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, 2006

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, 2006

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of **Air Arabia Company L.L.C. (Air Arabia) and Subsidiary- Sharjah, United Arab Emirates,** which comprise the consolidated balance sheet as at December 31, 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report (continued)

Opinion

In our opinion, the consolidated financial statements 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, 2006, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

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 financial performance.

Sharjah
February 5, 2007

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

Consolidated Balance Sheet
At December 31, 2006
(In Arab Emirates Dirhams)

	Notes	December 31, 2006	December 31, 2005
ASSETS			
Current assets			
Cash and cash equivalents	5	**182,156,091**	99,560,477
Trade and other receivables	6	**74,366,860**	35,841,403
Due from a related party	7	**392,813**	-
Total current assets		**256,915,764**	135,401,880
Non-current assets			
Available-for-sale investments	8	**13,855,127**	20,073,863
Deferred charges	9	**17,127,907**	4,998,121
Aircraft lease deposits		**26,020,037**	16,060,225
Investment property	10	**13,312,500**	14,062,500
Property and equipment	11	**40,300,081**	4,118,372
Total non-current assets		**110,615,652**	59,313,081
Total Assets		**367,531,416**	194,714,961
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	12	**115,655,900**	56,058,620
Deferred income		**65,448,525**	41,721,457
Due to related parties	7	**2,712,443**	3,695,418
Total current liabilities		**183,816,868**	101,475,495
Non-current liabilities			
Due to related parties	7	**5,250,000**	8,250,000
Provision for employees' end of service indemnity	13	**4,500,771**	2,514,824
Total non-current liabilities		**9,750,771**	10,764,824
Total Liabilities		**193,567,639**	112,240,319
Capital and reserves			
Share capital	14	**50,000,000**	50,000,000
Statutory reserve		**13,336,271**	3,214,298
Investments revaluation reserve		**4,399,905**	14,056,057
Retained earnings		**106,227,601**	15,204,287
Total equity		**173,963,777**	82,474,642
Total Liabilities and Equity		**367,531,416**	194,714,961

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

The consolidated financial statements on pages 3 to 37 were approved by the Board of Directors and authorised for issue on February 5, 2007.

Chairman	Chief Executive Officer	Director of Finance

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

Consolidated Income Statement
For the year ended December 31, 2006
(In Arab Emirates Dirhams)

	Notes	**Year ended December 31, 2006**	Year ended December 31, 2005
Revenue	15	**749,165,231**	411,180,821
Cost of sales	16	**(619,623,012)**	(360,425,176)
Gross profit		**129,542,219**	50,755,645
Selling and marketing costs	17	**(30,967,838)**	(20,741,245)
General and administrative expenses	18	**(22,697,072)**	(17,419,369)
Operating profit		**75,877,309**	12,595,031
Finance costs		**(3,430,000)**	(434,790)
Other income	19	**28,697,978**	19,148,933
Profit for the year	20	**101,145,287**	31,309,174
Basic earnings per share	21	**1,011,453**	313,092

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, 2006
(In Arab Emirates Dirhams)

	Share capital	Statutory reserve	Investments revaluation reserve	Retained earnings	Total
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
Loss on available-for-sale investments directly recognised in equity	-	-	(9,656,152)	-	(9,656,152)
Profit for the year	-	-	-	101,145,287	101,145,287
Total recognised income and expense for the year	-	-	(9,656,152)	101,145,287	91,489,135
Transfer to statutory reserve	-	10,121,973	-	(10,121,973)	-
Balance at December 31, 2006	**50,000,000**	**13,336,271**	**4,399,905**	**106,227,601**	**173,963,777**

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 Cash Flow Statement
For the year ended December 31, 2006
(In Arab Emirates Dirhams)

