FINANCIAL STATEMENTS

The Directors are pleased to submit their annual report to the members together with the audited financial statements of the Group and Company for the financial year ended 30 June 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is that of providing air transportation services. The principal activities of the subsidiaries are described in Note 13 to the financial statements. There was no significant change in the nature of these activities during the financial year.

FINANCIAL RESULTS

	Group RM'000	Company RM'000
Profit for the financial year attributable to:		
– equity holders of the Company	498,045	498,072
– minority interests	12	–
Net profit for the financial year	498,057	498,072

DIVIDENDS

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

The Directors do not recommend the payment of any dividend for the financial year ended 30 June 2007.

RESERVES AND PROVISIONS

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

ISSUANCE OF SHARES

During the financial year, the Company increased its issued and paid-up ordinary share capital from RM234,648,808 to RM236,076,708 by way of issuance of 14,279,000 ordinary shares of RM0.10 each pursuant to the exercise of the Employee Share Option Scheme ('ESOS') at the exercise price of RM1.08 per share. The premium arising from the exercise of ESOS of RM13,993,420 has been credited to the Share Premium account.

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

EMPLOYEE SHARE OPTION SCHEME ("ESOS")

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

Details of the ESOS are set out in Note 29 to the financial statements.

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

DIRECTORS

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

Dato' Pahamin Ab. Rajab	
Dato' Anthony Francis Fernandes	
Dato' Kamarudin Bin Meranun	
Conor Mc Carthy	
Tan Sri Dato' (Dr.) R.V. Navaratnam	
Dato' Leong Sonny @ Leong Khee Seong	
Fam Lee Ee	
Datuk Alias Bin Ali	
Abdel Aziz @ Abdul Aziz Bin Abu Bakar	
Dato' Mohamed Khadar Bin Merican	(Appointed on 10 September 2007)
John Francis Tierney	(Resigned on 28 February 2007)
Paul John Da Vall (Alternate to John Francis Tierney)	(Resigned on 28 February 2007)

DIRECTORS' BENEFITS

During and at the end of the financial year, no arrangements subsisted to which the Company is a party, being arrangements with the object or objects of enabling Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, other than the Company's Employee Share Option Scheme (see Note 8 to the financial statements).

Since the end of the previous financial year, no Director has received or become entitled to receive a benefit (other than the Directors' remuneration disclosed in Note 8 to the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest except as disclosed in Note 35 to the financial statements.

DIRECTORS' INTERESTS IN SHARES

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

	Number of ordinary shares of RM0.10 each			
	At 1.7.2006	Acquired	Disposed	At 30.6.2007
The Company				
Direct interests				
Dato' Pahamin Ab. Rajab	100,010	2,890,865	–	2,990,875
Dato' Anthony Francis Fernandes	627,010	2,000,000	–	2,627,010
Dato' Kamarudin Bin Meranun	100,000	–	–	100,000
Conor Mc Carthy	40,761,403	–	(10,000,000)	30,761,403
Dato' Leong Sonny @ Leong Khee Seong	100,000	150,000	(150,000)	100,000
Fam Lee Ee	300,000	–	(100,000)	200,000
Abdel Aziz @ Abdul Aziz Bin Abu Bakar	200,000	–	(200,000)	–
Indirect interests				
Dato' Anthony Francis Fernandes *	880,683,247	–	(111,224,865)	769,458,382
Dato' Kamarudin Bin Meranun *	880,683,247	–	(111,224,865)	769,458,382

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

	Number of options over ordinary shares of RM0.10 each			
	At 1.7.2006	Granted	Exercised	At 30.6.2007
The Company				
Dato' Anthony Francis Fernandes	600,000	–	–	600,000
Dato' Kamarudin Bin Meranun	600,000	–	–	600,000

	Number of ordinary shares of USD1.00 each			
	At 1.7.2006	Acquired	Disposed	At 30.6.2007
Direct interest in AA International Ltd ("AAIL"), a subsidiary company				
Dato' Kamarudin Bin Meranun (Held in trust for TASB)	1	–	–	1
Indirect interests in AAIL				
Dato' Anthony Francis Fernandes +	5,267,340	–	–	5,267,340
Dato' Kamarudin Bin Meranun +	5,267,340	–	–	5,267,340

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

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

STATUTORY INFORMATION ON THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

In the opinion of the Directors:

(a) the results of the Group's and Company's operations during the financial year were not substantially affected by any item, transaction or event of a material and unusual nature except for the recognition of gain from termination of interest rate swaps and exchange gain on translation of foreign currency balances as shown in Note 7 to the financial statements, and accounting policies changes as detailed in Note 39 to the financial statements; and

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

AUDITORS

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

In accordance with a resolution of the Board of Directors dated 4 October 2007.

DATO' ANTHONY FRANCIS FERNANDES
Director

DATO' KAMARUDIN BIN MERANUN
Director

INCOME STATEMENTS for the financial year ended 30 June 2007

	Note	Group 2007 RM'000	Group 2006 RM'000 As restated	Company 2007 RM'000	Company 2006 RM'000 As restated
Revenue	4	1,603,261	1,070,955	1,593,978	1,047,082
Cost of sales	5	(1,160,648)	(834,435)	(1,156,344)	(818,834)
Gross profit		442,613	236,520	437,634	228,248
Other operating income		86,565	4,587	86,442	4,273
Sales and marketing expenses		(25,342)	(23,297)	(24,880)	(22,077)
Administrative expenses	6	(48,149)	(70,730)	(48,027)	(67,822)
Other operating expenses		(176,836)	(72,934)	(176,317)	(71,345)
Profit from operations	7	278,851	74,146	274,852	71,277
Net finance income	9	3,108	12,602	3,108	12,607
Share of results of a jointly controlled entity		–	(574)	–	–
Share of results of associates		(3,910)	–	–	–
Profit before taxation		278,049	86,174	277,960	83,884
Taxation					
– Current taxation	10	(5,118)	(2,175)	(5,014)	(2,175)
– Deferred taxation	10	225,126	117,703	225,126	117,703
		220,008	115,528	220,112	115,528
Net profit for the financial year		498,057	201,702	498,072	199,412
Attributable to:					
– equity holders of the Company		498,045	201,690	498,072	199,412
– minority interests		12	12	–	–
Net profit for the financial year		498,057	201,702	498,072	199,412
Earnings per share (sen)					
– Basic	11	21.2	8.6		
– Diluted	11	21.0	8.5		

The notes on pages 95 to 149 form part of these financial statements.

BALANCE SHEETS as at 30 June 2007

	Note	Group 2007 RM'000	Group 2006 RM'000 As restated	Company 2007 RM'000	Company 2006 RM'000 As restated
NON-CURRENT ASSETS					
Property, plant and equipment	12	2,959,817	1,261,993	2,958,953	1,261,095
Investment in subsidiaries	13	–	–	22,194	22,094
Investment in a jointly controlled entity	14	–	–	–	–
Investment in associates	15	29	29	29	29
Other investments	16	67	78	67	78
Goodwill	17	8,738	8,738	–	–
Deferred tax assets	28	329,216	104,090	329,216	104,090
Receivables and prepayments	19	46,484	36,388	46,484	36,388
		3,344,351	1,411,316	3,356,943	1,423,774
CURRENT ASSETS					
Inventories	18	9,512	10,578	8,962	9,868
Other investments	16	34,136	30,696	34,136	30,696
Receivables and prepayments	19	308,950	276,838	308,027	276,102
Deposit on aircraft purchase		317,296	268,634	317,296	268,634
Amounts due from subsidiaries	20	–	–	14,871	40,461
Amount due from a jointly controlled entity	21	92,182	83,131	81,221	43,811
Amounts due from associates	22	77,432	67,561	77,432	67,561
Deposits, cash and bank balances	23	595,243	425,641	591,138	421,997
		1,434,751	1,163,079	1,433,083	1,159,130
LESS: CURRENT LIABILITIES					
Trade and other payables	24	557,796	371,620	546,171	368,212
Amounts due to subsidiaries	25	–	–	12,485	1,911
Hire-purchase payables	26	77	153	77	133
Borrowings (secured)	27	251,097	265,360	251,097	265,360
Current tax liabilities		4,575	1,295	4,575	1,295
		813,545	638,428	814,405	636,911
NET CURRENT ASSETS		621,206	524,651	618,678	522,219

The notes on pages 95 to 149 form part of these financial statements.

	Note	Group 2007 RM'000	Group 2006 RM'000 As restated	Company 2007 RM'000	Company 2006 RM'000 As restated
NON-CURRENT LIABILITIES					
Hire-purchase payables	26	188	288	188	265
Borrowings (secured)	27	2,303,488	787,276	2,303,488	787,276
		2,303,676	787,564	2,303,676	787,541
		1,661,881	1,148,403	1,671,945	1,158,452
CAPITAL AND RESERVES					
Share capital	29	236,077	234,649	236,077	234,649
Share premium		722,178	708,185	722,178	708,185
Foreign exchange reserve		592	592	–	–
Retained earnings	30	702,995	204,950	713,690	215,618
SHAREHOLDERS' EQUITY		1,661,842	1,148,376	1,671,945	1,158,452
Minority interests		39	27	–	–
		1,661,881	1,148,403	1,671,945	1,158,452

The notes on pages 95 to 149 form part of these financial statements.

CHANGES IN EQUITY

for the financial year ended 30 June 2007

		Attributable to equity holders of the Company							
		Issued and fully paid ordinary shares of RM0.10 each							
	Note	Number of shares '000	Nominal value RM'000	Share premium RM'000	Foreign exchange reserve RM'000	Retained earnings RM'000	Total RM'000	Minority interests RM'000	Total equity RM'000
Group									
At 1 July 2005									
– as previously reported		2,335,030	233,503	698,602	–	20,751	952,856	15	952,871
– changes in accounting policies	39	–	–	–	–	(17,491)	(17,491)	–	(17,491)
– as restated		2,335,030	233,503	698,602	–	3,260	935,365	15	935,380
Currency translation difference		–	–	–	592	–	592	–	592
Net profit for the financial year (as restated)	39	–	–	–	–	201,690	201,690	12	201,702
Total recognised income for the financial year		–	–	–	592	201,690	202,282	12	202,294
Issuance of ordinary shares									
– pursuant to the Employees' Share Option Scheme ('ESOS')	29	11,457	1,146	11,227	–	–	12,373	–	12,373
Listing expenses		–	–	(1,644)	–	–	(1,644)	–	(1,644)
At 30 June 2006 (as restated)		2,346,487	234,649	708,185	592	204,950	1,148,376	27	1,148,403
At 1 July 2006									
– as previously reported		2,346,487	234,649	708,185	592	109,165	1,052,591	27	1,052,618
– changes in accounting policies	39	–	–	–	–	(46,834)	(46,834)	–	(46,834)
– early adoption of FRS 112	39	–	–	–	–	142,619	142,619	–	142,619
– as restated		2,346,487	234,649	708,185	592	204,950	1,148,376	27	1,148,403
Net profit for the financial year		–	–	–	–	498,045	498,045	12	498,057
Issuance of ordinary shares									
– pursuant to the Employees' Share Option Scheme ('ESOS')	29	14,279	1,428	13,993	–	–	15,421	–	15,421
At 30 June 2007		2,360,766	236,077	722,178	592	702,995	1,661,842	39	1,661,881

The notes on pages 95 to 149 form part of these financial statements.

	Note	Issued and fully paid ordinary shares of RM0.10 each Number of shares '000	Nominal value RM'000	Non-distributable Share premium RM'000	Distributable Retained earnings RM'000	Total RM'000
Company						
At 1 July 2005						
– as previously reported		2,335,030	233,503	698,602	26,978	959,083
– changes in accounting policies	39	–	–	–	(10,772)	(10,772)
– as restated		2,335,030	233,503	698,602	16,206	948,311
Net profit for the financial year (as restated)	39	–	–	–	199,412	199,412
Total recognised income for the financial year		–	–	–	199,412	199,412
Issuance of shares						
– pursuant to the Employees' Share Option Scheme ('ESOS')	29	11,457	1,146	11,227	–	12,373
Listing expenses		–	–	(1,644)	–	(1,644)
At 30 June 2006 (as restated)		2,346,487	234,649	708,185	215,618	1,158,452
At 1 July 2006						
– as previously reported		2,346,487	234,649	708,185	106,534	1,049,368
– changes in accounting policies	39	–	–	–	(33,535)	(33,535)
– early adoption of FRS 112	39	–	–	–	142,619	142,619
– as restated		2,346,487	234,649	708,185	215,618	1,158,452
Net profit for the financial year		–	–	–	498,072	498,072
Issuance of shares						
– pursuant to the Employees' Share Option Scheme ('ESOS')	29	14,279	1,428	13,993	–	15,421
At 30 June 2007		2,360,766	236,077	722,178	713,690	1,671,945

The notes on pages 95 to 149 form part of these financial statements.

CASH FLOW STATEMENTS for the financial year ended 30 June 2007

	Group		Company	
	2007 RM'000	2006 RM'000 As restated	2007 RM'000	2006 RM'000 As restated
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before taxation	278,049	86,174	277,960	83,884
Adjustments:				
Share of results of a jointly controlled entity	–	574	–	–
Share of results of associates	3,910	–	–	–
Property, plant and equipment				
– Depreciation	175,366	71,066	175,325	70,765
– Write off	–	877	–	558
– Loss on disposals	299	111	299	–
Amortisation of long term prepayments	3,115	2,933	3,115	2,933
Amortisation of other investments	11	12	11	12
Interest expense	104,038	21,374	104,038	21,369
Interest income	(27,012)	(12,148)	(27,012)	(12,148)
	537,776	170,973	533,736	167,373
Changes in working capital:				
Inventories	1,066	(5,898)	906	(5,486)
Receivables and prepayments	(32,112)	2,029	(31,925)	944
Trade and other payables	186,176	179,074	177,959	179,474
Intercompany balances	(18,922)	(52,985)	(11,117)	(52,180)
Cash generated from operations	673,984	293,193	669,559	290,125
Interest paid	(104,038)	(21,374)	(104,038)	(21,369)
Interest received	27,012	12,148	27,012	12,148
Tax paid	(1,838)	(1,678)	(1,734)	(1,678)
Net cash from operating activities	595,120	282,289	590,799	279,226

The notes on pages 95 to 149 form part of these financial statements.

