

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2008 (CONTINUED)**

**12 INVESTMENT IN SUBSIDIARIES**

	<u>Company</u>	
	<u>31.12.2008</u>	<u>31.12.2007</u>
	RM'000	RM'000
Unquoted investments, at cost	22,194	22,194

The details of the subsidiaries are as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Group's effective equity interest</u>		<u>Principal activities</u>
		<u>31.12.2008</u>	<u>31.12.2007</u>	
		%	%	
<u>Directly held by the Company</u>				
Crunchtime Culinary Services Sdn Bhd ("Crunchtime")	Malaysia	100.0	100.0	Provision of inflight meals, currently dormant
AA International Ltd ("AAIL")	Malaysia	100.0	100.0	Investment holding
AirAsia Go Holiday Sdn Bhd	Malaysia	100.0	100.0	Tour operating business
AirAsia (Mauritius) Limited ("AirAsia Mauritius") * Co.	Malaysia	100.0	100.0	Providing aircraft leasing facilities to Thai AirAsia Ltd
Airspace Communications Sdn Bhd ("Airspace")	Malaysia	100.0	100.0	Media owner with publishing division
AirAsia (B) Sdn Bhd *	Negara Brunei Darussalam	100.0	100.0	Providing air transportation services, currently dormant
AirAsia Corporate Services Limited ^	Malaysia	100.0	-	Facilitate business transactions for AirAsia Group with non-resident goods and service providers, currently dormant
Aras Sejagat Sdn Bhd ^	Malaysia	100.0	-	Special purpose vehicle for financing arrangements required by AirAsia, currently dormant
<u>Held by AAIL</u>				
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

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**13 INVESTMENT IN A JOINTLY CONTROLLED ENTITY**

	<u>Group</u>	
	<u>31.12.2008</u>	<u>31.12.2007</u>
	RM'000	RM'000
Represented by:		
Unquoted investment, at cost	12,054	12,054
Group's share of post acquisition reserves	(12,054)	(12,054)
	<u>-</u>	<u>-</u>

The details of the jointly controlled entity are as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Group's effective equity interest</u>		<u>Principal activities</u>
		<u>31.12.2008</u>	<u>31.12.2007</u>	
		%	%	
<u>Held by AAIL</u>				
Thai AirAsia Co. Ltd ("Thai AirAsia")	Thailand	48.9	48.9	Aerial transport of persons, things and posts

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

	<u>Year ended 31.12.2008</u>	<u>6 months financial period ended 31.12.2007</u>
	RM'000	RM'000
Revenue	434,873	164,463
Expenses	(579,258)	(182,443)
Loss before taxation	(144,385)	(17,980)
Taxation	-	-
Net loss for the financial year/period	<u>(144,385)</u>	<u>(17,980)</u>

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

	<u>31.12.2008</u>	<u>31.12.2007</u>
	RM'000	RM'000
Non-current assets	16,316	11,967
Current assets	70,738	47,682
Current liabilities	(277,944)	(107,130)
Share of net liabilities of a jointly controlled entity	<u>(190,890)</u>	<u>(47,481)</u>

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**13 INVESTMENT IN A JOINTLY CONTROLLED ENTITY (CONTINUED)**

The Group discontinued recognition of its share of further losses made by Thai AirAsia as the Group's long-term interest in the jointly controlled entity has been reduced to zero and the Group has not incurred any obligations or guaranteed any obligations in respect of the jointly controlled entity. As at 31 December 2008, the unrecognised amount of the Group's share of losses of Thai AirAsia which has not been equity accounted for amounted to RM179.9 million (31.12.2007: RM35.5 million).

**14 INVESTMENT IN ASSOCIATES**

	<u>Group</u>		<u>Company</u>	
	<u>31.12.2008</u>	<u>30.12.2007</u>	<u>31.12.2008</u>	<u>30.12.2007</u>
	RM'000	RM'000	RM'000	RM'000
Unquoted investment, at cost	4,141	4,141	29	29
Group's share of post acquisition losses	(4,112)	(4,112)	-	-
	<u>29</u>	<u>29</u>	<u>29</u>	<u>29</u>

The details of the associates are as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Group's effective equity interest</u>		<u>Principal activities</u>
		<u>31.12.2008</u>	<u>31.12.2007</u>	
		%	%	
AirAsia Philippines Inc	Philippines	39.9	39.9	Providing air transportation services
<u>Held by Crunchtime and Thai AirAsia</u>				
Thai Crunch Time Co. Ltd ("Thai Crunch Time")	Thailand	49.0	49.0	Provision of inflight meals
<u>Held by AAIL</u>				
PT Indonesia AirAsia ("IAA")	Indonesia	48.9	48.9	Commercial air transport service
AirAsia Pte Ltd ("AAPL")	Singapore	48.9	48.9	Dormant
AirAsia Go Holiday Co. Ltd	Thailand	49.0	49.0	Tour operating business, currently dormant

