

Company No.	
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**AIRASIA BERHAD**  
(Incorporated in Malaysia)

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

11 EARNINGS PER SHARE

(a) Basic earnings per share

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

	2010	Group 2009
Profit for the financial year (RM'000)	1,061,411	506,267
Weighted average number of ordinary shares in issue ('000)	2,761,637	2,456,443
Earnings per share (sen)	38.4	20.6

(b) Diluted earnings per share

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

The Group has dilutive potential ordinary shares arising from the Company's share options granted to employees.

In assessing the dilution in earnings per share arising from the issue of share options, a computation is performed to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options. This computation serves to determine the "bonus" element to the ordinary shares outstanding for the purpose of computing the dilution. No adjustment is made to net profit for the financial year in the calculation of the diluted earnings per share from the issue of the share options.

The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2010	Group 2009
Profit for the financial year (RM'000)	1,061,411	506,267
Weighted average number of ordinary shares in issue ('000)	2,761,637	2,456,443
Adjustment for ESOS ('000)	8,644	-
Weighted average number of ordinary shares for diluted earnings per share	2,770,281	2,456,443
Diluted earnings per share (sen)	38.3	20.6

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

**12 PROPERTY, PLANT AND EQUIPMENT**

Group	At 1 January 2010 RM'000	Additions RM'000	Reclassi- fications RM'000	Impairment RM'000	Depreciation charge RM'000	At 31 December 2010 RM'000
<u>Net book value</u>						
Aircraft engines, airframe and service potential	7,676,107	1,847,573	-	(6,996)	(471,060)	9,045,624
Aircraft spares	118,694	27,116	-	-	(20,031)	125,781
Aircraft fixtures and fittings	28,342	5,902	-	-	(11,481)	22,763
Buildings	37,990	942	-	-	(1,445)	37,387
Motor vehicles	4,961	1,262	-	-	(2,461)	6,782
Office equipment, furniture and fittings	11,208	11,990	-	-	(4,581)	18,617
Office renovation	2,870	1,458	-	-	(1,510)	2,818
Simulator equipment	47,670	58	-	-	(2,044)	45,684
Operating plant and ground equipment	10,989	2,419	566	-	(4,566)	9,408
Kitchen equipment	194	-	-	-	-	194
In flight equipment	423	826	-	-	(192)	1,057
Training equipment	2,174	365	-	-	(613)	1,926
Assets not yet in operation	566	-	(566)	-	-	-
	<u>7,912,186</u>	<u>1,902,833</u>	<u>-</u>	<u>(6,996)</u>	<u>(519,984)</u>	<u>9,318,041</u>

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

12 **PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

<u>Group</u>	<u>Cost</u> RM'000	<u>Accumulated depreciation</u> RM'000	<u>Net book value</u> RM'000
<u>At 31 December 2010</u>			
Aircraft engines, airframe and service potential	10,469,160	(1,423,536)	9,045,624
Aircraft spares	195,155	(89,374)	125,781
Aircraft fixtures and fittings	71,504	(48,741)	22,763
Buildings	41,204	(3,817)	37,387
Motor vehicles	18,819	(11,837)	6,782
Office equipment, furniture and fittings	49,116	(30,499)	18,617
Office renovation	10,655	(7,637)	2,818
Simulator equipment	55,988	(10,304)	45,684
Operating plant and ground equipment	28,121	(18,713)	9,408
Kitchen equipment	202	(8)	194
In flight equipment	1,885	(328)	1,057
Training equipment	3,098	(1,172)	1,926
	<u>10,944,207</u>	<u>(1,626,168)</u>	<u>9,318,041</u>

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

12	PROPERTY, PLANT AND EQUIPMENT (CONTINUED)	At		Reclassi- fications RM'000	Write off RM'000	Disposals RM'000	Depreciation charge RM'000	At 31 December 2009 RM'000
		1 January 2009 RM'000	Additions RM'000					
	<u>Group</u>							
	<u>Net book value</u>							
	Aircraft engines, airframe and service potential	6,337,262	1,894,583	(102)	-	(151,510)	(403,826)	7,576,107
	Aircraft spares	100,820	33,491	-	-	-	(15,617)	118,694
	Aircraft fixtures and fittings	36,784	3,290	-	-	-	(11,732)	28,342
	Buildings	13,982	-	24,528	-	-	(520)	37,990
	Motor vehicles	5,194	2,149	-	-	-	(2,382)	4,961
	Office equipment, furniture and fittings	10,206	5,662	85	-	-	(4,745)	11,208
	Office renovation	2,814	1,609	-	-	-	(1,553)	2,870
	Simulator equipment	49,740	168	-	-	-	(2,238)	47,670
	Operating plant and ground equipment	11,772	3,998	102	(388)	(32)	(4,463)	10,989
	Kitchen equipment	194	-	-	-	-	-	194
	In flight equipment	308	216	-	-	-	(101)	423
	Training equipment	620	2,021	-	-	-	(467)	2,174
	Assets not yet in operation	24,601	576	(24,611)	-	-	-	566
		<u>6,594,299</u>	<u>1,847,763</u>	<u>-</u>	<u>(388)</u>	<u>(151,842)</u>	<u>(447,644)</u>	<u>7,942,188</u>

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

12 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

<u>Group</u>	<u>Cost</u> RM'000	<u>Accumulated</u> <u>depreciation</u> RM'000	<u>Net book</u> <u>value</u> RM'000
<u>At 31 December 2009</u>			
Aircraft engines, airframe and service potential	8,626,583	(952,476)	7,676,107
Aircraft spares	168,087	(49,343)	118,694
Aircraft fixtures and fittings	65,602	(37,260)	28,342
Buildings	40,362	(2,372)	37,990
Motor vehicles	14,337	(9,376)	4,961
Office equipment, furniture and fittings	37,126	(25,918)	11,208
Office renovation	9,197	(6,327)	2,870
Simulator equipment	55,930	(8,260)	47,670
Operating plant and ground equipment	25,136	(14,147)	10,989
Kitchen equipment	202	(6)	194
In flight equipment	559	(136)	423
Training equipment	2,733	(559)	2,174
Assets not yet in operation	566	-	566
	<u>9,048,370</u>	<u>(1,106,182)</u>	<u>7,942,188</u>

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

12 **PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

Company	At 1 January 2010 RM'000	Additions RM'000	Reclassi- fications RM'000	Impairment RM'000	Depreciation charge RM'000	At 31 December 2010 RM'000
Aircraft engines, airframe and service potential	7,576,107	1,847,573	-	(6,996)	(471,060)	9,045,624
Aircraft spares	118,694	27,118	-	-	(20,031)	125,781
Aircraft fixtures and fittings	28,342	5,902	-	-	(11,481)	22,763
Buildings	37,950	842	-	-	(1,145)	37,647
Motor vehicles	4,356	4,282	-	-	(2,461)	6,177
Office equipment, furniture and fittings	11,112	11,431	-	-	(4,556)	17,987
Office renovation	2,670	1,137	-	-	(1,509)	2,298
Simulator equipment	47,670	58	-	-	(2,044)	45,684
Operating plant and ground equipment	10,989	2,419	568	-	(4,566)	9,408
In flight equipment	423	826	-	-	(192)	1,057
Training equipment	2,174	365	-	-	(613)	1,926
Assets not yet in operation	566	-	(566)	-	-	-
	<u>7,941,293</u>	<u>1,902,253</u>	<u>-</u>	<u>(6,996)</u>	<u>(519,958)</u>	<u>9,316,592</u>

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

12 **PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

Company	<u>Cost</u> RM'000	<u>Accumulated depreciation</u> RM'000	<u>Net book value</u> RM'000
At 31 December 2010			
Aircraft engines, airframe and service potential	10,469,160	(1,423,636)	9,045,624
Aircraft spares	105,155	(69,374)	125,781
Aircraft fixtures and fittings	71,504	(48,741)	22,763
Buildings	41,204	(3,817)	37,387
Motor vehicles	18,021	(11,844)	6,177
Office equipment, furniture and fittings	48,462	(30,475)	17,987
Office renovation	10,634	(7,836)	2,798
Simulator equipment	55,988	(10,304)	45,684
Operating plant and ground equipment	28,121	(18,713)	9,408
In flight equipment	1,385	(328)	1,057
Training equipment	3,098	(1,172)	1,926
	<u>10,942,732</u>	<u>(1,628,140)</u>	<u>9,318,592</u>

