<u>23,493,126</u>
	<u>99,560,477</u>	<u>47,641,582</u>

6. Trade and other receivables

	December 31,	
	2005	2004
	AED	AED
Trade receivables	27,029,135	10,272,278
Prepaid expenses	6,237,967	4,154,676
Advances and other receivables	<u>2,574,301</u>	<u>1,089,524</u>
	<u>35,841,403</u>	<u>15,516,478</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, 2005**

7. Available-for-sale investments - Quoted

	December 31,	
	2005	2004
	AED	AED
Fair value	20,073,863	1,788,036
	=====	=====

8. Deferred charges

	Amount
	AED
<i>Cost</i>	
At December 31, 2003	-
Addition	4,961,250
At December 31, 2004	4,961,250
Addition	2,135,133
At December 31, 2005	7,096,383
	=====
<i>Amortisation</i>	
At December 31, 2003	-
Charge for the year	690,484
At December 31, 2004	690,484
Charge for the year	1,407,778
At December 31, 2005	2,098,262
	=====
<i>Carrying amount</i>	
At December 31, 2005	4,998,121
	=====
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, 2005**

9. Investment property

	<u>Amount</u> <u>AED</u>
<i>Cost</i>	
At December 31, 2003	-
Addition	<u>15,000,000</u>
At December 31, 2004 and 2005	<u>15,000,000</u>
<i>Accumulated depreciation</i>	
At December 31, 2003	-
Charge for the year	<u>187,500</u>
At December 31, 2004	187,500
Charge for the year	<u>750,000</u>
At December 31, 2005	<u>937,500</u>
<i>Carrying amount</i>	
At December 31, 2005	<u>14,062,500</u> =====
At December 31, 2004	14,812,500 =====

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 3,000,000 (2004: AED 750,000) and direct operating expenses arising on the investment property amounted to AED 750,000 (2004: AED 187,500).

At December 31, 2005 the fair value of the investment property amounted to AED 15 million (2004: AED 15 million).

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**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005**

10. Property and equipment

	EDP equipment AED	Office equipment AED	Furniture and fixture AED	Aircraft rotables and equipment AED	Motor vehicles AED	Properties under construction AED	Total AED
<i>Cost</i>							
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
Additions	734,871	38,610	129,928	518,784	78,309	1,303,660	2,804,162
At December 31, 2005	<u>2,753,544</u>	<u>302,397</u>	<u>941,335</u>	<u>925,975</u>	<u>334,809</u>	<u>1,303,660</u>	<u>6,561,720</u>
<i>Accumulated depreciation</i>							
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
Charge for the year	741,216	112,056	307,104	152,887	96,376	-	1,409,639
At December 31, 2005	<u>1,317,554</u>	<u>215,533</u>	<u>489,534</u>	<u>224,601</u>	<u>196,126</u>	<u>-</u>	<u>2,443,348</u>
<i>Carrying amount</i>							
At December 31, 2005	<u>1,435,990</u>	<u>86,864</u>	<u>451,801</u>	<u>701,374</u>	<u>138,683</u>	<u>1,303,660</u>	<u>4,118,372</u>
At December 31, 2004	1,442,335	160,310	628,977	335,477	156,750	-	2,723,849

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**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005**

11. Trade and other payables

	December 31,	
	2005	2004
	AED	AED
Trade payables	9,241,583	7,935,775
Accrued expenses	37,143,913	12,753,374
Other payables	<u>9,673,124</u>	<u>3,767,582</u>
	56,058,620	24,456,731
	=====	=====

12. Related party transactions

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

	December 31,	
	2005	2004
	AED	AED
Current		
Sharjah Airport Authority - U.A.E., Shareholder	943,483	1,325,035
Sharjah Airport International Free Zone - U.A.E. (see Note 9)	<u>2,751,935</u>	<u>2,745,400</u>
	3,695,418	4,070,435
	=====	=====
Non - current		
Sharjah Airport International Free Zone - U.A.E. (see Note 9)	<u>8,250,000</u>	<u>11,250,000</u>
	=====	=====

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**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005**

12. Related party transactions (continued)

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,	
	2005	2004
	AED	AED
Service income	596,803	254,600
Rental income	3,000,000	750,000
Purchase of investment property (see Note 9)	-	15,000,000

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

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.

Compensation of board of directors/key management personnel:

	Year ended December 31,	
	2005	2004
	AED	AED
Salaries and benefits	2,455,130	780,000

13. Provision for employees' end of service indemnity

Movements in the net liability were as follows:

	2005	2004
	AED	AED
Balance, at the beginning of the year	1,073,400	113,575
Amounts charged to income	1,574,503	985,504
Amounts paid	(133,079)	(25,679)
Balance, at the end of the year	2,514,824	1,073,400

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**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005**

14. Share capital

	December 31,	
	2005	2004
	AED	AED
Issued and fully paid:		
100 shares of AED 500,000 each		
(2004: 10,000 shares of AED 1,000 each)	50,000,000	10,000,000
	=====	=====

Pursuant to the Shareholders' resolution during the meeting held on April 12, 2005, the Company's share capital was increased by AED 40,000,000 by debiting the same amount to Shareholders' current account. Further, the number of shares was reduced from 10,000 shares to 100 shares and the par value of shares was increased from AED 1,000 each to AED 500,000 each.