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**14 INVESTMENT IN ASSOCIATES (CONTINUED)**

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

	Year ended 31.12.2008 RM'000	6 months financial period ended 31.12.2007 RM'000
Revenue	235,813	85,591
Expenses	(357,480)	(88,790)
Loss before taxation	(121,667)	(3,199)
Taxation	-	-
Net loss for the financial year/period	<u>(121,667)</u>	<u>(3,199)</u>

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

	31.12.2008 RM'000	31.12.2007 RM'000
Non-current assets	9,204	6,842
Current assets	31,399	24,204
Current liabilities	(173,184)	(43,339)
Non-current liabilities	(31,526)	(35,511)
Share of net liabilities of associates	<u>(164,107)</u>	<u>(47,804)</u>

The Group discontinued recognition of its share of further losses made by Thai Crunch Time and IAA as the Group's long-term interest in these associates has been reduced to zero and the Group has not incurred any obligations or guaranteed any obligations in respect of the associates. As at 31 December 2008, the unrecognised amount of the Group's share of losses of Thai Crunch Time and IAA which has not been equity accounted for amounted to RM0.1 million (31.12.2007: RM0.1 million) and RM185.9 million (31.12.2007: RM64.2 million) respectively.

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**15 OTHER INVESTMENTS**

	<u>Group and Company</u>	
	<u>31.12.2008</u>	<u>31.12.2007</u>
	RM'000	RM'000
Non-current:		
Recreational golf club membership	48	61
Investment in AirAsia X Sdn Bhd ("AAX")	26,667	26,667
	<u>26,715</u>	<u>26,728</u>
Current:		
Unquoted investment with a fund management company, at cost (Note 23)		30,892
		<u>30,892</u>

In the previous financial period, the Company subscribed for 26,666,667 redeemable convertible preference shares Series 1 ("RCPS") of RM1.00 each at par in AirAsia X Sdn Bhd.

**16 GOODWILL**

	<u>Group</u>
	RM'000
<u>Cost</u>	
At 31 December 2007/31 December 2008	<u>8,738</u>
<u>Net book value</u>	
At 31 December 2007/31 December 2008	<u>8,738</u>

The Group undertakes 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 investment in a subsidiary, AAIL. No impairment loss was required for the carrying amount of goodwill assessed as at 31 December 2008 as the recoverable amount is in excess of the carrying amount.

Key assumptions used in the value-in-use calculations

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

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

Impact of possible change in key assumptions

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2008 (CONTINUED)**

**17 DEFERRED TAXATION**

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

	<u>Group and Company</u>	
	<u>31.12.2008</u>	<u>31.12.2007</u>
	RM'000	RM'000
Deferred tax assets	856,109	479,705

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

	<u>Group and Company</u>	
	<u>31.12.2008</u>	<u>31.12.2007</u>
	RM'000	RM'000
At start of year	479,705	329,216
Charged to income statement (Note 9)		
- Property, plant and equipment	101,839	(23,467)
- Tax incentives	212,225	173,956
- Tax losses	24,412	-
- Provisions	37,928	-
	376,404	150,489
At end of year/period	856,109	479,705
Deferred tax assets (before offsetting)	809,151	596,926
Tax incentives	33,950	9,538
Tax losses	37,928	-
Provisions		
	881,029	606,464
Offsetting	(24,920)	(126,759)
Deferred tax assets (after offsetting)	856,109	479,705
Deferred tax liabilities (before offsetting)		
Property, plant and equipment	(24,920)	(126,759)
Offsetting	24,920	126,759
Deferred tax liabilities (after offsetting)	-	-

The Ministry of Finance has granted approval to the Company under Section 127 of Income Tax Act, 1967 for income tax exemption in the form of an Investment Allowance ("IA") of 60% on qualifying expenditure incurred within a period of 5 years commencing 1 July 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.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2008 (CONTINUED)**

**18 RECEIVABLES AND PREPAYMENTS**

	<u>Group</u>		<u>Company</u>	
	<u>31.12.2008</u>	<u>31.12.2007</u>	<u>31.12.2008</u>	<u>31.12.2007</u>
	RM'000	RM'000	RM'000	RM'000
<u>Non-current:</u>				
Long term prepayments	<u>103,341</u>	<u>65,405</u>	<u>103,341</u>	<u>65,405</u>
<u>Current:</u>				
Trade receivables	47,952	18,699	47,374	17,687
Less: Allowance for doubtful debts	(1,994)	(1,994)	(1,994)	(1,994)
	45,958	16,705	45,380	15,693
Other receivables	135,141	104,872	134,327	104,148
Less: Allowance for doubtful debts	(1,072)	(1,072)	(1,072)	(1,072)
	134,069	103,800	133,255	103,076
Prepayments	112,786	69,245	112,722	69,182
Deposits	401,619	352,979	401,170	352,789
	<u>694,432</u>	<u>542,729</u>	<u>692,527</u>	<u>540,740</u>

