2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) 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 foreign subsidiaries, jointly controlled entities or associates on distributions of retained earnings to companies.

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements.

Deferred tax assets are recognised for the carryforward of unused tax losses and tax credits (including investment tax allowances) to the extent that it is probable that taxable profits will be available against which the unutilised tax losses and unused tax credits can be utilised.

Deferred tax is recognised on temporary differences arising on investments in subsidiaries, jointly controlled entities 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.

The Group's share of income taxes of jointly controlled entities and associates are included in the Group's share of results of jointly controlled entities and associates.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

(o) 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 plan

The Group's contributions to the Employees' Provident Fund are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Group has no further payment obligations. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iii) Share based payments

FRS 2 – Share-based Payment requires recognition of share-based payment transactions including the value of share options in the financial statements. There was no financial impact following the prospective application of FRS 2 with effect from 1 July 2006 as all the share options of the Company were fully vested as at 1 July 2006.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Revenue recognition

Scheduled passenger flight and chartered flight income are recognised upon the rendering of transportation services and where applicable, are stated 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. Revenue includes fuel surcharge, insurance surcharge and administrative fees. Cargo, freight and other related revenue are recognised upon the completion of services rendered and where applicable, are stated net of discounts.

Amounts collected on behalf of governments or other regulatory bodies are excluded from revenue.

Interest and rental income are recognised on an accruals basis.

(q) Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Foreign currencies (continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is disposed of or sold, such exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on disposal.

(r) Contingent liabilities

The Group does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Group or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare circumstance where there is a liability that cannot be recognised because it cannot be measured reliably.

In the acquisition of subsidiaries by the Group under a business combination, the contingent liabilities assumed are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The Group recognises separately the contingent liabilities of the acquirees as part of allocating the cost of a business combination where their fair values can be measured reliably. Where the fair values cannot be measured reliably, the resulting effect will be reflected in the goodwill arising from the acquisitions.

Subsequent to the initial recognition, the Group measures the contingent liabilities that are recognised separately at the date of acquisition at the higher of the amount that would be recognised in accordance with the provisions of FRS 137 'Provisions, Contingent Liabilities and Contingent Assets' and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with FRS 118 'Revenue'.

(s) Financial instruments

(i) Description

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

(ii) Financial instruments recognised on the balance sheet

The particular recognition and measurement method for financial instruments recognised on the balance sheet is disclosed in the individual accounting policy note associated with each item.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Financial instruments (continued)

(iii) Financial instruments not recognised on the balance sheet

The Group is a party to financial instruments that comprise fuel option contracts, foreign currency forward contracts and interest rate swap contracts.

These instruments are not recognised in the financial statements on inception.

Fuel option contracts

The Group is a party to contracts to protect the Group from volatile movements in fuel prices. Gains and losses arising from fuel options contracts are recognised in the income statement only 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 on such contracts are recognised in the income statement when settled.

Interest rate swap contracts

The Group enters into interest rate swap contracts to protect the Group from any differential to be paid or received on an interest rate swap contract, which 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 foreign exchange forward and fuel option 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 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgements are continually evaluated by the Directors and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. To enhance the information content of the estimates, certain key variables that are anticipated to have a material impact to the Group's results and financial position are tested for sensitivity to changes in the underlying parameters. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are mentioned below.

(i) Estimated useful lives and residual values of property, plant and equipment

The Group reviews annually the estimated useful lives and residual values of property, plant and equipment based on factors such as business plan and strategies, expected level of usage, future technological developments and market prices.

Future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives and residual values of property, plant and equipment in particular the residual value of aircraft frames and engines, would increase the recorded depreciation and decrease the property, plant and equipment.

(ii) Taxation

(a) Income taxes

The Group is subject to income tax in numerous jurisdictions. Judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for tax matters based on estimates of whether additional taxes will be due. If the final outcome of these tax matters result in a difference in the amounts initially recognised, such differences will impact the income tax and/or deferred tax provisions in the period in which such determination is made.

(b) Deferred tax assets

Deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. This involves judgement regarding future financial performance of a particular entity in which the deferred tax asset has been recognised.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(iii) Recoverability of intercompany balances

The Group has investments in Thai AirAsia Co. Ltd and PT Indonesia AirAsia, both of which provide air transportation services. As at the balance sheet date, the amounts owing by these related parties amount to RM74.3 million (30.6.2007: RM92.2 million) and RM81.6 million (30.6.2007: RM71.0 million) respectively. No allowances for doubtful debts have been made for these balances as the Directors are of the view that these related parties would have sufficient future funds to repay these debts, based on the projected cash flows of these entities over the next 5 years.

4 REVENUE

	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
Passenger seat sales	689,689	1,020,036	689,689	1,020,036
Chartered flight income	84	4,869	84	4,869
Other revenue	404,604	578,356	401,573	569,073
	1,094,377	1,603,261	1,091,346	1,593,978

Other revenue includes fuel surcharge, insurance surcharge and administrative fees amounting to RM326.1 million (30.6.2007: RM469.2 million) for the Group and Company.

5 STAFF COSTS

	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
Wages, salaries, bonus and allowances	102,418	171,892	101,774	170,678
Defined contribution retirement plan	9,264	11,530	9,195	11,431
	111,682	183,422	110,969	182,109

5 STAFF COSTS (CONTINUED)

Included in staff costs is Executive Directors' remuneration which is analysed as follows:

	Group and Company	
	6 months financial period ended 31.12.2007	Financial year ended 30.6.2007
	RM'000	RM'000
Executive Directors		
- basic salaries, bonus and allowances	2,520	2,520
- defined contribution plan	317	330
- other emoluments	120	240
Non-executive Directors		
- fees	575	696
	3,532	3,786

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

	Executive		Non-executive	
	6 months financial period ended 31.12.2007	Financial year ended 30.6.2007	6 months financial period ended 31.12.2007	Financial year ended 30.6.2007
	RM	RM	RM	RM
Range of remunerations in bands of RM50,000				
Up to RM50,000	-	-	4	2
RM50,001 to RM100,000	-	-	3	5
RM100,001 to RM150,000	-	-	-	-
RM150,001 to RM200,000	-	-	1	-
RM200,001 to RM250,000	-	-	-	-
RM250,001 to RM300,000	-	-	-	1
RM300,001 to RM350,000	-	-	-	-
RM1,000,000 to RM2,000,000	2	2	-	-

