statement on **corporate governance**

The Board is committed to maintaining high standards of corporate governance, the process by which the Group is directed and managed, risks are identified and controlled and effective accountability assured. The Board considers that it has complied throughout the year under review with the principles and best practices as set out in the Malaysian Code on Corporate Governance.

This statement describes how the principles and provisions of corporate governance set out in the Malaysian Code on Corporate Governance have been applied within the Group.

A. DIRECTORS

Board Balance and Meetings

The composition of the Board of Directors of AirAsia Berhad is in compliance with Bursa Malaysia's Listing Requirements. The Board comprises a Non-Executive Chairman, seven further Non-Executive Directors and two Executive Directors, details of whom are given on pages 30 to 33 of this Annual Report. The roles of Chairman and Group Chief Executive Officer are separate with a clear division of responsibility between them.

The size, balance and composition of the Board supports the Board's role, which is to determine the long term direction and strategy of the Group, create value for shareholders, monitor the achievement of business objectives, ensure that good corporate governance is practised to ensure that the Group meets its other responsibilities to its shareholders, guests and other stakeholders. The Board is also responsible for ensuring that appropriate processes are in place in respect of succession planning for appointments to the Board and to senior management positions.

The Non-Executive Directors have a wide range of skills and experience which helps to ensure that independent judgement is exercised on issues such as strategy and performance and also that a proper balance of power is maintained for full and effective control. The Non-Executive Directors (in particular the Chairman) devote sufficient time and attention as necessary in order to perform their duties. Other professional commitments of the Non-Executive Directors are provided in their biographies on pages 30 to 33 of this Annual Report. The Board requires that all Non-Executive Directors are independent in character and judgement.

During the financial year ended 30 June 2006, the Board of Directors held a total of six (6) meetings and the details of Directors' attendances are set out below:

Name	Attendance Record
Dato' Pahamin Ab. Rajab	5 out of 6 meetings
Dato' Anthony Francis Fernandes	6 out of 6 meetings
Dato' Kamarudin bin Meranun	6 out of 6 meetings
Abdel Aziz @ Abdul Aziz bin Abu Bakar	6 out of 6 meetings
John Francis Tierney	6 out of 6 meetings
Conor McCarthy	6 out of 6 meetings
Tan Sri Dato' (Dr.) R.V. Navaratnam	4 out of 6 meetings
Dato' Leong Sonny @ Leong Khee Seong	6 out of 6 meetings
Fam Lee Ee	6 out of 6 meetings
Datuk Alias bin Ali *(appointed on 23 September 2005)*	5 out of 6 meetings
Timothy Wakefiled Ross *(resigned on 15 February 2006)*	3 out of 6 meetings
Mumtaz Khan *(resigned on 25 May 2006)*	3 out of 6 meetings

Supply of Information

Seven (7) days prior to Board Meetings, all Directors receive the agenda and a set of Board papers containing information for deliberation at Board Meetings. Management is required to explain in the event that the timeline cannot be observed.

As a Group practice, any Director who wishes to seek independent professional advice in the furtherance of his duties may do so at the Group's expense. Directors have access to all information and records of the Group and also the advice and services of the Company Secretary, who also serve in that capacity for the various Board Committees. All the Directors have direct access to the advice and services of the Company Secretary who is fully capable of discharging the duties required in the position.

Appointments to the Board

The Group has implemented procedures for the nomination and election of Directors via the Nomination Committee. Comprising mainly of independent non-executive Directors, the Nomination Committee is responsible for identifying and recommending to the Board suitable nominees for appointment to the Board and Board Committees. On appointment, Directors are provided with information about the Group and attend an induction programme. The Company Secretary ensures that all appointments are properly made, that all information necessary is obtained, and that all legal and regulatory obligations are met.

Directors' Training

During the financial year ended 30 June 2006, members of the Audit Committee attended a briefing by the external auditors on Financial Reporting Standards. All members of the Board have attended the Mandatory Accreditation Programme ("MAP") prescribed by Bursa Malaysia. The Directors are also encouraged to attend programmes and seminars, whether in-house or external, to help them in the discharge of their duties and to keep updated with emerging trends in the industry of Low Cost Carriers.

Re-election of Directors

Directors are elected annually. The Articles of Association of the Company provide that at least one-third of the Directors are subject to retirement by rotation at each Annual General Meeting ("AGM") and that all Directors shall retire once in every three years, and are eligible to offer themselves for re-election. The Articles of Association also provide that a Director who is appointed by the Board in the course of the year shall be subject to re-election at the next AGM to be held following his appointment. Directors over seventy years of age are required to submit themselves for re-appointment annually in accordance with Section 129(6) of the Companies Act, 1965.

Board Committees

The **Audit Committee** comprises two Independent Directors and one Non-Executive Director. During the period under review, the Committee held five meetings at which there was full attendance by all Committee members. At all meetings the internal auditors, Group Chief Financial Officer, Group Financial Controller and other Senior Management as required are in attendance. The Committee also meets with the external auditors in private at least once in the year under review.

The Committee reviews all published financial statements and post audit findings, focusing in particular on accounting policies, compliance, management judgement and estimates. It also monitors the Group's internal control and risk management framework (including the effectiveness of the internal audit function) and financial reporting. Any significant findings or identified weaknesses are closely examined so that appropriate action can be taken, monitored and reported to the Board.

The **Nomination Committee** comprises three Non-Executive Directors, two of whom are independent. The Committee makes recommendations to the Board on new Board appointments, taking into account the balance and structure of the Board. Additionally, the Committee oversees and evaluates the Board's effectiveness and suggests opportunities for improvement. The Committee reviews the appropriate skills, experience and characteristics required for the Board and its Committee members, considering their current makeup. They assess issues such as international experience, independence and skills such as understanding of finance, legal and technical issues. The Committee also considers the succession planning framework for the Group and reviews whether they are in order and whether adequate training programmes are being developed to address any competency gaps. During the financial year ended 30 June 2006, the Nomination Committee did not meet as the Board performed the above functions.

The **Remuneration Committee** comprises three Non-Executive Directors, one of whom is independent. During the year, Mr. Mumtaz Khan ceased to be a member in view of his resignation as a Director. The Committee considers the remuneration of Executive Directors which is in accordance with the skills, experience and expertise they possess. The component parts of the remuneration are structured so as to link rewards to individual and group performance. Annually the Committee meets to discuss the Executive Directors' current year performance against the performance objectives approved by the Board earlier in the year. The Committee also reviews the Non-Executive Directors' remuneration which would reflect the level of responsibilities undertaken by the particular director. The Committee makes the required recommendation to the Board as the Committee is not authorised to implement its recommendation on behalf of the Board. The quantum of annual fees payable to Non-Executive Directors is subject to shareholders approval at the Company's AGM. During the financial year ended 30 June 2006, the Remuneration Committee met twice, with all members attending.

The **ESOS Committee** comprises the Group Chief Executive Officer, the Deputy Group Chief Executive Officer, the Group Chief Financial Officer, the Executive Vice-President, People Department and the Company's External Legal Advisor. The ESOS Committee was established to administer the ESOS of the Group in accordance with the objectives and regulations thereof and to determine the participation, eligibility, option offers and share allocations (based on the performance, seniority and number of years of service as well as the employees' actual or potential contribution to the Group) and to attend to such other matters as may be required.

The **Executive Committee of the Board** comprises of the Chairman, the Group Chief Executive Officer, the Deputy Group Chief Executive Director and the Chief Financial Officer. The Legal Counsel of the Group acts as the secretary to this Committee. Among others, the functions of the Executive Committee are to evaluate strategic plans, to decide on transactions and matters of the Group's businesses which fall within their levels of authority. This will allow matters that fall within the Committee's limit or terms of reference to be deliberated and decided by the Committee, thus reducing the Board's agenda. Where appropriate, recommendations are made to the Board on decisions reserved for the Board.

The **Operational Safety Committee** comprises of Conor McCarthy (Non-Executive Director and Chairman of the Committee), Abdul Aziz bin Abu Bakar (Non-Executive Director), Regional Director of Flight Operations, Chief Pilot, Regional Director of Flight Safety, Regional Director Engineering, Postholder Engineering Quality Assurance, Ramp Operations Manager, Flight Operations Quality Assurance, Flight Safety Officer and FDA Team Leader.

AirAsia considers Air Safety to be the single most important aspect of its operations and the Board established the Board Operational Safety Committee in 2005 to ensure that the airline was operating to the highest international standards with the highest degree of transparency. AirAsia has a Confidential Reporting System for our Flight Crew to ensure the maximum amount of safety information is received.

The Committee holds a meeting with the airline management each quarter to review Air Safety in the preceding three months for all AirAsia Flight Operations including those in Thailand and Indonesia. All Mandatory Occurrence reports (MORs) are reviewed and findings, recommendations and management actions are examined. The airline has an active FDA (Flight Data Analysis) programme in place whereby the parameters of each flight are recorded and analysed. The Committee also receives a report from the FDA Team outlining findings, trends, recommendations and actions.

AirAsia management are constantly in discussion with regulatory authorities, manufacturers and other operators regarding trends and improvements in the management of Air Safety, and the Committee also examines these developments with regard to their suitability and adoption.

The Committee meets each quarter and reports to the Board of Directors at each Board Meeting.

During the financial year ended 30 June 2006, the Committee held a total of four meetings.

Purpose

- To anticipate, identify and discuss safety & security issues, and develop the strength of operational safety & security throughout AirAsia.
- To ensure that all parts of the AirAsia operation develop a strong and consistent Safety Culture by learning from each other.
- To review the adequacy, effectiveness and performance of the AirAsia Crisis Response and to receive feedback on the annual exercise of same.
- To ensure the safe operations of the airline are strengthened through information gathered, learning and feedback to Operations and Training from Flight Data Analysis ("FDA").
- To review the summarised occurrence reports quarterly, address the issues and make suggestions/ recommendations where appropriate.

The Committee ensures adequate Board-level oversight of Safety & Security matters and it is not intended to have an executive role or to replace the elements of the existing Safety & Security Management Processes within AirAsia.

Report on 2006

During the past 12 months, AirAsia expanded in a controlled and disciplined fashion and invested heavily in the ongoing training of our Pilots, Engineering, Cabin Crew and Ground Operations people. The AirAsia Academy has played a major role in developing a self sufficiency within the airline and we are proud to boast a World Class training facility with Full Flight Simulator Devices (two Airbus A320 and one Boeing 737), 2 A320 Flight Training Devices in addition to Door Trainer and Escape Slide Trainer. The Academy has state-of the art classrooms and is a physical testament to our commitment to train to the highest international standards.

The Committee was delighted to note that the introduction of the Airbus A320 during the past year was handled smoothly by management with any potential problems being anticipated in advance and built into the training and induction programmes. Particular attention was paid to issues that had arisen in other airlines in order to ensure that these were avoided.

In addition, the Committee reviewed the MOR trends and satisfied itself that no adverse trends were established. During the year, AirAsia was honoured to participate in an EU-SEA Safety Management System Seminar in Kuala Lumpur and we are now actively participating in an EU-SEA programme for Flight Instructor Training. Apart from that, AirAsia has been recognised as the lead representative for the SEA airline industry and have been involved in the Gen Steering Committee including the setting up and active participation of SEARIF ("SEA Regional Initiatives Forum") which is a body formed to carry a bridging project whilst the EC formally extend the EU-SEA Civil Aviation project.

In the past twelve months, the airline also successfully implemented its FDA programme which is already showing very positive benefits with feedback directly into the training and line checking functions.

The Committee also addressed ramp safety and made a number of requests and recommendations to the Management of this area which were aimed at ensuring the continued safety of our people and guests.

B. DIRECTORS' REMUNERATION

The remuneration package comprises the following elements:-

1. **Fee**
   The fees payable to each of the Non-Executive Directors for their service on the Board are recommended by the Remuneration Committee to the Board for final approval by shareholders of the Group at the AGM.

2. **Basic salary**
   The basic salary for each Executive Director is recommended by the Remuneration Committee and approved by the Board, taking into account the performance of the individual, the inflation price index and information from independent sources on the rates of salary for similar positions in other comparable companies internationally. Salaries are reviewed annually.

3. **Bonus scheme**
   The Group operates a bonus scheme for all employees, including the Executive Directors. The criteria for the scheme are dependent on various performance measures of the Group, together with an assessment of each individual's performance during the period.

4. **Service contract**
   Both the Group Chief Executive Officer and Deputy Group Chief Executive Officer, have a three-year service contract with AirAsia.

5. **Directors' share options**
   There was no movement in Directors' share options during the year ended 30 June 2006.

Details of the Directors' remuneration are set out in the Audited Financial Statements on page 103 of this Annual Report.

C. SHAREHOLDERS

Investor Relations

The Board attaches considerable importance to its relationships and communication with shareholders. Communication is facilitated by a number of formal channels used to inform shareholders about the performance of the Group. These include the Annual Report and Accounts and announcements made through Bursa Malaysia, as well as through the AGM.

Members of senior management are directly involved in investor relations through periodic roadshows and investor briefings in the country and abroad with financial analysts, institutional shareholders and fund managers.

Reports, announcements and presentations given at appropriate intervals to representatives of the investment community are also available for download at the Group's website at www.airasia.com.

Any queries or concerns regarding the Group may be directed to the Investor Relations Department at investorrelations@airasia.com.

Annual General Meeting ("AGM")

Given the size and geographical diversity of our shareholder base, the AGM is another important forum for shareholder interaction. All shareholders are notified of the meeting and sent a copy of the Group's Annual Report at least 21 days before the meeting is held.

At the AGM, the Group CEO will conduct a brief presentation on the Group's performance for the year and will outline future prospects. The Chairman and all Board Committee Chairmen will be present at the AGM to answer shareholders' questions and hear their views during the meeting. Shareholders are encouraged to participate in the proceedings and engage with dialogue with the Board and Senior Management.

D. ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board aims to ensure that the quarterly reports, annual financial statements as well as the annual review of operations in the Annual Report reflect full, fair and accurate recording and reporting of financial and business information in accordance with the Listing Requirements of Bursa Malaysia.

Statement of Directors' Responsibility for Preparing the Financial Statements

The Directors are required by the Companies Act, 1965 to prepare the financial statements in accordance with the MASB approved accounting standards and give a true and fair view of the state of affairs of the Group and Company at the end of the financial year and of the results and cash flows of the Group and Company for the financial year.

In preparing the financial statements, the Directors have ensured that the accounting policies have been consistently and properly applied, supported by reasonable and prudent judgements and estimates, and in adherence to all applicable accounting standards.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Group and Company and which enable them to ensure that the financial statements comply with the Companies Act, 1965.

Audit Committee and Internal Control

The Board's governance policies include a process for the Board, through the Audit Committee, to review regularly the effectiveness of the system of internal control as required by the Malaysian Code on Corporate Governance. A report on the Audit Committee and its terms of reference is presented on pages 69 to 73 of this Annual Report.

The Board has overall responsibility for the Group's system of internal control, which comprises a process for identifying, evaluating and managing the risks faced by the Group and for regularly reviewing its effectiveness in accordance with the Malaysian Code of Corporate Governance.

The Board confirms that this process was in place throughout the year under review and up to the date of approval of these financial statements. The primary aim is to operate a system which is appropriate to the business and which can, over time, increase shareholder value whilst safeguarding the Group's assets. The system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Taking care of everything under the sky to keep you up in the air.

Total Aviation Support is a concept we champion. Be it aircraft maintenance or modifications, engines or component support, maintenance planning, engineering services or material needs, ST Aerospace is ready all over the world, providing support to help improve your performance. As the world's leading third party MRO service provider, we're always at your side — keeping you flying safe and ensuring the safety and comfort of your customers.


Aircraft Maintenance & Modification


Component Repair & Overhaul


Engine Repair & Overhaul


Engineering & Materials Services

http://www.staero.aero

audit committee **report**

The Audit Committee was established to support the Board discharge their responsibilities of maintaining a sound system of internal control to safeguard shareholders' investment and the Group's assets.

During the financial year, the Audit Committee reviewed its own effectiveness by undertaking a self-assessment exercise. The Chairman of the Committee then led a discussion on the results of the assessment focusing on areas for improvement.

Members of the Audit Committee also attended a briefing by the external auditors on International Financial Reporting Standards.

COMPOSITION OF THE COMMITTEE AND MEETINGS

During the financial year ended 30 June 2006, the Committee held a total of five (5) meetings. The members of the Committee together with their attendance are set out below:-

Name	Directorship	No. of Meetings Attended
Dato' Leong Khee Seong *(Chairman of the Committee)*	Independent Director	5
Fam Lee Ee	Independent Director	5
John Francis Tierney	Non-Executive Director	5

TERMS OF REFERENCE OF THE AUDIT COMMITTEE

The Committee is governed by the following terms of reference:

A. Purpose

To review and report to the Board on the quality and performance of the internal and external audit function.

To review and recommend to the Board for approval, the Quarterly Reports to Bursa Malaysia and the Annual Audited Accounts.

B. Membership

The Audit Committee is appointed by the Board of Directors and is composed of at least 3 members, the majority of whom are Independent Non-Executive Directors.

At least one member of the Audit Committee:-

(i) must be a member of the Malaysian Institute of Accountants; or

(ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least 3 years of working experience and:-

- he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act, 1967; or
- he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act, 1967.

No alternate director can be appointed as a member of the Audit Committee.

Members of the Audit Committee elect a Chairman from among themselves who is an Independent Director.

If a member of the Audit Committee resigns, dies or for any reason ceases to be a member with the result that the number of members is reduced below three (3), the Board shall, within three (3) months appoint such number of new members as may be required to make up the minimum of three (3) members.

The terms of office and performance of the Audit Committee and each of its members shall be reviewed by the Board no less than once every three (3) years. However, the appointment terminates when a member ceases to be a Director.

C. Roles and Responsibility

- To consider the audit fee of the external auditor, any questions of resignation or dismissal of the external auditor and appointment of new external auditor to replace outgoing auditor;
- To discuss with the external auditor before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;
- To act as an intermediary between management or other employees, and the external auditors;
- To review the quarterly and year-end financial statements of the Board, focusing particularly on:-
    - any changes in accounting policies and practices;
    - significant adjustments arising from the audit;
    - litigation that could affect results materially;
    - the going concern assumption; and
    - compliance with accounting standards and other legal requirements.
- To discuss problems and reservations arising from the interim and final audits, and any matter the external auditor may wish to discuss (in the absence of management where necessary);
- To review the external auditor's management letter and management's response;
- To do the following where an internal audit function exists:-
    - review the adequacy of the scope, functions and resources of the internal audit function, and that it has the necessary authority to carry out its work;
    - review the internal audit programme and results of the internal audit process and where necessary ensure that appropriate action is taken on the recommendations of the internal audit function;
    - review any appraisal or assessment of the performance of members of the internal audit function;
    - to review the independence of the internal audit function;
    - approve any appointment or termination of senior staff members of the internal audit function; and
    - inform itself of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit reasons for resigning.