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

	<u>Group</u>		<u>Company</u>	
	<u>31.12.2008</u>	<u>31.12.2007</u>	<u>31.12.2008</u>	<u>31.12.2007</u>
	RM'000	RM'000	RM'000	RM'000
RM	122,918	79,091	121,013	77,102
USD	571,429	460,168	571,429	460,168
Others	85	3,470	85	3,470
	<u>694,432</u>	<u>542,729</u>	<u>692,527</u>	<u>540,740</u>

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.

Included in deposits are cash collateral for derivatives and deposits to lessor for maintenance of aircraft amounting to RM364.8 million (2007: RM320.3 million) for the Group and Company.

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**19 INVENTORIES**

	<u>Group</u>		<u>Company</u>	
	<u>31.12.2008</u>	<u>31.12.2007</u>	<u>31.12.2008</u>	<u>31.12.2007</u>
	RM'000	RM'000	RM'000	RM'000
Spares and consumables	17,622	16,904	17,622	16,904
In flight merchandise and others	3,062	663	2,515	115
	<u>20,684</u>	<u>17,567</u>	<u>20,137</u>	<u>17,019</u>

**20 AMOUNTS DUE FROM SUBSIDIARIES**

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

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

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

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

The amounts due from/(to) 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:

	<u>Group and Company</u>	
	<u>31.12.2008</u>	<u>31.12.2007</u>
	RM'000	RM'000
Amounts due from associates		
- USD	<u>387,647</u>	<u>88,168</u>
Amount due to an associate		
- SGD	<u>(4,359)</u>	<u>(3,761)</u>



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**23 CASH AND CASH EQUIVALENTS**

	<u>Group</u>		<u>Company</u>	
	<u>31.12.2008</u>	<u>31.12.2007</u>	<u>31.12.2008</u>	<u>31.12.2007</u>
	RM'000	RM'000	RM'000	RM'000
Cash and bank balances	72,625	23,930	73,309	19,825
Deposits with licensed banks	81,137	109,775	81,137	109,775
Short-term deposits with fund management companies	-	291,490	-	291,490
Deposits, cash and bank balances	153,762	425,195	154,446	421,090
Deposits pledged as securities	(32,959)	(34,978)	(32,959)	(34,978)
	<u>120,803</u>	<u>390,217</u>	<u>121,487</u>	<u>386,112</u>

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

	<u>Group</u>		<u>Company</u>	
	<u>31.12.2008</u>	<u>31.12.2007</u>	<u>31.12.2008</u>	<u>31.12.2007</u>
	RM'000	RM'000	RM'000	RM'000
Ringgit Malaysia	78,399	367,267	79,083	364,164
USD	59,787	47,937	59,787	46,935
IDR	1,744	2,626	1,744	2,626
SGD	5,551	7,311	5,551	7,311
HKD	217	7	217	7
EUR	10	10	10	10
THB	79	37	79	37
Others	7,975	-	7,975	-
	<u>153,762</u>	<u>425,195</u>	<u>154,446</u>	<u>421,090</u>

The unquoted investment of the Group and the Company (Note 15) and short-term deposits with a fund management company amounting to RM Nil and RM Nil respectively (31.12.2007: RM 30.9 million and RM 5.0 million) are 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 RM89,926 of management fee to INCAM during the financial year (2007: RM45,097).

The deposits with 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:

	<u>Group</u>		<u>Company</u>	
	<u>31.12.2008</u>	<u>31.12.2007</u>	<u>31.12.2008</u>	<u>31.12.2007</u>
	%	%	%	%
Deposits with licensed banks	3.27	3.47	3.27	3.47
Short-term deposits with fund management companies	-	1.56	-	1.56

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**24 TRADE AND OTHER PAYABLES**

	<u>Group</u>		<u>Company</u>	
	<u>31.12.2008</u>	<u>31.12.2007</u>	<u>31.12.2008</u>	<u>31.12.2007</u>
	RM'000	RM'000	RM'000	RM'000
Trade payables	109,327	98,443	104,646	97,502
Other payables and accruals	695,867	353,325	666,141	347,730
Sales in advance	255,517	169,113	244,931	165,602
	<u>1,060,711</u>	<u>620,881</u>	<u>1,015,718</u>	<u>610,834</u>