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 AED</u>
Department of Civil Aviation, Government of Sharjah, U.A.E.	60	60	30,000,000
Sharjah Airport Authority, Government of Sharjah, U.A.E.	<u>40</u>	<u>40</u>	<u>20,000,000</u>
	100	100	50,000,000
	=====	=====	=====

15. Revenue

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

	Year ended December 31,	
	2005	2004
	AED	AED
Passenger revenue	405,058,308	179,663,650
Baggage revenue	11,348,580	4,967,069
Cargo revenue	2,111,363	-
Service income	1,316,241	336,253
Sales commission and expenses	(8,653,671)	(3,659,064)
	411,180,821	181,307,908
	=====	=====

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**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005**

16. Cost of sales

	<u>Year ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
	AED	AED
Staff costs	44,616,806	20,582,033
Lease rentals	55,448,302	26,151,070
Fuel	132,696,514	51,623,858
Maintenance expenses	46,581,689	26,090,226
Ground and technical handling charges	31,562,651	15,708,519
Landing and overflying charges	19,863,812	8,905,734
Insurance	8,060,001	4,699,117
Other operating costs	<u>7,142,079</u>	<u>3,675,433</u>
	<u>345,971,854</u>	<u>157,435,990</u>
	=====	=====

17. Selling and marketing costs

	<u>Year ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
	AED	AED
Staff costs	7,650,350	3,544,864
Advertisement expenses	10,234,075	6,688,362
Reservation management expenses	<u>2,856,820</u>	<u>1,586,368</u>
	<u>20,741,245</u>	<u>11,819,594</u>
	=====	=====

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**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005**

18. General and administrative expenses

	<u>Year ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
	AED	AED
Staff costs	9,111,301	7,478,367
Legal and professional fees	1,232,408	473,495
Travel and accommodation costs	1,044,308	927,461
Communication costs	1,229,888	873,191
Printing and stationary	807,037	479,322
Depreciation of property and equipment	1,256,752	854,802
Other expenses	<u>2,737,675</u>	<u>2,725,264</u>
	<u>17,419,369</u>	<u>13,811,902</u>

19. Investment revenues

	<u>Year ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
	AED	AED
Profit on sale of investments held for trading	1,752,312	-
Investment property income (see note 9)	2,250,000	562,500
Interest on bank deposits	<u>389,977</u>	<u>536,915</u>
	<u>4,392,289</u>	<u>1,099,415</u>

20. Profit/(loss) for the year

Profit/(loss) for the year is arrived at after charging the following expenses:

	<u>Year ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
	AED	AED
Staff costs	61,378,457	31,605,264
Depreciation of property and equipment	1,409,639	926,516
Depreciation of investment property	750,000	187,500
Amortisation of deferred charges	<u>1,407,778</u>	<u>690,484</u>

**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, 2005**

21. Operating lease arrangements

	Year ended December 31,	
	2005	2004
	AED	AED
Minimum lease payment under operating leases recognised in profit or loss for the year	51,281,609	23,233,346
	=====	=====

The Group has entered into agreements to lease eight aircrafts, five of which were delivered over the course of 2003, 2004 and 2005, while the remaining three will be delivered in 2006. At the balance sheet date, the Group had outstanding lease commitments against the above five operating lease aircraft (2004: four) as follows:

	December 31,	
	2005	2004
	AED	AED
2005	-	33,433,798
2006	40,357,483	29,747,773
2007	38,839,708	28,229,998
2008	38,839,708	28,229,998
2009	20,352,748	9,743,038
2010	884,143	-
	139,273,790	129,384,605
	=====	=====

The obligations for the remaining three aircraft to be delivered in 2006 (2004: one aircraft to be delivered in 2005) is as follows:

	December 31,	
	2005	2004
	AED	AED
2005	-	9,725,568
2006	21,491,400	10,609,710
2007	37,220,400	10,609,710
2008	37,220,400	10,609,710
2009	37,220,400	10,609,710
2010 and thereafter	90,169,800	884,143
	223,322,400	53,048,551
	=====	=====

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**Notes to the Consolidated Financial Statements (continued)
For the year ended December 31, 2005**

22. Contingent liabilities

	December 31,	
	2005	2004
	AED	AED
Letters of credit	13,542,375	735,000
Letters of guarantee	2,419,326	1,751,995

23. Financial instruments

Financial instruments represent any contractual agreement that is creating a financial asset and financial liability or an equity instrument. Financial assets comprise cash and cash equivalents, trade and other receivables, available-for-sale investments and aircraft lease deposits. Financial liabilities comprise trade and other payables, deferred income 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, 2005, the time deposits carried an interest rate of 1% to 3.5% per annum (2004: 1.75% to 7% per annum).

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 UAE 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)
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23. Financial instruments (continued)

Credit risk

The Group's principal financial assets are banks' accounts and trade and other receivables.

The credit risk on liquid funds is limited because the counter parties are banks with high credit ratings assigned by international credit-rating agencies. All the fixed deposits mature within different periods not exceeding three months from the balance sheet date.

The Group's credit risk is primarily attributable to its trade 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 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.

24. Comparative amounts

Certain amounts for the prior period were reclassified to conform with current year presentation. The financial statements of Red Marketing Communications (FZE) for prior period were from the date of inception on May 3, 2004 to December 31, 2004, which are consolidated in these financial statements.