Company No.

284669	W

AIRASIA BERHAD
(Incorporated in Malaysia)

STATUTORY FINANCIAL STATEMENTS

FOR THE 6 MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2007

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Company No.

284669	W

AIRASIA BERHAD
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS FOR THE 6 MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2007

CONTENTS

Company No.

284669	W

AIRASIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The Directors are pleased to submit their annual report to the members together with the audited financial statements of the Group and Company for the 6 months financial period ended 31 December 2007.

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 was no significant change in the nature of these activities during the financial period.

CHANGE IN REPORTING PERIOD

The financial year end of the Company was changed from 30 June to 31 December. Hence, this set of statutory financial statements is for the financial period from 1 July 2007 to 31 December 2007.

FINANCIAL RESULTS

	Group RM'000	Company RM'000
Profit for the financial period attributable to:		
- equity holders of the Company	425,700	424,367
- minority interests	-	-
Net profit for the financial period	425,700	424,367

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 period ended 31 December 2007.

RESERVES AND PROVISIONS

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

Company No.

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AIRASIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

ISSUANCE OF SHARES

During the financial period, the Company increased its issued and paid-up ordinary share capital from RM236,076,708 to RM 237,154,158 by way of issuance of 10,774,500 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 RM10,559,010 has been credited to the Share Premium account.

The new ordinary shares issued during the financial period 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 period.

EMPLOYEE SHARE OPTION SCHEME ("ESOS")

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

Details of the ESOS are set out in Note 28 to the financial statements.

The Company has been granted an exemption by the Companies Commission of Malaysia, the information of which has 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 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 on 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
Conor Mc Carthy
Dato' Leong Sonny @ Leong Khee Seong
Fam Lee Ee
Datuk Alias Bin Ali
Dato' Abdel Aziz @ Abdul Aziz Bin Abu Bakar
Dato' Mohamed Khadar Bin Merican
Tan Sri Dato' (Dr) R.V. Navaratnam (Retired on 22 November 2007)

AIRASIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' BENEFITS

During and at the end of the financial period, 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 5 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 5 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 23 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 period 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 1.7.2007	Acquired	Disposed	At 31.12.2007
The Company				
Direct interests				
Dato' Pahamin Ab. Rajab	2,990,875	-	-	2,990,875
Dato' Anthony Francis Fernandes	2,627,010	-	-	2,627,010
Dato' Kamarudin Bin Meranun	100,000	1,592,900	-	1,692,900
Conor Mc Carthy	30,761,403	-	(2,000,000)	28,761,403
Dato' Leong Sonny @ Leong Khee Seong	100,000	-	-	100,000
Fam Lee Ee	200,000	-	-	200,000
Indirect interests				
Dato' Anthony Francis Fernandes *	769,458,382	-	(40,000,000)	729,458,382
Dato' Kamarudin Bin Meranun *	769,458,382	-	(40,000,000)	729,458,382

* By virtue of their interests in shares in the substantial shareholder of the Company, 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 1.7.2007	Granted	Exercised	At 31.12.2007
The Company				
Dato' Anthony Francis Fernandes	600,000	-	-	600,000
Dato' Kamarudin Bin Meranun	600,000	-	-	600,000

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

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AIRASIA BERHAD
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DIRECTORS' REPORT (CONTINUED)

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 period 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 period 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 period.

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.

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (CONTINUED)

In the opinion of the Directors:

(a) the results of the Group's and Company's operations during the financial period 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 period 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 period 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 APR 2008

DATO' ANTHONY FRANCIS FERNANDES DIRECTOR	DATO' KAMARUDIN BIN MERANUN DIRECTOR

Company No.