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

	<u>Group</u>		<u>Company</u>	
	<u>31.12.2008</u>	<u>31.12.2007</u>	<u>31.12.2008</u>	<u>31.12.2007</u>
	RM'000	RM'000	RM'000	RM'000
Ringgit Malaysia	839,973	592,696	794,980	582,649
USD	219,009	26,550	219,009	26,550
Others	1,729	1,635	1,729	1,635
	<u>1,060,711</u>	<u>620,881</u>	<u>1,015,718</u>	<u>610,834</u>

**25 PROVISION FOR LOSS ON UNWINDING OF DERIVATIVES**

As disclosed in the summary of significant accounting policies, the Group had entered into interest rate swap contracts to protect the Group against upward movements in interest rates. Payments relating to these periodic cash settled contracts are recognised as a component of interest income or expense over the period of the contracts. Gains and losses on early termination of interest rate swaps are taken to the income statement.

During the financial year, the Company had terminated a number of its interest rate swap contracts in view of the sharp decline in both short-term and long-term interest rates. However, in view of continuing uncertainties in the global economy, the Group had evaluated and made arrangements to further terminate some of its swap positions. A provision has been recognised at the end of the financial year for the expected amount of loss on the termination in respect of these contracts.

Subsequent to the financial year end, the Group terminated the said swap contracts and the provision for loss on unwinding of derivatives was substantially utilised.

The movements during the financial year in the amount recognised in the financial statements are as follows:

	<u>Group and Company</u>	
	<u>2008</u>	<u>2007</u>
	RM'000	RM'000
At 1 January	-	-
Charged to income statement	151,713	-
At 31 December	<u>151,713</u>	<u>-</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2008 (CONTINUED)**

**26 AMOUNTS DUE TO SUBSIDIARIES AND A RELATED COMPANY**

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

**27 HIRE-PURCHASE PAYABLES**

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

	<u>Group and Company</u>	
	<u>31.12.2008</u>	<u>31.12.2007</u>
	RM'000	RM'000
Minimum payments:	90	90
- Not later than 1 year	84	174
- Later than 1 year and not later than 5 years		
	174	264
	(25)	(38)
Less: Future finance charges		
	149	226
Present value of liabilities		
Present value of liabilities:	77	77
- Not later than 1 year		
- Later than 1 year and not later than 5 years	72	149
	149	226

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

As at 31 December 2008, the effective interest rate applicable to the lease liabilities was 3.33% (31.12.2007: 3.29%) per annum for the Group and Company. The entire balance is denominated in Ringgit Malaysia.

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**28 BORROWINGS (SECURED)**

	Weighted average rate of finance %	Group and Company	
		31.12.2008 RM'000	31.12.2007 RM'000
<u>Current:</u>			
Term loans	5.11	437,621	209,932
Revolving credit facilities	4.58	46,995	49,597
Finance lease liabilities	6.09	51,224	19,021
Commodity Murabaha Finance	5.04	8,145	-
		<u>543,985</u>	<u>278,550</u>
<u>Non-current:</u>			
Term loans	5.11	4,509,447	3,093,322
Finance lease liabilities	6.09	1,099,319	325,799
Commodity Murabaha Finance	5.04	117,942	-
Sukuk	4.98	420,000	-
		<u>6,146,708</u>	<u>3,419,121</u>
Total borrowings		<u>6,690,693</u>	<u>3,697,671</u>

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

	Group and Company	
	31.12.2008 RM'000	31.12.2007 RM'000
Not later than 1 year	543,985	278,550
Later than 1 year and not later than 5 years	2,091,234	997,703
Later than 5 years	4,055,474	2,421,418
	<u>6,690,693</u>	<u>3,697,671</u>

The currency exposure profile of borrowings is as follows:

Ringgit Malaysia	593,081	49,597
USD	5,949,766	3,500,237
EURO	147,846	147,837
	<u>6,690,693</u>	<u>3,697,671</u>

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**28 BORROWINGS (SECURED) (CONTINUED)**

The above term loans, finance lease liabilities (Ijarah) and Commodity Murabaha Finance are for the purchase of new A320-200 aircraft and simulator equipment.

The repayment terms of borrowings are on a quarterly or semi-annually basis. The borrowings 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 warranties

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

The purpose of the Sukuk was to fund the Company's capital expenditure and working capital.

The Sukuk is secured by the following:

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

**29 SHARE CAPITAL**

	<u>Group and Company</u>	
	<u>31.12.2008</u>	<u>31.12.2007</u>
	RM'000	RM'000
<u>Authorised:</u>		
Ordinary shares of RM0.10 each:		
At beginning and end of the financial year/period	<u>500,000</u>	<u>500,000</u>
<u>Issued and fully paid up:</u>		
Ordinary shares of RM0.10 each:		
At beginning of the financial year/period	237,154	236,077
Issued during the financial year/period	267	1,077
At end of the financial year/period	<u>237,421</u>	<u>237,154</u>

During the financial year, the Company increased its issued and paid-up ordinary share capital from RM237,154,058 to RM237,420,958 by way of issuance of 2,669,000 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 RM2,615,620 has been credited to the Share Premium account.