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007 (CONTINUED)

5 STAFF COSTS (CONTINUED)

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

Grant date	Expiry date	Exercise prices RM/share	At 1.7.2007 '000	Exercised '000	Lapsed '000	At 31.12.2007 '000
30 June 2007						
1 September 2004	6 June 2009	1.08	1,200	-	-	1,200

	31.12.2007 '000	30.6.2007 '000
Number of share options vested at balance sheet date	900	600

6 OTHER OPERATING EXPENSES

The following items have been charged/(credited) in arriving at other operating expenses:

	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
Property, plant and equipment				
- Write off	476	-	476	-
- Loss on disposals	5	299	5	299
Aircraft operating lease expenses (sub-note (a))	18,190	34,109	18,190	34,109
Rental of land and building	1,346	2,763	1,316	2,763
Auditors' remuneration				
- current financial year	220	422	220	402
(Reversal of)/allowance for doubtful debts	(2,467)	2,952	(2,467)	2,952
Rental of equipment	270	503	269	502
Amortisation of long term prepayments	4,628	3,115	4,628	3,115
Crew commissions	1,243	1,850	1,243	1,558
Foreign exchange loss				
- Realised	989	302	989	302
- Unrealised	18,711	21,713	18,711	21,713

(a) Aircraft operating lease expenses of the Group and Company are stated net of income received from the Group's jointly controlled entity and associate on sublease rental of aircraft amounting to RM33.1 million (30.6.2007: RM48.8 million)

7 OTHER INCOME

Included in other income in the previous financial year is gain from termination of interest rate swaps amounting to RM73.2 million.

8 NET FINANCE INCOME

	Group and Company	
	6 months financial period ended 31.12.2007	Financial year ended 30.6.2007
	RM'000	RM'000
Finance income:		
Foreign exchange gain on borrowings	134,431	81,509
Interest income		
- deposits with licensed bank	3,622	12,133
- short term deposits with fund management companies	5,235	9,801
- other interest income	4,963	5,078
	148,251	108,521
Finance costs:		
Interest expense		
- bank borrowings	(88,286)	(104,016)
- hire-purchase payables	(6)	(22)
Bank facilities and other charges	(2,356)	(1,375)
Reimbursement from associate and jointly controlled entity	10,930	17,052
	(79,718)	(88,361)
Net finance income	68,533	20,160

9 TAXATION

	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
Current taxation:				
- Malaysian tax	1,504	5,118	1,504	5,014
Deferred taxation (Note 17)	(150,489)	(225,126)	(150,489)	(225,126)
	(148,985)	(220,008)	(148,985)	(220,112)
Current taxation				
- Current financial year	1,504	5,118	1,504	5,014
Deferred taxation				
- Origination and reversal of temporary differences	23,467	54,491	23,467	54,491
- Tax incentives	(173,956)	(279,617)	(173,956)	(279,617)
	(148,985)	(220,008)	(148,985)	(220,112)

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

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

	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
Profit before taxation	276,715	278,049	275,382	277,960
Tax calculated at Malaysian tax rate of 26% (30.6.2007: 27%)	71,946	75,073	71,599	75,049
Tax effects of:				
- expenses not deductible for tax purposes	2,760	6,042	2,760	5,962
- income not subject to tax	(50,270)	(23,156)	(49,923)	(23,156)
- temporary differences not recognised within the pioneer period	535	1,650	535	1,650
- tax incentives	(173,956)	(279,617)	(173,956)	(279,617)
Taxation	(148,985)	(220,008)	(148,985)	(220,112)

10 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the Company for the financial period/year by the weighted average number of ordinary shares in issue during the financial period/year.

	Group	
	6 months financial period ended 31.12.2007	Financial year ended 30.6.2007
Profit attributable to equity holders of the Company (RM'000)	425,700	498,045
Weighted average number of ordinary shares in issue ('000)	2,356,186	2,352,517
Earnings per share (sen)	18.1	21.2

(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, certain computations are performed to determine the number of shares that could have been acquired at market price. This computation 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 period/year in the calculation of the diluted earnings per share from the issue of the share options.

	Group	
	6 months financial period ended 31.12.2007	Financial year ended 30.6.2007
Profit attributable to equity holders of the Company (RM'000)	425,700	498,045
Weighted average number of ordinary shares in issue ('000)	2,356,186	2,352,517
Adjustment for ESOS ('000)	19,104	19,487
Weighted average number of ordinary shares for diluted earnings per share	2,375,290	2,372,004
Diluted earnings per share (sen)	17.9	21.0

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007 (CONTINUED)

11 PROPERTY, PLANT AND EQUIPMENT

	At 1 July 2007 RM'000	Additions RM'000	Reclassification RM'000	Transfer RM'000	Write off/ disposals RM'000	Depreciation charge RM'000 (sub-note (b))	At 31 December 2007 RM'000
Group							
Net book value							
Aircraft engines, airframe and service potential	2,772,545	1,504,696	-	(9,375)	-	(114,544)	4,153,322
Aircraft spares	62,053	10,025	-	-	-	(4,523)	67,555
Aircraft fixtures and fittings	22,553	7,284	-	-	-	(3,896)	25,941
Buildings	14,645	-	-	-	-	(259)	14,386
Motor vehicles	6,856	896		-	(6)	(1,060)	6,686
Office equipment, furniture and fittings	11,448	1,546	-	-	-	(2,286)	10,708
Office renovation	3,612	410	-	-	-	(648)	3,374
Simulator equipment	52,546	65	-	-	-	(1,107)	51,504
Operating plant and ground equipment	9,096	1,264	680	-	-	(1,438)	9,602
Kitchen equipment	202	-	-	-	-	-	202
Assets not yet in operation	4,261	6,385	(680)	-	(476)	-	9,490
	2,959,817	1,532,571	-	(9,375)	(482)	(129,761)	4,352,770