- Review the adequacy and the integrity of the Group's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines;
- To consider any related party transactions that may arise within the Group;
- To consider compliance with the Group's conflict of interest policy;
- To consider compliance with the Group's insider trading policy;
- To consider the major findings of internal investigations and management's response;
- To consider other topics as defined by the Board;
- Internal controls and risk management;
- To review the Group's procedures for whistle blowing, detecting fraud and to ensure that arrangements are in place by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control or any other matters (in compliance with provisions made in the Securities Industry Act amended in 2004);
- To review management's and the internal auditor's reports on the effectiveness of the systems for internal financial control, financial reporting and risk management;
- To monitor the integrity of the Group's internal financial controls;
- To review the statement in the annual report and accounts on the Group's internal controls and risk management framework; and
- To assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks. [Note: the Board retains responsibility for the review of the effectiveness of the system of internal control and must form its own opinion despite aspects of that review being delegated to the audit committee.]

D. Authority and Powers of the Audit Committee

In carrying out its duties, the Audit Committee shall, at the cost of the Group,

- have authority to investigate any matter within its terms of reference;
- have full, free and unrestricted access to the Group's records, properties, personnel and other resources;
- have full and unrestricted access to any information regarding the Group;
- have direct communication channels with the external auditors and person(s) carrying out the internal audit function;
- be able to obtain independent professional or other advice; and
- be able to convene meetings with the external auditors, excluding the attendance of the executive members of the Audit Committee, whenever deemed necessary.

The Audit Committee is not authorised to implement its recommendations on behalf of the Board but report its recommendations back to the Board for its consideration and implementation.

Where the Audit Committee is of the view that a matter reported by it to the Board of Directors has not been satisfactorily resolved resulting in a breach of the Listing Requirements of Bursa Malaysia, the Audit Committee is authorised to promptly report such matters to Bursa Malaysia.

E. Audit Committee Report

The Audit Committee is required to assist the Board to prepare the Audit Committee Report for inclusion in the Annual Report of the Group.

The Audit Committee Report shall include the following:-

a) the composition of the Audit Committee, including the name, designation (indicating the Chairman) and directorship of the members (indicating whether the directors are independent or otherwise);

b) the terms of reference of the Audit Committee;

c) the number of Audit Committee Meetings held during the financial year and details of attendance of each Audit Committee member;

d) a summary of the activities of the Audit Committee in the discharge of its functions and duties for that financial year of the listed issuer; and

e) the existence of an internal audit function or activity and where there is such a function or activity, a summary of the activities of the function or activity. Where such a function or activity does not exist, an explanation of the mechanisms that exist to enable the Audit Committee to discharge its functions effectively.

F. Meetings

a) The quorum for an Audit Committee Meeting shall be at least two (2) members; the majority present must be Independent Directors.

b) The Audit Committee shall meet at least five (5) times a year and such additional meetings as the Chairman shall decide.

c) The External Auditor has the right to appear and be heard at any meeting of the Audit Committee and shall appear before the Audit Committee when required to do so.

d) The Group Chief Financial Officer, the Group Financial Controller and the Head of Internal Audit of the Group shall normally attend the meetings to assist in its deliberations and resolutions of matters raised. However, at least once a year, the Audit Committee shall meet with the External Auditors without the presence of the executive members of the Audit Committee.

g) The Internal Auditors shall be in attendance at all meetings to present and discuss the audit reports and other related matters as well as the recommendations relating thereto and to follow-up on all relevant decisions made.

h) The Company Secretary shall act as Secretary of the Audit Committee and shall be responsible, with the concurrence of the Chairman, for drawing up and circulating the agenda and the notice of meetings together with the supporting explanatory documentation to members prior to each meeting.

i) The Secretary of the Audit Committee shall be entrusted to record all proceedings and minutes of all meetings of the Audit Committee.

j) In addition to the availability of detailed minutes of the Audit Committee Meetings to all Board members, the Audit Committee at each Board Meeting will report a summary of significant matters.

G. Internal Audit Department

The Head of the Internal Audit Department has unrestricted access to the Audit Committee Members and reports directly to the Audit Committee whose scope of responsibility includes overseeing the development and the establishment of the internal audit function.

The above functions and duties are in addition to such other functions as may be agreed to from time to time by the Audit Committee and the Board.

The revised terms of reference were approved by the Board of Directors of AirAsia Berhad on 22 December 2004.

SUMMARY OF ACTIVITIES

A summary of the activities performed by the Audit Committee during the financial year is set out below.

Risk Management

- Reviewed the adequacy of the risk management system for identifying and managing the Group's risks.
- Reviewed the first draft of the Business Continuity Plan for key processes in Malaysia.

Internal Audit

- Approved the Group's Internal Audit Plan outsourcing of audits and the related fees.
- Reviewed internal audit reports issued by the Internal Audit department and external parties on the effectiveness of internal controls, adequacy of risk management and other compliance and governance processes.
- Reviewed the Environmental, Health and Safety Compliance and Best Practice Audit of the Group's facility in Kuala Lumpur International Airport.

External Audit

- Recommended to the Board of Directors the appointment and remuneration of the Group External Auditor.
- Approved the external audit plan and scope for the financial year.
- Reviewed the results of external audits.

Employee Share Option Scheme

- The Committee verified the allocation of options pursuant to the criteria disclosed to the employees of the Group and established pursuant to the Employee Share Option Scheme for the financial year ended 30 June 2006.

INTERNAL AUDIT FUNCTION AND RISK MANAGEMENT PROCESS

The Group has an adequately resourced internal audit function to assist the Board in maintaining an effective system of internal control and the overall governance practices within the Group. The audits and reviews conducted by internal audit are defined in an annual audit plan that was reviewed and approved by the Audit Committee at the beginning of the financial year. The plan was derived from a risk assessment process which considered the risks within each department and the extent that it would have an impact on the Group.

Sustaining the momentum for implementing an effective risk management process is a challenge as the Group continues to experience dynamic growth which alters the Group's risk profile. The process of continuously identifying, evaluating and managing risks is ongoing.

The internal audit function also assists in the evaluation of risks and controls in key processes and in the introduction of new systems and products. The internal audit function also assists management in the review of documenting Standard Operating Procedures.

statement on **internal control**

In adherence to the Malaysian Code of Corporate Governance which "… requires listed companies to maintain a sound system of internal control to safeguard shareholders' investment and the Company's assets" and Bursa Malaysia's Listing Requirements Paragraph 15.27 (b) which requires the Board to make a statement about the state of internal control of the listed issuer as a group, the Board is pleased to issue the following statement on the state of internal control of the Group for the financial year ended 30 June 2006.

BOARD ACCOUNTABILITY

The Board recognises the importance of a sound system of internal controls which covers risk management, financial, organisational, operational, and compliance controls. The Board strives to maintain a sound system of internal controls and effective risk management practices to ensure long-term sustainability of the Group. The Board re-affirms its responsibility to:

- Identify principal risks and ensure implementation of appropriate control measures to manage the risks; and
- Review the adequacy, integrity and effectiveness of the internal control system and management information systems and systems for compliance with applicable laws, regulations, rules, directives and guidelines.

The Board wishes to stress that such systems are intended to reasonable manage rather than totally eliminate the risk of failure to achieve business objectives. The Board is aware that such systems can only provide reasonable, and not absolute, assurance against material misstatement or loss.

Management is responsible for assisting the Board implement policies and procedures on risk and control by identifying and assessing the risks faced, and in the implementation of suitable remedial internal controls to enhance operational controls and enhance risk management. Indeed, the first level of assurance comes from business operations which perform the day to day risk management activity. The Board is informed of all major control issues encompassing internal controls, regulatory compliance and risk taking.

INTEGRATING RISK MANAGEMENT WITH INTERNAL CONTROLS

The Group firmly believes that risk management is critical for the Group's continued profitability and the enhancement of shareholder value. Therefore, the Group has adopted the enterprise-wide risk management framework to manage its risks and has implemented a risk-based internal audit plan. The risk management process will be more effective and comprehensive once the framework has been rolled out to include support functions and other related companies within the Group.

A risk assessment exercise was initiated in the previous financial year to identify the risks which may prevent the Group from achieving its business and corporate objectives. The risks identified and analysed are being evaluated based on the likelihood of the risks materialising and the severity of their impact to the Group. This will allow for the prioritisation of risk mitigation and for the allocation of resources.

The risk management process is an ongoing effort monitored as part of the internal audit process to review the progress of the implementation of action plans. This is reported on a quarterly basis to the Audit Committee.

BUSINESS CONTINUITY MANAGEMENT

Business continuity management is regarded an integral part of the Group's risk management process. The Group has completed a first draft of the Business Continuity Plan to ensure continuity of its services to guests, as well as ensure operational and financial continuity in the event of adverse circumstances. The plan will require testing as well as scheduled updating and revision. Business continuity management will also need to be initiated in the rest of the Group's other related companies.

CONTROL STRUCTURE AND ENVIRONMENT

The key elements of the Group's internal control system are described below:

- Clearly defined delegation of responsibilities to Board Committees within the definition of terms of reference and organisation structures;
- The Audit Committee, chaired by an independent non-executive director reviews the internal controls system and findings of the internal auditors and external auditors;
- The Internal Audit Department is responsible for undertaking regular and systematic review of the internal controls to provide the Audit Committee with significant summary reports on the effectiveness and weaknesses of internal controls;
- Management is responsible for ensuring that corrective actions to address control weaknesses are implemented within a defined time frame. The status of implementation is monitored through follow-up audits which are also reported to the Audit Committee;
- The Group is in the midst of formally documenting internal procedures and processes in Standard Operating Procedures. This will be critical to ensure compliance with internal controls and relevant laws and regulations;
- Heads of Department present their annual budget, including financial and operating targets and capital expenditure plans for the approval of the Group Chief Executive Officer; and
- Group annual budget is prepared and tabled for Board approval. These budgets and business plans are cascaded throughout the organisation to ensure effective execution and follow through. Actual performance is compared against budget and reviewed by the Board.

The statement does not include the state of internal controls in material joint ventures and associated companies. There was no material loss incurred as a result of internal control weaknesses.

additional compliance **information**

The information set out below is disclosed in compliance with the Listing Requirements of Bursa Malaysia:-

1. STATUS OF UTILISATION OF PROCEEDS RAISED FROM CORPORATE PROPOSAL

	Proposed Utilisation Of IPO Proceeds RM'000	Utilised To Date RM'000	Balance RM'000
Repayment of bank borrowings	94,240	94,240	–
Capital expenditure	100,000	100,000	–
Listing expenses [(1)]	28,064	28,064	–
Working capital	495,135	495,135	–
	717,439	**717,439**	**–**

(1) The Company has made full settlement of the listing expenses. Accordingly, the remaining balance of RM7.4 million on the proposed utilisation of the IPO proceeds for listing expenses has been transferred in this analysis to working capital.

2. SHARE BUY-BACK

The Company does not have a scheme to buy-back its own shares.

3. OPTIONS, WARRANTS OR CONVERTIBLE SECURITIES EXERCISED

The Company does not have any warrants or convertible securities in issue. The AirAsia Berhad Employee Share Option Scheme ("ESOS") came into effect on 1 September 2004. The details of the ESOS exercised are disclosed in page 120 of the financial statements.

4. AMERICAN DEPOSITORY RECEIPT ("ADR") OR GLOBAL DEPOSITORY RECEIPT ("GDR") PROGRAMME

The Company did not sponsor any ADR or GDR programme during the financial year ended 30 June 2006.

5. SANCTIONS AND/OR SIGNIFICANT PENALTIES

There were no public sanctions and/or significant penalties imposed on the Company and its subsidiaries, Directors or Management by the relevant regulatory bodies during the financial year ended 30 June 2006.

6. NON-AUDIT FEES

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
PricewaterhouseCoopers Malaysian firm				
Statutory audit				
– current financial year	327	230	296	200
– under accrual in prior financial year	100	–	100	–
Tax advisory and compliance work	75	–	75	–
Reporting accountants	–	1,100	–	1,100
Review of quarterly results	–	16	–	16
Others	8	–	8	–
	510	1,346	479	1,316
Overseas				
Member firm of PricewaterhouseCoopers International Limited, which is a separate and independent legal entity from PricewaterhouseCoopers, Malaysia				
– Statutory audit on a joint controlled entity	128	92	–	–
	128	92	–	–
Total remuneration	**638**	**1,438**	**479**	**1,316**

7. VARIATION IN RESULTS

The Company did not release or announce any profit estimate, forecast or projection during the financial year under review except for the following:-

On 11 November 2006, the Board of Directors of AirAsia Berhad ("AirAsia" or the Company) announced that the Group's audited profit after tax and minority interests for the financial year ended 30 June 2006 has been revised to RM88.4 million. The Group had in its fourth quarter announcement dated 29 August 2006 stated that the unaudited profit after tax and minority interests for the year ended 30 June 2006 was RM126.9 million. This gives rise to a deviation of RM38.5 million or 30.3%.

The deviation arose solely from the application of FRS 112 $_{2004}$ on Income Taxes which does not recognise re-investment or other tax allowances in excess of its normal capital allowances. The Directors maintain the view that the application of FRS 112 $_{2004}$ will not fairly present the financial position and performance of the Company because the unutilised capital allowances and investment tax allowances available to the Company are expected to accumulate to a very substantial amount and will shelter the Company from future tax liability for many years to come.

In the preparation of the fourth quarter announcement, the Company had adopted a conservative approach and recognised only part of the available investment tax allowances as deferred tax assets to offset the deferred tax liability. However, had the Company recognised the investment tax allowances in full as permitted under IAS 12, the Group and Company profit after tax and minority interest will be RM242.0 million and RM233.1 million respectively, bringing the shareholders funds to RM1.206 billion at Group level and RM1.203 billion at Company level as illustrated in the table below. This treatment is permitted under the International Financial Reporting Standards, principally IAS 12, and this has been confirmed by PricewaterhouseCoopers, the Company's auditors.

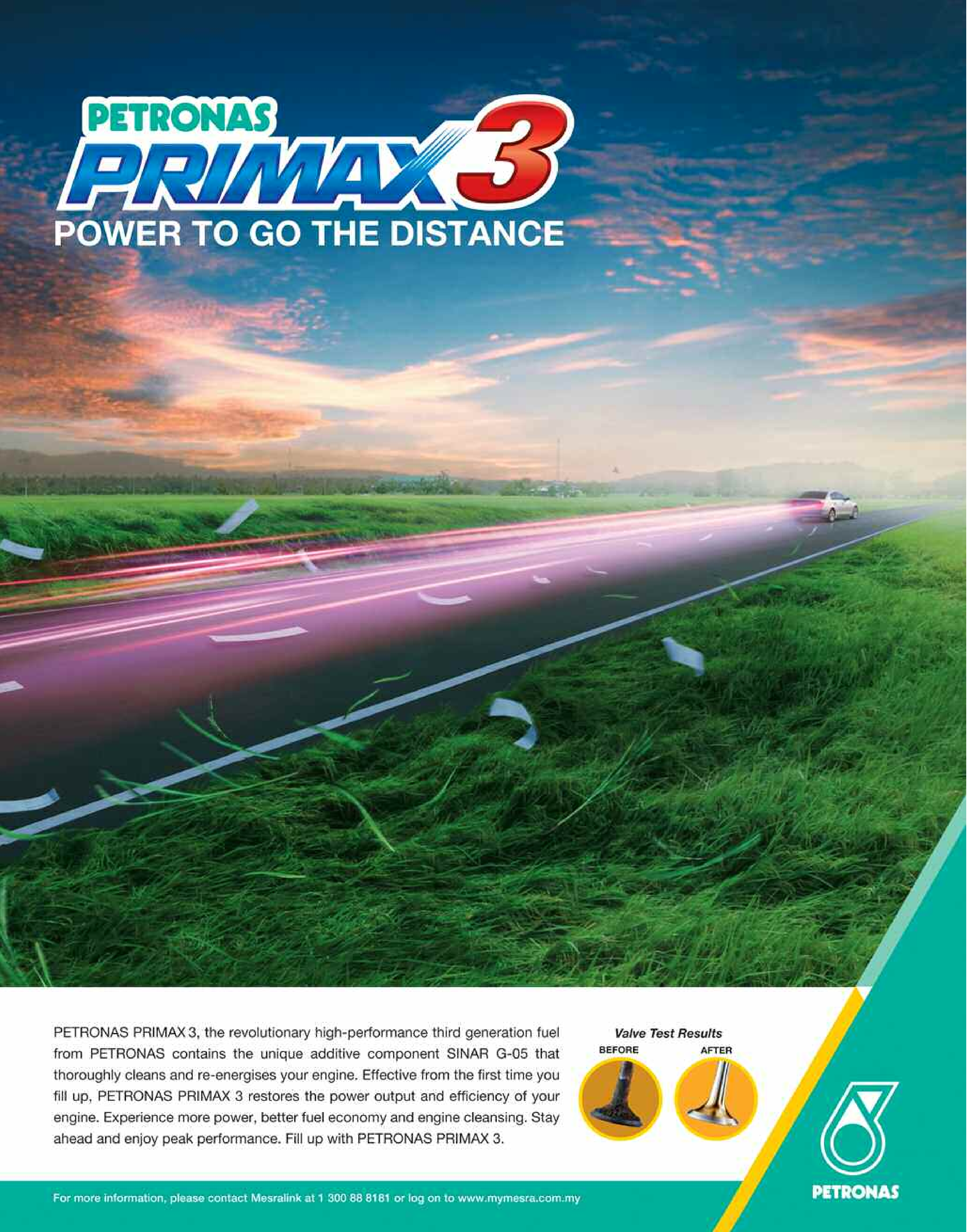
Group	Adoption of IAS 12 (Full Recognition) RM'000	Partial Recognition Per 4th Quarter Announcement RM'000	Compliance with FRS 112 $_{2004}$ RM'000
Profit after tax and minority interests	242.0	126.9	88.4
Shareholders' Equity	1,206.2	1,09.1	1,052.6
Basic Earnings Per Share	10.3	5.4	3.8

8. PROFIT GUARANTEE

During the financial year ended 30 June 2006, the Group and the Company did not give any profit guarantee.