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**29 SHARE CAPITAL (CONTINUED)**

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.
- (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 expire on 6 June 2009.

At 31 December 2008, options to subscribe for 31,528,900 (31.12.2007: 37,230,000) 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.

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2008 (CONTINUED)**

**29 SHARE CAPITAL (CONTINUED)**

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

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

<u>Grant date</u>	<u>Expiry date</u>	<u>Exercise price RM/share</u>	<u>At 1.1.2008 '000</u>	<u>Granted '000</u>	<u>Exercised '000</u>	<u>Lapsed '000</u>	<u>At 31.12.2008 '000</u>
1 September 2004	6 June 2009	1.08	37,230	-	(2,669)	(3,032)	31,529
						<u>31.12.2008 '000</u>	<u>31.12.2007 '000</u>
						31,529	19,805
Number of share options vested at balance sheet date							

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

<u>Exercise date</u>	<u>Quoted price of shares at share issue date RM/share</u>	<u>Exercise price RM/share</u>	<u>Number of shares issued '000</u>
January 2008 to February 2008	1.46-1.64	1.08	1,561
March 2008 to April 2008	1.29-1.53	1.08	803
May 2008	1.01-1.17	1.08	147
October 2008	1.17-1.25	1.08	126
December 2008	0.88	1.08	32
			<u>2,669</u>
		<u>31.12.2008 RM'000</u>	<u>31.12.2007 RM'000</u>
Ordinary share capital at par		267	1,077
Share premium		2,615	10,559
Proceeds received on exercise of share options		<u>2,882</u>	<u>11,636</u>
Fair value at exercise date of shares issued		<u>3,918</u>	<u>20,587</u>

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2008 (CONTINUED)**

**30 RETAINED EARNINGS**

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

Companies with Section 108 credits as at 31 December 2008 may continue to pay franked dividends until the Section 108 credits are exhausted or 31 December 2013, whichever is earlier, unless they opt to disregard the Section 108 credits to pay single-tier dividends under the special transitional provisions of the Finance Act 2007.

As at 31 December 2008, the Company has sufficient Section 108 tax credits to pay approximately RM19.0 million (31.12.2007: RM17.9 million) of its retained earnings of the Company as franked dividends. The extent of the retained earnings not covered at that date amounted to RM623.7 million (31.12.2007: RM1,120.1 million). The tax credits under Section 108(6) of the Act are subject to the agreement by the Inland Revenue Board.

In addition, the Company has tax exempt income as at 31 December 2008 amounting to approximately RM0.5 million (31.12.2007: 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:

	<u>Group and Company</u>	
	<u>31.12.2008</u>	<u>31.12.2007</u>
	<u>RM'000</u>	<u>RM'000</u>
Property, plant and equipment:		
Approved and contracted for	17,684,836	19,786,549
Approved but not contracted for	8,581,247	8,139,809
	<u>26,266,083</u>	<u>27,926,358</u>
Property, plant and equipment:		
Share of a jointly controlled entity's capital commitments	3,365	17,576
Share of an associate's capital commitments	4,754	18,943
	<u>8,119</u>	<u>36,521</u>

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



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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2008 (CONTINUED)**
**31 COMMITMENTS (CONTINUED)**
**(b) Non-cancellable operating leases**

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

	Group and Company			
	31.12.2008		31.12.2007	
	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	55,355	259,350	82,729	66,912
Later than 1 year and not later than 5 years	100,629	500,251	157,530	43,012
Later than 5 years	-	-	18,318	-
	<u>155,984</u>	<u>759,601</u>	<u>258,577</u>	<u>109,924</u>

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

**32 CONTINGENT LIABILITIES**

During the financial year, the dispute by the Company over certain expenses charged by a service provider amounting to RM19.9 million, which was disclosed as a contingent liability in the previous financial period, has been resolved in the Company's favour.

Thai AirAsia Co. Ltd ("TAA"), a jointly controlled entity of the Group, has contingent liabilities relating to guarantees issued by banks in respect of the company's pilot trainees loans in accordance with the pilot professional course amounting to RM5.0 million (31.12.2007: RM5.0 million) which will be terminated when the student pilot earns a commercial pilot license and is assigned as co-pilot, or whenever the pilot trainee can completely settle all outstanding debt with the bank. However, TAA can fully reclaim the said liabilities from the pilot trainees' guarantors as the guarantees have been pledged with TAA.