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AIRASIA BERHAD
(Incorporated in Malaysia)

INCOME STATEMENTS
FOR THE 6 MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2007

		Group		Company	
	Note	6 months financial period ended 31.12.2007 RM'000	Financial year ended 30.6.2007 RM'000	6 months financial period ended 31.12.2007 RM'000	Financial year ended 30.6.2007 RM'000
Revenue	4	1,094,377	1,603,261	1,091,346	1,593,978
Operating expenses					
- Staff costs	5	(111,682)	(183,422)	(110,969)	(182,109)
- Depreciation	11	(120,031)	(161,073)	(120,031)	(161,032)
- Aircraft fuel expenses		(443,831)	(699,640)	(443,831)	(699,640)
- Maintenance, overhaul, user charges and other related expenses		(148,641)	(271,684)	(148,119)	(268,687)
- Other operating expenses	6	(73,403)	(112,208)	(72,902)	(111,152)
Other income	7	11,393	86,565	11,355	86,442
Operating profit		208,182	261,799	206,849	257,800
Finance income	8	148,251	108,521	148,251	108,521
Finance costs	8	(79,718)	(88,361)	(79,718)	(88,361)
Share of results of associates		-	(3,910)	-	-
Profit before taxation		276,715	278,049	275,382	277,960
Taxation					
- Current taxation	9	(1,504)	(5,118)	(1,504)	(5,014)
- Deferred taxation	9	150,489	225,126	150,489	225,126
		148,985	220,008	148,985	220,112
Net profit for the financial period/year		425,700	498,057	424,367	498,072
Attributable to:					
- equity holders of the Company		425,700	498,045	424,367	498,072
- minority interests		-	12	-	-
Net profit for the financial period/year		425,700	498,057	424,367	498,072
Earnings per share (sen)					
- Basic	10	18.1	21.2		
- Diluted	10	17.9	21.0		

The notes on pages 13 to 67 form part of these financial statements.

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AIRASIA BERHAD
(Incorporated in Malaysia)

BALANCE SHEETS AS AT 31 DECEMBER 2007

	Note	Group		Company	
		31.12.2007 RM'000	30.6.2007 RM'000	31.12.2007 RM'000	30.6.2007 RM'000
NON-CURRENT ASSETS					
Property, plant and equipment	11	4,352,770	2,959,817	4,351,906	2,958,953
Investment in subsidiaries	12	-	-	22,194	22,194
Investment in a jointly controlled entity	13	-	-	-	-
Investment in associates	14	29	29	29	29
Other investments	15	26,728	67	26,728	67
Goodwill	16	8,738	8,738	-	-
Deferred tax assets	17	479,705	329,216	479,705	329,216
Receivables and prepayments	18	65,405	46,484	65,405	46,484
		4,933,375	3,344,351	4,945,967	3,356,943
CURRENT ASSETS					
Inventories	19	17,567	9,512	17,019	8,962
Other investments	15	30,892	34,136	30,892	34,136
Receivables and prepayments	18	539,201	308,950	537,212	308,027
Deposits on aircraft purchase		318,251	317,296	318,251	317,296
Amounts due from subsidiaries	20	-	-	99,725	14,871
Amount due from a jointly controlled entity	21	95,622	92,182	-	81,221
Amounts due from associates	22	88,168	77,432	88,168	77,432
Deposits, cash and bank balances	23	425,195	595,243	421,090	591,138
		1,514,896	1,434,751	1,512,357	1,433,083
LESS: CURRENT LIABILITIES					
Trade and other payables	24	620,881	557,796	610,834	546,171
Amounts due to subsidiaries	25	-	-	11,369	12,485
Amount due to a jointly controlled entity	21	21,337	-	21,337	-
Amounts due to associates	22	3,761	-	3,761	-
Hire-purchase payables	26	77	77	77	77
Borrowings (secured)	27	278,550	251,097	278,550	251,097
Current tax liabilities		5,178	4,575	5,178	4,575
		929,784	813,545	931,106	814,405
NET CURRENT ASSETS		585,112	621,206	581,251	618,678

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AIRASIA BERHAD
(Incorporated in Malaysia)

BALANCE SHEETS AS AT 31 DECEMBER 2007 (CONTINUED)

