

Company No.

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**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**STATUTORY FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010**

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Company No.

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**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**REPORTS AND FINANCIAL STATEMENTS  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010**

**CONTENTS**

	Pages
Directors' report	1 - 5
Financial statements	
Income statements	6
Statements of comprehensive income	7
Balance sheets	8 - 9
Statements of changes in equity	10 - 11
Cash flow statements	12 - 13
Notes to the financial statements	14 - 95
Statement by Directors	96
Statutory declaration	96
Independent auditors' report	97 - 99

Company No.

264669 W

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

## DIRECTORS' REPORT

The Directors hereby submit their annual report to the members together with the audited financial statements of the Group and Company for the financial year ended 31 December 2010.

### 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 13 to the financial statements. There was no significant change in the nature of these activities during the financial year.

### FINANCIAL RESULTS

	Group RM'000	Company RM'000
Net profit for the financial year	1,061,411	1,056,075

### DIVIDENDS

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

The Directors now recommend the payment of a first and final dividend in respect of the financial year ended 31 December 2010 as follows:

- (i) Dividend of 0.91 sen less 25% tax per ordinary share of 10 sen each amounting to RM19,026,403;
- (ii) Tax exempt dividend of 0.02 sen per ordinary share of 10 sen each amounting to RM527,627; and
- (iii) Single-tiered dividend of 2.07 sen per ordinary share of 10 sen amounting to RM57,306,798.

The first and final dividend which is subject to the approval of members at the forthcoming Annual General Meeting of the Company, will be paid to shareholders registered in the Register of Members at the close of business on 20 June 2011. Based on the issued and paid-up capital of the Company as at the date of this report, the final dividend would amount to RM76,860,918.

### RESERVES AND PROVISIONS

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

Company No.

284669	W
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**AIRASIA BERHAD**  
(Incorporated in Malaysia)

## DIRECTORS' REPORT (CONTINUED)

### ISSUANCE OF SHARES

During the financial year, the Company increased its issued and paid-up ordinary share capital from RM275,774,458 to RM277,343,508 by way of issuance of 15,691,500 ordinary shares of RM0.10 each pursuant to the exercise of the Company's Employee Share Option Scheme ("ESOS") at an exercise price of RM1.08 per share. The premium arising from the exercise of ESOS of RM15,377,670, has been credited to the Share Premium account.

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

### 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 was effective for a period of 5 years from the date of approval. On 28 May 2009, the Company extended the duration of its ESOS which expired on 6 June 2009 by another 5 years to 6 June 2014. This was in accordance with the terms of the ESOS By-Laws. The ESOS extension was not subject to any regulatory or shareholders' approval.

Details of the ESOS are set out in Note 31 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 320,000 and above. The employees who have been granted options of more than 320,000 shares are Dato' Sri Dr 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' Abdel Aziz @ Abdul Aziz Bin Abu Bakar  
Dato' Sri Dr Anthony Francis Fernandes  
Dato' Kamarudin Bin Meranun  
Conor Mc Carthy  
Dato' Leong Sonny @ Leong Khee Seong  
Dato' Fam Lee Ee  
Datuk Alias Bin Ali  
Dato' Mohamed Khadar Bin Merican  
Mohd Omar Bin Mustapha

(Appointed on 16 March 2011)

Company No.

284669

W

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

## DIRECTORS' REPORT (CONTINUED)

### DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, being arrangements with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, other than the Company's ESOS (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 Directors' remuneration as 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 37 to the financial statements.

### DIRECTORS' INTERESTS IN SHARES

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

	Number of ordinary shares of RM0.10 each			
	At 1.1.2010	Acquired	Disposed	At 31.12.2010
<u>The Company</u>				
<u>Direct interests</u>				
Dato' Sri Dr Anthony Francis Fernandes	2,627,010	-	-	2,627,010
Dato' Kamarudin Bin Meranun	1,692,900	-	-	1,692,900
Conor Mc Carthy	20,882,903	-	5,590,500	15,352,403**
Dato' Leong Sonny @ Leong Khoo Seong	100,000	-	-	100,000
Dato' Farn Lee Ee	200,000	-	100,000	100,000
<u>Indirect interests</u>				
Dato' Sri Dr Anthony Francis Fernandes *	729,458,382	-	-	729,458,382
Dato' Kamarudin Bin Meranun *	729,458,382	-	-	729,458,382

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

\*\* 100,000 shares held in personal name and 15,252,403 shares held under HSBC Nominees (Asia) Sdn Bhd.

Company No.

284669	W
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**AIRASIA BERHAD**  
(Incorporated in Malaysia)

## DIRECTORS' REPORT (CONTINUED)

### DIRECTORS' INTERESTS IN SHARES (CONTINUED)

	<u>Number of options over ordinary shares of RM0.10 each</u>			
	<u>At</u> <u>1.1.2010</u>	<u>Granted</u>	<u>Exercised</u>	<u>At</u> <u>31.12.2010</u>
<u>The Company</u>				
Dato' Sri Dr 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 year held any interest in shares, options over shares and debentures of the Company and its related corporations during the financial year.

### STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

Before the financial statements of the Group and the Company were made out, the Directors took reasonable steps:

- (a) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate allowance had been made for doubtful debts; and
- (b) to ensure that any current assets, other than debts, which were unlikely to realise in the ordinary course of business their values as shown in the accounting records of the Group and Company had been written down to an amount which they might be expected so to realise.

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

- (a) which would render the amounts written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Group and Company inadequate to any substantial extent; or
- (b) which would render the values attributed to current assets in the financial statements of the Group and Company misleading; or
- (c) which have arisen which render adherence to the existing method of valuation of assets or liabilities of the Group and Company misleading or inappropriate.

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

Company No.

284669 W

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**DIRECTORS' REPORT (CONTINUED)**

**STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS (CONTINUED)**

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

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

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

In the opinion of the Directors:

- (a) the results of the Group's and Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature, other than those arising from the changes in accounting policy disclosed in Note 2 to the financial statements; and
- (b) there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect substantially the results of the operations of the Group and Company for the financial year in which this report is made.