11 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Cost RM'000	Accumulated depreciation RM'000	Net book value RM'000
Group			
At 31 December 2007			
Aircraft engines, airframe and service potential	4,484,483	(331,161)	4,153,322
Aircraft spares	89,053	(21,498)	67,555
Aircraft fixtures and fittings	40,850	(14,909)	25,941
Buildings	15,718	(1,332)	14,386
Motor vehicles	11,881	(5,195)	6,686
Office equipment, furniture and fittings	27,205	(16,497)	10,708
Office renovation	6,839	(3,465)	3,374
Simulator equipment	55,300	(3,796)	51,504
Operating plant and ground equipment	15,094	(5,492)	9,602
Kitchen equipment	299	(97)	202
Assets not yet in operation	9,490	-	9,490
	4,756,212	(403,442)	4,352,770

NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007 (CONTINUED)

11 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	At 1 July 2006 RM'000	Additions RM'000	Reclassification RM'000	Disposals RM'000	Depreciation charge RM'000 (sub-note (b))	At 30 June 2007 RM'000
Group						
Net book value						
Aircraft engines, airframe and service potential	1,101,707	1,821,127	-	-	(150,289)	2,772,545
Aircraft spares	49,186	25,515	-	(5,307)	(7,341)	62,053
Aircraft fixtures and fittings	14,480	13,827	-	-	(5,754)	22,553
Buildings	14,868	251	36	-	(510)	14,645
Motor vehicles	4,738	3,836	-	(10)	(1,708)	6,856
Office equipment, furniture and fittings	10,157	4,544	1,047	(3)	(4,297)	11,448
Office renovation	3,195	884	722	-	(1,189)	3,612
Simulator equipment	54,595	107	54	-	(2,210)	52,546
Operating plant and ground equipment	4,097	6,128	929	-	(2,058)	9,096
Kitchen equipment	212	-	-	-	(10)	202
Assets not yet in operation	4,758	2,291	(2,788)	-	-	4,261
	1,261,993	1,878,510	-	(5,320)	(175,366)	2,959,817

11 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Cost RM'000	Accumulated depreciation RM'000	Net book value RM'000
Group			
At 30 June 2007			
Aircraft engines, airframe and service potential	2,989,162	(216,617)	2,772,545
Aircraft spares	79,028	(16,975)	62,053
Aircraft fixtures and fittings	33,566	(11,013)	22,553
Buildings	15,718	(1,073)	14,645
Motor vehicles	11,019	(4,163)	6,856
Office equipment, furniture and fittings	25,659	(14,211)	11,448
Office renovation	6,429	(2,817)	3,612
Simulator equipment	55,235	(2,689)	52,546
Operating plant and ground equipment	13,150	(4,054)	9,096
Kitchen equipment	299	(97)	202
Assets not yet in operation	4,261	-	4,261
	3,233,526	(273,709)	2,959,817

11 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	At 1 July 2007 RM'000	Additions RM'000	Reclassification RM'000	Transfer RM'000	Write off/ disposals RM'000	Depreciation charge RM'000 (sub-note (b))	At 31 December 2007 RM'000
Company							
Net book value							
Aircraft engines, airframe and service potential	2,772,545	1,504,696	-	(9,375)	-	(114,544)	4,153,322
Aircraft spares	62,053	10,025	-	-	-	(4,523)	67,555
Aircraft fixtures and fittings	22,553	7,284	-	-	-	(3,896)	25,941
Buildings	14,645	-	-	-	-	(259)	14,386
Motor vehicles	6,251	896	-	-	(6)	(1,060)	6,081
Office equipment, furniture and fittings	11,391	1,546	-	-	-	(2,286)	10,651
Office renovation	3,612	410	-	-	-	(648)	3,374
Simulator equipment	52,546	65	-	-	-	(1,107)	51,504
Operating plant and ground equipment	9,096	1,264	680	-	-	(1,438)	9,602
Assets not yet in operation	4,261	6,385	(680)	-	(476)	-	9,490
	2,958,953	1,532,571	-	(9,375)	(482)	(129,761)	4,351,906

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11 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Cost RM'000	Accumulated depreciation RM'000	Net book value RM'000
Company			
At 31 December 2007			
Aircraft engines, airframe and service potential	4,484,483	(331,161)	4,153,322
Aircraft spares	89,053	(21,498)	67,555
Aircraft fixtures and fittings	40,850	(14,909)	25,941
Buildings	15,718	(1,332)	14,386
Motor vehicles	11,030	(4,949)	6,081
Office equipment, furniture and fittings	27,110	(16,459)	10,651
Office renovation	6,839	(3,465)	3,374
Simulator equipment	55,300	(3,796)	51,504
Operating plant and ground equipment	15,094	(5,492)	9,602
Assets not yet in operation	9,490	-	9,490
	4,754,967	(403,061)	4,351,906

	At 1 July 2006 RM'000	Additions RM'000	Reclassification RM'000	Disposals RM'000	Depreciation charge RM'000 (sub-note (b))	At 30 June 2007 RM'000
Company						
Net book value						
Aircraft engines, airframe and service potential	1,101,707	1,821,127	-	-	(150,289)	2,772,545
Aircraft spares	49,186	25,515	-	(5,307)	(7,341)	62,053
Aircraft fixtures and fittings	14,480	13,827	-	-	(5,754)	22,553
Buildings	14,868	251	36	-	(510)	14,645
Motor vehicles	4,112	3,829	-	(10)	(1,680)	6,251
Office equipment, furniture and fittings	10,097	4,544	1,047	(3)	(4,294)	11,391
Office renovation	3,195	884	722	-	(1,189)	3,612
Simulator equipment	54,595	107	54	-	(2,210)	52,546
Operating plant and ground equipment	4,097	6,128	929	-	(2,058)	9,096
Assets not yet in operation	4,758	2,291	(2,788)	-	-	4,261
	1,261,095	1,878,503	-	(5,320)	(175,325)	2,958,953

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11 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Cost RM'000	Accumulated depreciation RM'000	Net book value RM'000
Company			
At 30 June 2007			
Aircraft engines, airframe and service potential	2,989,162	(216,617)	2,772,545
Aircraft spares	79,028	(16,975)	62,053
Aircraft fixtures and fittings	33,566	(11,013)	22,553
Buildings	15,718	(1,073)	14,645
Motor vehicles	10,168	(3,917)	6,251
Office equipment, furniture and fittings	25,564	(14,173)	11,391
Office renovation	6,429	(2,817)	3,612
Simulator equipment	55,235	(2,689)	52,546
Operating plant and ground equipment	13,150	(4,054)	9,096
Assets not yet in operation	4,261	-	4,261
	3,232,281	(273,328)	2,958,953

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

	Group and Company	
	31.12.2007 RM'000	30.6.2007 RM'000
Aircraft pledged as security for term loans (Note 27)	3,996,376	2,617,660
Simulator pledged as security for term loans (Note 27)	47,312	48,498
Motor vehicles on hire-purchase	255	351

(b) The depreciation charge of the Group and Company in the income statements are stated net of income received from the Group's jointly controlled entity and associate on lease rental of aircraft amounting to RM9.7 million (30.6.2007: RM14.3 million).