	Note	Group 31.12.2007 RM'000	Group 30.6.2007 RM'000	Company 31.12.2007 RM'000	Company 30.6.2007 RM'000
NON-CURRENT LIABILITIES					
Hire-purchase payables	26	149	188	149	188
Borrowings (secured)	27	3,419,121	2,303,488	3,419,121	2,303,488
		3,419,270	2,303,676	3,419,270	2,303,676
		2,099,217	1,661,881	2,107,948	1,671,945
CAPITAL AND RESERVES					
Share capital	28	237,154	236,077	237,154	236,077
Share premium		732,737	722,178	732,737	722,178
Foreign exchange reserve		592	592	-	-
Retained earnings	29	1,128,734	702,995	1,138,057	713,690
Shareholders' equity		2,099,217	1,661,842	2,107,948	1,671,945
Minority interests		-	39	-	-
		2,099,217	1,661,881	2,107,948	1,671,945

The notes on pages 13 to 67 form part of these financial statements.

AIRASIA BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE 6 MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2007

		Attributable to equity holders of the Company							
		Issued and fully paid ordinary shares of RM0.10 each							
	Note	Number of shares '000	Nominal value RM'000	Share premium RM'000	Foreign exchange reserve RM'000	Retained earnings RM'000	Total RM'000	Minority interests RM'000	Total equity RM'000
Group									
At 1 July 2006		2,346,487	234,649	708,185	592	204,950	1,148,376	27	1,148,403
Net profit for the financial year		-	-	-	-	498,045	498,045	12	498,057
Issuance of ordinary shares - pursuant to the Employees' Share Option Scheme ('ESOS')	28	14,279	1,428	13,993	-	-	15,421	-	15,421
At 30 June 2007		2,360,766	236,077	722,178	592	702,995	1,661,842	39	1,661,881
Net profit for the financial period		-	-	-	-	425,700	425,700	-	425,700
Acquisition of additional investment in a subsidiary		-	-	-	-	39	39	(39)	-
Issuance of ordinary shares - pursuant to the Employees' Share Option Scheme ('ESOS')	28	10,775	1,077	10,559	-	-	11,636	-	11,636
At 31 December 2007		2,371,541	237,154	732,737	592	1,128,734	2,099,217	-	2,099,217

The notes on pages 13 to 67 form part of these financial statements.

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AIRASIA BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY FOR THE 6 MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2007 (CONTINUED)

	Note	Issued and fully paid ordinary shares of RM0.10 each		Non-distributable	Distributable	
		Number of shares '000	Nominal value RM'000	Share premium RM'000	Retained earnings RM'000	Total RM'000
Company						
At 1 July 2006		2,346,487	234,649	708,185	215,618	1,158,452
Net profit for the financial year		-	-	-	498,072	498,072
Issuance of shares - pursuant to the Employees' Share Option Scheme ('ESOS')	28	14,279	1,428	13,993	-	15,421
At 30 June 2007		2,360,766	236,077	722,178	713,690	1,671,945
Net profit for the financial period		-	-	-	424,367	424,367
Issuance of shares - pursuant to the Employees' Share Option Scheme ('ESOS')	28	10,775	1,077	10,559	-	11,636
At 31 December 2007		2,371,541	237,154	732,737	1,138,057	2,107,948

The notes on pages 13 to 67 form part of these financial statements.

Company No.	
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AIRASIA BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENTS
FOR THE 6 MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2007

	Group		Company	
	6 months financial period ended 31.12.2007 RM'000	Financial year ended 30.6.2007 RM'000	6 months financial period ended 31.12.2007 RM'000	Financial year ended 30.6.2007 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	276,715	278,049	275,382	277,960
Adjustments:				
Share of results of associates	-	3,910	-	-
Property, plant and equipment				
- Depreciation	129,761	175,366	129,761	175,325
- Write off	476	-	476	-
- Loss on disposals	5	299	5	299
Amortisation of long term prepayments	4,628	3,115	4,628	3,115
Amortisation of other investments	6	11	6	11
(Reversal of)/allowance for doubtful debts	(2,467)	2,952	(2,467)	2,952
Unrealised foreign exchange gain	(108,340)	(61,882)	(108,340)	(61,882)
Interest expense	88,292	104,038	88,292	104,038
Interest income	(13,820)	(27,012)	(13,820)	(27,012)
	375,256	478,846	373,923	474,806
Changes in working capital:				
Inventories	(8,055)	1,066	(8,057)	906
Receivables and prepayments	(218,409)	(35,064)	(217,343)	(34,877)
Trade and other payables	140,630	228,260	142,208	220,043
Intercompany balances	10,922	(18,922)	9,613	(11,117)
Cash generated from operations	300,344	654,186	300,344	649,761
Interest paid	(57,497)	(84,240)	(57,497)	(84,240)
Interest received	13,820	27,012	13,820	27,012
Tax paid	(901)	(1,838)	(901)	(1,734)
Net cash from operating activities	255,766	595,120	255,766	590,799