**AUDITORS**

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

In accordance with a resolution of the Board of Directors dated **28 APR 2011**



**DATO' SRI DR ANTHONY FRANCIS FERNANDES**  
DIRECTOR



**DATO' KAMARUDIN BIN MERANUN**  
DIRECTOR

Company No.

294669 W

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**INCOME STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010**

	Note	Group		Company	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Revenue	4	3,848,095	3,132,907	3,864,459	3,072,049
Operating expenses					
- Staff costs	5	(360,785)	(306,002)	(358,941)	(304,561)
- Depreciation of property, plant and equipment	12	(519,984)	(447,644)	(519,958)	(447,637)
- Aircraft fuel expenses		(1,210,108)	(927,795)	(1,210,108)	(927,795)
- Maintenance, overhaul, user charges and other related expenses		(476,077)	(410,583)	(476,077)	(410,583)
- Aircraft operating lease expenses		(65,692)	(107,251)	(65,692)	(107,251)
- Travel and tour operating expenses		(69,634)	(53,524)	-	-
- Gain on unwinding of derivatives		-	22,457	-	22,457
- Other operating expenses	6	(192,381)	(92,188)	(186,017)	(90,543)
Other losses - net	7	(22,416)	-	(22,416)	-
Other income	8	35,943	102,383	35,367	102,383
Operating profit		1,066,961	912,754	1,060,617	908,529
Finance income	9	808,039	84,505	808,023	84,462
Finance costs	9	(776,138)	(374,971)	(776,134)	(374,971)
Profit before taxation		1,098,856	622,288	1,092,506	618,020
Taxation					
- Current taxation	10	(5,431)	(11,186)	(5,417)	(11,186)
- Deferred taxation	10	(32,014)	(104,835)	(32,014)	(104,835)
		(37,445)	(116,021)	(37,431)	(116,021)
Net profit for the financial year		1,061,411	506,267	1,055,075	501,999
Earnings per share (sen)					
- Basic	11	38.4	20.6		
- Diluted	11	38.3	20.6		

The notes on pages 14 to 94 form part of these financial statements.



Company No.

284669	W
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**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010**

	Note	Group		Company	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Profit for the financial year		1,081,411	506,267	1,055,075	501,999
Other comprehensive (loss)/ Income					
- Available-for-sale financial assets	16	4,279	-	4,279	-
- Cash flow hedges		(5,639)	-	(5,639)	-
- Foreign currency translation differences		(107)	-	-	-
Other comprehensive loss for the financial year, net of tax		(1,467)	-	(1,360)	-
Total comprehensive income for the financial year		1,059,944	506,267	1,053,715	501,999
Total comprehensive income attributable to:					
- Equity holders of the company		1,059,944	506,267		
- Minority interests		-	-		
		1,059,944	506,267		

The notes on pages 14 to 94 form part of these financial statements.

Company No.

284669	W
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**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**BALANCE SHEETS AS AT 31 DECEMBER 2010**

	Note	Group		Company	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	12	9,318,041	7,942,188	9,316,592	7,941,293
Investment in subsidiaries	13	-	-	25,384	22,194
Investment in associates	15	29	29	29	29
Available-for-sale financial assets	16	152,942	-	152,942	-
Other investments	17	25	26,704	25	26,704
Goodwill	18	8,738	8,738	-	-
Deferred tax assets	19	719,260	751,274	719,260	751,274
Receivables and prepayments	20	23,598	23,598	23,593	23,593
Amount due from a jointly controlled entity	21	-	171,885	-	171,885
Amount due from an associate	22	117,964	253,037	117,964	253,037
Derivative financial instruments	30	25,544	-	25,544	-
		<u>10,366,136</u>	<u>9,177,448</u>	<u>10,381,333</u>	<u>9,190,009</u>
<b>CURRENT ASSETS</b>					
Inventories	23	17,559	20,834	17,005	20,316
Receivables and prepayments	20	841,122	721,082	815,921	719,608
Deposits on aircraft purchase		248,684	330,978	248,684	330,978
Amounts due from subsidiaries	24	-	-	432,382	197,626
Amount due from a jointly controlled entity	21	99,802	194,503	-	-
Amounts due from associates	22	162,386	203,930	162,386	203,930
Amount due from a related party	24	-	3,303	-	3,303
Deposits, cash and bank balances	25	1,504,617	746,312	1,499,061	746,345
		<u>2,874,164</u>	<u>2,220,972</u>	<u>3,176,439</u>	<u>2,221,106</u>

Company No.	
284889	W

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**BALANCE SHEETS AS AT 31 DECEMBER 2010 (CONTINUED)**

	Note	Group		Company	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>LESS: CURRENT LIABILITIES</b>					
Trade and other payables	26	912,943	872,990	884,344	861,847
Sales in advance		328,549	283,224	307,987	272,339
Amounts due to subsidiaries	27	-	-	44,251	29,055
Amount due to a jointly controlled entity	21	-	-	322,614	-
Amount due to an associate	22	5,228	3,382	5,228	3,382
Amount due to a related party	27	41,262	-	41,262	-
Hire-purchase payables	28	15	56	15	56
Borrowings	29	553,967	540,212	553,967	540,212
Current tax liabilities		1,632	9,824	955	9,824
		<u>1,843,591</u>	<u>1,709,688</u>	<u>2,160,618</u>	<u>1,716,709</u>
<b>NET CURRENT ASSETS</b>		<u>1,030,578</u>	<u>511,284</u>	<u>1,014,821</u>	<u>504,397</u>
<b>NON-CURRENT LIABILITIES</b>					
Hire-purchase payables	28	-	16	-	16
Borrowings	29	7,302,884	7,067,696	7,302,884	7,067,696
Derivative financial instruments	30	452,865	-	452,865	-
		<u>7,755,749</u>	<u>7,067,712</u>	<u>7,755,749</u>	<u>7,067,712</u>
		<u>3,640,960</u>	<u>2,621,020</u>	<u>3,640,405</u>	<u>2,626,694</u>
<b>CAPITAL AND RESERVES</b>					
Share capital	31	277,344	275,774	277,344	275,774
Share premium		1,221,594	1,206,216	1,221,594	1,206,216
Foreign exchange reserve		485	592	-	-
Retained earnings	32	2,102,571	1,138,438	2,102,501	1,144,704
Other reserves		38,966	-	38,966	-
<b>Shareholders' equity</b>		<u>3,640,960</u>	<u>2,621,020</u>	<u>3,640,405</u>	<u>2,626,694</u>

The notes on pages 14 to 94 form part of these financial statements.

