Company No.	
284669	W

AIRASIA BERHAD

(Incorporated in Malaysia)

STATUTORY FINANCIAL STATEMENTS

30 JUNE 2006

1742A6/maz

Company No.

284669	W

AIRASIA BERHAD
(Incorporated in Malaysia)

REPORTS AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

CONTENTS

Company No.

284669	W

AIRASIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES

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

FINANCIAL RESULTS

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

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

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

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

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

DIVIDENDS

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

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

RESERVES AND PROVISIONS

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

ISSUANCE OF SHARES

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

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

EMPLOYEE SHARE OPTION SCHEME ("ESOS")

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

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

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

DIRECTORS

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

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

DIRECTORS' BENEFITS

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

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

DIRECTORS' INTERESTS IN SHARES

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

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

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

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

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

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

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

Company No.

284669	W

AIRASIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

In the opinion of the Directors:

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

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

Company No.

284669	W

AIRASIA BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT (CONTINUED)

AUDITORS

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

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

DATO' ANTHONY FRANCIS FERNANDES
DIRECTOR

DATO' KAMARUDIN BIN MERANUN
DIRECTOR

Company No.

284669	W

AIRASIA BERHAD
(Incorporated in Malaysia)

INCOME STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

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

The notes on pages 14 to 58 form part of these financial statements.

Company No.

284669	W

AIRASIA BERHAD
(Incorporated in Malaysia)

BALANCE SHEETS AS AT 30 JUNE 2006

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

The notes on pages 14 to 58 form part of these financial statements.

Company No.

284669	W

AIRASIA BERHAD
(Incorporated in Malaysia)

BALANCE SHEETS AS AT 30 JUNE 2006 (CONTINUED)

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

The notes on pages 14 to 58 form part of these financial statements.

AIRASIA BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

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

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

The notes on pages 14 to 58 form part of these financial statements.

AIRASIA BERHAD
(Incorporated in Malaysia)

STATEMENTS OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006 (CONTINUED)

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

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

The notes on pages 14 to 58 form part of these financial statements.

Company No.

284669	W

AIRASIA BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

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

Company No.

284669	W

AIRASIA BERHAD
(Incorporated in Malaysia)

CASH FLOW STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006 (CONTINUED)

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

The notes on pages 14 to 58 form part of these financial statements.

Company No.

284669	W

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 30 JUNE 2006

1 GENERAL INFORMATION

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

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation of financial statements

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Group accounting

(i) Subsidiaries

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

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

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

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

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

(ii) Associated companies

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Group accounting (continued)

(ii) Associated companies (continued)

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

(iii) Jointly controlled entities

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

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

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

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

(c) Goodwill

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment

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

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

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

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

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

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

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

(e) Other investments

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Impairment of assets

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

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

(g) Maintenance and overhaul

Owned Aircraft

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

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

Leased Aircraft

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

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

(h) Leases

Finance leases

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Leases (continued)

Finance leases (continued)

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

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

Operating leases

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

(i) Inventories

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

(j) Receivables

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

(k) Cash and cash equivalents

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

(l) Share capital

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Share issue costs

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

(n) Dividends

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

(o) Borrowings

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

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

(p) Income taxes

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Employee benefits

(i) Short term employee benefits

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

(ii) Defined contribution retirement plans

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

(r) Revenue recognition

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

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

Interest and rental income are recognised on an accruals basis.

(s) Foreign currencies

(i) Reporting currency

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

(ii) Foreign entities

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Foreign currencies (continued)

(iii) Foreign currency transactions and balances

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

(iv) Closing rates

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

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

(t) Segmental reporting

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Financial instruments

(i) Description

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

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

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

(ii) Financial instruments recognised on the balance sheet

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

(iii) Financial instruments not recognised on the balance sheet

Forward fuel swap contracts

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

Foreign currency forward contracts

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

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

Interest rate swap contracts

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Financial instruments (continued)