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007 (CONTINUED)

12 INVESTMENT IN SUBSIDIARIES

	Company 31.12.2007 RM'000	Company 30.6.2007 RM'000
Unquoted investments, at cost	22,194	22,194

The details of the subsidiaries are as follows:

Name	Country of incorporation	Group's effective equity interest 31.12.2007 %	Group's effective equity interest 30.6.2007 %	Principal activities
Directly held by the Company				
Crunchtime Culinary Services Sdn Bhd ("Crunchtime")	Malaysia	100.0	100.0	Provision of inflight meals
AA International Ltd ("AAIL") ^ (sub note (a))	Malaysia	100.0	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
Airspace Communications Sdn Bhd ("Airspace") ^ (sub note (b))	Malaysia	100.0	99.0	Media owner with publishing division
AirAsia (B) Sdn Bhd *	Negara Brunei Darussalam	100.0	100.00	Dormant
Held by AAIL				
AirAsia (Hong Kong) Limited ("AirAsia HK") *	Hong Kong	100.0	100.0	Dormant
AA Capital Ltd	Malaysia	100.0	100.0	Dormant

* Not audited by PricewaterhouseCoopers, Malaysia
^ Subscribed during the financial period

(a) During the financial period, AirAsia acquired the remaining balance of 10,000 shares representing 0.2% of the issued and paid up share capital in AA International Ltd for USD1.00. As a result AA International Ltd is now a wholly-owned subsidiary of the Company.

(b) During the financial period, AirAsia acquired the remaining 1 ordinary share for a consideration of RM1.00, thus making Airspace a wholly-owned subsidiary of AirAsia.

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13 INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	Group	
	31.12.2007 RM'000	30.6.2007 RM'000
Represented by:		
Unquoted investment, at cost	12,054	12,054
Group's share of post acquisition reserves	(12,054)	(12,054)
	-	-

The details of the jointly controlled entity are as follows:

Name	Country of incorporation	Group's effective equity interest 31.12.2007 %	30.6.2007 %	Principal activities
Held by AAIL				
Thai AirAsia Co. Ltd ("Thai AirAsia")	Thailand	48.9	48.9	Aerial transport of persons, things and posts

The Group's share of the revenue and expenses of the jointly controlled entity, which has not been equity accounted for, are as follows:

	6 months financial period ended 31.12.2007 RM'000	Financial year ended 30.6.2007 RM'000
Revenue	164,463	262,429
Expenses	(182,443)	(279,314)
Loss before taxation	(17,980)	(16,885)
Taxation	-	-
Net loss for the financial period/year	(17,980)	(16,885)

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

	31.12.2007 RM'000	30.6.2007 RM'000
Non-current assets	11,967	10,474
Current assets	47,682	40,821
Current liabilities	(107,130)	(82,200)
Share of net liabilities of a jointly controlled entity	(47,481)	(30,905)

13 INVESTMENT IN A JOINTLY CONTROLLED ENTITY (CONTINUED)

The Group discontinued recognition of its share of further losses made by Thai AirAsia as the Group's interest in the jointly controlled entity has been reduced to zero and the Group has not incurred any obligations or guaranteed any obligations in respect of the jointly controlled entity. As at 31 December 2007, the unrecognised amount of the Group's share of losses of Thai AirAsia which have not been equity accounted for amounted to RM35.5 million (30.6.2007: RM18.9 million).

14 INVESTMENT IN ASSOCIATES

	Group		Company	
	31.12.2007	30.6.2007	31.12.2007	30.6.2007
	RM'000	RM'000	RM'000	RM'000
Unquoted investment, at cost	4,141	4,141	29	29
Group's share of post acquisition losses	(4,112)	(4,112)	-	-
	29	29	29	29

The details of the associates are as follows:

Name	Country of incorporation	Group's effective equity interest 31.12.2007 %	Group's effective equity interest 30.6.2007 %	Principal activities
AirAsia Philippines Inc	Philippines	39.9	39.9	Providing air transportation services
Held by Crunchtime and Thai AirAsia				
Thai Crunch Time Co. Ltd ("Thai Crunch Time")	Thailand	49.0	49.0	Provision of inflight meals
Held by AAIL				
PT Indonesia AirAsia ("IAA")	Indonesia	48.9	48.9	Commercial air transport service
AirAsia Pte Ltd ("AAPL")	Singapore	48.9	48.9	Dormant

14 INVESTMENT IN ASSOCIATES (CONTINUED)

The Group's share of revenue and results of associates, which has not been equity accounted for, are as follows:

	6 months financial period ended 31.12.2007 RM'000	Financial year ended 30.6.2007 RM'000
Revenue	85,591	127,168
Loss after taxation	(3,199)	(27,268)

The Group's share of assets and liabilities of associates are as follows:

	31.12.2007 RM'000	30.6.2007 RM'000
Non-current assets	(5,726)	5,667
Current assets	(15,698)	15,310
Current liabilities	(3,477)	(44,896)
Non-current liabilities	(35,583)	(37,076)
Net liabilities	(60,484)	(60,995)

The Group discontinued recognition of its share of further losses made by Thai Crunch Time and IAA as the Group's interest in these associates has been reduced to zero and the Group has not incurred any obligations or guaranteed any obligations in respect of the associates. As at 31 December 2007, the unrecognised amount of the Group's share of losses of Thai Crunch Time and IAA which have not been equity accounted for amounted to RM0.1 million (30.6.2007: RM0.1 million) and RM64.2 million (30.6.2007: RM60.4 million) respectively.

