

AIRASIA GROUP BERHAD
201701030323 (1244493-V)
(Incorporated in Malaysia)

Directors' Report and Audited Financial Statements
31 December 2019

**AirAsia Group Berhad
(Incorporated in Malaysia)**

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AirAsia Group Berhad
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Directors' report

The directors hereby present their report together with the audited financial statements of the Group and of the Company for the financial year ended 31 December 2019.

Principal activities

The principal activity of the Company is that of an investment holding company. The principal activities of the subsidiaries are described in Note 12 to the financial statements. There were no significant changes in the nature of these activities during the financial year.

Results

	Group RM'000	Company RM'000
(Loss)/profit net of tax	<u>(283,223)</u>	<u>2,937,876</u>
(Loss)/profit net of tax attributable to:		
Owners of the Company	(315,807)	2,937,876
Non-controlling interests	<u>32,584</u>	<u>-</u>
	<u>(283,223)</u>	<u>2,937,876</u>

There were no material transfers to or from reserves or provisions during the financial year other than as disclosed in the financial statements.

In the opinion of the directors, the results of the operations of the Group and of the Company during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature.

Dividends

The dividends on ordinary shares paid by the Company since 31 December 2018 were as follows:

	RM'000
In respect of the financial year ended 31 December 2018,	
Second interim tax exempt single-tier dividend of 12 sen per ordinary share each on 3,341,974,082 ordinary shares, paid on 10 April 2019	401,037
In respect of the financial year ended 31 December 2019,	
Special tax exempt single-tier dividend of 90 sen per ordinary share each on 3,341,974,082 ordinary shares, paid on 29 August 2019	<u>3,007,776</u>
	<u>3,408,813</u>

The directors do not recommend the payment of any final dividend in respect of the current financial year.

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Directors

The names of the directors of the Company in office since the beginning of the financial year to the date of this report are:

Datuk Kamarudin bin Meranun*
Tan Sri Anthony Francis Fernandes*
Dato' Abdel Aziz @ Abdul Aziz bin Abu Bakar
Dato' Fam Lee Ee
Stuart L Dean *
Dato' Mohamed Khadar bin Merican
Noor Neelofa binti Mohd Noor

*These directors are also directors of the Company's subsidiaries.

The names of the directors of the Company's subsidiaries in office since the beginning of the financial year to the date of this report (not including those directors listed above) are:

Aaron Ram Sarma	Lee Teck Loong (Spencer)	Riad Asmat
Agnes Maranan	Loh Jin Yong	Ricardo P. Isla
Aireen Omar	Lourdes L. Agbuya	Roisin Dixon
Alejandro T. Yu	Lu Kee Hong	Ronald B. Policarpio
Anajuk Chareonwongsak	Lui Yew Lee	Rozman Bin Omar
Anita Ler	Lye Kong Wei	Rudy Effendi
Arifin Prasetyo	Madan Mohan Kn	Sabrina Kong Hung Cheong
Augustus Ralph Marshall	Magandra Dass Haridas	Sami Joseph El Hadery
Christine G. Yu	Mahisa Adhitya Rachman	Seah Kok Khong
Christopher Davison	Manjul Taneja	Sheila Marie B. Romero
Christopher Paul Davison	Manolito Alvarez Manalo	Tassapon Bijleveld
Dendy Kurniawan	Marianne B Hontiveros	Tay Tuan Leng
Dennis Paul	Mitherpall Singh Sidhu	Teoh Hooi Ling
Dinesh Kumar	Monica Ann San Juan	Tharumalingam
Domingo G. Castillo	Muhamad Hidayat Bin Rahim	A/L Kanagalingam
Emmanuel C. Paras	Mun Hui Teh	Tommy Lo Seen Chong
Ernest D Bernal	Natacha	V Loganathan S/O Velaitham
Frederick M Arejola	Navin Rajagopalan	Veranita Yosephine
Heru Susilo	Nguyen Thi Bich Lien	Wang Wenju
How Kim Lian	Nipun Anand	Wong Hee Cha
Jackson Pek	Omar Salim-Dhanani	Wuri Septiawan
Javed Anwar Malik	Pattra Boosarawongse	Yacoob Bin Ahmed
Jeremiah Brian Rabe	Pawan Najunda Setty	
Joanna Binti Ibrahim	Phua Sheau Wei	
Joanne Chin	Piperdi	
Joseph Omar A. Castillo	Rahul Agarwal	
Kaw Kok Hui	Ranjiv S/O Ramanathan	
Khaw Keng Wei	Ravi Shankar Mallavarapu	
Kong Wei Lye	RD. Achmad Sadikin	

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Directors (cont'd.)

The directors and officers of the Group and of the Company are covered under a Directors' and Officers' Liability Insurance up to an aggregate limit of RM100,000,000 against any legal liability, if incurred by the directors and officers of the Group and of the Company in the discharge of their duties while holding office for the Company and its subsidiaries.

Directors' benefits

During and at the end of the financial year ended 31 December 2019, 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.

Since the end of the previous financial year, no director has received or become entitled to receive a benefit 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 5(b) and Note 5(c) to the financial statements.

Directors' interests

According to the register of directors' shareholdings, the interests of directors in office at the end of the financial year in shares in the Company and its related corporations during the financial year were as follows:

	Number of ordinary shares			
	At 1.1.2019	Acquired	Disposed	At 31.12.2019
Direct interests in the Company				
Datuk Kamarudin bin Meranun ²	2,000,000	-	-	2,000,000
Tan Sri Anthony Francis Fernandes ²	1,600,000	-	-	1,600,000
Dato' Abdel Aziz @ Abdul Aziz bin Abu Bakar	29,500	960,000	-	989,500
Dato' Mohamed Khadar bin Merican	180,000	70,000	-	250,000
Stuart L Dean	40,000	-	-	40,000

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Directors' interests (cont'd.)

	Number of ordinary shares		
	At 1.1.2019	Acquired Disposed	At 31.12.2019
Indirect interests in the Company			
Tan Sri Anthony Francis Fernandes ¹	1,075,485,082	-	1,075,485,082
Datuk Kamarudin Bin Meranun ¹	1,075,485,082	-	1,075,485,082

¹ By virtue of their interests in shares in the substantial shareholder of the Company, Tune Air Sdn Bhd² ("TASB") and Tune Live Sdn Bhd³ ("TLSB"), Tan Sri Anthony Francis Fernandes and Datuk Kamarudin bin Meranun are deemed to have interests in the Company to the extent of TASB's and TLSB's interests therein, in accordance with Section 8 of the Companies Act 2016.

² Shares held under HSBC Nominees (Tempatan) Sdn Bhd.

³ Shares held under own name, RHB Capital Nominees (Tempatan) Sdn Bhd and HSBC Nominees (Tempatan) Sdn Bhd.

Other than as disclosed above, none of the other directors in office at the end of the financial year held any interest in shares or debentures of the Company and its related corporations during the financial year.

Statutory information on the financial statements

- (a) Before the income statements, statements of comprehensive income and statements of financial position of the Group and of the Company were made out, the directors took reasonable steps:
- (i) to ascertain that proper action had been taken in relation to the writing off of bad debts and the making of provision for doubtful debts and satisfied themselves that all known bad debts had been written off and that adequate provision had been made for doubtful debts; and
 - (ii) to ensure that any current assets which were unlikely to realise their value as shown in the accounting records in the ordinary course of business had been written down to an amount which they might be expected to realise.

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Statutory information on the financial statements (cont'd.)

- (b) At the date of this report, the directors are not aware of any circumstances which would render:
 - (i) the amounts written off for bad debts or the amount of the provision for doubtful debts in the financial statements of the Group and of the Company inadequate to any substantial extent; and
 - (ii) the values attributed to current assets in the financial statements of the Group and of the Company misleading.
- (c) At the date of this report, the directors are aware of the COVID-19 pandemic, which may have an impact on certain values attributed to current assets and valuation methods adopted by the Group and the Company.
- (d) At the date of this report, the directors are not aware of any circumstances not otherwise dealt with in this report or financial statements of the Group and of the Company which would render any amount stated in the financial statements misleading.
- (e) At the date of this report, there does not exist:
 - (i) any charge on the assets of the Group or of the Company which has arisen since the end of the financial year which secures the liabilities of any other person; or
 - (ii) any contingent liability of the Group or of the Company which has arisen since the end of the financial year.
- (f) In the opinion of the directors:
 - (i) 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 will or may affect the ability of the Group or of the Company to meet their obligations when they fall due; and
 - (ii) no item, transaction or event of a material and unusual nature has arisen in the interval between the end of the financial year and the date of this report which is likely to substantially affect the results of the operations of the Group or of the Company for the financial year in which this report is made.
- (g) Note 48 to the financial statements discussed the management steps to address the current impact of the COVID-19 pandemic. The Board of Directors is confident that based on the strategies and the funding plans, the Group will be in good stead to weather the current challenging environment.

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Significant events

Details of significant events are disclosed in Note 44 to the financial statements.

Subsequent events

Details of subsequent events are disclosed in Note 45 to the financial statements.

Auditors

The auditors, Ernst & Young PLT, have expressed their willingness to continue in office.

Auditors' remuneration are disclosed in Note 6 to the financial statements.

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young PLT, as part of the terms of its audit engagement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young PLT during or since the financial year.

Signed on behalf of the Board in accordance with a resolution of the board of directors dated 6 July 2020.

Datuk Kamarudin bin Meranun

Tan Sri Anthony Francis Fernandes

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Statement by directors

Pursuant to Section 251(2) of the Companies Act 2016

We, Datuk Kamarudin bin Meranun and Tan Sri Anthony Francis Fernandes, being two of the Directors of AirAsia Group Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 20 to 182 are drawn up in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia so as to give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019 and of their financial performance and cash flows for the year then ended.

Signed on behalf of the Board in accordance with a resolution of the directors dated 6 July 2020.

Datuk Kamarudin bin Meranun

Tan Sri Anthony Francis Fernandes

Statutory declaration

Pursuant to Section 251(1)(b) of the Companies Act 2016

I, Tan Sri Anthony Francis Fernandes, being the Director primarily responsible for the financial management of AirAsia Group Berhad, do solemnly and sincerely declare that the accompanying financial statements set out on pages 20 to 182 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.

Subscribed and solemnly declared
by the abovenamed Tan Sri Anthony Francis Fernandes
at Kuala Lumpur in Malaysia
on 6 July 2020

Tan Sri Anthony Francis Fernandes

Before me,

Commissioner for Oaths
Kuala Lumpur

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Independent auditors' report to the members of
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Report on the audit of the financial statements

Opinion

We have audited the financial statements of AirAsia Group Berhad, which comprise the statements of financial position as at 31 December 2019 of the Group and of the Company, and income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group and of the Company for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 20 to 182.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and of the Company as at 31 December 2019, and of their financial performance and their cash flows for the year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Basis for Opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of the Group and of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants ("By-Laws") and the International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

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Emphasis of Matter

Material Uncertainty Related to Going Concern

We draw attention to Note 2.1 and Note 48 to the financial statements, which indicate that the Group has a net loss of RM283 million for the financial year ended 31 December 2019 and the current liabilities exceeded its current assets by RM1,843 million. Further, in early 2020, the global economy, in particular the commercial airlines industry, faces uncertainty as a result of the unprecedented COVID-19 pandemic. The travel and border restrictions implemented by countries around the world has led to a significant fall in demand for air travel which impacted the Group's financial performance and cash flows. These events or conditions, along with other matters as set forth in Note 2.1 and Note 48 to the financial statements, indicate existence of material uncertainties that may cast significant doubt on the Group's and the Company's ability to continue as a going concern.

Nevertheless, with the recent progressive uplifting of restriction on interstate travel and domestic tourism activities within the operating countries, the Group has seen positive developments on its business operations as passenger seat booking trends, flight frequencies and load factors are gradually improving to cater for the increasing demand. The financial statements of the Group and the Company have been prepared on a going concern basis, the validity of which is dependent on successful recovery from the COVID-19 pandemic in conjunction with the actions undertaken by the government of the respective countries, favorable outcome of the ongoing discussions with the financial institutions and investors to obtain required funding and successful implementation of the management's plans for future actions in responding to the conditions above as disclosed in Note 2.1 and Note 48 to the financial statements.

Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Group and of the Company for the current year. We have determined that there are no key audit matters to communicate in our report on the financial statements of the Company. In addition to the matters described in the Material Uncertainty Related to Going Concern section, the key audit matters for the audit of the financial statements of the Group are described below. These matters were addressed in the context of our audit of the financial statements of the Group as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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Key Audit Matters (cont'd.)

We have fulfilled the responsibilities described in the Auditors' responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis of our audit opinion on the accompanying financial statements.

Recognition of revenue from passenger seat sales and sales in advance

Refer to Note 4(a) to the financial statements for revenue and statement of financial position for sales in advance.

Revenue from passenger seat sales represent 77% of the total revenue of the Group for the year ended 31 December 2019.