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

12 **PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

	At 1 January 2009 RM'000	Additions RM'000	Reclass- ifications RM'000	Write off RM'000	Disposals RM'000	Depreciation charge RM'000	At 31 December 2009 RM'000
<u>Company</u>							
<u>Net book value</u>							
Aircraft engines, airframe and service potential	6,337,262	1,894,583	(102)	-	(151,810)	(403,826)	7,676,107
Aircraft spares	100,820	33,491	-	-	-	(15,617)	118,694
Aircraft fixtures and fittings	36,734	3,290	-	-	-	(11,732)	28,342
Buildings	13,982	-	24,528	-	-	(520)	37,990
Motor vehicles	4,589	2,149	-	-	-	(2,382)	4,356
Office equipment, furniture and fittings	10,122	5,645	83	-	-	(4,738)	11,112
Office renovation	2,814	1,609	-	-	-	(1,553)	2,870
Simulator equipment	49,740	168	-	-	-	(2,298)	47,670
Operating plant and ground equipment	11,772	3,988	102	(388)	(32)	(4,463)	10,989
In flight equipment	308	216	-	-	-	(101)	423
Training equipment	620	2,021	-	-	-	(467)	2,174
Assets not yet in operation	24,601	576	(24,611)	-	-	-	566
	<u>6,593,414</u>	<u>1,947,746</u>	<u>-</u>	<u>(388)</u>	<u>(151,842)</u>	<u>(447,637)</u>	<u>7,941,293</u>



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

12 **PROPERTY, PLANT AND EQUIPMENT (CONTINUED)**

<u>Company</u>	<u>Cost</u> RM'000	<u>Accumulated depreciation</u> RM'000	<u>Net book value</u> RM'000
<u>At 31 December 2009</u>			
Aircraft engines, airframe and service potential	8,628,583	(952,476)	7,676,107
Aircraft spares	168,037	(49,343)	118,694
Aircraft fixtures and fittings	65,602	(37,260)	28,342
Buildings	40,362	(2,372)	37,990
Motor vehicles	13,732	(9,376)	4,356
Office equipment, furniture and fittings	37,031	(25,919)	11,112
Office renovation	9,197	(6,327)	2,870
Simulator equipment	55,930	(8,280)	47,670
Operating plant and ground equipment	25,136	(14,147)	10,989
In flight equipment	559	(136)	423
Training equipment	2,793	(559)	2,174
Assets not yet in operation	566	-	566
	<u>9,047,468</u>	<u>(1,106,175)</u>	<u>7,941,293</u>

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

	<u>Group and Company</u>	
	<u>2010</u>	<u>2009</u>
	RM'000	RM'000
Net book value of owned aircraft sub-leased out	3,445,485	2,458,972
Aircraft pledged as security for borrowings (Note 29)	9,030,028	7,643,739
Simulator pledged as security for borrowings (Note 29)	41,371	43,409
Motor vehicles on hire-purchase	16	76
	<u>12,526,900</u>	<u>10,146,206</u>

The beneficial ownership and operational control of aircraft pledged as security for borrowings rests with the Company when the aircraft is delivered to the Company.

Where the legal title to the aircraft is held by financiers during delivery, the legal title will be transferred to the Company only upon settlement of the respective facilities.

13 **INVESTMENT IN SUBSIDIARIES**

	<u>Company</u>	
	<u>2010</u>	<u>2009</u>
	RM'000	RM'000
Unquoted Investments, at cost	<u>25,384</u>	<u>22,194</u>

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

**13 INVESTMENT IN SUBSIDIARIES (CONTINUED)**

The details of the subsidiaries are as follows:

Name	Country of incorporation	Group's effective equity interest		Principal activities
		2010 %	2009 %	
<b>Directly held by the Company</b>				
Crunchtime Culinary Services Sdn Bhd ("Crunchtime")	Malaysia	100.0	100.0	Provision of in flight meals, currently dormant
AA International Ltd ("AAIL") *	Malaysia	100.0	100.0	Investment holding
AirAsia Go Holiday Sdn Bhd	Malaysia	100.0	100.0	Tour operating business
AirAsia (Mauritius) Limited ("AirAsia Mauritius") *	Mauritius	100.0	100.0	Providing aircraft leasing facilities to Thai AirAsia Co. Ltd
Airspace Communications Sdn Bhd ("Airspace")	Malaysia	100.0	100.0	Media owner with publishing division, currently dormant
AirAsia (B) Sdn Bhd *	Negara Brunei Darussalam	100.0	100.0	Providing air transportation services, currently dormant
AirAsia Corporate Services Limited *	Malaysia	100.0	100.0	Facilitate business transactions for AirAsia Group with non-resident goods and service providers
Aras Sejahtera Sdn Bhd	Malaysia	100.0	100.0	Special purpose vehicle for financing arrangements required by AirAsia
Koolred Sdn Bhd	Malaysia	100.0	-	Dormant
Asia Air Limited *	United Kingdom	100.0	100.0	To provide and promote AirAsia's in flight food to the European market
<b>Held by AAIL</b>				
AirAsia (Hong Kong) Limited ("AirAsia HK") *	Hong Kong	100.0	100.0	Dormant
AA Capital Ltd *	Malaysia	100.0	100.0	Dormant

\* Not audited by PricewaterhouseCoopers, Malaysia

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

14 INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	<u>2010</u> RM'000	<u>Group</u> <u>2009</u> RM'000
Represented by:		
Unquoted investment, at cost	12,054	12,054
Group's share of post acquisition reserves	(12,054)	(12,054)
	<u>          </u>	<u>          </u>
	<u>          </u>	<u>          </u>

The details of the jointly controlled entity are as follows:

Name	Country of Incorporation	Group's effective equity interest		Principal activities
		<u>2010</u> %	<u>2009</u> %	
<u>Held by AAL</u>				
Thai AirAsia Co. Ltd ("Thai AirAsia")	Thailand	48.9	48.9	Aerial transport of persons, things and posts

The Group's share of the results of the jointly controlled entity, which has not been equity accounted for, is as follows:

	<u>2010</u> RM'000	<u>2009</u> RM'000
Revenue	611,530	458,065
Expenses	(471,087)	(412,023)
Profit/(loss) before taxation	140,443	(46,042)
Taxation	-	-
Net profit/(loss) for the financial year	<u>140,443</u>	<u>(46,042)</u>

The Group's share of assets and liabilities of the jointly controlled entity is as follows:

	<u>2010</u> RM'000	<u>2009</u> RM'000
Non-current assets	14,597	14,242
Current assets	82,601	89,855
Current liabilities	(217,168)	(364,510)
Share of net liabilities of the jointly controlled entity	<u>(119,970)</u>	<u>(260,413)</u>

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

14 INVESTMENT IN A JOINTLY CONTROLLED ENTITY (CONTINUED)

The Group discontinued recognition of its share of further losses made by Thai AirAsia as the Group's interest in the jointly controlled entity has been reduced to zero and the Group has not incurred any obligations or guaranteed any obligations in respect of the jointly controlled entity. As at 31 December 2010, the unrecognised amount of the Group's share of losses of Thai AirAsia which has not been equity accounted for amounted to RM127.8 million (2009: RM268.2 million).