	Note	Group 2007 RM'000	Group 2006 RM'000 As restated	Company 2007 RM'000	Company 2006 RM'000 As restated
CASH FLOWS FROM INVESTING ACTIVITIES					
Property, plant and equipment					
– Additions		(1,878,510)	(982,226)	(1,878,503)	(981,331)
– Proceeds from disposals		5,021	133	5,021	–
Deposit on aircraft purchase		(48,662)	(206,500)	(48,662)	(206,500)
Long term prepayments		(13,211)	(36,100)	(13,211)	(36,100)
Additional unquoted investments		(3,440)	(22,979)	(3,440)	(22,979)
Additional investment in/acquisition of subsidiaries		–	(1,404)	(100)	(1,404)
Additional investment in/acquisition of associates		(3,910)	(29)	–	(29)
Net cash used in investing activities		(1,942,712)	(1,249,105)	(1,938,895)	(1,248,343)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from allotment of shares		15,421	12,373	15,421	12,373
Listing expenses		–	(1,644)	–	(1,644)
Hire-purchase instalments paid		(176)	(197)	(133)	(168)
Proceeds from borrowings		1,803,306	1,170,932	1,803,306	1,170,932
Repayment of borrowings		(301,357)	(118,296)	(301,357)	(118,296)
Deposits pledged as securities	23	(8,162)	4,007	(8,162)	4,007
Net cash from financing activities		1,509,032	1,067,175	1,509,075	1,067,204
NET INCREASE FOR THE FINANCIAL YEAR		161,440	100,359	160,979	98,087
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE FINANCIAL YEAR		412,907	312,548	409,263	311,176
CASH AND CASH EQUIVALENTS AT END OF THE FINANCIAL YEAR	23	574,347	412,907	570,242	409,263

The notes on pages 95 to 149 form part of these financial statements.

1 GENERAL INFORMATION

The principal activity of the Company is that of providing air transportation services. The principal activities of the subsidiaries are described in Note 13 to the financial statements. There was no significant change in the nature of these activities during the financial year.

The number of employees of the Group and the Company at the balance sheet date was 2,924 and 2,908 (2006: 2,224 and 2,148) respectively.

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items that are considered material in relation to the financial statements, and have been consistently applied to all the years presented, unless otherwise stated in Note 39.

(a) Basis of preparation of the financial statements

The financial statements of the Group and the Company have been prepared in accordance with Financial Reporting Standards ('FRSs'), the Malaysian Accounting Standards Board ('MASB') approved accounting standards in Malaysia for Entities Other Than Private Entities and the provisions of the Companies Act, 1965. During the financial year, the Group and the Company had adopted new and revised FRSs which are mandatory for the financial year beginning on 1 July 2006 as described in Note 2(a)(i) below.

The financial statements have been prepared under the historical cost convention except as disclosed in the Significant Accounting Policies below.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation of the financial statements (cont'd)

The preparation of financial statements in conformity with FRSs, the MASB approved accounting standards in Malaysia for Entities Other Than Private Entities, requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of the revenue and expenses during the reported period. It also requires Directors to exercise their judgement in the process of applying the Group's accounting policies. Although these estimates and judgement are based on the Directors' best knowledge of current events and actions, actual results may differ.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Group's and the Company's financial statements are disclosed in Note 3 to the financial statements.

(i) Standards, amendments to published standards and Interpretations Committee (IC) interpretations that are effective

The new accounting standards, amendments to published standards and IC interpretations to existing standards effective for the Group's and the Company's financial year beginning on 1 July 2006 are as follows:

FRS 1	First-time Adoption of Financial Reporting Standards
FRS 2	Share-based Payment
FRS 3	Business Combinations
FRS 5	Non-Current Assets Held for Sale and Discontinued Operations
FRS 101	Presentation of Financial Statements
FRS 102	Inventories
FRS 108	Accounting Policies, Changes in Estimates and Errors
FRS 110	Events after the Balance Sheet Date
FRS 116	Property, Plant and Equipment
FRS 121	The Effects of Changes in Foreign Exchange Rates
FRS 127	Consolidated and Separate Financial Statements
FRS 128	Investments in Associates
FRS 131	Interests in Joint Ventures
FRS 132	Financial Instruments: Disclosure and Presentation
FRS 133	Earnings per Share
FRS 136	Impairment of Assets
FRS 138	Intangible Assets
FRS 140	Investment Property

Amendment to FRS 119_{2004} Employee Benefits, Actuarial Gains and Losses, Group Plans and Disclosures – in relation to the 'asset ceiling' test

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation of the financial statements (cont'd)

(i) Standards, amendments to published standards and Interpretations Committee (IC) interpretations that are effective (continued)

IC 107	Introduction of the Euro
IC 110	Government Assistance – No specific relation to Operating Activities
IC 112	Consolidation – Special Purpose Entities
IC 113	Jointly Controlled Entities – Non-Monetary Contributions by Venturers
IC 115	Operating Leases – Incentives
IC 121	Income Taxes – Recovery of Revalued Non-Depreciable Assets
IC 125	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders
IC 127	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
IC 129	Disclosure – Service Concession Arrangements
IC 131	Revenue – Barter Transactions Involving Advertising Services
IC 132	Intangible Assets – Web Site Costs

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards, amendments to the published standards and IC interpretations.

A summary of the impact of the new accounting standards, amendments to the published standards and IC interpretations to existing standards on the financial statements of the Group and Company is set out in Note 39.

(ii) Standards early adopted by the Group

On 15 June 2007, MASB issued FRS112 'Income Taxes' to revise the existing $FRS112_{2004}$ 'Income Taxes'. The revised FRS will be effective for financial statements covering periods beginning on or after 1 July 2007.

With the removal of the relevant provisions in $FRS112_{2004}$ which explicitly prohibit the recognition of deferred tax on reinvestment allowance or other allowances in excess of capital allowance, entities can now account for these items either as tax credits or investment tax credits.

The Group has now early adopted the revised standard and this change constitutes a change in accounting policy which will be applied in accordance with FRS108 'Accounting Policies, Changes in Accounting Estimates and Errors', i.e. applied retrospectively by recording a prior year adjustment. The details and effect of this change is outlined in Note 39(c)(v).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation of the financial statements (cont'd)

(iii) Standards, amendments to published standards and IC interpretations to existing standards that are not yet effective and have not been early adopted

The new standards, amendments to published standards and interpretations that are mandatory for the Group's financial periods beginning on 1 July 2007 unless otherwise stated, but which the Group has not early adopted, are as follows:

- FRS 107 Cash Flows Statements. This revised standard has no significant changes as compared to the original standard.

- FRS 111 Construction Contracts. This revised standard has no significant changes as compared to the original standard.

- FRS 118 Revenue. This revised standard has no significant changes as compared to the original standard.

- FRS 120 Accounting for Government Grants and Disclosure of Government Assistance. This revised standard allows alternative treatment for non-monetary government grants to be recorded at nominal amount.

- Amendment to FRS 121 The Effects of Changes in Foreign Exchange Rates – Net Investment in Foreign Operation. This amendment requires exchange differences on monetary items that form part of the net investment in a foreign operation to be recognised in equity instead of in profit or loss regardless of the currency in which these items are denominated in.

- FRS 124 'Related Party Disclosures' (effective for accounting periods beginning on or after 1 October 2006). This standard will affect the identification of related parties and some other related party disclosures. The Group will apply this standard from financial periods beginning 1 July 2007.

- FRS 134 Interim Financial Reporting. This revised standard has no significant changes as compared to the original standard.

- FRS 137 Provisions, Contingent Liabilities and Contingent Assets. This revised standard has no significant changes as compared to the original standard.

- FRS 139 'Financial Instruments: Recognition and Measurement' (effective date yet to be determined by Malaysian Accounting Standards Board). This new standard establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy and sell non-financial items. Hedge accounting is permitted only under strict circumstances. The Group will apply this standard when effective.

- IC Interpretation 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities. This interpretation deals with changes in the estimated timing or amount of the outflow of resources required to settle the obligation, or a change in the discount rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation of the financial statements (cont'd)

(iii) Standards, amendments to published standards and IC interpretations to existing standards that are not yet effective and have not been early adopted (cont'd)

- IC Interpretation 2 Members' Shares in Co-operative Entities and Similar Instruments. This interpretation deals with liabilities or equity classification of financial instruments which give the holder the right to request redemption, but subject to limits on whether it will be redeemed.

- IC Interpretation 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds. This interpretation deals with accounting in the financial statements of a contributor for its interests arising from decommissioning funds.

- IC Interpretation 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment. This interpretation provides guidance on the recognition, in the financial statements of producers, of liabilities for waste management under the EU Directive in respect of sales of historical household equipment.

- IC Interpretation 7 Applying the Restatement Approach under FRS 129_{2004} Financial Reporting in Hyperinflationary Economies. This interpretation provides guidance on how to apply the requirement of FRS 129 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period.

- IC Interpretation 8 Scope of FRS 2. This Interpretation clarifies that FRS 2 Share-based Payment applies even in the absence of specifically identifiable goods or services.

Other than the FRS 117, 124 and 139, for which entities are exempted from disclosing the impact on the financial statements prior to the effective date, the above standards, amendments to published standards and IC interpretations to existing standards are not anticipated to have a significant impact to the financial statements of the Group.

(iv) Standards that are yet to be effective and not relevant or material for the Group's operations

- FRS 6 'Exploration for and Evaluation of Mineral Resources' (effective for accounting periods beginning on or after 1 January 2007). FRS 6 is not relevant to the Group's operations as the Group does not carry out exploration for an evaluation of mineral resources.

- FRS 117 'Leases' (effective for accounting periods beginning on or after 1 October 2006). This standard requires the classification of leasehold land as prepaid lease payments. FRS 117 is not relevant to the Group as the Group does not have any leasehold land.

- Amendment to $FRS119_{2004}$ Employee Benefits – Actuarial Gains and Losses, Plans and Disclosures (effective for accounting periods beginning on or after 1 January 2007). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. This amendment is not relevant to the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Group accounting

(i) Subsidiaries

Subsidiaries are those corporations or other entities (including special purpose entities) in which the Group has power to exercise control over the financial and operating policies so as to obtain benefits from their activities, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated using the purchase method of accounting. Under the purchase method of accounting, subsidiaries are fully consolidated from the date on which control is transferred to the Group and are excluded from consolidation from the date that control ceases. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired at the date of acquisition is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement (see Note 2(c) on goodwill).

Minority interests represent that portion of the profit or loss and net assets of subsidiaries attributable to equity interest that are not owned, directly or indirectly through the subsidiaries by the parent. It is measured at the minorities' share of the fair values of the subsidiaries' identifiable assets and liabilities at the acquisition date and the minorities' share of changes in subsidiaries' equity since that date. Separate disclosure is made of minority interests.

Intragroup transactions, balances and unrealised gains or losses on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

The gain or loss on disposal of a subsidiary is the difference between the net disposal proceeds and the Group's share of the subsidiary's net assets as of the date of disposal, including the cumulative amount of any exchange differences that relate to that subsidiary which were previously recognised in equity, and is recognised in the consolidated income statement.

(ii) Jointly controlled entities

Jointly controlled entities are corporations, partnerships or other entities over which there is contractually agreed sharing of control by the Group with one or more parties where the strategic financial and operation decisions relating to the entity requires unanimous consent of the parties sharing control.

The Group's interest in jointly controlled entities is accounted for in the consolidated financial statements using the equity method of accounting as described in Note 2(b)(iii).

The Group's share of its jointly controlled entities post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised within reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investments. When the Group's share of losses in jointly controlled entities equals or exceeds its interest in the jointly controlled entities, including any other unsecured receivables, the Group's interest is reduced to nil and recognition of further loss is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Group accounting (cont'd)

(ii) Jointly controlled entities (cont'd)

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

(iii) Associates

Associates are corporations, partnerships or other entities in which the Group exercises significant influence but which it does not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the associates but not control over those policies.

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting. Equity accounting is discontinued when the Group ceases to have significant influence over the associates. The Group's investments in associates includes goodwill identified on acquisition, net of any accumulated impairment loss (see Note 2(c)).

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised within reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investments. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group's interest is reduced to nil and recognition of further loss is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

The results of associates are taken from the most recent financial statements of the associates concerned, made up to dates not more than three months prior to the end of the financial year of the Group.

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

(c) Goodwill

Goodwill represents the excess of the cost of acquisition of subsidiaries, jointly controlled entities and associates over the Group's share of the fair value of the identifiable net assets including contingent liabilities of subsidiaries, jointly controlled entities and associates at the date of acquisition.

Goodwill is carried at cost less accumulated impairment losses. Goodwill is tested for impairment at least annually, or when events or circumstances occur indicating that an impairment may exist. Impairment of goodwill is charged to the consolidated income statement as and when it arises. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity disposed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each cash-generating unit or a group of cash-generating units represents the lowest level within the Group at which goodwill is monitored for internal management purposes and which are expected to benefit from the synergies of the combination.

Goodwill on acquisition of jointly controlled entities and associates is included in the investments in jointly controlled entities and associates respectively. Such goodwill is tested for impairment as part of the overall investment amount.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Property, plant and equipment

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

Aircraft	
– engine	7 – 25 years
– airframe	7 – 25 years
– service potential	7 – 13 years
Aircraft spares	10 years
Aircraft fixtures and fittings	Useful life or, remaining lease term of aircrafts, whichever is shorter
Buildings	25 – 50 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
Kitchen equipment	5 years

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. The estimated residual value for aircraft airframes and engines is 10% of their cost.

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

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

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

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

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

Advance payments and option payments made in respect of aircraft purchase commitments and options to acquire aircraft where the balance is expected to be funded by mortgage financing are recorded at cost. On acquisition of the related aircraft, these payments are included as part of the cost of aircraft and are depreciated from that date. Where the balance of payment is expected to be funded by lease financing, the advance payments are classified as deposits.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Investments

Investments in subsidiaries, jointly controlled entities and associates are stated at cost less accumulated impairment losses. Where an indication of impairment exists, the carrying amount of the investment is assessed and written down immediately to its recoverable amount (see Note 2(f)).

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

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

(f) Impairment of assets

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

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

(g) Maintenance and overhaul

Owned aircraft

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

Leased aircraft

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Leases

Finance leases

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

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

Property, plant and equipment acquired under finance lease contracts are depreciated over the estimated useful life of the asset, in accordance with the annual rates stated in Note 2(d) above. Where there is no reasonable certainty that the ownership will be transferred to the Group, the asset is depreciated over the shorter of the lease term and its useful life.

Operating leases

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

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

(i) Inventories

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

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

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

(j) Receivables

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(k) Cash and cash equivalents

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

(l) Share capital

(i) Classification

Ordinary shares with discretionary dividends are classified as equity. Other shares are classified as equity and/or liability according to the economic substance of the particular instrument.

Distributions to holders of a financial instrument classified as an equity instrument are charged directly to equity.

(ii) Share issue costs

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

(iii) Dividends to shareholders of the Company

Dividends are recognised as a liability in the period in which they are declared.

(m) Borrowings

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

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

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

(n) Income taxes

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

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amounts in the financial statements.

Deferred tax assets are recognised for the carryforward of unused tax losses and tax credits (including Investment tax allowances) to the extent that it is probable that taxable profit will be available against which the unutilised tax losses and unused tax credits can be utilised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Income taxes (cont'd)

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

The Group's share of income taxes of jointly controlled entities and associates are included in the Group's share of results of jointly controlled entities and associates.

Deferred tax is determined using tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

(o) Employee benefits

(i) Short term employee benefits

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

(ii) Defined contribution plan

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

(iii) Share based payments

FRS 2 requires recognition of share-based payment transactions including the value of share options in the financial statements. There was no financial impact following the prospective application of FRS 2 with effect from 1 July 2006. All the share options were fully vested as at 1 July 2006.