The Group relies on an integrated information technology system (including the flight reservation system) in accounting for its passenger seat sales revenue. Such information system processes large volumes of data which are individually low value transactions.

The flight reservation system is managed by a third party vendor.

Our response

Our audit sought to place a high level of reliance on the Group's information technology systems and key controls which the management relies on in recording revenue from passenger seats sales. As the flight reservation system is managed by a third party vendor, we obtained and evaluated the external auditors' report on the operating effectiveness of the key controls over the flight reservation system.

We involved our information technology specialists to test the operating effectiveness of the automated controls of the other key modules of the information technology system. We also tested the non-automated controls in place to ensure completeness and accuracy of revenue recognised, including timely updating of approved changes to base fares and ancillary fares.

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Key Audit Matters (cont'd.)

Recognition of revenue from passenger seat
sales and sales in advance (continued)

The accounting for passenger seat sales involves
manual posting of journal entries into general
ledger based on the data provided by the flight
reservation system.

The above factors gave rise to higher risk of
material misstatement in the timing and amount
of revenue recognised from passenger seats
sales. Accordingly, we identified revenue
recognition to be an area of focus.

Our response

In addition, we also performed, amongst
others, the following procedures:

- Performed data analytics to reconcile
the revenue recognised in respect of
passenger seats sales and the amount
of sales in advance to the payments
received from passengers;
- Performed procedures to corroborate
the occurrence of revenue by tracing
samples of revenue recognised to
settlement reports from financial
institutions;
- Tested the reconciliation of data
between the flight reservation system
and the general ledger to corroborate
the completeness of revenue; and
- Performed cut-off procedures to
determine if revenue from passenger
seats sales are recorded in the correct
accounting period.

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Key Audit Matters (cont'd.)

Aircraft maintenance provisions

Refer to Note 3.3 and Note 28 to the financial statements.

As at 31 December 2019, aircraft maintenance provisions of the Group amounted to RM1,274 million.

The Group operates aircraft which are either owned or held under operating lease arrangement. In respect of the aircraft held under operating lease arrangements, the Group is contractually obligated to maintain the aircraft during the lease period and to redeliver the aircraft to the lessors at the end of the lease term, in certain pre-agreed conditions. Accordingly, the Group estimates the aircraft maintenance costs required to fulfil these obligations at the end of the lease period and recognise a provision for these costs at each reporting date.

A provision by its nature is more uncertain than most other items in the statement of financial position. The estimates of the outcome and financial effects are determined by the judgement of the management, supplemented by experience from similar transactions. Due to the magnitude of the provision and the significant judgment involved in estimating the cost to be incurred and timing of cash outflows, we consider this to be an area of audit focus.

Our response

In addressing this area of audit focus, our audit procedures included, amongst others:

- Read the lease agreements to determine the Group's contractual obligations in respect of aircraft maintenance;
- Evaluated the significant assumptions on cost to be incurred applied by the Group in estimating the aircraft maintenance provision costs by comparing these assumptions to past industry experience, supplemented by expectations of the future economic conditions; and
- Tested the accuracy of the computation of the aircraft maintenance provisions as at reporting date.

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Key Audit Matters (cont'd.)

Derivative financial instruments

Refer to Note 20 to the financial statements.

As at 31 December 2019, the Group's derivative financial assets and liabilities amounted to RM439.2 million and RM200.3 million, respectively. Net gains and losses on effective cash flow hedges arising during the financial year were recognised in other comprehensive income. The gain or loss arising from ineffective hedge is recognised immediately in the income statement.

The Group enters into various derivative financial instruments as part of the Group's overall hedging strategy to manage its exposure to fuel price risk, foreign currency risk and interest rate risk. These instruments comprised forward foreign currency contracts, interest rate swaps, interest rate caps, cross-currency interest rate swaps, fuel options and fuel swap contracts.

Valuation models used to estimate the fair value of derivative financial instrument can be subjective in nature and involve various assumptions regarding future market conditions, such as risk free rates, interest rate volatility and forward rates. The use of different valuation techniques and assumptions could produce significantly different estimates of fair value and/or hedge effectiveness.

Due to the complexity involved and the magnitude of the balance, we consider the fair value measurement of derivative financial instruments to be an area of audit focus.

Our response

In addressing this area of audit focus, our audit procedures included, amongst others:

- Involved our valuation specialists in assessing the methodology and valuation models used to estimate the fair value of the derivative financial instruments. Our valuation specialists also evaluated the key inputs applied in the valuation model such as contractual cash flows, risk free rates, interest rate volatility and forward rates, by benchmarking them with external data; and
- Obtained third party confirmations to corroborate the existence of the derivative financial instruments.

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Key Audit Matters (cont'd.)

Impairment assessment of intangible assets

Refer to Note 3.4 and Note 16 to the financial statements.

The Group is required to perform annual impairment test of cash generating units (CGUs) to which intangible assets have been allocated. The Group estimated the recoverable amount of its CGUs allocated based on fair value less costs to sell (FVLCTS). Estimating the FVLCTS of CGUs involves estimating the future cash inflows and outflows that will be derived from the CGUs, and discounting them at an appropriate rate.

Included in the Group's intangible assets as at 31 December 2019 are:

(a) goodwill amounted to RM103 million arising from step-up acquisition of BIGLIFE Sdn Bhd;

(b) goodwill arising from consolidation of PT Indonesia AirAsia ("IAA") amounted to RM38 million; and

(c) landing rights arising from consolidation of IAA and AirAsia Inc ("PAA") amounted to RM375 million and RM69 million, respectively.

We focused on the impairment assessment of the intangible assets due to the magnitude of the balance and the subjectivity involved. Specifically, we focused on the assumptions applied in respect of revenue growth, cost escalation rates, terminal value and discount rates.

Our response

In addressing this area of audit focus, our audit procedures included, amongst others:

- Obtained an understanding and assessed the management's internal control over the estimations of recoverable amounts of the CGU;
- Evaluated the assumptions applied on revenue growth, cost escalation rates, terminal value and discount rates by comparing these assumptions to industry analysis and future economic conditions;
- Analysed the sensitivity of the key assumptions by assessing the impact of changes to the recoverable amounts; and
- Evaluated the adequacy of the Group's disclosures of key assumptions used in estimations.

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Key Audit Matters (cont'd.)

Impact of first time adoption of MFRS 16
Leases

Refer to Note 2.2 and Note 30 to the financial
statements.

The Group has adopted MFRS 16 Leases effective 1 January 2019. The application of the new standard gives rise to a right-of-use ("ROU") asset of RM11,216 million, finance lease receivables of RM1,221 million and a corresponding increase in lease liabilities of RM12,460 million as at 31 December 2019.

The Group applied the modified retrospective approach for the transition accounting hence, the cumulative effect of adopting MFRS 16 has been recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

Significant judgment is required in the assumptions and estimates made in order to determine the ROU asset, finance lease receivable and lease liability, which includes determination of appropriate discount rate.

Due to the magnitude of the balance and significant judgment involved, we consider the adoption of MFRS 16 to be an area of audit focus.

Our response

In addressing this area of audit focus, our audit procedures included, amongst others:

- Read the lease agreements to evaluate the underlying contractual data used in determining assets and liabilities related to lease contract;
- Performed recalculation of the ROU asset, finance lease receivables and lease liabilities as at date of initial application and as at reporting date;
- Involved our valuation specialists in assessing the methodology used to estimate discount rate applied; and
- Evaluated the adequacy of the Group's disclosures of the impact of the new standard.

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Information Other than the Financial Statements and Auditors' Report Thereon

The Directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements of the Group and of the Company and our auditors' report thereon, which we obtained prior to the date of this auditors' report, and the annual report 2019, which is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements of the Group and of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Group and of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Group and of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors of the Company and take appropriate action.

Responsibilities of the Directors for the Financial Statements

The Directors of the Company are responsible for the preparation of financial statements of the Group and of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Group and of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Group and of the Company, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative to do so.

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Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Group and of the Company, as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements of the Group and of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and of the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Group and of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group and the Company to cease to continue as a going concern.

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Auditors' Responsibilities for the Audit of the Financial Statements (cont'd.)

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also: (cont'd.)

- Evaluate the overall presentation, structure and content of the financial statements of the Group and of the Company, including the disclosures, and whether the financial statements of the Group and of the Company represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the financial statements of the Group. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the financial statements of the Group and of the Company of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In accordance with the requirements of the Companies Act 2016 in Malaysia, we report that the subsidiaries of which we have not acted as auditors, are disclosed in Note 12 to the financial statements.

201701030323 (1244493-V)

Independent auditors' report to the members of
AirAsia Group Berhad (cont'd.)
(Incorporated in Malaysia)

Other matters

This report is made solely to the members of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

Ernst & Young PLT
202006000003 (LLP0022760-LCA) & AF 0039
Chartered Accountants

Nurida Salwa Binti Mohd Muhili
No. 03371/06/2022 J
Chartered Accountant

Kuala Lumpur, Malaysia
6 July 2020

AirAsia Group Berhad
(Incorporated in Malaysia)

Income statements**For the financial year ended 31 December 2019**

		Group		Company	
	Note	2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
			Restated		
Revenue	4(a)	11,860,403	10,638,296	-	-
Other income	4(b)	648,826	1,193,276	3,011,253	3,128,025
Operating expenses					
- Staff costs	5(a)	(1,876,196)	(1,669,918)	(64,106)	(46,410)
- Depreciation of property, plant and equipment	11	(221,502)	(584,748)	-	-
- Depreciation of right-of-use assets	30	(1,241,749)	-	-	-
- Aircraft fuel expenses		(4,204,771)	(3,908,417)	-	-
- Maintenance and overhaul		(1,331,260)	(938,369)	-	-
- User charges	7	(1,758,689)	(1,491,528)	-	-
- Aircraft operating lease expenses		-	(1,155,680)	-	-
- Other operating expenses	6	(1,150,485)	(863,976)	(24,295)	(5,062)
Operating profit		724,577	1,218,936	2,922,852	3,076,553
Finance income	8(a)	119,990	63,333	18,733	3
Finance costs	8(b)	(775,733)	(474,761)	(2)	-
Net operating profit		68,834	807,508	2,941,583	3,076,556
Foreign exchange gains/(loss)	8(c)	105,973	126,833	(3,707)	(663)
Fair value losses on derivatives	8(d)	(247,593)	(200,173)	-	-
Impairment of investment in a joint venture	13	-	(5,596)	-	-
Impairment of other investment	15	-	(5,438)	-	-
Gain on disposal of investment in an associate	14	-	181,914	-	-
Remeasurement gain on retained interest in a former subsidiary	13	-	534,712	-	-
Share of results of joint ventures		-	11,083	-	-
Share of results of associates	39	(448,874)	(115,610)	-	-
(Loss)/profit before taxation carried forward		(521,660)	1,335,233	2,937,876	3,075,893

AirAsia Group Berhad
(Incorporated in Malaysia)

Income statements

For the financial year ended 31 December 2019 (cont'd.)

	Note	Group 2019 RM'000	2018 RM'000 Restated	Company 2019 RM'000	2018 RM'000
(Loss)/profit before taxation brought forward		(521,660)	1,335,233	2,937,876	3,075,893
Taxation					
- Current taxation	9	(34,815)	(38,965)	-	-
- Deferred taxation	9	273,252	399,126	-	-
		<u>238,437</u>	<u>360,161</u>	<u>-</u>	<u>-</u>
Net (loss)/profit for the financial year		<u>(283,223)</u>	<u>1,695,394</u>	<u>2,937,876</u>	<u>3,075,893</u>
Net (loss)/profit for the financial year attributable to:					
- Owners of the Company		(315,807)	1,967,006		
- Non-controlling interests		<u>32,584</u>	<u>(271,612)</u>		
		<u>(283,223)</u>	<u>1,695,394</u>		
Earnings per share attributable to owners of the Company (sen)					
- Basic	10	(9.4)	58.9		
- Diluted	10	<u>(9.4)</u>	<u>58.9</u>		

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

AirAsia Group Berhad
(Incorporated in Malaysia)

Statements of comprehensive income
For the financial year ended 31 December 2019

	Note	Group		Company	
		2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
Net (loss)/profit for the financial year		(283,223)	1,695,394	2,937,876	3,075,893
Other comprehensive income/(loss)					
<i>Items that may be subsequently reclassified to profit or loss</i>					
Cash flow hedges		498,597	(185,658)	-	-
Share of other comprehensive income/(loss) of an associate	14	17,479	(55,682)	-	-
Foreign currency translation differences		(7,378)	(17,535)	-	-
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		<u>508,698</u>	<u>(258,875)</u>	<u>-</u>	<u>-</u>
<i>Items that will not be subsequently reclassified to profit or loss</i>					
Remeasurement gain on employee benefits liability, net of tax		2,299	11,294	-	-
Net movement on investment securities	15	<u>82,052</u>	<u>(147,637)</u>	<u>121,650</u>	<u>(61,305)</u>
Net other comprehensive income/(loss) that may not be reclassified to profit or loss in subsequent periods		<u>84,351</u>	<u>(136,343)</u>	<u>121,650</u>	<u>(61,305)</u>
Other comprehensive income/(loss) for the financial year, net of tax		<u>593,049</u>	<u>(395,218)</u>	<u>121,650</u>	<u>(61,305)</u>
Total comprehensive income for the financial year		<u>309,826</u>	<u>1,300,176</u>	<u>3,059,526</u>	<u>3,014,588</u>
Total comprehensive income attributable to:					
- Owners of the Company		275,329	1,565,632		
- Non-controlling interests		<u>34,497</u>	<u>(265,456)</u>		
		<u>309,826</u>	<u>1,300,176</u>		

