

Company No.

284669	W
--------	---

AIRASIA BERHAD
(Incorporated in Malaysia)

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

14 INVESTMENT IN ASSOCIATES

	<u>Group</u>		<u>Company</u>	
	<u>2006</u> RM'000	<u>2005</u> RM'000	<u>2006</u> RM'000	<u>2005</u> RM'000
Unquoted investment, at cost	231	202	29	-
Group's share of losses	(202)	(202)	-	-
	<u>29</u>	<u>-</u>	<u>29</u>	<u>-</u>

The details of the associates are as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Group's effective equity interest</u>		<u>Principal activities</u>
		<u>2006</u> %	<u>2005</u> %	
AirAsia Philippines Inc (sub note (a)) ^	Philippines	39.9	-	Providing air transportation services
<u>Held by Crunchtime and Thai AirAsia</u>				
Thai Crunch Time Co. Ltd ("Thai Crunch Time")	Thailand	49.0	24.5	Provision of inflight meals
<u>Held by AAIL</u>				
PT Indonesia AirAsia ("IAA") (formerly known as PT AWAIR International)	Indonesia	48.9	48.9	Commercial air transport service
AirAsia Pte Ltd ("AAPL")	Singapore	48.9	48.9	Dormant

^ Acquired during the financial year

(a) During the year, the Company acquired 39.9% equity interest in AirAsia Philippines Inc represented by 3,997 shares of 100 pesos for a cash consideration of RM29,000.

The Group discontinued equity accounting for its share of losses made by Thai Crunch Time and IAA in the previous financial year as the Group has not incurred any obligations or guaranteed any obligations in respect of the associates. As at 30 June 2006, the unrecognised amount of the Group's share of losses of Thai Crunch Time and IAA amounted to RM0.1 million (2005: RM0.1 million) and RM31.3 million (2005: RM8.5 million) respectively.

Company No.

284669	W
--------	---

AIRASIA BERHAD
(Incorporated in Malaysia)

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

15 OTHER INVESTMENTS

		<u>Group and Company</u>	
		<u>2006</u>	<u>2005</u>
		RM'000	RM'000
Non-current:			
Recreational golf club membership		78	90
<hr/>			
Current:			
Unquoted investment with fund management companies, at cost		30,696	7,717
<hr/>			

16 INVENTORIES

	<u>Group</u>		<u>Company</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	RM'000	RM'000	RM'000	RM'000
At cost:				
Spare and consumables	9,686	4,045	9,686	4,045
Raw materials	-	43	-	-
Finished goods	892	592	182	337
	<hr/>	<hr/>	<hr/>	<hr/>
	10,578	4,680	9,868	4,382
<hr/>				

17 TRADE AND OTHER RECEIVABLES

Non-current:

Long term prepayments (sub note (a))	35,110	-	35,110	-
	<hr/>	<hr/>	<hr/>	<hr/>

Current:

Trade receivables	32,461	44,908	32,461	44,908
Less: Allowance for doubtful debts	(1,389)	(2,235)	(1,389)	(2,235)
	31,072	42,673	31,072	42,673
Other receivables (sub note (b))	59,030	47,295	58,323	45,492
Less: Allowance for doubtful debts	(1,192)	(1,192)	(1,192)	(1,192)
	57,838	46,103	57,131	44,300
Prepayments	37,320	37,617	37,310	37,617
Deposits	150,608	152,456	150,589	152,456
	<hr/>	<hr/>	<hr/>	<hr/>
	276,838	278,849	276,102	277,046
<hr/>				

AIRASIA BERHAD
(Incorporated in Malaysia)

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

17 TRADE AND OTHER RECEIVABLES (CONTINUED)

The normal credit terms of the Company range from 31 to 60 days (2005: 31 to 60 days).

The trade and other receivables are denominated in Ringgit Malaysia except for certain balances in which the foreign currency exposure is as follows:

	<u>Group and Company</u>	
	<u>2006</u>	<u>2005</u>
	RM'000	RM'000
USD	<u>22,404</u>	<u>33,217</u>

- (a) Included in long term prepayments are prepaid lease rental and guarantee fees paid on financing arrangements. These long term prepayments are charged to the income statements over the term of the lease of the low cost carrier terminal building and borrowings.
- (b) Included in other receivables is an amount due from the former holding company, HICOM Holdings Bhd ("HICOM"), of RM5.8 million as at 30 June 2006 and 30 June 2005. The amount owing is unsecured, interest free and not subject to any fixed terms of repayment. This balance relates to liability paid by the Company on behalf of its former holding company, HICOM, whereby the Company and HICOM would bear the liability of the Company prior to the acquisition by Tune Air Sdn Bhd ("TASB") on a one to one basis. Both parties have agreed that the amount is to be recovered on resolution of the withholding tax issue as disclosed in Note 32 to the financial statements.