(p) Revenue recognition

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

Revenue includes only the gross inflows of economic benefits received and receivable by the Company. Revenue includes fuel surcharge, insurance surcharge and administrative fees. Cargo, freight and other related revenue are recognised upon the completion of services rendered and where applicable, net of discounts. Amounts collected on behalf of governments or other regulatory bodies are excluded from revenue.

Interest and rental income are recognised on an accruals basis.

(q) Foreign currencies

(i) Functional and presentation currency

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(q) Foreign currencies (cont'd)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) Group companies

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

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is disposed of or sold, such exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on disposal.

(r) Contingent liabilities

The Group does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by uncertain future events beyond the control of the Group or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare circumstance where there is a liability that cannot be recognised because it cannot be measured reliably.

In the acquisition of subsidiaries by the Group under a business combination, the contingent liabilities assumed are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

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

Subsequent to the initial recognition, the Group measures the contingent liabilities that are recognised separately at the date of acquisition at the higher of the amount that would be recognised in accordance with the provisions of FRS 137 'Provisions, Contingent Liabilities and Contingent Assets' and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with FRS 118 'Revenue'.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(s) Financial instruments

(i) Description

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

(ii) Financial instruments recognised on the balance sheet

The particular recognition and measurement method for financial instruments recognised on the balance sheet is disclosed in the individual accounting policy note associated with each item.

(iii) Financial instruments not recognised on the balance sheet

The Group is a party to financial instruments that comprise forward fuel contracts, foreign currency forward contracts and interest rate swap contracts.

These instruments are not recognised in the financial statements on inception.

Fuel option contracts

The Group is a party to contracts to protect the Group from volatile movements in fuel prices. Gains and losses arising from fuel options contracts are recognised in the income statement only upon delivery of fuel.

Foreign currency forward contracts

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

Exchange gains and losses on such contracts are recognised in the income statement when settled.

Interest rate swap contracts

The Group enters into interest rate swap contracts to protect the Group from any differential to be paid or received on an interest rate swap contract, which is recognised as a component of interest income or expense over the period of the contract. Gains and losses on early termination of interest rate swaps or on repayment of the borrowing are taken to the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(s) Financial instruments (cont'd)

(iv) Fair value estimation for disclosure purposes

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

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgements 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 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 mentioned below.

(i) Estimated useful lives and residual values of property, plant and equipment

The Group reviews annually the estimated useful lives and residual values of property, plant and equipment based on factors such as business plan 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. A reduction in the estimated useful lives and residual values of property, plant and equipment in particular the residual value of aircraft frames and engines, would increase the recorded depreciation and decrease the property, plant and equipment.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONT'D)

(ii) Taxation

(a) Income taxes

The Group is subject to income tax in numerous jurisdictions. Judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for tax matters based on estimates of whether additional taxes will be due. If the final outcome of these tax matters result in a difference in the amounts initially recognised, such differences will impact the income tax and/or deferred tax provisions in the period in which such determination is made.

(b) Deferred tax assets

Deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilised. This involves judgement regarding future financial performance of a particular entity in which the deferred tax asset has been recognised.

4 REVENUE

	Group		Company	
	2007 RM'000	2006 RM'000 As restated	2007 RM'000	2006 RM'000 As restated
Passenger seat sales	1,020,036	778,080	1,020,036	778,080
Chartered flight income	4,869	8,063	4,869	8,063
Other revenue	578,356	284,812	569,073	260,939
	1,603,261	1,070,955	1,593,978	1,047,082

Other revenue consists of fuel surcharge, insurance surcharge and administrative fees, which was previously netted off against cost of sales. The Group has now reclassified these surcharge fees as part of revenue as the Directors are of the opinion that this is a fairer reflection of the Group's financial performance and is in line with current industry practice. The impact to the other revenue component of the Group and Company for 2007 amounted to RM469.2 million (2006: RM 208.1 million) and is outlined in Note 39(c)(v).

5 COST OF SALES

	Group		Company	
	2007 RM'000	2006 RM'000 As restated	2007 RM'000	2006 RM'000 As restated
Aircraft fuel expenses	699,640	422,809	699,640	422,809
Aircraft operating lease expenses	34,109	53,214	34,109	53,214
Staff costs	155,215	115,695	153,908	114,917
Maintenance, overhaul, user charges and other expenses	271,684	242,717	268,687	227,894
	1,160,648	834,435	1,156,344	818,834

5 COST OF SALES (CONT'D)

Aircraft operating lease expenses of the Group and Company are stated net of income received from the Group's jointly controlled entity and associate on lease rental and sublease rental of aircraft amounting to RM31.3 million (2006: RM30.1 million) and RM48.8 million (2006: RM31.9 million) respectively.

Maintenance, overhaul, user charges and other expenses of the Group and Company exclude maintenance expenses on aircraft leased to the Group's jointly controlled entity and associate amounting to RM84.5 million (2006: RM72.3 million) and RM54.8 million (2006: RM36.2 million) respectively.

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

6 ADMINISTRATIVE EXPENSES

	Group		Company	
	2007 RM'000	2006 RM'000 As restated	2007 RM'000	2006 RM'000 As restated
General and administrative expenses	22,963	47,589	22,846	46,279
Staff costs	25,186	23,141	25,181	21,543
	48,149	70,730	48,027	67,822

7 PROFIT FROM OPERATIONS

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

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Staff costs				
– Wages, salaries, bonus and allowances	171,892	131,272	170,678	129,108
– Defined contribution retirement plan	11,530	9,879	11,431	9,668
Property, plant and equipment				
– Depreciation	175,366	71,066	175,325	70,765
– Write off	–	877	–	558
– Loss on disposals	299	111	299	–
Rental of land and building	2,763	2,738	2,763	2,601
Auditors' remuneration				
– current financial year	422	327	402	296
– under-accrual in prior financial year	–	100	–	100
Allowance for doubtful debts	2,952	–	2,952	–
Trade and other receivables written off	–	577	–	–
Rental of equipment	503	473	502	473
Amortisation of long term prepayments	3,115	2,933	3,115	2,933
Crew commissions	1,850	1,189	1,558	–
Gain from termination of interest rate swaps	(73,197)	–	(73,197)	–
Foreign exchange (gain)/loss				
– Realised	302	(742)	302	(742)
– Unrealised	21,713	(6,120)	21,713	(6,120)
Lease rental income on owned aircrafts	(31,345)	(30,099)	(31,345)	(30,099)
Sublease rental income on leased aircrafts	(48,821)	(31,952)	(48,821)	(31,952)

Included in staff costs is Directors' remuneration which is detailed in Note 8.

8 DIRECTORS' REMUNERATION

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

	Group and Company 2007 RM'000	2006 RM'000
Executive Directors		
– basic salaries, bonus and allowances	2,760	4,140
– defined contribution plan	330	498
– other emoluments	–	370
Non-executive Directors		
– fees	696	728
	3,786	5,736

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

	Executive 2007	Executive 2006	Non-executive 2007	Non-executive 2006
Range of remunerations				
In bands of RM50,000				
Up to RM50,000	–	–	2	5
RM50,001 to RM100,000	–	–	5	4
RM200,001 to RM250,000	–	–	–	1
RM250,001 to RM300,000	–	–	1	–
RM2,000,000 to RM3,000,000	2	2	–	–

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

Grant date	Expiry date	Exercise prices RM/share	At 1 July 2006 '000	Exercised '000	Lapsed '000	At 30 June 2007 '000
30 June 2007						
1 September 2004	6 June 2009	1.08	1,200	–	–	1,200

	2007 '000	2006 '000
Number of share options vested at balance sheet date	600	300

9 NET FINANCE INCOME

	Group 2007 RM'000	Group 2006 RM'000	Company 2007 RM'000	Company 2006 RM'000
Finance costs:				
Interest expense				
– bank borrowings	(104,016)	(21,342)	(104,016)	(21,342)
– hire-purchase payables	(22)	(32)	(22)	(27)
Bank facilities and other charges	(1,375)	(312)	(1,375)	(312)
	(105,413)	(21,686)	(105,413)	(21,681)
Finance income:				
Exchange gain on borrowings	81,509	22,140	81,509	22,140
Interest income				
– deposits with licensed bank	12,133	6,112	12,133	6,112
– short term deposits with fund management companies	9,801	5,423	9,801	5,423
– other interest income	5,078	613	5,078	613
	108,521	34,288	108,521	34,288
Net finance income	3,108	12,602	3,108	12,607

10 TAXATION

	Group 2007 RM'000	Group 2006 RM'000 As restated	Company 2007 RM'000	Company 2006 RM'000 As restated
Current taxation:				
– Malaysian tax	5,118	2,175	5,014	2,175
Deferred taxation (Note 28)	(225,126)	(117,703)	(225,126)	(117,703)
	(220,008)	(115,528)	(220,112)	(115,528)
Current taxation				
– Current financial year	5,118	2,787	5,014	2,787
– Over-accrual in prior financial year	–	(612)	–	(612)
Deferred taxation				
– Origination and reversal of temporary differences	54,491	24,916	54,491	24,916
– Tax incentives	(279,617)	(142,619)	(279,617)	(142,619)
	(220,008)	(115,528)	(220,112)	(115,528)

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

10 TAXATION (CONT'D)

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

	Group		Company	
	2007 RM'000	2006 RM'000 As restated	2007 RM'000	2006 RM'000 As restated
Profit before taxation	278,049	86,174	277,960	83,884
Tax calculated at Malaysian tax rate of 27% (2006: 28%)	75,073	24,129	75,049	23,488
Tax effects of:				
– expenses not deductible for tax purposes	6,042	7,831	5,962	5,639
– income not subject to tax	(23,156)	(1,317)	(23,156)	(1,317)
– recognition of previously unrecognised tax benefits	–	(2,833)	–	–
– temporary differences not recognised within the pioneer period	1,650	(107)	1,650	(107)
– tax incentives	(279,617)	(142,619)	(279,617)	(142,619)
– over-accrual of tax in prior financial year	–	(612)	–	(612)
Taxation	(220,008)	(115,528)	(220,112)	(115,528)

11 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the Company for the financial year by the weighted average number of ordinary shares in issue during the financial year.

	Group	
	2007	2006 As restated
Profit attributable to equity holders of the Company (RM'000)	498,045	201,690
Weighted average number of ordinary shares in issue ('000)	2,352,517	2,340,743
Earnings per share (sen)	21.2	8.6

11 EARNINGS PER SHARE (CONT'D)

(b) Diluted earnings per share

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

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

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

	Group 2007	Group 2006 As restated
Profit attributable to equity holders of the Company (RM'000)	498,045	201,690
Weighted average number of ordinary shares in issue ('000)	2,352,517	2,340,743
Adjustment for ESOS ('000)	19,487	27,702
Weighted average number of ordinary shares for diluted earnings per share	2,372,004	2,368,445
Diluted earnings per share (sen)	21.0	8.5

12 PROPERTY, PLANT AND EQUIPMENT

Group	At 1 July 2006 RM'000	Additions RM'000	Reclassifications RM'000	Disposals RM'000	Depreciation charge RM'000	At 30 June 2007 RM'000
Net book value						
Aircraft engines and airframe	1,101,707	1,821,127	–	–	(150,289)	2,772,545
Aircraft spares	49,186	25,515	–	(5,307)	(7,341)	62,053
Aircraft fixtures and fittings	14,480	13,827	–	–	(5,754)	22,553
Buildings	14,868	251	36	–	(510)	14,645
Motor vehicles	4,738	3,836	–	(10)	(1,708)	6,856
Office equipment, furniture and fittings	10,157	4,544	1,047	(3)	(4,297)	11,448
Office renovation	3,195	884	722	–	(1,189)	3,612
Simulator equipment	54,595	107	54	–	(2,210)	52,546
Operating plant and ground equipment	4,097	6,128	929	–	(2,058)	9,096
Kitchen equipment	212	–	–	–	(10)	202
Assets not yet in operation	4,758	2,291	(2,788)	–	–	4,261
	1,261,993	1,878,510	–	(5,320)	(175,366)	2,959,817

12 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Group	Cost RM'000	Accumulated depreciation RM'000	Net book value RM'000
At 30 June 2007			
Aircraft engines and airframe	2,989,162	(216,617)	2,772,545
Aircraft spares	79,028	(16,975)	62,053
Aircraft fixtures and fittings	33,566	(11,013)	22,553
Buildings	15,718	(1,073)	14,645
Motor vehicles	11,019	(4,163)	6,856
Office equipment, furniture and fittings	25,659	(14,211)	11,448
Office renovation	6,429	(2,817)	3,612
Simulator equipment	55,235	(2,689)	52,546
Operating plant and ground equipment	13,150	(4,054)	9,096
Kitchen equipment	299	(97)	202
Assets not yet in operation	4,261	–	4,261
	3,233,526	(273,709)	2,959,817

Group	At 1 July 2005 RM'000	Additions RM'000	Reclassification RM'000	Write off RM'000	Disposals RM'000	Depreciation charge RM'000	At 30 June 2006 RM'000
Net book value							
Aircraft engines and airframe	148,588	996,277	12,541	–	–	(55,699)	1,101,707
Aircraft spares	19,910	33,302	608	–	–	(4,634)	49,186
Aircraft fixtures and fittings	4,886	12,237	760	–	–	(3,403)	14,480
Buildings	2,000	2,437	10,929	–	–	(498)	14,868
Motor vehicles	2,166	1,825	2,115	(132)	–	(1,236)	4,738
Office equipment, furniture and fittings	9,867	3,813	129	(32)	(205)	(3,415)	10,157
Office renovation	1,810	2,139	47	(61)	(31)	(709)	3,195
Simulator equipment	–	42,931	12,142	–	–	(478)	54,595
Operating plant and ground equipment	1,535	3,456	–	–	–	(894)	4,097
Kitchen equipment	389	25	–	(94)	(8)	(100)	212
Assets not yet in operation	40,335	4,252	(39,271)	(558)	–	–	4,758
	231,486	1,102,694	–	(877)	(244)	(71,066)	1,261,993

12 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Cost RM'000	Accumulated depreciation RM'000	Net book value RM'000
Group			
At 30 June 2006			
Aircraft engines and airframe	1,190,405	(88,698)	1,101,707
Aircraft spares	59,673	(10,487)	49,186
Aircraft fixtures and fittings	19,740	(5,260)	14,480
Buildings	15,431	(563)	14,868
Motor vehicles	7,266	(2,528)	4,738
Office equipment, furniture and fittings	20,072	(9,915)	10,157
Office renovation	4,823	(1,628)	3,195
Simulator equipment	55,073	(478)	54,595
Operating plant and ground equipment	6,096	(1,999)	4,097
Kitchen equipment	299	(87)	212
Assets not yet in operation	4,758	–	4,758
	1,383,636	(121,643)	1,261,993