15 INVESTMENT IN ASSOCIATES

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Unquoted Investment, at cost	4,141	4,141	29	29
Group's share of post acquisition losses	(4,112)	(4,112)	-	-
	<u>29</u>	<u>29</u>	<u>29</u>	<u>29</u>

The details of the associates are as follows:

Name	Country of incorporation	Group's effective equity interest		Principal activities
		2010 %	2009 %	
AirAsia Philippines Inc	Philippines	39.9	39.9	Providing air transportation Services, currently dormant
AirAsia Pte Ltd ("AAPL")	Singapore	48.9	48.9	Dormant
Asian Contact Centres Sdn. Bhd.	Malaysia	50.0	50.0	Providing end-to-end solutions for customers contact management and contact centre
<u>Held by AAIL</u>				
PT Indonesia AirAsia ("IAA")	Indonesia	48.9	48.9	Commercial air transport service
AirAsia Go Holiday Co. Ltd	Thailand	49.0	49.0	Tour operating business, currently dormant

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

**15 INVESTMENT IN ASSOCIATES (CONTINUED)**

The Group's share of the results of associates, which has not been equity accounted for, is as follows:

	<u>2010</u> RM'000	<u>2009</u> RM'000
Revenue	463,176	338,931
Expenses	(383,380)	(469,533)
Profit/(loss) before taxation	79,796	(120,602)
Taxation	-	-
Net profit/(loss) for the financial year	<u>79,796</u>	<u>(120,602)</u>

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

	<u>2010</u> RM'000	<u>2009</u> RM'000
Non-current assets	17,706	18,222
Current assets	13,491	21,376
Current liabilities	(229,116)	(317,314)
Non-current liabilities	(23,354)	(23,354)
Share of net liabilities of associates	<u>(221,274)</u>	<u>(301,070)</u>

The Group discontinued recognition of its share of further losses made by IAA as the Group's interest in this associate has been reduced to zero and the Group has not incurred any obligations or guaranteed any obligations in respect of the associate. As at 31 December 2010, the unrecognised amounts of the Group's share of losses of IAA which have not been equity accounted for amounted to RM196.6 million (2009: RM276.4 million).

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

18 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>Group and Company</u>	
	<u>2010</u>	<u>2009</u>
	RM'000	RM'000
<u>Non-current</u>		
At 1 January – as previously stated	-	-
Effects of adoption of FRS 139 (Note 40)	132,663	-
At 1 January (restated)	132,663	-
Additions	16,000	-
Fair value gain – recognised in other comprehensive income	4,279	-
At 31 December	<u>152,942</u>	<u>-</u>

Investment in an unquoted corporation, AirAsia X Sdn Bhd, which was previously classified as other investment (Note 17) is categorised as available-for-sale financial assets upon the adoption of FRS 139.

During the financial year, the Group acquired a further of 16,000,000 redeemable convertible preference shares Series 1 ("RCPS") of RM1.00 each at par in AirAsia X Sdn Bhd.

The fair value of the investment is based on the price earnings ratio (PER) of listed comparable companies. The maximum exposure to credit risk at the reporting date is the carrying value of the security. This financial asset is neither past due nor impaired.

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

17 OTHER INVESTMENTS

	<u>Group and Company</u>	
	<u>2010</u>	<u>2009</u>
	RM'000	RM'000
Non-current:		
Recreational golf club membership	25	37
Investment in AirAsia X Sdn Bhd	-	26,667
	<u>25</u>	<u>26,704</u>

With the adoption of FRS 139 effective from 1 January 2010, other investments are now classified as available-for-sale financial assets (see Note 16).

	<u>Group and Company</u>	
	<u>2010</u>	<u>2009</u>
	RM'000	RM'000
At 1 January – as previously stated	26,704	26,715
Effects of adoption of FRS 139	(26,667)	-
At 1 January (restated)	<u>37</u>	<u>26,715</u>
Amortisation of other investments	(12)	(11)
At 31 December	<u>25</u>	<u>26,704</u>

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

18 GOODWILL

Group  
RM'000

Cost/net book value

At 31 December 2009/31 December 2010

8,738

The Group undertakes an annual test for impairment of goodwill. The carrying amount of goodwill is allocated to the Group's cash generating unit, which primarily comprised the investment in a subsidiary, AAIL. No impairment loss was required for the carrying amount of goodwill assessed as at 31 December 2010 as the recoverable amount is in excess of the carrying amount.

Key assumptions used in the value-in-use calculations

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

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

Impact of possible change in key assumptions

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



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

**19 DEFERRED TAXATION**

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheets:

	<u>Group and Company</u>	
	<u>2010</u>	<u>2009</u>
	RM'000	RM'000
Deferred tax assets	<u>719,260</u>	<u>751,274</u>

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

	<u>Group and Company</u>	
	<u>2010</u>	<u>2009</u>
	RM'000	RM'000
At start of financial year	751,274	856,109
(Charged)/credited to income statement (Note 10)		
- Property, plant and equipment	(197,852)	(58,874)
- Tax incentives	165,838	16,748
- Tax losses	-	(24,779)
- Provisions	-	(37,928)
	(32,014)	(104,835)
At end of financial year	<u>719,260</u>	<u>751,274</u>
Deferred tax assets (before offsetting)		
Tax incentives	991,735	825,897
Tax losses	9,171	9,171
	1,000,906	835,068
Offsetting	(281,646)	(83,794)
Deferred tax assets (after offsetting)	<u>719,260</u>	<u>751,274</u>
Deferred tax liabilities (before offsetting)		
Property, plant and equipment	(281,646)	(83,794)
Offsetting	281,646	83,794
Deferred tax liabilities (after offsetting)	<u>-</u>	<u>-</u>

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**19 DEFERRED TAXATION (CONTINUED)**

As disclosed in Note 3 to the financial statements in respect of critical accounting estimates and judgments, the deferred tax assets are recognised on the basis of the Company's previous history of recording profits, and 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.

On 27 May 2010, the Ministry of Finance, granted approval to the Company under Section 127 of Income Tax Act, 1967 for income tax exemption in the form of an Investment Allowance ("IA") of 60% on qualifying expenditure incurred within a period of 5 years commencing 1 July 2009 to 30 June 2014, to be set off against 70% of statutory income for each year of assessment. In the previous financial year, management had not recognised any IA beyond 30 June 2009 as the likelihood of successfully renewing this incentive was not known at that juncture. IA in respect of four aircraft that were acquired between July and December 2009 has now been recognised in the deferred tax assets computation as at 31 December 2010.

**20 RECEIVABLES AND PREPAYMENTS**

	Group		Company	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
<u>Non-current:</u>				
Long term prepayments	23,593	23,593	23,593	23,593
<u>Current:</u>				
Trade receivables	105,325	70,520	93,911	70,530
Less: Allowance for impairment	(1,994)	(1,994)	(1,994)	(1,994)
	103,331	68,526	91,917	68,536
Other receivables	124,045	114,161	110,815	113,870
Less: Allowance for impairment	(1,072)	(1,072)	(1,072)	(1,072)
	122,973	113,089	109,743	112,798
Prepayments	326,049	250,997	325,516	250,408
Deposits	288,769	288,470	288,745	287,866
	841,122	721,082	815,921	719,608

Credit terms of trade receivables range from 0 to 60 days.

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

**20 RECEIVABLES AND PREPAYMENTS (CONTINUED)**

As of 31 December 2010, the Group's trade receivables of RM103,331,000 consist of RM78,543,000 that is neither past due nor impaired and RM24,788,000 that is past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables that is past due but not impaired is as follows:

	<u>Group</u> <u>2010</u> RM'000
Up to 3 months	9,430
Over 3 months	<u>15,358</u>
	<u>24,788</u>

As of 31 December 2010, trade receivables of RM1,994,000 were impaired and provided for. The amount of the allowance was RM1,994,000 as of 31 December 2010.

The currency exposure profile of receivables and deposits (excluding prepayments) is as follows:

	<u>Group</u>		<u>Company</u>	
	<u>2010</u> RM'000	<u>2009</u> RM'000	<u>2010</u> RM'000	<u>2009</u> RM'000
RM	122,123	118,805	97,468	117,920
USD	353,417	343,374	353,417	343,374
Others	39,533	7,906	39,522	7,906
	<u>515,073</u>	<u>470,085</u>	<u>490,405</u>	<u>469,200</u>

Included in long term prepayments is prepaid lease rental, which is charged to the income statements over the term of the lease of the low cost carrier terminal building.

Included in deposits are cash collateral for derivatives and deposits to lessors for maintenance of aircraft amounting to RM215.8 million (2009: RM192.8 million) for the Group and Company.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

The carrying amounts of the Group's and the Company's trade and other receivables approximate their fair values.