(iv) Fair value estimation for disclosure purposes

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

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

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

3 REVENUE

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

4 COST OF SALES

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

4 COST OF SALES (CONTINUED)

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

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

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

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

5 ADMINISTRATION EXPENSES

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

6 PROFIT FROM OPERATIONS

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

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

6 PROFIT FROM OPERATIONS (CONTINUED)

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

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

7 DIRECTORS' REMUNERATION

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

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

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

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

7 DIRECTORS' REMUNERATION (CONTINUED)

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

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

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

8 FINANCE INCOME (NET)

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

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

9 TAXATION

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

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

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

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

9 TAXATION (CONTINUED)

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

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

10 EARNINGS PER SHARE

(a) Basic earnings per share

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

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

(b) Diluted earnings per share

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

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

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

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

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 30 JUNE 2006 (CONTINUED)

11 PROPERTY, PLANT AND EQUIPMENT

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

NOTES TO THE FINANCIAL STATEMENTS - 30 JUNE 2006 (CONTINUED)

11 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Cost RM'000	Accumulated depreciation RM'000	Net book value RM'000
Group			
At 30 June 2006			
Aircraft	1,190,405	(88,698)	1,101,707
Aircraft spares	59,673	(10,487)	49,186
Aircraft fixtures and fittings	19,740	(5,260)	14,480
Furniture and fittings	906	(602)	304
Buildings	15,431	(563)	14,868
Motor vehicles	7,266	(2,528)	4,738
Office equipment	19,166	(9,313)	9,853
Office renovation	4,823	(1,628)	3,195
Simulator equipment	55,073	(478)	54,595
Operating plant and ground equipment	6,096	(1,999)	4,097
Kitchen equipment	299	(87)	212
Assets not yet in operation	4,758	-	4,758
	1,383,636	(121,643)	1,261,993
At 30 June 2005			
Aircraft	181,587	(32,999)	148,588
Aircraft spares	25,763	(5,853)	19,910
Aircraft fixtures and fittings	6,743	(1,857)	4,886
Furniture and fittings	738	(488)	250
Buildings	2,065	(65)	2,000
Motor vehicles	3,419	(1,253)	2,166
Office equipment	15,819	(6,202)	9,617
Office renovation	2,826	(1,016)	1,810
Operating plant and ground equipment	2,645	(1,110)	1,535
Kitchen equipment	548	(159)	389
Assets not yet in operation	40,335	-	40,335
	282,488	(51,002)	231,486

Company No.

284669	W

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 30 JUNE 2006 (CONTINUED)

11 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

	Cost RM'000	Accumulated depreciation RM'000	Net book value RM'000
Company			
At 30 June 2006			
Aircraft	1,190,405	(88,698)	1,101,707
Aircraft spares	59,673	(10,487)	49,186
Aircraft fixtures and fittings	19,740	(5,260)	14,480
Furniture and fittings	906	(602)	304
Buildings	15,431	(563)	14,868
Motor vehicles	6,421	(2,309)	4,112
Office equipment	19,071	(9,278)	9,793
Office renovation	4,823	(1,628)	3,195
Simulator equipment	55,073	(478)	54,595
Operating plant and ground equipment	6,096	(1,999)	4,097
Assets not yet in operation	4,758	-	4,758
	1,382,397	(121,302)	1,261,095

Company No.

284669	W

AIRASIA BERHAD
(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS - 30 JUNE 2006 (CONTINUED)

11 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Cost	Accumulated depreciation	Net book value
	RM'000	RM'000	RM'000
Company			
At 30 June 2005			
Aircraft	181,587	(32,999)	148,588
Aircraft spares	25,763	(5,853)	19,910
Aircraft fixtures and fittings	6,743	(1,857)	4,886
Furniture and fittings	738	(488)	250
Buildings	2,065	(65)	2,000
Motor vehicles	3,300	(1,202)	2,098
Office equipment	15,344	(6,028)	9,316
Office renovation	2,641	(940)	1,701
Operating plant and ground equipment	2,640	(1,105)	1,535
Assets not yet in operation	40,335	-	40,335
	281,156	(50,537)	230,619

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

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

12 INVESTMENT IN SUBSIDIARIES

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

The details of the subsidiaries are as follows:

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

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

^ Subscribed during the financial year

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

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

13 INVESTMENT IN A JOINTLY CONTROLLED ENTITY

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

The details of the jointly controlled entity are as follows:

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

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

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

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

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