	Year ended December 31, 2006	Year ended December 31, 2005
Operating activities		
Profit for the year	**101,145,287**	31,309,174
Adjustment for:		
Depreciation of property and equipment	**2,447,405**	1,409,639
Depreciation of investment property	**750,000**	750,000
Amortisation of deferred charges	**3,155,877**	1,407,778
Allowance for doubtful debts	**330,687**	-
Profit on disposal of investments held for trading	**-**	(1,752,312)
Provision for employees' end of service indemnity	**2,189,383**	1,574,503
Interest income	**(4,713,179)**	(389,977)
Rental income	**(3,000,000)**	(3,000,000)
Finance costs	**3,430,000**	434,790
Operating cash flows before movements in working capital	**105,735,460**	31,743,595
Increase in trade and other receivables	**(38,856,144)**	(20,324,925)
Increase in due from a related party	**(392,813)**	-
Increase in aircraft lease deposits	**(9,959,812)**	(8,171,699)
Increase in trade and other payables	**59,597,280**	31,601,889
Increase in deferred income	**23,727,068**	26,376,254
Decrease in due to related parties	**(982,975)**	(375,017)
Cash generated from operations	**138,868,064**	60,850,097
Employees' end of service indemnity paid	**(203,436)**	(133,079)
Interest paid	**(3,430,000)**	(434,790)
Net cash from operating activities	**135,234,628**	60,282,228
Investing activities		
Purchase of property and equipment	**(38,670,449)**	(2,804,162)
Proceeds from sale of property and equipment	**41,335**	-
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	**(3,437,416)**	(5,566,327)
Increase in deferred charges	**(15,285,663)**	(2,135,133)
Interest received	**4,713,179**	389,977
Net cash used in investing activities	**(52,639,014)**	(8,363,333)
Net increase in cash and cash equivalents	**82,595,614**	51,918,895
Cash and cash equivalents at the beginning of the year	**99,560,477**	47,641,582
Cash and cash equivalents at the end of the year	**182,156,091**	99,560,477
	=========	=========

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, 2006

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. Dr. 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 its 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 through Air Arabia 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 annual reporting periods beginning on January 1, 2006. The adoption of these new and revised Standards and Interpretations had no material effect on the amounts reported for the current or prior years.

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

IAS 1	IAS 1 (Amendment) – Capital Disclosure (effective January 1, 2007) IAS 1 (Amendment) requires the disclosure of information that enables users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital.
IFRS 7	Financial Instruments Disclosures (effective January 1, 2007) IFRS 7 replaces parts of the disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Group will apply IFRS 7 from annual periods beginning January 1, 2007.

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

IFRS 8	Operating Segments (effective January 1, 2009) IFRS 8 replaces IAS 14 *Segment Reporting.* It extends the scope of segment reporting to include entities that hold assets in a fiduciary capacity for a broad group of outsiders as well as entities whose equity or debt securities are publicly traded and entities that are in the process of issuing equity or debt securities in public securities markets.
IFRIC 7	Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after March 1, 2006).
IFRIC 8	IFRIC 8 Scope of IFRS 2 (effective for annual periods beginning on or after May 1, 2006).
IFRIC 9	Reassessment of Embedded Derivatives (effective for annual periods beginning on or after June 1, 2006).
IFRIC 10	Interim Financial Reporting and Impairment (effective for annual periods beginning on or after November 1, 2006).
IFRIC 11	Group Treasury Shares Transactions (effective for annual periods beginning on or after March 1, 2007).
IFRIC 12	Service Concession Arrangements (effective for annual periods beginning on or after January 1, 2008).

The Management anticipates that the adoption of these Standards and Interpretations (where applicable) in future periods will have no material impact on the consolidated financial statements of the Group, except in case of IFRS 7 which when adopted will impact disclosures.

3. Significant accounting policies

Statement of compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards.