	At 1 July 2006 RM'000	Additions RM'000R	Reclassifications RM'000	Disposals RM'000	Depreciation charge RM'000	At 30 June 2007 RM'000
Company						
Net book value						
Aircraft engines and airframe	1,101,707	1,821,127	–	–	(150,289)	2,772,545
Aircraft spares	49,186	25,515	–	(5,307)	(7,341)	62,053
Aircraft fixtures and fittings	14,480	13,827	–	–	(5,754)	22,553
Buildings	14,868	251	36	–	(510)	14,645
Motor vehicles	4,112	3,829	–	(10)	(1,680)	6,251
Office equipment, furniture and fittings	10,097	4,544	1,047	(3)	(4,294)	11,391
Office renovation	3,195	884	722	–	(1,189)	3,612
Simulator equipment	54,595	107	54	–	(2,210)	52,546
Operating plant and ground equipment	4,097	6,128	929	–	(2,058)	9,096
Assets not yet in operation	4,758	2,291	(2,788)	–	–	4,261
	1,261,095	1,878,503	–	(5,320)	(175,325)	2,958,953

12 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Cost RM'000	Accumulated depreciation RM'000	Net book value RM'000
Company			
At 30 June 2007			
Aircraft engines and airframe	2,989,162	(216,617)	2,772,545
Aircraft spares	79,028	(16,975)	62,053
Aircraft fixtures and fittings	33,566	(11,013)	22,553
Buildings	15,718	(1,073)	14,645
Motor vehicles	10,168	(3,917)	6,251
Office equipment, furniture and fittings	25,564	(14,173)	11,391
Office renovation	6,429	(2,817)	3,612
Simulator equipment	55,235	(2,689)	52,546
Operating plant and ground equipment	13,150	(4,054)	9,096
Assets not yet in operation	4,261	–	4,261
	3,232,281	(273,328)	2,958,953

	At 1 July 2005 RM'000	Additions RM'000	Reclassifications RM'000	Write off RM'000	Depreciation charge RM'000	At 30 June 2006 RM'000
Company						
Net book value						
Aircraft engines and airframe	148,588	996,277	12,541	–	(55,699)	1,101,707
Aircraft spares	19,910	33,302	608	–	(4,634)	49,186
Aircraft fixtures and fittings	4,886	12,237	760	–	(3,403)	14,480
Buildings	2,000	2,437	10,929	–	(498)	14,868
Motor vehicles	2,098	1,006	2,115	–	(1,107)	4,112
Office equipment, furniture and fittings	9,566	3,766	129	–	(3,364)	10,097
Office renovation	1,701	2,135	47	–	(688)	3,195
Simulator equipment	–	42,931	12,142	–	(478)	54,595
Operating plant and ground equipment	1,535	3,456	–	–	(894)	4,097
Assets not yet in operation	40,335	4,252	(39,271)	(558)	–	4,758
	230,619	1,101,799	–	(558)	(70,765)	1,261,095

12 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Cost RM'000	Accumulated depreciation RM'000	Net book value RM'000
Company			
At 30 June 2006			
Aircraft engines and airframe	1,190,405	(88,698)	1,101,707
Aircraft spares	59,673	(10,487)	49,186
Aircraft fixtures and fittings	19,740	(5,260)	14,480
Buildings	15,431	(563)	14,868
Motor vehicles	6,421	(2,309)	4,112
Office equipment, furniture and fittings	19,977	(9,880)	10,097
Office renovation	4,823	(1,628)	3,195
Simulator equipment	55,073	(478)	54,595
Operating plant and ground equipment	6,096	(1,999)	4,097
Assets not yet in operation	4,758	–	4,758
	1,382,397	(121,302)	1,261,095

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

	Group 2007 RM'000	Group 2006 RM'000	Company 2007 RM'000	Company 2006 RM'000
Aircraft pledged as security for term loans (Note 27)	2,617,660	900,300	2,617,660	900,300
Simulator pledged as security for term loans (Note 27)	48,498	–	48,498	–
Motor vehicles on hire-purchase	351	533	351	487

13 INVESTMENT IN SUBSIDIARIES

	Company 2007 RM'000	Company 2006 RM'000
Unquoted investments, at cost	22,194	22,094

13 INVESTMENT IN SUBSIDIARIES (CONT'D)

The details of the subsidiaries are as follows:

Name	Country of incorporation	Group's effective equity interest 2007 %	2006 %	Principal activities
Directly held by the Company				
Crunchtime Culinary Services Sdn Bhd ("Crunchtime")	Malaysia	100.0	100.0	Provision of inflight meals
AA International Ltd ("AAIL")	Malaysia	99.8	99.8	Investment holding
AirAsia Go Holiday Sdn Bhd (sub note (a))	Malaysia	100.0	100.0	Tour operating business
AirAsia (Mauritius) Limited ("AirAsia Mauritius") *	Mauritius	100.0	100.0	Providing aircraft leasing facilities
Airspace Communications Sdn Bhd ^ (sub note (b))	Malaysia	99.0	–	Media owner with publishing division
AirAsia (B) Sdn Bhd ^ * (sub note (c))	Negara Brunei Darussalam	100.00	–	Dormant
Held by AAIL				
AirAsia (Hong Kong) Limited ("AirAsia HK") *	Hong Kong	100.0	100.0	Dormant
AA Capital Ltd	Malaysia	100.0	100.0	Dormant

* Not audited by PricewaterhouseCoopers, Malaysia
^ Subscribed during the financial year

(a) During the financial year, the Company subscribed for an additional 100,000 ordinary shares of RM1.00 each in AirAsia Go Holiday Sdn Bhd for a consideration of RM100,000.

(b) During the financial year, AirAsia had incorporated a 99% owned subsidiary, Airspace Communications Sdn Bhd with a paid up capital of RM99.

(c) During the financial year, AirAsia had incorporated a wholly-owned subsidiary, AirAsia (B) Sdn Bhd with paid up capital of RM1,384 (BND$600) to carry on the business of an air transport company.

14 INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	Group 2007 RM'000	Group 2006 RM'000 As restated
Represented by:		
Unquoted investment, at cost	12,054	12,054
Group's share of post acquisition reserves	(12,054)	(12,054)
	–	–

The details of the jointly controlled entity are as follows:

Name	Country of incorporation	Group's effective equity interest 2007 %	Group's effective equity interest 2006 %	Principal activities
Held by AAIL				
Thai AirAsia Co. Ltd ("Thai AirAsia")	Thailand	48.9	48.9	Aerial transport of persons, things and posts

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

	2007 RM'000	2006 RM'000
Revenue	262,429	155,606
Expenses	(279,314)	(165,767)
Loss before taxation	(16,885)	(10,161)
Taxation	–	–
Net loss for the financial year	(16,885)	(10,161)

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

	2007 RM'000	2006 RM'000
Non-current assets	10,474	4,961
Current assets	40,821	87,448
Current liabilities	(82,200)	(106,736)
Share of net liabilities of a jointly controlled entity	(30,905)	(14,327)

14 INVESTMENT IN A JOINTLY CONTROLLED ENTITY (CONT'D)

The Group discontinued recognition for its share of further losses made by Thai AirAsia in the previous financial year as the Group's interest in the jointly controlled entity is reduced to zero and the Group has not incurred any obligations or guaranteed any obligations in respect of the jointly controlled entity. As at 30 June 2007, the unrecognised amount of the Group's share of losses of Thai AirAsia amounted to RM30.9 million (2006: RM14.3 million).

15 INVESTMENT IN ASSOCIATES

	Group		Company	
	2007 RM'000	**2006 RM'000**	**2007 RM'000**	**2006 RM'000**
Unquoted investment, at cost	4,141	231	29	29
Group's share of losses	(4,112)	(202)	–	–
	29	29	29	29

The details of the associates are as follows:

Name	**Country of incorporation**	**Group's effective equity interest 2007 %**	**2006 %**	**Principal activities**
AirAsia Philippines Inc	Philippines	39.9	39.9	Providing air transportation services
Held by Crunchtime and Thai AirAsia				
Thai Crunch Time Co. Ltd ("Thai Crunch Time")	Thailand	49.0	49.0	Provision of inflight meals
Held by AAIL				
PT Indonesia AirAsia ("IAA") (sub note (a))	Indonesia	48.9	48.9	Commercial air transport service
AirAsia Pte Ltd ("AAPL")	Singapore	48.9	48.9	Dormant

During the financial year, AAIL subscribed for an additional 9,800 ordinary shares of Rp1 million each in IAA due to the increase in the paid up capital for a consideration of RM3,910,200 (IDR9,800 million). There is no change to the Group's effective equity interest as the increase in the paid up capital was subscribed equally by all the shareholders based on their equity interest.

15 INVESTMENT IN ASSOCIATES (CONT'D)

The Group's share of revenue and profit of associates are as follows:

	2007 RM'000	2006 RM'000
Revenue	127,168	44,300
Loss after taxation	(27,268)	(23,845)

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

	2007 RM'000	2006 RM'000
Non-current assets	5,667	5,234
Current assets	15,310	4,055
Current liabilities	(44,896)	(28,795)
Non-current liabilities	(37,076)	(19,600)
Net liabilities	(60,995)	(39,106)

The Group discontinued recognition for its share of further losses made by Thai Crunch Time and IAA in the previous financial year as the Group's interest in these associates is reduced to zero and the Group has not incurred any obligations or guaranteed any obligations in respect of the associates. As at 30 June 2007, the unrecognised amount of the Group's share of losses of Thai Crunch Time and IAA amounted to RM0.1 million (2006: RM0.1 million) and RM60.4 million (2006: RM38.5 million) respectively.

16 OTHER INVESTMENTS

	Group and Company	
	2007 RM'000	2006 RM'000
Non-current:		
Recreational golf club membership	67	78
Current:		
Unquoted investment with a fund management company, at cost (Note 23)	34,136	30,696

17 GOODWILL

	Group RM'000
Cost	
At 30 June 2006/30 June 2007	8,738
Net book value	
At 1 July 2006/30 June 2007	8,738
At 1 July 2005	7,334
Acquisition of a subsidiary	1,404
At 30 June 2006	8,738

The Group undertook an annual test for impairment of its goodwill. The carrying amount of goodwill is allocated to the Group's cash generating unit, i.e. primarily the operations of the subsidiary's key investment. No impairment loss was required for the carrying amount of goodwill assessed as at 30 June 2007 as their recoverable amounts were in excess of their carrying amounts.

Key assumptions used in the value-in-use calculations

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

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

Impact of possible change in key assumptions

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

18 INVENTORIES

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Spare and consumables	8,720	9,686	8,720	9,686
Finished goods	792	892	242	182
	9,512	10,578	8,962	9,868

19 RECEIVABLES AND PREPAYMENTS

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Non-current:				
Long term prepayments (sub note (a))	46,484	36,388	46,484	36,388
Current:				
Trade receivables	15,722	32,461	15,722	32,461
Less: Allowance for doubtful debts	(1,994)	(1,389)	(1,994)	(1,389)
	13,728	31,072	13,728	31,072
Other receivables (sub note (b))	41,039	59,030	40,116	58,323
Less: Allowance for doubtful debts	(3,539)	(1,192)	(3,539)	(1,192)
	37,500	57,838	36,577	57,131
Prepayments	45,960	37,320	45,960	37,310
Deposits	211,762	150,608	211,762	150,589
	308,950	276,838	308,027	276,102

The normal credit terms of the Company range from 31 to 60 days (2006: 31 to 60 days).

19 TRADE AND OTHER RECEIVABLES (CONT'D)

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

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
RM	182,647	158,040	181,724	157,304
USD	126,152	118,798	126,152	118,798
Others	151	–	151	–
	308,950	276,838	308,027	276,102

(a) Included in long term prepayments are prepaid lease rental and guarantee fees paid in respect of financing obtained. These long term prepayments are charged to the income statements over the term of the lease of the low cost carrier terminal building and borrowings respectively.

(b) Included in other receivables is an amount due from the former holding company, HICOM Holdings Bhd ("HICOM"), of RM5.8 million as at 30 June 2007 (2006: RM5.8 million). The amount owing is unsecured, interest free and not subject to any fixed terms of repayment. This balance relates to a liability paid by the Company on behalf of HICOM, whereby the Company and HICOM would jointly bear the liability of the Company prior to the acquisition by Tune Air Sdn Bhd ('TASB') on a one to one basis.

20 AMOUNTS DUE FROM SUBSIDIARIES

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

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

	Company	
	2007 RM'000	2006 RM'000
Ringgit Malaysia	14,871	1,141
USD	–	39,320
	14,871	40,461

21 AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

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

22 AMOUNTS DUE FROM ASSOCIATES

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

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

	Group and Company	
	2007 RM'000	2006 RM'000
USD	76,294	63,645
SGD	1,138	3,916
	77,432	67,561

23 CASH AND CASH EQUIVALENTS

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Cash and bank balances	32,621	49,855	28,516	46,211
Deposits with licensed banks	259,125	198,309	259,125	198,309
Short-term deposits with fund management companies	303,497	177,477	303,497	177,477
Deposits, cash and bank balances	595,243	425,641	591,138	421,997
Deposits pledged as securities	(20,896)	(12,734)	(20,896)	(12,734)
	574,347	412,907	570,242	409,263

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

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Ringgit Malaysia	449,526	255,430	446,423	251,786
USD	137,779	166,428	136,777	166,428
IDR	2,236	3,536	2,236	3,536
SGD	3,591	247	3,591	247
HKD	9	–	9	–
EUR	2,102	–	2,102	–
	595,243	425,641	591,138	421,997

The unquoted investment of the Group and the Company (Note 16) and short-term deposits with a fund management company amounting to RM34.1 million and RM1.0 million (2006: RM30.7 million and RM3.2 million) of the Group and the Company respectively relate portfolio investments undertaken on behalf of the Group and the Company by Intrinsic Capital Management Sdn Bhd ("INCAM"), a company in which a Director of the Company has a financial interest. The Company paid RM88,156 of management fee to INCAM during the financial year (2006: RM231,861).

23 CASH AND CASH EQUIVALENTS (CONT'D)

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

	Group		Company	
	2007 %	2006 %	2007 %	2006 %
Deposits with licensed banks	3.47	3.79	3.47	3.79
Short-term deposits with fund management companies	3.05	2.40	3.05	2.40

Maturity of the deposits range from 30 to 365 days (2006: 30 to 365 days).

24 TRADE AND OTHER PAYABLES

	Group		Company	
	2007 RM'000	2006 RM'000 As restated	2007 RM'000	2006 RM'000 As restated
Trade payables	74,517	46,714	73,576	45,817
Withholding tax	47	10,437	47	10,437
Other payables and accruals	292,697	191,335	289,117	188,824
Sales in advance	190,535	123,134	183,431	123,134
	557,796	371,620	546,171	368,212

Credit terms of trade payables granted to the Company are 30 days (2006: 30 days). The currency exposure profile of trade and other payables is as follows:

	Group		Company	
	2007 RM'000	2006 RM'000 As restated	2007 RM'000	2006 RM'000 As restated
Ringgit Malaysia	543,661	339,957	532,036	336,549
USD	13,885	31,188	13,885	31,188
Others	250	475	250	475
	557,796	371,620	546,171	368,212

25 AMOUNTS DUE TO SUBSIDIARIES

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

26 HIRE-PURCHASE PAYABLES

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

	Group		Company	
	2007 RM'000	2006 RM'000	2007 RM'000	2006 RM'000
Hire-purchase liabilities:				
Minimum payments:				
– Not later than 1 year	90	179	90	155
– Later than 1 year and not later than 5 years	218	332	218	309
	308	511	308	464
Less: Future finance charges	(43)	(70)	(43)	(66)
Present value of liabilities	265	441	265	398
Present value of liabilities:				
– Not later than 1 year	77	153	77	133
– Later than 1 year and not later than 5 years	188	288	188	265
	265	441	265	398

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

As at 30 June 2007, the effective interest rate applicable to the lease liabilities was 3.75% (2006: 3.75%) per annum for the Group and Company. The entire balance is denominated in Ringgit Malaysia.