9. MATERIAL CONTRACTS INVOLVING DIRECTORS' AND MAJOR SHAREHOLDERS'

For the financial year ended 30 June 2006, no contracts of a material nature were entered into or were subsisting between the AirAsia Group and its Directors or major shareholders.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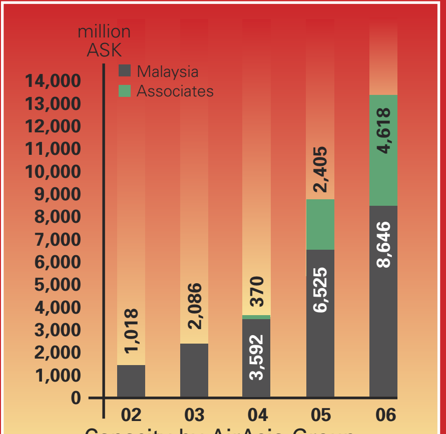
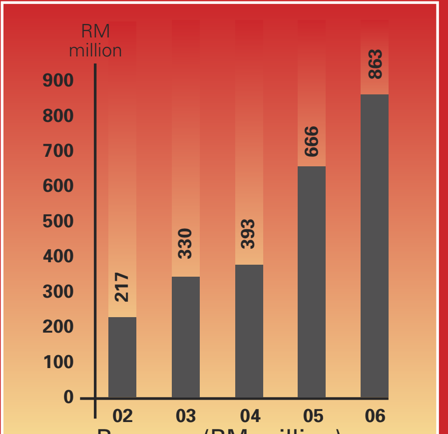
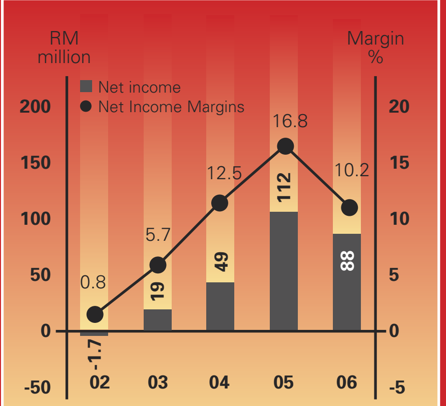


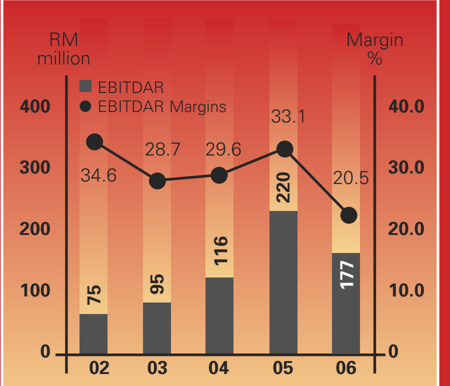
Capacity by AirAsia Group



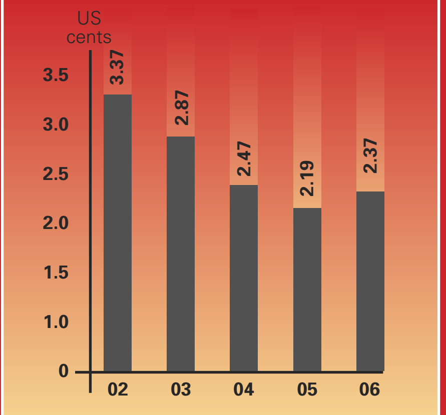
Revenue (RM million)



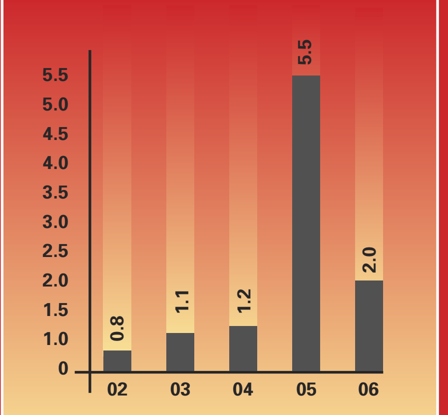
Net Income & Net Income Margins



EBITDAR & EBITDAR Margins



Cost Per ASK



Working Capital Ratio

financial statements

directors' report

The Directors are pleased to submit their report together with the audited financial statements of the Group and Company for the financial year ended 30 June 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is that of providing air transportation services. The principal activities of the subsidiaries are described in Note 12 to the financial statements. There has been no significant change in these activities during the financial year.

FINANCIAL RESULTS

	Group RM'000	Company RM'000
Profit after taxation	88,426	79,556
Minority interests	(12)	–
Net profit for the financial year	88,414	79,556

In the preparation of the financial statements, the Group and Company has complied with FRS 112 $_{2004}$ on Income Taxes, specifically Paragraph 36 which does not allow the recognition of deferred tax asset on initial recognition of an asset qualifying for re-investment or other allowances in excess of its normal capital allowances, even though such recognition is permissible under International Financial Reporting Standards in particular International Accounting Standards ("IAS") 12 on Accounting for Taxes on Income. Deferred tax assets amounting to RM153.6 million in respect of unutilised investment allowances have not been recognised in the financial statements in accordance with the current accounting policy and approved accounting standards in Malaysia.

Application of FRS 112 $_{2004}$ required the Group and Company to record a charge of RM38.5 million in the income statement for the financial year ended 30 June 2006 and a deferred tax liability of RM38.5 million as at 30 June 2006.

The Directors are however of the view that compliance with FRS 112 $_{2004}$ does not in substance fairly present the financial position and performance of the Group and Company. Based on the confirmed number of new Airbus A320 aircraft ordered by the Company, the agreed purchase price and an assumption of reasonable future profitability, the unutilised capital allowances is anticipated to accumulate substantially. Over and above the unutilised capital allowances, the Company will have an increasing amount of unutilised investment tax allowances granted by the Malaysian Government over the next few years as its aircraft acquisition program continues, which can be carried forward indefinitely. Accordingly, the Company does not expect to pay any tax in the foreseeable future.

If IAS 12 had been applied, the net profit for the financial year ended 30 June 2006 of the Group and Company would be RM242.0 million and RM233.1 million respectively and the net assets as at 30 June 2006 would be RM1,206.2 million and RM1,203.0 million respectively. The earnings per share and diluted earnings per share of the Group for the financial year ended 30 June 2006 would be 10.3 sen and 10.2 sen respectively. There is no impact in respect of the comparatives for the previous year as the investment allowances only arose during the current year.

DIVIDENDS

No dividend has been paid or declared by the Company since the end of the previous financial year.

The Directors do not recommend the payment of any dividend for the financial year ended 30 June 2006.

RESERVES AND PROVISIONS

All material transfers to or from reserves and provisions during the financial year are shown in the financial statements.

ISSUANCE OF SHARES

During the financial year, the Company increased its issued and paid-up ordinary share capital from RM233,503,108 to RM234,648,808 by way of issuance of 11,457,000 ordinary shares of RM0.10 each pursuant to the exercise of the Employee Share Option Scheme ("ESOS") at the exercise price of RM1.08 per share. The premium arising from the exercise of ESOS of RM11,227,860 has been credited to the Share Premium account.

The new ordinary shares issued during the financial year ranked pari passu in all respects with the existing ordinary shares of the Company. There were no other changes in the issued and paid-up capital of the Company during the financial year.

EMPLOYEE SHARE OPTION SCHEME ("ESOS")

The Company implemented an ESOS on 1 September 2004 for a period of 5 years from the date the by-laws were approved by the shareholders. The ESOS is governed by the by-laws which were approved by shareholders on 7 June 2004.

Details of the ESOS are set out in Note 27 to the financial statements.

The Company has been granted exemption by the Companies Commission of Malaysia, the information of which had been separately filed, from having to disclose the list of option holders and their holdings, except for eligible employees (inclusive of Executive Directors) with share options allocation of 350,000 and above. The name of employees who have been granted options of more than 350,000 shares are Dato' Anthony Francis Fernandes and Dato' Kamarudin Bin Meranun, details of which are disclosed in the section of Directors' Interests in Shares below.

DIRECTORS

The Directors who have held office during the period since the date of the last report are as follows:

Dato' Pahamin Ab. Rajab
Dato' Anthony Francis Fernandes
Dato' Kamarudin Bin Meranun
John Francis Tierney
Conor Mc Carthy
Tan Sri Dato' (Dr) R.V. Navaratnam
Dato' Leong Sonny @ Leong Khee Seong
Fam Lee Ee
Datuk Alias Bin Ali
Paul John Da Vall
(Alternate to John Francis Tierney)
Abdel Aziz @ Abdul Aziz Bin Abu Bakar
Adeeb Ahmed
(Ceased as Alternate to Mumtaz Khan on 25 May 2006)
Richard Todd Scanlon
(Ceased as Alternate Director to Timothy Wakefield Ross on 15 February 2006)
Mumtaz Khan (Resigned on 25 May 2006)
Timothy Wakefield Ross (Resigned on 15 February 2006)

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, being arrangements with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, other than the Company's Employee Share Option Scheme (see Note 7 to the financial statements).

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than the directors' remuneration disclosed in Note 7 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest except as disclosed in Note 21 to the financial statements.

DIRECTORS' INTERESTS IN SHARES

According to the register of Directors' shareholdings, particulars of interests of Directors who held office at the end of the financial year in shares and options over shares in the Company and its related corporations are as follows:

	Number of ordinary shares of RM0.10 each			
	At 1.7.2005	**Acquired**	**Disposed**	**At 30.6.2006**
The Company				
Direct interests				
Dato' Pahamin Ab. Rajab	100,010	–	–	100,010
Dato' Anthony Francis Fernandes	100,010	527,000	–	627,010
Dato' Kamarudin Bin Meranun	100,000	–	–	100,000
John Francis Tierney	100,000	–	–	100,000
Conor Mc Carthy	100,000	40,661,403	–	40,761,403
Dato' Leong Sonny @ Leong Khee Siong	100,000	–	–	100,000
Fam Lee Ee	100,000	1,500,000	(1,200,000)	400,000
Abdel Aziz @ Abdul Aziz Bin Abu Bakar	200,000	–	–	200,000
Indirect interests				
Dato' Anthony Francis Fernandes *	1,045,344,650	–	(164,661,403)	880,683,247
Dato' Kamarudin Bin Meranun *	1,045,344,650	–	(164,661,403)	880,683,247

* By virtue of their interest in shares in the substantial shareholder, Tune Air Sdn. Bhd. ("TASB"), Dato' Anthony Francis Fernandes and Dato' Kamarudin Bin Meranun are deemed to have interests in the Company to the extent of TASB's interest in accordance with Section 6A of the Companies Act, 1965.

	Number of options over ordinary shares of RM0.10 each			
	At 1.7.2005	**Granted**	**Exercised**	**At 30.6.2006**
The Company				
Dato' Anthony Francis Fernandes	600,000	–	–	600,000
Dato' Kamarudin Bin Meranun	600,000	–	–	600,000

	Number of ordinary shares of USD1.00 each			
	At 1.7.2005	**Acquired**	**Disposed**	**At 30.6.2006**
Direct interest in AA International Ltd ("AAIL")				
Dato' Kamarudin Bin Meranun (Held in trust for TASB)	1	–	–	1
Indirect interests in AAIL				
Dato' Anthony Francis Fernandes +	5,267,340	–	–	5,267,340
Dato' Kamarudin Bin Meranun +	5,267,340	–	–	5,267,340

\+ Deemed to have interest by virtue of Section 6A of the Companies Act, 1965, through a shareholding of more than 15% in TASB, which in turn has a substantial shareholding in the Company.

Other than disclosed above, according to the register of Directors' shareholdings, none of the other Directors in office at the end of the financial year hold any interest in shares, options over shares and debentures in the Company and its related corporations during the financial year.

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

Before the income statements and balance sheets were made out, the Directors took reasonable steps:

(a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and

(b) to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business their values as shown in the accounting records of the Group and Company had been written down to an amount which they might be expected so to realise.

At the date of this report, the Directors are not aware of any circumstances:

(a) which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and Company inadequate to any substantial extent; or

(b) which would render the values attributed to current assets in the financial statements of the Group and Company misleading; or

(c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and Company misleading or inappropriate.

No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may affect the ability of the Group or Company to meet their obligations as and when they fall due.

At the date of this report, there does not exist:

(a) any charge on the assets of the Group and Company which has arisen since the end of the financial year which secures the liability of any other person; or

(b) any contingent liability of the Group and Company which has arisen since the end of the financial year.

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements which would render any amount stated in the financial statements misleading.

In the opinion of the Directors:

(a) the results of the Group's and Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature; and

(b) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and Company for the financial year in which this report is made.

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

In accordance with a resolution of the Board of Directors dated 30 October 2006.

DATO' ANTHONY FRANCIS FERNANDES
Director

DATO' KAMARUDIN BIN MERANUN
Director

income statements
for the financial year ended 30 June 2006

	Note	Group 2006 RM'000	Group 2005 RM'000	Company 2006 RM'000	Company 2005 RM'000
Revenue	3	862,880	666,036	839,007	659,564
Cost of sales	4	(603,597)	(467,625)	(587,996)	(462,356)
Gross profit		259,283	198,411	251,011	197,208
Other operating income		4,587	1,699	4,273	1,496
Sales and marketing expenses		(23,297)	(3,291)	(22,077)	(3,291)
Administration expenses	5	(70,730)	(36,700)	(67,822)	(35,000)
Other operating expenses		(72,934)	(36,018)	(71,345)	(35,322)
Profit from operations	6	96,909	124,101	94,040	125,091
Finance income (net)	8	12,602	6,720	12,607	6,727
Share of results of a jointly controlled entity		6,006	(5,335)	–	–
Share of results of associates		–	(86)	–	–
Profit before taxation		115,517	125,400	106,647	131,818
Taxation					
– Current taxation	9	(2,175)	(1,804)	(2,175)	(1,804)
– Deferred taxation	9	(24,916)	(12,500)	(24,916)	(12,500)
		(27,091)	(14,304)	(27,091)	(14,304)
Profit after taxation		88,426	111,096	79,556	117,514
Minority interests		(12)	461	–	–
Net profit for the financial year		88,414	111,557	79,556	117,514
Earnings per share (sen)					
– Basic	10	3.8	5.3		
– Diluted	10	3.7	5.2		

The notes on pages 92 to 130 form part of these financial statements.

balance sheets
as at 30 June 2006

	Note	Group 2006 RM'000	Group 2005 RM'000	Company 2006 RM'000	Company 2005 RM'000
NON-CURRENT ASSETS					
Property, plant and equipment	11	1,261,993	231,486	1,261,095	230,619
Investment in subsidiaries	12	–	–	22,094	20,690
Investment in a jointly controlled entity	13	13,299	6,719	–	–
Investment in associates	14	29	–	29	–
Other investments	15	78	90	78	90
Goodwill		8,738	7,334	–	–
Deferred expenditure		1,278	3,221	1,278	3,221
Long term prepayments	17	35,110	–	35,110	–
		1,320,525	248,850	1,319,684	254,620
CURRENT ASSETS					
Inventories	16	10,578	4,680	9,868	4,382
Other investments	15	30,696	7,717	30,696	7,717
Trade and other receivables	17	276,838	278,849	276,102	277,046
Deposit on aircraft purchase		268,634	182,414	268,634	182,414
Amounts due from subsidiaries	18	–	–	40,461	23,437
Amount due from a jointly controlled entity	19	26,750	30,511	–	6,907
Amounts due from associates	20	52,938	40,634	52,938	40,634
Deposits, bank and cash balances	21	425,641	329,289	421,997	327,917
		1,092,075	874,094	1,100,696	870,454
LESS: CURRENT LIABILITIES					
Trade and other payables	22	267,081	155,010	263,673	151,202
Amount due to a subsidiary	23	–	–	1,911	–
Amount due to a jointly controlled entity	19	–	–	12,570	–
Amount due to an associate	20	–	202	–	–
Hire-purchase payables	24	153	167	133	148
Borrowings (secured)	25	265,360	–	265,360	–
Current tax liabilities		1,295	798	1,295	798
		533,889	156,177	544,942	152,148
NET CURRENT ASSETS		558,186	717,917	555,754	718,306

The notes on pages 92 to 130 form part of these financial statements.

balance sheets
as at 30 June 2006 (cont'd)

	Note	Group 2006 RM'000	Group 2005 RM'000	Company 2006 RM'000	Company 2005 RM'000
NON-CURRENT LIABILITIES					
Deferred tax liabilities	26	38,529	13,613	38,529	13,613
Hire-purchase payables	24	288	283	265	230
Borrowings (secured)	25	787,276	–	787,276	–
		826,093	13,896	826,070	13,843
		1,052,618	952,871	1,049,368	959,083
CAPITAL AND RESERVES					
Share capital	27	234,649	233,503	234,649	233,503
Share premium		708,185	698,602	708,185	698,602
Foreign exchange reserve		592	–	–	–
Retained earnings	29	109,165	20,751	106,534	26,978
SHAREHOLDERS' EQUITY		1,052,591	952,856	1,049,368	959,083
Minority interests		27	15	–	–
		1,052,618	952,871	1,049,368	959,083

The notes on pages 92 to 130 form part of these financial statements.

statements of changes in equity
for the financial year ended 30 June 2006

Group	Issued and fully paid ordinary shares of RM0.10 each Number of shares '000	Nominal value RM'000	Non-distributable Share premium RM'000	Foreign exchange reserve RM'000	Distributable Retained earnings RM'000	Total RM'000
At 1 July 2004	175,127	175,127	65,959	–	(90,806)	150,280
Share split*	1,576,143	–	–	–	–	–
Issuance of shares	583,760	58,376	659,063	–	–	717,439
Listing expenses	–	–	(26,420)	–	–	(26,420)
Net profit for the financial year	–	–	–	–	111,557	111,557
At 30 June 2005	2,335,030	233,503	698,602	–	20,751	952,856
At 1 July 2005	2,335,030	233,503	698,602	–	20,751	952,856
Currency translation difference	–	–	–	592	–	592
Issuance of shares	11,457	1,146	11,227	–	–	12,373
Listing expenses	–	–	(1,644)	–	–	(1,644)
Net profit for the financial year	–	–	–	–	88,414	88,414
At 30 June 2006	2,346,487	234,649	708,185	592	109,165	1,052,591

* Share split of one existing ordinary share of RM1.00 each in the Company into 10 new ordinary shares of RM0.10 each on 6 October 2004.

Company	Issued and fully paid ordinary shares of RM0.10 each Number of shares '000	Nominal value RM'000	Non-distributable Share premium RM'000	Distributable Retained earnings RM'000	Total RM'000
At 1 July 2004	175,127	175,127	65,959	(90,536)	150,550
Share split*	1,576,143	–	–	–	–
Issuance of shares	583,760	58,376	659,063	–	717,439
Listing expenses	–	–	(26,420)	–	(26,420)
Net profit for the financial year	–	–	–	117,514	117,514
At 30 June 2005	2,335,030	233,503	698,602	26,978	959,083
At 1 July 2005	2,335,030	233,503	698,602	26,978	959,083
Issuance of shares	11,457	1,146	11,227	–	12,373
Listing expenses	–	–	(1,644)	–	(1,644)
Net profit for the financial year	–	–	–	79,556	79,556
At 30 June 2006	2,346,487	234,649	708,185	106,534	1,049,368

* Share split of one existing ordinary share of RM1.00 each in the Company into 10 new ordinary shares of RM0.10 each on 6 October 2004.