3. Significant accounting policies (continued)

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for the measurement at fair value of financial instruments. 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 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 enterprises controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period are included in the profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Subsidiary

Details of the Company's subsidiary at December 31, 2006 are as follows:

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

3. Significant accounting policies (continued)

Interests in joint venture

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

Where a group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using proportionate consolidation, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5: Non-current Assets Held for Sale and Discontinued Operations. The Group's share of the assets, liabilities, income and expenses of jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture.

Revenue recognition

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

Rendering of services

Passenger revenue is recognised in the period in which the service is provided. Unearned revenue represents flight seats sold but not yet flown and is included in current liabilities as deferred income. It is released to the consolidated income statement as passengers fly.

3. Significant accounting policies (continued)

Revenue recognition (continued)

Rendering of services (continued)

Sales of other services are recognised when the services are rendered.

Dividend and interest revenue

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

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

Rental income

Rental income from investment property is recognised on a straight line basis over the term of the relevant lease.

Leasing

All of the Group's lease contracts are of an operating lease nature and are accounted for as operating leases. Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3. Significant accounting policies (continued)

Foreign currencies

Transactions in currencies other than the Group's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the year in which they arise except for:

- Exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks (see below for hedging accounting policies);and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

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.

Defined contribution plan

UAE national employees of the Group are members of the Government-managed retirement pension and social security benefit scheme pursuant to Federal Labor Law No. 7 of 1999. The Group is required to contribute 12.5% of the "contribution calculation salary" of payroll costs to the retirement benefit scheme to fund the benefits. These employees are also required to contribute 5% of the "contribution calculation salary" to the scheme. The only obligation of the Group with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to the profit or loss.

3. 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 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.

Property and equipment

Land granted by the Government of Sharjah is stated at a nominal value of AED 1.

Other property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost of assets, other than land, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

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.

Investment property

Investment property 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 of 20 years, using the straight-line method. Land granted by the Government of Sharjah on which investment property is constructed is stated at a nominal value of AED 1.

Government grants

Land granted by the government is recognised at nominal value where there is reasonable assurance that the land will be received and the Company will comply with any attached conditions, where applicable. Grants related to income are presented as credit in the income statement under other income.

3. Significant accounting policies (continued)

Deferred charges

Deferred charges are amortised on the straight-line method over the estimated period of benefit.

Impairment of tangible and intangible assets

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 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. 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.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that the Group will be required to settle that obligation, and reliable estimate can be made of the amount of the obligation.

3. Significant accounting policies (continued)

Provisions (continued)

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Aircraft maintenance

For the aircraft under operating lease agreements, wherein the Group has a contractual obligation to maintain the aircraft, accruals are made during the lease term for the obligation based on estimated future costs of major airframe and certain engine maintenance checks by making appropriate charges to the consolidated income statement calculated by reference to the number of hours or cycles operated during the year.

Financial assets

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.

Due from related parties

Due from related parties are stated at fair value.

Investments

Investments 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 available-for-sale (AFS). The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

3. Significant accounting policies (continued)

Financial assets (continued)

AFS financial assets

AFS financial assets are stated at fair value. Gains and losses arising from the changes in the fair value are recognised directly in the equity in the investments revaluation reserve with the exception of impairment losses. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices at the close of the business on the balance sheet date;

- The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

3. Significant accounting policies (continued)

Financial assets (continued)

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

Trade payables

Trade payables are stated at fair value.

Deferred income

Deferred income comprising flight seats sold to be flown within a year, is stated at fair value.

Due to related parties

Due to related parties are stated at fair value.

Derivative financial instruments

Derivative financial instruments are initially recognised in the consolidated balance sheet at fair value including transaction costs and subsequently remeasured at their fair value. Derivatives are designated either as a hedge of the fair value of a recognised asset or liability or of a firm commitment (fair value hedge) or a hedge of the exposure to variability in cash flows that is attributable to a particular task associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge). Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group's criteria to account for a derivative financial instrument as a hedge include:

- formal documentation of the hedging instruments, hedged items, hedging objective, strategy and basis of measuring effectiveness all of which are prepared prior to applying hedge accounting; and
- documentation showing that the hedge effectiveness is assessed on an ongoing basis and is determined to have been highly effective in offsetting the risk of the hedged item throughout the reporting period.