15 OTHER INVESTMENTS

	Group and Company	
	31.12.2007 RM'000	30.6.2007 RM'000
Non-current:		
Recreational golf club membership	61	67
Investment in AirAsia X Sdn Bhd ("AAX")	26,667	-
	26,728	67
Current:		
Unquoted investment with a fund management company, at cost (Note 23)	30,892	34,136

During the financial period, the Company subscribed for 26,666,667 redeemable convertible preference shares Series 1 ("RCPS") of RM1.00 each at par in AirAsia X Sdn Bhd.

16 GOODWILL

	Group RM'000
Cost	
At 30 June 2007/31 December 2007	8,738
Net book value	
At 30 June 2007/31 December 2007	8,738

The Group undertakes an annual test for impairment of its goodwill. The carrying amount of goodwill is allocated to the Group's cash generating unit, i.e. primarily the investment in a subsidiary, AAIL. No impairment loss was required for the carrying amount of goodwill assessed as at 31 December 2007 as the recoverable amount is in excess of the carrying amount.

Key assumptions used in the value-in-use calculations

The recoverable amount of the cash-generating unit including goodwill in this test is determined based on the value-in-use calculation. This value-in-use calculation applies a discounted cash flow model using cash flow projections covering a five-year period for the subsidiary's business operations. The projections reflect the subsidiary's expectation of revenue growth, operating costs and margins of its investment based on past experience and current assessment of market share, expectation of market growth and industry growth.

For purposes of the value-in-use calculation, a discount rate of 10% per annum has been applied. The discount rate reflects an independent market rate applicable to the operations of the cash generating unit.

Impact of possible change in key assumptions

Sensitivity analysis shows that no impairment loss is required for the carrying amount of goodwill, including where realistic variations are applied to key assumptions.

17 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	
	31.12.2007	30.6.2007
	RM'000	RM'000
Deferred tax assets	479,705	329,216

The movements in the deferred tax assets and liabilities of the Group and the Company during the financial period/year are as follows:

	Group and Company	
	31.12.2007	30.6.2007
	RM'000	RM'000
At start of year	329,216	104,090
Charged to income statement (Note 9)		
- Property, plant and equipment	(23,467)	(54,491)
- Tax incentives	173,956	279,617
	150,489	225,126
At end of period/year	479,705	329,216
Deferred tax assets (before offsetting)		
Tax losses	9,538	10,272
Tax incentives	596,926	422,236
	606,464	432,508
Offsetting	(126,759)	(103,292)
Deferred tax assets (after offsetting)	479,705	329,216
Deferred tax liabilities (before offsetting)		
Property, plant and equipment	(126,759)	(103,292)
Offsetting	126,759	103,292
Deferred tax liabilities (after offsetting)	-	-

The Ministry of Finance has granted approval to the Company 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 a 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.

18 RECEIVABLES AND PREPAYMENTS

	Group		Company	
	31.12.2007	30.6.2007	31.12.2007	30.6.2007
	RM'000	RM'000	RM'000	RM'000
Non-current:				
Long term prepayments (sub note (a))	65,405	46,484	65,405	46,484
Current:				
Trade receivables	18,699	15,722	17,687	15,722
Less: Allowance for doubtful debts	(1,994)	(1,994)	(1,994)	(1,994)
	16,705	13,728	15,693	13,728
Other receivables (sub note (b))	101,341	41,039	100,620	40,116
Less: Allowance for doubtful debts	(1,072)	(3,539)	(1,072)	(3,539)
	100,272	37,500	99,548	36,577
Prepayments	69,245	45,960	69,182	45,960
Deposits	352,979	211,762	352,789	211,762
	539,201	308,950	537,212	308,027

The currency exposure profile of trade and other receivables is as follows:

	Group		Company	
	31.12.2007	30.6.2007	31.12.2007	30.6.2007
	RM'000	RM'000	RM'000	RM'000
RM	75,563	182,647	73,574	181,724
USD	460,168	126,152	460,168	126,152
Others	3,470	151	3,470	151
	539,201	308,950	537,212	308,027

(a) Included in long term prepayments are prepaid lease rental and guarantee fees paid in respect of financing obtained. 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 respectively.

(b) Included in other receivables is an amount due from the former holding company, HICOM Holdings Bhd ("HICOM"), of RM 5.8 million as at 31 December 2007 (30.6.2007: RM5.8 million). The amount owing is unsecured, interest free and not subject to any fixed terms of repayment. This balance relates to a liability paid by the Company on behalf of HICOM, whereby the Company and HICOM would jointly bear the liability of the Company prior to the acquisition by Tune Air Sdn Bhd ('TASB') on a one to one basis.

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007 (CONTINUED)

19 INVENTORIES

	Group		Company	
	31.12.2007	30.6.2007	31.12.2007	30.6.2007
	RM'000	RM'000	RM'000	RM'000
Spares and consumables	16,904	8,720	16,904	8,720
Finished goods	663	792	115	242
	17,567	9,512	17,019	8,962

20 AMOUNTS DUE FROM SUBSIDIARIES

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

21 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.

22 AMOUNTS DUE FROM/(TO) ASSOCIATES

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

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

	Group and Company	
	31.12.2007	30.6.2007
	RM'000	RM'000
USD	88,168	76,294
SGD	(3,761)	1,138
	84,407	77,432

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2007 (CONTINUED)

23 CASH AND CASH EQUIVALENTS

	Group		Company	
	31.12.2007	30.6.2007	31.12.2007	30.6.2007
	RM'000	RM'000	RM'000	RM'000
Cash and bank balances	23,930	32,621	19,825	28,516
Deposits with licensed banks	109,775	259,125	109,775	259,125
Short-term deposits with fund management companies	291,490	303,497	291,490	303.497
Deposits, cash and bank balances	425,195	595,243	421,090	591,138
Deposits pledged as securities	(34,978)	(20,896)	(34,978)	(20,896)
	390,217	574,347	386,112	570,242

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

	Group		Company	
	31.12.2007	30.6.2007	31.12.2007	30.6.2007
	RM'000	RM'000	RM'000	RM'000
Ringgit Malaysia	367,267	449,526	364,164	446,423
USD	47,937	137,779	46,935	136.777
IDR	2,626	2,236	2,626	2,236
SGD	7,311	3,591	7,311	3,591
HKD	7	9	7	9
EUR	10	2,102	10	2,102
THB	37	-	37	-
	425,195	595,243	421,090	591,138

The unquoted investment of the Group and the Company (Note 15) and short-term deposits with a fund management company amounting to RM 30.9 million and RM 5.0 million (30.6.2007: RM34.1 million and RM1.0 million) respectively are portfolio investments undertaken on behalf of the Group and the Company by Intrinsic Capital Management Sdn Bhd ("INCAM"), a company in which a Director of the Company has a financial interest. The Company paid RM45,097 of management fee to INCAM during the financial period (30.6.2007: RM88,156).