The notes on pages 92 to 130 form part of these financial statements.

cash flow statements
for the financial year ended 30 June 2006

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	115,517	125,400	106,647	131,818
Adjustments:				
Share of results of a jointly controlled entity	(6,006)	5,335	–	–
Share of results of associates	–	86	–	–
Interest expense	21,374	2,191	21,369	2,184
Property, plant and equipment				
– Depreciation	71,066	34,100	70,765	33,870
– Write off	877	–	558	–
– Loss on disposals	111	74	–	70
Amortisation of deferred expenditure	1,943	1,147	1,943	1,147
Amortisation of long term prepayments	990	–	990	–
Interest income	(12,148)	(9,331)	(12,148)	(9,331)
	193,724	159,002	190,124	159,758
Changes in working capital:				
Inventories	(5,898)	(733)	(5,486)	(572)
Trade and other receivables	2,029	(184,262)	944	(183,445)
Trade and other payables	112,083	53,409	112,483	50,427
Intercompany balances	(8,745)	(70,943)	(7,940)	(70,650)
Cash generated from/(used in) operations	293,193	(43,527)	290,125	(44,482)
Interest paid	(21,374)	(2,191)	(21,369)	(2,184)
Interest received	12,148	9,331	12,148	9,331
Tax paid	(1,678)	(1,520)	(1,678)	(1,520)
Net cash from/(used in) operating activities	282,289	(37,907)	279,226	(38,855)

cash flow statements
for the financial year ended 30 June 2006 (cont'd)

	Note	Group 2006 RM'000	Group 2005 RM'000	Company 2006 RM'000	Company 2005 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES					
Property, plant and equipment					
– Additions		(982,226)	(107,078)	(981,331)	(106,785)
– Proceeds from disposals		133	71	–	60
Deposit on aircraft purchase		(206,500)	(182,414)	(206,500)	(182,414)
Long term prepayments		(36,100)	–	(36,100)	–
Fund investments		(22,979)	(7,717)	(22,979)	(7,717)
Additional investment in/acquisition of subsidiaries		(1,404)	–	(1,404)	(650)
Acquisition of an associate		(29)	–	(29)	–
Net cash used in investing activities		(1,249,105)	(297,138)	(1,248,343)	(297,506)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from allotment of shares		12,373	717,439	12,373	717,439
Share issue costs		(1,644)	(23,680)	(1,644)	(23,680)
Hire-purchase installments paid		(197)	(116)	(168)	(109)
Proceeds from borrowings		1,170,932	–	1,170,932	–
Repayment of borrowings		(118,296)	(95,456)	(118,296)	(95,456)
Fixed deposits pledged as securities	21	4,007	(9,183)	4,007	(9,183)
Net cash from financing activities		1,067,175	589,004	1,067,204	589,011
NET INCREASE FOR THE FINANCIAL YEAR		100,359	253,959	98,087	252,650
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR		312,548	58,589	311,176	58,526
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	21	412,907	312,548	409,263	311,176

The notes on pages 92 to 130 form part of these financial statements.

notes to the financial statements
– 30 June 2006

1 GENERAL INFORMATION

The principal activity of the Company is that of providing air transportation services. The principal activities of the subsidiaries are described in Note 12 to the financial statements. There has been no significant change in these activities during the financial year.

The number of employees of the Group and the Company at the balance sheet date was 2,224 and 2,148 (2005: 2,016 and 1,984) respectively.

The Company was incorporated as a private limited liability company and is both incorporated and domiciled in Malaysia. On 8 June 2004, the Company was converted into a public limited liability company. The Company was listed on the Main Board of the Bursa Malaysia Securities Berhad ("Bursa Malaysia") on 22 November 2004.

The address of the registered office of the Company is as follows:

25–5, Block H
Jalan PJU1/37, Dataran Prima
47301 Petaling Jaya
Selangor Darul Ehsan

The address of the principal place of business of the Company is as follows:

LCC Terminal
Jalan KLIA S3
Southern Support Zone
KL International Airport
64000 Sepang
Selangor Darul Ehsan

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements.

(a) Basis of preparation of financial statements

The financial statements of the Group and Company have been prepared under the historical cost convention, except where otherwise stated in the summary of significant accounting policies below. The financial statements comply with the MASB approved accounting standards in Malaysia and the provisions of the Companies Act, 1965.

The preparation of financial statements in conformity with MASB approved accounting standards in Malaysia and the provisions of the Companies Act, 1965, requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reported financial year. These estimates are based on the Directors' best knowledge of current events and actions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Group accounting

(i) Subsidiaries

Subsidiaries are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits from their activities.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. Subsidiaries are consolidated using the acquisition method of accounting. At the date of acquisition, the fair value of the subsidiaries' net assets is determined and these values are reflected in the consolidated financial statements. The difference between the costs of acquisition over the Group's share of the fair value of the identifiable net assets of the subsidiary acquired at acquisition date is reflected as goodwill or negative goodwill. See the accounting policy Note 2(c) on goodwill.

Minority interest is measured at the minorities' share of the post acquisition fair values of the identifiable assets and liabilities of the invested entities. When the minorities' share of losses equals or exceeds their interest in the entities invested, the minority shareholders do not recognise further losses, unless the minority shareholders have incurred obligation or made payment on behalf of the entities invested.

Intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

The gain or loss on disposal of a subsidiary is the difference between net disposal proceeds and the Group's share of its net assets together with any unamortised balance of goodwill on acquisition and exchange differences which were not previously recognised in the consolidated income statement.

(ii) Associated companies

Associates are those corporations, partnerships or other entities enterprises in which the Group exercises significant influence, but which it does not control. Significant influence is the power to participate in the financial and operating policy decisions of the associates but not the power to exercise control over those policies. Investments in associates are accounted for in the consolidated financial statements by the equity method of accounting.

Equity accounting involves recognising in the income statement the Group's share of the post acquisition results of associates and its share of post acquisition movements within reserves in reserves. The cumulative post acquisition movement is adjusted against the cost of the investment and includes goodwill on acquisition (net of accumulated amortisation). Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the Group has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence on impairment of the asset transferred. Where necessary, in applying the equity method, adjustments are made to the financial statements of associates to ensure consistency of accounting policies with those of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Group accounting (cont'd)

(iii) Jointly controlled entities

Jointly controlled entities are corporations, partnerships or other entities over which there is contractually agreed sharing of control by the Group with one or more parties. The Group's interest in jointly controlled entities is accounted for in the consolidated financial statements by the equity method of accounting.

Equity accounting involves recognising the Group's share of the post acquisition results of jointly controlled entities in the income statement and its share of post acquisition movements within reserves in reserves. The cumulative post acquisition movements are adjusted against the cost of the investment and include goodwill on acquisition.

The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the purchase of assets by the Group from the joint venture until it resells the assets to an independent party. However, if a loss on the transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss, the loss is recognised immediately.

Where necessary, in applying the equity method, adjustments have been made to the financial statements of jointly controlled entities to ensure consistency of accounting policies with those of the Group.

(c) Goodwill

Goodwill represents the excess of the fair value of the purchase consideration over the Group's share of the fair values of the separable net assets of the subsidiary at the date of acquisition. Negative goodwill represents the excess of the Group's share of the fair values of the separable assets of the subsidiary at the date of acquisition over the fair value of the purchase consideration.

Goodwill is stated net of negative goodwill and is retained in the consolidated balance sheet. The carrying value of the goodwill is reviewed annually and is written down for impairment where it is considered necessary. The impairment value of goodwill is taken to the consolidated income statement. See accounting policy Note 2(f) on impairment of assets.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated using the straight-line method to write-off the cost of the assets over their estimated useful lives. The useful lives for this purpose are:

Aircraft	7 – 25 years
Aircraft spares	10 years
Aircraft fixtures and fittings	Useful life or, remaining lease term of aircrafts, whichever is shorter
Furniture and fittings	5 years
Buildings	25 – 50 years
Motor vehicles	5 years
Office equipment	5 years
Office renovation	5 years
Simulator equipment	25 years
Operating plant and ground equipment	5 years
Kitchen equipment	5 years

Assets not yet in operation are stated at cost and are not depreciated until the assets are ready for their intended use.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

d) Property, plant and equipment (cont'd)

An element of the cost of an acquired aircraft is attributed on acquisition to its service potential reflecting the maintenance condition of its engines and airframes. This cost, which can equate to a substantial element of the total aircraft cost, is amortised over the shorter of the period to the next check or the remaining life of the aircraft.

The cost of subsequent major airframe and engine maintenance checks as well as upgrades to leased assets are capitalised and amortised over the shorter of the period to the next check or the remaining life of the aircraft.

At each balance sheet date, the Group assesses whether there is any indication of impairment. If such an indication exists, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See accounting policy Note 2(f) on impairment of assets.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in profit/(loss) from operations.

(e) Other investments

Investments in other non-current investments are shown at cost and an allowance for diminution in value is made, where in the opinion of the Directors, there is a decline other than temporary in the value of such investments. Where there has been a decline other than temporary in the value of an investment, such decline is recognised as an expense in the period in which the decline is identified.

On disposal of an investment, the difference between net disposal proceeds and its carrying amount is charged/credited to the income statement.

(f) Impairment of assets

Property, plant and equipment and other non-current assets, including goodwill are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Any impairment loss arising is charged to the income statement unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Any subsequent increase in recoverable amount is recognised in the income statement unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus.

(g) Maintenance and overhaul

Owned Aircraft

An element of the cost of an acquired aircraft is attributed on acquisition to its service potential reflecting the maintenance condition of its engines and airframes. This cost, which can equate to a substantial proportion of the total aircraft cost, is amortised over the shorter of the period to the next check or the remaining life of the aircraft.

The cost of subsequent major airframe and engine maintenance checks is capitalised and amortised over the shorter of the period to the next check or the remaining life of the aircraft.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) Maintenance and overhaul (cont'd)

Leased Aircraft

The cost of major maintenance and overhaul expenses is charged to the income statement throughout the period of the lease.

AirAsia has certain aircraft for which the lease commenced during a major overhaul cycle and for which AirAsia was obligated, under the terms of the lease, to pay the full amount of the overhaul cost for the first maintenance cycle, although AirAsia only leased the aircraft for a portion of that maintenance cycle. The element of the maintenance cost relating to periods prior to commencement of the lease is deferred and amortised over the operating lease period.

(h) Leases

Finance leases

Leases of property, plant and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases.

Finance leases are capitalised at the estimated present value of the underlying lease payments at the date of inception. Each lease payment is allocated between the liability and finance charges so as to achieve a periodic constant rate of interest on the balance outstanding. The corresponding rental obligations, net of finance charges, are included in payables. The interest element of the finance charge is charged to the income statement over the lease period.

Property, plant and equipment acquired under finance lease contracts are depreciated over the estimated useful life of the asset, in accordance with the annual rates stated in Note (d) above. Where there is no reasonable certainty that the ownership will be transferred to the Group, the asset is depreciated over the shorter of the lease term and its useful life.

Operating leases

Leases of assets where significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of incentives received from the lessor) are charged to the income statement on a straight-line basis over the lease period.

(i) Inventories

Inventories comprising spares and consumables used internally for repairs and maintenance are stated at lower of cost and net realisable value. Cost is determined on the weighted average basis, and comprises the purchase price and incidentals incurred in bringing the inventories to their present location and condition. In arriving at net realisable value, due allowance is made for all damaged, obsolete and slow-moving items.

(j) Receivables

Receivables are carried at invoiced amount less an allowance for doubtful debts based on general and specific review of all outstanding amounts at the financial year end. Bad debts are written off during the financial year in which they are identified.

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank balances, demand deposits, deposits pledged with financial institutions, bank overdrafts and short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Share capital

Ordinary shares with discretionary dividends are classified as equity. Other shares are classified as equity and/or liability according to the economic substance of the particular instrument. Distributions to holders of a financial instrument classified as an equity instrument are charged directly to equity.

(m) Share issue costs

Incremental external costs directly attributable to the issue of new shares are shown as a deduction, net of tax, in equity from the proceeds.

(n) Dividends

Dividends on ordinary shares are recognised as liabilities when proposed or declared before the balance sheet date. A dividend proposed or declared after the balance sheet date, but before the financial statements are authorised for issue, is not recognised as a liability at the balance sheet date but as an appropriation from retained earnings. Upon the dividend becoming payable, it will be accounted for as a liability.

(o) Borrowings

Borrowings are initially recognised based on the proceeds received, net of transaction costs incurred. The finance costs which represent the difference between the net proceeds and the total amount of the payments of these borrowings are allocated to periods over the term of the borrowings at a constant rate on the carrying amount and are charged to the income statement.

Interest, dividends, losses and gains relating to a financial instrument, or a component part, classified as a liability is reported within finance cost in the income statement.

(p) Income taxes

Current tax expense is determined according to the tax laws of each jurisdiction in which the Group operates and include all taxes based upon the taxable profits, including withholding taxes payable by a foreign subsidiary, associate or joint venture on distributions of retained earnings to companies in the Group, and real property gains taxes payable on disposal of properties.

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences or unused tax losses can be utilised.

Deferred tax assets and liabilities are set off when there is legally enforceable right to set off current tax assets against current tax liabilities and where the taxes relate to the same tax authority.

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(q) Employee benefits

(i) Short term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the period in which the associated services are rendered by the employees of the Group.

(ii) Defined contribution retirement plans

The Group pays contributions to publicly administered pension plans on a mandatory, contractual or voluntary basis. Once the contributions have been paid, the Group has no further payment obligations. The regular contributions constitute net periodic costs for the period in which they are due and as such are included in staff costs in the income statement.

(r) Revenue recognition

Scheduled passenger flight and chartered flight income are recognised upon the rendering of transportation services and where applicable, net of discounts. The value of seats sold for which services have not been rendered is included in current liabilities as sales in advance.

Revenue includes only the gross inflows of economic benefits received and receivable by the Company. Cargo, freight and other related revenue are recognised upon the completion of services rendered and where applicable, net of discounts. Amounts collected on behalf of governments or other regulatory bodies and direct-per passengers' charges are excluded from revenue.

Interest and rental income are recognised on an accruals basis.

(s) Foreign currencies

(i) Reporting currency

The financial statements are presented in Ringgit Malaysia ("RM").

(ii) Foreign entities

The Group's foreign entities are those operations that are not an integral part of the operations of the Company. Income statements of foreign entities are translated into Ringgit Malaysia at average exchange rates for the period and the balance sheets are translated at exchange rates ruling at the balance sheet date. Exchange differences arising from the retranslation of the net investment in foreign entities and of borrowings that hedge such investments are taken to "Foreign exchange reserves" in shareholders' equity. On disposal of the foreign entity, such translation differences are recognised in the income statement as part of the gain or loss on disposal.

(iii) Foreign currency transactions and balances

Transactions in foreign currencies are converted into Ringgit Malaysia at exchange rates prevailing on the transaction dates, unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used. Foreign currency monetary assets and liabilities are translated into Ringgit Malaysia at exchange rates prevailing at the balance sheet date, unless hedged by forward foreign exchange contracts in which case the rates specified in such forward contracts are used. Exchange differences arising from settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(s) Foreign currencies (cont'd)

(iv) Closing rates

The principal closing rates used in translation of foreign currency amounts to RM are as follows:

Foreign currency	2006 RM	2005 RM
United States Dollar ("USD")	3.69	3.80
Pound Sterling ("GBP")	6.70	6.94
Singapore Dollar ("SGD")	2.29	2.29
Thai Baht ("THB")	0.10	0.09
100 Indonesia Rupiah ("IDR")	0.04	0.04
EURO Dollar ("Euro")	4.63	4.76
Hong Kong Dollar ("HKD")	0.47	0.49

(t) Segmental reporting

Segmental reporting is presented for enhanced assessment of the Group's risks and returns. Business segments provide products or services that are subject to risk and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those components operating in other economic environment.

Segment revenue, expense, assets and liabilities are those amounts resulting from the operating activities of a segment that are directly attributable to the segment and the relevant portion that can be allocated on a reasonable basis to the segment. Segment revenue, expense, assets and liabilities are determined before intragroup balances, and intragroup transactions are eliminated as part of the consolidation process, except to the extent that such intragroup balances and transactions are between group enterprises within a single segment.

(u) Financial instruments

(i) Description

Financial instruments are recognised in the balance sheet when the Group and Company have become a party to the contractual provisions of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability are reported as expenses or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial instruments are offset when the Group and Company have legally enforceable right to offset and intend to settle either on a net basis or to realise the asset and settle the liability simultaneously.

(ii) Financial instruments recognised on the balance sheet

The particular recognition method adopted for financial instruments recognised on the balance sheet is disclosed in the individual policy statement associated with each item.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(u) Financial instruments (cont'd)

(iii) Financial instruments not recognised on the balance sheet

Forward fuel swap contracts

The Group is a party to financial instruments that comprises forward fuel contracts. These instruments are not recognised in the financial statements on inception. Gains and losses arising from forward fuel contracts are recognised in the income statement upon delivery of fuel.

Foreign currency forward contracts

The Group enters into foreign currency forward contracts to protect the Group from movements in exchange rates by establishing the rate at which a foreign currency asset or liability will be settled.

Exchange gains and losses arising on contracts entered into as hedges of anticipated future transactions are deferred until the date of such transaction, at which time they are included in the measurement of such transactions.

Interest rate swap contracts

Any differential to be paid or received on an interest rate swap contract is recognised as a component of interest income or expense over the period of the contract. Gains and losses on early termination of interest rate swaps or on repayment of the borrowing are taken to the income statement.

(iv) Fair value estimation for disclosure purposes

The fair value of publicly traded derivatives and securities is based on quoted market prices at the balance sheet date. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

In assessing the fair value of other derivatives and financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. In particular, the fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

The face values, less any estimated credit adjustments, for financial assets and liabilities with a maturity period of less than one year are assumed to approximate their fair values.

3 REVENUE

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Passenger seat sales	778,080	620,065	778,080	620,065
Chartered flight income	8,063	3,832	8,063	3,832
Other revenue	76,737	42,139	52,864	35,667
	862,880	666,036	839,007	659,564

4 COST OF SALES

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Aircraft fuel expenses	323,775	267,536	323,775	267,536
Aircraft operating lease expenses	53,214	51,350	53,214	51,350
Staff costs	115,695	83,539	114,917	82,775
Maintenance, overhaul, user charges and other expenses	110,913	65,200	96,090	60,695
	603,597	467,625	587,996	462,356

Aircraft fuel expenses are stated after deducting fuel surcharges received amounting to RM99.0 million (2005: Nil).

Aircraft operating lease expenses include income received from the Company's jointly controlled entity and associate on lease rental and sublease rental of aircraft amounting to RM30.1 million (2005: RM17.8 million) and RM31.9 million (2005: RM7.7 million) respectively.

User charges of the Group and Company primarily consist of ground handling fees, landing and parking charges, aeronautical charges and other airport charges.

Other expenses include insurance surcharges and administrative fees from passengers netted off amounting to RM109.0 million (2005: RM51.8 million).