Company No.

284669 W

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**STATEMENTS OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010**

Group	Note	Number of shares '000	Nominal value RM'000	Attributable to equity holders of the Company							Total equity RM'000
				Share premium RM'000	Foreign exchange reserve RM'000	Cash flow hedge reserve RM'000	AFS reserve RM'000	Retained earnings RM'000	Total RM'000	Minority interests RM'000	
At 1 January 2009		2,374,210	237,421	735,352	592	-	-	632,171	1,605,536	-	1,605,536
Net profit for the financial year		-	-	-	-	-	-	506,257	506,257	-	506,257
Issuance of ordinary shares		-	-	-	-	-	-	-	-	-	-
- issue of shares pursuant to the Employee Share Option Scheme ('ESOS')	31	380,000	38,000	467,400	-	-	-	-	505,400	-	505,400
At 31 December 2009		2,757,745	275,774	1,206,216	592	-	-	1,138,438	2,621,020	-	2,621,020
At 1 January 2010		2,757,745	275,774	1,206,216	592	-	-	1,188,438	2,621,020	-	2,621,020
Effects of adoption of FRS 139		-	-	-	-	(65,870)	105,996	(97,278)	(56,952)	-	(56,952)
At 1 January 2010 (restated)		2,757,745	275,774	1,206,216	592	(65,870)	105,996	1,041,160	2,564,068	-	2,564,068
Net profit for the financial year		-	-	-	-	-	-	1,081,411	1,081,411	-	1,061,411
Other comprehensive income		-	-	-	(107)	(5,639)	4,279	-	(1,467)	-	(1,467)
Total comprehensive income		-	-	-	(107)	(5,639)	4,279	1,081,411	1,059,944	-	1,059,944
Issuance of ordinary shares pursuant to the Employee Share Option Scheme ('ESOS')	31	15,692	1,570	15,376	-	-	-	-	15,918	-	15,918
At 31 December 2010		2,773,437	277,344	1,221,594	485	(71,309)	110,275	2,102,571	3,640,960	-	3,640,960

The notes on pages 14 to 94 form part of these financial statements.

Company No.

284569 W

**AIRASIA BERHAD**

(Incorporated in Malaysia)

**STATEMENTS OF CHANGES IN EQUITY  
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010 (CONTINUED)**

	Note	Issued and fully paid ordinary shares of RM0.10 each		Cash flow			Non-distributable			Distributable		Total RM'000
		Number of shares '000	Nominal value RM'000	hedge reserve RM'000	AFS reserve RM'000	Share premium RM'000	Retained earnings RM'000	Share premium RM'000	Retained earnings RM'000	Share premium RM'000		
Company At 1 January 2009		2,574,210	237,421	-	-	735,352	-	642,705	-	1,615,478		
Net loss for the financial year		-	-	-	-	-	-	501,999	-	501,999		
Issuance of shares	31	380,000	38,000	-	-	487,400	-	-	-	505,400		
- issue of shares - pursuant to the Employee Share Option Scheme ("ESOS")	31	3,535	353	-	-	3,464	-	-	-	3,817		
At 31 December 2009		2,757,745	275,774	-	-	1,206,216	-	1,144,704	-	2,626,694		
At 1 January 2010		2,757,745	275,774	-	-	1,206,216	-	1,144,704	-	2,626,694		
Effects of adoption of FRS 139	40	-	-	(55,670)	105,996	-	-	(97,278)	-	(56,952)		
At 1 January 2010 (restated)		2,757,745	275,774	(55,670)	105,996	1,206,216	-	1,047,426	-	2,569,742		
Net profit for the financial year		-	-	-	-	-	-	1,055,075	-	1,055,075		
Other comprehensive income		-	-	(5,639)	4,279	-	-	-	-	(1,360)		
Total comprehensive income		-	-	(5,639)	4,279	-	-	1,055,075	-	1,055,075		
Issuance of shares - pursuant to the Employee Share Option Scheme ("ESOS")	31	15,692	1,570	-	-	15,378	-	-	-	16,948		
At 31 December 2010		2,773,437	277,344	(71,309)	110,275	1,221,594	-	2,102,501	-	3,640,405		

The notes on pages 14 to 94 form part of these financial statements.

Company No.

284669

W

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**CASH FLOW STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010**

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before taxation	1,098,856	622,288	1,092,506	618,020
Adjustments:				
Property, plant and equipment				
- Depreciation	519,984	447,644	519,958	447,637
- Impairment	6,996	-	6,996	-
- Write off	-	388	-	388
- Gain on disposals	(1,311)	(30,696)	(1,311)	(30,696)
Amortisation of long term prepayments	24,741	9,645	24,741	9,645
Amortisation of other investments	12	11	12	11
Unwinding of discount on intercompany receivables	(9,647)	-	(9,647)	-
Fair value losses on derivative financial instruments	295,028	-	295,028	-
Net unrealised foreign exchange gain	(586,755)	(39,742)	(586,760)	(39,742)
Interest expense	374,384	371,153	374,364	371,153
Interest income	(66,699)	(6,300)	(66,689)	(6,257)
	<u>1,655,569</u>	<u>1,374,391</u>	<u>1,649,198</u>	<u>1,370,159</u>
Changes in working capital:				
Inventories	3,311	(180)	3,311	(179)
Receivables and prepayments	(182,883)	(28,438)	(139,046)	(28,869)
Trade and other payables	63,453	77,701	35,177	69,716
Intercompany balances	393,568	(166,457)	401,920	(155,435)
Cash generated from operations	<u>1,953,018</u>	<u>1,257,017</u>	<u>1,950,560</u>	<u>1,255,392</u>
Interest paid	(378,099)	(322,407)	(378,099)	(322,407)
Utilisation of provision for loss on unwinding of derivatives	-	(151,713)	-	(151,713)
Interest received	57,052	6,300	57,042	6,257
Tax paid	(11,808)	(5,578)	(11,319)	(5,578)
Net cash from operating activities	<u>1,619,163</u>	<u>788,619</u>	<u>1,617,164</u>	<u>781,951</u>

Company No.