18 AMOUNTS DUE FROM SUBSIDIARIES

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

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

	<u>Company</u>	
	<u>2006</u>	<u>2005</u>
	RM'000	RM'000
Ringgit Malaysia	1,141	1,571
USD	39,320	21,866
	<u>40,461</u>	<u>23,437</u>

19 AMOUNT DUE FROM/(TO) A JOINTLY CONTROLLED ENTITY

The amount due from/(to) Thai AirAsia Co. Ltd, the jointly controlled entity is denominated in US Dollar, unsecured, interest free and has no fixed terms of repayment.

Company No.

284669	W
--------	---

AIRASIA BERHAD
(Incorporated in Malaysia)

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

20 AMOUNTS DUE FROM/(TO) ASSOCIATES

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

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

	<u>Group and Company</u>	
	<u>2006</u>	<u>2005</u>
	RM'000	RM'000
USD	49,022	40,294
SGD	3,916	340
	<u>52,938</u>	<u>40,634</u>

21 CASH AND CASH EQUIVALENTS

	<u>Group</u>		<u>Company</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	RM'000	RM'000	RM'000	RM'000
Cash and bank balances	49,855	72,675	46,211	71,303
Deposits with licensed bank	198,309	16,741	198,309	16,741
Short-term deposits with fund management companies	177,477	239,873	177,477	239,873
Deposits, cash and bank balances	425,641	329,289	421,997	327,917
Deposits pledged as securities	(12,734)	(16,741)	(12,734)	(16,741)
	<u>412,907</u>	<u>312,548</u>	<u>409,263</u>	<u>311,176</u>

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

	<u>Group</u>		<u>Company</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	RM'000	RM'000	RM'000	RM'000
Ringgit Malaysia	255,430	306,886	251,786	305,514
USD	166,428	18,707	166,428	18,707
IDR	3,536	3,002	3,536	3,002
SGD	247	684	247	684
HKD	-	10	-	10
	<u>425,641</u>	<u>329,289</u>	<u>421,997</u>	<u>327,917</u>

Company No.

284669	W
--------	---

AIRASIA BERHAD
(Incorporated in Malaysia)

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

21 CASH AND CASH EQUIVALENTS (CONTINUED)

The short-term deposit with a fund management company relates to a portfolio of investments undertaken on behalf of the Company by Intrinsic Capital Management Sdn Bhd ("INCAM"), a company in which a director of the Company has a financial interest. The Company had paid RM231,861 of management fee to INCAM during the financial year (2005: RM360,207).

The deposits with the licensed bank are pledged as security for banking facilities granted to the Company. The weighted average effective interest rates of deposits at the balance sheet dates are as follows:

	Group		Company	
	2006 %	2005 %	2006 %	2005 %
Deposits with a licensed bank	5.26	2.50	5.26	2.50
Short-term deposits with fund management companies	2.40	2.57	2.40	2.57

Maturity of the deposits range from 30 to 365 days (2005: 30 to 365 days).

22 TRADE AND OTHER PAYABLES

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Trade payables	46,714	34,042	45,817	33,173
Withholding tax (Note 32)	10,437	10,437	10,437	10,437
Other payables and accruals	86,796	49,594	84,285	46,655
Sales in advance	123,134	60,937	123,134	60,937
	267,081	155,010	263,673	151,202

Credit terms of trade payables granted to the Company is 30 days (2005: 30 days). The currency exposure profile of trade and other payables is as follows:

	Group		Company	
	2006 RM'000	2005 RM'000	2006 RM'000	2005 RM'000
Ringgit Malaysia	235,418	135,893	232,010	132,085
USD	31,188	18,676	31,188	18,676
Others	475	441	475	441
	267,081	155,010	263,673	151,202

AIRASIA BERHAD
(Incorporated in Malaysia)

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

23 AMOUNT DUE TO A SUBSIDIARY

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

24 HIRE-PURCHASE PAYABLES

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

	<u>Group</u>		<u>Company</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	RM'000	RM'000	RM'000	RM'000
Hire-purchase liabilities:				
Minimum payments:				
- Not later than 1 year	179	196	155	172
- Later than 1 year and not later than 5 years	332	319	309	264
	<u>511</u>	<u>515</u>	<u>464</u>	<u>436</u>
Less: Future finance charges	(70)	(65)	(66)	(58)
Present value of liabilities	<u>441</u>	<u>450</u>	<u>398</u>	<u>378</u>
Present value of liabilities:				
- Not later than 1 year	153	167	133	148
- Later than 1 year and not later than 5 years	288	283	265	230
	<u>441</u>	<u>450</u>	<u>398</u>	<u>378</u>

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

As at 30 June 2006, the effective interest rate applicable to the lease liabilities was 3.75% (2005: 5.50%) per annum for the Group and Company. The entire balance is denominated in Ringgit Malaysia.