**33 SEGMENTAL INFORMATION**

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

**AIRASIA BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2008 (CONTINUED)**

**34 SIGNIFICANT RELATED PARTY TRANSACTIONS**

The related party transactions of the Company comprise mainly transactions between the Company and its subsidiaries, jointly controlled entity and associate. Details of these related companies are shown in Notes 12, 13 and 14 to the financial statements.

All related party transactions were carried out on terms and conditions attainable in transactions with unrelated parties.

Key management personnel are categorised as head or senior management officers of key operating divisions within the Group and Company. The key management compensation is disclosed in Note 34(e) below.

Related party transactions also include transaction with entities that are controlled, jointly controlled or significantly influenced directly or indirectly by any key management personnel or their close family members, where applicable. The related party transactions with a company in which a Director of the Company has a financial interest is disclosed in Note 23.

	<u>Group</u>		<u>Company</u>	
	6 months		6 months	
	financial		financial	
	Year ended	period ended	Year ended	period ended
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
	RM'000	RM'000	RM'000	RM'000
(a) <u>Income:</u>				
Aircraft operating lease income for owned and leased aircraft				
- Thai AirAsia	122,935	34,456	122,935	34,456
- Indonesia AirAsia	56,350	18,740	56,350	18,740
Services charged to AirAsia X Sdn Bhd	53,102	10,483	53,102	10,483
(b) <u>Recharges:</u>				
Maintenance and overhaul charges				
- Thai AirAsia	51,102	30,176	51,102	30,176
- Indonesia AirAsia	43,865	19,546	43,865	19,546
Loss on unwinding of derivatives				
- Thai AirAsia	221,724	-	211,724	-
- Indonesia AirAsia	206,707	-	206,707	-

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2008 (CONTINUED)**

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

	<u>31.12.2008</u>	<u>31.12.2007</u>	<u>31.12.2008</u>	<u>31.12.2007</u>
	RM'000	RM'000	RM'000	RM'000
(c) <u>Receivables:</u>				
- AirAsia Mauritius	-	-	189,502	95,815
- AirAsia International Limited	-	-	3,112	3,910
- Thai AirAsia	340,627	74,285	120,181	-
- Indonesia AirAsia	378,526	81,571	378,526	81,571
- AirAsia Philippines	9,121	6,598	9,121	6,598
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
(d) <u>Payables:</u>				
- AirAsia Go Holiday Sdn Bhd	-	-	16,890	10,022
- Crunchtime Culinary Services Sdn Bhd	-	-	1,133	1,347
- Thai AirAsia	-	-	-	21,337
- AirAsia Pte Limited	4,359	3,761	4,359	3,761
- AirAsia X Sdn Bhd	3,634	3,528	3,634	3,528
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
(e) <u>Key management compensation</u>				
- basic salaries, bonus and allowances	10,155	6,102	10,155	6,102
- defined contribution plan	1,219	658	1,219	658
- other emoluments	-	1,928	-	1,928
	<u>11,374</u>	<u>8,688</u>	<u>11,374</u>	<u>8,688</u>

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2008 (CONTINUED)**

**35 FINANCIAL RISK MANAGEMENT POLICIES**

The Group's financial risk management policy seeks to ensure that the financial resources that are available for the development of the Group's businesses are constantly monitored and managed vis-a-vis its ongoing exposure to fuel price, interest rate, foreign currency, credit, 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 activities 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 address the risk of rising fuel prices.

The year also saw unprecedented volatility in crude and jet fuel prices with WTI rising from USD100 per barrel to an unprecedented level of USD147 before plummeting to USD35 within a 5 month period, rendering the Group's fuel hedges costly to acquire. When fuel prices dropped drastically, these hedges then turned expensive to maintain, requiring swift decisive actions to unwind the positions that became untenable.

**(b) Interest rate risk**

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

The Group had previously entered into a number of immediate and forward start interest rate swap contracts and Ringgit cross currency swap contracts that will effectively convert its existing and future long-term floating rate debt facilities into fixed rate debts. However, loans for approximately 2% of total long term debt are not currently covered by such swaps and have therefore remained at floating rates linked to the London Inter Bank Offer Rate ("LIBOR").

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2008 (CONTINUED)**

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

**(b) Interest rate risk (continued)**

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

The remaining terms of the outstanding interest rate swap contracts of the Company at 31 December 2008, which are denominated in US Dollars, are as follows:

	Year ended 31.12.2008	6 months financial period ended 31.12.2007
	RM'000 equivalent	RM'000 equivalent
Later than 5 years	5,167,456	5,320,707
	<u>5,167,456</u>	<u>5,320,707</u>

The notional principal amount of the outstanding Ringgit cross currency swap contracts of the Company at 31 December 2008 was RM228 million.