284669 W

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**CASH FLOW STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2010 (CONTINUED)**

	Note	Group		Company	
		2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Property, plant and equipment					
- Additions		(1,902,833)	(1,947,763)	(1,902,253)	(1,947,746)
- Proceeds from disposals		-	182,538	-	182,538
Investment in a subsidiary company		-	-	(3,190)	-
Deposits on lease of aircraft		50,808	(12,243)	50,808	(12,243)
Purchases of available-for-sale financial assets		(16,000)	-	(16,000)	-
Net cash used in investing activities		(1,868,025)	(1,777,468)	(1,870,635)	(1,777,451)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from allotment of shares		16,948	509,217	16,948	509,217
Hire-purchase instalments paid		(57)	(77)	(57)	(77)
Proceeds from borrowings		1,562,856	1,670,390	1,562,856	1,670,390
Repayment of borrowings		(572,580)	(593,131)	(572,580)	(593,131)
Deposits (pledged)/released as securities		(942)	5,112	(942)	5,112
Net cash from financing activities		1,006,225	1,591,511	1,006,225	1,591,511
<b>NET INCREASE FOR THE FINANCIAL YEAR</b>		<b>757,963</b>	<b>597,662</b>	<b>752,774</b>	<b>596,011</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR</b>		<b>718,466</b>	<b>120,803</b>	<b>717,498</b>	<b>121,487</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR</b>	25	<b>1,475,828</b>	<b>718,465</b>	<b>1,470,272</b>	<b>717,498</b>

The notes on pages 14 to 94 form part of these financial statements.

Company No.	
284669	W

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS – 31 DECEMBER 2010

### 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 13 to the financial statements. There was no significant change in the nature of these activities during the financial year.

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

25-5, Block H  
Jalan PJU1/97, 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

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 28 April 2011.

### 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 ('MASEB') approved accounting standards in Malaysia for Entities Other than Private Entities, and comply with the provisions of the Companies Act, 1965.

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

The preparation of financial statements in conformity with FRSs and the provisions of the Companies Act, 1965 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 year. It also requires Directors to exercise their judgment in the process of applying the Group's accounting policies. Although these estimates and judgment are based on the Directors' best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgment 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.



**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**Standards, amendments to published standards and Interpretations that are effective**

The new accounting standards, amendments and improvements to published standards and interpretations that are effective for the Group and Company's financial year beginning on or after 1 January 2010 are as follows:

- FRS 4 "Insurance Contract"
- FRS 7 "Financial Instruments: Disclosures" and the related Amendments
- FRS 8 "Operating Segments"
- FRS 101 (revised) "Presentation of Financial Statements"
- FRS 123 "Borrowing Costs"
- FRS 139 "Financial Instruments: Recognition and Measurement" and the related Amendments
- Amendment to FRS 1 "First-time Adoption of Financial Reporting Standards" and FRS 127 "Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate"
- Amendment to FRS 2 "Share-based Payment: Vesting Conditions and Cancellations"
- Amendments to FRS 132 "Financial Instruments: Presentation" and FRS 101 (revised) "Presentation of Financial Statements" - Puttable financial instruments and obligations arising on liquidation
- IC Interpretation 9 "Reassessment of Embedded Derivatives" and the related Amendments
- IC Interpretation 10 "Interim Financial Reporting and Impairment"
- IC Interpretation 11 "FRS 2 Group and Treasury Share Transactions"
- IC Interpretation 13 "Customer Loyalty Programmes"
- IC Interpretation 14 "FRS 119 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction"
- Improvements to FRSs (2009)

The adoption of these new FRSs, amendments and Interpretations do not have any effect on the financial performance or financial position of the Group and Company except for those discussed below.

(i) Revised FRS 101 "Presentation of Financial Statements"

The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income which can be presented as a single statement or two statements (comprising the income statement and statement of comprehensive income). The Group has elected to present the statement of comprehensive income in two statements. As a result, the Group has presented all owner changes in equity in the consolidated statement of changes in equity whilst all non-owner changes in equity have been presented in the consolidated statement of comprehensive income. There is no impact on the earnings per share since these changes affect only the presentation of items of income and expenses.

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

(i) FRS 7 "Financial Instruments : Disclosures"

Prior to 1 January 2010, information about financial instruments was disclosed in accordance with the requirements of FRS 132 "Financial Instruments : Disclosure and Presentation". FRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

The Group and the Company have applied FRS 7 prospectively in accordance with the transition provisions. Hence, the new disclosures have not been applied to the comparatives. The new disclosures are included throughout the Group's and the Company's financial statements for the financial year ended 31 December 2010. As the adoption of this new accounting standard only results in additional disclosures, there is no impact on earnings per share.

(iii) FRS 8 "Operating Segments"

FRS 8 requires segment information to be presented on a similar basis to that used for internal reporting purposes. As a result, the Group's segmental reporting had been presented based on the internal reporting to the chief operating decision maker who makes decisions on the allocation of resources and assesses the performance of the reportable segments. This standard does not have any impact on the financial position and results of the Group. The required disclosures are shown in Note 36 to the financial statements.

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

(iv) FRS 139 "Financial Instruments: Recognition and Measurement"

FRS 139 establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. The Group and the Company have adopted FRS 139 prospectively on 1 January 2010 in accordance with the transitional provisions.

The adoption of FRS 139 has resulted in several changes to accounting policies relating to recognition and measurement of financial instruments. Comparatives for financial instruments have not been adjusted and therefore the corresponding balances are not comparable. Significant changes in accounting policies are as follows:

(i) Investments

Non-current investments, previously measured at cost and subject to impairment, are now classified as available-for-sale financial assets. These are initially measured (a) at fair value plus transaction costs and subsequently at fair value or (b) unless fair value cannot be reliably measured due to the variability in the range of reasonable fair value estimates is significant for that investment or the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value; in such case, they are measured at cost less impairment losses. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

Changes in fair values of available-for-sale equity securities are recognised in other comprehensive income, together with the related currency translation differences. A significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the asset is impaired. If any such evidence exists, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in the income statement, is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are reversed through other comprehensive income and not through the income statement.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are included in the income statement. Refer to Note 40 for the impact of this change in accounting policy.