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**21 AMOUNTS DUE FROM/(TO) A JOINTLY CONTROLLED ENTITY**

The amount due from Thai AirAsia Co. Ltd ("TAA"), the jointly controlled entity, is denominated in US Dollar, unsecured, has no fixed terms of repayment and is interest bearing at a rate equivalent to the Company's borrowing rate. The amount due from TAA was charged interest at 6% per annum with effect from 1 January 2010.

The analysis of the movements in the amount due from a jointly controlled entity for the financial year ended 31 December 2010 is as follows:

	<u>2010</u>	<u>Group</u> <u>2009</u>
	RM'000	RM'000
<b>Current:</b>		
At 1 January as previously stated	366,388	309,683
Effects of adoption of FRS 139	(15,462)	-
At 1 January (restated)	<u>350,926</u>	<u>309,683</u>
Recharges and other expenses	468,082	385,238
Receipts and settlements	(684,781)	(312,459)
Foreign exchange loss on translation	(39,424)	(16,074)
Unwinding of discount on receivables per FRS 139	4,999	-
At 31 December	<u><u>99,802</u></u>	<u><u>366,388</u></u>

The amount due to the jointly controlled entity at the Company level of RM322.6 million (2009: Nil) is interest free and offsets against amounts receivable from subsidiaries upon consolidation.

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

**22 AMOUNTS DUE FROM/(TO) ASSOCIATES**

The amounts due from associates are unsecured with no fixed terms of repayment and are interest bearing at a rate equivalent to the Company's borrowing rate. An amount of RM117,964,000 (2009: RM259,037,000) is repayable after 12 months. An amount due from an associate company was charged interest at 6% per annum with effect from 1 January 2010.

The analysis of the movements in the amounts due from associates for the financial year ended 31 December 2010 is as follows:

	<u>Group</u>	
	<u>2010</u>	<u>2009</u>
	RM'000	RM'000
<b>Current</b>		
At 1 January	456,967	387,647
Effects of adoption of FRS 139	(16,841)	-
At 1 January (restated)	440,126	387,647
Recharges and other expenses	520,800	490,403
Receipts and settlements	(618,226)	(404,639)
Foreign exchange loss on translation	(66,998)	(16,444)
Unwinding of discount on receivables per FRS 139	4,648	-
At 31 December	<u>280,350</u>	<u>456,967</u>

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

	<u>Group and Company</u>	
	<u>2010</u>	<u>2009</u>
	RM'000	RM'000
Amounts due from associates		
- USD	268,058	445,776
- Philippines Peso ("PHP")	12,292	11,191
	<u>280,350</u>	<u>456,967</u>
Amount due to an associate		
- Singapore Dollar ("SGD")	<u>(6,223)</u>	<u>(3,382)</u>

**23 INVENTORIES**

	<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
Spares and consumables	14,304	18,050	14,304	18,050
In flight merchandise and others	3,249	2,814	2,701	2,266
	<u>17,553</u>	<u>20,864</u>	<u>17,005</u>	<u>20,316</u>

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**24 AMOUNTS DUE FROM SUBSIDIARIES AND A RELATED PARTY**

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

The amount due from a related party in the previous financial year was denominated in Ringgit Malaysia, unsecured, interest free and had no fixed terms of repayment.

**25 CASH AND CASH EQUIVALENTS**

For the purposes of the cash flow statements, cash and cash equivalents include the following:

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Cash and bank balances	661,859	254,207	676,309	259,240
Deposits with licensed banks	719,439	391,478	719,439	391,478
Short-term deposits with fund management companies	103,319	100,627	103,319	100,627
Deposits, cash and bank balances	1,504,617	746,312	1,499,061	745,345
Deposits pledged as securities	(28,789)	(27,847)	(28,789)	(27,847)
	<u>1,475,828</u>	<u>718,465</u>	<u>1,470,272</u>	<u>717,498</u>

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

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
RM	784,672	526,688	763,031	525,721
USD	211,677	121,107	207,851	121,107
SGD	172,630	37,246	172,640	37,246
AUD	118,327	-	118,327	-
Chinese Yuan ("CNY")	63,898	21,143	63,898	21,143
Hong Kong Dollar ("HKD")	63,428	1,843	63,428	1,843
INR	41,802	5,729	41,802	5,729
Thai Baht ("THB")	17,403	20,591	17,361	20,591
Indonesian Rupiah ("IDR")	10,891	1,785	10,891	1,785
Brunei Dollar ("BND")	9,288	8,047	9,288	8,047
EURO	397	778	392	778
Others	10,354	1,355	10,352	1,355
	<u>1,504,617</u>	<u>746,312</u>	<u>1,499,061</u>	<u>745,345</u>

The deposits with licensed banks are pledged as security for banking facilities granted to the Company.

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

**26 CASH AND CASH EQUIVALENTS (CONTINUED)**

The weighted average effective interest rates of deposits at the balance sheet dates are as follows:

	Group		Company	
	2010 %	2009 %	2010 %	2009 %
Deposits with licensed banks	2.62	2.95	2.62	2.95
Short-term deposits with fund management companies	2.64	2.54	2.64	2.54

**26 TRADE AND OTHER PAYABLES**

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
Trade payables	53,178	90,433	31,710	81,545
Accrual for fuel	121,725	114,660	121,725	114,660
Aircraft maintenance accruals	254,036	261,448	254,036	261,448
Other payables and accruals	484,004	406,449	476,873	404,194
	912,943	872,990	884,344	861,847

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

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
RM	343,518	817,010	314,819	805,867
USD	553,808	44,415	563,608	44,415
Others	15,817	11,565	15,817	11,565
	912,943	872,990	884,344	861,847

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

**27 AMOUNTS DUE TO SUBSIDIARIES AND A RELATED PARTY**

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

**28 HIRE-PURCHASE PAYABLES**

These amounts represent future instalments under hire-purchase agreements, repayable as follows:

	<u>Group and Company</u>	
	<u>2010</u>	<u>2009</u>
	RM'000	RM'000
Minimum payments:		
- Not later than 1 year	19	66
- Later than 1 year and not later than 5 years	-	19
	<u>19</u>	<u>85</u>
Less: Future finance charges	(4)	(13)
Present value of liabilities	<u>15</u>	<u>72</u>
Present value of liabilities:		
- Not later than 1 year	15	66
- Later than 1 year and not later than 5 years	-	16
	<u>15</u>	<u>72</u>

Liabilities under hire-purchase agreements are effectively secured as the rights to the assets revert to the financiers in the event of default.

As at 31 December 2010, the effective interest rate applicable to the hire-purchase liabilities was 3.75% (2009: 3.46%) per annum for the Group and Company. The entire balance is denominated in Ringgit Malaysia.



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

**29 BORROWINGS**

	<u>Group and Company</u>			
	Weighted average		<u>2010</u>	<u>2009</u>
	<u>2010</u>	<u>2009</u>	RM'000	RM'000
	%	%		
<u>Current:</u>				
Term loans	4.09	4.15	499,211	429,575
Revolving credit facilities	-	4.10	-	48,000
Finance lease liabilities	5.50	5.48	51,689	53,877
Commodity Murabaha Finance	4.46	3.99	9,067	8,760
			<u>553,967</u>	<u>540,212</u>
<u>Non-current:</u>				
Term loans	4.09	4.15	5,906,715	5,507,796
Finance lease liabilities	5.50	5.48	876,929	1,031,313
Commodity Murabaha Finance	4.46	3.99	99,240	106,587
Sukuk	4.85	4.85	420,000	420,000
			<u>7,302,884</u>	<u>7,067,696</u>
Total borrowings			<u>7,856,851</u>	<u>7,607,908</u>

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

	<u>Group and Company</u>	
	<u>2010</u>	<u>2009</u>
	RM'000	RM'000
Not later than 1 year	553,967	540,212
Later than 1 year and not later than 5 years	2,863,736	2,557,423
Later than 5 years	4,439,148	4,510,273
	<u>7,856,851</u>	<u>7,607,908</u>

The currency exposure profile of borrowings is as follows:

RM	528,307	585,347
USD	7,204,819	6,972,039
EURO	123,725	50,522
	<u>7,856,851</u>	<u>7,607,908</u>

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**29 BORROWINGS (CONTINUED)**

The carrying amounts and fair values of the non-current borrowings are as follows:

	Group and Company			
	2010		2009	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Term loans	5,906,715	4,743,235	5,507,796	4,230,803
Finance lease liabilities	876,929	617,939	1,031,313	769,615
Commodity Murabaha Finance	99,240	60,085	108,587	86,869
Sukuk	420,000	382,043	420,000	371,768
	<u>7,302,884</u>	<u>5,823,302</u>	<u>7,067,696</u>	<u>5,459,275</u>

The fair values of the current borrowings equal their carrying amounts, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 3.8%.