5 ADMINISTRATION EXPENSES

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
General and administrative expenses	47,589	20,619	46,279	19,379
Staff costs	23,141	16,081	21,543	15,621
	70,730	36,700	67,822	35,000

6 PROFIT FROM OPERATIONS

The following items have been charged/(credited) in arriving at profit from operations:

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Staff costs	141,151	101,608	138,776	100,369
Property, plant and equipment				
– Depreciation	71,066	34,100	70,765	33,870
– Write off	877	–	558	–
– Loss on disposals	111	74	–	70
Amortisation of deferred expenditure	1,943	1,147	1,943	1,147
Rental of land and building	2,738	891	2,601	872
Auditors' remuneration				
– current financial year	327	230	296	200
– under-accrual in prior financial year	100	–	100	–
Allowance for doubtful debts	–	966	–	966
Trade and other receivables written off	577	–	–	–
Rental of equipment	473	416	473	416
Amortisation of long term prepayments	990	–	990	–
Crew commissions	1,189	532	–	–
Foreign exchange (gain)/loss				
– Realised	(742)	1,164	(742)	1,164
– Unrealised	(6,120)	–	(6,120)	–
Lease rental income on aircrafts	(30,099)	(17,880)	(30,099)	(17,880)
Sublease rental income on aircrafts	(31,952)	(7,666)	(31,952)	(7,666)
Interest income	(12,148)	(9,331)	(12,148)	(9,331)

The Group and Company is required by Malaysian law to contribute a fixed percentage of each employee's salary to a publicly administered defined contribution pension plan for the employee's retirement.

Included in staff costs are contributions to the national defined contribution plan amounting to RM9,879,019 and RM9,667,872 for the Group and Company respectively (2005: RM5,473,900 and RM5,359,800 for the Group and Company).

7 DIRECTORS' REMUNERATION

The aggregate amount of emoluments received by Directors of the Company during the financial years ended are as follows:

	Group and Company	
	2006	2005
	RM'000	RM'000
Executive Directors		
Basic salaries, bonuses and allowances	4,140	1,560
Defined contribution retirement plan	498	187
Other emoluments	370	110
Non-executive Directors		
Fees	728	703
Other emoluments	–	3
	5,736	2,563

The remuneration paid to the Directors of the Company is analysed as follows:

	Executive		Non-executive	
	2006	2005	2006	2005
Range of remunerations				
In bands of RM50,000				
Up to RM50,000	–	–	5	5
RM50,001 to RM100,000	–	–	4	4
RM100,001 to RM150,000	–	–	–	–
RM200,001 to RM250,000	–	–	1	1
RM550,001 to RM600,000	–	1	–	–
RM1,250,001 to RM1,300,000	–	1	–	–
RM2,000,000 to RM3,000,000	2	–	–	–

Set out below are details of options over the ordinary shares of the Company granted under the ESOS to the Directors:

Grant date	Expiry date	Exercise prices RM/share	At 1 July 2005 '000	Granted '000	Exercised '000	Lapsed '000	At 30 June 2006 '000
30 June 2006							
1 September 2004	6 June 2009	1.08	1,200	–	–	–	1,200

	At 30 June 2006 '000
Number of share options vested at balance sheet date	300

8 FINANCE INCOME (NET)

	Group 2006 RM'000	Group 2005 RM'000	Company 2006 RM'000	Company 2005 RM'000
Finance costs:				
Interest costs				
– Bank borrowings	21,342	2,165	21,342	2,165
– Hire-purchase payables	32	26	27	19
Bank facilities and other charges	312	420	312	420
	21,686	2,611	21,681	2,604
Finance income:				
Unrealised exchange gain on borrowings	(22,140)	–	(22,140)	–
Interest income				
– Deposits with licensed bank	(6,112)	(3,797)	(6,112)	(3,797)
– Short term deposits with fund management companies	(5,423)	(4,908)	(5,423)	(4,908)
– Other interests	(613)	(626)	(613)	(626)
	(34,288)	(9,331)	(34,288)	(9,331)
Finance income (net)	(12,602)	(6,720)	(12,607)	(6,727)

Interest income which was previously shown under the line item "Other operating income", has now been netted off against interest expense under the line item "Finance income (net)" as it relates to the financing and treasury activities of the Group. As such, the prior year comparatives have been restated to be on a consistent basis.

9 TAXATION

	Group 2006 RM'000	Group 2005 RM'000	Company 2006 RM'000	Company 2005 RM'000
Current taxation:				
– Malaysian tax	2,175	1,804	2,175	1,804
Deferred taxation (Note 26)	24,916	12,500	24,916	12,500
	27,091	14,304	27,091	14,304
Income taxation – Malaysia				
– Current financial year	2,787	1,804	2,787	1,804
– Over-accrual in prior financial year	(612)	–	(612)	–
Deferred taxation				
– Origination and reversal of temporary differences	24,916	12,500	24,916	12,500
	27,091	14,304	27,091	14,304

The current taxation charge is in respect of interest income which is assessed separately.

9 TAXATION (CONT'D)

The explanation of the relationship between taxation and profit before taxation is as follows:

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Profit before taxation	115,517	125,400	106,647	131,818
Tax calculated at Malaysian tax rate of 28% (2005: 28%)	32,345	35,112	29,861	36,909
Tax effects of:				
– expenses not deductible for tax purposes	5,988	1,881	5,639	1,638
– income not subject to tax	(1,317)	(1,113)	(1,317)	(1,113)
– recognition of previously unrecognised tax benefits	(2,833)	(23,158)	–	(23,130)
– temporary differences not recognised within the pioneer period	(6,480)	–	(6,480)	–
– over-accrual of tax in prior financial year	(612)	–	(612)	–
– others	–	1,582	–	–
Taxation	27,091	14,304	27,091	14,304

The amount of temporary differences available for set off against future chargeable income for which the related tax effects have not been recognised comprise:

	Group	
	2006 RM'000	2005 RM'000
Unutilised capital allowances	–	243
Deferred tax assets not recognised at 28%	–	68

10 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the net profit for the financial year by the number of ordinary shares in issue during the financial year.

	Group 2006	Group 2005
Net profit for the financial year (RM'000)	88,414	111,557
Weighted average number of ordinary shares in issue ('000)	2,340,743	2,115,407
Earnings per share (sen)	3.8	5.3

(b) Diluted earnings per share

For the diluted earnings per share calculation, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares.

The Group has dilutive potential ordinary shares from share options granted to employees.

In assessing the dilution in earnings per share arising from the issue of share options, a calculation is done to determine the number of shares that could have been acquired at market price. This calculation serves to determine the "bonus" element to the ordinary shares outstanding for the purpose of computing the dilution. No adjustment is made to net profit for the financial year in the calculation of the diluted earnings per share from the issue of the share options.

	Group 2006	Group 2005
Net profit used to determine diluted earnings per share	88,414	111,557
Weighted average number of ordinary shares in issue ('000)	2,340,743	2,115,407
Adjustment for ESOS ('000)	27,702	26,739
Weighted average number of ordinary shares for diluted earnings per share	2,368,445	2,142,146
Diluted earnings per share (sen)	3.7	5.2

11 PROPERTY, PLANT AND EQUIPMENT

Group	At 1 July 2005 RM'000	Additions RM'000	Transfer RM'000	Write off RM'000	Disposals RM'000	Depreciation charge RM'000	At 30 June 2006 RM'000
Net book value							
Aircraft	148,588	996,277	12,541	–	–	(55,699)	1,101,707
Aircraft spares	19,910	33,302	608	–	–	(4,634)	49,186
Aircraft fixtures and fittings	4,886	12,237	760	–	–	(3,403)	14,480
Furniture and fittings	250	168	–	–	–	(114)	304
Buildings	2,000	2,437	10,929	–	–	(498)	14,868
Motor vehicles	2,166	1,825	2,115	(132)	–	(1,236)	4,738
Office equipment	9,617	3,645	129	(32)	(205)	(3,301)	9,853
Office renovation	1,810	2,139	47	(61)	(31)	(709)	3,195
Simulator equipment	–	42,931	12,142	–	–	(478)	54,595
Operating plant and ground equipment	1,535	3,456	–	–	–	(894)	4,097
Kitchen equipment	389	25	–	(94)	(8)	(100)	212
Assets not yet in operation	40,335	4,252	(39,271)	(558)	–	–	4,758
	231,486	1,102,694	–	(877)	(244)	(71,066)	1,261,993

	Cost RM'000	Accumulated depreciation RM'000	Net book value RM'000
At 30 June 2006			
Aircraft	1,190,405	(88,698)	1,101,707
Aircraft spares	59,673	(10,487)	49,186
Aircraft fixtures and fittings	19,740	(5,260)	14,480
Furniture and fittings	906	(602)	304
Buildings	15,431	(563)	14,868
Motor vehicles	7,266	(2,528)	4,738
Office equipment	19,166	(9,313)	9,853
Office renovation	4,823	(1,628)	3,195
Simulator equipment	55,073	(478)	54,595
Operating plant and ground equipment	6,096	(1,999)	4,097
Kitchen equipment	299	(87)	212
Assets not yet in operation	4,758	–	4,758
	1,383,636	(121,643)	1,261,993

11 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Cost RM'000	Accumulated depreciation RM'000	Net book value RM'000
Group			
At 30 June 2005			
Aircraft	181,587	(32,999)	148,588
Aircraft spares	25,763	(5,853)	19,910
Aircraft fixtures and fittings	6,743	(1,857)	4,886
Furniture and fittings	738	(488)	250
Buildings	2,065	(65)	2,000
Motor vehicles	3,419	(1,253)	2,166
Office equipment	15,819	(6,202)	9,617
Office renovation	2,826	(1,016)	1,810
Operating plant and ground equipment	2,645	(1,110)	1,535
Kitchen equipment	548	(159)	389
Assets not yet in operation	40,335	–	40,335
	282,488	(51,002)	231,486

	At 1 July 2005 RM'000	Additions RM'000	Transfer RM'000	Write off RM'000	Depreciation charge RM'000	At 30 June 2006 RM'000
Company						
Net book value						
Aircraft	148,588	996,277	12,541	–	(55,699)	1,101,707
Aircraft spares	19,910	33,302	608	–	(4,634)	49,186
Aircraft fixtures and fittings	4,886	12,237	760	–	(3,403)	14,480
Furniture and fittings	250	168	–	–	(114)	304
Buildings	2,000	2,437	10,929	–	(498)	14,868
Motor vehicles	2,098	1,006	2,115	–	(1,107)	4,112
Office equipment	9,316	3,598	129	–	(3,250)	9,793
Office renovation	1,701	2,135	47	–	(688)	3,195
Simulator equipment	–	42,931	12,142	–	(478)	54,595
Operating plant and ground equipment	1,535	3,456	–	–	(894)	4,097
Assets not yet in operation	40,335	4,252	(39,271)	(558)	–	4,758
	230,619	1,101,799	–	(558)	(70,765)	1,261,095

11 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Company	Cost RM'000	Accumulated depreciation RM'000	Net book value RM'000
At 30 June 2006			
Aircraft	1,190,405	(88,698)	1,101,707
Aircraft spares	59,673	(10,487)	49,186
Aircraft fixtures and fittings	19,740	(5,260)	14,480
Furniture and fittings	906	(602)	304
Buildings	15,431	(563)	14,868
Motor vehicles	6,421	(2,309)	4,112
Office equipment	19,071	(9,278)	9,793
Office renovation	4,823	(1,628)	3,195
Simulator equipment	55,073	(478)	54,595
Operating plant and ground equipment	6,096	(1,999)	4,097
Assets not yet in operation	4,758	–	4,758
	1,382,397	(121,302)	1,261,095
At 30 June 2005			
Aircraft	181,587	(32,999)	148,588
Aircraft spares	25,763	(5,853)	19,910
Aircraft fixtures and fittings	6,743	(1,857)	4,886
Furniture and fittings	738	(488)	250
Buildings	2,065	(65)	2,000
Motor vehicles	3,300	(1,202)	2,098
Office equipment	15,344	(6,028)	9,316
Office renovation	2,641	(940)	1,701
Operating plant and ground equipment	2,640	(1,105)	1,535
Assets not yet in operation	40,335	–	40,335
	281,156	(50,537)	230,619

Included in the property, plant and equipment of the Group and the Company are assets with the following net book values:

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Aircraft pledged as security for term loans (Note 25)	900,300	–	900,300	–
Motor vehicles on hire-purchase	533	536	487	468

12 INVESTMENT IN SUBSIDIARIES

	Company 2006 RM'000	Company 2005 RM'000
Unquoted investments, at cost	22,094	20,690

The details of the subsidiaries are as follows:

Name	Country of incorporation	Group's effective equity interest 2006 %	Group's effective equity interest 2005 %	Principal activities
Directly held by the Company				
Crunchtime Culinary Services Sdn Bhd ("Crunchtime") (sub note (a))	Malaysia	100.0	50.001	Provision of inflight meals
AA International Ltd ("AAIL")	Malaysia	99.8	99.8	Investment holding
AirAsia Go Holiday Sdn Bhd	Malaysia	100.0	100.0	Tour operating business
AirAsia (Mauritius) Limited ("AirAsia Mauritius")	Mauritius	100.0	100.0	Providing aircraft leasing facilities
Held by AAIL				
AirAsia (Hong Kong) Limited ("AirAsia HK") *	Hong Kong	100.0	100.0	Dormant
AA Capital Ltd (sub note (b)) ^	Malaysia	100.0	–	Dormant

* Audited by a member firm of PricewaterhouseCoopers International Limited which is a separate and independent legal entity from PricewaterhouseCoopers, Malaysia

^ Subscribed during the financial year

(a) During the financial year, the Company acquired an additional 499,999 ordinary shares of RM1.00 each representing 49.999% of the total issued and paid-up share capital in Crunchtime from Skyhigh Culinary Services Sdn Bhd for a consideration of RM1.4 million.

(b) During the financial year, AA International Ltd, a subsidiary of AirAsia had incorporated a wholly-owned subsidiary, AA Capital Limited ("AACL") with paid up capital of USD2,500. The purpose of its incorporation is inter alia to provide management, support and consultancy services to subsidiaries and associated companies of AirAsia and to entities outside the group.

13 INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	Group 2006 RM'000	Group 2005 RM'000
Represented by:		
Unquoted investment, at cost	12,054	12,054
Group's share of post acquisition reserves	1,245	(5,335)
	13,299	6,719

The details of the jointly controlled entity are as follows:

Name	Country of incorporation	Group's effective equity interest 2006 %	Group's effective equity interest 2005 %	Principal activities
Held by AAIL				
Thai AirAsia Co. Ltd ("Thai AirAsia")	Thailand	48.9	48.9	Aerial transport of persons, things and posts

The following amounts represent the Group's share of assets and liabilities of the jointly controlled entity:

	2006 RM'000	2005 RM'000
Non-current assets	4,961	3,685
Current assets	87,448	32,072
Current liabilities	(79,110)	(29,038)
Share of net assets of a jointly controlled entity	13,299	6,719

The Group's share of the revenue and expenses of the jointly controlled entity are as follows:

	2006 RM'000	2005 RM'000
Revenue	155,606	91,341
Expenses	(149,600)	(96,676)
Profit/(loss) before taxation	6,006	(5,335)
Taxation	–	–
Net profit/(loss) for the financial year	6,006	(5,335)

14 INVESTMENT IN ASSOCIATES

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Unquoted investment, at cost	231	202	29	–
Group's share of losses	(202)	(202)	–	–
	29	–	29	–

The details of the associates are as follows:

Name	Country of incorporation	Group's effective equity interest 2006 %	2005 %	Principal activities
AirAsia Philippines Inc (sub note (a)) ^	Philippines	39.9	–	Providing air transportation services
Held by Crunchtime and Thai AirAsia				
Thai Crunch Time Co. Ltd ("Thai Crunch Time")	Thailand	49.0	24.5	Provision of inflight meals
Held by AAIL				
PT Indonesia AirAsia ("IAA") (formerly known as PT AWAIR International)	Indonesia	48.9	48.9	Commercial air transport service
AirAsia Pte Ltd ("AAPL")	Singapore	48.9	48.9	Dormant

^ Acquired during the financial year

(a) During the year, the Company acquired 39.9% equity interest in AirAsia Philippines Inc represented by 3,997 shares of 100 pesos for a cash consideration of RM29,000.

The Group discontinued equity accounting for its share of losses made by Thai Crunch Time and IAA in the previous financial year as the Group has not incurred any obligations or guaranteed any obligations in respect of the associates. As at 30 June 2006, the unrecognised amount of the Group's share of losses of Thai Crunch Time and IAA amounted to RM0.1 million (2005: RM0.1 million) and RM31.3 million (2005: RM8.5 million) respectively.

15 OTHER INVESTMENTS

	Group and Company	
	2006 RM'000	2005 RM'000
Non-current:		
Recreational golf club membership	78	90
Current:		
Unquoted investment with fund management companies, at cost	30,696	7,717

16 INVENTORIES

	Group 2006 RM'000	Group 2005 RM'000	Company 2006 RM'000	Company 2005 RM'000
At cost:				
Spare and consumables	9,686	4,045	9,686	4,045
Raw materials	–	43	–	–
Finished goods	892	592	182	337
	10,578	4,680	9,868	4,382

17 TRADE AND OTHER RECEIVABLES

	Group 2006 RM'000	Group 2005 RM'000	Company 2006 RM'000	Company 2005 RM'000
Non-current:				
Long term prepayments (sub note (a))	35,110	–	35,110	–
Current:				
Trade receivables	32,461	44,908	32,461	44,908
Less: Allowance for doubtful debts	(1,389)	(2,235)	(1,389)	(2,235)
	31,072	42,673	31,072	42,673
Other receivables (sub note (b))	59,030	47,295	58,323	45,492
Less: Allowance for doubtful debts	(1,192)	(1,192)	(1,192)	(1,192)
	57,838	46,103	57,131	44,300
Prepayments	37,320	37,617	37,310	37,617
Deposits	150,608	152,456	150,589	152,456
	276,838	278,849	276,102	277,046

The normal credit terms of the Company range from 31 to 60 days (2005: 31 to 60 days).

The trade and other receivables are denominated in Ringgit Malaysia except for certain balances in which the foreign currency exposure is as follows:

	Group and Company 2006 RM'000	Group and Company 2005 RM'000
USD	22,404	33,217

17 TRADE AND OTHER RECEIVABLES (CONT'D)

(a) Included in long term prepayments are prepaid lease rental and guarantee fees paid on financing arrangements. These long term prepayments are charged to the income statements over the term of the lease of the low cost carrier terminal building and borrowings.

(b) Included in other receivables is an amount due from the former holding company, HICOM Holdings Bhd ("HICOM"), of RM5.8 million as at 30 June 2006 and 30 June 2005. The amount owing is unsecured, interest free and not subject to any fixed terms of repayment. This balance relates to liability paid by the Company on behalf of its former holding company, HICOM, whereby the Company and HICOM would bear the liability of the Company prior to the acquisition by Tune Air Sdn Bhd ("TASB") on a one to one basis. Both parties have agreed that the amount is to be recovered on resolution of the withholding tax issue as disclosed in Note 32 to the financial statements.