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

(iv) FRS 139 "Financial Instruments: Recognition and Measurement" (continued)

(i) Derivatives

Prior to 1 January 2011, derivative financial instruments were not recognised in the financial statements on inception. With the adoption of FRS 139, derivative financial instruments are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured at their fair values.

The Group has applied the new policy according to the transitional provisions by recognising and measuring derivatives, as appropriate, and recording any adjustments to the previous carrying amounts to the opening retained earnings or, if appropriate, another category of equity, of the current financial year. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument (see accounting policy Note 2(f)). Refer to Note 40 for the impact of this change in accounting policy.

(ii) Intercompany loans

During the current and prior years, the Company granted interest-free loans and advances to its subsidiaries. Prior to 1 January 2010, these loans and advances were recorded at cost in the Company's financial statements. Upon the adoption of FRS 139, the interest-free loans or advances are recorded initially at a fair value that is lower than cost. The difference between the fair value and cost of the loan or advance is recognised as adjustments to the opening balance of retained earnings. Subsequent to initial recognition, the loans and advances are measured at amortised cost. Refer to Note 40 for the impact of this change in accounting policy.

(iv) Loans and receivables

Non-current receivables, previously measured at invoiced amount and subject to impairment, are now classified as loans and receivables and measured at fair value plus transaction costs initially and subsequently, at amortised cost using the effective interest method.

When loans and receivables are impaired, the carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. Impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)**

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(iv) FRS 139 "Financial Instruments: Recognition and Measurement" (continued)

Prior to 1 January 2010, the Group also stated its other non-current financial liabilities at undiscounted amount payable. With the adoption of FRS 139, these financial liabilities are initially measured at fair value and subsequently at amortised cost using the effective interest rate method.

In accordance with the transitional provisions for the first time adoption of FRS 139, the above changes in accounting policy have been accounted for prospectively and the comparatives as at 31 December 2009 are not restated. Refer to Note 40 for the impact of this change in accounting policy.

**Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and Company but not yet effective and have not been early adopted**

The following new and revised standards, Interpretations and amendments to standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2011 or later periods, but the Group has not early adopted them:

- The revised FRS 3 "Business combinations" (effective prospectively for accounting period beginning 1 July 2010) continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the minority interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply FRS 3 (revised) prospectively to all business combinations from 1 January 2011.
- The revised FRS 124 "Related party disclosures" (effective from 1 January 2012) removes the exemption to disclose transactions between government-related entities and the government, and all other government-related entities. The following new disclosures are now required for government related entities:
  - The name of the government and the nature of their relationship;
  - The nature and amount of each individually significant transactions; and
  - The extent of any collectively significant transactions, qualitatively or quantitatively.

This standard is not expected to have a material impact on the earnings per share since these changes only result in additional disclosures.

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**Standards, amendments to published standards and Interpretations to existing standards that are applicable to the Group and Company but not yet effective and have not been early adopted (continued)**

- The revised FRS 127 "Consolidated and separate financial statements" (applies prospectively to transactions with non-controlling interests from 1 July 2010) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. When this standard is effective, all earnings and losses of the subsidiary are attributed to the parent and the non-controlling interest, even if the attribution of losses to the non-controlling interest results in a debit balance in the shareholders' equity. Profit or loss attribution to non-controlling interests for prior years is not restated. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in the income statement. The Group will apply FRS 127 (revised) prospectively to transactions with minority interests from 1 January 2011. This standard is not expected to have a material impact on the Group's financial statements.
- Amendments to FRS 7 "Financial instruments : Improving Disclosures" and FRS 1 "First-time adoption of financial reporting standards" (effective from 1 January 2011) requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The Group and Company will apply Amendments to FRS 7 from 1 January 2011. This standard is not expected to have a material impact on earnings per share since these changes only result in additional disclosures.
- Amendments to FRS 132 "Financial instruments : Presentation" on classification of rights issue (effective from 1 March 2010) addresses accounting for rights issues that are denominated in currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity instruments instead of as derivative liabilities, regardless of the currency in which the exercise price is denominated. The Group and Company will apply Amendments to FRS 132 "Classification of Rights Issues" prospectively from 1 January 2011. This standard is not expected to have a material impact on the Group's and Company's financial statements.

**AIRASIA BERHAD**  
(Incorporated In Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and Company but not yet effective and have not been early adopted (continued)**

- IC Interpretation 15 "Agreements for construction of real estates" (effective from 1 January 2012) supersedes FRS 201 "Property development activities" and clarifies that property development activities are sale of goods, instead of construction contracts. IC Interpretation 15 will result in a change in accounting policy for revenue recognition for property development activities of the Group from percentage of completion method to completion method where revenue can only be recognised when the Group has transferred control and the significant risks and rewards of ownership of the completed properties to the buyer.
- IC Interpretation 16 "Hedges of a net investment in a foreign operation" (effective from 1 July 2010) clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency, not presentation currency, and hedging instruments may be held by any entity in the Group. The requirements of FRS 121 "The effects of changes in foreign exchange rates" do apply to the hedged item. This IC is not expected to have a material impact on the Group's and Company's financial statements.
- IC Interpretation 17 "Distribution of non-cash assets to owners" (effective from 1 July 2010) provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. FRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. This IC is not expected to have a material impact on the Group's or Company's financial statements.
- IC Interpretation 18 "Transfers of assets from customers" (effective prospectively for assets received on or after 1 January 2011) provides guidance where an entity receives from a customer an item of property, plant and equipment (or cash to acquire such an asset) that the entity must then use to connect the customer to a network or to provide the customer with services. Where the transferred item meets the definition of an asset, the asset is recognised as an item of property, plant and equipment at its fair value. Revenue is recognised for each separate service performed in accordance with the recognition criteria of FRS 118 "Revenue". The Group and Company will apply this IC Interpretation prospectively from 1 January 2011. This IC is not expected to have a material impact on the Group's or Company's financial statements.