The above term loans, finance lease liabilities (Ijarah) and Commodity Murabaha Finance are for the purchase of aircraft, spare engines and simulators.

The repayment terms of term loans and finance lease liabilities are on a quarterly or semi-annually basis. These are secured by the following:

- (a) Assignment of rights under contract with Airbus over each aircraft
- (b) Assignment of insurance of each aircraft
- (c) Assignment of airframe and engine warranties of each aircraft

The Commodity Murabaha Finance is secured by a second priority charge over the aircraft.

The purpose of the Sukuk is to fund the Company's capital expenditure and working capital. The Sukuk is secured by the following:

- (i) An unconditional and irrevocable bank guarantee provided by financial institutions; and
- (ii) An assignment over the proceeds of the Ijarah Service Reserve Account opened by the Company pursuant to the exercise.

The Group has the following undrawn borrowing facilities:

	2010 RM'000	2009 RM'000
Fixed rate:		
- expiring within one year	48,000	-

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

30 DERIVATIVE FINANCIAL INSTRUMENTS

	Group and Company	
	2010	
	Assets	Liabilities
	RM'000	RM'000
<u>Non-current</u>		
Interest rate swaps		
– cash flow hedges	-	(211,457)
Interest rate swaps – held for trading	23,306	(105,545)
Forward foreign exchange contracts – cash flow hedges	2,238	(132,656)
Forward foreign exchange contracts – held for trading	-	(9,207)
<b>Total</b>	<b>25,544</b>	<b>(452,865)</b>

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedge item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

The ineffective portion recognised in the income statement arising from cash flow hedges amounted to a loss of RM6.1 million (Note 7).

	2010	
	Notional amount	Fair value
	RM'000	RM'000 equivalent
Interest rate caps	635,877	23,306
Interest rate swaps	2,684,830	(317,000)
Cross currency interest rate swaps	198,491	(11,357)
Forward foreign exchange contracts	3,522,199	(122,270)

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

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

**30 DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)**

(i) Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2010 were RM9.721 million.

As at 31 December 2010, the Group has hedged approximately 41% of its USD liabilities pertaining to its aircraft, engine and simulator loans into Malaysian Ringgit ("RM") by using long dated foreign exchange forward contracts. The calculation includes loans for aircraft deployed to Thai AirAsia and Indonesia AirAsia where the Company receives lease payments in USD. However, if the calculation is based on loans pertaining to aircraft being deployed to Malaysia, approximately 60% of the loans are hedged from USD into RM. The latest weighted average foreign forward exchange rate is at 3.2528 USD:RM. Gains and losses recognised in the hedging reserve in equity on forward foreign exchange contracts as of 31 December 2010 are recognised in the income statement in the period or periods during which the hedged forecast transaction affects the income statement.

(ii) Interest rate hedging

The notional principal amounts of the outstanding interest rate contracts at 31 December 2010 were RM3.321 billion.

The Group has entered into interest rate hedging transactions to hedge against fluctuations in the USD LIBOR on its existing aircraft financing for aircraft delivered from 2005 to 2010. As at 31 December 2010, the Group has hedged all its existing floating aircraft loans at strike rates between 3.25% per annum and 5.20% per annum via interest rate swaps, interest rate caps and cross-currency swaps. Gains and losses recognised in the hedging reserve in equity on interest rate swap contracts as of 31 December 2010 will be continuously released to the income statement within finance cost until the full repayment of the bank borrowings (Note 29).

(iii) Fuel hedging

As at 31 December 2010, the Group has no outstanding fuel hedging transactions.

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31 SHARE CAPITAL

	<u>Group and Company</u>	
	<u>2010</u>	<u>2009</u>
	RM'000	RM'000
<u>Authorised:</u>		
Ordinary shares of RM0.10 each:		
At beginning and end of the financial year	500,000	500,000
	<u>500,000</u>	<u>500,000</u>
<u>Issued and fully paid up:</u>		
Ordinary shares of RM0.10 each:		
At beginning of the financial year	275,774	237,421
Issued during the financial year	1,570	38,353
	<u>277,344</u>	<u>275,774</u>
At end of the financial year	<u>277,344</u>	<u>275,774</u>

During the financial year, the Company increased its issued and paid-up ordinary share capital from RM275,774,458 to RM277,343,608 by way of issuance of 15,091,500 ordinary shares of RM0.10 each pursuant to the exercise of the 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 capital of the Company during the financial year.

During the previous financial year, the Company increased its issued and paid-up ordinary share capital from RM237,420,958 to RM275,774,458 by way of issuance of 380,000,000 ordinary shares of RM0.10 each pursuant to the sale of shares at RM1.33 per share by way of book-building and the issuance of 3,535,000 ordinary shares of RM0.10 each pursuant to the exercise of the ESOS at an exercise price of RM1.08 per share. The premium arising from the book-building and exercise of ESOS of RM467,400,000 and RM3,464,300 respectively had been credited to the Share Premium account.

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

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

31 **SHARE CAPITAL (CONTINUED)**

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

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

The main features of the ESOS are as follows:

- (a) The maximum number of ordinary shares, which may be allotted pursuant to the exercise of options under the Scheme, shall not exceed ten per cent (10.0%) of the issued and paid-up share capital of the Company at any point in time during the duration of the Scheme.
- (a) The Option Committee may from time to time decide the conditions of eligibility to be fulfilled by an Eligible Person in order to participate in the Scheme.
- (b) The aggregate number of shares to be offered to any Eligible Person who has fulfilled the eligibility criteria for the time being by way of options in accordance with the Scheme shall be at the discretion of the Option Committee. The Option Committee may consider circumstances such as the Eligible Person's scope of responsibilities, performance in the Group, rank or job grade, the number of years of service that the Eligible Person has rendered to the Group, the Group's retention policy and whether the Eligible Person is serving under an employment contract for a fixed duration or otherwise. The Option Committee's decision shall be final and binding.
- (c) The maximum number of shares allocated to Executive Directors, Non-Executive Directors and senior management by way of options shall in aggregate not exceed fifty per cent (50.0%) of the total number of shares (or such other percentage as may be permitted by the relevant regulatory authorities from time to time) available under the Scheme.
- (d) The subscription price, in respect of options granted prior to the date of listing in Bursa Malaysia, shall be RM1.08 per share.
- (e) The options granted are exercisable one year beginning from the date of grant.

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

The Company granted 93,240,000 options at an exercise price of RM1.08 per share under the ESOS scheme on 1 September 2004, which expired on 6 June 2009. During the previous financial year ended 31 December 2009, the validity of this ESOS scheme was extended to 6 June 2014.

At 31 December 2010, options to subscribe for 10,437,400 (2009: 26,460,900) ordinary shares of RM0.10 each at the exercise price of RM1.08 per share remain unexercised. These options granted do not confer any right to participate in any share issue of any other company.