3. Significant accounting policies (continued)

Derivative financial instruments (continued)

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective, are recorded in the profit or loss, along with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. This accounting treatment is discontinued when the fair value hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to the hedged risk, are recognised in the fair value reserve in equity. When the forecasted transaction results in the recognition of an asset or of a liability, the gains and losses previously deferred in equity are transferred from equity and recognised in profit or loss in the same period during which the asset or liability affects profit or loss. In all other cases, amounts deferred in equity are transferred to the profit or loss in the period during which the forecasted transaction affects the consolidated income statement.

When a cash flow hedging instrument expires or is sold, terminated or exercised, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss existing in equity at that time is retained in equity and is ultimately recognised in the profit or loss when the forecasted transaction occurs. If a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit or loss. The gain or loss on the ineffective portion is recognised in the consolidated income statement.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

Critical judgments in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in consolidated financial statements.

Classification of investments

Management decides on acquisition of a financial asset whether it should be classified as FVTPL – held for trading, held to maturity investments, loans and receivables or AFS financial asset.

The Group has classified its investment as AFS financial asset as these investments are not falling under the category of FVTPL – held for trading, held to maturity investments or loans and receivables.

Valuation of unquoted equity investments

The available-for-sale investments in unquoted securities comprise subscriptions in companies which are under formation stage as of December 31, 2006 and accordingly are valued at their initial cost.

Impairment of financial assets

The Group determines whether available-for-sale investments are impaired when there has been a significant or prolonged decline in their fair value below cost. This determination of what is significant or prolonged requires judgment. In making this judgment and to record whether an impairment occurred, the Group evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology and operational and financial cash flows.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, 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.

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

Key sources of estimation uncertainty (continued)

Aircraft maintenance costs

The Group incurs liabilities for maintenance costs in respect of its leased aircraft during the course of the lease term. These are as a result of legal and constructive obligations in the lease contract in respect of the return conditions applied by lessors, which require aircraft airframes, engines, landing gear and auxiliary power units to reach at least a specified condition on their return at the end of the lease term. A charge is made in the income statement each month based on the number of flight hours or cycles used to build up an accrual to cover the cost of heavy-duty maintenance checks when they occur. Estimates involved in calculating the provision required include the expected date of the check, market conditions for heavy-duty maintenance checks pertaining at the expected date of check, the condition of asset at the time of the check, the likely utilisation of the asset in terms of either flying hours or cycles, and the regulations in relation to extensions to lives of life-limited parts, which form a significant proportion of the cost of heavy-duty maintenance costs of engines.

The Group is also required to pay maintenance reserves to lessors on a monthly basis, based on usage. These maintenance reserves are then returned to the Group on production of evidence that qualifying maintenance expenditure has been incurred. Maintenance reserves paid are deducted from the accruals made. In some instances, not all of the maintenance reserves paid can be recovered by the Group and therefore are retained by the lessor at the end of the lease term.

Assumptions made in respect of the basis of the accruals are reviewed for all aircraft once a year. In addition, when further information becomes available which could materially change an estimate made, such as a heavy-duty maintenance check taking place, utilisation assumptions changing, or return conditions being renegotiated, then specific estimates are reviewed immediately, and the accruals is reset accordingly.

Ground handling, landing and parking charges

All ground handling, landing and parking charges in Sharjah International Airport, that have been waived, were estimated by management based on the number of flights during the period, available rates, and other related data.

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

Key sources of estimation uncertainty (continued)

Accrual for aircraft flying costs

Management accrues for the landing, parking, ground handling, and other charges applicable for each airport in which the Group operates flights on a monthly basis. These estimates are based on the rate of charges applicable to each airport based on the agreements and recent invoices received for the services obtained. Similarly, accruals for over flying charges are estimated based on the agreement entered with each country. Actual charges may differ from the charges accrued and the differences are accounted for on a prospective basis.