27 BORROWINGS (SECURED)

	Group and Company		
	Weighted average rate of finance	2007 RM'000	2006 RM'000
Current:			
Term loan	5.55%	145,536	265,360
Revolving credit facilities	5.15%	101,818	–
Finance lease liabilities	5.84%	3,743	–
		251,097	265,360
Non-current:			
Term loan	5.55%	2,237,888	787,276
Finance lease liabilities	5.84%	65,600	–
		2,303,488	787,276
Total borrowings		2,554,585	1,052,636

27 BORROWINGS (SECURED) (CONT'D)

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

	Group and Company	
	2007 RM'000	2006 RM'000
Not later than 1 year	251,097	265,360
Later than 1 year and not later than 5 years	651,848	264,624
Later than 5 years	1,651,640	522,652
	2,554,585	1,052,636

The entire borrowings are denominated in US Dollar.

As at the balance sheet date, the weighted average effective interest rate of the borrowings is 5.56% per annum (2006: 5.01%).

The above term loans are for the purchase of new A320-200 aircraft and simulator equipments. These term loans are secured by the following:

(a) Assignment of rights under contract with Airbus over each aircraft

(b) Assignment of insurance of each aircraft

(c) Assignment of airframe and engine warranties of each aircraft

(d) Assignment of simulator equipment and airframe engines

28 DEFERRED TAXATION

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

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

	Group and Company	
	2007 RM'000	2006 RM'000 As restated
Deferred tax assets	329,216	104,090

28 DEFERRED TAXATION (CONT'D)

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

	Group and Company 2007 RM'000	Group and Company 2006 RM'000 As restated
At start of year	104,090	(13,613)
Credited/(charged) to income statement (Note 10)		
– Property, plant and equipment	(54,491)	(24,916)
– Tax incentives	279,617	142,619
	225,126	117,703
At end of year	329,216	104,090
Deferred tax assets (before offsetting)		
Tax losses	10,272	10,272
Tax incentives	422,236	142,619
	432,508	152,891
Offsetting	(103,292)	(48,801)
Deferred tax assets (after offsetting)	329,216	104,090
Deferred tax liabilities (before offsetting)		
Property, plant and equipment	(103,292)	(48,801)
Offsetting	103,292	48,801
Deferred tax liabilities (after offsetting)	–	–

The Company had received approval from the Ministry of Finance under Section 127 of Income Tax Act, 1967 for income tax exemption in the form of an Investment Allowance ("IA") of 60% on qualifying expenditure incurred within a period of 5 years commencing 1 July 2004 to 30 June 2009, to be set off against 70% of statutory income for each year of assessment. Any unutilised allowance can be carried forward to subsequent years until fully utilised. The amount of income exempted from tax is credited to a tax-exempt account from which tax-exempt dividends can be declared.

29 SHARE CAPITAL

	Group and Company 2007 RM'000	2006 RM'000
Authorised:		
Ordinary shares of RM0.10 each:		
At beginning and end of the financial year	500,000	500,000
Issued and fully paid up:		
Ordinary shares of RM0.10 each:		
At beginning of the financial year	234,649	233,503
Issued during the financial year	1,428	1,146
At end of the financial year	236,077	234,649

During the financial year, the Company increased its issued and paid-up ordinary share capital from RM234,648,808 to RM236,076,708 by way of issuance of 14,279,000 ordinary shares of RM0.10 each pursuant to the exercise of the Employee Share Option Scheme ("ESOS") at the exercise price of RM1.08 per share. The premium arising from the exercise of ESOS of RM13,993,420 has been credited to the Share Premium account.

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

EMPLOYEE SHARE OPTION SCHEME ("ESOS")

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

The main features of the ESOS are as follows:

(a) The maximum number of ordinary shares, which may be allotted pursuant to the exercise of options under the Scheme, shall not exceed ten per cent (10.0%) of the issued and paid-up share capital of the Company at any point in time during the duration of the Scheme.

(b) The Option Committee may from time to time decide the conditions of eligibility to be fulfilled by an Eligible Person in order to participate in the Scheme.

(c) The aggregate number of shares to be offered to any Eligible Person who has fulfilled the eligibility criteria for the time being by way of options in accordance with the Scheme shall be at the discretion of the Option Committee. The Option Committee may consider circumstances such as the Eligible Person's scope of responsibilities, performance in the Group, rank or job grade, the number of years of service that the Eligible Person has rendered to the Group, the Group's retention policy and whether the Eligible Person is serving under an employment contract for a fixed duration or otherwise. The Option Committee's decision shall be final and binding.

29 SHARE CAPITAL (CONT'D)

EMPLOYEE SHARE OPTION SCHEME ("ESOS") (cont'd)

The main features of the ESOS are as follows:

(d) The maximum number of shares allocated to Executive Directors, Non-Executive Directors and senior management by way of options shall in aggregate not exceed fifty per cent (50.0%) of the total number of shares (or such other percentage as may be permitted by the relevant regulatory authorities from time to time) available under the Scheme.

(e) The subscription price, in respect of options granted prior to the date of listing in Bursa Malaysia, shall be RM1.08 per share.

(f) The options granted are exercisable one year beginning from the date of grant.

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

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

At 30 June 2007, options to subscribe for 48,669,000 (2006: 67,252,000) ordinary shares of RM0.10 each at the exercise price of RM1.08 per share remain unexercised.

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

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

Grant date	Expiry date	Exercise price RM/share	At 1 July 2006 '000	Granted '000	Exercised '000	Lapsed '000	At 30 June 2007 '000
1 September 2004	6 June 2009	1.08	67,252	–	(14,279)	(4,304)	48,669

	2007 '000	2006 '000
Number of share options vested at balance sheet date	3,334	9,738

29 SHARE CAPITAL (CONT'D)

EMPLOYEE SHARE OPTION SCHEME ("ESOS") (cont'd)

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

Exercise date	Quoted price of shares at share issue date RM/share	Exercise price RM/share	Number of shares issued 2007 '000
July 2006 to August 2006	1.27 – 1.52	1.08	1,018
September 2006 to December 2006	1.31 – 1.66	1.08	6,195
January 2007 to March 2007	1.40 – 1.82	1.08	3,128
March 2007 to June 2007	1.70 – 2.15	1.08	3,938
			14,279

	2007 RM'000	2006 RM'000
Ordinary share capital at par	1,428	1,146
Share premium	13,993	11,227
Proceeds received on exercise of share options	15,421	12,373
Fair value at exercise date of shares issued	22,961	18,700

30 RETAINED EARNINGS

The Company has sufficient tax credits under Section 108(6) of the Income Tax Act, 1967 to frank approximately RM14.6 million (2006: RM9.4 million) of its retained earnings as at 30 June 2007 if paid out as dividends. The extent of the retained earnings not covered at that date amounted to RM699.1 million (2006: RM135.7 million).

In addition, the Company has tax exempt income as at 30 June 2007 amounting to approximately RM0.5 million (2006: RM0.5 million) available for distribution as tax exempt dividends to shareholders. This tax exempt income is subject to the agreement by the Inland Revenue Board.

31 COMMITMENTS

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

	Group and Company	
	2007 RM'000	2006 RM'000
Property, plant and equipment:		
Approved and contracted for	18,405,482	6,805,533
Approved but not contracted for	98,664	99,928
	18,504,146	6,905,461
Property, plant and equipment:		
Share of a jointly controlled entity's capital commitments	14,972	3,266
Share of an associate's capital commitments	13,355	1,544

(b) Non-cancellable operating leases

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

	Company			
	2007		2006	
	Future minimum lease payments RM'000	Future minimum sublease receipts RM'000	Future minimum lease payments RM'000	Future minimum sublease receipts RM'000
Not later than 1 year	98,263	63,593	116,713	43,638
Later than 1 year and not later than 5 years	194,221	65,371	276,369	74,609
Later than 5 years	28,413	–	66,172	–
	320,897	128,964	459,254	118,247

32 NON-CASH TRANSACTIONS

No property, plant and equipment of the Company acquired during the financial year were obtained by means of hire purchase financing (2006: RM0.2 million).

33 CONTINGENT LIABILITIES

The Company is currently disputing certain expenses charged by a service provider as at 30 June 2007 amounting to approximately RM14.4 million (2006: RM9.6 million). The Directors are confident that resolution of the dispute above would be favourable to the Company.

Thai AirAsia Co. Ltd ("TAA"), a jointly controlled entity of the Group, has contingent liabilities relating to guarantees issued by banks in respect of company's pilot trainees loans in accordance with the pilot professional course amounting to RM6.7 million (2006: RM6.7 million) which will be terminated when the student pilot earns a commercial pilot license and is assigned as co-pilot, or whenever the pilot trainee can completely settle all outstanding debt with the bank. However, TAA can fully reclaim the said liabilities from the pilot trainees's guarantors as the guarantees have been pledged with TAA.

34 SEGMENTAL INFORMATION

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

35 SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to related party disclosures mentioned elsewhere in the financial statements, set out below are other significant related party transactions which were carried out on terms and conditions attainable in transactions with unrelated parties, disclosed in accordance with FRS 124_{2004} "Related Party Disclosures".

Name of company	**Relationship**
Thai AirAsia Co. Ltd ("Thai AirAsia")	A jointly controlled entity of the Company
PT Indonesia AirAsia ("IAA")	An associate of the Company

	Group	
	2007 RM'000	**2006 RM'000 As restated**
Thai AirAsia		
– Sublease rental income on aircrafts	33,099	20,414
– Lease rental income on aircrafts	18,009	19,578
– Maintenance and overhaul charges	84,539	72,313
IAA		
– Sublease rental income on aircrafts	15,722	11,538
– Lease rental income on aircrafts	13,336	10,521
– Maintenance and overhaul charges	54,768	36,237

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

		Group	
Related party	**Type of transaction**	**2007 RM'000**	**2006 RM'000**
Thai AirAsia	Lease and sublease rental and maintenance charges	92,182	26,750
IAA	Lease and sublease rental and maintenance charges	70,931	45,215

36 FINANCIAL RISK MANAGEMENT POLICIES

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

(a) Fuel price risk

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

As at the balance sheet date, the Company has entered into fuel written options contacts for 18,420,000 barrels (2006: 15,840,000 barrels) of jet fuel for the period from 1 July 2007 to 30 June 2010 (2006: 1 July 2007 to 30 June 2009). These arrangements are to be settled in US Dollars. The unrealised gain/(loss) on these contracts is monthly settled.

(b) Interest rate risk

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

The Company has entered into interest rate swap contracts that will effectively convert almost all of its floating rate debt under each of its long term debt facilities into fixed rate debt. Loans for approximately 8% of total long term debt are not covered by such swaps and have therefore remained at floating rates linked to London Inter Bank Offer Rate.

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

	2007 RM'000 equivalent	2006 RM'000 equivalent
Later than 5 years	3,435,091	6,519,114
	3,435,091	6,519,114

36 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(b) Interest rate risk (cont'd)

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

Financial Instruments	Functional currency/ currency exposure	Effective interest at balance sheet date % per annum	Total carrying amount RM'000	Floating interest rate RM'000	Fixed interest rate < 1 year RM'000	Fixed interest rate 1–5 years RM'000	Fixed interest rate > 5 years RM'000
Group							
30 June 2007							
Deposits with licensed bank	RM/RM	3.47	259,125	–	259,125	–	–
Short-term deposits with fund management companies	RM/RM	3.05	303,497	–	303,497	–	–
Term loans	RM/USD	5.55	(2,383,424)	(55,704)	(135,628)	(604,362)	(1,587,730)
Finance lease	RM/USD	5.84	(69,343)	–	(3,743)	(17,567)	(48,033)
Revolving credit	RM/USD	5.15	(101,818)	(101,818)	–	–	–
Hire-purchase	RM/RM	3.75	(265)	–	(64)	(201)	–
			(1,992,228)	(157,522)	423,187	(622,130)	(1,635,763)
30 June 2006							
Deposits with licensed bank	RM/RM	3.79	198,309	–	198,309	–	–
Short-term deposits with fund management companies	RM/RM	2.40	177,477	–	177,477	–	–
Term loans	RM/USD	5.01	(1,052,636)	(262,817)	(48,876)	(222,111)	(518,832)
Hire-purchase	RM/RM	3.75	(441)	–	(153)	(288)	–
			(677,291)	(262,817)	326,757	(222,399)	(518,832)

36 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(b) Interest rate risk (cont'd)

Financial Instruments	Functional currency/ currency exposure	Effective interest at balance sheet date % per annum	Total carrying amount RM'000	Floating interest rate RM'000	Fixed interest rate < 1 year RM'000	Fixed interest rate 1–5 years RM'000	Fixed interest rate > 5 years RM'000
Company							
30 June 2007							
Deposits with licensed bank	RM/RM	3.47	259,125	–	259,125	–	–
Short-term deposits with fund management companies	RM/RM	3.05	303,497	–	303,497	–	–
Term loans	RM/USD	5.55	(2,383,424)	(55,704)	(135,628)	(604,362)	(1,587,730)
Finance lease	RM/USD	5.84	(69,343)	–	(3,743)	(17,567)	(48,033)
Revolving credit	RM/USD	5.15	(101,818)	(101,818)	–	–	–
Hire-purchase	RM/RM	3.75	(265)	–	(64)	(201)	–
			(1,992,228)	(157,522)	423,187	(622,130)	(1,635,763)
30 June 2006							
Deposits with licensed bank	RM/RM	3.79	198,309	–	198,309	–	–
Short-term deposits with fund management companies	RM/RM	2.40	177,477	–	177,477	–	–
Term loans	RM/USD	5.01	(1,052,636)	(262,817)	(48,876)	(222,111)	(518,832)
Hire-purchase	RM/RM	3.75	(398)	–	(133)	(265)	–
			(677,248)	(262,817)	326,777	(222,376)	(518,832)

36 FINANCIAL RISK MANAGEMENT POLICIES (CONT'D)

(c) Foreign currency risk

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

The Company enters into forward foreign currency exchange contracts to limit its exposure on foreign currency receivables and payables. At 30 June 2007, the settlement dates on open forward contracts are in accordance with the loan instalment repayment dates (2006: between 1 and 8 months). The foreign currency amounts to be received and contractual exchange rates of the Company's outstanding contracts were as follows:

Hedge item	Currency to be received	Currency to be paid	RM'000 equivalent	Contractual rate
As at 30 June 2007	USD	MYR	2,963,341	3.183-3.369

The net unrecognised and unrealised losses at 30 June 2007 on open contracts which hedge future payments on term loans amounted to RM141.8 million (2006: RM2.0 million). These exchange losses are deferred until the related payments are transacted, at which time they are included in the measurement of such transactions.