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

31 **SHARE CAPITAL (CONTINUED)**

**EMPLOYEE SHARE OPTION SCHEME ("ESOS") (CONTINUED)**

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

<u>Grant date</u>	<u>Expiry date</u>	<u>Exercise price RM/share</u>	<u>At 1.1.2010 '000</u>	<u>Granted '000</u>	<u>Exercised '000</u>	<u>Lapsed '000</u>	<u>At 31.12.2010 '000</u>
1 Sep 2004	6 Jun 2014	1.08	26,461	-	15,692	932	10,437
						<u>2010 '000</u>	<u>2009 '000</u>
						10,437	26,461

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

<u>Exercise date</u>	<u>Quoted price of shares at share issue date RM/share</u>	<u>Exercise price RM/share</u>	<u>Number of shares issued '000</u>
January 2010 to March 2010	1.27-1.46	1.08	1,084
April 2010 to June 2010	1.11-1.43	1.08	604
July 2010 to September 2010	1.25-2.25	1.08	5,963
October 2010 to December 2010	2.12-2.74	1.08	8,041
			<u>15,692</u>
		<u>2010 RM'000</u>	<u>2009 RM'000</u>
Ordinary share capital at par		1,570	353
Share premium		15,378	3,464
Proceeds received on exercise of share options		<u>16,948</u>	<u>3,817</u>
Fair value at exercise date of shares issued		<u>32,182</u>	<u>4,580</u>

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

**32 RETAINED EARNINGS**

Under the single-tier tax system introduced by the Finance Act, 2007 which came into effect from the year of assessment 2008, companies are not required to have tax credits under Section 108 of the Income Tax Act 1967 for dividend payment purposes. Dividends paid under this system are tax exempt in the hands of shareholders.

Companies with Section 108 credits as at 31 December 2007 may continue to pay franked dividends until the Section 108 credits are exhausted or 31 December 2013, whichever is earlier, unless they opt to disregard the Section 108 credits to pay single-tier dividends under the special transitional provisions of the Finance Act, 2007.

As at 31 December 2010, the Company has sufficient Section 108 tax credits to pay approximately RM19.0 million (2009: RM19.0 million) of its retained earnings as franked dividends. The extent of the retained earnings not covered at that date amounted to RM2.08 billion (2009: RM1.13 billion).

In addition, the Company has tax exempt income as at 31 December 2010 amounting to approximately RM0.5 million (2009: RM0.5 million) available for distribution as tax exempt dividends to shareholders.



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

**33 DIVIDEND**

A first and final dividend in respect of the financial year ended 31 December 2010 of 3 sen (2009: Nil) per share, amounting to a total dividend of RM76,860,918, is to be proposed at the forthcoming Annual General Meeting of the Company and will be paid to shareholders registered in the Register of Members at the close of business on 20 June 2011, as follows:

	2010		2009	
	Gross dividend per share Sen	Amount of dividend net of tax RM'000	Gross dividend per share Sen	Amount of dividend net of tax RM'000
First and final dividend for the financial year ended 31 December 2010:				
Gross dividend of 0.91 sen less 25% tax	0.91	19,028	-	-
Tax exempt dividend	0.02	528	-	-
Single-tiered dividend	2.07	57,307	-	-
	<u>3.0</u>	<u>76,861</u>	<u>-</u>	<u>-</u>

The financial statements do not reflect this dividend which will be accrued as a liability upon the approval by shareholders.

**34 COMMITMENTS**

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

	Group and Company	
	2010 RM'000	2009 RM'000
Property, plant and equipment:		
Approved and contracted for	12,829,857	16,234,759
Approved but not contracted for	7,931,251	8,492,282
	<u>20,760,908</u>	<u>24,727,041</u>
Property, plant and equipment:		
Share of a jointly controlled entity's capital commitments	17,100	10,805
Share of an associate's capital commitments	8,626	8,505
	<u>25,726</u>	<u>19,310</u>

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

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

**34 COMMITMENTS (CONTINUE)**

(b) Non-cancellable operating leases

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

	Group and Company			
	2010		2009	
	Future minimum lease payments RM'000	Future minimum sublease receipts RM'000	Future minimum lease payments RM'000	Future minimum sublease receipts RM'000
Not later than 1 year	49,469	422,224	100,389	350,835
Later than 1 year and not later than 5 years	172,266	768,539	203,491	640,280
Later than 5 years	194,136	-	260,486	-
	<u>415,871</u>	<u>1,190,763</u>	<u>564,366</u>	<u>991,115</u>

Sublease receipts include lease receipts from both owned and leased aircraft.

**35 CONTINGENT LIABILITIES**

Thai AirAsia Co, Ltd ("TAA"), a jointly controlled entity of the Group, has contingent liabilities relating to guarantees issued by banks in respect of the Company's pilot trainees' loans in accordance with the pilot professional course amounting to RM Nil million (31.12.2009: RM5.0 million) which will be terminated when the student pilot earns a commercial pilot license and is assigned as co-pilot, or whenever the pilot trainee can completely settle all outstanding debts with the bank. However, TAA can fully reclaim the said liabilities from the pilot trainees' guarantors as the guarantees have been pledged with TAA.

**36 SEGMENTAL INFORMATION**

Segmental information is as shown in the income statements, balance sheets and relevant notes as the Group's sole business segment is the provision of air transportation services.

The Group's operations are conducted predominantly in Malaysia.

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

**37 SIGNIFICANT RELATED PARTY TRANSACTIONS**

The related party transactions of the Company comprise mainly transactions between the Company and its subsidiaries, jointly controlled entity and associates. Details of these related companies are shown in Notes 13, 14 and 15 to the financial statements.

All related party transactions were carried out on agreed terms and conditions.

Key management personnel are categorised as head or senior management officers of key operating divisions within the Group and Company. The key management compensation is disclosed in Note 37(e) below.

Related party transactions also include transactions with entities that are controlled, jointly controlled or significantly influenced directly or indirectly by any key management personnel or their close family members, where applicable.

	Group		Company	
	2010	2009	2010	2009
	RM'000	RM'000	RM'000	RM'000
(a) Income:				
Aircraft operating lease income for owned and leased aircraft				
- Thai AirAsia Co. Ltd	223,553	175,035	223,553	175,035
- PT Indonesia AirAsia	172,390	145,297	172,390	145,297
Services charged to AirAsia X Sdn Bhd, a company with common Directors and shareholders	85,845	57,028	85,845	57,028

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

37 **SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)**

	Group		Company	
	2010 RM'000	2009 RM'000	2010 RM'000	2009 RM'000
(b) <b>Recharges:</b>				
Maintenance and overhaul charges				
- Thai AirAsia Co. Ltd	24,363	27,809	24,363	27,809
- PT Indonesia AirAsia	12,164	26,895	12,164	26,895
Loss on unwinding of derivatives				
- Thai AirAsia Co. Ltd	-	43,414	-	43,414
- PT Indonesia AirAsia	-	46,330	-	46,330
(c) <b>Receivables:</b>				
- AirAsia (Mauritius) Limited	-	-	422,415	194,503
- AirAsia International Limited	-	-	7,208	3,123
- Thai AirAsia Co. Ltd	99,802	366,388	-	171,885
- PT Indonesia AirAsia	268,058	445,776	268,058	445,776
- Crunchtime Culinary Services Sdn Bhd	-	-	2,757	-
- AirAsia Philippines Inc	12,292	11,191	12,292	11,191
- AirAsia X Sdn Bhd	-	3,303	-	3,303
(d) <b>Payables:</b>				
- AirAsia Go Holiday Sdn Bhd	-	-	44,251	27,922
- Thai AirAsia Co. Ltd	-	-	322,614	-
- Crunchtime Culinary Services Sdn Bhd	-	-	-	1,139
- AirAsia Pte Limited	-	3,382	5,223	3,382
- AirAsia X Sdn Bhd	41,262	-	41,262	-
(e) <b>Key management compensation</b>				
- basic salaries, bonus and allowances	24,774	13,617	24,774	13,617
- defined contribution plan	2,730	1,455	2,730	1,455
	<u>27,504</u>	<u>15,072</u>	<u>27,504</u>	<u>15,072</u>

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

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

**38 FINANCIAL RISK MANAGEMENT POLICIES**

The Group's financial risk management policy seeks to ensure that the financial resources that are available for the development of the Group's businesses are constantly monitored and managed vis-a-vis its ongoing exposure to fuel price, interest rate, foreign currency, credit, liquidity and cash flow risks. The Group operates within defined guidelines that are approved and reviewed periodically by the Board to minimise the effects of such volatility on its financial performance.