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.

Deferred charges

The period of amortisation of the deferred charges is determined based on the pattern in which the future economic benefits are expected to be consumed by the Group.

Impairment of trade receivables

An estimate of the collectible amount of trade receivables is made when collection of the full amount is no longer probable. This determination of whether these trade receivables are impaired, entails the Group evaluating, the credit and liquidity position of the customers, historical recovery rates and collateral requirements from certain customers in certain circumstances. The difference between the estimated collectible amount and the book amount is recognised as an expense in profit or loss. Any difference between the amounts actually collected in the future periods and the amounts expected will be recognised in profit or loss at the time of collection.

5. Cash and cash equivalents

	December 31,	
	2006	2005
	AED	AED
Cash on hand	**930,687**	423,589
Bank balances:		
Current accounts	**33,735,990**	32,772,412
Call deposits	**42,394,084**	37,046,752
Short term deposits	**105,095,330**	29,317,724
	182,156,091	99,560,477

6. Trade and other receivables

	December 31,	
	2006	2005
	AED	AED
Trade receivables	**52,608,722**	27,029,135
Allowance for doubtful debts	**(330,687)**	-
	52,278,035	27,029,135
Prepaid expenses	**12,652,631**	6,237,967
Advances and other receivables	**9,436,194**	2,574,301
	74,366,860	35,841,403

7. Related party transactions

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

	December 31,	
	2006	2005
	AED	AED
Due from a related party:		
Sharjah Airport Authority - U.A.E., Shareholder	**392,813**	-
	========	========
Due to related parties:		
Current		
Sharjah Airport Authority - U.A.E., Shareholder	**-**	943,483
Sharjah Airport International Free Zone - U.A.E. (see Note 10)	**2,712,443**	2,751,935
	2,712,443	3,695,418
	=========	========
Non - current		
Sharjah Airport International Free Zone - U.A.E. (see Note 10)	**5,250,000**	8,250,000
	=========	========

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the year for bad or doubtful debts in respect of the amounts owed by related parties.

7. 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,	
	2006	2005
	AED	AED
Rental income	**3,000,000**	3,000,000
Service income	**1,767,838**	596,803

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

The Company has obtained a waiver letter from Sharjah Airport Authority for all ground handling, landing and parking charges due for the period from inception of the Company to December 31, 2007. The waived charges for the year amounted to AED 20,745,873 (2005: AED 14,453,322) (see note 19). 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,	
	2006	2005
	AED	AED
Short term benefits	**??????**	2,455,130
Long term benefits	**??????**	**??????**

8. Available-for-sale investments - Fair value

	December 31,	
	2006	2005
	AED	AED
Quoted	**10,417,711**	20,073,863
Unquoted	**3,437,416**	-
	13,855,127	20,073,863
	========	========

9. Deferred charges

	Aircraft upgrade costs	Landing permission charges	Computer software	Total
	AED	AED	AED	AED
Cost				
At December 31, 2004	4,961,250	-	-	4,961,250
Addition	2,135,133	-	-	2,135,133
At December 31, 2005	7,096,383	-	-	7,096,383
Addition	3,887,095	10,444,001	954,567	15,285,663
At December 31, 2006	**10,983,478**	**10,444,001**	**954,567**	**22,382,046**
Amortisation				
At December 31, 2004	690,484	-	-	690,484
Charge for the year	1,407,778	-	-	1,407,778
At December 31, 2005	2,098,262	-	-	2,098,262
Charge for the year	1,873,864	1,041,863	240,150	3,155,877
At December 31, 2006	**3,972,126**	**1,041,863**	**240,150**	**5,254,139**
Carrying amount				
At December 31, 2006	**7,011,352**	**9,402,138**	**714,417**	**17,127,907**
At December 31, 2005	4,998,121	-	-	4,998,121

