AIRASIA BERHAD

284669-W

www.airasia.com

annual report **2005**

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NOW EVERYONE CAN FLY

13 million guests and counting ...

AirAsia

100 Airbus 320

COMING SOON

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vision & strategy

Management Strategy

AirAsia's goal is to establish itself as a leading low cost carrier in Asia. The principal components of AirAsia's strategy are as follow:

Maximise Shareholders' Value

- Profit creation by expanding business reach within Asia
- Expand routes and network via a prudent calculated manner
- Invest and enhance brand – raising investors' returns
- Building one brand

Safety

- Never compromise safety
- Ensure the security of staff and guests
- Comply with every regulation; maintain highest standards

Focus On Guests' Needs

- Stimulate demand by offering the lowest fares
- Comprehensive distribution channel
- Develop various products and services while maintaining simplicity
- Providing a unique AirAsia experience – low fares do not mean low quality

Operational Excellence

- All staff are contributors – no ranks or hierarchy
- Continuous cost management
- Performance based remunerations and incentives

Management Transparency

- Transparency in decision-making
- Disclosure – higher than industry norms
- High accessibility to media and investment community

Human Capital Development

- Investing in hard and soft skills training
- Providing a fun and healthy working environment
- Recognising talents and creating opportunities for staff

our people – the recipe for success

Capt Kenneth Chong and Capt Maniam Nandasan retired at the age of 65 and now hold key roles at the AirAsia Academy, the training ground for AirAsia staff.

Chananporn Rosjan, Thai AirAsia pilot & Miss Thailand/Universe 2005.

Janet Chen, AirAsia's first female pilot and the first Malaysian woman to fly a commercial aircraft.

Ezanie Yahya, AirAsia pilot and former steward, graduated from our 1st cadet pilot training program.

financial overview

	For the year ended 31 March 2001	For the 15 months ended 30 June 2002 ^	For the year ended 30 June 2003	2004 ^^	2005
(RM million, unless otherwise stated)					
Revenue	**167.7**	**217.4**	**330.0**	**392.7**	**666.0**
Total expenses	182.3	218.7	318.5	332.1	532.6
EBITDAR	58.9	75.3	94.8	116.4	220.4
EBIT	(14.6)	(1.3)	11.5	60.6	133.4
Associates contributions	0.0	0.0	0.0	(0.1)	(5.4)
Profit before tax	(19.1)	(1.6)	11.5	58.1	125.4
Tax	(0.0)	(0.1)	7.4	(9.1)	(14.3)
Net income *	**(19.1)**	**(1.7)**	**18.8**	**49.1**	**111.6**
BALANCE SHEET					
Cash & cash equivalent	34.5	13.8	33.5	66.1	329.3
Total Assets	49.3	51.4	124.3	350.0	1,122.9
Net Debt (Total Debt – Total Cash)	(32.3)	(13.8)	(33.5)	29.3	(329.3)
Shareholders' Equity	(105.0)	2.6	49.0	150.3	952.9
CASH FLOW STATEMENTS					
Net cash from operating activities	(2.7)	(12.0)	15.2	28.9	(0.3)
Cash flow from investing activities	(0.6)	(6.6)	(22.3)	(143.8)	(334.8)
Cash flow from financing activities	24.3	(2.2)	25.8	141.0	589.0
Net Cash Flow	**21.0**	**(20.8)**	**18.8**	**26.0**	**254.0**
CONSOLIDATED FINANCIAL PERFORMANCE (%)					
Return on average total assets	–	–	15.2	14.0	9.9
Return on average shareholders' equity	–	–	38.4	32.7	11.7
R.O.C.E (EBIT/(Net Debt + Equity))	10.6	11.6	74.4	33.8	21.4
EBITDAR margin	35.1	34.6	28.7	29.7	33.1
EBIT margin	(8.7)	(0.6)	3.5	15.4	20.0
Net Income margin	(11.4)	(0.8)	5.7	12.5	16.8
CONSOLIDATED OPERATING STATISTICS					
Passengers carried	290,687	610,738	1,481,097	2,838,822	4,414,069
RPK (million)	363	672	1,539	2,771	4,881
ASK (million)	586	1,018	2,086	3,592	6,525
Load factor (%)	62	66	74	77	75
Aircraft utilisation (hours per day)	10.1	11.2	12.5	12.8	12.1
Average fare (RM)	203	183	147	131	143
Yield Revenue per RPK (sen)	20.4	18.4	15.1	14.2	13.6
Cost per ASK (sen)	16.0	12.8	10.9	9.4	8.3
Yield Revenue per RPK (US¢)	5.37	4.84	3.97	3.74	3.59
Cost per ASK (US¢)	4.21	3.37	2.86	2.47	2.19
Number of Stages	3,346	6,521	14,461	25,106	40,679
Average stage length (km)	1,327	1,128	975	967	1,024
Average fleet size	2	2.5	5.5	9.5	16.3
Size of fleet at year end	2	3	7	13	19
Size of fleet at year end (Group)	2	3	7	17	27
Number of employees at year end	241	322	648	1,382	2,016
Percentage revenue via internet (%)	0	0	29	43	47

* Net income after minorities

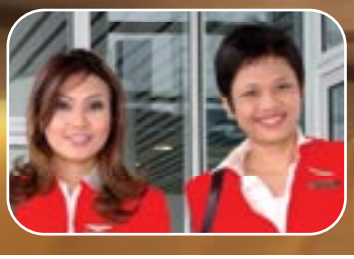
^ In 2002, the Company changed its financial year end from 31 March to 30 June to coincide with the financial year end of Tune Air Sdn Bhd

^^ Certain comparative numbers have been reclassified to ensure comparability with the FY2005 presentation

corporate profile

THE PHILOSOPHY

With the tagline "Now Everyone Can Fly", AirAsia's philosophy of low fares is aimed at making flying affordable for everyone. AirAsia also aims at making travel easy, convenient and fun for its guests.



AirAsia Berhad ("AirAsia" or "the Company"), Malaysia and Asia's first low cost carrier has made its name synonymous with low fare air travel in the region. Now a household name throughout Asia, we offer lower fares by eliminating most traditional passenger services in order to make air travel affordable and accessible for everyone. Hence our tag line **"Now Everyone Can Fly"**. Modelled after other successful low cost carriers in North America and Europe, we are now the largest low cost carrier in Asia. Revolutionising air travel by offering fares that are significantly lower than that of traditional full-service airlines, AirAsia has put Malaysia's airline industry on the world map by making its presence felt and bringing people in the region closer together.

IN THE BEGINNING

It takes true vision, patience and sheer determination to have gotten this far. Tony Fernandes, together with partners Dato' Pahamin Ab. Rajab (Chairman, AirAsia), Kamarudin Meranun (Executive Director, AirAsia) and Aziz Bakar (Director, AirAsia) set up Tune Air Sdn Bhd in 2001 and bought AirAsia for a token RM1.00. With the help of Conor McCarthy (Director, AirAsia; Director, Tune Air Sdn Bhd and former Director of Group Operations, Ryanair), AirAsia was remodeled into a low cost carrier and by January 2002, their vision to make air travel more affordable to Malaysians took flight.