The deposits with licensed banks 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	
	31.12.2007	30.6.2007	31.12.2007	30.6.2007
	%	%	%	%
Deposits with licensed banks	3.47	3.47	3.47	3.47
Short-term deposits with fund management companies	1.56	3.05	1.56	3.05

24 TRADE AND OTHER PAYABLES

	Group		Company	
	31.12.2007	30.6.2007	31.12.2007	30.6.2007
	RM'000	RM'000	RM'000	RM'000
Trade payables	98,443	74,517	97,502	73,576
Other payables and accruals	353,325	292,744	347,730	289,164
Sales in advance	169,113	190,535	165,602	183,431
	620,881	557,796	610,834	546,171

The currency exposure profile of trade and other payables is as follows:

	Group		Company	
	31.12.2007	30.6.2007	31.12.2007	30.6.2007
	RM'000	RM'000	RM'000	RM'000
Ringgit Malaysia	592,696	543,661	582,649	532,036
USD	26,550	13,885	26,550	13,885
Others	1,635	250	1,635	250
	620,881	557,796	610,834	546,171

25 AMOUNTS DUE TO SUBSIDIARIES

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

26 HIRE-PURCHASE PAYABLES

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

	Group and Company	
	31.12.2007	30.6.2007
	RM'000	RM'000
Hire-purchase liabilities:		
Minimum payments:		
- Not later than 1 year	90	90
- Later than 1 year and not later than 5 years	174	218
	264	308
Less: Future finance charges	(38)	(43)
Present value of liabilities	226	265

26 HIRE-PURCHASE PAYABLES (CONTINUED)

	Group and Company	
	31.12.2007	30.6.2007
	RM'000	RM'000
Present value of liabilities:		
- Not later than 1 year	77	77
- Later than 1 year and not later than 5 years	149	188
	226	265

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

As at 31 December 2007, the effective interest rate applicable to the lease liabilities was [3.29]% (30.6.2007: 3.75%) per annum for the Group and Company. The entire balance is denominated in Ringgit Malaysia.

27 BORROWINGS (SECURED)

	Group and Company		
	Weighted average rate of finance	31.12.2007 RM'000	30.6.2007 RM'000
Current:			
Term loan	5.38%	209,932	136,348
Revolving credit facilities	4.00%	49,597	101,818
Finance lease liabilities	5.82%	19,021	12,931
		278,550	251,097
Non-current:			
Term loan	5.38%	3,093,322	2,076,874
Finance lease liabilities	5.82%	325,799	226,614
		3,419,121	2,303,488
Total borrowings		3,697,671	2,554,585

27 BORROWINGS (SECURED) (CONTINUED)

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

	Group and Company	
	31.12.2007	30.6.2007
	RM'000	RM'000
Not later than 1 year	278,550	251,097
Later than 1 year and not later than 5 years	997,703	651,848
Later than 5 years	2,421,418	1,651,640
	3,697,671	2,554,585

The entire borrowings are denominated in US Dollar.

As at the balance sheet date, the weighted average effective interest rate of the borrowings is 5.40% per annum (30.6.2007: 5.56%).

The above term loans and finance lease liabilities (Ijarah) are for the purchase of new A320-200 aircraft and simulator equipment. These term loans are secured by the following:

(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

(d) Assignment of simulator equipment and airframe engines

28 SHARE CAPITAL

	Group and Company	
	31.12.2007	30.6.2007
	RM'000	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	236,077	234,649
Issued during the financial year	1,077	1,428
At end of the financial year	237,154	236,077

During the financial period, the Company increased its issued and paid-up ordinary share capital from RM236,076,708 to RM237,154,158 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 an 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.

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.

28 SHARE CAPITAL (CONTINUED)

The main features of the ESOS are as follows: (continued)

(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 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 31 December 2007, options to subscribe for 37,230,000 (30.6.2006: 48,669,000) 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.

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 1.7.2007 '000	Granted '000	Exercised '000	Lapsed '000	At 31.12.2007 '000
1 September 2004	6 June 2009	1.08	48,669	-	(10,775)	(664)	37,230

	31.12.2007 '000	30.6.2007 '000
Number of share options vested at balance sheet date	19,805	3,334

28 SHARE CAPITAL (CONTINUED)

EMPLOYEE SHARE OPTION SCHEME ("ESOS") (continued)

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

Exercise date	Quoted price of shares at share issue date RM/share	Exercise price RM/share	Number of shares issued '000
July 2007 to August 2007	1.87 – 2.03	1.08	1,330
September 2007 to October 2007	1.83 – 2.10	1.08	5,550
November 2007 to December 2007	1.63 – 1.94	1.08	3,895
			10,775

	31.12.2007 RM'000	30.6.2007 RM'000
Ordinary share capital at par	1,077	1,428
Share premium	10,559	13,993
Proceeds received on exercise of share options	11,636	15,421
Fair value at exercise date of shares issued	20,587	22,961

29 RETAINED EARNINGS

The Company has sufficient tax credits under Section 108(6) of the Income Tax Act, 1967 to frank approximately RM17.9 million (30.6.2007: RM14.6 million) of its retained earnings as at 31 December 2007 if paid out as dividends. The extent of the retained earnings not covered at that date amounted to RM1,120.2 million (30.6.2007: RM699.1 million). The tax credits under Section 108(6) of the Act are subject to the agreement by the Inland Revenue Board.

The Finance Act 2007 introduced a single tier company income tax system with effect from year of assessment 2008. As such, the Section 108 tax credit as at 31 December 2007 will be available to the Company until such time the credit is fully utilised or upon expiry of the six-year transitional period on 31 December 2013 or upon election to move into the single tier system, whichever is earlier.