10. Investment property

	Amount AED
Cost	
At December 31, 2004, 2005 and 2006	15,000,000
Accumulated depreciation	
At December 31, 2004	187,500
Charge for the year	750,000
At December 31, 2005	937,500
Charge for the year	750,000
At December 31, 2006	**1,687,500**
Carrying amount	
At December 31, 2006	**13,312,500**
At December 31, 2005	14,062,500

Investment property comprises a building constructed by the Group on a plot of land, adjacent to Sharjah Airport, granted by the Government of Sharjah recognised at nominal value of AED 1. 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 finance obtained from this related party for the building construction amounting to AED 15 million, is bridged with rental receipts of AED 15 million receivable from them for the first five years of the lease.

The property rental income earned by the Group during the year amounted to AED 3,000,000 (2005: AED 3,000,000) and direct operating expenses arising on the investment property amounted to AED 750,000 (2005: AED 750,000).

At December 31, 2006 the fair value of the investment property amounted to AED 52 million (valuation of building and occupied land AED 20 million and remaining land AED 32 million). The fair vale of this investment property has been arrived at on the basis of a recent valuation carried out by Messrs Cluttons, Dubai on the assumption of title deed being converted to freehold without restriction on sale or transfer by permission from the Ruler of Sharjah. Messrs Cluttons are independent valuers not connected with the Group and member of various professional valuers associations, and have appropriate qualifications and recent experience in the valuation of properties in the relevant locations.

11. Property and equipment

	EDP equipment	Office equipment	Furniture and fixtures	Aircraft rotables and equipment	Aircraft engines	Motor vehicles	Total
	AED	AED	AED	AED	AED	AED	AED
Cost							
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	1,303,660	78,309	2,804,162
At December 31, 2005	2,753,544	302,397	941,335	925,975	1,303,660	334,809	6,561,720
Additions	519,130	194,890	54,575	4,333,588	33,515,956	52,310	38,670,449
Disposals	-	-	-	-	-	(78,310)	(78,310)
At December 31, 2006	**3,272,674**	**497,287**	**995,910**	**5,259,563**	**34,819,616**	**308,809**	**45,153,859**
Accumulated depreciation							
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	1,317,554	215,533	489,534	224,601	-	196,126	2,443,348
Charge for the year	1,075,780	127,390	318,728	348,467	451,348	125,692	2,447,405
Eliminated on disposals	-	-	-	-	-	(36,975)	(36,975)
At December 31, 2006	**2,393,334**	**342,923**	**808,262**	**573,068**	**451,348**	**284,843**	**4,853,778**
Carrying amount							
At December 31, 2006	**879,340**	**154,364**	**187,648**	**4,686,495**	**34,368,268**	**23,966**	**40,300,081**
At December 31, 2005	1,435,990	86,864	451,801	701,374	1,303,660	138,683	4,118,372

11. Property and equipment (continued)

Property and equipment includes one plot of land in Sharjah, granted by the Government of Sharjah recognised at nominal value of AED 1.

The following useful lives are used in calculation of depreciation:

	Years
Aircraft engines	20
Aircraft rotables and equipment	3 – 10
Other property and equipment	3

12. Trade and other payables

	December 31,	
	2006	2005
	AED	AED
Trade payables	**15,813,574**	9,241,583
Accrued expenses	**79,913,484**	37,143,913
Other payables	**19,928,842**	9,673,124
	115,655,900	56,058,620

13. Provision for employees' end of service indemnity

Movements in the net liability were as follows:

	2006	2005
	AED	AED
Balance, at the beginning of the year	**2,514,824**	1,073,400
Amounts charged to income	**2,189,383**	1,574,503
Amounts paid	**(203,436)**	(133,079)
Balance, at the end of the year	**4,500,771**	2,514,824