(d) Credit risk

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

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

The Group generally has no concentration of credit risk except for debt owing by 2 customers which constitutes approximately 26.3% (2006: 23.6%) of the outstanding trade receivables at the end of 30 June 2007. The Directors are however of the opinion that adequate provision has been made for any uncollectible amounts.

(e) Market risk

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

(f) Liquidity and cash flow risks

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

37 FAIR VALUES OF FINANCIAL INSTRUMENTS FOR DISCLOSURE PURPOSES

On balance sheet financial instruments

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

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

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

	2007		2006	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
Group				
Borrowings (non-current portion)	2,303,488	2,280,002	787,276	774,164
Hire-purchase payables (non-current portion)	188	177	288	266
Company				
Borrowings (non-current portion)	2,303,488	2,280,002	787,276	774,164
Hire-purchase payables (non-current portion)	188	177	265	244

37 FAIR VALUES OF FINANCIAL INSTRUMENTS FOR DISCLOSURE PURPOSES (CONT'D)

Derivative financial instruments

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

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

(a) Fuel options contracts

	Maturity period	Contract or notional principal amount Barrels	Favourable net fair value RM'000	Unfavourable net fair value RM'000
Group and Company				
2007				
Fuel purchase options contracts	1.7.2007 – 30.6.2010	18,420,000	–	24,651
2006				
Fuel purchase options contracts	1.7.2007 – 30.6.2009	15,840,000	28,182	–

(b) Other derivatives

	2007		2006	
	Notional amount RM'000 equivalent	Fair value RM'000	Notional amount RM'000 equivalent	Fair value RM'000
Interest rate swaps	3,435,091	97,669	6,519,114	195,728
Foreign currency forward contracts	2,963,341	2,821,567	147,440	145,483

38 SUBSEQUENT EVENTS

(a) Acquisition shares in Fly Asian Xpress Sdn Bhd ('FAX')

On 20 July 2007, the Company entered into a Brand Licence Agreement ('Agreement') with FAX, for FAX to license from the Company the right to operate scheduled air services under the trade name and livery of AirAsia in respect of its budget long haul air services

The Agreement will provide a positive impact on the Company from the third year of FAX's operations and the ensuing years by guaranteeing a minimum of RM680,000.00 fees per annum with the opportunity for greater revenue if certain revenue threshold is met.

38 SUBSEQUENT EVENTS (CONT'D)

(a) Acquisition shares in Fly Asian Xpress Sdn Bhd ('FAX') (cont'd)

On September 2007, the Company entered into a definitive agreement for the subscription of shares with FAX for the Company to subscribe a total of 26,666,667 redeemable convertible preference shares Series 1 ('RCPS') of RM1.00 each at par in the capital of FAX, which will constitute 20.0% of the enlarged share capital of FAX following FAX's proposed capitalisation exercise. The subscription of the RCPS will be paid wholly in cash and is entirely funded from internal sources.

FAX is currently 80% owned by Aero Ventures Sdn Bhd (formerly known as Mangkin Masyhur Sdn Bhd), a company which both Dato' Anthony Francis Fernandes and Dato' Kamarudin Bin Meranun are substantial shareholders.

The Company also maintains an option to exercise a right to acquire additional shares in FAX to bring the Company's shareholding in FAX to thirty percent (30%). However, the additional 10% shares will be priced at the market valuation and not at par value.

(b) Acquisition of additional shares in AA International Limited

On 8 August 2007, the Company acquired the remaining balance of 10,000 shares representing 0.2% of the issued and paid up share capital in AA International Ltd for USD1.00. As a result AA International Ltd is now a wholly subsidiary of the Company.

39 CHANGES IN ACCOUNTING POLICIES

The following describes the impact of changes in accounting policies and of the new accounting standards, amendments to the published standards and IC interpretations adopted by the Group for financial year beginning on 1 July 2006 as listed in note 2(a) of the summary of significant accounting policies on basis of preparation of the financial statements.

(a) Irrelevant or immaterial effect on financial statements

The adoption of FRS 1, 2, 5, 102, 108, 110, 121, 127, 128, 131, 132, 133, 140 and the 'assets ceiling' amendments to FRS 119 did not result in significant changes to the Group's accounting policies. In summary:

- FRS 1 and 5 are not relevant to the Group's operation.
- FRS 2 requires recognition of share-based payment transactions including the value of share options in the financial statements. There was no financial impact following the propective application of FRS 2 with effect from 1 July 2006.
- FRS 102, 108, 110, amendment to FRS 119, 121, 127, 128, 131, 132, 133 and 140 and IC interpretations had no material impact on the Group's accounting policies.

(b) Reclassification of prior year comparatives

Set out below are changes in accounting policies that resulted in the reclassification of prior year comparatives but did not affect the recognition and measurement of Group's net assets:

- FRS 101 has affected the presentation of minority interests. Minority interests are now presented within total equity, separately from the parent shareholders equity in the consolidated balance sheet and as an allocation from net profit for the year in the consolidated income statement. The movement of minority interests is now presented in the consolidated statement of changes in equity.

- Under FRS 101, the Group's share of results of jointly controlled entities and associates are now presented net of tax in the consolidated income statement.

39 CHANGES IN ACCOUNTING POLICIES (CONT'D)

(c) Relevant effect from adoption of new accounting policies or changes in accounting policies

(i) FRS 3 'Business Combination', FRS 136 'Impairment of Assets' and FRS 138 'Intangible Assets'

The adoption of FRS 3, FRS 136 and FRS 138 has resulted in changes in accounting policy for goodwill. The accounting policy for goodwill is now extended to cover the following:

- Recognition of contingent liabilities and intangible assets as part of allocation of the cost of acquisition in determining goodwill arising from acquisition;
- Recognition of the excess in fair value of the net identifiable assets acquired over the cost of acquisition immediately to the consolidated income statement;
- Allocation of goodwill to cash generating units for the purpose of impairment testing. Each cash-generating unit represents the lowest level within the Group at which goodwill is monitored for internal management purposes and which are expected to benefit from the synergies of the combination;
- Impairment of goodwill is charged to the consolidated income statement as and when it arises and reversal is not allowed;
- The accounting for goodwill and fair value adjustment arising from the acquisition of a foreign entity are treated as assets and liabilities of the acquiring entity and are recorded at the exchange rate at the date of acquisition. This change is in accordance with the transitional provision of FRS 121.

The above changes in accounting policy have been applied prospectively for business combinations with agreements dated on or after 1 January 2006.

(ii) FRS 116 'Property, Plant and Equipment'

The adoption of FRS 116 has resulted in extension of the accounting policy on property, plant and equipment as follows:

- The cost of property, plant and equipment includes costs of dismantling, removal and restoration, the obligation incurred as a consequence of installing the assets;
- The assets' residual values and useful life are reviewed and adjusted as appropriate at least at each financial year-end;
- Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The Group has applied the aforesaid and no material adjustment resulted from this assessment.

(iii) Repair and maintenance expenditure

Aircraft maintenance and overhaul costs of leased aircraft were previously expensed as incurred. The Group has now changed the accounting policy for maintenance and overhaul costs for leased aircrafts by accruing these costs upfront on the basis of hours flown. The change is consistent with current industry practices based on a comparison with the practices of a number of airlines.

This change constitutes a change in accounting policy which has been applied in accordance with FRS108 'Accounting Policies, Changes in Accounting Estimates and Errors', i.e. applied retrospectively by recording a prior year adjustment for the accrual of repairs and maintenance expenses calculated in respect of hours already flown for prior periods. The effect of this change is detailed in Note 39(c)(v).

39 CHANGES IN ACCOUNTING POLICIES (CONT'D)

(c) Relevant effect from adoption of new accounting policies or changes in accounting policies (cont'd)

(iv) FRS 112 'Income Taxes'

With the removal of the relevant provisions in $FRS112_{2004}$ which explicitly prohibit the recognition of deferred tax on reinvestment allowance or other allowances in excess of capital allowance, entities can now account for these items either as tax credits or investment tax credits.

The Group has early adopted the revised standard and now accounts for investment tax allowances received upon acquisition of qualifying assets. The effect of this change is outlined in Note 39(c)(v).

(v) Effects of change in accounting policies

The effects of the change in accounting policies as mentioned in (iii) and (iv) above for the financial year ended 30 June 2006 is illustrated below:

			Effects of change in accounting policies		
	As previously reported RM'000	Reclassification (Note 4) RM'000	Repair and maintenance for leased aircraft RM'000	Early adoption of FRS 112 RM'000	As restated RM'000
Group					
Income statement for the financial year ended 30 June 2006					
Revenue	862,880	208,075	–	–	1,070,955
Cost of sales	(603,597)	(208,075)	(22,763)	–	(834,435)
Gross profit	259,283	–	(22,763)	–	236,520
Profit from operations	96,909	–	(22,763)	–	74,146
Share of results of jointly controlled entity	6,006	–	(6,580)	–	(574)
Profit before taxation	115,517	–	(29,343)	–	86,174
Taxation					
– Deferred taxation	(24,916)	–	–	142,619	117,703
Profit after taxation	88,426		(29,343)	142,619	201,702
Earnings per share (sen)					
– basic	3.8		(1.2)	6.0	8.6
– diluted	3.7		(1.2)	6.0	8.5

39 CHANGES IN ACCOUNTING POLICIES (CONT'D)

(c) Relevant effect from adoption of new accounting policies or changes in accounting policies (cont'd)

(v) Effects of change in accounting policies (cont'd)

	As previously reported RM'000	Reclassification (Note 4) RM'000	Effects of change in accounting policies: Repair and maintenance for leased aircraft RM'000	Effects of change in accounting policies: Early adoption of FRS 112 RM'000	As restated RM'000
Group					
Balance sheet as at 30 June 2006					
Retained earnings as at 1 July 2005	20,751	–	(17,491)	–	3,260
Retained earnings as at 30 June 2006	109,165	–	(46,834)	142,619	204,950
Investment in a jointly controlled entity	13,299	–	(13,299)	–	–
Amount due from a jointly controlled entity	26,750	–	56,381	–	83,131
Amount due from Associate	52,938	–	14,623	–	67,561
Trade and other payables	267,081	–	104,539	–	371,620
Deferred tax liabilities	38,529	–	–	(38,529)	–
Deferred tax asset	–	–	–	104,090	104,090

39 CHANGES IN ACCOUNTING POLICIES (CONT'D)

(c) Relevant effect from adoption of new accounting policies of changes in accounting policies (continued)

(v) Effects of change in accounting policies (cont'd)

			Effects of change in accounting policies		
	As previously reported RM'000	Reclassification (Note 4) RM'000	Repair and maintenance for leased aircraft RM'000	Early adoption of FRS 112 RM'000	As restated RM'000
Company					
Income statement for the financial year ended 30 June 2006					
Revenue	839,007	208,075	–	–	1,047,082
Cost of sales	(587,996)	(208,075)	(22,763)	–	(818,834)
Gross profit	251,011	–	(22,763)	–	228,248
Profit from operations	94,040	–	(22,763)	–	71,277
Profit before taxation	106,647	–	(22,763)	–	83,884
Taxation					
– Deferred taxation	(24,916)	–	–	142,619	117,703
Net profit for the financial year	79,556	–	(22,763)	142,619	199,412
Profit attributable to equity holders of the Company	79,556	–	(22,763)	142,619	199,412
Balance sheet as at 30 June 2006					
Retained earnings as at 1 July 2005	26,978	–	(10,772)	–	16,206
Retained earnings as at 30 June 2006	106,534	–	(33,535)	142,619	215,618
Amount due from a jointly controlled entity	–	–	43,811	–	43,811
Amount due from associate	52,938	–	14,623	–	67,561
Trade and other payables	263,673	–	104,539	–	368,212
Deferred tax liabilities	38,529	–	–	(38,529)	–
Deferred tax asset	–	–	–	104,090	104,090

39 CHANGES IN ACCOUNTING POLICIES (CONT'D)

(c) Relevant effect from adoption of new accounting policies of changes in accounting policies (continued)

(v) Effects of change in accounting policies (cont'd)

The effects of the change in accounting policies as mentioned in (iii) and (iv) above for the financial year ended 30 June 2007 is illustrated below:

		Effects of change in accounting policies	
	Reclassification (Note 4) RM'000	Repair and maintenance for leased aircraft RM'000	Early adoption of FRS 112 RM'000
Group			
Income statement for the financial year ended 30 June 2007			
Revenue	469,214	–	–
Cost of sales	(469,214)	(22,628)	–
Gross profit	–	(22,628)	–
Profit from operations	–	(22,628)	–
Share of results of jointly controlled entity	–	764	–
Profit before taxation	–	(21,864)	–
Taxation			
– Deferred taxation	–	–	280,351
Profit after taxation		(21,864)	280,351
Earnings per share (sen)			
– basic	–	(1.0)	11.9
– diluted	–	(1.0)	11.8
Balance sheet as at 30 June 2007			
Retained earnings as at 30 June 2007	–	(68,698)	422,970
Investment in a jointly controlled entity	–	(12,535)	–
Amount due from a jointly controlled entity	–	69,504	–
Amount due from Associate	–	20,627	–
Trade and other payables	–	146,296	–
Deferred tax liabilities	–	–	(93,754)
Deferred tax asset	–	–	329,216

39 CHANGES IN ACCOUNTING POLICIES (CONT'D)

(c) Relevant effect from adoption of new accounting policies of changes in accounting policies (continued)

(v) Effects of change in accounting policies (cont'd)

	Reclassification (Note 4) RM'000	Effects of change in accounting policies: Repair and maintenance for leased aircraft RM'000	Effects of change in accounting policies: Early adoption of FRS 112 RM'000
Company			
Income statement for the financial year ended 30 June 2007			
Revenue	469,214	–	–
Cost of sales	(469,214)	(22,628)	–
Gross profit	–	(22,628)	–
Profit from operations	–	(22,628)	–
Profit before taxation	–	(22,628)	–
Taxation			
– Deferred taxation	–	–	280,351
Net profit for the financial year	–	(22,628)	280,351
Profit attributable to equity holders of the Company	–	(22,628)	280,351
Balance sheet as at 30 June 2007			
Retained earnings as at 30 June 2007	–	(56,165)	422,970
Amount due from a jointly controlled entity	–	69,504	–
Amount due from associate	–	20,627	–
Trade and other payables	–	146,296	–
Deferred tax liabilities	–	–	(93,754)
Deferred tax asset	–	–	329,216

40 APPROVAL OF FINANCIAL STATEMENTS

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 4 October 2007.

STATEMENT BY

DIRECTORS

pursuant to Section 169(15) of the Companies Act, 1965

We, **Dato' Anthony Francis Fernandes** and **Dato' Kamarudin Bin Meranun,** being two of the Directors of AirAsia Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 88 to 149 are drawn up so as to give a true and fair view of the state of affairs of the Group and Company as at 30 June 2007 and of the results and the cash flows of the Group and Company for the financial year ended on that date in accordance with the provisions of the Companies Act, 1965 and the FRSs, the MASB approved accounting standards in Malaysia for Entities Other than Private Entities.

In accordance with a resolution of the Board of Directors dated 4 October 2007.