Converting a RM40 million debt into a multimillion ringgit airline, AirAsia has become Asia's leading low cost carrier. Operating initially with only 2 Boeing 737-300s, the AirAsia Group now has 30 aircraft and the airline flies to over 52 domestic and international destinations. Operating over 100 domestic and international daily flights from 4 hubs located at the Kuala Lumpur International Airport (KLIA), Johor Bahru, Bangkok and Jakarta, AirAsia continues to enhance its niche and increase its competitive edge as Asia's leading low cost airline through successful joint ventures with Thai AirAsia and Indonesia's AWAIR.

THE ESSENTIALS

AirAsia's operations are based on the following key strategies:

- Low fare, no frills – AirAsia targets guests who are prepared to do without the frills such as meals, frequent flyer miles or airport lounges in exchange for fares lower than those currently offered with equivalent convenience. While AirAsia does not offer complimentary drinks or meals, guests have the choice of buying exclusively prepared, delicious snacks and drinks from "Snack Attack" at very affordable prices.

• Low Fare, No Frills • High Frequency

www.airasia.com

- High frequency – AirAsia's high frequency service ensures guests' convenience is met. The airline practices a quick turnaround of 25 minutes, which is the fastest in the region, resulting in high aircraft utilisation, lower costs and greater airline and staff productivity.

- Easy to book, easy to pay, easy to fly – AirAsia offers a wide range of distribution channels to make travelling easier for its guests. AirAsia's ticketless service provides a low cost alternative to issuing printed tickets. Guests can make bookings and payments through:

  - Internet booking at www.airasia.com. This is one of the most popular booking channels, accounting for approximately 47% of AirAsia's total bookings
  - mobile.airasia.com, the 1st in the world
  - Call centres
  - Sales offices and airport offices
  - Travel agents

- Safety first – AirAsia's cost optimisation philosophy will never be at the expense of the airline's safety as the entire fleet fully complies with the conditions set by regulators in all countries where the airline operates. AirAsia's partnerships with world renowned maintenance providers also ensure that its fleet is always in the best condition.

- Cost optimisation – AirAsia's cost optimisation philosophy is also never at the expense of quality. By operating a faster turnaround time, there is improved aircraft utilisation and greater crew efficiency. These result in savings that are passed back to guests in the form of low fares.

GOING WHERE NO ONE HAS GONE BEFORE

With mobile.airasia.com, AirAsia became the first airline in the world to offer an online service that allows mobile phone and PDA users to browse AirAsia's webpage, choose a destination, make a booking and administer payment anytime, from anywhere in the world.

AirAsia has also created Go Holiday – a program that allows guests to book special theme packages and even design their very own holiday package online – yet another unique product offering that makes air travel more convenient and affordable for the airline's guests.

History was made when AirAsia became the first airline to operate a direct commercial flight between Bandung and Kuala Lumpur. AirAsia continued to blaze new trails when it also became the first airline to operate flights from Kuala Lumpur to Macau, Clark (Philippines), Chiang Mai (Thailand), Hat Yai (Thailand), Sandakan (Malaysia) and Tawau (Malaysia).

22 November 2004 will always be remembered as a significant date in AirAsia's corporate history following the airline's listing on the Main Board of the Bursa Malaysia Securities Berhad (Bursa Malaysia). AirAsia has managed to raise RM717.4 million for its future expansion from the initial public offering exercise.

AirAsia has secured a 100-aircraft commitment from Airbus for its A320s (60 firm, 40 option). This 100 aircraft order will make AirAsia the single largest aircraft customer in the Asia-Pacific region and potentially, one of the largest and youngest airline fleet in the region.

The phenomenal growth of AirAsia reflects its vision to become an ASEAN brand. As one of the leading low cost carriers in the region, we aspire to bring more low fare travel to the people of ASEAN, and to encourage and boost trade and tourism amongst countries in ASEAN.

• Guests' Convenience • Safety First • Cost Optimisation

major milestones

19 AUG 2003

11 DEC 2003

21 MAY 2004

22 NOV 2004

2001

8 DECEMBER

Tune Air Sdn Bhd officially took over AirAsia, acquiring 99.25% of Hicom Holdings' equity in AirAsia, amounting to 51.68 million shares.

2002

18 APRIL

AirAsia became Asia's first airline to go ticketless.

10 MAY

AirAsia introduced online booking through its website at www.airasia.com.

28 DECEMBER

AirAsia's cabin crew from Batch 10 were the first to graduate from the airline's in-house training program.

2003

27 JUNE

AirAsia signed a shareholders' agreement with IDB Infrastructure Fund L.P., Crescent Venture Partners and Deucalion Capital II Limited. The three new partners acquired equity in AirAsia Sdn Bhd worth USD26 million (RM98.80 million).

15 JULY

AirAsia became Asia's first airline to introduce a multi-lingual website.

19 AUGUST

AirAsia introduced the World's First Airline SMS Booking. The launch was officiated by YAB Dato' Seri Abdullah bin Haji Ahmad Badawi, then Deputy Prime Minister of Malaysia.

9 SEPTEMBER

AirAsia launched Go Holiday, the airline's very own Online Holiday Program where guests can book attractive and affordable holiday packages online through its website at www.airasia.com.

31 OCTOBER

AirAsia launched Johor Bahru as its 2nd operational hub.

12 NOVEMBER

AirAsia announced a joint venture with Shin Corporation of Thailand to form a low cost carrier in Thailand with the establishment of AirAsia Aviation Co. Ltd.

8 DECEMBER

AirAsia's first international flight took off to Phuket!

11 DECEMBER

The launch of AirAsia's new hangar in KLIA was officiated by YB Dato' Sri Chan Kong Choy, Minister of Transport Malaysia.

2004

16 FEBRUARY

Thai AirAsia's first international flight took off from Bangkok to Singapore with fares from Baht 1,300 (S$59.99), one way.

5 APRIL

AirAsia launched its very own credit card in Singapore called the AirAsia Mastercard through partnership with DBS Bank Ltd.

21 MAY

AirAsia's 17th Boeing 737-300 named after renowned Malaysian cartoonist, Dato' Lat, arrived in KLIA. The "Lat" plane features popular characters from Dato' Lat's Kampung Boy.

17 DEC 2004

Old Trafford, Manchester, United Kingdom

13 JUN 2005

22 JUL 2005

23 AUG 2005

22 NOVEMBER
AirAsia was officially listed on the Main Board of Bursa Malaysia.

8 DECEMBER
AirAsia announced a joint venture with PT AWAIR of Indonesia after acquiring 49% stake in the airline to form a low cost carrier in Indonesia.

17 DECEMBER
AirAsia signed a Memorandum of Understanding with Airbus for the purchase of 100 Airbus A320s.

2005

9 JANUARY
AirAsia's Indonesian venture, AWAIR commenced flights to Bali and Surabaya with fares from Rp 49,000 and Rp 39,000 respectively.

21 FEBRUARY
AirAsia launched Go Hostel, an online reservation service for hostel and budget accommodation at very low prices through its partnership with HostelWorld.com.

29 MARCH
AirAsia launched Go Car in partnership with Asian-Rent-A-Car, offering affordable and convenient car rental service from RM30.00 a day.