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

AirAsia Group Berhad
(Incorporated in Malaysia)

Statements of financial position
As at 31 December 2019

		Group		Company	
	Note	2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
			Restated		
Non-current assets					
Property, plant and equipment	11	1,201,576	2,851,917	-	-
Right-of-use assets	30	11,215,954	-	-	-
Finance lease receivables	30	927,429	-	-	-
Investment in subsidiaries	12	-	-	8,258,716	8,055,838
Investment in joint ventures	13	-	583,854	-	-
Investment in associates	14	703,325	282,738	-	-
Investment securities	15	603,215	477,860	313,160	200,475
Intangible assets	16	635,024	615,413	-	-
Deferred tax assets	17	1,130,830	891,445	-	-
Receivables and prepayments	18	3,423,984	3,067,583	-	-
Deposits on aircraft purchase	19	252,293	578,002	-	-
Derivative financial instruments	20	208,725	383,111	-	-
		<u>20,302,355</u>	<u>9,731,923</u>	<u>8,571,876</u>	<u>8,256,313</u>
Current assets					
Inventories	21	146,086	106,326	-	-
Receivables and prepayments	18	1,133,011	1,394,970	2,724	47
Finance lease receivables	30	293,571	-	-	-
Deposits on aircraft purchase	19	344,036	398,215	-	-
Derivative financial instruments	20	230,479	267,311	-	-
Amount due from a subsidiary	22	-	-	286,873	250
Amounts due from associates	23	432,709	404,139	49,599	-
Amounts due from joint ventures	24	-	6,792	-	-
Amounts due from related parties	25	107,200	124,277	384	-
Tax recoverable		17,174	13,576	-	-
Deposits, cash and bank balances	26	2,588,097	3,326,921	41,126	1,357,538
Assets classified as held for sale	32	-	2,775,321	-	-
		<u>5,292,363</u>	<u>8,817,848</u>	<u>380,706</u>	<u>1,357,835</u>

AirAsia Group Berhad
(Incorporated in Malaysia)

Statements of financial position
As at 31 December 2019 (cont'd.)

	Note	Group		Company	
		2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
			Restated		
Less: Current liabilities					
Trade and other payables	27	2,175,150	2,325,995	1,838	771
Aircraft maintenance provisions and liabilities	28	572,312	522,071	-	-
Sales in advance		1,182,155	1,128,447	-	-
Amounts due to subsidiaries	22	-	-	-	313,354
Amounts due to associates	23	151,812	32,228	8	-
Amounts due to a joint venture	24	-	11,032	-	-
Amounts due to related parties	25	260,354	103,078	-	-
Borrowings	29	342,152	423,163	-	-
Lease liabilities	30	2,271,662	-	-	-
Tax payables		52,895	4,741	-	-
Derivative financial instruments	20	126,977	465,277	-	-
Liabilities directly associated with the assets held for sale	32	-	1,834,326	-	-
		<u>7,135,469</u>	<u>6,850,358</u>	<u>1,846</u>	<u>314,125</u>
Net current (liabilities)/ assets		<u>(1,843,106)</u>	<u>1,967,490</u>	<u>378,860</u>	<u>1,043,710</u>
Non-current liabilities					
Other payables	27	320,455	396,946	-	-
Aircraft maintenance provisions and liabilities	28	4,720,621	3,960,731	-	-
Deferred tax liabilities	17	84,279	59,905	-	-
Amounts due to associates	23	-	45,436	-	-
Borrowings	29	86,714	781,966	-	-
Lease liabilities	30	10,188,139	-	-	-
Derivative financial instruments	20	73,350	199,334	-	-
Provision for retirement benefits	31	74,951	69,830	-	-
		<u>15,548,509</u>	<u>5,514,148</u>	<u>-</u>	<u>-</u>
		<u>2,910,740</u>	<u>6,185,265</u>	<u>8,950,736</u>	<u>9,300,023</u>

AirAsia Group Berhad
(Incorporated in Malaysia)

Statements of financial position
As at 31 December 2019 (cont'd.)

		Group		Company	
	Note	2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
			Restated		
Capital and reserves					
Share capital	33	8,023,268	8,023,268	8,023,268	8,023,268
Merger deficit	34	(5,507,594)	(5,507,594)	-	-
Foreign exchange reserve		171,137	178,515	-	-
Retained earnings	35	1,664,452	5,541,712	867,123	1,338,060
Other reserves	36	147,067	(451,447)	60,345	(61,305)
Total shareholders' fund		4,498,330	7,784,454	8,950,736	9,300,023
Non-controlling interests	12	(1,587,590)	(1,599,189)	-	-
Total equity		2,910,740	6,185,265	8,950,736	9,300,023

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

AirAsia Group Berhad
(Incorporated in Malaysia)

Consolidated statement of changes in equity
For the financial year ended 31 December 2019 (cont'd.)

		Attributable to owners of the Company ----->					
		<----- Non-distributable----->			Distributable		
	Number of shares '000	Share capital RM'000 (Note 33)	Merger reserve/ (deficit) RM'000 (Note 34)	Foreign exchange reserve RM'000	Other reserves RM'000 (Note 36)	Retained earnings RM'000 (Note 35)	Total equity RM'000
							Non-controlling interests RM'000
							Total RM'000
At 1 January 2018							
As previously stated	***	**	2,515,278	196,050	(67,608)	5,404,393	8,048,113
Effects of changes in accounting policy	-	-	-	-	-	(11,175)	(11,175)
As restated	***	**	2,515,278	196,050	(67,608)	5,393,218	8,036,938
							1,565
							(1,336,468)
							6,710,080
							(9,610)
							6,700,470
Net profit/(loss) for the financial year	-	-	-	-	-	1,967,006	1,967,006
Other comprehensive loss	-	-	-	(17,535)	(383,839)	-	(401,374)
Total comprehensive (loss)/income	-	-	-	(17,535)	(383,839)	1,967,006	1,565,632
							(265,456)
							1,300,176
Transactions with owners:							
Issuance of shares pursuant to internal reorganisation (Note 33)	3,341,974	8,023,268	(8,022,872)	-	-	-	396
Dividends (Note 37)	-	-	-	-	-	(1,737,827)	(1,737,827)
Acquisition of non-controlling interest in subsidiaries (Note 12)	-	-	-	-	-	(84,789)	(84,789)
Dilution of interest in a subsidiary (Note 12)	-	-	-	-	-	4,104	4,104
At 31 December 2018	3,341,974	8,023,268	(5,507,594)	178,515	(451,447)	5,541,712	7,784,454
							(1,599,189)
							6,185,265

** Represents RM2.

*** Represents 2 shares.

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

AirAsia Group Berhad
(Incorporated in Malaysia)

Statement of changes in equity
For the financial year ended 31 December 2019

	Number of shares '000	Share capital RM'000 (Note 33)	Fair value reserve RM'000 (Note 36)	(Accumulated losses)/ retained earnings RM'000 (Note 35)	Total equity RM'000
At 1 January 2018	***	**	-	(6)	(6)
Net profit for the financial year	-	-	-	3,075,893	3,075,893
Other comprehensive loss	-	-	(61,305)	-	(61,305)
Total comprehensive (loss)/ income	-	-	(61,305)	3,075,887	3,014,582
Issuance of shares pursuant to internal reorganisation (Note 33)	3,341,974	8,023,268	-	-	8,023,268
Dividends (Note 37)	-	-	-	(1,737,827)	(1,737,827)
At 31 December 2018	3,341,974	8,023,268	(61,305)	1,338,060	9,300,023
Net profit for the financial year	-	-	-	2,937,876	2,937,876
Other comprehensive income	-	-	121,650	-	121,650
Total comprehensive income	3,341,974	8,023,268	60,345	4,275,936	12,359,549
Dividends (Note 37)	-	-	-	(3,408,813)	(3,408,813)
At 31 December 2019	3,341,974	8,023,268	60,345	867,123	8,950,736

**Represents RM2.

*** Represents 2 shares.

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

AirAsia Group Berhad
(Incorporated in Malaysia)

Statements of cash flow
For the financial year ended 31 December 2019

		Group		Company	
	Note	2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
Cash flows from operating activities					
(Loss)/profit before taxation		(521,660)	1,335,233	2,937,876	3,075,893
Adjustments for:					
Property, plant and equipment					
- Depreciation	11	221,502	584,748	-	-
- Gain on disposals	4(b)	(101,544)	(298,816)	-	-
- Write off	11	879	31,836	-	-
Right-of-use assets					
- Depreciation	30	1,241,749	-	-	-
- Gain on derecognition	4(b)	(22,458)	-	-	-
Amortisation of intangible assets	16	471	611	-	-
Impairment of:					
- trade receivables	6	5,415	70,325	-	-
- related parties	6	-	28,133	-	-
- investment in a joint venture	13	-	5,596	-	-
- investment securities	15	-	5,438	-	-
Dividend income from:					
- investment securities	4(b)	(6,330)	(3,078)	(3,253)	-
- a subsidiary	4(b)	-	-	(3,007,776)	(3,128,025)
Share of results of					
- joint ventures		-	(11,083)	-	-
- associates	39	448,874	115,610	-	-
Gain on disposal of investment in:					
- a subsidiary	4(b)	-	(350,317)	-	-
- an associate	14	-	(181,914)	-	-
Gain on remeasurement of:					
- retained interest in a former subsidiary	13	-	(534,712)	-	-
Provision for retirement benefits		16,343	17,725	-	-
Aircraft maintenance provisions	28	608,692	539,728	-	-
Fair value losses on derivatives	8(d)	247,593	200,173	-	-
Net unrealised foreign exchange (gain)/loss		(125,146)	(138,704)	2,359	549
Operating profit/(loss) carried forward		2,014,380	1,416,532	(70,794)	(51,583)

AirAsia Group Berhad
(Incorporated in Malaysia)
Statements of cash flow
For the financial year ended 31 December 2019 (cont'd.)

		Group		Company	
	Note	2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
Cash flows from operating activities (cont'd.)					
Operating profit/(loss)					
brought forward		2,014,380	1,416,532	(70,794)	(51,583)
Interest expense	8(b)	272,640	474,761	-	-
Interest expense - Lease liabilities	8(b)	503,093	-	-	-
Interest income	8(a)	(58,588)	(63,333)	(18,733)	-
Interest income - Finance lease receivables	8(a)	(61,402)	-	-	-
		<u>2,670,123</u>	<u>1,827,960</u>	<u>(89,527)</u>	<u>(51,583)</u>
Changes in working capital:					
Inventories		(38,547)	(38,843)	-	-
Receivables and prepayments		154,254	(949,355)	(2,677)	(47)
Payables and provisions		(167,507)	39,074	1,067	765
Sales in advance		41,555	164,144	-	-
Amounts due from/to subsidiaries, associates, joint venture and related parties		<u>15,919</u>	<u>(396,831)</u>	<u>(651,530)</u>	<u>50,775</u>
Cash generated from/(used in) operations		2,675,797	646,149	(742,667)	(90)
Interest paid		(192,968)	(323,126)	-	-
Interest paid - Lease liabilities		(503,093)	-	-	-
Interest received		37,348	78,431	18,233	-
Interest received - Finance lease receivables		61,402	-	-	-
Taxes refunded/(paid)		9,741	(44,988)	-	-
Retirement benefits paid		<u>(7,099)</u>	<u>(3,385)</u>	<u>-</u>	<u>-</u>
Net cash from/(used in) operating activities		<u>2,081,128</u>	<u>353,081</u>	<u>(724,434)</u>	<u>(90)</u>
Cash flows from investing activities					
Property, plant and equipment					
- Additions		(295,686)	(1,123,720)	-	-
- Proceeds from disposals		4,799,035	9,815,005	-	-
Addition in intangible assets	16	(10,278)	(6,695)	-	-
Net cash inflow from partial disposal of interest in a subsidiary	13	<u>-</u>	<u>352,695</u>	<u>-</u>	<u>-</u>
Net cash from investing activities carried forward		4,493,071	9,037,285	-	-

AirAsia Group Berhad
(Incorporated in Malaysia)

Statements of cash flow

For the financial year ended 31 December 2019 (cont'd.)