Company No.

284669	W
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**AIRASIA BERHAD**  
(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

**Standards, amendments to published standards and interpretations to existing standards that are applicable to the Group and Company but not yet effective and have not been early adopted (continued)**

- IC Interpretation 19 "Extinguishing financial liabilities with equity instruments" (effective from 1 July 2011) provides clarification when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. A gain or loss, being the difference between the carrying value of the financial liability and the fair value of the equity instruments issued, shall be recognised in the income statement. Entities are no longer permitted to reclassify the carrying value of the existing financial liability into equity with no gain or loss recognised in the income statement. This IC is not expected to have a material impact on the Group's or Company's financial statements.
  
- Amendments to IC Interpretation 14 "FRS 119 - The limit on a defined benefit assets, minimum funding requirements and their interaction" (effective from 1 July 2011) permits an entity to recognise the prepayments of contributions as an asset, rather than an expense in circumstances when the entity is subject to a minimum funding requirement and makes an early payment of contributions to meet those requirements. This IC is not expected to have a material impact on Group's or Company's financial statements.



Company No.	
284889	W

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

**The following amendments are part of the MASB's improvements project that are relevant and effective for annual periods beginning on or after 1 July 2010**

Improvements to FRSs:

- FRS 2 (effective from 1 July 2010) clarifies that contributions of a business on formation of a joint venture and common control transactions are outside the scope of FRS 2.
- FRS 9 (effective from 1 January 2011)
  - Clarifies that the choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by FRS.
  - Clarifies that the amendments to FRS 7, FRS 132 and FRS 139 that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of FRS 3 (2010). Those contingent consideration arrangements are to be accounted for in accordance with the guidance in FRS 3 (2005).
- FRS 5 "Non-current asset held for sale and discontinued operations" (effective from 1 July 2010) clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met.
- FRS 101 "Presentation of financial statements" (effective from 1 January 2011) clarifies that an entity shall present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.
- FRS 138 "Intangible Assets" (effective from 1 July 2010) clarifies that a group of complementary intangible assets acquired in a business combination may be recognised as a single asset if each asset has similar useful lives.
- IC Interpretation 9 (effective from 1 July 2010) clarifies that this interpretation does not apply to embedded derivatives in contracts acquired in a business combination, businesses under common control or the formation of a joint venture.

The above mentioned Improvement to FRSs are not expected to have any material impact on the Group's and Company's financial statements.

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)**

**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.

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)**

**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)(li).

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 long-term interests that, in substance, form part of the Group's net investment in those entities, the Group discontinues recognising its share of further losses.

After the Group's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entities. If the jointly controlled entities subsequently report profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities; 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 jointly controlled entities to ensure consistency of accounting policies with those of the Group.

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)**

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 include 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 long-term interests that, in substance, form part of the Group's net investment in the associate, the Group discontinues recognising its share of further losses.

After the Group's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

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.

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)**

**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 accumulated 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 as follows:

Aircraft	
- engines	7 or 25 years
- airframe	7 or 25 years
- service potential	7 or 13 years
Aircraft spares	10 years
Aircraft fixtures and fittings	Useful life of aircraft or remaining lease term of aircraft, whichever is shorter
Buildings	
- simulator	28.75 years
- hangar	50 years

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(d) Property, plant and equipment (continued)

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
In flight equipment	5 years
Training equipment	5 years

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

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. For the current financial year ended 31 December 2010, the estimated residual value for aircraft airframes and engines is 10% of their cost.

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 the income statement.

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.

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(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)).

(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 lives, 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 Group 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 year.

Company No.	
284669	W

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)**

**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 a 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.

**(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.



**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(j) **Financial assets**

(i) **Classification**

The Group has changed its accounting policy for recognition and measurement of financial assets upon the adoption of FRS 139 "Financial Instruments: Recognition and Measurement" on 1 January 2010.

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term. Derivatives are also categorised as held for trading unless they are designated as hedges.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'deposits, cash and bank balances' in the balance sheets.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

(ii) **Recognition and initial measurement**

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets, not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss.

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(j) **Financial assets (continued)**

(iii) **Subsequent measurement – gains and losses**

Available-for-sale financial assets and financial assets through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, except for impairment losses (see accounting policy Note 2(j)(iv)) and foreign exchange gains and losses on monetary assets. The exchange differences on monetary assets are recognised in the income statement, whereas exchange differences on non-monetary assets are recognised in other comprehensive income as part of fair value change.

Interest and dividend income on available-for-sale financial assets are recognised separately in profit or loss. Interest on available-for-sale debt securities calculated using the effective interest method is recognised in profit or loss. Dividend income on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

(iv) **Subsequent measurement – Impairment of financial assets**

Assets carried at amortised cost

The Group assesses at the end of the reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- Disappearance of an active market for that financial asset because of financial difficulties; or

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)**

2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(j) **Financial assets (continued)**

(iv) **Subsequent measurement – Impairment of financial assets (continued)**

- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - (i) adverse changes in the payment status of borrowers in the portfolio; and
  - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If loans and receivables have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

When an asset is uncollectible, it is written off against the related allowance account. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

Assets classified as available-for-sale

The Group assesses at the end of the reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

In the case of equity securities classified as available-for-sale, in addition to the criteria for 'assets carried at amortised cost' above, a significant or prolonged decline in the fair value of the security below its cost is also considered as an indicator that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the income statement. The amount of cumulative loss that is reclassified to the income statement is the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(j) Financial assets (continued)

(iv) Subsequent measurement – Impairment of financial assets (continued)

Assets classified as available-for-sale (continued)

The Group has applied the policy according to the transitional provisions of FRS 139 by re-measuring all financial assets, as appropriate, and recording any adjustments to the previous carrying amounts to opening retained earnings or, if appropriate, another category of equity, of the current financial year.

Comparatives for financial instruments have not been adjusted and therefore the corresponding balances are not comparable. Refer to Note 40 for the impact of this change in accounting policy.