AIRASIA BERHAD
(Incorporated in Malaysia)

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

25	BORROWINGS (SECURED)	Group and Company	
		2006	2005
		RM'000	RM'000
	<u>Current:</u>		
	Term loan	265,360	-
	<u>Non-current:</u>		
	Term loan	787,276	-
	Total borrowings	1,052,636	-

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

	Group and Company	
	2006	2005
	RM'000	RM'000
Not later than 1 year	265,360	-
Later than 1 year and not later than 5 years	264,624	-
Later than 5 years	522,652	-
	1,052,636	-

The entire borrowings are denominated in US Dollar.

As at the balance sheet date, the weighted average effective interest rate of the borrowings is at 5.01% per annum (2005: Not applicable).

The above term loans are for the purchase of new aircraft A320-200. These term loans are secured by the followings:

- (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

There are some minor financial covenants given to a bank under the predelivery payment financing facility which was obtained by the Company on a clean basis.

Company No.	
284669	W

AIRASIA BERHAD
(Incorporated in Malaysia)

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

26 DEFERRED TAXATION

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

The following amounts determined after appropriate offsetting, are shown in the balance sheet:

	<u>Group and Company</u>	
	<u>2006</u>	<u>2005</u>
	RM'000	RM'000
Deferred tax assets	10,272	10,272
Deferred tax liabilities	(48,801)	(23,885)
	<u>(38,529)</u>	<u>(13,613)</u>

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

	<u>Group and Company</u>	
	<u>2006</u>	<u>2005</u>
	RM'000	RM'000
At start of year	(13,613)	(1,113)
Credited/(charged) to income statement (Note 9)		
- Property, plant and equipment	<u>(24,916)</u>	<u>(12,500)</u>
	(24,916)	(12,500)
At end of year	<u>(38,529)</u>	<u>(13,613)</u>
Deferred tax assets (before offsetting)		
Tax losses	10,272	10,272
Offsetting	(10,272)	(10,272)
Deferred tax assets (after offsetting)	<u>-</u>	<u>-</u>
Deferred tax liabilities (before offsetting)		
Property, plant and equipment	(48,801)	(23,885)
Offsetting	10,272	10,272
Deferred tax liabilities (after offsetting)	<u>(38,529)</u>	<u>(13,613)</u>

The Company had received approval from the Ministry of Finance 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 the period of 5 years commencing 1 July 2004 to 30 June 2009, to be set off against 70% of statutory income for each year of assessment. Any unutilised allowance can be carried forward to subsequent years until fully utilised. The amount of income exempted from tax is credited to a tax-exempt account from which tax-exempt dividends can be declared.

AIRASIA BERHAD
(Incorporated in Malaysia)

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

26 DEFERRED TAXATION (CONTINUED)

Subject to agreement by the Inland Revenue Board, the Group and Company has unutilised investment allowances not accounted for in the financial statements amounting to RM548.5 million (2005: Not applicable) to set off against future taxable profits.

In the preparation of the financial statements, the Group and Company has complied with FRS 112²⁰⁰⁴ 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 112²⁰⁰⁴ 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 112²⁰⁰⁴ 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.

A reconciliation between the profit after tax as reported and the profit after tax had IAS 12 been applied is analysed as follows:

	<u>Group</u> RM'000	<u>Company</u> RM'000
Profit before taxation as reported	115,517	106,647
Taxation		
- Current taxation	(2,175)	(2,175)
- Deferred taxation	(24,916)	(24,916)
	(27,091)	(27,091)
Profit after taxation as reported	88,426	79,556
Deferred tax on unutilised investment allowances on IAS 12 application	153,589	153,589
Profit after taxation on IAS 12 application	<u>242,015</u>	<u>233,145</u>
Earnings per share (sen) on IAS 12 application		
- Basic	10.3	
- Diluted	10.2	

Company No.

284669	W
--------	---

AIRASIA BERHAD
(Incorporated in Malaysia)

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

27 SHARE CAPITAL

	<u>Group and Company</u>	
	<u>2006</u>	<u>2005</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	233,503	175,127
Issued during the financial year	1,146	58,376
	<u>234,649</u>	<u>233,503</u>
At end of the financial year	234,649	233,503
	<u>234,649</u>	<u>233,503</u>

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 (or the "Scheme") 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.