DATO' ANTHONY FRANCIS FERNANDES
Director

DATO' KAMARUDIN BIN MERANUN
Director

STATUTORY

DECLARATION

pursuant to Section 169(16) of the Companies Act, 1965

I, **Rozman Bin Omar,** the Officer primarily responsible for the financial management of AirAsia Berhad, do solemnly and sincerely declare that the financial statements set out on pages 88 to 149 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

ROZMAN BIN OMAR

Subscribed and solemnly declared by the abovenamed Rozman Bin Omar at Kuala Lumpur in Malaysia on 4 October 2007, before me.

S. SELVARAJAH (B144)
Commissioner For Oaths

REPORT OF THE AUDITORS to the members of AirAsia Berhad

We have audited the financial statements set out on pages 88 to 149. These financial statements are the responsibility of the Company's Directors. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you, as a body, in accordance with section 174 of the Companies Act, 1965 and for no other purpose. We do not assume responsibility to any other person for the content of this report.

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

In our opinion:

(a) the financial statements have been prepared in accordance with the provisions of the Companies Act, 1965 and the FRSs, the MASB approved accounting standards in Malaysia so as to give a true and fair view of:

  (i) the matters required by Section 169 of the Companies Act, 1965 to be dealt with in the financial statements; and

  (ii) the state of affairs of the Group and Company as at 30 June 2007 and of the results and cash flows of the Group and Company for the financial year ended on that date; and

(b) the accounting and other records and the registers required by the Act to be kept by the Company and by the subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.

The names of the subsidiaries of which we have not acted as auditors are indicated in Note 13 to the financial statements. We have considered the financial statements of these subsidiaries and the auditors' reports thereon.

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

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

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

SRIDHARAN NAIR
(No. 2656/05/08 (J))
Partner of the firm

Kuala Lumpur
4 October 2007

ANALYSIS OF

SHAREHOLDINGS as at 24 September 2007

DISTRIBUTION OF SHAREHOLDINGS

Class of shares : Ordinary shares of RM0.10 each ("Shares")

Voting rights : One vote per ordinary share

Shareholdings	No. of Shareholders	% of Shareholders	No. of Shares	% of Issued Share Capital
Less than 100	32	0.20	659	0.00
100 – 1,000	5,432	34.13	5,120,920	0.22
1,001 – 10,000	8,507	53.45	34,368,201	1.45
10,001 – 100,000	1,513	9.51	46,537,207	1.97
100,001 to less than 5% of issued shares	430	2.70	1,332,749,611	56.42
5% and above of issued shares	2	0.01	943,398,982	39.94
	15,916	100.0	2,362,175,580	100.0

SUBSTANTIAL SHAREHOLDERS

The direct and indirect shareholdings of the shareholders holding more than 5% in AirAsia Berhad based on the Register of Substantial Shareholders are as follows:-

	<----------------Direct---------------->		<--------------Indirect-------------->	
Name	No. of Shares Held	% of Issued Shares	No. of Shares Held	% of Issued Shares
Tune Air Sdn Bhd	729,458,382	30.88	–	–
Dato' Anthony Francis Fernandes	2,627,010	0.11	729,458,382 [1]	30.88
Dato' Kamarudin bin Meranun	1,692,900	0.07	729,458,382 [1]	30.88
T. Rowe Price Associates, Inc.	–	–	193,193,500 [2]	8.18
1) FMR Corp. 2) Fidelity International Limited and their direct and its indirect subsidiaries	–	–	160,161,900 [3]	6.78

1 *Deemed interested by virtue of Section 6A of the Companies Act, 1965 ("the Act") through a shareholding of more than 15% in Tune Air Sdn Bhd ("TASB").*

2 *T. Rowe Price Associates, Inc. is deemed interested to have an interest in 193,193,500 ordinary shares in AirAsia by virtue of the shares held by the following registered holders:-*

1) *HSBC Nominees (Asing) Sdn Bhd, BNY Brussels for VFM Emerging Markets Trust in respect of 1,534,500 ordinary shares in AirAsia;*

2) *HSBC Nominees (Asing) Sdn Bhd, BNY Brussels for Alaska Permanent Fund Corp in respect of 1,178,600 ordinary shares in AirAsia;*

3) *HSBC Nominees (Asing) Sdn Bhd, Exempt AN for JPMorgan Chase Bank National Association (USA) for TRP Institutional Emerging Markets Fund in respect of 1,745,300 ordinary shares in AirAsia;*

4) *Citigroup Nominees (Asing) Sdn Bhd, Mellon Bank, N.A. for Commonwealth of Massachusetts Pension Reserve Investment in respect of 2,369,900 ordinary shares in AirAsia;*

5) *Citigroup Nominees (Asing) Sdn Bhd, Mellon Bank, N.A. for Sovereign Emerging Markets Equity Pool in respect of 567,600 ordinary shares in AirAsia;*

SUBSTANTIAL SHAREHOLDERS (CONT'D)

6) *Citigroup Nominees (Asing) Sdn Bhd, Mellon Bank, N.A. for Virginia Retirement System in respect of 3,360,100 ordinary shares in AirAsia;*

7) *Cartaban Nominees (Asing) Sdn Bhd, State Street London Fund JY63 for The Emerging Markets Equity Fund (RIC Plc) in respect of 3,109,300 ordinary shares in AirAsia;*

8) *HSBC Nominees (Asing) Sdn Bhd, Exempt AN for JPMorgan Chase Bank National Association (USA) for TRP International Discovery Fund in respect of 21,402,900 ordinary shares in AirAsia;*

9) *Cartaban Nominees (Asing) Sdn Bhd, SSBT Fund NCP9 Public Employees Retirement System of Ohio in respect of 1,909,900 ordinary shares in AirAsia.*

10) *Cartaban Nominees (Asing) Sdn Bhd, SSBT Fund 6QH3 for Russell Emerging Markets Fund (FRTC CEBFT) in respect of 804,900 ordinary shares in AirAsia;*

11) *Cartaban Nominees (Asing) Sdn Bhd, SSBT Fund TC3I for California State Teachers Retirement System in respect of 12,414,900 ordinary shares in AirAsia;*

12) *HSBC Nominees (Asing) Sdn Bhd, Exempt AN for JPMorgan Chase Bank National Association (USA) for TRP Emerging Markets Stock Fund in respect of 24,014,200 ordinary shares in AirAsia;*

13) *HSBC Nominees (Asing) Sdn Bhd, Exempt AN for JPMorgan Chase Bank National Association (USA) for TRP New Asia Fund in respect of 92,474,700 ordinary shares in AirAsia;*

14) *HSBC Nominees (Asing) Sdn Bhd, TNTC for A.I. DuPont Testamentary Trust in respect of 752,900 ordinary shares in AirAsia;*

15) *Cartaban Nominees (Asing) Sdn Bhd, SSBT Fund CHE4 for Emerging Markets Fund (FR RUSSL INV Co) in respect of 1,587,500 ordinary shares in AirAsia;*

16) *HSBC Nominees (Asing) Sdn Bhd, Exempt AN for JPMorgan Bank Luxembourg S.A. for TRP SICAV Asia Ex-Japan Fund in respect of 93,600 ordinary shares in AirAsia;*

17) *HSBC Nominees (Asing) Sdn Bhd, Exempt AN for JPMorgan Chase Bank National Association (USA) for TRP Emerging Markets Equity Trust in respect of 17,681,400 ordinary shares in AirAsia;*

18) *HSBC Nominees (Asing) Sdn Bhd, Exempt AN for JPMorgan Bank Luxembourg S.A. for TRP SICAV Global Emerging Markets Fund in respect of 6,191,300 ordinary shares in AirAsia;*

[3] *FMR Corp. & Fidelity International Limited and their direct and its indirect subsidiaries are deemed interested to have an interest in 160,161,900 ordinary shares in AirAsia by virtue of the shares held by the following registered holders:-*

1) *FID FDS – Southeast Asia Pool Brown Bros Harriman Ltd Lux*
2) *Equitable Adv. Trust FI T2203, JP Morgan Chase Bank*
3) *JNL/FMR Capital Growth T55194, Mellon Bank NA*
4) *Metlife FI Midcap Oppor T55199, State Street Bank and TR Co*
5) *VIP III Growth Opportunities, Mellon Bank NA*
6) *FA Growth Opportunities Fund, Mellon Bank NA*
7) *Fidelity Fifty Fund, Citibank NA*
8) *FA Fidelity Fifty Fund, Brown Bros Harriman Ltd Lux*
9) *FA Fifty Fund, Brown Brothers Harriman and Co*
10) *Fidelity South East Asia Fund, JP Morgan Bournemouth*
11) *FID Southeast Asia Fund, JP Morgan Chase Bank*
12) *FA Mid Cap Stock Fund, Brown Bros Harriman Ltd Lux*
13) *FID Southeast Asia Fund, Northern Trust Co*

DIRECTORS' SHAREHOLDINGS

The interests of the Directors of AirAsia Berhad in the Shares and options over shares in the Company and its related corporations based on the Company's Register of Directors' Shareholdings are as follows:-

	<-------Direct------->		<-------Indirect------->	
	No. of Shares Held	% of Issued Shares	No. of Shares Held	% of Issued Shares
Dato' Pahamin Ab. Rajab	2,990,875	0.13	–	–
Dato' Anthony Francis Fernandes	2,627,010	0.11	729,458,382 [1]	30.88
Dato' Kamarudin Bin Meranun	1,692,900	0.07	729,458,382 [1]	30.88
Conor Mc Carthy	28,761,403	1.22	–	–
Dato' Leong Sonny @ Leong Khee Seong	100,000	–*	–	–
Tan Sri Dato' (Dr.) R. V. Navaratnam	–	–	–	–
Fam Lee Ee	200,000	0.01	–	–
Abdel Aziz @ Abdul Aziz Bin Abu Bakar	–	–	–	–
Datuk Alias Bin Ali	–	–	–	–
Dato' Mohamed Khadar Bin Merican	–	–	–	–

Notes:

* *Negligible.*

[1] *Deemed interested by virtue of Section 6A of the Act, through a shareholding of more than 15% in TASB*

The interests of Directors in options over unissued ordinary shares of RM0.10 each of the Company:-

	Price Per Option Share	No. of Option Shares
Dato' Anthony Francis Fernandes	RM1.08	600,000
Dato' Kamarudin Bin Meranun	RM1.08	600,000

\# The options held over ordinary shares in the Company were granted on 1 September 2004 pursuant to the Company's Employee Share Option Scheme approved by the shareholders on 7 June 2004.

None of the Directors have any interests in the shares or options of the subsidiaries of the Company other than as disclosed above.

THIRTY (30) LARGEST SHAREHOLDERS

	Name of Shareholders	No. of Shares Held	% of Issued Share Capital
1	Tune Air Sdn Bhd	715,458,382	30.29
2.	HSBC Nominees (Asing) Sdn Bhd *Exempt AN for JPMorgan Chase Bank, National Association (U.S.A.)*	227,940,600	9.65
3.	HSBC Nominees (Asing) Sdn Bhd *BBH and Co Boston for Fidelity Advisor MID Cap Fund (FIDADV SER I)*	110,984,300	4.70
4.	HSBC Nominees (Asing) Sdn Bhd *Exempt AN for Morgan Stanley & Co. International PLC*	95,560,500	4.05
5.	Employees Provident Fund Board	93,553,300	3.96
6.	HSBC Nominees (Asing) Sdn Bhd *BBH (LUX) SCA for Genesis Smaller Companies*	71,413,000	3.02
7.	Cartaban Nominees (Asing) Sdn Bhd *SSBT Fund HG08 for American Funds Insurance Series Asset Allocation*	53,665,000	2.27
8.	HSBC Nominees (Asing) Sdn Bhd *BBH and Co Boston for the Nomad Investment Partnership LP Cayman*	50,449,300	2.14
9.	Cartaban Nominees (Asing) Sdn Bhd *SSBT Fund HG22 for Smallcap World Fund, Inc*	42,143,800	1.78
10.	HSBC Nominees (Asing) Sdn Bhd *Exempt AN for J.P. Morgan Bank Luxembourg S.A.*	41,984,100	1.78
11.	Lembaga Tabung Haji	38,982,230	1.65
12.	ECM Libra Avenue Securities Sdn Bhd *IVT(AO2) for ECM Libra Avenue Securities Sdn Bhd (Account 1)*	30,000,000	1.27
13.	HSBC Nominees (Asing) Sdn Bhd *Exempt AN for Credit Suisse (SG BR-TST-Asing)*	28,661,403	1.21
14.	Citigroup Nominees (Asing) Sdn Bhd *Exempt AN for Prudential Assurance Malaysia Berhad*	25,555,600	1.08
15.	HSBC Nominees (Asing) Sdn Bhd *Exempt AN for Morgan Stanley & Co. Incorporated*	25,168,600	1.07
16.	Citigroup Nominees (Asing) Sdn Bhd *Exempt AN for American International Assurance Company Limited*	24,258,400	1.03
17.	Citigroup Nominees (Asing) Sdn Bhd *Exempt AN for Mellon Bank (Mellon)*	21,762,000	0.92
18.	Citigroup Nominees (Asing) Sdn Bhd *CBNY for Vanguard Explorer Fund*	19,230,000	0.81
19.	HSBC Nominees (Asing) Sdn Bhd *BBH and Co Boston for Merrill Lynch Global Small Cap Fund Inc.*	19,164,700	0.81
20.	Cartaban Nominees (Asing) Sdn Bhd *Investors Bank and Trust Company for William Blair Emerging Markets Growth Fund*	18,760,000	0.79
21.	Cartaban Nominees (Asing) Sdn Bhd *Mitsubishi UFJ for Asia Pacific Performance Fund*	18,587,700	0.79
22.	Cartaban Nominees (Asing) Sdn Bhd *SSBT Fund FN81 for FI Mid Cap Opportunities Portfolio (Metropolitan)*	17,897,400	0.76
23.	HSBC Nominees (Asing) Sdn Bhd *Exempt AN for JPMorgan Chase Bank, National Association (U.A.E)*	14,331,200	0.61
24.	EB Nominees (Tempatan) Sendirian Berhad *Pledged Securities Account for Tune Air Sdn Bhd (KLM)*	14,000,000	0.59
25.	Cimsec Nominees (Tempatan) Sdn Bhd *CIMB Bank Berhad (ETP)*	13,633,400	0.58
26.	Citigroup Nominees (Asing) Sdn Bhd *CB LDN for First State Asia Pacific Fund*	13,141,800	0.56
27.	Cartaban Nominees (Asing) Sdn Bhd *SSBT Fund SW80 for California Public Employees Retirement System*	13,087,100	0.55
28.	HSBC Nominees (Asing) Sdn Bhd *Exempt AN for JPMorgan Chase Bank, National Association (Norges Bank)*	12,565,900	0.53
29.	Cartaban Nominees (Asing) Sdn Bhd *SSBT Fund TC31 for California State Teachers Retirement System*	12,414,900	0.53
30.	Cartaban Nominees (Asing) Sdn Bhd *State Street Luxembourg Fund A5HK for AXA World Funds-Talents Bricks*	9,986,500	0.42

LIST OF

PROPERTIES HELD

Save as disclosed below, as at 30 June 2007, neither the Company nor any of its subsidiaries owned any land or building:

Owner of building	Postal address/ location of building	Description/ existing use of building	Tenure/ Date of expiry of lease	Build up area	Approximate age of building	Audited net book value as at 30 June 2007 (RM'000)
AirAsia Berhad	Taxiway Charlie, Kuala Lumpur International Airport (part of PT 39 Bandar Lapangan Terbang Antarabangsa Sepang, Daerah Sepang, Selangor Darul Ehsan)	Non–permanent structure/ aircraft maintenance hangar	See Note 2 below	Approximately 43 meters wide and 48 meters depth, together with an auxillary building 5.45 meters wide and 21 meters in length	Approximately 45 months	1,928
AirAsia Berhad	Lot PT25, Jalan KLIA S5, Southern Support Zone, KL International Airport, 64000 Malaysia	Aircraft Simulator building	30 years/ 31 March 2034	4,996.58 metre^2	Approximately 25 months	12,717

Notes:

(1) On the fitness of occupation of the hangar, it is the subject of a year-to-year "Kelulusan Permit Bangunan Sementara" issued by the Majlis Daerah Sepang. The permit has been renewed and will expire on 31 December 2007.