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AIRASIA BERHAD
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CASH FLOW STATEMENTS
FOR THE 6 MONTHS FINANCIAL PERIOD ENDED 31 DECEMBER 2007
(CONTINUED)

	Note	Group 6 months financial period ended 31.12.2007 RM'000	Group Financial year ended 30.6.2007 RM'000	Company 6 months financial period ended 31.12.2007 RM'000	Company Financial year ended 30.6.2007 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES					
Property, plant and equipment					
- Additions		(1,532,571)	(1,878,510)	(1,532,571)	(1,878,503)
- Proceeds from disposals		1	5,021	1	5,021
Deposit on aircraft purchase		(955)	(48,662)	(955)	(48,662)
Long term prepayments		(23,549)	(13,211)	(23,549)	(13,211)
Additional other investments		(23,423)	(3,440)	(23,423)	(3,440)
Additional investment in a subsidiary		-	-	-	(100)
Additional investment in an associate		-	(3,910)	-	-
Net cash used in investing activities		(1,580,497)	(1,942,712)	(1,580,497)	(1,938,895)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from allotment of shares		11,636	15,421	11,636	15,421
Hire-purchase instalments paid		(39)	(176)	(39)	(133)
Proceeds from borrowings	28	1,273,434	1,803,306	1,273,434	1,803,306
Repayment of borrowings		(130,348)	(301,357)	(130,348)	(301,357)
Deposits pledged as securities	23	(14,082)	(8,162)	(14,082)	(8,162)
Net cash from financing activities		1,140,601	1,509,032	1,140,601	1,509,075
NET (DECREASE)/INCREASE FOR THE FINANCIAL PERIOD		(184,130)	161,440	(184,130)	160,979
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL PERIOD		574,347	412,907	570,242	409,263
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL PERIOD	23	390,217	574,347	386,112	570,242

The notes on pages 13 to 67 form part of these financial statements.

Company No.

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AIRASIA BERHAD
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NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2007

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 was no significant change in the nature of these activities during the financial period.

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

Unless otherwise stated, the following accounting policies have been applied consistently in dealing with items that are considered material in relation to the financial statements:

(a) Basis of preparation of the financial statements

The financial statements of the Group and the Company have been prepared in accordance with Financial Reporting Standards ('FRSs'), the Malaysian Accounting Standards Board ('MASB') approved accounting standards in Malaysia for Entities Other Than Private Entities and comply with the provisions of the Companies Act, 1965.

During the financial period, the Group and the Company have adopted new and revised FRSs which are mandatory for the financial period beginning on or after 1 July 2007 as described in Note 2(a)(i) below.

The financial statements of the Group and Company have been prepared under the historical cost convention except as disclosed in the Significant Accounting Policies below.

The presentation of the Income Statement has been changed during the financial period as the Directors are of the opinion that this better reflects the operations of the Group and Company.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation of the financial statements (continued)

The preparation of financial statements in conformity with FRSs, the MASB approved accounting standards in Malaysia for Entities Other Than Private Entities, requires the use of certain critical accounting 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 the reported amounts of the revenue and expenses during the reported financial period. It also requires Directors to exercise their judgement in the process of applying the Group's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Group's and the Company's financial statements are disclosed in Note 3 to the financial statements.