14. Share capital

	December 31,	
	2006	2005
	AED	AED
Issued and fully paid:		
100 shares of AED 500,000 each	**50,000,000**	50,000,000
	========	========

The Shareholders and their contributions are as follows:

	No. of shares	**Percentage of shareholding**	**Amount**
			AED
Department of Civil Aviation, Government of Sharjah, U.A.E.	60	60	30,000,000
Sharjah Airport Authority, Government of Sharjah, U.A.E.	40	40	20,000,000
	100	**100**	**50,000,000**
	=====	**=====**	**========**

15. Revenue

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

	Year ended December 31,	
	2006	2005
	AED	AED
Passenger revenue	**742,016,919**	405,058,308
Baggage revenue	**16,926,820**	11,348,580
Cargo revenue	**3,798,829**	2,111,363
Service income	**3,655,318**	1,316,241
Sales commission and expenses	**(17,232,655)**	(8,653,671)
	749,165,231	411,180,821
	=========	=========

16. Cost of sales

	Year ended December 31,	
	2006	2005
	AED	AED
Staff costs	**75,483,440**	44,616,806
Lease rentals	**104,263,303**	55,448,302
Fuel	**236,468,127**	132,696,514
Maintenance expenses	**68,105,022**	46,581,689
Ground and technical handling charges	**62,879,448**	41,711,953
Landing and overflying charges	**44,192,800**	24,167,832
Insurance	**9,877,564**	8,060,001
Other operating costs	**18,353,308**	7,142,079
	619,623,012	360,425,176

17. Selling and marketing costs

	Year ended December 31,	
	2006	2005
	AED	AED
Staff costs	**12,238,221**	7,650,350
Advertisement expenses	**15,147,102**	10,234,075
Reservation management expenses	**3,582,515**	2,856,820
	30,967,838	20,741,245

18. General and administrative expenses

	Year ended December 31,	
	2006	2005
	AED	AED
Staff costs	**11,159,416**	9,111,301
Legal and professional fees	**1,684,900**	1,232,408
Travel and accommodation costs	**2,779,087**	1,044,308
Communication costs	**1,346,325**	1,229,888
Printing and stationary	**862,406**	807,037
Depreciation of property and equipment	**1,647,590**	1,256,752
Other expenses	**3,217,348**	2,737,675
	22,697,072	17,419,369

19. Other income

	Year ended December 31,	
	2006	2005
	AED	AED
Government grant – waiver of parking charges (see note 7)	**20,745,873**	14,453,322
Profit on sale of investments held for trading	**-**	1,752,312
Investment property income, net (see note 10)	**2,250,000**	2,250,000
Interest on bank deposits	**4,713,179**	389,977
Others	**988,926**	303,322
	28,697,978	19,148,933

20. Profit for the year

Profit for the year is arrived at after charging the following expenses:

	Year ended December 31,	
	2006	2005
	AED	AED
Staff costs	**98,881,077**	61,378,457
Depreciation of property and equipment	**2,447,405**	1,409,639
Depreciation of investment property	**750,000**	750,000
Amortisation of deferred charges	**3,155,877**	1,407,778

21. Basic earnings per share

	Year ended December 31,	
	2006	2005
Profit for the year (in AED)	**101,145,287**	31,309,174
Number of shares	**100**	100
Basic earnings per share (in AED)	**1,011,453**	313,092

Basic earnings per share is calculated by dividing the profit for the year by the number of shares outstanding as of the balance sheet date.

22. Joint venture

The Group has a 51 percent interest in Information Systems Associates FZC - Sharjah Airport International Free Zone, United Arab Emirates, a joint venture with John Keells Holdings Limited, Sri Lanka, established for trading in IT products and providing IT services.