18 AMOUNTS DUE FROM SUBSIDIARIES

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

The currency exposure profile of the amounts due from subsidiaries is as follows:

	Company	
	2006 RM'000	2005 RM'000
Ringgit Malaysia	1,141	1,571
USD	39,320	21,866
	40,461	23,437

19 AMOUNT DUE FROM/(TO) A JOINTLY CONTROLLED ENTITY

The amount due from/(to) Thai AirAsia Co. Ltd, the jointly controlled entity is denominated in US Dollar, unsecured, interest free and has no fixed terms of repayment.

20 AMOUNTS DUE FROM/(TO) ASSOCIATES

The amounts due from/(to) PT Indonesia AirAsia the associates are unsecured, interest free and have no fixed terms of repayment.

The currency exposure profile of the amounts due from/(to) associates is as follows:

	Group and Company	
	2006 RM'000	2005 RM'000
USD	49,022	40,294
SGD	3,916	340
	52,938	40,634

21 CASH AND CASH EQUIVALENTS

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Cash and bank balances	49,855	72,675	46,211	71,303
Deposits with licensed bank	198,309	16,741	198,309	16,741
Short-term deposits with fund management companies	177,477	239,873	177,477	239,873
Deposits, cash and bank balances	425,641	329,289	421,997	327,917
Deposits pledged as securities	(12,734)	(16,741)	(12,734)	(16,741)
	412,907	312,548	409,263	311,176

The currency exposure profile of deposits, cash and bank balances is as follows:

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Ringgit Malaysia	255,430	306,886	251,786	305,514
USD	166,428	18,707	166,428	18,707
IDR	3,536	3,002	3,536	3,002
SGD	247	684	247	684
HKD	–	10	–	10
	425,641	329,289	421,997	327,917

The short-term deposit with a fund management company relates to a portfolio of investments undertaken on behalf of the Company by Intrinsic Capital Management Sdn Bhd ("INCAM"), a company in which a director of the Company has a financial interest. The Company had paid RM231,861 of management fee to INCAM during the financial year (2005: RM360,207).

The deposits with the licensed bank are pledged as security for banking facilities granted to the Company. The weighted average effective interest rates of deposits at the balance sheet dates are as follows:

	Group		Company	
	2006 %	2005 %	2006 %	2005 %
Deposits with a licensed bank	5.26	2.50	5.26	2.50
Short-term deposits with fund management companies	2.40	2.57	2.40	2.57

Maturity of the deposits range from 30 to 365 days (2005: 30 to 365 days).

22 TRADE AND OTHER PAYABLES

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Trade payables	46,714	34,042	45,817	33,173
Withholding tax (Note 32)	10,437	10,437	10,437	10,437
Other payables and accruals	86,796	49,594	84,285	46,655
Sales in advance	123,134	60,937	123,134	60,937
	267,081	155,010	263,673	151,202

Credit terms of trade payables granted to the Company is 30 days (2005: 30 days). The currency exposure profile of trade and other payables is as follows:

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Ringgit Malaysia	235,418	135,893	232,010	132,085
USD	31,188	18,676	31,188	18,676
Others	475	441	475	441
	267,081	155,010	263,673	151,202

23 AMOUNT DUE TO A SUBSIDIARY

The amount due to subsidiaries are denominated in Ringgit Malaysia, unsecured, interest free and have no fixed terms of repayment.

24 HIRE-PURCHASE PAYABLES

This represents future instalments under hire-purchase agreements, repayable as follows:

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Hire-purchase liabilities:				
Minimum payments:				
– Not later than 1 year	179	196	155	172
– Later than 1 year and not later than 5 years	332	319	309	264
	511	515	464	436
Less: Future finance charges	(70)	(65)	(66)	(58)
Present value of liabilities	441	450	398	378
Present value of liabilities:				
– Not later than 1 year	153	167	133	148
– Later than 1 year and not later than 5 years	288	283	265	230
	441	450	398	378

24 HIRE–PURCHASE PAYABLES (CONT'D)

Finance lease liabilities are effectively secured as the rights to the leased assets revert to the lessors in the event of default.

As at 30 June 2006, the effective interest rate applicable to the lease liabilities was 3.75% (2005: 5.50%) per annum for the Group and Company. The entire balance is denominated in Ringgit Malaysia.

25 BORROWINGS (SECURED)

	Group and Company	
	2006	2005
	RM'000	RM'000
Current:		
Term loan	265,360	–
Non-current:		
Term loan	787,276	–
Total borrowings	1,052,636	–

The Group's long term borrowings are repayable as follows:

	Group and Company	
	2006	2005
	RM'000	RM'000
Not later than 1 year	265,360	–
Later than 1 year and not later than 5 years	264,624	–
Later than 5 years	522,652	–
	1,052,636	–

The entire borrowings are denominated in US Dollar.

As at the balance sheet date, the weighted average effective interest rate of the borrowings is at 5.01% per annum (2005: Not applicable).

The above term loans are for the purchase of new aircraft A320-200. These term loans are secured by the followings:

(a) Assignment of rights under contract with Airbus over each aircraft

(b) Assignment of insurance of each aircraft

(c) Assignment of airframe and engine warranties of each aircraft

There are some minor financial covenants given to a bank under the predelivery payment financing facility which was obtained by the Company on a clean basis.

26 DEFERRED TAXATION

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when deferred taxes relate to the same tax authority.

The following amounts determined after appropriate offsetting, are shown in the balance sheet:

	Group and Company	
	2006 RM'000	2005 RM'000
Deferred tax assets	10,272	10,272
Deferred tax liabilities	(48,801)	(23,885)
	(38,529)	(13,613)

The movement in the deferred tax assets and liabilities of the Group and the Company during the financial year is as follows:

	Group and Company	
	2006 RM'000	2005 RM'000
At start of year	(13,613)	(1,113)
Credited/(charged) to income statement (Note 9)		
– Property, plant and equipment	(24,916)	(12,500)
	(24,916)	(12,500)
At end of year	(38,529)	(13,613)
Deferred tax assets (before offsetting)		
Tax losses	10,272	10,272
Offsetting	(10,272)	(10,272)
Deferred tax assets (after offsetting)	–	–
Deferred tax liabilities (before offsetting)		
Property, plant and equipment	(48,801)	(23,885)
Offsetting	10,272	10,272
Deferred tax liabilities (after offsetting)	(38,529)	(13,613)

The Company had received approval from the Ministry of Finance under Section 127 of Income Tax Act, 1967 for income tax exemption in the form of an Investment Allowance ("IA") of 60% on qualifying expenditure incurred within the period of 5 years commencing 1 July 2004 to 30 June 2009, to be set off against 70% of statutory income for each year of assessment. Any unutilised allowance can be carried forward to subsequent years until fully utilised. The amount of income exempted from tax is credited to a tax-exempt account from which tax-exempt dividends can be declared.

Subject to agreement by the Inland Revenue Board, the Group and Company has unutilised investment allowances not accounted for in the financial statements amounting to RM548.5 million (2005: Not applicable) to set off against future taxable profits.

In the preparation of the financial statements, the Group and Company has complied with FRS 112 $_{2004}$ on Income Taxes, specifically Paragraph 36 which does not allow the recognition of deferred tax asset on initial recognition of an asset qualifying for re-investment or other allowances in excess of its normal capital allowances, even though such recognition is permissible under International Financial Reporting Standards in particular International Accounting Standards ("IAS") 12 on Accounting for Taxes on Income. Deferred tax assets amounting to RM153.6 million in respect of unutilised investment allowances have not been recognised in the financial statements in accordance with the current accounting policy and approved accounting standards in Malaysia.

26 DEFERRED TAXATION (CONT'D)

Application of FRS 112 2004 required the Group and Company to record a charge of RM38.5 million in the income statement for the financial year ended 30 June 2006 and a deferred tax liability of RM38.5 million as at 30 June 2006.

The Directors are however of the view that compliance with FRS 112 2004 does not in substance fairly present the financial position and performance of the Group and Company. Based on the confirmed number of new Airbus A320 aircraft ordered by the Company, the agreed purchase price and an assumption of reasonable future profitability, the unutilised capital allowances is anticipated to accumulate substantially. Over and above the unutilised capital allowances, the Company will have an increasing amount of unutilised investment tax allowances granted by the Malaysian Government over the next few years as its aircraft acquisition program continues, which can be carried forward indefinitely. Accordingly, the Company does not expect to pay any tax in the foreseeable future.

If IAS 12 had been applied, the net profit for the financial year ended 30 June 2006 of the Group and Company would be RM242.0 million and RM233.1 million respectively and the net assets as at 30 June 2006 would be RM1,206.2 million and RM1,203.0 million respectively. The earnings per share and diluted earnings per share of the Group for the financial year ended 30 June 2006 would be 10.3 sen and 10.2 sen respectively. There is no impact in respect of the comparatives for the previous year as the investment allowances only arose during the current year.

A reconciliation between the profit after tax as reported and the profit after tax had IAS 12 been applied is analysed as follows:

	Group RM'000	**Company RM'000**
Profit before taxation as reported	115,517	106,647
Taxation		
– Current taxation	(2,175)	(2,175)
– Deferred taxation	(24,916)	(24,916)
	(27,091)	(27,091)
Profit after taxation as reported	88,426	79,556
Deferred tax on unutilised investment allowances on IAS 12 application	153,589	153,589
Profit after taxation on IAS 12 application	242,015	233,145
Earnings per share (sen) on IAS 12 application		
– Basic	10.3	
– Diluted	10.2	

27 SHARE CAPITAL

	Group and Company 2006 RM'000	**2005 RM'000**
Authorised:		
Ordinary shares of RM0.10 each:		
At beginning and end of the financial year	500,000	500,000
Issued and fully paid up:		
Ordinary shares of RM0.10 each:		
At beginning of the financial year	233,503	175,127
Issued during the financial year	1,146	58,376
At end of the financial year	234,649	233,503

27 SHARE CAPITAL (CONT'D)

During the financial year, the Company increased its issued and paid-up ordinary share capital from RM233,503,108 to RM234,648,808 by way of issuance of 11,457,000 ordinary shares of RM0.10 each pursuant to the exercise of the Employee Share Option Scheme ("ESOS") at the exercise price of RM1.08 per share. The premium arising from the exercise of ESOS of RM11,227,860 has been credited to the Share Premium account.

The new ordinary shares issued during the financial year ranked pari passu in all respects with the existing ordinary shares of the Company. There were no other changes in the issued and paid-up capital of the Company during the financial year.

EMPLOYEE SHARE OPTION SCHEME ("ESOS")

The Company implemented an ESOS (or the "Scheme") on 1 September 2004 for a period of 5 years from the date the by-laws were approved by the shareholders. The ESOS is governed by the by-laws which were approved by shareholders on 7 June 2004.

The main features of the ESOS are as follows:

(a) The maximum number of ordinary shares, which may be allotted pursuant to the exercise of options under the Scheme, shall not exceed ten per cent (10.0%) of the issued and paid-up share capital of the Company at any point in time during the duration of the Scheme.

(b) The Option Committee may from time to time decide the conditions of eligibility to be fulfilled by an Eligible Person in order to participate in the Scheme.

(c) The aggregate number of shares to be offered to any Eligible Person who has fulfilled the eligibility criteria for the time being by way of options in accordance with the Scheme shall be at the discretion of the Option Committee. The Option Committee may consider circumstances such as the Eligible Person's scope of responsibilities, performance in the Group, rank or job grade, the number of years of service that the Eligible Person has rendered to the Group, the Group's retention policy and whether the Eligible Person is serving under an employment contract for a fixed duration or otherwise. The Option Committee's decision shall be final and binding.

(d) The maximum number of shares allocated to Executive Directors, Non-Executive Directors and senior management by way of options shall in aggregate not exceed fifty per cent (50.0%) of the total number of shares (or such other percentage as may be permitted by the relevant regulatory authorities from time to time) available under the Scheme.

(e) The subscription price, in respect of options granted prior to the date of listing in Bursa Malaysia, shall be RM1.08 per share.

(f) The options granted are exercisable one year beginning from the date of grant.

The shares to be allotted and issued upon any valid exercise of options will, upon such allotment and issuance, rank pari passu in all respects with the existing and issued shares except that such shares so issued will not be entitled to any dividends, rights, allotments and/or any other distributions which may be declared, made or paid to shareholders prior to the date of allotment of such shares. The options shall not carry any right to vote at a general meeting of the Company.

The Company has granted 93,240,000 options at an exercise price of RM1.08 per share under the ESOS scheme on 1 September 2004, which expires on 6 June 2009.

At 30 June 2006, options to subscribe for 67,252,000 ordinary shares of RM0.10 each at the exercise price of RM1.08 per share remain unexercised.

These options granted do not confer any right to participate in any share issue of any other company.

27 SHARE CAPITAL (CONT'D)

EMPLOYEE SHARE OPTION SCHEME ("ESOS") (CONT'D)

Set out below are details of options over the ordinary shares of the Company granted under the ESOS:

Grant date	Expiry date	Exercise price RM/share	At 1 July 2005 '000	Granted '000	Exercised '000	Lapsed '000	At 30 June 2006 '000
1 September 2004	6 June 2009	1.08	93,240	–	(11,457)	(14,531)	67,252

	At 30 June 2006 '000
Number of share options vested at balance sheet date	9,738

Details relating to options exercised during the financial year are as follows:

Exercise date	Quoted price of shares at share issue date RM/share	Exercise price RM/share	Number of shares issued 2006 '000
July 2005 to December 2005	1.50 – 1.60	1.08	7,099
January 2006 to May 2006	1.60 – 1.77	1.08	4,331
June 2006	1.50 – 1.60	1.08	27
			11,457

	2006 RM'000
Ordinary share capital at par	1,146
Share premium	11,227
Proceeds received on exercise of share options	12,373
Fair value at exercise date of shares issued	18,700

28 SIGNIFICANT ACQUISITIONS

(a) The Company had acquired certain subsidiaries and associates during the financial year, as disclosed in Notes 12 and 14 to the financial statements. These acquisitions do not have significant effect on the financial results of the Group in the financial year and financial position as at 30 June 2006.

(b) In the previous financial year, the Company acquired 99.8% equity interest in AAIL for a total cash consideration of USD5.26 million. As a result of the acquisition, the Company effectively acquired a 48.9% equity interest in Thai AirAsia.

The acquisition had no significant effect on the financial results of the Group in the previous financial year.

The effect of this acquisition on the financial position of the Group as at 30 June 2005 was as follows:

	2005 RM'000
Non-current assets	6,719
Current assets	1,382
Current liabilities	(791)
Increase in Group's net assets	7,310

Details of net assets acquired, goodwill and cash flow arising from this acquisition were as follows:

	Group and Company At date of acquisition RM'000
Non-current assets	12,030
Current assets	1,421
Current liabilities	(797)
Group's share of net assets	12,654
Goodwill on acquisition	7,334
Cost of acquisition	19,988
Purchase consideration discharged by cash	19,988
Less: Advances to AAIL capitalised	(19,988)
Cash outflow on acquisition	–

29 RETAINED EARNINGS

The Company has sufficient tax credits under Section 108(6) of the Income Tax Act, 1967 to frank approximately RM9.4 million (2005: RM5 million) of its retained profits as at 30 June 2006 if paid out as dividends. The extent of the retained earnings not covered at that date amounted to RM135.7 million (2005: RM22 million).

In addition, the Company has tax exempt income as at 30 June 2006 amounting to approximately RM0.5 million (2005: RM0.5 million) available for distribution as tax exempt dividends to shareholders. This tax exempt income is subject to the agreement by the Inland Revenue Board.

30 COMMITMENTS

(a) Capital commitments not provided for in the financial statements are as follows:

	Group and Company	
	2006	**2005**
	RM'000	**RM'000**
Property, plant and equipment:		
Approved and contracted for	6,805,533	8,108,067
Approved but not contracted for	99,928	94,000
	6,905,461	8,202,067
Property, plant and equipment:		
Share of a jointly controlled entity's capital commitments	3,266	3,845
Share of an associate's capital commitments	1,544	–

(b) Non-cancellable operating leases

The future minimum lease payments and sublease receipts under non-cancellable operating leases are as follows:

	2006		2005	
	Future minimum lease payments RM'000	**Future minimum sublease receipts RM'000**	**Future minimum lease payments RM'000**	**Future minimum sublease receipts RM'000**
Not later than 1 year	116,713	43,638	90,995	18,059
Later than 1 year and not later than 5 years	276,369	74,609	258,926	64,571
Later than 5 years	66,172	–	62,871	–
	459,254	118,247	412,792	82,630

31 NON-CASH TRANSACTIONS

Certain property, plant and equipment of the Company acquired during the financial year were obtained by means of hire purchase financing amounting to RM0.2 million (2005: RM0.2 million).

32 CONTINGENT LIABILITIES

The Company is currently disputing certain expenses charged by a service provider as at 30 June 2006 amounting to approximately RM9.6 million. The Directors are confident that resolution of the dispute above would be favourable to the Company.

The Company had made an application to the government for the waiver of withholding tax payable on the lease payments for certain aircraft of the Group and the Company amounting to RM10.4 million. The Company has now made the withholding tax payment and an application to the government for the waiver of penalty on the late payment of this withholding tax which is estimated to be RM10.4 million. The Directors are of the opinion that the Company's application on the waiver for the penalty will receive due consideration from the government and that a favourable response will be granted.

Thai AirAsia Co. Ltd ("TAA"), a jointly controlled entity of the Group has contingent liabilities relating to guarantees issued by banks in respect of company's pilot trainees loans in accordance with the pilot professional course amounting to RM6.7 million (2005: RM6.8 million) which will be terminated when the student pilot earns a commercial pilot license and is assigned as co-pilot, or whenever the pilot trainee can completely settle all outstanding debt with the bank. However, TAA can fully reclaim the said liabilities from the pilot trainees's guarantors as the guarantees have been pledged with TAA.

33 SEGMENTAL INFORMATION

Segmental information is not presented as there are no business segments other than the provision of air transportation services. The Group's operations are conducted predominantly in Malaysia.

34 SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions which were carried out on terms and conditions attainable in transactions with unrelated parties, disclosed in accordance with FRS 124 $_{2004}$ "Related Party Disclosures".

Name of company	**Relationship**
Thai AirAsia Co. Ltd ("Thai AirAsia")	A jointly controlled entity of the Company
PT Indonesia AirAsia ("IAA") (Formerly known as PT AWAIR International)	An associate of the Company

	Group	
	2006 RM'000	**2005 RM'000**
Thai AirAsia		
– Sublease rental income on aircrafts	20,414	6,146
– Lease rental income on aircrafts	19,578	17,880
– Maintenance and overhaul charges	39,319	26,816
IAA		
– Sublease rental income on aircrafts	11,538	1,520
– Lease rental income on aircrafts	10,521	–
– Maintenance and overhaul charges	24,990	5,028

34 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONT'D)

The individual significant outstanding balances arising from the above related party transactions (other than normal trade transactions) during the financial year are as follows:

		Group	
Related party	**Type of transaction**	**2006 RM'000**	**2005 RM'000**
Thai AirAsia	Lease and sublease rental and maintenance charges	26,750	6,907
IAA	Lease and sublease rental and maintenance charges	45,215	40,294

35 FINANCIAL RISK MANAGEMENT POLICIES

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its fuel price, interest rate, foreign currency, credit, market, liquidity and cash flow risks. The Group operates within defined guidelines that are approved and reviewed periodically by the Board to minimise the effects of such volatility on its financial performance. The policies in respect of the major areas of treasury activity are as follows:

(a) Fuel price risk

The Group is exposed to jet fuel price risk arising from the fluctuations in the prices of jet fuel as a result of actual or disruptions in supply. It seeks to hedge its fuel requirements and implements various fuel management strategies in order to manage the risk of rising fuel prices. This includes entering into jet fuel derivative contracts with a maturity period of 6 months each to partially protect against significant increase in fuel price.