The main features of the ESOS are as follows:

- (a) The maximum number of ordinary shares, which may be allotted pursuant to the exercise of options under the Scheme, shall not exceed ten per cent (10.0%) of the issued and paid-up share capital of the Company at any point in time during the duration of the Scheme.
- (b) The Option Committee may from time to time decide the conditions of eligibility to be fulfilled by an Eligible Person in order to participate in the Scheme.
- (c) The aggregate number of shares to be offered to any Eligible Person who has fulfilled the eligibility criteria for the time being by way of options in accordance with the Scheme shall be at the discretion of the Option Committee. The Option Committee may consider circumstances such as the Eligible Person's scope of responsibilities, performance in the Group, rank or job grade, the number of years of service that the Eligible Person has rendered to the Group, the Group's retention policy and whether the Eligible Person is serving under an employment contract for a fixed duration or otherwise. The Option Committee's decision shall be final and binding.

AIRASIA BERHAD
(Incorporated in Malaysia)

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

27 **SHARE CAPITAL (CONTINUED)**

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

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

- (d) The maximum number of shares allocated to Executive Directors, Non-Executive Directors and senior management by way of options shall in aggregate not exceed fifty per cent (50.0%) of the total number of shares (or such other percentage as may be permitted by the relevant regulatory authorities from time to time) available under the Scheme.
- (e) The subscription price, in respect of options granted prior to the date of listing in Bursa Malaysia, shall be RM1.08 per share.
- (f) The options granted are exercisable one year beginning from the date of grant.

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

The Company has granted 93,240,000 options at an exercise price of RM1.08 per share under the ESOS scheme on 1 September 2004, which expires on 6 June 2009.

At 30 June 2006, options to subscribe for 67,252,000 ordinary shares of RM0.10 each at the exercise price of RM1.08 per share remain unexercised.

These options granted do not confer any right to participate in any share issue of any other company.

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

<u>Grant date</u>	<u>Expiry date</u>	<u>Exercise price RM/share</u>	<u>At 1 July 2005 '000</u>	<u>Granted '000</u>	<u>Exercised '000</u>	<u>Lapsed '000</u>	<u>At 30 June 2006 '000</u>
1 September 2004	6 June 2009	1.08	93,240	-	(11,457)	(14,531)	67,252
							<u>At 30 June 2006 '000</u>
Number of share options vested at balance sheet date							<u>9,738</u>

Company No.

284669	W
--------	---

AIRASIA BERHAD
(Incorporated in Malaysia)

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

27 SHARE CAPITAL (CONTINUED)

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

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</u> RM/share	<u>Exercise price</u> RM/share	<u>Number of shares issued 2006</u> '000
July 2005 to December 2005	1.50 – 1.60	1.08	7,099
January 2006 to May 2006	1.60 – 1.77	1.08	4,331
June 2006	1.50 – 1.60	1.08	27
			<u>11,457</u>
			<u>2006</u> RM'000
Ordinary share capital at par			1,146
Share premium			11,227
Proceeds received on exercise of share options			<u>12,373</u>
Fair value at exercise date of shares issued			<u>18,700</u>

AIRASIA BERHAD
(Incorporated in Malaysia)

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

28 SIGNIFICANT ACQUISITIONS

- (a) The Company had acquired certain subsidiaries and associates during the financial year, as disclosed in Notes 12 and 14 to the financial statements. These acquisitions do not have significant effect on the financial results of the Group in the financial year and financial position as at 30 June 2006.
- (b) In the previous financial year, the Company acquired 99.8% equity interest in AAIL for a total cash consideration of USD5.26 million. As a result of the acquisition, the Company effectively acquired a 48.9% equity interest in Thai AirAsia.

The acquisition had no significant effect on the financial results of the Group in the previous financial year.

The effect of this acquisition on the financial position of the Group as at 30 June 2005 was as follows:

	<u>2005</u> RM'000
Non-current assets	6,719
Current assets	1,382
Current liabilities	(791)
	<hr/>
Increase in Group's net assets	7,310
	<hr/> <hr/>

Details of net assets acquired, goodwill and cash flow arising from this acquisition were as follows:

	<u>Group and Company</u> <u>At date of acquisition</u> RM'000
Non-current assets	12,030
Current assets	1,421
Current liabilities	(797)
	<hr/>
Group's share of net assets	12,654
Goodwill on acquisition	7,334
	<hr/>
Cost of acquisition	19,988
	<hr/> <hr/>
Purchase consideration discharged by cash	19,988
Less: Advances to AAIL capitalised	(19,988)
	<hr/>
Cash outflow on acquisition	-
	<hr/> <hr/>

AIRASIA BERHAD
(Incorporated in Malaysia)

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

29 RETAINED EARNINGS

The Company has sufficient tax credits under Section 108(6) of the Income Tax Act, 1967 to frank approximately RM9.4 million (2005: RM5 million) of its retained profits as at 30 June 2006 if paid out as dividends. The extent of the retained earnings not covered at that date amounted to RM135.7 million (2005: RM22 million).