	Note	Group		Company	
		2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
Cash flows from investing activities (cont'd.)					
Net cash from investing activities brought forward		4,493,071	9,037,285	-	-
Additional deposit for aircraft purchases		(39,287)	(41,426)	-	-
Refund of deposit for aircraft purchases		417,900	-	-	-
Proceeds from disposal of:					
- an associate	14	-	245,754	-	-
Net changes:					
- Deposits pledged as securities and restricted cash		(70,539)	(150)	-	-
- Deposits with licensed banks with maturity period of more than 3 months		8,625	(19,143)	-	-
- Investment securities		(8,821)	(41,405)	8,966	-
Dividend received from:					
- investment securities	4(b)	6,330	3,078	3,253	-
- subsidiary		-	-	3,007,776	3,128,025
- associates		-	167,918	-	-
Acquisition of:					
- subsidiaries net of cash acquired	12	(3,415)	-	-	(32,570)
- other investments		(34,482)	(26,217)	-	-
- non-controlling interest in subsidiaries	12	-	(77,944)	-	-
Additional subscription of shares in					
- subsidiaries	12	-	-	(202,878)	-
- associate	14	(280,482)	(175,246)	-	-
- joint venture	13	-	(23,200)	-	-
Loans to an associate		(165,376)	-	-	-
Receipt of principal portion of finance lease receivables		336,920	-	-	-
Net cash from investing activities		4,660,444	9,049,304	2,817,117	3,095,455

AirAsia Group Berhad
(Incorporated in Malaysia)

Statements of cash flow

For the financial year ended 31 December 2019 (cont'd.)

	Note	Group		Company	
		2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
Cash flows from financing activities					
Proceeds from borrowings		710,724	1,203,073	-	-
Repayment of borrowings [#]		(3,300,640)	(7,551,916)	-	-
Payment of principal portion of lease liabilities		(1,585,087)	-	-	-
Dividends paid to shareholders		(3,408,814)	(1,737,827)	(3,408,814)	(1,737,827)
Net cash used in financing activities		<u>(7,583,817)</u>	<u>(8,086,670)</u>	<u>(3,408,814)</u>	<u>(1,737,827)</u>
Net (decrease)/increase for the financial year		(842,245)	1,315,715	(1,316,131)	1,357,538
Currency translation differences		41,507	109,718	(281)	-
Cash and cash equivalents at beginning of the financial year		<u>3,293,014</u>	<u>1,867,581</u>	<u>1,357,538</u>	<u>**</u>
Cash and cash equivalents at end of the financial year		<u>2,492,276</u>	<u>3,293,014</u>	<u>41,126</u>	<u>1,357,538</u>

AirAsia Group Berhad
(Incorporated in Malaysia)

Statements of cash flow

For the financial year ended 31 December 2019 (cont'd.)

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

	Note	Group		Company	
		2019	2018	2019	2018
		RM'000	RM'000	RM'000	RM'000
Cash and cash equivalents at end of the financial year		2,492,276	3,293,014	41,126	1,357,538
Add:					
Deposits pledged as securities and restricted cash		85,303	14,764	-	-
Deposits with licensed banks with maturity period of more than 3 months		10,518	19,143	-	-
Deposits, cash and bank balances at the end of the financial year	26	<u>2,588,097</u>	<u>3,326,921</u>	<u>41,126</u>	<u>1,357,538</u>

The deposits and restricted cash amounting to RM85,303,000 (2018: RM14,764,000) are pledged as securities for banking facilities granted to the Group.

Repayment of borrowings includes settlement of borrowings for aircraft that were disposed under sale and leaseback transactions as disclosed in Notes 44 (i) and 44 (ii).

***Represents RM2.*

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

**AirAsia Group Berhad
(Incorporated in Malaysia)**

**Notes to the financial statements
For the financial year ended 31 December 2019**

1. General information

AirAsia Group Berhad ("AAGB" or "the Company") is a public limited liability company incorporated and domiciled in Malaysia, and is listed on the Bursa Malaysia Securities Berhad.

On 16 April 2018, the Company completed the internal reorganisation by way of Members' Scheme of Arrangement under Section 366 of the Companies Act 2016 in Malaysia. This involves the exchange of 3,341,974,080 ordinary shares in AirAsia Berhad ("AAB") representing the entire issued and share capital of AAB with 3,341,974,080 new ordinary shares in the Company on the basis of 1 new Company share for every 1 existing AAB shares held. Accordingly, AAGB is the new holding company of AAB and its subsidiaries ("AAB Group") and assumed the listing status of AAB on the Main Market of Bursa Securities.

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

Unit 30-01, Level 30, Tower A,
Vertical Business Suite Avenue 3,
Bangsar South No. 8,
Jalan Kerinchi,
59200 Kuala Lumpur,
Wilayah Persekutuan,
Malaysia.

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

RedQ,
Jalan Pekeliling 5,
Lapangan Terbang Antarabangsa Kuala Lumpur (KLIA2),
64000 KLIA,
Selangor Darul Ehsan,
Malaysia.

The principal activity of the Company is that of investment holding company. The principal activities of the subsidiaries are described in Note 12. There were no significant changes in the nature of these activities during the financial year.

The financial statements were authorised for issue by the board of directors in accordance with resolution of the directors on 6 July 2020.

**AirAsia Group Berhad
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2. Summary of significant accounting policies

2.1 Basis of preparation

The financial statements of the Group and of the Company have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act, 2016 in Malaysia.

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

The financial statements are presented in Ringgit Malaysia ("RM") and all values are rounded to the nearest thousand (RM'000) except when otherwise indicated.

The conditions or events, along with other matters as disclosed in Note 48 indicate existence of material uncertainties that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. Nevertheless, the financial statements of the Group and the Company have been prepared on a going concern basis, as the Board of Directors is confident on the successful recovery of the COVID-19 pandemic in conjunction with the actions undertaken by the government of the respective countries, outcome of the ongoing discussions with the financial institutions and investors to obtain required funding and implementation of the management's plans for future actions as indicated in Note 48.

AirAsia Group Berhad
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2.2 Standards, amendments to published standards and interpretations that are effective

The Group has applied the following amendments for the first time for the financial year beginning on 1 January 2019:

- MFRS 16 *Leases*
- MFRS 9: Financial Instruments - Prepayment Features with Negative Compensation (Amendments to MFRS 9)
- MFRS 128 *Long-term Interests in Associates and Joint Ventures* (Amendments to MFRS 128)
- Annual Improvements to MFRS Standards 2015–2017 Cycle
- MFRS 119 *Employee benefits: Plan Amendment, Curtailment or Settlement* (Amendments to MFRS 119)
- IC Interpretation 23 Uncertainty over Income Tax Treatments

The adoption of these amendments did not have any material impact on the current period or any prior period except for the following:

MFRS 16 Leases

MFRS 16 supersedes MFRS 117 Leases, IC Interpretation 4 Determining whether an Arrangement contains a Lease, IC Interpretation 115 Operating Leases-Incentives and IC Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

The Group adopted MFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying MFRS 117 and IC Interpretation 4 at the date of initial application.

Upon adoption of MFRS 16, the Group, as a lessee, applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 2.10 for the accounting policy beginning 1 January 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Group.

As a lessor, the Group is not required to make any adjustment on transition, except for the reassessment of existing operating subleases at the date of the initial application.

AirAsia Group Berhad
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2. Summary of significant accounting policies (cont'd.)

2.2 Standards, amendments to published standards and interpretations that are effective (cont'd.)

MFRS 16 Leases (cont'd)

Group as a lessee

The Group recognised ROU assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The ROU assets were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. The cumulative effect of first-time adoption of MFRS 16 was recognised as an adjustment to the opening balance of retained earnings at the date of initial application.

The Group also applied the available practical expedients wherein it:

- used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application; and
- excluded the initial direct costs from the measurement of the ROU asset at the date of initial application.

Group as a lessor

Under MFRS 16, the Group (acting as a sub-lessor) is required to assess the lease classification of a sublease with reference to the ROU asset, not the underlying asset. On transition, the Group reassessed the lease classification of a sublease contract previously classified as an operating lease under MFRS 117. The Group concluded that the sublease is a finance lease under MFRS 16 and the sublease contract was accounted for as a new finance lease entered into at the date of initial application. Accordingly, the Group derecognises the ROU asset related to the head lease, and recognises a receivable at an amount equal to the net investment in the sublease. The net impacts are presented as an adjustment to the opening balance of retained earnings at the date of initial application.

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2. Summary of significant accounting policies (cont'd.)

2.2 Standards, amendments to published standards and interpretations that are effective (cont'd.)

MFRS 16 Leases (cont'd)

Group as a lessor (cont'd.)

The effect of adoption MFRS 16 as at 1 January 2019 (increase/(decrease)) is, as

	Audited 31.12.2018 RM'000	MFRS 16 adjustments RM'000	After adoption of MFRS 16 RM'000
Statement of financial position			
Right-of-use ("ROU") assets	-	8,243,124	8,243,124
Finance lease receivables	-	1,373,545	1,373,545
Lease liabilities	-	9,691,604	9,691,604
Investment in associates	282,738	(100,602)	182,136
Non-controlling interests	(1,599,189)	(22,898)	(1,622,087)
Retained earnings	<u>5,541,712</u>	<u>(152,639)</u>	<u>5,389,073</u>

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

Assets	RM'000
Operating lease commitments as at 31 December 2018	14,514,494
Weighted average incremental borrowing rate as at 1 January 2019	4.82%
Discounted operating lease commitments as at 1 January 2019	9,713,041
Less: Commitments relating to short-term lease	<u>(21,437)</u>
Lease liabilities as at 1 January 2019	<u>9,691,604</u>

2.3 Standards issued but not yet effective

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Group's and of the Company's financial statements are disclosed below. The Group and the Company intend to adopt these standards, if applicable, when they become effective.

Description	Effective for annual periods beginning on or after
Amendments to MFRS 3 <i>Business Combinations</i>	1 January 2020
Amendments to MFRS 101 <i>Presentation of Financial Statements</i>	1 January 2020

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2. Summary of significant accounting policies (cont'd.)

2.3 Standards issued but not yet effective (cont'd.)

Description	Effective for annual periods beginning on or after
Amendments to MFRS 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	1 January 2020
Amendments to MFRS 9 <i>Financial Instruments</i> , MFRS 139 <i>Financial Instruments: Recognition and Measurement</i> and MFRS 7 <i>Financial Instruments: Disclosures</i> : Interest Rate Benchmark Reform	1 January 2020
Amendments to MFRS 137 <i>Provisions, Contingent Liabilities and Contingent Assets</i> : References to the Conceptual Framework in MFRS	1 January 2020
Amendments to MFRS 138 <i>Intangible Assets</i> : References to the Conceptual Framework in MFRS	1 January 2020
MFRS 17 <i>Insurance Contract</i>	1 January 2021
Amendments to MFRS 10 <i>Consolidated Financial Statements</i> and MFRS 128 <i>Investments in Associates and Joint Ventures</i> : Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred

The directors of the Company expect that the adoption of the above standards and interpretations will have no material impact on the financial statements in the period of initial application.

2.4 Basis of consolidation

2.4.1 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

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2. Summary of significant accounting policies (cont'd.)

2.4 Basis of consolidation (cont'd.)

2.4.1 Subsidiaries (cont'd.)

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with MFRS 9 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recognised as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Where necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2.4.2 Transactions with non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in profit or loss of the Group and within equity in the consolidated statements of financial position, separately from parent shareholders' equity. Transactions with non-controlling interests are accounted for using the entity concept method, whereby, transactions with non-controlling interests are accounted for as transactions with owners. On acquisition of non-controlling interests, the difference between the consideration and book value of the share of the net assets acquired is recognised directly in equity. Gain or loss on disposal to non-controlling interests is recognised directly in equity.

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2. Summary of significant accounting policies (cont'd.)

2.4 Basis of consolidation (cont'd.)

2.4.3 Joint arrangements

A joint arrangement is an arrangement of which there is contractually agreed sharing of control by the Group with one or more parties, where decisions about the relevant activities relating to the joint arrangement require unanimous consent of the parties sharing control. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement. A joint venture is a joint arrangement whereby the joint venturers have rights to the net assets of the arrangement. A joint operation is a joint arrangement whereby the joint operators have rights to the assets and obligations for the liabilities, relating to the arrangement.

The Group's interest in a joint venture is accounted for in the financial statements using the equity method of accounting. Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture. If the joint venture subsequently reports profits, the Group resumes recognising its share of those profits only after its share of profits equals the share of losses not recognised. Where an entity loses joint control over a joint venture but retains significant influence, the Group does not remeasure its continued ownership interest at fair value.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.4.4 Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted using the equity method of accounting together with any long-term interests that, in substance, form part of the Group's net investment in the associate. In this regard, a receivable for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the Group's investment in that associate.

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2. Summary of significant accounting policies (cont'd.)

2.4 Basis of consolidation (cont'd.)

2.4.4 Associates (cont'd.)

This does not include receivables for which adequate collateral exists. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of profits equals the share of losses not recognised.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of results of associates' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in profit or loss.