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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2008 (CONTINUED)**

35

**FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**

Interest rate risk (continued)											
Financial Instruments	Functional currency/ currency exposure	Effective interest at balance sheet date % per annum	Total carrying amount RM'000	Floating interest rate RM'000	1 year or less RM'000	> 1-2 years RM'000	> 2-3 years RM'000	> 3-4 years RM'000	> 4-5 years RM'000	Fixed interest rate More than 5 years RM'000	
<u>Group and Company</u>											
<u>31 December 2007</u>											
Deposits with licensed bank	RM/RM	3.47	109,775	-	109,775	-	-	-	-	-	-
Short-term deposits with fund management companies	RM/RM	1.56	291,490	-	291,490	-	-	-	-	-	-
Term loans	RM/USD	5.38	(3,303,254)	(54,532)	(200,168)	(208,227)	(216,585)	(225,439)	(234,529)	(2,163,774)	
Finance lease	RM/USD	5.82	(344,820)	-	(19,021)	(20,253)	(21,566)	(22,964)	(24,454)	(236,562)	
Revolving credit	RM/USD	4.00	(49,597)	(49,597)	-	-	-	-	-	-	
Hire-purchase payables	RM/RM	3.29	(226)	-	(77)	(77)	(72)	-	-	-	
			(3,296,632)	(104,129)	181,999	(228,557)	(238,223)	(248,403)	(258,983)	(2,400,336)	

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2008 (CONTINUED)**
**35 FINANCIAL RISK MANAGEMENT POLICIES (CONTINUED)**
**(c) Foreign currency risk**

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

The Company enters into forward foreign currency exchange contracts to limit its exposure on foreign currency receivables and payables. At 31 December 2008, the settlement dates on open forward contracts are in accordance with the loan instalment repayment dates (31.12.2007: No change). The foreign currency amounts to be received and contractual exchange rates of the Company's outstanding contracts were as follows:

<u>Hedge item</u>	<u>Currency to be received</u>	<u>Currency to be paid</u>	<u>RM'000 equivalent</u>	<u>Contractual rate</u>
As at 31 December 2008	USD	MYR	4,268,044	3.000-3.369
As at 31 December 2007	USD	MYR	3,335,716	3.000-3.369

The net unrecognised and unrealised losses at 31 December 2008 on open contracts which hedge future payments on term loans amounted to RM78.9 million (31.12.2007: RM69.2 million). The full extent of crystallisation of any favourable or unfavourable variances can only be ascertained upon realisation of each settlement over the period of the long-term hedge contracts. The nature and amount of variance may vary over time.

**(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 are 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 the majority of these financial institutions is remote on the basis of their financial strength and support of their respective governments during this period of financial crisis.

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



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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2008 (CONTINUED)**

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

(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 to have available funding through adequate amounts of committed credit facilities and credit lines for working capital requirements.

**36 FAIR VALUES OF FINANCIAL INSTRUMENTS FOR DISCLOSURE PURPOSES**

On balance sheet financial instruments

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

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

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

	31.12.2008		31.12.2007	
	Carrying amount RM'000	Fair value RM'000	Carrying amount RM'000	Fair value RM'000
<u>Group and Company</u>				
Borrowings (non-current portion)	6,146,708	4,451,556	3,419,121	3,443,865
Hire-purchase payables (non-current portion)	72	69	149	143

**AIRASIA BERHAD**  
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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2008 (CONTINUED)**

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

Derivative financial instruments

The fair value of derivative financial instruments as at the balance sheet date is as follows:

(a) Fuel options contracts

	<u>Maturity period</u>	<u>Contract or notional principal amount Barrels</u>	<u>Unfavourable net fair value RM'000</u>
<u>Group and Company</u>			
<u>31.12.2008</u>			
Fuel options contracts	1.1.2009 – 30.6.2010	<u>11,430,000</u>	<u>37,669</u>
<u>31.12.2007</u>			
Fuel options contracts	1.1.2008 – 30.6.2010	<u>46,340,000</u>	<u>127,918</u>

(b) Other derivatives

	<u>31.12.2008</u>		<u>31.12.2007</u>	
	<u>Notional amount RM'000 equivalent</u>	<u>Fair value RM'000</u>	<u>Notional amount RM'000 equivalent</u>	<u>Fair value RM'000</u>
Interest rate swaps	5,205,199	(844,786)	5,320,707	(166,270)
Cross currency interest rate swaps	245,939	(6,419)	-	-
Foreign currency forward contracts	<u>4,719,010</u>	<u>(78,953)</u>	<u>3,335,716</u>	<u>(69,191)</u>

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

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**NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2008 (CONTINUED)**

**37 RECLASSIFICATION**

Certain comparative figures have been reclassified to conform with the current year's presentation for purposes of fairer presentation, as follows:

	<u>As previously reported</u> RM'000	<u>Reclassification</u> RM'000	<u>As restated</u> RM'000
<u>Income statements for the 6 months financial period ended 31.12.2007</u>			
<u>Group</u>			
Depreciation of property, plant and equipment	120,031	9,730	129,761
Finance costs	79,718	10,930	90,648
Other operating expenses	73,403	32,536	105,939
Other income	11,393	53,196	64,589
<u>Company</u>			
Depreciation of property, plant and equipment	120,031	9,730	129,761
Finance costs	79,718	10,930	90,648
Other operating expenses	72,902	32,536	105,438
Other income	11,355	53,196	64,551

Operating sublease income for owned aircraft which was previously offset against depreciation of property, plant and equipment and finance costs has now been regrossed and classified in other income.