In addition, the Company has tax exempt income as at 30 June 2006 amounting to approximately RM0.5 million (2005: RM0.5 million) available for distribution as tax exempt dividends to shareholders. This tax exempt income is subject to the agreement by the Inland Revenue Board.

30 COMMITMENTS

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

	<u>Group and Company</u>	
	<u>2006</u>	<u>2005</u>
	RM'000	RM'000
Property, plant and equipment:		
Approved and contracted for	6,805,533	8,108,067
Approved but not contracted for	99,928	94,000
	<u>6,905,461</u>	<u>8,202,067</u>
Property, plant and equipment:		
Share of a jointly controlled entity's capital commitments	3,266	3,845
Share of an associate's capital commitments	1,544	-
	<u>4,810</u>	<u>3,845</u>

(b) Non-cancellable operating leases

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

	<u>2006</u>		<u>2005</u>	
	Future minimum lease payments	Future minimum sublease receipts	Future minimum lease payments	Future minimum sublease receipts
	RM'000	RM'000	RM'000	RM'000
Not later than 1 year	116,713	43,638	90,995	18,059
Later than 1 year and not later than 5 years	276,369	74,609	258,926	64,571
Later than 5 years	66,172	-	62,871	-
	<u>459,254</u>	<u>118,247</u>	<u>412,792</u>	<u>82,630</u>

Company No.

284669	W
--------	---

AIRASIA BERHAD
(Incorporated in Malaysia)

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

31 NON-CASH TRANSACTIONS

Certain property, plant and equipment of the Company acquired during the financial year were obtained by means of hire purchase financing amounting to RM0.2 million (2005: RM0.2 million).

32 CONTINGENT LIABILITIES

The Company is currently disputing certain expenses charged by a service provider as at 30 June 2006 amounting to approximately RM9.6 million. The Directors are confident that resolution of the dispute above would be favourable to the Company.

The Company had made an application to the government for the waiver of withholding tax payable on the lease payments for certain aircraft of the Group and the Company amounting to RM10.4 million. The Company has now made the withholding tax payment and an application to the government for the waiver of penalty on the late payment of this withholding tax which is estimated to be RM10.4 million. The Directors are of the opinion that the Company's application on the waiver for the penalty will receive due consideration from the government and that a favourable response will be granted.

Thai AirAsia Co. Ltd ("TAA"), a jointly controlled entity of the Group has contingent liabilities relating to guarantees issued by banks in respect of company's pilot trainees loans in accordance with the pilot professional course amounting to RM6.7 million (2005: RM6.8 million) which will be terminated when the student pilot earns a commercial pilot license and is assigned as co-pilot, or whenever the pilot trainee can completely settle all outstanding debt with the bank. However, TAA can fully reclaim the said liabilities from the pilot trainees's guarantors as the guarantees have been pledged with TAA.

33 SEGMENTAL INFORMATION

Segmental information is not presented as there are no business segments other than the provision of air transportation services. The Group's operations are conducted predominantly in Malaysia.

Company No.

284669	W
--------	---

AIRASIA BERHAD
(Incorporated in Malaysia)

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

34 SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions which were carried out on terms and conditions attainable in transactions with unrelated parties, disclosed in accordance with FRS 124₂₀₀₄ "Related Party Disclosures".

<u>Name of company</u>	<u>Relationship</u>	<u>Group</u>	
		<u>2006</u>	<u>2005</u>
		RM'000	RM'000
Thai AirAsia Co. Ltd ("Thai AirAsia")	A jointly controlled entity of the Company		
PT Indonesia AirAsia ("IAA") (Formerly known as PT AWAIR International)	An associate of the Company		
Thai AirAsia			
- Sublease rental income on aircrafts		20,414	6,146
- Lease rental income on aircrafts		19,578	17,880
- Maintenance and overhaul charges		39,319	26,816
IAA			
- Sublease rental income on aircrafts		11,538	1,520
- Lease rental income on aircrafts		10,521	-
- Maintenance and overhaul charges		24,990	5,028

The individual significant outstanding balances arising from the above related party transactions (other than normal trade transactions) during the financial year are as follows:

<u>Related party</u>	<u>Type of transaction</u>	<u>Group</u>	
		<u>2006</u>	<u>2005</u>
		RM'000	RM'000
Thai AirAsia	Lease and sublease rental and maintenance charges	26,750	6,907
IAA	Lease and sublease rental and maintenance charges	45,215	40,294

AIRASIA BERHAD
(Incorporated in Malaysia)

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

35 FINANCIAL RISK MANAGEMENT POLICIES

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's businesses whilst managing its fuel price, interest rate, foreign currency, credit, market, liquidity and cash flow risks. The Group operates within defined guidelines that are approved and reviewed periodically by the Board to minimise the effects of such volatility on its financial performance. The policies in respect of the major areas of treasury activity are as follows:

(a) Fuel price risk

The Group is exposed to jet fuel price risk arising from the fluctuations in the prices of jet fuel as a result of actual or disruptions in supply. It seeks to hedge its fuel requirements and implements various fuel management strategies in order to manage the risk of rising fuel prices. This includes entering into jet fuel derivative contracts with a maturity period of 6 months each to partially protect against significant increase in fuel price.