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2. Summary of significant accounting policies (cont'd.)

2.4 Basis of consolidation (cont'd.)

2.4.5 Reverse acquisition of an asset or a group of assets that does not constitute a business

At the time of reverse acquisition, the Group considers whether each reverse acquisition represents the reverse acquisition of a business or the reverse acquisition of an asset. Where the assets acquired and liabilities assumed do not constitute a business as defined under MFRS 3, the transaction is accounted as an asset acquisition.

In such cases, the Group identifies and recognises the individual identifiable assets acquired (including intangible assets) and liabilities assumed. The cost of acquisition is allocated to the individual identifiable assets and liabilities based upon their relative fair value at the date of purchase, and no goodwill or deferred tax is recognised.

The legal subsidiary is regarded as the accounting acquirer while the legal parent is regarded as the accounting acquiree. The accounting acquirer is deemed to have issued equity shares as purchase consideration for the assets and liabilities of the accounting acquiree using the accounting principles of MFRS 2. The fair value of issued equity shares is determined based on the market value of the accounting acquiree which is represented by the quoted and trade price of its shares right before the reverse acquisition. The difference between the purchase consideration and the fair value of identifiable assets acquired and liabilities assumed will be recognised in the income statement as acquisition cost arising from the reverse acquisition.

2.4.6 Internal reorganisation

Acquisition of entities under an internal reorganisation scheme does not result in any change in economic substance. Accordingly, the consolidated financial statements of the Company is a continuation of the acquired entities and is accounted for as follows:

- (a) The results of entities are presented as if the internal reorganisation occurred from the beginning of the earliest period presented in the financial statements;
- (b) The Company will consolidate the assets and liabilities of the acquired entities at their pre-combination carrying amounts. No adjustments are made to reflect fair values, or recognise any new assets or liabilities, at the date of the internal reorganisation that would otherwise be done under the acquisition method;
- (c) No new goodwill is recognised as a result of the internal reorganisation. The only goodwill that is recognised is the existing goodwill relating to the combining entities. Any difference between the consideration paid/transferred and the equity acquired is reflected within equity as merger reserve or deficit.

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2. Summary of significant accounting policies (cont'd.)

2.5 Property, plant and equipment

Property, plant and equipment except for freehold land are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment initially recognised includes its purchase price and any cost that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Costs also include borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (refer to accounting policy Note 2.20 on borrowing costs).

Where significant parts of an item of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts in the carrying amount of the property, plant and equipment as a replacement when it is probable that future economic benefits associated with the parts will flow to the Group and the cost of the parts can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised as expenses in profit or loss during the financial period in which they are incurred.

Freehold land is not depreciated. Significant parts of other item of property, plant and equipment are depreciated separately over their estimated useful lives in accordance with the principle in MFRS 116 'Property, Plant and Equipment'. Depreciation is calculated using the straight-line method to write-off the cost of the assets to their residual values over their estimated useful lives.

The useful lives for this purpose are as follows:

Aircraft

- engines, airframes and spare engines excluding service potential	25 years
- service potential of engines	8 or 10 years
- service potential of airframes	13 years
- service potential of spare engines	11 years
Aircraft spares	10 years
Aircraft fixtures and fittings	Useful life of aircraft or remaining lease term of aircraft, whichever is shorter

Buildings	28.75 years
Motor vehicles	5 years
Office equipment, furniture and fittings	5 years
Office renovation	5 years
Simulator equipment	25 years
Operating plant and ground equipment	5 years
In-flight equipment	5 years
Training equipment	5 years

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2. Summary of significant accounting policies (cont'd.)

2.5 Property, plant and equipment (cont'd.)

Service potential of 8 or 10 years represents the period over which the expected cost of the first major aircraft engine overhaul is depreciated. Subsequent to the engine overhaul, the actual cost incurred is capitalised and depreciated over the subsequent 8 years.

Service potential of 13 years for airframes represents the period over which the expected cost of the first major airframe check is depreciated. Subsequent to the airframe check, the actual cost incurred is capitalised and depreciated over the subsequent 13 years.

Assets not yet in operation are stated at cost and are not depreciated until the assets are ready for their intended use. Useful lives of assets are reviewed and adjusted if appropriate, at the balance sheet date.

Residual values, where applicable, are reviewed annually against prevailing market rates at the balance sheet date for equivalent aged assets and depreciation rates are adjusted accordingly on a prospective basis. For the current financial year ended 31 December 2019, the estimated residual value for aircraft airframes and engines excluding service potential is 10% of their cost (2018: 10% of their cost).

An element of the cost of an acquired aircraft is attributed on acquisition to its service potential, reflecting the maintenance condition of its engines and 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 checks or the remaining life of the aircraft.

At the end of the reporting period, 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 2.8 on impairment of non-financial assets.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in profit or loss.

Deposits on aircraft purchase are recognised as deposits and subsequently included as part of the cost of the aircraft and are depreciated from the date that aircraft is ready for its intended use.

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2. Summary of significant accounting policies (cont'd.)

2.6 Intangible assets

2.6.1 Goodwill

Goodwill arises from a business combination and represents the excess of the aggregate of fair value of consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired and liabilities assumed on the acquisition date. If the fair value of consideration transferred, the amount of non-controlling interest and the fair value of previously held interest in the acquiree are less than the fair value of the net identifiable assets of the acquiree, the resulting gain is recognised in profit or loss.

Goodwill is not amortised but it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and carried at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at operating segment level.

The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2.6.2 Other intangible assets

Intangible assets acquired separately are measured initially at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial acquisition, intangible assets are measured at cost less any accumulated amortisation and accumulated impairment losses.

Intangible assets with finite useful lives are amortised over the estimated useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss.

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2. Summary of significant accounting policies (cont'd.)

2.6 Intangible assets (cont'd.)

2.6.2 Other intangible assets (cont'd.)

Intangible assets with indefinite useful lives or not yet available for use are tested for impairment annually, or more frequently if the events and circumstances indicate that the carrying value may be impaired either individually or at the cash generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the useful life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

(i) Research and development – internally developed software

Research expenditure is recognised as an expense when incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and,
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense when incurred. Development costs previously recognised as an expense are not recognised as an asset in subsequent period.

Capitalised development costs recognised as intangible assets are amortised from the point at which the asset is ready for use on a straight-line basis over its useful life which is 7 years.

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2. Summary of significant accounting policies (cont'd.)

2.6 Intangible assets (cont'd.)

2.6.2 Other intangible assets (cont'd.)

(ii) Landing rights

Landing rights relate to traffic rights and landing slots for destinations operated by the Group's airline operating centres and are recorded at cost less any accumulated impairment losses. Landing rights are allocated to CGUs and are not amortised as they are considered to have an indefinite useful life and are tested annually for impairment.

2.7 Investments in subsidiaries, joint ventures and associates

In the Company's separate financial statements, investments in subsidiaries, joint ventures and associates are stated at cost less accumulated impairment losses.

Amounts due from associates of which the Company does not expect repayment in the foreseeable future are treated as part of the parent's net investment in associates. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount (see Note 2.8). On disposal of investments in subsidiaries, joint ventures and associates, the difference between disposal proceeds and the carrying amounts of the investments are recognised in profit or loss.

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually, or as and when events or circumstances occur indicating that an impairment may exist. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal at each reporting date.

Any impairment loss is charged to profit or loss unless it reverses a previous revaluation in which case it is charged to the revaluation surplus. Impairment losses on goodwill are not reversed. In respect of other assets, any subsequent increase in recoverable amount is recognised in profit or loss unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus.

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2. Summary of significant accounting policies (cont'd.)

2.9 Maintenance and overhaul

Owned aircraft

The accounting for the cost of providing major airframe and certain engine maintenance checks for owned aircraft is described in accounting policy Note 2.5 on property, plant and equipment.

Leased aircraft

Where the Group has a commitment to maintain aircraft held under operating leases, provision is made during the lease term for the rectification obligations contained within the lease agreements. The provisions are based on estimated future costs of major maintenance checks and one-off costs incurred at the end of the lease by making appropriate charges to the income statement calculated by reference to the number of hours or cycles operated during the financial year.

2.10 Leases

Accounting policies applied until 31 December 2018

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

Lessee

Finance leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payment.

Each lease payment is allocated between the liability and finance charges so as to achieve a periodic constant rate of interest on the remaining balance of the liability. The corresponding rental obligations, net of finance charges, are included in payables. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

Initial direct costs incurred by the Group in negotiating and arranging finance leases are added to the carrying amount of the leased assets and recognised as an expense in profit or loss over the lease term on the same basis as the lease expense.

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2. Summary of significant accounting policies (cont'd.)

2.10 Leases (cont'd.)

Accounting policies applied until 31 December 2018 (cont'd.)

Lessee (cont'd.)

Finance leases (cont'd.)

Property, plant and equipment acquired under finance lease contracts are depreciated over the estimated useful life of the asset, in accordance with the annual rates stated in Note 2.5 above. Where there is no reasonable certainty that the ownership will be transferred to the Group, the asset is depreciated over the shorter of the lease term and its useful life.

Operating leases

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

Sale and leaseback transactions

When a sale and leaseback results in a finance lease, any gain on the sale is deferred and recognised as income over the lease term. Any loss on the sale is immediately recognised as an impairment loss when the sale occurs.

If the leaseback is classified as an operating lease, then any gain is recognised immediately if the sale and leaseback terms are demonstrably at fair value. Otherwise, the sale and leaseback are accounted for as follows:

- If the sale price is below fair value then the gain or loss is recognised immediately other than to the extent that a loss is compensated for by future rentals at below market price, then the loss is deferred and amortised over the period that the asset is expected to be used.
- If the sale price is above fair value, then any gain is deferred and amortised over the useful life of the asset.
- If the fair value of the asset is less than the carrying amount of the asset at the date of the transaction, then that difference is recognised immediately as a loss on the sale.

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2. Summary of significant accounting policies (cont'd.)

2.10 Leases (cont'd.)

Accounting policies applied until 31 December 2018 (cont'd.)

Lessor

Operating leases

Assets leased out by the Group under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Lease income (net of any incentives given to lessees) is recognised over the term of the lease on a straight-line basis.

Accounting policies applied from 1 January 2019

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and ROU assets representing the right to use the underlying assets.

i) ROU assets

The Group recognises ROU assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. ROU assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Aircraft	2 - 15 years
Land and building	2 - 20 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The ROU assets are also subject to impairment. Refer to the accounting policies in Note 2.8 impairment of non-financial assets.

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2. Summary of significant accounting policies (cont'd.)

2.10 Leases (cont'd.)

Accounting policies applied from 1 January 2019 (cont'd.)

Group as a lessee (cont'd.)

ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

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2. Summary of significant accounting policies (cont'd.)

2.10 Leases (cont'd.)

Accounting policies applied from 1 January 2019 (cont'd.)

Group as a lessor

As a lessor, the Group determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset to the lessee.

i) Finance leases

The Group classifies a lease as a finance lease if the lease transfers substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee.

The Group derecognises the underlying asset and recognises a receivable at an amount equal to the net investment in a finance lease. Net investment in a finance lease is measured at an amount equal to the sum of the present value of lease payments from lessee and the unguaranteed residual value of the underlying asset. Initial direct costs are also included in the initial measurement of the net investment. The net investments is subject to MFRS 9 impairment (refer to Note 2.12.4) on impairment of financial assets. In addition, the Group reviews regularly the estimated unguaranteed residual value.

Lease income is recognised over the term of the lease using the net investment method so as to reflect a constant periodic rate of return. The Group revises the lease income allocation if there is a reduction in the estimated unguaranteed residual value.

ii) Operating leases

The Group classifies a lease as an operating lease if the lease does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee.

The Group recognises lease payments received under operating lease as lease income on a straight-line basis over the lease term.

iii) Sublease classification

Until the financial year ended 31 December 2018, when the Group was an intermediate lessor, the subleases were classified as finance or operating leases by reference to the underlying assets.

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2. Summary of significant accounting policies (cont'd.)

2.10 Leases (cont'd.)

Accounting policies applied from 1 January 2019 (cont'd.)

Group as a lessor (cont'd.)

iii) Sublease classification (cont'd.)

From 1 January 2019, when the Group is an intermediate lessor, it assesses the lease classification of a sublease with reference to the ROU asset arising from the head lease, not with reference to the underlying asset. If a head lease is short-term lease to which the Group applies the exemption described above, then it classifies the sublease as an operating lease.

The Group as an intermediate lessor accounts for the sublease as follows:

- If the sublease is classified as an operating lease, the original lessee continues to account for the lease liability and ROU asset on the head lease.
- If the sublease is classified as a finance lease, the original lessee derecognises the ROU asset on the head lease at the sublease commencement date and continues to account for the original lease liability. The original lessee, as the sublessor, recognises a net investment in the sublease and evaluates it for impairment.