The policies in respect of the major areas of treasury activities are as follows:

(a) Market risk

(i) Fuel price risk

The Group is exposed to jet fuel price risk arising from the fluctuations in the prices of jet fuel. It seeks to hedge its fuel requirements and implements various fuel management strategies in order to address the risk of rising fuel prices.

(ii) Interest rate risk

In view of the substantial borrowings taken to finance the acquisition of aircraft, the Group's income and operating cash flows are also influenced by changes in market interest rates. Interest rate exposure arises from the Group's borrowings and deposits and is managed by maintaining a prudent mix of fixed and floating rate debt and derivative financial instruments. Derivative financial instruments are used, as far as possible and where appropriate, to generate the desired fixed interest rate profile. Surplus funds are placed with reputable financial institutions at the most favourable interest rates.

The Group had previously entered into a number of immediate and forward starting interest rate swap contracts and cross currency swap contracts that effectively converted its existing and future long-term floating rate debt facilities into fixed rate debts. However, loans of approximately 3% of total long term debts are not currently covered by such swaps and have therefore remained at floating rates that are linked to the London Inter Bank Offer Rate ("LIBOR").

During the financial year, the Company has terminated a number of its interest rate swap contracts in view of the sharp decline in both short-term and long-term interest rates.

At the same time, the Group has re-entered into new hedges via interest rate swaps and interest rate caps at lower rates. Some of the interest rate swaps have been embedded into the relevant aircraft loans to provide fixed rate facilities.

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

38 **FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

(a) **Market risk (continued)**

(ii) **Interest rate risk (continued)**

At 31 December 2010, if interest rate on USD denominated borrowings had been 60 basis points higher/lower with all other variables held constant, the impact on the post-tax profit for the year and equity, as a result of an increase/decrease in the fair value of the interest rate derivative financial instruments under cash flow hedges are tabulated below:

	<u>+60 basis points</u>	<u>-60 basis points</u>
	RM'000	RM'000
Impact on post tax profits	12,559	(48,396)
Impact on equity	58,222	(65,511)
	<u>                    </u>	<u>                    </u>

The remaining terms of the outstanding interest rate derivative contracts of the Company at 31 December 2010, which are denominated in USD, are as follows:

	<u>2010</u>	<u>2009</u>
	RM'000	RM'000
	equivalent	equivalent
Later than 5 years:		
Interest rate caps	635,877	768,188
Interest rate swaps	2,684,830	3,409,159
Cross currency Interest rate swaps	198,491	213,413
	<u>                    </u>	<u>                    </u>
	<u>3,519,198</u>	<u>4,390,760</u>

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

**36 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

(ii) Interest rate risk (continued)

The net exposure of financial assets and liabilities of the Group and Company to interest rate cash flow risk and the periods in which the borrowings matures are as follows:

Financial Instruments	Functional currency/ currency exposure	Effective interest at balance sheet date % per annum	Total carrying amount RM'000	Floating interest rate RM'000	Fixed interest rate					
					1 year or less RM'000	> 1-2 years RM'000	> 2-3 years RM'000	> 3-4 years RM'000	> 4-5 years RM'000	More than 5 years RM'000
<b>Group and Company</b>										
<b>31 December 2010</b>										
Deposits with licensed bank	RM/RM	2.62	719,439	-	-	-	-	-	-	-
Deposits with fund management companies	RM/RM	2.64	103,319	-	-	-	-	-	-	-
Term loans	RM/USD	4.09	(9,339,923)	(178,157)	(528,744)	(542,580)	(562,542)	(578,713)	(3,498,671)	(634,175)
Finance lease	RM/USD	5.50	(928,618)	-	(54,958)	(58,573)	(62,515)	(66,509)	(694,175)	(634,175)
Commodity										
Murabaha	RM/USD	4.46	(108,307)	-	(9,566)	(10,094)	(10,650)	(11,237)	(57,693)	(57,693)
Finance	RM/RM	4.85	(420,000)	-	-	(420,000)	-	-	-	-
Sukuk										
Hire-purchase payables	RM/RM	3.75	(15)	-	-	-	-	-	-	-
			(7,034,106)	(178,157)	(593,268)	(1,031,447)	(635,707)	(656,558)	(4,190,539)	(4,190,539)

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2010 (CONTINUED)****38 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)****(ii) Interest rate risk (continued)**

Financial Instruments	Functional currency/ currency exposure	Effective interest at balance sheet date % per annum	Total carrying amount RM'000	Floating interest rate RM'000	Fixed interest rate				
					1 year or less RM'000	> 1-2 years RM'000	> 2-3 years RM'000	> 3-4 years RM'000	> 4-5 years RM'000
<b>Group and Company</b>									
<b>31 December 2009</b>									
Deposits with licensed bank	RM/RM	2.55	391,478	-	-	-	-	-	-
Deposits with fund management companies	RM/RM	2.54	100,627	-	-	-	-	-	-
Term loans	RM/USD	4.15	(5,937,371)	(105,398)	(432,527)	(447,997)	(458,119)	(474,759)	(3,595,886)
Finance lease	RM/USD	5.48	(1,085,190)	-	(57,405)	(61,036)	(65,161)	(69,428)	(778,283)
Commodity									
Mutabaha	RM/USD	3.99	(117,347)	-	(9,067)	(9,566)	(10,094)	(10,650)	(69,210)
Finance	RM/RM	4.85	(420,000)	-	-	-	(420,000)	-	-
Sukuk	RM/USD	4.10	(48,000)	-	-	-	-	-	-
Revolving credit									
Hire-purchase payables	RM/RM	3.46	(72)	(56)	(16)	-	-	-	-
			(7,115,875)	(41,276)	(496,015)	(516,596)	(953,374)	(554,837)	(4,443,379)



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

38 **FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

(a) **Market risk (continued)**

(iii) **Foreign currency risk**

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

The Company enters into forward foreign currency exchange contracts to limit its exposure on foreign currency receivables and payables.

At 31 December 2010, if the currency had weakened/strengthened by 5% against the USD with all other variables held constant, post-tax profit for the financial year would have been MYR201.4 million lower/higher, mainly as a result of foreign exchange losses/gains on translation of USD denominated receivables and borrowings (term loan & finance lease). Similarly, the impact on equity would have been RM3.7 million higher/lower due to the cash flow hedging in USD. The exposure to EUR currency risk of the Group is not material and hence, sensitivity analysis is not presented.

(b) **Credit risk**

The Group's exposure to credit risks or the risk of counterparties defaulting arises mainly from various deposits and bank balances, receivables and derivative financial instruments. The maximum exposure to credit risks is represented by the total carrying amount of those financial assets in the balance sheet.

Credit risks are controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised by monitoring receivables regularly. In addition, credit risks are also controlled as majority of the Group's deposits and bank balances and derivative financial instruments are placed or transacted with major financial institutions and reputable parties. The Directors are of the view that the possibility of non-performance by the majority of these financial institutions is remote on the basis of their financial strength and support of their respective governments.

The Group generally has no concentration of credit risk arising from trade receivables.

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

38 **FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

(c) **Liquidity and cash flow risks**

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

The table below analyses the Group's non-derivative financial liabilities, gross-settled and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows.

At 31 December 2010

	<u>Under 1 year</u> RM'000	<u>1 - 2 years</u> RM'000	<u>2-5 years</u> RM'000	<u>Over 5 years</u> RM'000
Term loans	702,426	712,266	2,954,474	3,659,957
Finance lease liabilities	68,265	72,118	1,028,971	196,720
Commodity Murabaha finance	14,761	14,774	44,266	65,328
Sukuk	20,370	20,370	430,185	-
Trade and other payables	689,784	-	-	-
<b>Derivative financial instruments</b>				
<b>Net-settled derivatives</b>				
Trading	37,578	31,908	38,525	(891)
Hedging	72,865	64,260	75,806	2,882
<b>Gross-settled derivatives</b>				
Trading - outflow	10,149	9,649	17,780	-
Trading - inflow	(9,567)	(9,095)	(16,670)	-
Hedging - outflow	366,035	362,625	1,080,724	1,793,982
Hedging - inflow	(341,797)	(339,837)	(1,023,389)	(1,700,988)

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

**36 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

(d) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to provide returns for shareholders and benefits for other stakeholders.