The following amounts are included in the Group's consolidated financial statements as a result of the proportionate consolidation of the above joint venture:

	December 31, 2006
	AED
Current assets	**233,817**
Non-current assets	**911,391**
Current liabilities	**525,694**
Non - current liabilities	**11,953**

22. Joint venture (continued)

The following amounts are included in the Group's consolidated financial statements as a result of the proportionate consolidation of the above joint venture: (continued)

	Period from inception to December 31, 2006
	AED
Income	**507,147**
Expenses	**1,021,586**

The joint venture was registered on April 4, 2005 and the commercial activities of the joint venture commenced in May 2006.

23. Proposed dividends

The directors propose that a dividend of AED 66 million, AED 660,000 per share, will be paid to the Shareholders in 2007. This dividend is subject to the approval by the Shareholders at the Annual General Meeting and has not been included as a liability in these consolidated financial statements.

24. Operating lease arrangements

	Year ended December 31,	
	2006	2005
	AED	AED
Minimum lease payment under operating leases (excluding variable lease rental on the basis of flying hours) recognised in profit or loss for the year	**95,373,370**	51,281,609

24. Operating lease arrangements (continued)

Details of aircraft lease agreements are as follows:

	Number of aircraft December 31,	
	2006	2005
Lease agreements signed for	**11**	8
Aircraft delivered against the above lease agreements	**(9)**	(5)
Aircraft to be delivered in future years	**2**	3

The fixed lease commitments against delivered aircraft are as follows:

	December 31,	
	2006	2005
	AED	AED
Within one year	**109,459,574**	40,357,483
In the second to fifth years inclusive	**332,025,045**	98,916,307
After five years	**37,556,776**	-
	479,041,395	139,273,790

The fixed lease commitments against aircraft to be delivered in future years are as follows:

	December 31,	
	2006	2005
	AED	AED
Within one year	**15,751,050**	21,491,400
In the second to fifth years inclusive	**105,663,600**	148,881,600
After five years	**37,080,750**	52,949,400
	158,495,400	223,322,400

In addition to the above fixed lease commitments, there is a variable lease rental element depending on the flying hours of the leased aircraft. Aircraft delivered as of December 31, 2006 includes 1 wet lease aircraft (December 31, 2005: Nil).

24. Operating lease arrangements (continued)

The aircraft lease agreements are subject to various covenants including restriction to sell or convey substantially all of the Company's property and assets or merge or consolidate with or into any other corporation without the prior consent of the lessor and no security interest may be created by the Company on the leased aircraft.

25. Commitments and contingent liabilities

	December 31,	
	2006	2005
	AED	AED
Commitments		
Commitments for acquisition of property and equipment	**18,409,034**	-
Contingent liabilities		
Letters of credit	**26,148,996**	13,542,375
Letters of guarantee	**5,515,705**	2,419,326

26. Management of financial risk

Interest rate risk

The Group's exposure to interest rate risk relates to its time deposits and call deposits with banks. At December 31, 2006, time deposits carried an interest rate of 4% to 5.5% per annum (2005: 1% to 3.5% 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.

26. Management of financial risk (continued)

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. Significant changes in jet fuel and other fuel product prices may have a substantial effect on the Group's results. The Group has entered in to a hedging arrangement in May 2006 to cover the jet fuel price risk. During the year, one hedge contract was entered into and the effect of this contract on the consolidated financial statements of the Group as of December 31, 2006 was not significant.

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.

Credit risk

The Group's principal financial assets are banks' current and deposit accounts, trade and other receivables and due from a related party.

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.

27. Initial public offering

Subsequent to the balance sheet date, the Group has announced its intention to make an initial public offering (the "IPO") of its ordinary shares to the general public. The IPO will be for 55% of the Company's share capital, the remaining 45% will be retained by the existing shareholders. It is anticipated that the IPO will be completed by the end of the first quarter of 2007 subject to satisfactory ministerial approval from the appropriate authorities.

28. Comparative amounts

Certain amounts for the year were reclassified to conform to current year presentation.