As at balance sheet date, the Company has entered into fuel written options contacts for 15,840,000 barrels of jet fuel for the period from 1 July 2007 to 30 June 2009. These arrangements are to be settled in US Dollars. The unrealised gain/(loss) on these contracts is deferred until upon the delivery of fuel.

(b) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. Interest rate exposure arises from the Group's borrowings and deposits and is managed by maintaining a prudent mix of fixed and floating rate debt and derivative financial instruments. Derivative financial instruments are used, where appropriate, to generate the desired interest rate profile. Surplus funds are placed with reputable financial institutions at the most favourable interest rates.

The Company has entered into interest rate swap contracts that will effectively convert almost all of its floating rate debt under each of its long term debt facilities into fixed rate debt. Loans for approximately 6% of total long term debt are not covered by such swaps and have therefore remained at floating rates linked to London Inter Bank Offer Rate.

The remaining terms and notional principal amounts of the outstanding interest rate swap contracts of the Company at the balance sheet date, which are denominated in US Dollars, were as follows:

	<u>2006</u> RM'000 equivalent	<u>2005</u> RM'000 equivalent
Later than 5 years	6,519,114	-
	<u>6,519,114</u>	<u>-</u>

AIRASIA BERHAD
(Incorporated in Malaysia)

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

35 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(b) Interest rate risk (continued)

The net exposure of financial assets and liabilities of the Group and Company to interest rate cash flow risk (after taking into account the effects of interest rate swaps described above) and the periods in which the borrowings mature or reprice (whichever is earlier) are as follows:

Financial Instruments	Functional currency/ currency exposure	Effective interest at balance sheet date % per annum	Total carrying amount RM'000	Floating interest rate RM'000	Fixed interest rate		
					< 1 year RM'000	1-5 years RM'000	> 5 years RM'000
<u>Group</u>							
<u>30 June 2006</u>							
Deposits with licensed bank	RM/RM	5.26	198,309	-	198,309	-	-
Short-term deposits with fund management companies	RM/RM	2.38	177,477	-	177,477	-	-
Term loans	RM/USD	5.01	(1,052,636)	(262,817)	(48,876)	(222,111)	(518,832)
Hire-purchase	RM/RM	3.75	(441)	-	(153)	(288)	-
			<u>(677,291)</u>	<u>(262,817)</u>	<u>326,757</u>	<u>(222,399)</u>	<u>(518,832)</u>
<u>Group</u>							
<u>30 June 2005</u>							
Deposits with licensed bank	RM/RM	2.50	16,741	-	16,741	-	-
Short-term deposits with fund management companies	RM/RM	2.57	239,873	-	239,873	-	-
Hire-purchase	RM/RM	5.50	(450)	-	(167)	(283)	-
			<u>256,164</u>	<u>-</u>	<u>256,447</u>	<u>(283)</u>	<u>-</u>

AIRASIA BERHAD
(Incorporated in Malaysia)

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

35 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)

(b) Interest rate risk (continued)

Financial Instruments	Functional currency/ currency exposure	Effective interest at balance sheet date % per annum	Total carrying amount RM'000	Floating interest rate RM'000	Fixed interest rate			
					< 1 year RM'000	1-5 years RM'000	> 5 years RM'000	
<u>Company</u>								
<u>30 June 2006</u>								
Deposits with licensed bank	RM/RM	5.26	198,309	-	198,309	-	-	-
Short-term deposits with fund management companies	RM/RM	2.38	177,477	-	177,477	-	-	-
Term loans	RM/USD	5.01	(1,052,636)	(262,817)	(48,876)	(222,111)	(518,832)	-
Hire-purchase	RM/RM	3.75	(398)	-	(133)	(265)	-	-
			<u>(677,248)</u>	<u>(262,817)</u>	<u>326,777</u>	<u>(222,376)</u>	<u>(518,832)</u>	<u>-</u>

Company

30 June 2005

Deposits with licensed bank	RM/RM	2.50	16,741	-	16,741	-	-	-
Short-term deposits with fund management companies	RM/RM	2.57	239,873	-	239,873	-	-	-
Hire-purchase	RM/RM	5.50	(378)	-	(148)	(230)	-	-
			<u>256,236</u>	<u>-</u>	<u>256,466</u>	<u>(230)</u>	<u>-</u>	<u>-</u>