In order to optimise the capital structure, or the capital allocation amongst the Group's various businesses, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, take on new debts or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital utilisation on the basis of the gearing ratio. This ratio is calculated as total debts divided by total capital. Total debts are calculated as total borrowings (including "short term and long term borrowings" as shown in the balance sheets). Total capital is calculated as the sum of 'equity attributable to equity holders of the Company' as shown in the balance sheet and total debts.

The gearing ratio as at 31 December 2010 is as follows:

	<u>Group</u> <u>2010</u> RM'000
Total borrowings	7,856,851
Total equity attributable to equity holders of the Company	3,640,960
Total capital	<u>11,497,811</u>
Gearing ratio	68.3%

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

**39 FINANCIAL INSTRUMENTS**

(a) Financial instruments by category

31 December 2010

	Loans and receivables RM'000	Assets at fair value through the profit and loss RM'000	Derivatives used for hedging RM'000	Available for sale RM'000	Total RM'000
<u>Assets as per balance sheet</u>					
Available for sale financial assets	-	-	-	152,942	152,942
Trade and other receivables excluding prepayments	606,456	-	-	-	606,456
Derivative financial instruments	-	23,306	2,238	-	25,544
Cash and cash equivalents	1,504,617	-	-	-	1,504,617
<b>Total</b>	<b>2,111,073</b>	<b>23,306</b>	<b>2,238</b>	<b>152,942</b>	<b>2,289,559</b>

	Liabilities at fair value through the profit and loss RM'000	Derivatives used for hedging RM'000	Other financial liabilities at amortised cost RM'000	Total RM'000
<u>Liabilities as per balance sheet</u>				
Borrowings (excluding finance lease liabilities)	-	-	6,928,233	6,928,233
Finance lease liabilities	-	-	928,618	928,618
Derivative financial instruments	108,752	344,113	-	452,865
Trade and other payables excluding statutory liabilities	-	-	959,428	959,428
Hire purchase payables	-	-	15	15
<b>Total</b>	<b>108,752</b>	<b>344,113</b>	<b>8,816,284</b>	<b>9,269,159</b>

1 Prepayments are excluded from the trade and other receivables balance, as this analysis is required only for financial instruments.

2 Statutory liabilities are excluded from the trade payables balance, as this analysis is required only for financial instruments.

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

39 **FINANCIAL INSTRUMENTS (CONTINUED)**

(b) Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	2010 RM'000
<u>Counterparties without external credit rating</u>	
Group 1	15,774
Group 2	102,809
Total unimpaired trade receivables and others receivables	<u>118,683</u>
<u>Cash at bank and short-term bank deposits</u>	
AA2 to A-	1,398,674
BBB to B1	105,843
	<u>1,504,617</u>
<u>Derivative financial assets</u>	
AA+	23,306
A	2,238
	<u>25,544</u>
<u>Loans to related parties</u>	
Group 2	<u>380,152</u>
Group 1 -- New customers/related parties (Less than 6 months)	
Group 2 -- Existing customers/related parties (more than 6 months) with no defaults in the past.	
Group 3 -- Existing customers/related parties (more than 6 months) with some defaults in the past.	

All defaults were fully recovered.



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

41 **SUPPLEMENTARY INFORMATION DISCLOSED PURSUANT TO BURSA MALAYSIA SECURITIES LISTING REQUIREMENT**

The following analysis of realised and unrealised retained profits at the legal entity level is prepared in accordance with the Guidance on Special Matter No.1 -- Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysian Institute of Accountants. This disclosure is based on the format prescribed by Bursa Malaysia Securities Berhad.

	<u>Group</u> As at <u>31.12.2010</u> RM'000	<u>Company</u> As at <u>31.12.2010</u> RM'000
Total retained earnings of AirAsia Berhad and its subsidiaries:		
- Realised	997,581	981,345
- Unrealised	1,121,156	1,121,156
	<u>2,118,737</u>	<u>2,102,501</u>
Total share of accumulated losses from associated companies:		
- Realised	(4,112)	-
- Unrealised	-	-
Total share of accumulated losses from jointly controlled entities:		
- Realised	(12,054)	-
- Unrealised	-	-
	<u>2,102,571</u>	<u>2,102,501</u>
Total retained earnings as per consolidated financial statements	<u>2,102,571</u>	<u>2,102,501</u>

The disclosure of realised and unrealised profits above is solely for compliance with the directive issued by the Bursa Malaysia Securities Berhad and should not be applied for any other purposes.

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STATEMENT BY DIRECTORS PURSUANT TO  
SECTION 169(15) OF THE COMPANIES ACT, 1965

We, Dato' Sri Dr Anthony Francis Fernandes and Dato' Kamarudin Bin Meranun, being two of the Directors of AirAsia Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 6 to 95 are drawn up so as to give a true and fair view of the state of affairs of the Group and Company as at 31 December 2010 and of the results and the cash flows of the Group and Company for the financial year ended on that date in accordance with the provisions of the Companies Act, 1965 and the Financial Reporting Standards, the MASE approved accounting standards in Malaysia for Entities Other than Private Entities.

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

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

I, Rozman Bin Omar, the Officer primarily responsible for the financial management of AirAsia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 6 to 95 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.



Rozman Bin Omar

Subscribed and solemnly declared by the abovenamed Rozman Bin Omar at Petaling Jaya in Malaysia on **28 APR 2011** before me.

COMMISSIONER FOR OATHS



1-5, Blok F1, Jalan PJU 1/42,  
Sataran Prima, 47301 Petaling Jaya  
Selangor Darul Ehsan





**INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF AIRASIA BERHAD**  
(Incorporated in Malaysia)  
(Company No. 284669 W)

**REPORT ON THE FINANCIAL STATEMENTS**

We have audited the financial statements of AirAsia Berhad on pages 6 to 94, which comprise the balance sheets as at 31 December 2010 of the Group and of the Company, and the statements of income, comprehensive income, changes in equity and cash flows of the Group and of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out in Notes 1 to 40.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities and the Companies Act, 1965, and for such internal control as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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



**INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF AIRASIA BERHAD (CONTINUED)  
(Incorporated in Malaysia)  
(Company No. 284669 W)**

**REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)**

**Opinion**

In our opinion, the financial statements have been properly drawn up in accordance with MASI approved accounting standards in Malaysia for Entities Other than Private Entities and the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2010 and of their financial performance and cash flows for the financial year then ended.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report the following:

- a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- b) We have considered the financial statements and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in Note 13 to the financial statements.
- c) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- d) The audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

**OTHER REPORTING RESPONSIBILITIES**

The supplementary information set out in Note 41 on page 95 is disclosed to meet the requirement of Bursa Malaysia Securities Berhad and is not part of the financial statements. The Directors are responsible for the preparation of the supplementary information in accordance with Guidance on Special Matter No. 1, Determination of Realised and Unrealised Profits or Losses in the Context of Disclosure Pursuant to Bursa Malaysia Securities Berhad Listing Requirements, as issued by the Malaysia Institute of Accountants ("MIA Guidance") and the directive of Bursa Malaysia Securities Berhad. In our opinion, the supplementary information is prepared, in all material respects, in accordance with the MIA Guidance and the directive of Bursa Malaysia Securities Berhad.



**INDEPENDENT AUDITORS' REPORT  
TO THE MEMBERS OF AIRASIA BERHAD (CONTINUED)**  
(Incorporated in Malaysia)  
(Company No. 284669 W)

**OTHER MATTERS**

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

A handwritten signature in black ink, appearing to be 'PricewaterhouseCoopers'.

PRICEWATERHOUSECOOPERS  
(No. AP: 1146)  
Chartered Accountants

A handwritten signature in black ink, appearing to be 'Sridharan Nair'.

SRIDHARAN NAIR  
(No. 2656/05/12 (J))  
Chartered Accountant

Kuala Lumpur  
28 April 2011