1 APRIL
AirAsia's first batch of cadet pilots completed their 2-year training program at the Malaysian Flying Academy in Malacca. Among the graduates were 5 AirAsia staff from various departments including Guest Services, Cabin Crew, Engineering, Purchasing and Sales.

5 APRIL
AirAsia was the first low cost carrier to land at Diosdado Macapagal International Airport (formerly Clark Angeles Airport), Philippines.

13 JUNE
AirAsia signed a deal valued at USD750 million with CFM International for the purchase of CFM56 – 5B engines to power its fleet of A320s. Held at the Paris Air Show, the signing ceremony was witnessed by YAB Datuk Seri Najib bin Tun Abdul Razak, Deputy Prime Minister of Malaysia.

1 JULY
AirAsia goes flexible with its online payments! The airline launched its online direct debit payment through a partnership with Maybank2u.com.

22 JULY
AirAsia created history by becoming the first low cost carrier in Asia to successfully associate itself with Manchester United, one of the biggest and most renowned football clubs in the English Premier League and the world, following a one-year sponsorship deal making AirAsia the official low fare airline for the club.

14 AUGUST
AirAsia announced the extension of its cabin crew retirement age to 55 years. The event was officiated by YB Dato' Seri Shahrizat Abdul Jalil, Minister of Women and Family Development Malaysia.

23 AUGUST
AirAsia scored another world's first with the introduction of mobile.airasia.com, a comprehensive booking system targeting mobile phone users with GPRS, 3G, EDGE or any wireless devices. This service enables users to view AirAsia's website directly from their mobile phones and book and pay for their flights, anywhere and anytime!

AirAsia group

AIRASIA BERHAD

284669-W

- **99.8%** — AA International Ltd
  Investment holdings
  (0.2% of the shares held by Tune Air Sdn Bhd and others)
  - **100%** — AirAsia (Hong Kong) Ltd
    Dormant
    (Airline and air transport services)
- **100%** — AirAsia (Mauritius) Ltd
  Leasing entity
- **100%** — AirAsia Go Holiday Sdn Bhd
  Operating company for "Go Holiday" and "Get a Room"
- **100%** — Crunchtime Culinary Services Sdn Bhd
  Inflight sale of food and merchandise
- **49%** — AirAsia Pte Ltd (S'pore)
  Dormant
  (Airline and air transport services)
  (51% of the shares held by Tan Kim Lan)
- **48.9%** — PT AWAIR International
  Airline and air transport services
  (other shareholders are Pin Harris, Sendjaja Widjaja and PT Fersindo Nusaperkasa)
- **49%** — Thai AirAsia Co. Ltd
  Airline and air transport services
  (50% of the shares held by Shin Corporation Plc)
  - **100%** — Thai AirAsia Hong Kong Ltd
    Dormant
    (Airline and air transport services)
  - **51%** — Thai Crunch Time Co. Ltd
    Inflight sale of food and merchandise

49%

Note: As at 7 October 2005

corporate information

BOARD OF DIRECTORS

Dato' Pahamin bin Ab. Rajab	*Chairman/Non-Executive Director*
Dato' Tony Fernandes	*Group Chief Executive Officer*
Kamarudin bin Meranun	*Executive Director*
Abdel Aziz @ Abdul Aziz bin Abu Bakar	*Non-Executive Director*
Mumtaz Khan	*Non-Executive Director*
John Francis Tierney	*Non-Executive Director*
Conor McCarthy	*Non-Executive Director*
Tan Sri Dato' (Dr) R.V. Navaratnam	*Independent Non-Executive Director*
Dato' Leong Sonny @ Leong Khee Seong	*Independent Non-Executive Director*
Fam Lee Ee	*Independent Non-Executive Director*
Timothy Wakefield Ross	*Non-Executive Director*
Datuk Alias bin Ali	*Independent Non-Executive Director*
Richard Todd Scanlon	*Alternate Director to Timothy Wakefield Ross*
Adeeb Ahmed	*Alternate Director to Mumtaz Khan*
Paul John Da Vall	*Alternate Director to John Francis Tierney*

AUDIT COMMITTEE

Dato' Leong Sonny @ Leong Khee Seong
Fam Lee Ee
John Francis Tierney

NOMINATION COMMITTEE

Dato' Pahamin bin Ab. Rajab
Tan Sri Dato' (Dr) R.V. Navaratnam
Fam Lee Ee

REMUNERATION COMMITTEE

Mumtaz Khan
John Francis Tierney
Dato' Leong Sonny @ Leong Khee Seong

COMPANY SECRETARY

Jasmindar Kaur a/p Sarban Singh
(MAICSA 7002687)

AUDITORS

PricewaterhouseCoopers
11th Floor, Wisma Sime Darby
Jalan Raja Laut
50350 Kuala Lumpur
Malaysia
Tel : (603) 2693 1077
Fax : (603) 2693 0997

REGISTERED OFFICE

AirAsia Berhad
(Company No. 284669-W)
25-5, Block H, Jalan PJU 1/37
Dataran Prima
47301 Petaling Jaya
Selangor Darul Ehsan
Malaysia
Tel : (603) 7880 9318
Fax : (603) 7880 6318
E-mail : investorrelations@airasia.com
Website : www.airasia.com

SHARE REGISTRAR

Symphony Share Registrars Sdn Bhd
Level 26, Menara Multi-Purpose
Capital Square
No. 8 Jalan Munshi Abdullah
50100 Kuala Lumpur
Malaysia
Tel : (603) 2721 2222
Fax : (603) 2721 2530/1

SOLICITORS

Messrs Logan Sabapathy & Co.

PRINCIPAL BANKERS

Commerce International Merchant Bankers Berhad
Citibank Berhad
DBS Bank Ltd
Malayan Banking Berhad
RHB Bank Berhad
Standard Chartered Bank Malaysia Berhad

CORPORATE BROKER

ECM Libra Berhad

CORPORATE ADVISOR

Credit Suisse First Boston

STOCK EXCHANGE LISTING

Bursa Malaysia Securities Berhad
(Listed on 22 November 2004)
(Stock code: 5099)

board of directors

left to right: Dato' Pahamin bin Ab.Rajab | Dato' Tony Fernandes | Kamarudin bin Meranun | Abdel Aziz @ Abdul Aziz Abu Bakar | Mumtaz Khan | John Francis Tierney | Adeeb Ahmed | Richard Todd Scanlon | Paul John Da Vall | Datuk Alias bin Ali | Conor McCarthy | Tan Sri Dato' (Dr) R.V. Navaratnam | Dato' Leong Sonny @ Leong Khee Seong | Fam Lee Ee | Timothy Wakefield Ross

directors' profile

DATO' PAHAMIN BIN AB. RAJAB, aged 58, an Advocate and Solicitor of the High Court of Malaya, was appointed Non-Executive Chairman of the Company on 14 December 2001. He is also a member of the Nomination Committee of the Board. Prior to joining the Company, he worked in several ministries and government agencies in Malaysia over a 30-year period and held various key positions including as Director General of Road Transport Department at the Ministry of Transport from 1974 to 1998, Secretary-General of the Ministry of Domestic Trade and Consumer Affairs from 1998 to 2001 and Chairman of the Patent Board and the Controller of Copyright from 1998 to 2001. He is recognised internationally as an expert in intellectual property laws by the World Intellectual Property Organisation and, in 2000, was awarded the prestigious Cyber Champion International Award by Business Software Alliance in Washington. He received a B.A. degree in International Relations from the University of Malaya in 1970, a post-graduate Diploma in Shariah Law and Practice from the International Islamic University, Malaysia in 1991, a law degree (LL.B) from the University of London in 1990, and a Master of Arts (Public Policy and Administration), majoring in Economic Development, from the University of Wisconsin in 1978. He is also the Chairman of SEG International Berhad.