AIRASIA BERHAD
(Incorporated in Malaysia)

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

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

(c) **Foreign currency risk**

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

The Company enters into forward foreign currency exchange contracts to limit its exposure on foreign currency receivables and payables. At 30 June 2006, the settlement dates on open forward contracts ranged between 1 and 8 months (2005: Not applicable). The foreign currency amounts to be received and contractual exchange rates of the Company's outstanding contracts were as follows:

<u>Hedge item</u>	<u>Currency to be received</u>	<u>Currency to be paid</u>	<u>RM'000 equivalent</u>	<u>Contractual rate</u>
As at 30 June 2006				
Future payments of term loans - USD39,848,544	US Dollar	Ringgit Malaysia	147,440	1 USD = RM3.70

The net unrecognised losses at 30 June 2006 on open contracts which hedge future payments on term loans amounted to RM2.0 million (2005: Not applicable). These exchange losses are deferred until the related payments are transacted, at which time they are included in the measurement of such transactions.

(c) **Credit risk**

The Group's exposure to credit risks or the risk of counterparties defaulting arises mainly from cash deposits and receivables. The maximum exposure to credit risks is represented by the total carrying amount of these financial assets in the balance sheet. Credit risks, or the risk of counterparties defaulting, are controlled by the application of credit approvals, limits and monitoring procedures. Credit risks are minimised by monitoring receivables regularly.

The Group generally has no concentration of credit risk except for debt owing by 2 customers which constitutes approximately 23.6% of the outstanding trade receivables at the end of 30 June 2006. The Directors are however of the opinion that adequate provision has been made for any uncollectible amounts.

(d) **Market risk**

The Group has investments which are subject to market risk as the market values of these investments are affected by changes in market prices. The Group seeks to manage its exposure to market risk by maintaining a portfolio with different risk profiles.

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

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

AIRASIA BERHAD
(Incorporated in Malaysia)

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

36 FAIR VALUES OF FINANCIAL INSTRUMENTS FOR DISCLOSURE PURPOSES

On balance sheet financial instruments

The fair value of a financial instrument is assumed to be the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction.

Quoted market prices, when available, are used as a measure of fair values. However, for a significant portion of the Group's and Company's financial instruments, quoted market prices do not exist. For such financial instruments, fair values presented are estimates derived using the net present value or other valuation techniques. These techniques involve uncertainties and are significantly affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values.

The carrying values of financial assets and financial liabilities of the Group and Company at the balance sheet date approximated their fair values, except as set out below:

	2006		2005	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
<u>Group</u>				
Unquoted investments	78	*	90	*
Borrowings (non-current portion)	787,276	774,164	-	-
Hire-purchase payables (non-current portion)	288	266	283	258
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Company</u>				
Unquoted investments	78	*	90	*
Borrowings (non-current portion)	787,276	774,164	-	-
Hire-purchase payables (non-current portion)	265	244	230	207
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

* It is not practicable to estimate the fair value of the Group's unquoted investments because of the lack of reference market prices and the inability to estimate fair value without incurring excessive cost. However, the carrying amounts recorded are not anticipated to differ significantly from their value at the balance sheet date.

AIRASIA BERHAD
(Incorporated in Malaysia)

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

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

Derivative financial instruments

Fair value of derivative financial instruments is the present value of their future cash flow and is derived at based on valuation carried out by the Company's bankers.

Fair value of derivative financial instruments as at balance sheet date is as follows:

(a) Fuel options contracts

	<u>Maturity period</u>	Contract or notional principal amount Barrels	Favourable net fair value RM'000	Unfavourable net fair value RM'000
<u>Group and Company</u>				
<u>2006</u>				
Fuel purchase options contracts	1.7.2007 - 30.6.2009	15,840,000	28,182	-
<u>2005</u>				
Fuel forward contracts	1.7.2005 - 30.6.2006	2,637,000	184,083	-
Fuel purchase options contracts	1.7.2005 - 30.6.2006	1,806,000	14,055	-
Fuel written options contracts	1.7.2005 - 30.6.2009	8,397,000	-	(140,569)
Fuel swap contracts	1.1.2006 - 29.6.2007	3,700,000	-	(1,763)
		16,540,000	198,138	(142,332)

(b) Other derivatives

	<u>2006</u>		<u>2005</u>	
	<u>Notional amount</u> RM'000 equivalent	<u>Fair value</u> RM'000	<u>Carrying amount</u> RM'000 equivalent	<u>Fair value</u> RM'000
Interest rate swaps	6,519,114	195,728	-	-
Foreign currency forward contracts	147,440	145,483	-	-

AIRASIA BERHAD
(Incorporated in Malaysia)

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

37 SUBSEQUENT EVENTS

(a) Incorporation of Fly Asian Xpress Sdn Bhd ("FAX")

FAX, a company incorporated in Malaysia as a private limited company under the Companies Act, 1965, on 19 May 2006, was set up with the intention to operate the new airline to provide rural air services in Sabah and Sarawak ("Interior Services"), previously known as the MAS Rural Air Services. The current shareholders of FAX are Dato' Anthony Francis Fernandes, Dato' Kamarudin Bin Meranun and Raja Mohd Azmi Raja Razali, being the Directors and executives of the Company.