(i) Standards, amendments to published standards and Interpretations Committee ("IC") interpretations to existing standards that are applicable and are effective

The following standards are effective for the Group and Company's financial period beginning 1 July 2007:

- FRS 107 Cash Flows Statements
- FRS 118 Revenue
- FRS 124 Related Party Disclosures
- FRS 134 Interim Financial Reporting
- FRS 137 Provisions, Contingent Liabilities and Contingent Assets
- Amendment to FRS 121 The Effects of Changes in Foreign Exchange Rates
- IC Interpretation 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities

The Company early adopted FRS 112 "Income Taxes" in the previous financial year.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards, amendments to the published standards and IC interpretations to existing standards. All standards, amendments to published standards and interpretations to existing standards adopted by the Group and Company require retrospective application.

The new accounting standards and amendments to published standards do not have a significant impact to the Group and Company's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation of the financial statements (continued)

(ii) Standards, amendments to published standards and interpretations to existing standards that are effective but not relevant

The following standards, amendments to published standards and interpretations to existing standards are mandatory for accounting periods beginning on or after 1 July 2007 but are not relevant for the Group's operations:

- FRS 6 Exploration for and Evaluation of Mineral Resources
- FRS 111 Construction Contracts
- FRS 117 Leases
- Amendments to FRS 119_{2004} Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
- FRS 120 Accounting for Government Grants and Disclosure of Government Assistance
- IC Interpretation 2 Members' Shares in Co-operative Entities and Similar Instruments
- IC Interpretation 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IC Interpretation 6 Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
- IC Interpretation 7 Applying the Restatement Approach under FRS 129_{2004} Financial Reporting in Hyperinflationary Economies
- IC Interpretation 8 Scope of FRS 2

(iii) Standards, amendments to published standards and IC interpretations to existing standards that are not yet effective and have not been early adopted

FRS 139 Financial Instruments: Recognition and Measurement (effective date yet to be determined by Malaysian Accounting Standards Board). This new standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Hedge accounting is permitted only under strict circumstances. The Group has applied the transitional provision in FRS 139 which exempt entities from disclosing the possible impact arising from the initial application of this standard on the financial statements of the Group. The Group will apply this standard when effective.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Group accounting

(i) Subsidiaries

Subsidiaries are those corporations or other entities (including special purpose entities) in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated using the purchase method of accounting. Under the purchase method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group and are excluded from consolidation from the date that control ceases. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired at the date of acquisition is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement (see Note 2(c) on goodwill).

Minority interests represent that portion of the profit or loss and net assets of subsidiaries attributable to equity interest that are not owned, directly or indirectly through the subsidiaries by the parent. It is measured at the minorities' share of the fair values of the subsidiaries' identifiable assets and liabilities at the acquisition date and the minorities' share of changes in subsidiaries' equity since that date. Separate disclosure is made of minority interests.

Intragroup transactions, balances and unrealised gains or losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

The gain or loss on disposal of a subsidiary is the difference between the net disposal proceeds and the Group's share of the subsidiary's net assets as of the date of disposal, including the cumulative amount of any exchange differences that relate to that subsidiary which were previously recognised in equity, and is recognised in the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Group accounting (continued)

(ii) 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 where the strategic financial and operation decisions relating to the entity requires unanimous consent of the parties sharing control.

The Group's interest in jointly controlled entities is accounted for in the consolidated financial statements using the equity method of accounting as described in Note 2(b)(iii).

The Group's share of its jointly controlled entities post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised within reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investments. When the Group's share of losses in jointly controlled entities equals or exceeds its interest in the jointly controlled entities, including any other unsecured receivables, the Group's interest is reduced to nil and recognition of further loss is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entities.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Group accounting (continued)

(iii) Associates

Associates are corporations, partnerships or other entities in which the Group exercises significant influence but which it does not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the associates but not control over those policies.

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting. Equity accounting is discontinued when the Group ceases to have significant influence over the associates. The Group's investments in associates includes goodwill identified on acquisition, net of any accumulated impairment loss (see Note 2(c)).

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised within reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investments. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group's interest is reduced to nil and recognition of further loss is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

The results of associates are taken from the most recent financial statements of the associates concerned, made up to dates not more than three months prior to the end of the financial period of the Group.