DATO' ANTHONY FRANCIS FERNANDES (DATO' TONY FERNANDES), aged 41, was appointed Group Chief Executive Officer of the Company in December 2001. He is also a member of the Management Executive and Employees Share Option Scheme Committees of the Board. Prior to joining the Company, he was Financial Controller at Virgin Communications London from 1987 to 1989, Senior Financial Analyst at Warner Music International London from 1989 to 1992, Managing Director at Warner Music Malaysia, from 1992 to 1996, Regional Managing Director, ASEAN from August 1996 to December 1999 and Vice President, ASEAN from December 1999 to July 2001 at Warner Music South East Asia. He was actively involved in developing the Malaysian music industry and received the title "Setia Mahkota Selangor" from Duli Yang Maha Mulia DiPertuan Agong, Sultan Salahuddin Abdul Aziz Shah in 1999 in recognition of his contributions and was also the recipient of the "Recording Industry Person of the Year 1997" by the Recording Industry Association of Malaysia. In addition, he received the International Herald Tribune award for the Visionaries & Leadership Series in 2003 for his outstanding achievements with AirAsia, and was named "Malaysia CEO of the Year 2003" by American Express and the Business Times. He was named the "Emerging Entrepreneur of the Year – Malaysia 2003" at the Ernst & Young Entrepreneur of the Year Awards in 2004 and was one of Business Week's 25 Stars of Asia for 2004. He was also awarded the "Airline Business Strategy Award 2005 and Low Cost Leadership" by Airline Business. He was admitted as an Associate Member of the Association of Chartered Certified Accountants in 1991 and became a Fellow Member in 1996. In July 2005, he was conferred the Darjah Datuk Paduka Tuanku Ja'afar (DPTJ) which carries the title Dato' by the Negeri Sembilan's Yang DiPertuan Besar Tuanku Ja'afar Tuanku Abdul Rahman in conjunction with His Majesty's 83rd birthday celebrations in recognition of his services rendered to the betterment of the nation and community.

KAMARUDIN BIN MERANUN, aged 43, was appointed Director of the Company on 12 December 2001. In January 2004, he was appointed Executive Director. He is also a member of the Management Executive Committee and Chairman of the Employee Share Option Scheme Committee of the Board. Prior to joining the Company, he worked in Arab-Malaysian Merchant Bank from 1988 to 1993 as a Portfolio Manager, managing both institutional and high net-worth individual clients' investment funds. In 1994, he was appointed Executive Director of Innosabah Capital Management Sdn Bhd, a subsidiary of Innosabah Securities Sdn Bhd. He subsequently acquired the shares of its joint venture partner of Innosabah Capital Management Sdn Bhd, which was later renamed Intrinsic Capital Management Sdn Bhd. Kamarudin received a Diploma in Actuarial Science from University Technology MARA (UiTM) and was named the "Best Actuarial Student" by the Life Insurance Institute of Malaysia in 1983. He received a B.Sc. degree with Distinction (Magna Cum Laude) majoring in Finance in 1986, and an MBA in 1987 from Central Michigan University.

ABDEL AZIZ @ ABDUL AZIZ BIN ABU BAKAR, aged 52, was appointed Non-Executive Director of the Company on 20 April 2005. Prior to this, he served as an Alternate Director of the Company to Dato' Pahamin bin Ab. Rajab since 11 October 2004. He also served earlier as a Director of the Company from 12 December 2001 to 11 October 2004. He is currently the Executive Chairman of VDSL Network Sdn Bhd. He is also the Chairman of PAIMM (Academy of Malaysian Music Industry Association) and PRISM (Performance and Artists Rights Malaysia Sdn Bhd), a music performers collection body. From 1981 to 1983 he was Executive Director of Showmasters (M) Sdn Bhd, an artiste management and concert promotion company. He subsequently joined BMG Music and was General Manager from 1989 to 1997 and, Managing Director from 1997 to 1999. He received a Diploma in Agriculture from Universiti Pertanian Malaysia in 1975, BSc in Agriculture Business from Louisiana State University, USA in 1978, and an MBA from the University of Dallas, USA in 1980.

MUMTAZ KHAN, aged 55, was appointed as Non-Executive Director of the Company on 18 July 2003. He is also Chairman of the Remuneration Committee of the Board. He has been Chairman and CEO of Emerging Markets Partnership (Bahrain) E.C., the General Partner and Manager of the USD730.5 million Islamic Development Bank Infrastructure Fund L.P. since 2001. From 1994 to 2001 he was Managing Director at Emerging Markets Partnership, Washington. From 1981 to 1994, he held various positions at International Finance Corporation, the last of which was Manager, Asia Department. He obtained a Bachelor of Science in Mechanical Engineering from the University of Engineering and Technology in Lahore, Pakistan in 1969, and an MBA from the Iran Center for Management Studies, Tehran in 1979.

JOHN FRANCIS TIERNEY, aged 60, was appointed Non-Executive Director of the Company on 18 July 2003. He is also a member of the Audit and Remuneration Committees of the Board. He has more than 20 years of experience in the aviation industry, having served as Chief Financial Officer and Director of GPA Group Plc, a global aircraft-leasing company from 1981 to 1997, following which he become an independent adviser and consultant within the aviation and transport financing sector. He served as Chairman of Datalex Plc, a leading Irish software travel company, from 1998 to 2001 and was a non-executive director at America West Airlines from 1993 to 2005. He continues to hold a number of non-executive directorships including International Transport Finance Limited, Aircraft Lease Securitisation Limited and NS Financial Services, the operating lease arm of the Dutch State Railways. He is also Chairman of the Board of Clongowes Wood College. He holds a B.Comm and an MBA degree from University College Dublin, and is a fellow of the Institute of Chartered Accountants in Ireland.

CONOR McCARTHY, aged 43, was appointed Non-Executive Director of the Company on 21 June 2004. He heads the Operations Safety Committee of the Board. He is currently Managing Director of PlaneConsult, a leading aviation business solutions provider whose clients include low fare airlines, full service carriers and airports. Prior to establishing PlaneConsult, Conor was the Director of Group Operations at Ryanair from 1996 to 2000. While he was with Ryanair, the airline underwent a successful initial public offering on NASDAQ and the Irish Stock Exchange. Before joining Ryanair, he was the CEO of Aer Lingus Commuter. Prior to that, he was General Manager/SVP for Aer Lingus in the Marketing and Strategic Planning divisions. He spent 18 years with Aer Lingus in all areas of the airline business from Engineering, Operations and Maintenance to Commercial Planning, Marketing and Route Economics to Finance, Strategic Management, Fleet Planning and General Management. Conor joined Aer Lingus as an Apprentice Avionics Engineer in 1978 and subsequently through a scholarship graduated in 1986 with a First Class Honours degree in Engineering from Trinity College Dublin.