Sale and leaseback transactions

Under a sale and leaseback transaction, the transfer is assessed to be a sale in accordance with MFRS 15. It is expected that all sale and leaseback transactions will meet these requirements, however these will need to be assessed on a lease-by-lease basis. If the transfer of the asset is a sale, the seller-lessee will:

- Derecognise the underlying asset; and
- Recognise the gain or loss, if any, that relates to the rights transferred to the buyer-lessor and adjusted for off-market terms.

2.11 Inventories

Inventories which comprise consumables used internally for repairs and maintenance are stated at the lower of cost and net realisable value.

Cost is determined on the weighted average basis, and comprises the purchase price and incidentals incurred in bringing the inventories to their present location and condition.

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2. Summary of significant accounting policies (cont'd.)

2.11 Inventories (cont'd.)

Net realisable value represents the estimated selling price in the ordinary course of business, less all applicable variable selling expenses. In arriving at net realisable value, due allowance is made for all damaged, obsolete and slow-moving items.

2.12 Financial assets

2.12.1 Classification

The Group and the Company classify their financial assets in the following categories; fair value through profit or loss, fair value through other comprehensive income and amortised cost.

Financial assets at fair value through profit or loss

All financial assets not measured at amortised cost or fair value through other comprehensive income as described below are measured at fair value through profit or loss. This includes derivative financial assets (except for a derivative that is a designated and effective hedging instrument (see Note 2.15). On initial recognition, the Group and the Company may irrevocably designate a financial asset which may otherwise have met requirements of amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are equity securities which are not held for trading but more for strategic investments or debt securities where contractual cash flows are solely principal and interest and the objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets. The classification as financial assets at fair value through other comprehensive income is an irrevocable election made on initial recognition.

Amortised costs

Financial assets classified as amortised costs are assets with contractual cash flows and contractual terms to give rise to the cashflows that are solely payments of principal and interest on principal outstanding. They were included in current assets, except for maturities greater than 12 months after the end of the reporting period. These were classified as non-current assets. The Group's financial assets at amortised costs comprise 'receivables', 'amounts due from associates, joint ventures and related parties', 'deposits on aircraft purchase' and 'deposits, cash and bank balances' in the statements of financial position.

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2. Summary of significant accounting policies (cont'd.)

2.12 Financial assets (cont'd.)

2.12.2 Recognition and initial measurement

A financial asset or a financial liability is recognised in the statement of financial position when, and only when, the Group or the Company become a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without significant financing component) or a financial liability is initially measured at fair value plus or minus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issuance. A trade receivable without a significant financing component is initially measured at the transaction price.

2.12.3 Subsequent measurement - gains and losses

Categories of financial assets are determined on initial recognition and are not reclassified subsequent to their initial recognition unless the Group or the Company changes its business model for managing financial assets.

(i) Amortised cost

Amortised cost category comprises financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The financial assets are not designated as fair value through profit or loss. Subsequent to initial recognition, these financial assets are measured at amortised costs using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit impaired financial assets where the effective interest rate is applied to the amortised cost.

(ii) Fair value through other comprehensive income

(a) Debt investments

Fair value through other comprehensive income category comprises debt investment where it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the debt investments, and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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2. Summary of significant accounting policies (cont'd.)

2.12 Financial assets (cont'd.)

2.12.3 Subsequent measurement - gains and losses (cont'd.)

(ii) Fair value through other comprehensive income (cont'd.)

(a) Debt investments (cont'd.)

The debt investment is not designated as at fair value through profit or loss. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

Interest income is recognised by applying effective interest rate to the gross carrying amount except for credit impaired financial assets where the effective interest rate is applied to the amortised cost.

(b) Equity investment

This category comprises investment in equity that is not held for trading, and the Group and the Company irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment by investment basis. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of investment. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are not reclassified to profit or loss.

(iii) Fair value through profit or loss

Financial assets categorised as fair value through profit or loss are subsequently measured at their fair value. Net gains and losses, including any interest or dividend income, are recognised in the profit or loss.

All financial assets, except for those measured at fair value through profit or loss and equity investments measured at fair value through other comprehensive income, are subject to impairment assessment (Note 2.12.4).

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2. Summary of significant accounting policies (cont'd.)

2.12 Financial assets (cont'd.)

2.12.4 Subsequent measurement - impairment of financial assets

The Group and the Company recognise loss allowances for expected credit losses on financial assets measured at amortised cost, debt investments measured at fair value through other comprehensive income, contract assets and lease receivables. Expected credit losses are a probability-weighted estimate of credit losses.

The Group and the Company measure loss allowances at an amount equal to lifetime expected credit loss, except for debt securities that are determined to have low credit risk at the reporting date, cash and bank balances and other debt securities for which credit risk has not increased significantly since initial recognition, which are measured at 12 month expected credit loss. Loss allowances for trade receivables, contract assets and lease receivables are always measured at an amount equal to lifetime expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Group and the Company consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information, where available.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of the asset, while 12 month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date. The maximum period considered when estimating expected credit losses is the maximum contractual period over which the Group and the Company are exposed to credit risk.

The Group and the Company estimate the expected credit losses on trade receivables using a provision matrix with reference to historical credit loss experience.

An impairment loss in respect of financial assets measured at amortised cost is recognised in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

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2. Summary of significant accounting policies (cont'd.)

2.12 Financial assets (cont'd.)

2.12.4 Subsequent measurement - impairment of financial assets (cont'd.)

At each reporting date, the Group and the Company assess whether financial assets carried at amortised cost and debt securities at fair value through other comprehensive income are credit-impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The gross carrying amount of a financial asset is written off (either partially or full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group or the Company determine that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

2.13 Financial liabilities

2.13.1 Classification and measurement

The Group classifies its financial liabilities in the following category: other financial liabilities. Management determines the classification of financial liabilities at initial recognition.

The Group does not hold any financial liabilities carried at fair value through profit or loss (except for derivative financial instruments). See accounting policy Note 2.15 on derivative financial instruments and hedging activities.

Other financial liabilities are non-derivative financial liabilities. Other financial liabilities are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial liability and subsequently carried at amortised cost using the effective interest method. Changes in the carrying value of these liabilities are recognised in the income statements.

The Group's other financial liabilities comprise payables (including intercompanies and related parties' balances), borrowings and lease liabilities in the statement of financial position. Financial liabilities are classified as current liabilities; except for maturities greater than 12 months after the reporting date, in which case they are classified as non-current liabilities.

Financial liabilities are derecognised when the liability is either discharged, cancelled, expired or has been restructured with substantially different terms.

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2. Summary of significant accounting policies (cont'd.)

2.14 Offsetting financial instruments

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

2.15 Derivatives and hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and the nature of the item being hedged. Derivatives that do not qualify for hedge accounting are classified as held for trading and accounted for in accordance with the accounting policy set out in Note 2.12. The Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- (a) There is 'an economic relationship' between the hedged item and the hedging instrument.
- (b) The effect of credit risk does not 'dominate the value changes' that result from that economic relationship.
- (c) The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Designation of a risk component of a hedged item is permitted when it is a separable identifiable component of the item, and the changes in the cash flows or the fair value of the item attributable to changes in the risk component is reliably measured.

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2. Summary of significant accounting policies (cont'd.)

2.15 Derivatives and hedge accounting (cont'd.)

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 20. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'fair value (losses)/gains on derivatives' (Note 8(d)).

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss and presented separately after net operating profit.

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

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within 'fair value (losses)/gains on derivatives' (Note 8(d)).

2.16 Cash and cash equivalents

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

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2. Summary of significant accounting policies (cont'd.)

2.17 Provisions

Provisions are recognised when the Group and the Company have a present obligation (legal or constructive) as a result of a past event, it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the Group and the Company expect a provision to be reimbursed, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense in profit or loss.

Contingent liabilities are not recognised in the consolidated statement of financial position but are disclosed in the notes to consolidated financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised but disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable. If it is virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the consolidated financial statements.

2.18 Share capital

2.18.1 Classification

Ordinary shares with discretionary dividends are classified as equity.

2.18.2 Share issue costs

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

2.18.3 Dividends distribution

Distributions to holders of an equity instrument is debited directly to equity, net of any related income tax benefit and the corresponding liability is recognised in the period in which the dividends are approved.

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2. Summary of significant accounting policies (cont'd.)

2.19 Treasury shares

When shares of the Company, that have not been cancelled, recognised as equity are reacquired, the amount of consideration paid is recognised directly in equity. Reacquired shares are classified as treasury shares and presented as a deduction from total equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of treasury shares. When treasury shares are reissued by resale, the difference between the sales consideration and the carrying amount is recognised in equity.

2.20 Borrowings and borrowing costs

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between initial recognised amount and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the drawdown occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

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 statements.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

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2. Summary of significant accounting policies (cont'd.)

2.21 Current and deferred income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group's subsidiaries, joint ventures and associates operate and generate taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. This liability is measured using the single best estimate of the most likely outcome.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

Deferred tax liability is recognised for all taxable temporary differences associated with investments in subsidiaries, joint ventures or associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates and joint ventures. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference, a deferred tax liability is not recognised.

Deferred and income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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2. Summary of significant accounting policies (cont'd.)

2.22 Employee benefits

2.22.1 Short term employee benefits

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

2.22.2 Defined contribution retirement plan

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

2.22.3 Defined benefit plan

The Group operates defined benefit pension plans in Indonesia and Philippines, which require contributions to be made to separately administered funds. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements, comprising of actuarial gains and losses, are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Group recognises related restructuring costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under 'staff costs' in the income statements:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

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2. Summary of significant accounting policies (cont'd.)

2.23 Revenue and other income

Revenue is measured based on the consideration specified in a contract with a customer and exclude amounts collected on behalf of third parties. The Group recognises revenue when or as it transfers control over a product or service to customer. An asset is transferred when (or as) the customer obtains control of the asset.

An entity transfers control of a good or service over time and, therefore satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- (a) The customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
- (b) The entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- (c) The entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If a performance obligation is not satisfied over time in accordance with MFRS 15, an entity satisfies the performance at a point in time.

2.23.1 Passenger revenue

Passenger revenue relates to scheduled passenger flight and charter flight income and is recorded net of discounts and includes the related ancillary revenue (including airport and insurance surcharges, administrative fees, baggage fee, assigned seat, cancellation, documentation and other fees, and on-board sale of meals and merchandise). The Group initially recognises all ticket sales as 'sales in advance' which is presented as current liabilities in line with the initial application of MFRS 15. Passenger revenue is recorded when the air transportation service is provided (i.e. performance at a point in time).

2.23.2 Aircraft operating leases

Revenue from aircraft operating leases is recorded on a straight-line basis over the term of the lease.

2.23.3 Freight services

Freight revenue is a distinct performance obligation and recognised upon the completion of services rendered net of discounts.

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2. Summary of significant accounting policies (cont'd.)

2.23 Revenue and other income (cont'd.)

2.23.4 Rental income and brand license

Rental income and brand license fees are recognised on an accrual basis in 'other income'.

2.23.5 Interest income

Interest income is recognised using the effective interest method.

2.23.6 Sale of loyalty points

The Group operates a frequent flyer programme where members accumulate points for purchases made which entitle them to discounts on future purchases. Revenue from the award points is recognised as deferred revenue (included in trade and other payables) upon issuing the points, and recognised upon redemption of loyalty points by members. The amount of revenue recognised is computed based on the number of points redeemed and the redemption value of each point which is calculated on a weighted average basis. Award points issued before 1 June 2019 will expire by 36 months upon date of issuance and points issued after 1 June 2019 will expire 24 months upon date of issuance. Revenue associated with the sale of points to merchant partners under the customer loyalty programme is recognised when the obligation is completed.

Included in trade and other payables is the deferred breakage. Breakage represents the estimated loyalty points that are not expected to be redeemed by members. The amount of revenue recognised related to deferred breakage is based on the number of loyalty points redeemed in a period in relation to the total number expected to be redeemed, which factors in the Group estimate for the breakage. Breakage is estimated by management based on the terms and conditions of membership and historical accumulation and redemption patterns, as adjusted for changes to any terms and conditions that may affect members' redemption practices.

2.24 Foreign currencies

2.24.1 Functional and presentation currency

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

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2. Summary of significant accounting policies (cont'd.)

2.24 Foreign currencies (cont'd.)

2.24.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses arising from operations, borrowings (after effects of effective hedges) and amount due from associates and joint ventures are presented in aggregate after net operating profit in the income statements.

Changes in the fair value of monetary securities denominated in foreign currency classified as investment securities are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as investment securities, are included in other comprehensive income.

2.24.3 Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of other comprehensive income.

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2. Summary of significant accounting policies (cont'd.)

2.24 Foreign currencies (cont'd.)

2.24.3 Group companies (cont'd.)

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognised in other comprehensive income.