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 of an impairment of the asset transferred. Where necessary, in applying the equity method, appropriate adjustments are made to the financial statements of the associates to ensure consistency of accounting policies with those of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Goodwill

Goodwill represents the excess of the cost of acquisition of subsidiaries over the Group's share of the fair value of the identifiable net assets including contingent liabilities of subsidiaries at the date of acquisition.

Goodwill is carried at cost less accumulated impairment losses. Goodwill is tested for impairment at least annually, or when events or circumstances occur indicating that an impairment may exist. Impairment of goodwill is charged to the consolidated income statement as and when it arises. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity disposed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each cash-generating unit or a group of cash-generating units represents the lowest level within the Group at which goodwill is monitored for internal management purposes and which are expected to benefit from the synergies of the combination.

Goodwill on acquisition of jointly controlled entities and associates is included in the investments in jointly controlled entities and associates respectively. Such goodwill is tested for impairment as part of the overall investment amount.

(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 to their residual values over their estimated useful lives. The useful lives for this purpose are:

Aircraft	
- engines	7 – 25 years
- airframe	7 – 25 years
- service potential	7 – 13 years
Aircraft spares	10 years
Aircraft fixtures and fittings	Useful life or, remaining lease term of aircrafts, whichever is shorter
Buildings	25 – 50 years
Motor vehicles	5 years
Office equipment, furniture and fittings	5 years
Office renovation	5 years
Simulator equipment	25 years
Operating plant and ground equipment	5 years
Kitchen equipment	5 years

Residual values, where applicable, are reviewed annually against prevailing market rates at the balance sheet date for equivalent aged assets and depreciation rates are adjusted accordingly on a prospective basis. The estimated residual value for aircraft airframes and engines is 10% of their cost.

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 (CONTINUED)

(d) Property, plant and equipment (continued)

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 airframe. 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 checks 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 the carrying amount and are included in profit/(loss) from operations.

Advance payments and option payments made in respect of aircraft purchase commitments and options to acquire aircraft where the balance is expected to be funded by mortgage financing are recorded at cost. On acquisition of the related aircraft, these payments are included as part of the cost of aircraft and are depreciated from that date. Where the balance of payment is expected to be funded by lease financing, the advance payments are classified as deposits.

(e) Investments

Investments in subsidiaries, jointly controlled entities and associates are stated at cost less accumulated impairment losses. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount (see Note 2(f)).

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 a 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually, or as and when events or circumstances occur indicating that an impairment may exist. Property, plant and equipment and other non-current assets, including intangible assets with definite useful life, 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 fair value less cost to sell and value-in-use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal at each reporting date.

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

The accounting for the cost of providing major airframe and certain engine maintenance checks for own aircraft is described in the accounting policy for property, plant and equipment.

Leased aircraft

Where the Company has a commitment to maintain aircraft held under operating leases, provision is made during the lease term for the rectification obligations contained within the lease agreements. The provisions are based on estimated future costs of major airframe, certain engine maintenance checks and one-off costs incurred at the end of the lease by making appropriate charges to the income statement calculated by reference to the number of hours or cycles operated during the financial period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 so as to produce a constant periodic rate of interest on the remaining balance of the liability for each 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 2(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.

Assets leased out by the Company under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight line basis over the lease term. The rental income from leased aircraft is included as part of depreciation charges and finance cost.

(i) Inventories

Inventories comprising spares and consumables used internally for repairs and maintenance are stated at the 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.

Net realisable value represents the estimated selling price in the ordinary course of business, less all estimated costs to completion and applicable variable selling expenses. In arriving at net realisable value, due allowance is made for all damaged, obsolete and slow-moving items.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 period end. Bad debts are written off during the financial period in which they are identified.

(k) Cash and cash equivalents

For the purpose of the cash flow statements, cash and cash equivalents comprise cash on hand, bank balances, demand deposits, bank overdrafts and other short term, highly liquid investments with original maturities of three months or less. Deposits held as pledged securities for term loans granted are not included as cash and cash equivalents.

(l) Share capital

(i) Classification

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.

(ii) Share issue costs

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

(iii) Dividends to shareholders of the Company

Dividends are recognised as a liability in the period in which they are declared.

(m) 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.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.