As at balance sheet date, the Company has entered into fuel written options contacts for 15,840,000 barrels of jet fuel for the period from 1 July 2007 to 30 June 2009. These arrangements are to be settled in US Dollars. The unrealised gain/(loss) on these contracts is deferred until upon the delivery of fuel.

(b) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Interest rate exposure arises from the Group's borrowings and deposits and is managed by maintaining a prudent mix of fixed and floating rate debt and derivative financial instruments. Derivative financial instruments are used, where appropriate, to generate the desired interest rate profile. Surplus funds are placed with reputable financial institutions at the most favourable interest rates.

The Company has entered into interest rate swap contracts that will effectively convert almost all of its floating rate debt under each of its long term debt facilities into fixed rate debt. Loans for approximately 6% of total long term debt are not covered by such swaps and have therefore remained at floating rates linked to London Inter Bank Offer Rate.

The remaining terms and notional principal amounts of the outstanding interest rate swap contracts of the Company at the balance sheet date, which are denominated in US Dollars, were as follows:

	2006 RM'000 equivalent	**2005 RM'000 equivalent**
Later than 5 years	6,519,114	–
	6,519,114	–

35 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(b) Interest rate risk (cont'd)

The net exposure of financial assets and liabilities of the Group and Company to interest rate cash flow risk (after taking into account the effects of interest rate swaps described above) and the periods in which the borrowings mature or reprice (whichever is earlier) are as follows:

Financial Instruments	Functional currency/ currency exposure	Effective interest at balance sheet date % per annum	Total carrying amount RM'000	Floating interest rate RM'000	Fixed interest rate < 1 year RM'000	Fixed interest rate 1–5 years RM'000	Fixed interest rate > 5 years RM'000
Group							
30 June 2006							
Deposits with licensed bank	RM/RM	5.26	198,309	–	198,309	–	–
Short-term deposits with fund management companies	RM/RM	2.38	177,477	–	177,477	–	–
Term loans	RM/USD	5.01	(1,052,636)	(262,817)	(48,876)	(222,111)	(518,832)
Hire-purchase	RM/RM	3.75	(441)	–	(153)	(288)	–
			(677,291)	(262,817)	326,757	(222,399)	(518,832)
30 June 2005							
Deposits with licensed bank	RM/RM	2.50	16,741	–	16,741	–	–
Short-term deposits with fund management companies	RM/RM	2.57	239,873	–	239,873	–	–
Hire-purchase	RM/RM	5.50	(450)	–	(167)	(283)	–
			256,164	–	256,447	(283)	–

35 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(b) Interest rate risk (cont'd)

Financial Instruments	Functional currency/ currency exposure	Effective interest at balance sheet date % per annum	Total carrying amount RM'000	Floating interest rate RM'000	Fixed interest rate < 1 year RM'000	Fixed interest rate 1–5 years RM'000	Fixed interest rate > 5 years RM'000
Company							
30 June 2006							
Deposits with licensed bank	RM/RM	5.26	198,309	–	198,309	–	–
Short-term deposits with fund management companies	RM/RM	2.38	177,477	–	177,477	–	–
Term loans	RM/USD	5.01	(1,052,636)	(262,817)	(48,876)	(222,111)	(518,832)
Hire-purchase	RM/RM	3.75	(398)	–	(133)	(265)	–
			(677,248)	(262,817)	326,777	(222,376)	(518,832)
30 June 2005							
Deposits with licensed bank	RM/RM	2.50	16,741	–	16,741	–	–
Short-term deposits with fund management companies	RM/RM	2.57	239,873	–	239,873	–	–
Hire-purchase	RM/RM	5.50	(378)	–	(148)	(230)	–
			256,236	–	256,466	(230)	–

(c) Foreign currency risk

The Group has subsidiaries and associates operating in foreign countries which generate revenue and incur costs denominated in foreign currencies. The main currency exposures of the Group and Company are primarily USD, Thai Baht and Indonesian Rupiah. The Group has a natural hedge to the extent that payments for foreign currency payables are matched against receivables denominated in the same foreign currency or whenever possible by intragroup arrangements and settlements.

35 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(c) Foreign currency risk (cont'd)

The Company enters into forward foreign currency exchange contracts to limit its exposure on foreign currency receivables and payables. At 30 June 2006, the settlement dates on open forward contracts ranged between 1 and 8 months (2005: Not applicable). The foreign currency amounts to be received and contractual exchange rates of the Company's outstanding contracts were as follows:

Hedge item	Currency to be received	Currency to be paid	RM'000 equivalent	Contractual rate
As at 30 June 2006				
Future payments of term loans – USD39,848,544	US Dollar	Ringgit Malaysia	147,440	1 USD = RM3.70

The net unrecognised losses at 30 June 2006 on open contracts which hedge future payments on term loans amounted to RM2.0 million (2005: Not applicable). These exchange losses are deferred until the related payments are transacted, at which time they are included in the measurement of such transactions.

(c) Credit risk

The Group's exposure to credit risks or the risk of counterparties defaulting arises mainly from cash deposits and receivables. The maximum exposure to credit risks is represented by the total carrying amount of these financial assets in the balance sheet. Credit risks, or the risk of counterparties defaulting, are controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised by monitoring receivables regularly.

The Group generally has no concentration of credit risk except for debt owing by 2 customers which constitutes approximately 23.6% of the outstanding trade receivables at the end of 30 June 2006. The Directors are however of the opinion that adequate provision has been made for any uncollectible amounts.

(d) Market risk

The Group has investments which are subject to market risk as the market values of these investments are affected by changes in market prices. The Group seeks to manage its exposure to market risk by maintaining a portfolio with different risk profiles.

(e) Liquidity and cash flow risks

The Group's policy on liquidity risk management is to maintain sufficient cash and have available funding through adequate amounts of committed credit facilities and credit lines for working capital requirements.

36 FAIR VALUES OF FINANCIAL INSTRUMENTS FOR DISCLOSURE PURPOSES

On balance sheet financial instruments

The fair value of a financial instrument is assumed to be the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction.

Quoted market prices, when available, are used as a measure of fair values. However, for a significant portion of the Group's and Company's financial instruments, quoted market prices do not exist. For such financial instruments, fair values presented are estimates derived using the net present value or other valuation techniques. These techniques involve uncertainties and are significantly affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values.

36 FAIR VALUES OF FINANCIAL INSTRUMENTS FOR DISCLOSURE PURPOSES (CONT'D)

The carrying values of financial assets and financial liabilities of the Group and Company at the balance sheet date approximated their fair values, except as set out below:

	2006 Carrying amount RM'000	2006 Fair value RM'000	2005 Carrying amount RM'000	2005 Fair value RM'000
Group				
Unquoted investments	78	*	90	*
Borrowings (non-current portion)	787,276	774,164	–	–
Hire-purchase payables (non-current portion)	288	266	283	258
Company				
Unquoted investments	78	*	90	*
Borrowings (non-current portion)	787,276	774,164	–	–
Hire-purchase payables (non-current portion)	265	244	230	207

* It is not practicable to estimate the fair value of the Group's unquoted investments because of the lack of reference market prices and the inability to estimate fair value without incurring excessive cost. However, the carrying amounts recorded are not anticipated to differ significantly from their value at the balance sheet date.

Derivative financial instruments

Fair value of derivative financial instruments is the present value of their future cash flow and is derived at based on valuation carried out by the Company's bankers.

Fair value of derivative financial instruments as at balance sheet date is as follows:

(a) Fuel options contracts

	Maturity period	Contract or notional principal amount Barrels	Favourable net fair value RM'000	Unfavourable net fair value RM'000
Group and Company				
2006				
Fuel purchase options contracts	1.7.2007 – 30.6.2009	15,840,000	28,182	–
2005				
Fuel forward contracts	1.7.2005 – 30.6.2006	2,637,000	184,083	–
Fuel purchase options contracts	1.7.2005 – 30.6.2006	1,806,000	14,055	–
Fuel written options contracts	1.7.2005 – 30.6.2009	8,397,000	–	(140,569)
Fuel swap contracts	1.1.2006 – 29.6.2007	3,700,000	–	(1,763)
		16,540,000	198,138	(142,332)

36 FAIR VALUES OF FINANCIAL INSTRUMENTS FOR DISCLOSURE PURPOSES (CONT'D)

(b) Other derivatives

	2006		2005	
	Notional amount RM'000 equivalent	Fair value RM'000	Carrying amount RM'000 equivalent	Fair value RM'000
Interest rate swaps	6,519,114	195,728	–	–
Foreign currency forward contracts	147,440	145,483	–	–

37 SUBSEQUENT EVENTS

(a) Incorporation of Fly Asian Xpress Sdn Bhd ("FAX")

FAX, a company incorporated in Malaysia as a private limited company under the Companies Act, 1965, on 19 May 2006, was set up with the intention to operate the new airline to provide rural air services in Sabah and Sarawak ("Interior Services"), previously known as the MAS Rural Air Services. The current shareholders of FAX are Dato' Anthony Francis Fernandes, Dato' Kamarudin Bin Meranun and Raja Mohd Azmi Raja Razali, being the Directors and executives of the Company.

A Memorandum of Understanding ("MOU") between the Company and FAX dated 28 July 2006 was signed which requires the Company to provide a number of airline related services to FAX. The MOU is a related party transaction which the Company is seeking certain waivers of the Listing Requirements from Bursa Malaysia.

The Company had also entered into a Lease Agreement with Penerbangan Malaysia Berhad on 28 July 2006 to lease 7 Fokker and 5 Twin Otters for 3 years and 5 years respectively. The purpose of the leasing arrangement is for the Company to sublease the aircraft to FAX under the same terms and conditions ("Sublease Agreement") for the Rural Air Services operations. The Sublease Agreement is a related party transaction which the Company is seeking certain waivers of the Listing Requirements from the Bursa Malaysia.

(b) Option to purchase 40 Airbus aircraft

On 31 August 2006, the Company signed Amendment Letters 1 to 6 with Airbus to exercise the option to purchase 40 Airbus A320–200 planes, making it to a total confirmed purchase of 100 A320 Airbus planes with an option to acquire up to a further 30 aircraft. The Airframe Basic Price for each additional Aircraft and the Propulsion Systems Basic Price are as defined under the Purchase Agreement dated 11 March 2005.

All predelivery payments and deposits paid by the Company and held by Airbus at the date of the signing of the Amendment Letters shall be kept in a fund, as security deposit and the Company is no longer required to make any further predelivery payments. The predelivery payments held by Airbus shall be refunded to the Company in equal portions at the delivery of each of the last eighteen (18) Additional Aircraft.

38 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 30 October 2006.

statement by directors
pursuant to section 169(15) of the companies act, 1965

We, **Dato' Anthony Francis Fernandes** and **Dato' Kamarudin Bin Meranun**, being two of the Directors of **AirAsia Berhad,** state that, in the opinion of the Directors, the financial statements set out on pages 86 to 130 are drawn up so as to give a true and fair view of the state of affairs of the Group and Company as at 30 June 2006 and of the results and the cash flows of the Group and Company for the financial year ended on that date in accordance with the provisions of the Companies Act, 1965 and the MASB approved accounting standards in Malaysia.

In accordance with a resolution of the Board of Directors dated 30 October 2006.

DATO' ANTHONY FRANCIS FERNANDES
Director

DATO' KAMARUDIN BIN MERANUN
Director

statutory declaration
pursuant to section 169(16) of the companies act, 1965

I, **Dato' Anthony Francis Fernandes**, the Director primarily responsible for the financial management of **AirAsia Berhad,** do solemnly and sincerely declare that the financial statements set out on pages 86 to 130 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

DATO' ANTHONY FRANCIS FERNANDES

Subscribed and solemnly declared by the abovenamed **Dato' Anthony Francis Fernandes** at Kuala Lumpur in Malaysia on 30 October 2006, before me.

R. RAMAKRISHNAN (W302)
Commissioner For Oaths

report of the auditors
to the members of AirAsia Berhad

We have audited the financial statements set out on pages 86 to 130. These financial statements are the responsibility of the Company's Directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved auditing standards in Malaysia. 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 Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

(a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and the MASB approved accounting standards in Malaysia so as to give a true and fair view of:

    (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and

    (ii) the state of affairs of the Group and Company as at 30 June 2006 and of the results and cash flows of the Group and Company for the financial year ended on that date; and

(b) the accounting and other records and the registers required by the Act to be kept by the Company and by the subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

The names of the subsidiaries of which we have not acted as auditors are indicated in Note 12 to the financial statements. We have considered the financial statements of these subsidiaries and the auditors' reports thereon.

We have satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under subsection (3) of Section 174 of the Act.

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

UTHAYA KUMAR S/O K. VIVEKANANDA
(No. 1455/06/08 (J))
Partner of the firm

Kuala Lumpur
30 October 2006

analysis of shareholdings
as at 15 November 2006

DISTRIBUTION OF SHAREHOLDINGS

Class of shares : Ordinary shares of RM0.10 each ("Shares")

Voting rights : One vote per ordinary share

Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued Share Capital
Less than 100	27	0.14	595	0.00
100 – 1,000	5,997	30.40	5,693,773	0.24
1,001 – 10,000	10,937	55.44	45,954,901	1.95
10,001 – 100,000	2,234	11.32	68,289,255	2.90
100,001 to less than 5% of issued shares	530	2.69	1,299,965,974	55.27
5% and above of issued shares	2	0.01	931,970,582	39.63
	19,727	100.00	2,351,875,080	100.00

SUBSTANTIAL SHAREHOLDERS

The direct and indirect shareholdings of the shareholders holding more than 5% in AirAsia based on the Register of Substantial Shareholders are as follows:-

	<----------------DIRECT---------------->		<---------------INDIRECT-------------->	
Name	**No. of Shares Held**	**% of Issued Shares**	**No. of Shares Held**	**% of Issued Shares**
Tune Air Sdn Bhd	769,458,382	32.72	–	–
Dato' Anthony Francis Fernandes	2,627,010	–*	769,458,382[1]	32.72
Dato' Kamarudin Bin Meranun	100,000	–*	769,458,382[1]	32.72
T. Rowe Price Associates, Inc.	–	–	170,543,700[2]	7.25

* *Negligible*

1 *Deemed interested by virtue of Section 6A of the Companies Act, 1965 ("the Act") through a shareholding of more than 15% in Tune Air Sdn Bhd ("TASB").*

2 *T. Rowe Price Associates, Inc. is deemed interested to have an interest in 170,543,700 ordinary shares in AirAsia by virtue of the shares held by the following registered holders:-*

1) *HSBC Nominees (Asing) Sdn Bhd, BNY Brussels for VFM Emerging Markets Trust in respect of 1,534,500 ordinary shares in AirAsia;*

2) *HSBC Nominees (Asing) Sdn Bhd, BNY Brussels for Alaska Permanent Fund Corp in respect of 1,178,600 ordinary shares in AirAsia;*

3) *HSBC Nominees (Asing) Sdn Bhd, Exempt AN for JP Morgan Bank Luxembourg S.A. for TRP SICAV Global Equity Fund in respect of 1,558,800 ordinary shares in AirAsia;*

4) *HSBC Nominees (Asing) Sdn Bhd, Exempt AN for JP Morgan Bank Luxembourg S.A. for TRP SICAV Global Emerging Markets Fund in respect of 3,742,000 ordinary shares in AirAsia;*

5) *HSBC Nominees (Asing) Sdn Bhd, Exempt AN for JP Morgan Bank Chase Bank National Association (Japan) for International Equity Mother Fund in respect of 6,481,200 ordinary shares in AirAsia;*

6) *HSBC Nominees (Asing) Sdn Bhd, Exempt AN for JP Morgan Bank Chase Bank National Association (Japan) for Daiwa Global Eco Growth Mother Fund in respect of 634,300 ordinary shares in AirAsia;*

SUBSTANTIAL SHAREHOLDERS (CONT'D)

7) *HSBC Nominees (Asing) Sdn Bhd, Exempt AN for JP Morgan Bank Chase Bank National Association (Norway) for Norges Bank in respect of 12,512,100 ordinary shares in AirAsia;*

8) *HSBC Nominees (Asing) Sdn Bhd, Exempt AN for JP Morgan Bank Chase Bank National Association (USA) for TRP New Asia Fund in respect of 26,563,900 ordinary shares in AirAsia;*

9) *HSBC Nominees (Asing) Sdn Bhd, Exempt AN for JP Morgan Bank Chase Bank National Association (USA) for TRP Emerging Markets Equity Trust in respect of 24,919,100 ordinary shares in AirAsia;*

10) *HSBC Nominees (Asing) Sdn Bhd, Exempt AN for JP Morgan Bank Chase Bank National Association (USA) for TRP Emerging Markets Stock Fund in respect of 21,072,100 ordinary shares in AirAsia;*

11) *HSBC Nominees (Asing) Sdn Bhd, Exempt AN for JP Morgan Bank Chase Bank National Association (USA) for TRP International Discovery Fund in respect of 21,402,900 ordinary shares in AirAsia;*

12) *HSBC Nominees (Asing) Sdn Bhd, Exempt AN for JP Morgan Bank Chase Bank National Association (USA) for TRP Global Stock Fund in respect of 7,750,000 ordinary shares in AirAsia;*

13) *HSBC Nominees (Asing) Sdn Bhd, Exempt AN for JP Morgan Bank Chase Bank National Association (USA) for TRP Institutional Emerging Markets Fund in respect of 1,745,300 ordinary shares in AirAsia;*

14) *HSBC Nominees (Asing) Sdn Bhd, Exempt AN for JP Morgan Bank Chase Bank National Association (USA) for TRP Institutional Global Equity Fund in respect of 48,100 ordinary shares in AirAsia;*

15) *HSBC Nominees (Asing) Sdn Bhd, TNTC for A.I. DuPont Testamentary Trust in respect of 1,515,400 ordinary shares in AirAsia;*

16) *HSBC Nominees (Asing) Sdn Bhd, TNTC for Stichting Bedrijfstakpensioenfonds Voor De Metalektro in respect of 6,941,000 ordinary shares in AirAsia;*

17) *HSBC Nominees (Asing) Sdn Bhd, Bessemer Global Opportunities Fund LLC in respect of 867,400 ordinary shares in AirAsia;*

18) *Citigroup Nominees (Asing) Sdn Bhd, Mellon Bank, N.A. for Commonwealth of Massachusetts Pension Reserve Investment in respect of 2,369,900 ordinary shares in AirAsia;*