Operating sublease income for leased aircraft which was previously offset against other operating expenses has now been regrossed and classified in other income.

**38 COMPARATIVE FIGURES**

The comparative figures for the income statements, statements of changes in equity and cash flows and related notes are not comparable as they are for the 6 months financial period ended 31 December 2007.

**39 APPROVAL OF FINANCIAL STATEMENTS**

The financial statements have been approved for issue in accordance with a resolution of the Board of Directors on 30 April 2009.

Company No.

284669

W

**AIRASIA BERHAD**  
(Incorporated in Malaysia)

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

We, Dato' Anthony Francis Fernandes and Dato' Kamarudin Bin Meranun, being two of the Directors of AirAsia Berhad, state that, in the opinion of the Directors, the financial statements set out on pages 6 to 68 are drawn up so as to give a true and fair view of the state of affairs of the Group and Company as at 31 December 2008 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 30 April 2009.



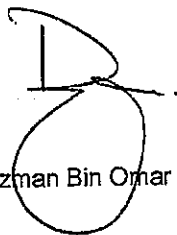
DATO' ANTHONY FRANCIS FERNANDES  
DIRECTOR



DATO' KAMARUDIN BIN MERANUN  
DIRECTOR

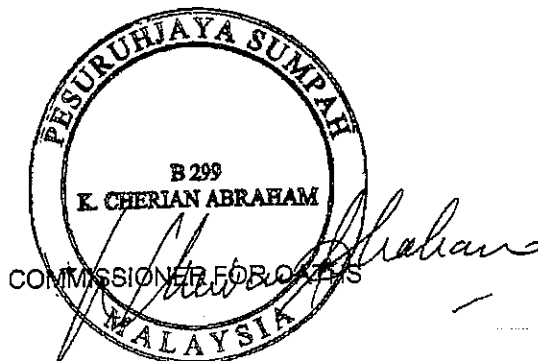
**STATUTORY DECLARATION PURSUANT TO  
SECTION 169(16) OF THE COMPANIES ACT, 1965**

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 6 to 68 are, in my opinion, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.



Rozman Bin Omar

Subscribed and solemnly declared by the abovenamed Rozman Bin Omar at Petaling Jaya in Malaysia on 30 April 2009, before me.



1-5, Block F1, Jalan PJU 1/42,  
Petaling Jaya, 46000 Petaling Jaya  
Selatan, Kuala Lumpur, Malaysia

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

**REPORT ON THE FINANCIAL STATEMENTS**

We have audited the financial statements of AirAsia Berhad, which comprise the balance sheets as at 31 December 2008 of the Group and of the Company, and the income statements, statements of changes in equity and cash flow statements of the Group and of the Company for the financial year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 6 to 68.

Directors' Responsibility for the Financial Statements

The Directors of the Company are responsible for the preparation and fair presentation of these financial statements in accordance with MASB approved accounting standards in Malaysia for Entities Other than Private Entities and the Companies Act, 1965. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with MASB approved accounting standards in Malaysia for Entities Other than Private Entities and the Companies Act, 1965 so as to give a true and fair view of the financial position of the Group and of the Company as of 31 December 2008 and of their financial performance and cash flows for the financial year then ended.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- a) In our opinion, the accounting and other records and the registers required by the Act to be kept by the Company and its subsidiaries of which we have acted as auditors have been properly kept in accordance with the provisions of the Act.
- b) We have considered the financial statements and the auditors' reports of all the subsidiaries of which we have not acted as auditors, which are indicated in note 12 to the financial statements.
- c) We are satisfied that the financial statements of the subsidiaries that have been consolidated with the Company's financial statements are in form and content appropriate and proper for the purposes of the preparation of the financial statements of the Group and we have received satisfactory information and explanations required by us for those purposes.
- d) The audit reports on the financial statements of the subsidiaries did not contain any qualification or any adverse comment made under Section 174(3) of the Act.

OTHER MATTERS

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



PRICEWATERHOUSECOOPERS  
(No. AF: 1146)  
Chartered Accountants



SRIDHARAN NAIR  
(No. 2658/05/10 (J))  
Chartered Accountant

Kuala Lumpur  
30 April 2009