In addition, the Company has tax exempt income as at 31 December 2007 amounting to approximately RM0.5 million (30.6.2007: 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	
	31.12.2007	30.6.2007
	RM'000	RM'000
Property, plant and equipment:		
Approved and contracted for	19,786,549	18,405,482
Approved but not contracted for	8,139,809	98,664
	27,926,358	18,504,146
Property, plant and equipment:		
Share of a jointly controlled entity's capital commitments	17,576	14,972
Share of an associate's capital commitments	18,943	13,355

The capital commitments for the Group and Company are in respect of aircraft purchase and options to purchase.

(b) Non-cancellable operating leases

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

				Company
	30.12.2007		30.6.2007	
	Future minimum lease payments	Future minimum sublease receipts	Future minimum lease payments	Future minimum sublease receipts
	RM'000	RM'000	RM'000	RM'000
Not later than 1 year	82,729	66,912	98,263	63,593
Later than 1 year and not later than 5 years	157,530	43,012	194,221	65,371
Later than 5 years	18,318	-	28,413	-
	258,577	109,924	320,897	128,964

31 CONTINGENT LIABILITIES

The Company is currently disputing certain expenses charged by a service provider as at 31 December 2007 amounting to approximately RM19.9 million (30.6.2007: RM14.4 million). The Directors are confident that resolution of the dispute above would be favourable to the Company.

Thai AirAsia Co. Ltd ("TAA"), a jointly controlled entity of the Group, has contingent liabilities relating to guarantees issued by banks in respect of the company's pilot trainees loans in accordance with the pilot professional course amounting to RM5.0 million (30.6.2007: RM6.7 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' guarantors as the guarantees have been pledged with TAA.

32 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.

33 SIGNIFICANT RELATED PARTY TRANSACTIONS

The related party transactions of the Company comprise mainly transactions between the Company and its subsidiaries, jointly controlled entity and associate. Details of these related companies are in Notes 12, 13 and 14 to the financial statements.

All related party transactions were carried out on terms and conditions attainable in transactions with unrelated parties.

Key management personnel are categorised as head or senior management officers of key operating divisions within the Group and Company. The key management compensation is disclosed in Note 33(e) below.

Related party transactions also includes transaction with entities that are controlled, jointly controlled or significantly influenced directly or indirectly by any key management personnel or their close family members, where applicable. The related party transactions, with a company in which a Director of the Company has a financial interest is disclosed in Note 23.

33 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

	Group		Company	
	6 months financial period ended 31.12.2007	Financial year ended 30.6.2007	6 months financial period ended 31.12.2007	Financial year ended 30.6.2007
	RM'000	RM'000	RM'000	RM'000
(a) Revenue:				
Sublease rental income on aircraft				
- Thai AirAsia	20,578	33,099	20,578	33,099
- Indonesia AirAsia	12,525	15,722	12,525	15,722
Lease rental income on aircraft included under:				
- Finance cost				
Thai AirAsia	7,550	9,797	7,550	9,797
Indonesia AirAsia	3,380	7,255	3,380	7,255
- Depreciation				
Thai AirAsia	6,328	8,212	6,328	8,212
Indonesia AirAsia	2,834	6,081	2,834	6,081
(b) Expenses:				
Maintenance and overhaul charges				
- Thai AirAsia	30,176	84,539	30,176	84,539
- Indonesia AirAsia	19,546	54,768	19,546	54,768

	31.12.2007	30.6.2007	31.12.2007	30.6.2007
	RM'000	RM'000	RM'000	RM'000
(c) Receivables:				
- AirAsia Mauritius Sdn Bhd	95,622	10,961	95,815	10,961
- AirAsia International Limited			3,910	3,910
- Thai AirAsia	-	81,221	-	81,221
- Indonesia AirAsia	81,571	70,931	81,571	70,931
- AirAsia Philippines	6,598	5,363	6,598	5,363
- AirAsia Pte Limited	-	1,138	-	1,138
(d) Payables:				
- AirAsia Go Holiday Sdn Bhd	-	-	10,022	11,138
- Crunchtime culinary Services Sdn Bhd	-	-	1,347	1,347
- Thai AirAsia	21,337	-	21,337	-
- AirAsia Pte Limited	3,761	-	3,761	-

33 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

	Group		Company	
	6 months financial period ended 31.12.2007	Financial year ended 30.6.2007	6 months financial period ended 31.12.2007	Financial year ended 30.6.2007
	RM'000	RM'000	RM'000	RM'000
(e) Key management compensation				
- basic salaries, bonus and allowances	6,102	6,985	6,102	6,985
- defined contribution plan	658	773	658	773
- other emoluments	1,928	3,321	1,928	3,321
	8,688	11,079	8,688	11,079

Included in the key management compensation are Executive Directors' remuneration as disclosed in Note 5.

34 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 activities 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. It seeks to hedge its fuel requirements and implements various fuel management strategies in order to manage the risk of rising fuel prices.

34 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(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 Group 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 2% 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:

	6 months financial period ended 31.12.2007 RM'000 equivalent	Year ended 30.6.2007 RM'000 equivalent
Later than 5 years	5,320,707	3,435,091
	5,320,707	3,435,091

34 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(b) Interest rate risk (continued)

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	Total carrying amount	Floating interest rate	Fixed interest rate					
					1 year or less	> 1-2 years	> 2-3 years	> 3-4 years	> 4-5 years	More than 5 years
		% per annum	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Group and Company										
31 December 2007										
Deposits with licensed bank	RM/RM	3.47	109,775	-	109,775	-	-	-	-	-
Short-term deposits with fund management companies	RM/RM	1.56	291,490	-	291,490	-	-	-	-	-
Term loans	RM/USD	5.38	(3,303,254)	(54,532)	(200,168)	(208,227)	(216,585)	(225,439)	(234,529)	(2,163,774)
Finance lease	RM/USD	5.82	(344,820)	-	(19,021)	(20,253)	(21,566)	(22,964)	(24,454)	(236,562)
Revolving credit	RM/USD	4.00	(49,597)	(49,597)	-	-	-	-	-	-
Hire-purchase payables	RM/RM	3.29	(226)	-	(77)	(77)	(72)	-	-	-
			(3,296,632)	(104,129)	181,999	(228,557)	(238,223)	(248,403)	(258,983)	(2,400,336)