(2) The land area occupied is approximately 2,319.70 square meters. The land is owned by Malaysia Airports (Sepang) Sdn Bhd ("MAB") and the Company has been granted a five year tenancy from 1 October 2003 to 30 September 2008 ("Concession Period").

Revaluation of properties has not been carried out on any of the above properties to date.

NOTICE OF

ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Fourteenth Annual General Meeting of AirAsia Berhad (284669-W) ("the Company") will be held at AirAsia Academy, Lot PT25B, Jalan KLIA S5, Southern Support Zone, Kuala Lumpur International Airport, 64000 Sepang, Selangor Darul Ehsan on Thursday, 22 November 2007 at 10.00 a.m. for the following purposes:

AS ORDINARY BUSINESS

1. To receive and consider the Audited Financial Statements together with the Reports of the Directors and Auditors thereon for the year ended 30 June 2007. **(Resolution 1)**

2. To approve Directors' Fees of RM695,766.00 for the financial year ended 30 June 2007. **(Resolution 2)**

3. To re-elect the following Directors who retire pursuant to Article 125 of the Company's Articles of Association:
   a) Mr. Conor Mc Carthy **(Resolution 3)**
   b) Dato' Leong Sonny @ Leong Khee Seong **(Resolution 4)**
   c) Mr. Fam Lee Ee **(Resolution 5)**

4. To re-elect the following Director who retire pursuant to Article 130 of the Company's Articles of Association: **(Resolution 6)**
   a) Dato' Mohamed Khadar bin Merican

5. To consider and, if thought fit, pass the following resolution pursuant to Section 129 of the Companies Act, 1965:

   "THAT Tan Sri Dato' (Dr.) R. V. Navaratnam, retiring in accordance with Section 129 of the Companies Act, 1965, be and is hereby re-appointed as a Director of the Company to hold office until the next Annual General Meeting" **(Resolution 7)**

6. To re-appoint Messrs PricewaterhouseCoopers as Auditors of the Company and to authorise the Directors to fix their remuneration. **(Resolution 8)**

AS SPECIAL BUSINESS

7. To consider and if thought fit, to pass, with or without modifications, the following Ordinary Resolution:

   "THAT, subject always to the Companies Act, 1965, the Articles of Association of the Company and the approvals of the relevant governmental/regulatory authorities, the Directors be and they are hereby authorised, pursuant to Section 132D of the Companies Act, 1965 to allot and issue shares in the Company at any time until the conclusion of the next Annual General Meeting and upon such terms and conditions and for such purposes as the Directors may, in their absolute discretion, deem fit provided that the aggregate number of shares to be issued does not exceed 10 per centum of the issued share capital of the Company for the time being" **(Resolution 9)**

OTHER ORDINARY BUSINESS

8. To transact any other business of which due notice shall have been given.

By Order of the Board

JASMINDAR KAUR A/P SARBAN SINGH (MAICSA 7002687)
Company Secretary

Selangor Darul Ehsan
29 October 2007

Notes on Appointment of Proxy

a. Pursuant to the Securities Industry (Central Depositories) (Foreign Ownership) Regulations 1996 and Article 43(1) of the Company's Articles of Association, only those Foreigners (as defined in the Articles) who hold shares up to the current prescribed foreign ownership limit of 45.0% of the total issued and paid-up capital, on a first-in-time basis based on the Record of Depositors to be used for the forthcoming Annual General Meeting, shall be entitled to vote. Consequently, a proxy appointed by a Foreigner not entitled to vote, will similarly not be entitled to vote, and such disenfranchised voting rights shall be automatically vested in the Chairman of the forthcoming Annual General Meeting.

b. A member entitled to attend and vote is entitled to appoint a proxy (or in the case of a corporation, to appoint a representative), to attend and vote in his stead. A proxy need not be a member of the Company.

c. The Proxy Form in the case of an individual shall be signed by the appointor or his attorney, and in the case of a corporation, either under its common seal or under the hand of an officer or attorney duly authorised.

d. Where a member appoints two proxies, the appointment shall be invalid unless he specifies the proportion of his shareholdings to be represented by each proxy.

e. Where a member of the Company is an authorised nominee it may appoint at least one but not more than two (2) proxies in respect of each securities account it holds to which ordinary share in the Company are credited.

f. The Proxy Form or other instruments of appointment shall not be treated as valid unless deposited at the Registered Office of the Company at 25-5, Block H, Jalan PJU 1/37, Dataran Prima, 47301 Petaling Jaya, Selangor Darul Ehsan not less than forty-eight (48) hours before the time set for holding the meeting. Faxed copies of the duly executed form of proxy are not acceptable.

Explanatory Note to Special Business:

The Ordinary Resolution proposed under Resolution 9 above, if passed, will empower the Directors to allot and issue new ordinary shares up to 10% of the issued capital of the Company for the time being for such purposes as the Directors consider would be in the interest of the Company. This authority will commence from the date of this Annual General Meeting and unless revoked or varied by the Company at a general meeting, will expire at the conclusion of the next Annual General Meeting of the Company.

STATEMENT ACCOMPANYING NOTICE OF FOURTEENTH ANNUAL GENERAL MEETING

Pursuant to Paragraph 8.28(2) of the Listing Requirements of Bursa Malaysia Securities Berhad

1. Details of attendance of Directors at Board Meetings are set out in the Statement of Corporate Governance from pages 72 to 75 of this Annual Report.

2. The following are the Directors standing for re-election and re-appointment at the Fourteenth Annual General Meeting of the Company:

   a) Pursuant to Article 125 of the Articles of Association of the Company

      i) Mr. Conor Mc Carthy
      ii) Dato' Leong Sonny @ Leong Khee Seong
      iii) Mr. Fam Lee Ee

   b) Pursuant to Article 130 of the Articles of Association of the Company

      i) Dato' Mohamed Khadar bin Merican

   c) Pursuant to Section 129 of the Companies Act, 1965

      i) Tan Sri Dato' (Dr.) R. V. Navaratnam

3. Profile of Directors

   Details of the Directors who are standing for re-election and re-appointment are set out in the Directors' Profile from pages 56 to 59 of this Annual Report and information on their shareholding (if any) are disclosed on pages 152 to 155 of this Annual Report.

FORM OF

PROXY

AIRASIA BERHAD

(Company No. 284669–W)
Incorporated in Malaysia

I/We ______________________________ NRIC No./Co No.: ______________
(FULL NAME IN BLOCK LETTERS) (COMPULSORY)

of ____ being a
(ADDRESS)

member of AIRASIA BERHAD ("the Company") hereby appoint ______________________________
(FULL NAME IN BLOCK LETTERS)

NRIC No.: ______________ of ______________________________
(COMPULSORY) (ADDRESS)

and/or ______________________________ NRIC No.: ______________
(FULL NAME IN BLOCK LETTERS) (COMPULSORY)

of ____ as my/our proxy(ies) to
(ADDRESS)

vote in my/our name and on my/our behalf at the Fourteenth Annual General Meeting of the Company to be held on Thursday, 22 November 2007 at 10.00 a.m. and at any adjournment of such meeting and to vote as indicated below:

Ordinary Resolution	Description	FOR	AGAINST
No. 1	Receive the Audited Financial Statements and Reports		
No. 2	Approval of Directors' Fees		
No. 3	Re-election of Mr. Conor Mc Carthy		
No. 4	Re-election of Dato' Leong Sonny @ Leong Khee Seong		
No. 5	Re-election of Mr. Fam Lee Ee		
No. 6	Re-election of Dato' Mohamed Khadar bin Merican		
No. 7	Re-appointment of Tan Sri Dato' (Dr.) R. V. Navaratnam		
No. 8	Re-appointment of Auditors		
No. 9	Special Business Authority to issue of shares pursuant to Section 132D of the Companies Act, 1965		

*(Please indicate with an **"X"** in the spaces provided how you wish your votes to be cast. If you do not do so, the proxy will vote or abstain from voting as he thinks fit)*

No. of Shares held:	
CDS Account No.:	
The proportion of my/our holding to be represented by my/our proxies are as follows:	First Proxy : ________ % Second Proxy : ________ %
Date:	

____
Signature of Shareholder/Common Seal

Notes to Form of Proxy

a. Pursuant to the Securities Industry (Central Depositories) (Foreign Ownership) Regulations 1996 and Article 43(1) of the Company's Articles of Association, only those Foreigners (as defined in the Articles) who hold shares up to the current prescribed foreign ownership limit of 45.0% of the total issued and paid-up capital, on a first-in-time basis based on the Record of Depositors to be used for the forthcoming Annual General Meeting, shall be entitled to vote. Consequently, a proxy appointed by a Foreigner not entitled to vote, will similarly not be entitled to vote, and such disenfranchised voting rights shall be automatically vested in the Chairman of the forthcoming Annual General Meeting.

b. A member entitled to attend and vote is entitled to appoint a proxy (or in the case of a corporation, to appoint a representative), to attend and vote in his stead. A proxy need not be a member of the Company.

c. The Proxy Form in the case of an individual shall be signed by the appointor or his attorney, and in the case of a corporation, either under its common seal or under the hand of an officer or attorney duly authorised.

d. Where a member appoints two proxies, the appointment shall be invalid unless he specifies the proportion of his shareholdings to be represented by each proxy.

e. Where a member of the Company is an authorised nominee it may appoint at least one but not more than two (2) proxies in respect of each securities account it holds to which ordinary shares in the Company are credited.

f. The Proxy Form or other instruments of appointment shall not be treated as valid unless deposited at the Registered Office of the Company at 25-5, Block H, Jalan PJU 1/37, Dataran Prima, 47301 Petaling Jaya, Selangor Darul Ehsan not less than forty-eight (48) hours before the time set for holding the meeting. **Faxed copies of the duly executed form of proxy are not acceptable.**

Fold here

Stamp

Company Secretary

AirAsia Berhad

(Company No. 2884669–W)

25–5, Block H, Jalan PJU 1/37

Dataran Prima

47301 Petaling Jaya

Selangor Darul Ehsan

Malaysia

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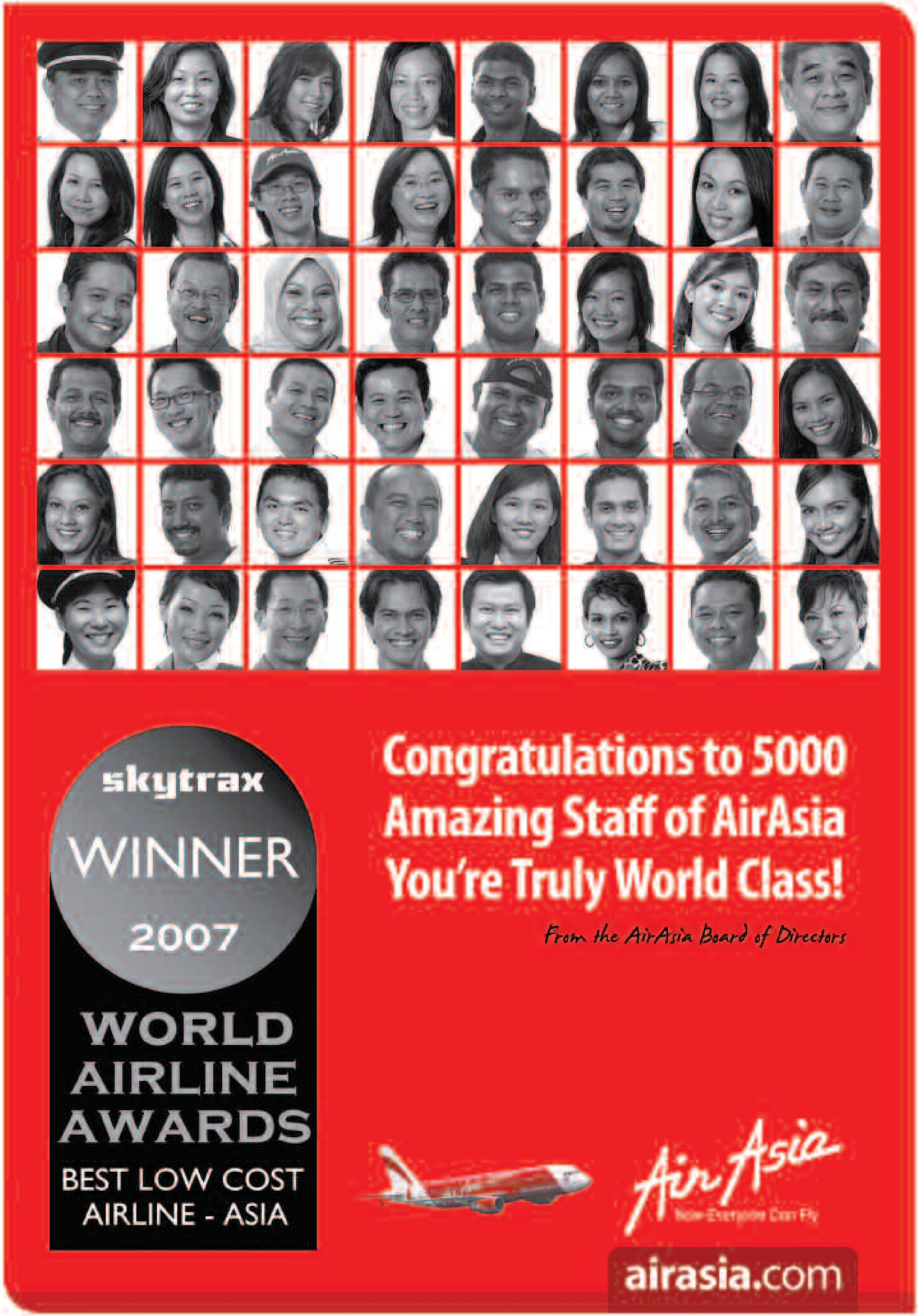
skytrax
WINNER
2007
WORLD AIRLINE AWARDS
BEST LOW COST AIRLINE - ASIA
Congratulations to 5000 Amazing Staff of AirAsia You're Truly World Class!
From the AirAsia Board of Directors
AirAsia
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