TAN SRI DATO' (DR) R.V. NAVARATNAM, aged 70, was appointed Independent Non-Executive Director of the Company on 8 October 2004. He is also a member of the Nomination Committee of the Board. He has held various senior positions at the Ministry of Finance, with last position held being that of Deputy Secretary-General. He retired as Secretary-General of the Ministry of Transport (1986 to 1989). His illustrious career includes having served as an Alternate Executive Director of the World Bank, Washington D.C. (1971 to 1972), the first Government representative on the Executive Committee of Bursa Malaysia Securities Berhad (formerly known as Malaysia Securities Exchange Berhad) (1985), Chairman of the ASEAN Committee on Transportation and Communication (1986 to 1989), a Member of the National Development Planning Committee (1989) and a Member of the Securities Commission. After leaving the public service, he joined Bank Buruh (M) Bhd as Chief Executive Officer and served for 5 years (1989 to 1994). He was Vice Chairman of the Malaysian Business Council, is a member of the Malaysian External Trade Development Corporation (MATRADE), Director of the Malaysian Industry-Government Group for High Technology (MIGHT) and appointed member of the National Economic Consultative Council (MAPEN II) in August 1999. He is presently a member of the Court of Fellows and Council of the Malaysian Institute of Management and Deputy President of the Institute of Management Consultants. He was Vice President of the Malaysian Economic Association and the Vice President of the Harvard Club. He attained a Bachelor of Arts (Honours) Econs from University of Malaya in Singapore in 1959, Diploma from Royal Institute of Public Administration in London in 1963 and a Master in Public Administration (Econs) from Harvard University, USA in 1969. He was awarded an Honorary Doctorate of Laws by the Oxford Brookes University (UK) in 2000. He currently holds directorship positions at Monash University and the Asian Strategy and Leadership Institute and is Corporate Adviser to the Sunway Group and Deputy Chairman of Sunway College. He is also a Director of Sunway Construction Bhd and Sunway International Vacation Club Berhad.

DATO' LEONG SONNY @ LEONG KHEE SEONG, aged 66, was appointed Independent Non-Executive Director of the Company on 8 October 2004. He is Chairman of the Audit Committee and a member of the Remuneration Committee of the Board. He was the Minister of Primary Industries from 1978 to 1986 and a Member of Parliament from 1974 to 1990. Prior to this, he was a substantial shareholder of his family's private limited companies, which were principally involved in general trading. He was Chairman of the General Agreement on Tariffs and Trade's Negotiating Committee on Tropical Products (1986 to 1990) and Chairman of the Group of 14 on ASEAN Economic Cooperation and Integration (1986 to 1987). He graduated with a degree in Chemical Engineering in 1964 from University of New South Wales, Australia. Dato' Leong currently holds directorship positions in a few other private limited companies and, Independent Non-Executive Deputy Chairman of Sin Chew Media Corporation Berhad.

FAM LEE EE, aged 44, was appointed Independent Non-Executive Director of the Company on 8 October 2004. He is also a member of the Audit and Nomination Committees of the Board. He received his BA(Hons) from the University of Malaya in 1986 and an LL.B(Hons) from the University of Liverpool, England in 1989. He obtained his Certificate of Legal Practice in 1990 and has been practising law since 1991 and currently is a senior partner at Messrs. YF Chun, Fam & Yeo. He also serves as a Director of M-Mode Berhad.

TIMOTHY WAKEFIELD ROSS, aged 41, was appointed Independent Non-Executive Director of the Company on 20 April 2005. His position subsequently changed to Non-Executive Director on 23 September 2005. He is a member of the Operations Safety Committee of the Board. He is an associate consultant with the Centre for Asia-Pacific Aviation, and runs his own airline consultancy business. He served earlier as Independent Non-Executive Director of the Company from 20 April 2005. Prior to this, he was attached to UBS Investment Bank (UBS), one of the world's leading investment banks, holding several senior appointments including that of Managing Director, Head of global airline research and Head of Asian regional transport research which gained him extensive experience and exposure in countries such as New Zealand, the United States, Singapore (where he also headed UBS's research division) and Hong Kong. He was one of Asia-Pacific's highly renowned airline and transport analysts having topped Institutional Investor magazine's poll of funds managers for four consecutive years. In 2004, he also led the bank's global airline team to the number one spot. He worked for UBS from August 1992 to 19 April 2005. He graduated with a Master's degree in English Literature and Diploma in Finance from University of Auckland.

DATUK ALIAS BIN ALI, aged 57, was appointed Independent Non-Executive Director of the Company on 23 September 2005. Prior to this, he had a long and distinguished career with the Government which began soon after his graduation from the University of Malaya in 1970. He started as an Administration Trainee Officer in the Statistics Department. He subsequently joined the Prime Minister's Department as an Administration Development Officer. Whilst still with the department, he completed his Master in Business Management and assumed the position of Head of Department (Consultancy) at the National Institute of Public Administration (INTAN) in 1975. Over the next 15 years with the Government, he held various senior positions at several Ministries and Departments including as Deputy Director of Training (Operations) in the Public Services Department, Under Secretary (Establishment and Services) in the Ministry of Works and Director of Industrial Development Division in the Ministry of Trade and Industry. He moved back to the Prime Minister's Department in 1990 as Cabinet Under Secretary. In June 2000, he was appointed Secretary General of the Ministry of Health, a post he held until his retirement in March 2004. He received a Master in Business Management from the Asian Institute of Management, Philippines in 1975 and a Bachelor of Economics (Honours) from the University of Malaya in 1970. He is also presently a Director of Pos Malaysia & Services Holdings Berhad, Integrated Rubber Corporation Berhad, FIMA Corporation Berhad and Mentakab Rubber Company Berhad.

RICHARD TODD SCANLON, aged 36, was appointed Alternate Director of the Company to Mr. Timothy Wakefield Ross on 23 September 2005. Prior to this, he served as alternate director to Mr. Sami Ali A. Sindi who tendered his resignation to the Board on 23 September 2005. He is currently a partner at Crescent Point Group and Managing Director of Crescent Point Group's businesses in the Asia Pacific region, where he has been based since 1996. Prior to joining Crescent Point Group, he worked at Morgan Stanley from 1997 to 2001 and became Vice President at Morgan Stanley's Investment Banking Division in 1999. From 2001 to 2003 he was Vice President of Credit Suisse First Boston's Emerging Markets Coverage Group and Investment Banking Department. He received a B.A. with Distinction (Cum Laude) from Middlebury College where he majored in Architecture and Physics (Honors Thesis), in 1993.