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences relating to that foreign operation recognised in other comprehensive income and accumulated in the separate component of equity are reclassified to profit or loss as part of the gain or loss on disposal. In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2.25 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.26 Contingent assets and liabilities

The Group does not recognise contingent assets and liabilities other than those arising from business combinations, but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably. However, contingent liabilities do not include financial guarantee contracts. A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group. The Group does not recognise contingent assets but discloses its existence where inflows of economic benefits are probable, but not virtually certain.

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2. Summary of significant accounting policies (cont'd.)

2.26 Contingent assets and liabilities (cont'd.)

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

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

2.27 Segment reporting

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

2.28 Maintenance reserve funds

Maintenance reserve funds relate to payments made by the lessee for maintenance activities undertaken during the lease period. The Group will reimburse the lessee for agreed maintenance work done as and when incurred. The Group records the amounts received as maintenance reserve funds. At the expiry of the lease term, excess maintenance reserve is recognised in the profit and loss account.

3. Critical accounting estimates and judgments

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

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

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3. Critical accounting estimates and judgments (cont'd.)

3.1 Estimated useful lives and residual values of aircraft airframes and engines

The Group reviews annually the estimated useful lives and residual values of aircraft airframes and engines based on factors such as business plans and strategies, expected level of usage, future technological developments and market prices.

Future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned above. A reduction in the estimated useful lives and residual values of aircraft airframes and engines as disclosed in Note 2.5, would increase the recorded depreciation charge and decrease the carrying amount of property, plant and equipment. A reduction in 5% in the residual value of aircraft airframes and engines would increase the depreciation charge for the financial year ended 31 December 2019 by RM814,315 (2018: RM10,277,000) and decrease the carrying amount of property, plant and equipment as at 31 December 2019 by RM6,744,163 (2018: RM66,189,000) for the Group.

3.2 Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Estimating the future taxable profits involves significant assumptions, especially in respect of regulatory approvals for prospective routes, aircraft delivery, fares, load factor, fuel price, maintenance costs and currency movements. These assumptions have been built based on past performance and adjusted for non-recurring circumstances and a reasonable growth rate.

Certain assumptions and estimates concerning the future used to estimate the future taxable profits are impacted by the subsequent events as disclosed in Note 45. However, the Group is unable to reliably determine the quantum of the impact based on the information currently available.

3.3 Provision for aircraft maintenance and overhaul costs

The Group operates aircraft which are either owned or held under operating lease arrangement. In respect of the aircraft held under operating lease arrangements, the Group is contractually obligated to maintain the aircraft during the lease period and to redeliver the aircraft to the lessors at the end of the lease term, in certain pre-agreed conditions. Accordingly, the Group estimates the aircraft maintenance costs required to fulfil these obligations at the end of the lease period and recognise a provision for these costs at each reporting date.

A provision by its nature is more uncertain than most other items in the statement of financial position. The estimates of the outcome and financial effects are determined by the judgement of the management, supplemented by experience from similar transactions. Any revision in assumptions and estimations that causes a material effect to the provision would be adjusted prospectively in the financial statements.

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3. Critical accounting estimates and judgments (cont'd.)

3.4 Impairment assessment of intangible assets

Goodwill, landing rights and other indefinite life intangibles are tested for impairment annually and at other times when such indicators exist. This requires an estimation of the value in use and the fair value less costs of disposal of the cash generating units to which goodwill and landing rights are allocated.

When value in use and the fair value less costs of disposal calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details of the carrying value, the key assumptions applied in the impairment assessment of goodwill and landing rights and sensitivity analysis to changes in the assumptions are given in Note 16.

Certain assumptions and estimates concerning the future used to compute the fair value less cost of disposal or the value in use of assets are impacted by the subsequent events as disclosed in Note 45 to the financial statements. However, the Group is unable to reliably determine the quantum of the impact based on the information currently available.

3.5 Leases - Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

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4. Revenue and other income

(a) Revenue

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Passenger revenue				
- seat sales	9,179,443	7,656,780	-	-
- others	2,073,576	1,840,494	-	-
Freight services	479,794	292,121	-	-
Aircraft operating lease income	127,590	848,901	-	-
	<u>11,860,403</u>	<u>10,638,296</u>	<u>-</u>	<u>-</u>

Other passenger revenue includes ancillary income such as baggage fees, assigned seats, cancellations, documentation and other fees, and on-board sale of meals and merchandise.

Aircraft operating lease income

From 1 January 2019, upon adoption of MFRS 16, the Group has recognised finance income for various leases under finance lease (previously classified as operating leases under MFRS 117) and accordingly no longer presents aircraft operating lease income for these leases. Having applied the modified retrospective approach to the implementation of MFRS 16, the Group has continued to present the comparative financial information, for which there were aircraft operating lease income under operating leases (assessed under MFRS 117) as at 31 December 2018.

Further information relating to subleasing arrangement is set out on Note 30.

The details of the operating lease income are as follows:

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Thai AirAsia Co. Ltd	17,121	456,348	-	-
AirAsia Japan Co., Ltd	-	32,772	-	-
Third-parties	110,469	359,781	-	-
	<u>127,590</u>	<u>848,901</u>	<u>-</u>	<u>-</u>

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4. Revenue and other income (cont'd.)

(a) Revenue (cont'd.)

Revenue by reportable geographical segment is as follows:

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Malaysia	7,646,388	7,845,383	-	-
Philippines	2,196,422	1,602,142	-	-
Indonesia	2,017,593	1,190,771	-	-
	<u>11,860,403</u>	<u>10,638,296</u>	<u>-</u>	<u>-</u>

(b) Other income

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Gain on disposal of property, plant and equipment	101,544	298,816	-	-
Gain on disposal of investment in a subsidiary	-	350,317	-	-
Gain on recognition of finance lease receivables	22,458	-	-	-
Fees charged to associates providing commercial air transport services	73,584	74,291	-	-
Fees charged to related parties providing commercial air transport services	35,866	40,235	-	-
Dividend income from a subsidiary	-	-	3,007,776	3,128,025
Dividend income from investment in securities	6,331	3,078	3,253	-
Aircraft wet lease income	-	76,928	-	-
Non-airline income	200,462	35,116	-	-
Others	208,581	314,495	224	-
	<u>648,826</u>	<u>1,193,276</u>	<u>3,011,253</u>	<u>3,128,025</u>

Other income ("others") includes commission income and advertising income.

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5. Staff costs and directors' remuneration

(a) Staff costs

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Salaries, bonus, allowances and other employee benefits	1,742,566	1,545,983	57,735	41,437
Defined contribution retirement plan	133,630	123,935	6,371	4,973
	<u>1,876,196</u>	<u>1,669,918</u>	<u>64,106</u>	<u>46,410</u>

Included in staff costs are Executive Directors' remuneration for the Group and the Company as disclosed in the Note 5 (b) below.

(b) Directors' remuneration

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Executive Directors				
- salaries, bonus, allowances and other employee benefits	52,119	44,050	52,119	41,437
- defined contribution plan	6,253	5,286	6,253	4,973
	<u>58,372</u>	<u>49,336</u>	<u>58,372</u>	<u>46,410</u>
Non-Executive Directors				
- fees	2,125	1,933	2,085	1,145
	<u>60,497</u>	<u>51,269</u>	<u>60,457</u>	<u>47,555</u>

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5. Staff costs and directors' remuneration (cont'd.)

(b) Directors' remuneration (cont'd.)

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

	Executive		Non-executive	
	2019	2018	2019	2018
Range of remuneration (RM)				
0 to 50,000	-	-	-	-
150,001 to 200,000	-	-	-	1
200,001 to 250,000	-	-	-	2
250,001 to 300,000	-	-	-	2
301,000 to 350,000	-	-	1	-
400,001 to 450,000	-	-	2	-
450,001 to 500,000	-	-	2	-
500,001 to 550,000	-	-	-	-
24,550,001 to 24,600,000	-	1	-	-
24,750,001 to 24,800,000	-	1	-	-
25,850,001 to 25,900,000	-	-	-	-
26,200,001 to 26,250,000	-	-	-	-
28,950,001 to 29,000,000	1	-	-	-
29,350,001 to 29,400,000	1	-	-	-

(c) Key Management Personnel

Key management personnel are categorised as senior management officers of the Group and the Company.

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Salaries, bonus, allowances and other employee benefits	59,610	51,967	52,119	41,437
Defined contribution plan	7,029	6,018	6,253	4,973
	<u>66,639</u>	<u>57,985</u>	<u>58,372</u>	<u>46,410</u>

Included in the key management compensation are Executive Directors' remuneration for the years 2018 and 2019 which were approved by the Nomination and Remuneration Committee during the current year.

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6. Other operating expenses

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

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Impairment of:				
- Amount due from related parties (Note 25)	-	28,133	-	-
-Trade receivables (Note 18)	5,415	70,325	-	-
Rental of buildings	20,359	53,008	-	-
Auditors' remuneration				
- audit fees	2,695	2,227	200	150
- non-audit fees	514	2,163	15	15
Rental of equipment	1,078	1,714	-	-
Advertising costs	146,818	151,429	58	-

7. User charges

User charges include airport related charges, ground operational charges, aircraft insurance cost and inflight related expenses.

8. Finance income/(costs), foreign exchange gains/(losses) and fair value (losses)/gains on derivatives

(a) Finance income

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Interest income from:				
- deposits, cash and bank balances with licensed banks	38,800	36,395	18,233	-
- amounts due from associates	11,426	-	500	-
- finance lease receivables	61,402	-	-	-
Impact of discounting effect on financial instruments	8,362	26,938	-	-
Others	-	-	-	3
	119,990	63,333	18,733	3

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8. Finance income/(costs), foreign exchange gains/(losses) and fair value (losses)/gains on derivatives (cont'd.)

(b) Finance costs

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Interest expense				
- bank borrowings	(157,839)	(331,276)	-	-
- lease liabilities	(503,093)	-	-	-
Impact of discounting effect on financial instruments	(101,753)	(119,425)	-	-
Bank facilities and other charges	(13,048)	(24,060)	(2)	-
	<u>(775,733)</u>	<u>(474,761)</u>	<u>(2)</u>	<u>-</u>

(c) Foreign exchange gains/(losses)

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Borrowings:				
- foreign exchange gains/(losses)	23,837	(35,521)	-	-
- fair value movement recycled from cash flow hedge reserve	(1,863)	(25,007)	-	-
Operations	(29,343)	192,913	(334)	(663)
Amounts due to/(from) subsidiaries	-	-	(2,260)	-
Amounts due to/(from) associates and joint ventures	113,342	(5,552)	(1,113)	-
	<u>105,973</u>	<u>126,833</u>	<u>(3,707)</u>	<u>(663)</u>

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8. Finance income/(costs), foreign exchange gains/(losses) and fair value (losses)/gains on derivatives (cont'd.)

(d) Fair value (losses)/ gains on derivatives

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Gains/(losses) from fuel hedging contracts	6,693	(41,198)	-	-
Losses from foreign currency hedging contracts	(198,648)	(169,565)	-	-
(Losses)/gains from interest rate hedging contracts	(55,638)	10,590	-	-
	<u>(247,593)</u>	<u>(200,173)</u>	<u>-</u>	<u>-</u>

Following the completion of the sales and leaseback transaction as discussed in Note 44, the aircraft borrowings related to the disposed aircraft have been settled. As such, the related hedging reserve for the said aircraft borrowings have been recycled to income statements.

Fair value change of derivatives consists of fair value changes due to movement in mark-to-market ("MTM") position on outstanding hedging contracts that did not qualify for hedge accounting.

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9. Taxation

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
Current taxation				
- Malaysian tax	16,528	21,924	-	-
- foreign tax	18,287	17,041	-	-
Deferred taxation (Note 17)	(273,252)	(399,126)	-	-
	<u>(238,437)</u>	<u>(360,161)</u>	<u>-</u>	<u>-</u>
Current taxation				
- current financial year	29,801	24,097	-	-
- underprovision of income tax in respect of previous years	5,014	14,868	-	-
	<u>34,815</u>	<u>38,965</u>	<u>-</u>	<u>-</u>
Deferred taxation				
- origination and reversal of temporary differences	(238,373)	(393,878)	-	-
- overprovision of deferred tax in respect of previous years	(34,879)	(5,248)	-	-
	<u>(273,252)</u>	<u>(399,126)</u>	<u>-</u>	<u>-</u>
	<u>(238,437)</u>	<u>(360,161)</u>	<u>-</u>	<u>-</u>

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9. Taxation (cont'd.)