A Memorandum of Understanding ("MOU") between the Company and FAX dated 28 July 2006 was signed which requires the Company to provide a number of airline related services to FAX. The MOU is a related party transaction which the Company is seeking certain waivers of the Listing Requirements from Bursa Malaysia.

The Company had also entered into a Lease Agreement with Penerbangan Malaysia Berhad on 28 July 2006 to lease 7 Fokker and 5 Twin Otters for 3 years and 5 years respectively. The purpose of the leasing arrangement is for the Company to sublease the aircraft to FAX under the same terms and conditions ("Sublease Agreement") for the Rural Air Services operations. The Sublease Agreement is a related party transaction which the Company is seeking certain waivers of the Listing Requirements from the Bursa Malaysia.

(b) Option to purchase 40 Airbus aircraft

On 31 August 2006, the Company signed Amendment Letters 1 to 6 with Airbus to exercise the option to purchase 40 Airbus A320-200 planes, making it to a total confirmed purchase of 100 A320 Airbus planes with an option to acquire up to a further 30 aircraft. The Airframe Basic Price for each additional Aircraft and the Propulsion Systems Basic Price are as defined under the Purchase Agreement dated 11 March 2005.

All predelivery payments and deposits paid by the Company and held by Airbus at the date of the signing of the Amendment Letters shall be kept in a fund, as security deposit and the Company is no longer required to make any further predelivery payments. The predelivery payments held by Airbus shall be refunded to the Company in equal portions at the delivery of each of the last eighteen (18) Additional Aircraft.

38 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 30 October 2006.

Company No.

284669

W

AIRASIA BERHAD
(Incorporated in Malaysia)

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

We, Dato' Anthony Francis Fernandes and Dato' Kamarudin Bin Meranun, being two of the Directors of AirAsia Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 7 to 58 are drawn up so as to give a true and fair view of the state of affairs of the Group and Company as at 30 June 2006 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 MASB approved accounting standards in Malaysia.

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



DATO' ANTHONY FRANCIS FERNANDES
DIRECTOR



DATO' KAMARUDIN BIN MERANUN
DIRECTOR


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

I, Dato' Anthony Francis Fernandes, the Director primarily responsible for the financial management of AirAsia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 7 to 58 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.

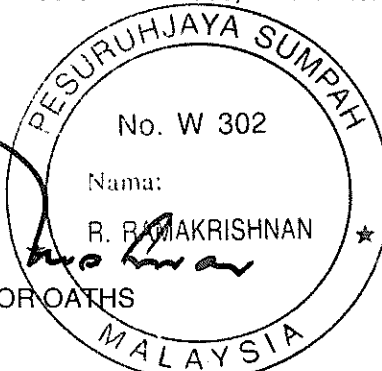


DATO' ANTHONY FRANCIS FERNANDES

Subscribed and solemnly declared by the abovenamed Dato' Anthony Francis Fernandes at Kuala Lumpur in Malaysia on 30 October 2006, before me.



COMMISSIONER FOR OATHS



R. RAMAKRISHNAN
PESURUHJAYA SUMPAH
NO: 79, JALAN TUN H.S. LEE
50000, KUALA LUMPUR.

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

We have audited the financial statements set out on pages 7 to 58. These financial statements are the responsibility of the Company's Directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

We conducted our audit in accordance with approved auditing standards in Malaysia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

- (a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and the MASB approved accounting standards in Malaysia so as to give a true and fair view of:
 - (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and
 - (ii) the state of affairs of the Group and Company as at 30 June 2006 and of the results and cash flows of the Group and Company for the financial year ended on that date; and
- (b) the accounting and other records and the registers required by the Act to be kept by the Company and by the subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

The names of the subsidiaries of which we have not acted as auditors are indicated in Note 12 to the financial statements. We have considered the financial statements of these subsidiaries and the auditors' reports thereon.

We have satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the consolidated financial statements and we have received satisfactory information and explanations required by us for those purposes.

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

The auditors' reports on the financial statements of the subsidiaries were not subject to any qualification and did not include any comment made under subsection (3) of Section 174 of the Act.



PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants



UTHAYA KUMAR S/O K. VIVEKANANDA
(No. 1455/06/08 (J))
Partner of the firm

Kuala Lumpur
30 October 2006