ADEEB AHMED, aged 38, was appointed Alternate Director of the Company to Mr. Mumtaz Khan on 22 December 2003. He has been Director, Investments of Emerging Markets Partnership (Bahrain), the General Partner and Manager of the USD730.5 million Islamic Development Bank Infrastructure Fund L.P. since 2000. He was Assistant Director for the Global Islamic Finance Division at ANZ Investment Bank from 1999 to 2000, Senior Manager and Head of Structured Asset Finance and Global Islamic Finance Division at ABN AMRO Bank, Bahrain from 1998 to 1999, and Senior Vice President, Head of Investment Banking Group, Industrial Credit & Project Finance Divisions of the Muslim Commercial Bank Limited, Pakistan from 1995 to 1998. He received a M.Sc. in Accounting and Finance from the London School of Economics & Political Science in 1993 and an MBA from the Institute of Business Administration, University of Karachi, Pakistan in 1988.

PAUL JOHN DA VALL, aged 35, was appointed Alternate Director of the Company to Mr. John Francis Tierney on 17 August 2005. He is currently the Vice President of the Investment Management division of DVB Bank AG, based in London. Before he joined DVB in June 2004, he served as Director of the aviation finance division of Scotia Capital, which is the Corporate and Investment banking business of The Bank of Nova Scotia from 1998 to 2004, based in London. Prior to joining Scotia Capital, he worked in aircraft remarketing for Fortis Aviation (now trading as Focus Aviation) in the United Kingdom. He is an Economics graduate of University College London.

Notes:

1. **Family Relationship with Director and/or Major Shareholder**
   None of the Directors have any family relationship with any director and/or major shareholder of AirAsia.

2. **Conflict of Interest**
   None of the Directors have any conflict of interest with AirAsia Group.

3. **Conviction for Offences**
   None of the Directors have been convicted for offences within the past 10 years other than traffic offences, if any.

4. **Attendance of Board Meetings**
   The attendance of the Directors at Board of Directors' Meetings is disclosed in the Corporate Governance Statement.

senior management

left to right:
Tony Fernandes, Wan Hasmar, Kamarudin Meranun, Kathleen Tan, Capt. Chandra Mohan, Capt. Chin Nyok San, Capt. Mohan Ganeson, Charles Chow, Tassapon Bijleveld, Bo Lingam, Kim Chua, Jean Chang, Nasser Kassim, Ashok Kumar, Lau Kin Choy, Azhari Dahlan, Raja Mohd Azmi Raja Razali, Sendjaja Widjaja, Joyce Lai

Note: As at 1 October 2005

senior management profile

TONY FERNANDES
Group Chief Executive Officer

Details of Tony Fernandes are disclosed in the Directors' Profile on page 12 of this Annual Report.

WAN HASMAR
Executive Vice President – Operations

Wan Hasmar has been Executive Vice President – Operations since January 2005. He has 15 years experience in aircraft maintenance and planning as well as in the procurement of spares. From 1989 to 1996, Wan held various positions at Malaysia Airlines (MAS) where he was involved in the maintenance of Boeing 737-300 models as well as setting-up and operating line stations. Wan was seconded to Boeing where he oversaw the production of Boeing 737, 747 and 777 and Airbus A330 service aircrafts from 1994 to 1995.

Wan joined AirAsia in 1996 as Maintenance Manager until 2000 and he was Head of Engineering from 2000 to February 2004, following which he was appointed Deputy Director of Operations – Engineering. He was later promoted to Director, Engineering in March 2004. Wan holds a Certificate of Approval from DCA and the Civil Aviation Authority of the United Kingdom in relation to certain Boeing airframe and engine systems.

KAMARUDIN MERANUN
Executive Director

Details of Kamarudin Meranun are disclosed in the Directors' Profile on page 12 of this Annual Report.

KATHLEEN TAN
Executive Vice-President – Commercial

Kathleen Tan joined AirAsia as Senior Vice-President for Greater China in August 2004. Kathleen was instrumental in securing AirAsia's entry to China and launching the first route to Xiamen, making AirAsia the first low cost carrier to operate in China. As Head of Commercial, Kathleen is responsible for driving route revenue, sales and distribution, marketing and brand building within the AirAsia network.

Prior to AirAsia, she was Managing Director of Warner Music Singapore for 7 years, Chairperson of Recording Industry Association of Singapore and Regional Marketing Director of Warner Music Asia Pacific in Hong Kong for 3 years. During her six years with FJ Benjamin Group Singapore, she was involved in brand marketing and the brainchild behind the success of Guess label in South East Asia as well as marketing communications for Gucci, Coach, Fendi and many other labels within the Group. Kathleen's career began in advertising having worked in agencies such as Leo Burnett and Mojo.

CAPTAIN CHANDRA MOHAN
Regional Director, Flight Operations

Captain Chandra Mohan, graduated from the Royal Military College in 1973 and obtained his Wings from the Royal Australian Air Force in 1975 before serving the Royal Malaysian Air Force (RMAF) until 1993. The highest position he has served in the Air Force as a pilot was as an Instructor/Examiner of Airmen and in the field of management, as Squadron Commander before his last position as Military Advisor to the Chief of the Air Force.

After his optional retirement from the RMAF, Captain Mohan continued to fly Boeing 737s for Transmile Air before joining AirAsia in 2002. He has accumulated more than 10,000 flight hours, half of which are on B737s.

Captain Mohan was promoted to Director of Flight Operations in April 2005, and assumed the position of Regional Director, Flight Operations in June 2005.

CAPTAIN CHIN NYOK SAN
Executive Vice President – Planning and Business Development

Captain Chin assumed the role of Executive Vice President – Planning and Business Development in January 2005. Prior to this, he was the Head of Flight Operations of the Company from May 1996 to February 2004. A pilot by profession, Captain Chin has over 30 years experience in the airline industry. Prior to joining the Company, he was a Co-Pilot for Wira Kris Schreiner from 1978 to 1979, Management Pilot, Training Captain, Authorised Examiner and Line pilot for Malaysia Air Charter from 1979 to 1986; Flight Operations Manager, Chief Pilot, Training Captain and Authorised Examiner for Pelangi Air from 1989 to 1993; and Chief Pilot for Mofaz Air Sdn Bhd. He obtained his Commercial Pilot's License in 1976 and Airline Transport Pilot's license in 1985 from the Department of Civil Aviation Malaysia. He also obtained his Airline Transport Pilot's license from the Federal Aviation Administration in 1994.

He is responsible for the effective planning and business development of the Group's operations, associated administrative and supporting activities which include Maintenance Systems, Flight Operations and Ground Operations.

CAPTAIN MOHAN GANESON
Regional Director, AirAsia Academy

Captain Mohan who graduated with a Master's degree in Science from India, secured his commercial pilot licence from Cessnock, Australia and Air Transport Pilot Licence (ATPL) from Oxford, United Kingdom. He previously worked as a flight steward with Malaysia Airlines and with a local frozen food company representing international brands.

Captain Mohan joined AirAsia in 1999 as First Officer and subsequently rose to the position of Captain. He was later made Assistant Chief Pilot, Training and went on to become Head of Training. On January 2005, Captain Mohan was promoted to Regional Director of Training, overseeing the smooth running of the AirAsia Academy. He still continues to fly Boeing 737s.

CHARLES CJ CHOW
Group General Counsel

Charles Chow joined AirAsia in 2002. He brought to the Company the benefit of a wide range of skills attained from a diverse background that includes experience in private legal practice, journalism, advertising and marketing communications, HR consultancy and as an in-house Legal Counsel to HSBC Hong Kong and IOI Corp Berhad. He has an LLB (Hons) from the National University of Singapore and a BA (Hons) from the University of Malaya. Charles now oversees the Group's legal matters as Group General Counsel.