(v) De-recognition

Financial assets are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

When available-for-sale financial assets are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss.

(k) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(f) Derivative financial instruments and hedging activities**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- (a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- (b) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 30. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

**(a) Fair value hedge**

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group only applies fair value hedge accounting for hedging fixed interest risk on borrowings. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement within 'finance costs'. The gain or loss relating to the ineffective portion is recognised in the income statement within 'other gains/(losses) -- net'. Changes in the fair value of the hedge fixed rate borrowings attributable to interest rate risk are recognised in the income statement within 'finance costs'.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity.

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(l) Derivative financial instruments and hedging activities (continued)**

**(b) Cash flow hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'other gains/(losses) – net'.

Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'revenue'.

However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or property, plant and equipment), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory or in depreciation in the case of property, plant and equipment.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within 'other gains/(losses) – net'.

The Group has applied the policy according to the transitional provisions of FRS 139 by recognising and measuring derivatives, as appropriate, and recording any adjustments to the previous carrying amounts to the opening retained earnings or, if appropriate, another category of equity, of the current financial year. Comparatives for financial instruments have not been adjusted and therefore the corresponding balances are not comparable. Refer to Note 40 for the impact of this change in accounting policy.

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(m) Trade receivables**

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. Otherwise, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

**(n) Cash and cash equivalents**

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

**(o) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses.

**(p) 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 on ordinary shares are recognised as a liability in the period in which they are declared. A dividend declared after the end of the reporting period, but before the financial statements are authorised for issue, is not recognised as a liability at the end of the reporting period.

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(g) 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.

**(r) Income taxes**

Current tax expense is determined according to the tax laws of each jurisdiction in which the Group operates and includes all taxes based upon the taxable profits, including withholding taxes payable by foreign subsidiaries, jointly controlled entities or associates.

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.



**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(a) Employee benefits**

**(i) Short term employee benefits**

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the financial year 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 financial year 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 is no impact on the financial statements of the Group following the prospective application of FRS 2 in 2006 as all the share options of the Company were fully vested prior to the effective date of the standard.

**(t) 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 from aircraft rentals is recorded on a straight-line basis over the term of the lease.

Other revenue which includes fuel surcharge, insurance surcharge, administrative fees, excess baggage and baggage handling fees, are recognised upon the completion of services rendered and where applicable, are stated net of discounts. Freight and other related revenue are recognised upon the completion of services rendered and where applicable, are stated net of discounts. Income from the provision of tour operations (both inbound and outbound) and travel agency services is recognised upon services being rendered and where applicable, are stated net of discounts.

Rental income is recognised on an accrual basis.

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables are recognised using the original effective interest rate.

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

(U) 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.

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.

Company No.	
284669	W

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)**

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(v) 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 interests.

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'.

**(w) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the management committee that makes strategic decisions.

Company No.

284669	W
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**AIRASIA BERHAD**  
(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)

### 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments 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 explained below.

(i) Estimated useful lives and residual values of aircraft frames and engines

The Group reviews annually the estimated useful lives and residual values of aircraft frames and engines based on factors such as business plans 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 above. A reduction in the estimated useful lives and residual values of aircraft frames and engines as disclosed in Note 2(d), would increase the recorded depreciation charge and decrease the carrying amount of property, plant and equipment.

Company No.

284669	W
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**AIRASIA BERHAD**  
(Incorporated in Malaysia)

## NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)

### 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(i) Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Estimating the future taxable profits involves significant assumptions, especially in respect of fares, load factor, fuel price, maintenance costs and currency movements. These assumptions have been built based on past performance and adjusted for non-recurring circumstances and a reasonable growth rate. However, even where the actual taxable profits in the future are 5 percent lower than the anticipated taxable profits, the deferred tax assets can still be fully utilised.

(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 disclosed in Notes 14 and 15 to the financial statements respectively. As at the balance sheet date, the amounts owing by these related parties amounted to RM99.8 million (2009: RM366.4 million) and RM268.1 million (2009: RM445.8 million) respectively. No allowances for impairment have been provided 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.

(iv) Valuation of available-for-sale equity investments

The Group has an investment in an unquoted corporation, AirAsia X Sdn Bhd, which was previously classified as other investments and is now categorised within available-for-sale financial assets upon the adoption of FRS 139. The Group follows the guidance of FRS 139 to determine when the valuation of an available-for-sale equity investment and if it is impaired. This determination requires a high degree of subjectivity and significant judgment. In making this judgment, the Group is dependent on the key bases and assumptions which include, among other factors, the prices of fuel, fares, load factor, currency movements; and the financial health of and short term business outlook for the investee, including factors such as industry and route performance, changes in technology and operational and financing cash flows.

Company No.

284669	W
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**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)**

4 REVENUE

	<u>Group</u>		<u>Company</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	RM'000	RM'000	RM'000	RM'000
Passenger seat sales	2,830,920	2,138,011	2,830,920	2,138,011
Aircraft operating lease income	395,943	320,332	395,943	320,332
Surcharges and fees	13,938	261,193	13,938	261,193
Travel and tour operations	83,636	60,852	-	-
Other revenue	623,658	352,513	623,658	352,513
	<u>3,948,095</u>	<u>3,132,901</u>	<u>3,864,459</u>	<u>3,072,049</u>

Other revenue includes excess baggage, baggage handling fee, freight and cancellation, documentation and booking fees amounting to RM539.9 million (2009: RM304.0 million) for the Group and Company.

5 STAFF COSTS

	<u>Group</u>		<u>Company</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	RM'000	RM'000	RM'000	RM'000
Wages, salaries, bonus and allowances	318,316	279,707	316,642	278,379
Defined contribution retirement plan	42,469	26,295	42,299	26,172
	<u>360,785</u>	<u>306,002</u>	<u>358,941</u>	<u>304,551</u>

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

	<u>Group and Company</u>	
	<u>2010</u>	<u>2009</u>
	RM'000	RM'000
<u>Executive Directors</u>		
- basic salaries, bonus and allowances	14,400	8,640
- defined contribution plan	1,728	1,037
<u>Non-executive Directors</u>		
- fees	2,203	963
	<u>18,331</u>	<u>10,660</u>

Company No.