The explanation of the relationship between taxation and (loss)/profit before taxation is as follows:

	Group		Company	
	2019	2018	2019	2018
	RM'000	RM'000	RM'000	RM'000
(Loss)/profit before taxation	<u>(521,660)</u>	<u>1,335,233</u>	<u>2,937,876</u>	<u>3,075,893</u>
Tax calculated at Malaysian tax rate of 24% (2018: 24%)	(125,198)	320,456	705,090	738,214
Tax effects of:				
- expenses not deductible for tax purposes	275,532	171,404	16,776	12,512
- income not subject to tax	(30,164)	(325,828)	(721,866)	(750,726)
- associates' results reported net of tax	107,730	27,746	-	-
- joint venture's result reported net of tax	-	(2,660)	-	-
- different tax rates in other countries	(66,378)	(73,140)	-	-
- underprovision of income tax in respect of previous years	5,014	14,868	-	-
- deferred tax assets not recognised on investment tax allowance and tax losses	247,680	63,309	-	-
- (over)/underprovision of deferred tax in respect of previous years	(34,879)	(5,248)	-	-
- deferred tax asset derecognised /(recognised) on investment tax allowance ("ITA")*	161,433	283,007	-	-
- reversal of deferred tax liabilities*	<u>(779,207)</u>	<u>(834,075)</u>	<u>-</u>	<u>-</u>
Taxation	<u>(238,437)</u>	<u>(360,161)</u>	<u>-</u>	<u>-</u>

* Relates to deferred tax asset derecognised on ITA due to the clawback of ITA and reversal of deferred tax liabilities as a result of the sale and leaseback transactions as detailed in Notes 44 (i) and 44 (ii).

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10. Earnings per share

Basic (loss)/earnings per share is calculated by dividing the net (loss)/profit for the financial year attributable to owners of the Company by the weighted average number of ordinary shares in issue during the financial year.

	Group	
	2019	2018
Net (loss)/profit for the financial year attributable to owners of the Company (RM'000)	(315,807)	1,967,006
Weighted average number of ordinary shares in issue ('000)	3,341,974	3,341,974
Basic and diluted (loss)/earnings per share (sen)	<u>(9.4)</u>	<u>58.9</u>

The Group does not have in issue any financial instruments on other contracts that may entitle its holder to ordinary shares and therefore, dilutive to its basic earnings per share.

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11. Property, plant and equipment

	At 1 January 2019 RM'000	Additions RM'000	Disposals ² RM'000	Write off RM'000	Reclassi- fication RM'000	Depreciation charge RM'000	Exchange differences RM'000	At 31 December 2019 RM'000
Group								
Carrying amount								
Aircraft engines, airframes and service potential	2,276,580	28,935	(1,897,736)	-	-	(113,290)	(1,741)	292,748
Aircraft spares	189,012	77,190	(953)	-	-	(39,409)	2,786	228,626
Aircraft fixtures and fittings	50,888	31,439	(753)	-	631	(17,118)	125	65,212
Freehold land	-	53,031	-	-	-	-	(1,768)	51,263
Buildings	151,658	117,994	-	-	8,814	(9,272)	(3,743)	265,451
Motor vehicles	6,953	4,740	-	-	-	(2,565)	17	9,145
Office equipment, furniture and fittings	57,249	55,422	(5,174)	(879)	1,899	(27,337)	1,587	82,767
Office renovation	16,162	14,184	(552)	-	76	(7,278)	174	22,766
Simulator equipment	672	-	-	-	-	(38)	-	634
Operating plant and ground equipment	14,123	4,471	-	-	-	(4,812)	(353)	13,429
In-flight equipment	1,179	845	-	-	-	(383)	9	1,650
Training equipment	939	-	-	-	(938)	-	-	1
Work in progress ¹	86,502	94,545	-	-	(10,482)	-	(2,681)	167,884
	2,851,917	482,796	(1,905,168)	(879)	-	(221,502)	(5,588)	1,201,576

¹ Work in progress completed during the financial year were reclassified to respective asset classes.

² Includes disposal of 14 aircraft of RM1.2 billion pursuant to the sale and leaseback to Castlelake LP and Aircastle Limited as disclosed in Notes 44 (ii).

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11. Property, plant and equipment (cont'd.)

Group (cont'd.)	Cost RM'000	Accumulated depreciation RM'000	Accumulated impairment loss RM'000	Carrying amount RM'000
At 31 December 2019				
Aircraft engines, airframes and service potential	631,059	(120,648)	(217,663)	292,748
Aircraft spares	454,732	(226,106)	-	228,626
Aircraft fixtures and fittings	155,725	(90,513)	-	65,212
Freehold land	51,263	-	-	51,263
Buildings	287,538	(22,087)	-	265,451
Motor vehicles	24,644	(15,499)	-	9,145
Office equipment, furniture and fittings	250,078	(142,371)	(24,940)	82,767
Office renovation	59,122	(36,356)	-	22,766
Simulator equipment	964	(330)	-	634
Operating plant and ground equipment	54,515	(41,086)	-	13,429
In-flight equipment	3,964	(2,314)	-	1,650
Training equipment	4,419	(4,418)	-	1
Work in progress	167,884	-	-	167,884
	2,145,907	(701,728)	(242,603)	1,201,576

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11. Property, plant and equipment (cont'd.)

	At 1 January 2018 RM'000	Additions RM'000	Disposals ² RM'000	Write off RM'000	Disposal of a subsidiary RM'000 (Note 13)	Reclassi- fication RM'000	Depreciation charge RM'000	Exchange differences RM'000	At 31 December 2018 RM'000
Group (cont'd.)									
Carrying amount									
Aircraft engines, airframes and service potential	11,749,452	1,102,975	(7,286,899)	(26,204)	-	(2,762,824)	(472,506)	(27,414)	2,276,580
Aircraft spares	185,009	53,628	(6,397)	-	(1)	2,288	(44,028)	(1,487)	189,012
Aircraft fixtures and fittings	73,044	22,226	(9,368)	-	-	(12,266)	(22,618)	(130)	50,888
Buildings	153,928	3,818	-	-	-	-	(6,088)	-	151,658
Motor vehicles	16,515	3,550	96	-	(10,222)	-	(2,894)	(92)	6,953
Office equipment, furniture and fittings	50,591	31,170	(583)	(202)	(1,114)	371	(23,387)	403	57,249
Office renovation	14,285	10,218	-	-	(683)	191	(7,827)	(22)	16,162
Simulator equipment	711	-	-	-	-	-	(39)	-	672
Operating plant and ground equipment	18,314	8,048	(152)	-	(5,751)	(702)	(5,077)	(557)	14,123
In-flight equipment	553	908	-	-	-	-	(284)	2	1,179
Training equipment	1	938	-	-	-	-	-	-	939
Work in progress ¹	41,119	53,712	-	(5,430)	(162)	(2,379)	-	(358)	86,502
	12,303,522	1,291,191	(7,303,303)	(31,836)	(17,933)	(2,775,321)	(584,748)	(29,655)	2,851,917

¹ Work in progress completed during the financial year were reclassified to respective asset classes.

² Includes disposal of 75 aircraft and 14 spare engines of RM6.9 billion pursuant to the divestment of aircraft leasing operations in 2018.

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11. Property, plant and equipment (cont'd.)

Group (cont'd.)	Cost RM'000	Accumulated depreciation RM'000	Accumulated impairment loss RM'000	Carrying amount RM'000
At 31 December 2018				
Aircraft engines, airframes and service potential	3,395,187	(1,118,607)	-	2,276,580
Aircraft spares	464,191	(271,452)	(3,727)	189,012
Aircraft fixtures and fittings	142,741	(91,853)	-	50,888
Buildings	164,473	(12,815)	-	151,658
Motor vehicles	23,490	(16,537)	-	6,953
Office equipment, furniture and fittings	218,622	(136,433)	(24,940)	57,249
Office renovation	50,983	(34,821)	-	16,162
Simulator equipment	964	(292)	-	672
Operating plant and ground equipment	50,652	(36,529)	-	14,123
In-flight equipment	3,135	(1,956)	-	1,179
Training equipment	5,357	(4,418)	-	939
Work in progress	86,502	-	-	86,502
	4,606,297	(1,725,713)	(28,667)	2,851,917

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11. Property, plant and equipment (cont'd.)

Included in property, plant and equipment of the Group are assets with the following:

	Group	
	2019	2018
	RM'000	RM'000
Carrying amount of owned aircraft sub-leased to associates	-	364,854
Aircraft pledged as security for borrowings	228,539	4,639,953
Freehold land and building pledged as security for borrowings	159,820	-
Total property, plant and equipment sub-leased to associates or pledged as security for borrowings	<u>388,359</u>	<u>5,004,807</u>

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

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

The freehold land and certain buildings of the Group with net carrying amount of RM51,263,000 and RM108,557,000 respectively (2018: RM Nil) have been pledged as security for borrowings granted to the Group.

12. Investment in subsidiaries

	Company	
	2019	2018
	RM'000	RM'000
Unquoted investments, at cost		
At 1 January	8,055,838	-
Additions during the year	202,878	8,055,838
At 31 December	<u>8,258,716</u>	<u>8,055,838</u>

Additional investments during the financial year ended 31 December 2019

- (a) During the year, the Company further injected a total of RM190.3 million into RedBeat Ventures Sdn Bhd ("RBV") for an additional 190,290,000 ordinary shares at RM1 each.
- (b) On 16 October 2019, the Company has made a deemed investment of RM12.6 million in AirAsia Com Travel Sdn Bhd (formerly known as Touristly Travel Sdn Bhd).

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12. Investment in subsidiaries (cont'd.)

Additional investments in prior year

- (a) On 16 April 2018, the Company completed the internal reorganisation by way of a scheme of arrangement. As a result, AAB became a wholly-owned subsidiary of the Company, in which the cost of investment in AAB is recorded based on the net book value of AAB Group of RM8,023 million as at the completion date.
- (b) In the previous financial year, the Company purchased shares in AirAsia Investment Ltd and RedBeat Ventures Sdn Bhd ("RBV") for RM20 million and RM2 respectively from its wholly owned subsidiary, AAB.
- (c) On 14 September 2018, the Company incorporated a subsidiary, AirAsia SEA Ltd (formerly known as AirAsia Group (IHQ) Ltd) ("AASEAL") in Thailand with a total issued capital of THB20 million (approximately RM2.6 million) comprising 200,000 shares of which 199,997 are held by the Company. The principal activity of AASEAL is to provide consultation and services on behalf of the Company to the subsidiaries/associates of the Company.
- (d) On 3 October 2018, the Company subscribed to an additional 10,000,000 ordinary shares in RBV, representing 100% equity interest in RBV for a total cash consideration of RM10 million.

Details of the subsidiaries are as follows:

Name of entity	Country of incorporation	Group's effective equity interest		Principal activities
		2019 %	2018 %	
Directly held by the Company				
AirAsia Berhad ("AAB")	Malaysia	100	100	Commercial air transport services
RedBeat Ventures Sdn Bhd ("RBV")	Malaysia	100	100	Investment holding
AirAsia SEA Ltd (formerly known as AirAsia Group (IHQ) Ltd)	Thailand	99.99	99.99	Management services
AirAsia Investment Ltd ("AAIL")	Malaysia	100	100	Investment holding

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12. Investment in subsidiaries (cont'd.)

Name of entity	Country of incorporation	Group's effective equity interest		Principal activities
		2019 %	2018 %	
Held by AAB				
AirAsia Go Holiday Sdn Bhd ("AGH")	Malaysia	100	100	Tour operating business
AirAsia (Mauritius) Limited ^f	Mauritius	100	100	Providing aircraft leasing facilities to Thai AirAsia Co Ltd
AirAsia Corporate Services Limited ^f	Malaysia	100	100	Facilitate business transactions for AirAsia Group with non-resident goods and service providers
RedBeat Tech Academy Sdn Bhd (formerly known as Koolred Sdn Bhd)	Malaysia	100	100	Investment holding
AirAsia SEA Sdn Bhd	Malaysia	100	100	To provide shared services and outsourcing for its affiliates
Asia Aviation Capital Limited ("AAC")	Malaysia	100	100	Providing aircraft leasing facilities
MadCience Consulting Sdn Bhd	Malaysia	100	100	Provision of central depository services for its affiliates

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12. Investment in subsidiaries (cont'd.)

Name of entity	Country of incorporation	Group's effective equity interest		Principal activities
		2019 %	2018 %	
Held by AAB (cont'd.)				
T & Co Coffee Sdn Bhd ("T&Co")	Malaysia	-**	100	Trading in coffee and tea related products
Santan Cafe Sdn Bhd	Malaysia	-**	100	Provision of inflight meal products
Big Pay Pte Ltd ⁺ ("BPPL")	Singapore	-**	89.29	Investment holding
AirAsia Technology Centre India Private Limited ("AATCIPL")	India	100	100	Consultancy and services in the areas of information, technology design, development and implementation
AirAsia Global Notes Limited	Labuan	-@	100	Dealings in capital market
AirAsia Corporate Charter Sdn Bhd	Malaysia	100	100	Charter and private unscheduled business jet operator
AirAsia Pte Ltd ("AAPL") ⁺	Singapore	100**	-	Airline operation services
Held by RBV				
BIGLIFE Sdn Bhd ("BIG")	Malaysia	80	80	Financial services and managing customer loyalty points
BPPL ⁺	Singapore	89.29**	-	Investment holding