TASSAPON BIJLEVELD
Chief Executive Officer, Thai AirAsia

Tassapon joined Thai AirAsia in 2003 as Chief Executive Officer and is entrusted with the responsibility of overseeing all aspects of the airline's operations as well as driving its growth in Thailand. He received a Bachelor's degree in Marketing from Assumption University, Thailand and a Master in International Marketing from Thamasart University, Thailand.

Tassapon has had more than 10 years experience in the consumer products industry, having worked in various countries in South East Asia and Indo China for two Fortune 500 companies – Adams (Thailand) Co., Ltd (a division of Warner Lambert) and Monsanto (Thailand) Co., Ltd. Prior to joining AirAsia, he was Managing Director of Warner Music (Thailand) Co., Ltd. for 5 years.

BO LINGAM
Regional Director, Guest Services

Bo Lingam has, prior to joining AirAsia, worked extensively in the publication and music industry including as Production Controller from 1990 to 1993 at EMI Music Malaysia Sdn Bhd; Operations Manager from 1993 to 1998 and Promotions Manager from 1999 to 2001 at Warner Music Malaysia Sdn Bhd.

He joined AirAsia in November 2001 as Ground Operations Manager. Prior to his current appointment as Regional Director, Guest Services in addition to managing Operations Control, Bo also held several key roles at AirAsia including as Senior Manager, Purchasing & Supplies before he was seconded to Thai AirAsia to oversee and assist in the initial set-up of operations in Bangkok.

KIM CHUA
Manager, Group CEO Office

Kim Chua joined AirAsia in December 2001 and was one of the pioneer members of Tune Air Sdn Bhd involved in the takeover of AirAsia from DRB-Hicom. As Manager, CEO's Department, Kim assists the Group CEO in the areas of administration, personnel and special projects.

Prior to joining AirAsia she was with Warner Music Malaysia from 1996 to 2001 as Personal Assistant to the Managing Director Asean and later the Vice President, Asean. During her tenure with Warner, she also worked as Classical Manager, responsible for the sales and marketing of classical music. Kim holds a Diploma in Marketing from the Chartered Institute of Marketing, United Kingdom and a Bachelor of Business (Business Administration) with Distinction from the Royal Melbourne Institute of Technology (RMIT) University, Australia.

JEAN CHANG

Executive Vice President – Greater China & North Asia

Jean Chang joined AirAsia from China National Aviation Corporation (CNAC), the holding company of Air China and Dragonair in addition to having served a number of aviation related firms in China and Hong Kong. Prior to joining AirAsia, Jean had served on the Board and Executive Committee of many prestigious companies and trade bodies such as LSG Skychef, Hong Kong Aircargo Terminal Ltd, China Aircraft Services Ltd, CAAC Holidays, Aviation Fuel Service Company, China Airport Investment Fund and the Board of Airlines Representative.

Jean has an in depth knowledge of the airline and aviation related industry, both within and outside China. He has over 20 years of experience in aircraft sales and leasing, airport privatisation and master planning, aviation portfolio investment and management. Jean also knows the tourism industry intimately, having served as Chairman of CAAC Holidays (once a unit of the all-embracing CAAC). As AirAsia's Executive Vice President – Greater China & North Asia, Jean spearheads AirAsia's operations in these regions.

NASSER KASSIM

Regional Director, In-Flight Services, Charter and Cargo

Nasser Kassim served as Country Director of AirAsia operations in Indonesia before his recent appointment as Regional Director, In-Flight Services, Charter and Cargo in May 2005. Prior to that, Nasser was Executive Director, Business Development managing AirAsia's Haj operations, cargo, charter and Army contracts. Nasser's contribution to AirAsia's rapid expansion plans includes overseeing the development of routes, negotiating aircraft leases and acting as airport(s) liaison.

Nasser's expertise in developing regional markets is based on the vast experience he acquired from an illustrious 18-year career in Warner Music Malaysia Sdn Bhd where he held various key positions including Artist & Repertoire Director from 1985 to 1988 and Executive Director from 1989 to 2001. As one of the pioneers in the Malaysian music industry, Nasser had managed some of the biggest selling artists in Malaysia and was responsible for marketing and developing these talents across Asia, where he gained invaluable exposure and an understanding of the Asian markets and cultures.

ASHOK KUMAR

Regional Director, Airport and Public Policy

Ashok Kumar has been Regional Director, Airport and Public Policy of the Company since January 2005. Prior to that, Ashok was Regional Director, Government and Business Relations since October 2004. He has 35 years experience in the airline industry, having worked at Malaysia-Singapore Airlines as Management Trainee/Marketing Executive from 1970 to 1972 and MAS from 1972 to 2003, where he held various key positions, including as Assistant General Manager, Operations Planning, before joining the Company in 2003 as Senior Manager, Commercial Planning and Strategy. Ashok also served as Chairman of the IATA Schedule Coordination Conference in November 1993 for the coordination of Northern Summer 1994 schedules. Ashok received a Bachelor of Applied Economics (Hons) from the University of Malaya in 1970.

LAU KIN CHOY

Regional Director, Information Technology

Lau Kin Choy has been Regional Director, Information Technology since July 2004 and was previously, Senior Manager and Chief Information Officer from August 2002. Prior to joining the Company, Lau

was the General Manager of WEB Distribution Services Sdn Bhd, a joint venture music distribution and logistic center for Warner Music, EMI Malaysia and BMG Music, where he was responsible for running systems, warehouse operations and sales collection, from 1998 to 2002. Lau also worked as an IT and Operations Manager at Warner Music Malaysia from 1989 to 1997, and IT Operations Officer at OCBC Bank from 1981 to 1988. Lau received a Diploma in NCC Computing in 1986 and a City and Guilds Certificate in Computing in 1984.

AZHARI DAHLAN

Regional Director, Engineering

Azhari Dahlan has been Regional Director of Engineering since September 2004, overseeing the Group's airline engineering functions in Malaysia, Indonesia and Thailand. Prior to that, Azhari was Manager, Planning and Logistics from 1996 to 2004. He has more than 17 years experience in the airline industry, 8 of which was with Malaysia Airlines as Licensed Aircraft Engineer from 1987 to 1992, Aircraft Check Foreman from 1992 to 1994 (during which period he was seconded to China to provide aircraft post check support for China South West Airlines) and Production Inspector from 1994 to 1995. From 1995 to 1996, he was with Transmile Air initially as a Licensed Aircraft Engineer and subsequently, as Quality Assurance Engineer. Azhari is a Licensed Aircraft Engineer by profession, and has undergone training at Leonard Isitt Training School, Christchurch, New Zealand and, Malaysia Airlines Technical Training School, Subang, Selangor.