284668 W

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)**

5 **STAFF COSTS (CONTINUED)**

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

	<u>Executive</u>		<u>Non-executive</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
<u>Range of remuneration</u>				
RM100,001 to RM150,000	-	-	-	3
RM150,001 to RM200,000	-	-	-	3
RM300,001 to RM350,000	-	-	2	-
RM350,001 to RM400,000	-	-	3	-
RM450,001 to RM500,000	-	-	1	-
RM4,000,001 to RM5,000,000	-	1	-	-
RM5,000,001 to RM6,000,000	-	1	-	-
RM7,000,001 to RM8,000,000	1	-	-	-
RM8,000,001 to RM9,000,000	1	-	-	-

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

<u>Grant date</u>	<u>Expiry date</u>	<u>Exercise price RM/share</u>	<u>At 1.1.2010 '000</u>	<u>Exercised '000</u>	<u>Lapsed '000</u>	<u>At 31.12.2010 '000</u>	
1 September 2004	6 June 2014	1.08	1,200	-	-	1,200	
						<u>2010</u>	<u>2009</u>
						<u>'000</u>	<u>'000</u>
Number of share options vested at balance sheet date						<u>1,200</u>	<u>1,200</u>

During the previous financial year, the exercise period of the ESOS which expired on 6 June 2009 was extended for a further 5 years to 6 June 2014.

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)**

**6 OTHER OPERATING EXPENSES**

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

	<u>Group</u>		<u>Company</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	RM'000	RM'000	RM'000	RM'000
Property, plant and equipment				
- Write off	-	388	-	388
- Impairment	6,996	-	6,996	-
Rental of land and building	10,877	4,181	10,877	4,157
Auditors' remuneration				
- audit fees	586	467	556	438
- audit related fees	255	10	255	10
- non-audit fees	1,494	51	1,494	51
Rental of equipment	2,151	1,475	2,151	1,475
Advertising costs	28,893	33,702	28,008	33,387
Amortisation of long term prepayments	24,741	9,645	24,741	9,645
Amortisation of other investments	12	11	12	11
Net foreign exchange (gain)/loss				
- Realised	(7,125)	(49,020)	(7,489)	(49,968)
- Unrealised	64,601	36,168	64,596	36,168
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

**7 OTHER LOSSES -- NET**

	<u>Group and Company</u>	
	<u>2010</u>	<u>2009</u>
	RM'000	RM'000
Interest rate contracts -- Held for trading	(42,585)	-
Forward foreign exchange contracts -- Held for trading	25,391	-
Fuel contracts -- Held for trading	892	-
Ineffectiveness on cash flow hedges (Note 30)	(6,054)	-
Total	<u>(22,416)</u>	<u>          </u>

**8 OTHER INCOME**

	<u>Group</u>		<u>Company</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	RM'000	RM'000	RM'000	RM'000
Gain on disposals of property, plant and equipment	1,311	30,696	1,311	30,696
Others	34,632	71,687	34,066	71,687
	<u>35,943</u>	<u>102,383</u>	<u>35,367</u>	<u>102,383</u>



Company No.

284669 W

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)**

9 **FINANCE INCOME/(COSTS)**

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Finance Income:				
Foreign exchange gains on borrowings				
- Realised	-	2,295	-	2,295
- Unrealised	741,334	75,910	741,334	75,910
Interest income				
- deposits with licensed banks	826	1,009	826	1,000
- short term deposits with fund management companies	2,692	627	2,692	627
- interest income on amounts due from associates and jointly controlled entities	53,925	-	53,925	-
- other interest income	9,256	4,664	9,246	4,621
	808,033	84,505	808,023	84,462
Finance costs:				
Realised foreign exchange loss on borrowings				
	(29,208)	-	(29,208)	-
Unrealised foreign exchange loss on amounts due from associates and jointly controlled entities				
	(89,978)	-	(89,978)	-
Fair value losses on derivative financial instruments				
	(272,612)	-	(272,612)	-
Interest expense				
- bank borrowings	(374,364)	(371,141)	(374,364)	(371,141)
- amortisation of premiums for interest rate caps	(7,750)	-	(7,750)	-
- hire-purchase payables	(10)	(12)	(10)	(12)
Bank facilities and other charges	(2,216)	(3,818)	(2,212)	(3,819)
	(776,138)	(374,971)	(776,134)	(374,971)
Net finance income/(costs)	31,895	(290,466)	31,889	(290,509)

Company No.

284669 W

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)**

10 TAXATION

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Current taxation				
- Malaysian tax	13,240	12,301	13,226	12,301
- Foreign tax	2,967	1,805	2,967	1,805
Overprovision of Income tax in prior years	(10,776)	(2,920)	(10,776)	(2,920)
Deferred taxation (Note 19)	32,014	104,835	32,014	104,835
	<u>37,445</u>	<u>116,021</u>	<u>37,431</u>	<u>116,021</u>
Current taxation				
- Current financial year	16,207	14,106	16,193	14,106
- Overprovision of Income tax in prior years	(10,776)	(2,920)	(10,776)	(2,920)
Deferred taxation				
- Origination and reversal of temporary differences	197,852	121,581	197,852	121,581
- Tax Incentives	(165,838)	(16,746)	(165,838)	(16,746)
	<u>37,445</u>	<u>116,021</u>	<u>37,431</u>	<u>116,021</u>

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	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Profit before taxation	<u>1,098,856</u>	<u>622,288</u>	<u>1,092,506</u>	<u>618,020</u>
Tax calculated at Malaysian tax rate of 23% (2009: 25%)	274,714	155,572	273,127	154,505
Tax effects of:				
- expenses not deductible for tax purposes	18,078	2,558	19,651	3,626
- income not subject to tax	(79,245)	(23,268)	(79,245)	(23,268)
- temporary differences not recognised within the pioneer period	512	824	512	824
- tax incentives	(165,838)	(16,746)	(165,838)	(16,746)
- over provision of Income tax in prior years	(10,776)	(2,920)	(10,776)	(2,920)
Taxation	<u>37,445</u>	<u>116,021</u>	<u>37,431</u>	<u>116,021</u>