19) *Citigroup Nominees (Asing) Sdn Bhd, Mellon Bank, N.A. for Raytheon Company Master Pension Trust in respect of 703,800 ordinary shares in AirAsia;*

20) *Citigroup Nominees (Asing) Sdn Bhd, Mellon Bank, N.A. for Sovereign Emerging Markets Equity Pool in respect of 567,600 ordinary shares in AirAsia;*

21) *Citigroup Nominees (Asing) Sdn Bhd, Mellon Bank, N.A. for Virginia Retirement System in respect of 3,360,100 ordinary shares in AirAsia;*

22) *Citigroup Nominees (Asing) Sdn Bhd, CBHK for Global Investment Services Ltd (GLEQ GRWTH PL) in respect of 2,160,000 shares in AirAsia;*

23) *Cartaban Nominees (Asing) Sdn Bhd, SSBT Fund 6QH3 for Russell Emerging Markets Fund (FRTC CEBFT) in respect of 804,900 ordinary shares in AirAsia;*

24) *Cartaban Nominees (Asing) Sdn Bhd, State Street London Fund JY63 for The Emerging Markets Equity Fund (RIC Plc) in respect of 3,109,300 ordinary shares in AirAsia;*

25) *Cartaban Nominees (Asing) Sdn Bhd, SSBT Fund TC31 for California State Teachers Retirement System in respect of 11,693,300 ordinary shares in AirAsia;*

26) *Cartaban Nominees (Asing) Sdn Bhd, SSBT Fund CHE4 for Emerging Markets Fund (FR RUSSL INV Co) in respect of 2,220,300 ordinary shares in AirAsia;*

27) *Cartaban Nominees (Asing) Sdn Bhd, SSBT Fund JYEF for Russell Alpha Fund Public Limited Company in respect of 1,050,600 ordinary shares in AirAsia; and*

28) *Cartaban Nominees (Asing) Sdn Bhd, SSBT Fund NCP9 Public Employees Retirement System of Ohio in respect of 2,037,200 ordinary shares in AirAsia.*

DIRECTORS' SHAREHOLDINGS

The interests of the Directors of AirAsia in the Shares and options over shares in the Company and its related corporations based on the Company's Register of Directors' Shareholdings are as follows:-

	<-------Direct------->		<-------Indirect------->	
	No. of Shares Held	**% of Issued Shares**	**No. of Shares Held**	**% of Issued Shares**
AIRASIA BERHAD				
Dato' Pahamin Ab. Rajab	100,010	–*	–	–
Dato' Anthony Francis Fernandes	2,627,010	–*	769,458,382[1]	32.72
Dato' Kamarudin Bin Meranun	100,000	–*	769,458,382[1]	32.72
John Francis Tierney	100,000	–*	–	–
Conor McCarthy	30,761,403	1.30	–	–
Dato' Leong Sonny @ Leong Khee Seong	250,000	–*	–	–
Fam Lee Ee	300,000	–*	–	–
Abdel Aziz @ Abdul Aziz Bin Abu Bakar	200,000	–*	–	–
AA INTERNATIONAL LTD.	**No. of ordinary shares of USD1.00 Each Held**		**No. of ordinary shares of USD1.00 Each Held**	
Dato' Anthony Francis Fernandes	–	–	5,267,340[2]	99.9%
Dato' Kamarudin Bin Meranun	1[3]	–	5,267,340[2]	99.9%

Notes:

* *Negligible.*
1 *Deemed interested by virtue of Section 6A of the Act, through a shareholding of more than 15% in TASB.*
2 *Deemed interested by virtue of Section 6A of the Act through a shareholding of more than 15% in TASB, which in turn has a substantial shareholding in the Company.*
3 *Held in trust for TASB.*

The interests of Directors in options over unissued ordinary shares of RM0.10 each of the Company:

	Price Per Option Share	**No. of Option Shares**
Dato' Anthony Francis Fernandes	RM1.08	600,000
Dato' Kamarudin Bin Meranun	RM1.08	600,000

\# The options held over ordinary shares in the Company were granted on 1 September 2004 pursuant to the Company's Employee Share Option Scheme approved by the shareholders on 7 June 2004.

None of the Directors have any interests in the shares or options of the subsidiaries of the Company other than as disclosed above.

THIRTY (30) LARGEST SHAREHOLDERS

Name of Shareholders	No. of Shares Held	% of Issued Share Capital
1. Tune Air Sdn Bhd	755,458,382	32.12
2. HSBC Nominees (Asing) Sdn Bhd *Exempt AN for JPMorgan Chase Bank. National Association (U.S.A.)*	176,512,200	7.51
3. Employees Provident Fund Board	89,664,900	3.81
4. HSBC Nominees (Asing) Sdn Bhd *BBH And Co Boston for Fidelity Advisor MID Cap Fund (FID ADV SER I)*	85,484,900	3.63
5. Deucalion Capital II Limited	80,279,100	3.41
6. HSBC Nominees (Asing) Sdn Bhd *Exempt AN for JPMorgan Chase Bank, National Association (Genesis SICAV)*	59,407,000	2.53
7. Avenue Securities Sdn Bhd *IVT(AO2) for ECM Libra Securities Sdn Bhd (Account 1)*	54,423,079	2.31
8. Lembaga Tabung Haji	42,331,830	1.80
9. HSBC Nominees (Asing) Sdn Bhd *Exempt AN for Morgan Stanley & Co. International Limited*	39,196,800	1.67
10. HSBC Nominees (Asing) Sdn Bhd *Exempt AN for Credit Suisse (SG BR-TST-Asing)*	30,911,403	1.31
11. HSBC Nominees (Asing) Sdn Bhd *BBH And Co Boston for Merrill Lynch Global Small Cap Fund Inc*	29,585,100	1.26
12. HSBC Nominees (Asing) Sdn Bhd *HSBC BK PLC for Prudential Assurance Company Ltd*	27,039,500	1.15
13. HSBC Nominees (Asing) Sdn Bhd *Exempt AN for J.P. Morgan Bank Luxembourg S.A.*	25,518,000	1.09
14. Citigroup Nominees (Asing) Sdn Bhd *CB LDN for First State Asia Pacific Fund*	25,343,300	1.08
15. Nor Ashikin Binti Khamis	24,770,800	1.05
16. Citigroup Nominees (Asing) Sdn Bhd *Exempt AN for American International Assurance Company Limited*	23,909,000	1.02
17. Cartaban Nominees (Asing) Sdn Bhd *SSBT Fund SW80 for California Public Employees Retirement System*	21,999,600	0.94
18. Citigroup Nominees (Tempatan) Sdn Bhd *Exempt AN for Prudential Assurance Malaysia Berhad*	17,753,400	0.75
19. HSBC Nominees (Asing) Sdn Bhd *Exempt AN for JPMorgan Chase Bank, National Association (U.A.E)*	16,578,900	0.70
20. Kumpulan Wang Amanah Pencen	16,552,000	0.70
21. Citigroup Nominees (Asing) Sdn Bhd *Exempt AN for Mellon Bank*	16,482,200	0.70
22. EB Nominees (Tempatan) Sendirian Berhad *A/C for Tune Air Sdn Bhd (KLM)*	14,000,000	0.60
23. HSBC Nominees (Asing) Sdn Bhd *Exempt AN for JPMorgan Chase Bank, National Association (Norway)*	12,512,100	0.53
24. Citigroup Nominees (Tempatan) Sdn Bhd *ING Insurance Berhad (INV-IL Par)*	12,450,700	0.53
25. Cartaban Nominees (Asing) Sdn Bhd *SSBT Fund TC3I for California State Teachers Retirement System*	11,693,300	0.50
26. Cartaban Nominees (Asing) Sdn Bhd *Credit Suisse International*	11,563,894	0.49
27. Citigroup Nominees (Asing) Sdn Bhd *Royal Bank of Scotland As Depositary for First State Global Emerging Markets Fund*	10,512,600	0.45
28. HSBC Nominees (Asing) Sdn Bhd *BNY Brussels For The State Teachers Retirement System of Ohio (Stewart Ivory)*	10,074,000	0.43
29. Cartaban Nominees (Asing) Sdn Bhd *BOTM UFJ (LUX) S.A. for Asia Pacific Performance Fund*	9,614,700	0.41
30. HSBC Nominees (Asing) Sdn Bhd *BNY Brussels for Global Smallcap Fund (MLIIF)*	8,696,310	0.37

list of **properties held**

Save as disclosed below, as at 30 June 2006, neither the Company nor any of its subsidiaries owned any land or building:

Owner of building	Postal address/ location of building	Description/ existing use of building	Tenure/ Date of expiry of lease	Build up area	Approximate age of building	Audited net book value as at 30 June 2006 (RM'000)
AirAsia Berhad	Taxiway Charlie, Kuala Lumpur International Airport (part of PT 39 Bandar Lapangan Terbang Antarabangsa Sepang, Daerah Sepang, Selangor Darul Ehsan)	Non–permanent structure/ aircraft maintenance hangar	See Note 2 below	Approximately 43 meters wide and 48 meters depth, together with an auxillary building 5.45 meters wide and 21 meters in length	Approximately 33 months	1,970
AirAsia Berhad	Lot PT25, Jalan KLIA S5, Southern Support Zone, KL International Airport, 64000 Malaysia	Aircraft Simulator building	30 years/ 31 March 2034	4,996.58 metre^2	Approximately 13 month	12,898

Notes:

(1) On the fitness of occupation of the hangar, it is the subject of a year–to–year "Kelulusan Permit Bangunan Sementara" issued by the Majlis Daerah Sepang. The permit has been renewed and will expire on 31 December 2006.

(2) The land area occupied is approximately 2,319.70 square meters. The land is owned by Malaysia Airports (Sepang) Sdn Bhd ("MAB") and the Company has been granted a five year tenancy from 1 October 2003 to 30 September 2008 ("Concession Period").

Revaluation of properties has not been carried out on any of the above properties to date.

notice of **annual general meeting**

NOTICE IS HEREBY GIVEN THAT the Thirteenth Annual General Meeting of AirAsia Berhad (284669-W) ("the Company") will be held at AirAsia Academy, Lot PT25B, Jalan KLIA S5, Southern Support Zone, Kuala Lumpur International Airport, 64000 Sepang, Selangor Darul Ehsan on Thursday, 28 December 2006 at 10.00 a.m. for the following purposes:-

AS ORDINARY BUSINESS

1. To receive and consider the Audited Financial Statements together with the Reports of the Directors and Auditors thereon for the year ended 30 June 2006. **(Resolution 1)**

2. To approve Directors' Fees of RM728,000 for the financial year ended 30 June 2006. **(Resolution 2)**

3. To re-elect the following Directors who retire pursuant to Article 125 of the Company's Articles of Association:

   a) Dato' Pahamin Ab. Rajab **(Resolution 3)**
   b) Dato' Anthony Francis Fernandes **(Resolution 4)**
   c) Dato' Kamarudin bin Meranun **(Resolution 5)**

4. To consider and, if thought fit, pass the following resolution pursuant to Section 129 of the Companies Act, 1965:

   "That Tan Sri Dato' (Dr) R. V. Navaratnam, retiring in accordance with Section 129 of the Companies Act, 1965, be and is hereby re-appointed as a Director of the Company to hold office until the next Annual General Meeting" **(Resolution 6)**

5. To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company and to authorise the Directors to fix their remuneration. **(Resolution 7)**

AS SPECIAL BUSINESS

6. To consider and if thought fit, to pass, with or without modifications, the following Ordinary Resolution:

   "THAT, subject always to the Companies Act, 1965, the Articles of Association of the Company and the approvals of the relevant governmental/regulatory authorities, the Directors be and they are hereby authorised, pursuant to Section 132D of the Companies Act, 1965 to allot and issue shares in the Company at any time until the conclusion of the next Annual General Meeting and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares to be issued does not exceed 10 per centum of the issued share capital of the Company for the time being" **(Resolution 8)**

OTHER ORDINARY BUSINESS

7. To transact any other business of which due notice shall have been given.

By Order of the Board

JASMINDAR KAUR A/P SARBAN SINGH (MAICSA 7002687)
Company Secretary

Selangor Darul Ehsan
5 December 2006

Notes on Appointment of Proxy

a. Pursuant to the Securities Industry (Central Depositories) (Foreign Ownership) Regulations 1996 and Article 43(1) of the Company's Articles of Association, only those Foreigners (as defined in the Articles) who hold shares up to the current prescribed foreign ownership limit of 45.0% of the total issued and paid-up capital, on a first-in-time basis based on the Record of Depositors to be used for the forthcoming Annual General Meeting, shall be entitled to vote. Consequently, a proxy appointed by a Foreigner not entitled to vote, will similarly not be entitled to vote, and such disenfranchised voting rights shall be automatically vested in the Chairman of the forthcoming Annual General Meeting.

b. A member entitled to attend and vote is entitled to appoint a proxy (or in the case of a corporation, to appoint a representative), to attend and vote in his stead. A proxy need not be a member of the Company.

c. The Proxy Form in the case of an individual shall be signed by the appointor or his attorney, and in the case of a corporation, either under its common seal or under the hand of an officer or attorney duly authorised.

d. Where a member appoints two proxies, the appointment shall be invalid unless he specifies the proportion of his shareholdings to be represented by each proxy.

e. Where a member of the Company is an authorised nominee it may appoint at least one but not more than two (2) proxies in respect of each securities account it holds to which ordinary shares in the Company are credited.

f. The Proxy Form or other instruments of appointment shall not be treated as valid unless deposited at the Registered Office of the Company at 25-5, Block H, Jalan PJU 1/37, Dataran Prima, 47301 Petaling Jaya, Selangor Darul Ehsan not less than forty-eight (48) hours before the time set for holding the meeting. Faxed copies of the duly executed form of proxy are not acceptable.

Explanatory Note to Special Business:

The Ordinary Resolution proposed under Resolution 8 above, if passed, will empower the Directors to allot and issue new ordinary shares up to 10% of the issued capital of the Company for the time being for such purposes as the Directors consider would be in the interest of the Company. This authority will commence from the date of this Annual General Meeting and unless revoked or varied by the Company at a general meeting, will expire at the conclusion of the next Annual General Meeting of the Company.

STATEMENT ACCOMPANYING NOTICE OF THIRTEENTH ANNUAL GENERAL MEETING

Pursuant to Paragraph 8.28(2) of the Listing Requirements of Bursa Malaysia Securities Berhad

1. Details of attendance of Directors at Board Meetings are set out in the Statement of Corporate Governance from pages 63 to 67 of this Annual Report.

2. The following are the Directors standing for re-election and re-appointment at the Thirteenth Annual General Meeting of the Company:

   a) Pursuant to Article 125 of the Articles of Association of the Company

      i) Dato' Pahamin Ab. Rajab
      ii) Dato' Anthony Francis Fernandes
      iii) Dato' Kamarudin bin Meranun

   b) Pursuant to Section 129 of the Companies Act, 1965

      i) Tan Sri Dato' (Dr) R. V. Navaratnam

3. Profile of Directors

   Details of the Directors who are standing for re-election and re-appointment are set out in the Directors' Profile from pages 30 to 33 of this Annual Report and information on their shareholding (if any) are disclosed on pages 133 to 136 of this Annual Report.

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form of **proxy**

AIRASIA BERHAD
(Company No. 284669–W)
Incorporated in Malaysia

I/We ______________________________ NRIC No./Co No.: ______________
(FULL NAME IN BLOCK LETTERS) *(COMPULSORY)*

of ______________________________ being a
(ADDRESS)

member of AIRASIA BERHAD ("the Company") hereby appoint ______________________________
(FULL NAME IN BLOCK LETTERS)

NRIC No.: ______________ of ______________________________
(COMPULSORY) *(ADDRESS)*

and/or ______________________________ NRIC No.: ______________
(FULL NAME IN BLOCK LETTERS) *(COMPULSORY)*

of ______________________________ as my/our proxy(ies) to
(ADDRESS)

vote in my/our name and on my/our behalf at the Thirteenth Annual General Meeting of the Company to be held on Thursday, 28 December 2006 at 10.00 a.m. and at any adjournment of such meeting and to vote as indicated below:

Ordinary Resolution	Description	FOR	AGAINST
No. 1	Receive the Audited Financial Statements and Reports		
No. 2	Approval of Directors' Fees		
No. 3	Re-election of Dato' Pahamin Ab. Rajab		
No. 4	Re-election of Dato' Anthony Francis Fernandes		
No. 5	Re-election of Dato' Kamarudin bin Meranun		
No. 6	Re-appointment of Tan Sri Dato' (Dr) R. V. Navaratnam		
No. 7	Re-appointment of Auditors		
No. 8	Special Business Authority to issue of shares pursuant to Section 132D of the Companies Act, 1965		

*(Please indicate with an **"X"** in the spaces provided how you wish your votes to be cast. If you do not do so, the proxy will vote or abstain from voting as he thinks fit)*

No. of shares held:	
CDS Account No.:	
The proportion of my/our holding to be represented by my/our proxies are as follows:	First Proxy : ________ % Second Proxy : ________ %
Date:	

____
Signature of Shareholder/Common Seal

Notes to Form of Proxy

a. Pursuant to the Securities Industry (Central Depositories) (Foreign Ownership) Regulations 1996 and Article 43(1) of the Company's Articles of Association, only those Foreigners (as defined in the Articles) who hold shares up to the current prescribed foreign ownership limit of 45.0% of the total issued and paid–up capital, on a first-in-time basis based on the Record of Depositors to be used for the forthcoming Annual General Meeting, shall be entitled to vote. Consequently, a proxy appointed by a Foreigner not entitled to vote, will similarly not be entitled to vote, and such disenfranchised voting rights shall be automatically vested in the Chairman of the forthcoming Annual General Meeting.
b. A member entitled to attend and vote is entitled to appoint a proxy (or in the case of a corporation, to appoint a representative), to attend and vote in his stead. A proxy need not be a member of the Company.
c. The Proxy Form in the case of an individual shall be signed by the appointor or his attorney, and in the case of a corporation, either under its common seal or under the hand of an officer or attorney duly authorised.
d. Where a member appoints two proxies, the appointment shall be invalid unless he specifies the proportion of his shareholdings to be represented by each proxy.
e. Where a member of the Company is an authorised nominee it may appoint at least one but not more than two (2) proxies in respect of each securities account it holds to which ordinary shares in the Company are credited.
f. The Proxy Form or other instruments of appointment shall not be treated as valid unless deposited at the Registered Office of the Company at 25-5, Block H, Jalan PJU 1/37, Dataran Prima, 47301 Petaling Jaya, Selangor Darul Ehsan not less than forty-eight (48) hours before the time set for holding the meeting. **Faxed copies of the duly executed form of proxy are not acceptable.**

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Stamp

Company Secretary
AirAsia Berhad
(Company No. 2884669–W)
25-5, Block H, Jalan PJU 1/37
Dataran Prima
47301 Petaling Jaya
Selangor Darul Ehsan
Malaysia

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