34 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(b) Interest rate risk (continued)

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 or less RM'000	> 1-2 years RM'000	> 2-3 years RM'000	> 3-4 years RM'000	> 4-5 years RM'000	More than 5 years RM'000
Group and Company										
30 June 2007										
Deposits with licensed bank	RM/RM	3.47	259,125	-	259,125	-	-	-	-	-
Short-term deposits with fund management companies	RM/RM	3.05	303,497	-	303,497	-	-	-	-	-
Term loans	RM/USD	5.55	(2,213,222)	(55,704)	(126,440)	(131,861)	(137,319)	(143,066)	(148,999)	(1,469,833)
Finance lease	RM/USD	5.84	(239,545)	-	(12,931)	(13,771)	(14,665)	(15,617)	(16,631)	(165,930)
Revolving credit	RM/USD	5.15	(101,818)	(101,818)	-	-	-	-	-	-
Hire-purchase payables	RM/RM	3.75	(265)	-	(77)	(77)	(77)	(34)	-	-
			(1,992,228)	(157,522)	423,174	(145,709)	(152,061)	(158,717)	(165,630)	(1,635,763)

34 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(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.

The Company enters into forward foreign currency exchange contracts to limit its exposure on foreign currency receivables and payables. At 31 December 2007, the settlement dates on open forward contracts are in accordance with the loan instalment repayment dates (30.6.2007: in accordance with the loan instalment repayment dates). 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 31 December 2007	USD	MYR	3,335,716	3.000-3.369
As at 30 June 2007	USD	MYR	2,963,341	3.183-3.369

The net unrecognised and unrealised losses at 31 December 2007 on open contracts which hedge future payments on term loans amounted to RM69.2 million (30.6.2007: RM141.8 million). The full extent of crystallisation of any favourable or unfavourable variances can only be ascertained upon realisation of each settlement over the period of the long-term hedge contracts. The nature and amount of variance may vary over time.

(d) Credit risk

The Group's exposure to credit risks or the risk of counterparties defaulting arises mainly from various deposits and bank balances, receivables and derivative financial instruments. 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. In addition, credit risks are also controlled as the majority of the Group's deposits and bank balances and derivative financial instruments are placed or transacted with major financial institutions and reputable parties. The Directors are of the view that the possibility of non-performance by these financial institutions is remote on the basis of their financial strength.

The Group generally has no concentration of credit risk arising of trade receivables (30.6.2007: concentration of 26.3% comprising 2 customers).

34 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(e) 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.

(f) 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.

35 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.

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:

	31.12.2007		30.6.2007	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Group and Company				
Borrowings (non-current portion)	3,419,121	3,443,865	2,303,488	2,280,002
Hire-purchase payables (non-current portion)	149	143	188	177

35 FAIR VALUES OF FINANCIAL INSTRUMENTS FOR DISCLOSURE PURPOSES (CONTINUED)

Derivative financial instruments

The 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	Unfavourable net fair value RM'000
Group and Company			
31.12.2007			
Fuel options contracts	1.1.2008 -30.6.2010	46,340,000	127,918
30.6.2007			
Fuel options contracts	1.7.2007 – 30.6.2010	18,420,000	24,651

With regards to fuel hedging, the Company had subsequent to the financial period end, covered all sell call exposure for 2008 and hedged its 2009 sell call exposure with a call spread.

(b) Other derivatives

	31.12.2007		30.6.2007	
	Notional amount RM'000 equivalent	Fair value RM'000	Notional amount RM'000 equivalent	Fair value RM'000
Interest rate swaps	5,320,707	5,154,437	3,435,091	3,532,760
Foreign currency forward contracts	3,335,716	3,266,525	2,963,341	2,821,567

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows discounted at prevailing rates. The fair value of foreign exchange forward and fuel option contracts are determined using forward exchange rates or prices based on the relevant forward price curve on the balance sheet date. In assessing the fair value of the derivatives and financial instruments, the Group makes assumptions that are based on market conditions existing at each balance sheet date. These instruments are not recognised in the financial statements on inception. However, any gain or loss arising from each underlying transaction or settlement of the relevant contracts governing those underlying transactions or settlements would be measured and recognised in the financial statements based on the current market rates at that date.

36 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 30 April 2008.

PRICEWATERHOUSECOOPERS

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REPORT OF THE AUDITORS TO THE MEMBERS OF AIRASIA BERHAD
(Company No. 284669 W)

We have audited the financial statements set out on pages 6 to 67. 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 FRSs, 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 31 December 2007 and of the results and cash flows of the Group and Company for the financial period 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.

Company No.

284669	W

AIRASIA BERHAD
(Incorporated in Malaysia)

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 6 to 67 are drawn up so as to give a true and fair view of the state of affairs of the Group and Company as at 31 December 2007 and of the results and the cash flows of the Group and Company for the financial period ended on that date in accordance with the provisions of the Companies Act, 1965 and the FRSs, the MASB approved accounting standards in Malaysia for Entities Other than Private Entities.

In accordance with a resolution of the Board of Directors dated 3 0 APR 2008

DATO' ANTHONY FRANCIS FERNANDES
DIRECTOR

DATO' KAMARUDIN BIN MERANUN
DIRECTOR

STATUTORY DECLARATION PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, Rozman Bin Omar, the Officer primarily responsible for the financial management of AirAsia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 6 to 67 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.

Rozman Bin Omar

Subscribed and solemnly declared by the abovenamed Rozman Bin Omar at Petaling Jaya in Malaysia on 3 0 APR 2008, before me.

PESURUHJAYA SUMPAH
NO: B144
NAMA: S. SELVARAJAH
MALAYSIA

COMMISSIONER FOR OATHS

92M, JALAN SS21/39,
DAMANSARA UTAMA P.J.
TEL: 7728 3811

PRICEWATERHOUSECOOPERS

REPORT OF THE AUDITORS TO THE MEMBERS OF
AIRASIA BERHAD (CONTINUED)
(Company No. 284669 W)

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

SRIDHARAN NAIR
(No. 2656/05/08 (J))
Partner of the firm

Kuala Lumpur
30 April 2008