RAJA MOHD AZMI RAJA RAZALI

Executive Vice President and Group Chief Financial Officer

Raja Mohd Azmi has been Executive Vice President since June 2004 and Chief Financial Officer of the Company since December 2001. He has more than 20 years experience in corporate and financial management, having worked with many international organisations and held various positions including Financial Analyst at Esso from 1983 to 1988, Chief Accountant at Philips Malaysia Bhd from 1989 to 1995 and Head of Finance and Human Resources at Eveready Battery Sdn Bhd from 1995 to 1996. Azmi joined Tune Air Sdn Bhd in October 2001 as the Chief Financial Officer. He studied at the London School of Accountancy and received a Chartered Institute of Management Accountants qualification in 1982.

SENDJAJA WIDJAJA

President Director, AWAIR

Sendjaja Widjaja has been President Director of PT AWAIR International since November 2004. He also holds directorship positions in PT Langgeng Gitamusikal, PT Pancabiba Manunggal and Sonic Mastering Lab Sdn Bhd since 2001. Prior to joining the Company, he was President Director of PT Musica Studio's from 2001 to 2004; President Director of Warner Music Indonesia from 1997 to 2001; President Director of Hema Gitatama Record from 1994 to 1995 and, President Director of PT Musica Studio's from 1980 to 1994. Sendjaja received a Degree in Business from Willesden College, England in 1979.

JOYCE LAI LIH YIN

Regional Director, Corporate Culture and Service Quality

Joyce Lai, Regional Director, Corporate Culture and Service Quality is one of AirAsia's earliest team players who joined the then 2-plane airline as Senior Manager, Media in December 2001. She was promoted to Chief Communications Officer prior to her appointment as Regional Director, Marketing and Communications in July 2004. Joyce was instrumental in building the AirAsia brand name in Malaysia and the region, and raising its international profile. Joyce, who assumed her present position in March 2005, is responsible to build and foster the AirAsia culture across the Group and ensure that service levels and quality meet its brand values.

Prior to joining AirAsia, Joyce held various key positions in Warner Music Malaysia from 1994 to 2000, including as Group Product Manager and Strategic Marketing Manager. She subsequently joined BMG Music Malaysia as Senior Marketing Manager in 2000 and was later promoted to Marketing Director.

chairman's statement

"IN A LITTLE LESS THAN FOUR YEARS, WE HAVE CARRIED OVER 13 MILLION GUESTS AND SUCCESSFULLY ACQUIRED ASSOCIATES IN THAILAND AND INDONESIA."

Pahamin A. Rajab
Chairman

"... AIRASIA HAS DELIVERED SUBSTANTIAL PROFITS AND INDUSTRY LEADING MARGINS, WITH NET INCOME INCREASING SIGNIFICANTLY (127%) TO RM112 MILLION. THIS WAS ACHIEVED BY CARRYING 55% MORE PASSENGERS THAN IN FY2004 AND IMPROVING OUR UNIT COST BY 11%."

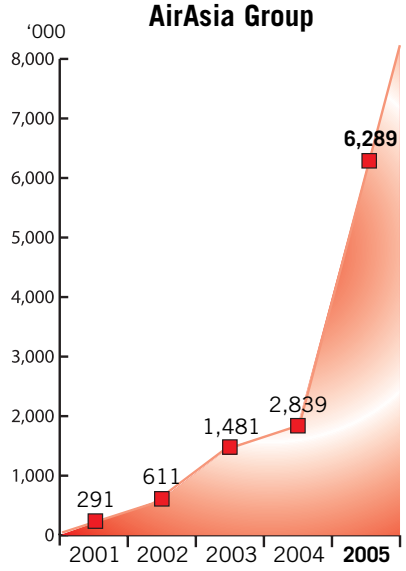
Dear Shareholders,

On behalf of the Board of Directors, I am pleased to present to you the inaugural Annual Report and Financial Statements of the AirAsia Group for the financial year ended 30 June 2005. This has been an exceptionally eventful year for us bearing in mind that AirAsia's history has never been less than colourful. In a little less than four years, we have carried over 13 million guests and successfully acquired associates in Thailand and Indonesia. We reinforced our position as the lowest cost listed airline in the world and we grew rapidly, doubling our route network to now include 52 destinations.

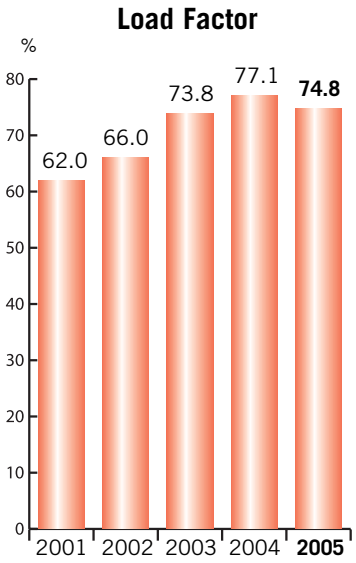
Despite this rate of growth we have remained mindful of the need to ensure there is no deterioration in our service quality.

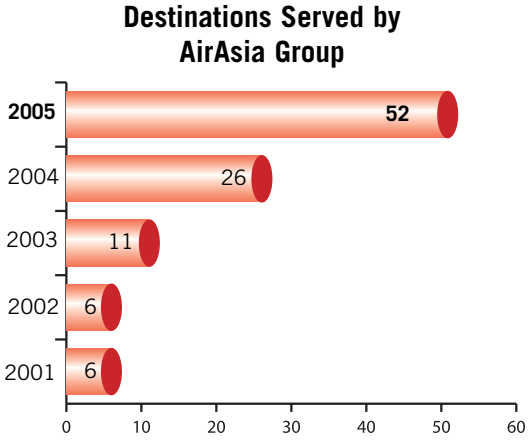
This has been a very challenging year for the airline industry – a Tsunami has claimed the lives of over 200,000 people in many of the Group's core markets, followed by earthquakes in Indonesia and civil unrest in southern Thailand. The price of jet fuel has constantly surged higher and lease rates rose significantly to levels approaching 2000's records. In the interest of the Group's long term profitability we have adhered to our business model and refused to acquire high priced aircraft necessary to achieve our targeted fleet plan. Although we did not achieve our IPO profit forecast, I am pleased to report that AirAsia has delivered substantial profits and industry leading margins, with net income increasing significantly (127%) to RM112 million. This was achieved by carrying 55% more passengers than in FY2004 and improving our unit cost by 11%.

Passengers Flown by AirAsia Group



AirAsia's hangar in KLIA.





During the year under review, we achieved the following milestones:

- Listed on the Main Board of Bursa Malaysia on 22 November 2004
- Doubled route network to 52 destinations
- Acquired our Indonesian associate PT AWAIR
- First low cost carrier to fly to China
- Successfully concluded a purchase agreement for 100 Airbus A320s and
- Tentatively will be the anchor tenant for the new low cost terminal under construction at the Kuala Lumpur International Airport.

The net proceeds of the IPO have enabled AirAsia to position itself among the world's top low cost carriers. With our high levels of corporate governance and transparency, we are seeing an increased level of interest from the business community, of which we are taking full advantage.

AirAsia will continue to offer the lowest airfares across Asia as we compete with national flag carriers and other low cost airlines. We remain confident that given the strength of our business model, cost benefits of the new Airbus A320, enhanced efficiency derived from the new low cost terminal and dedicated employees, we will continue to register strong growth in the years to come. We will continue to maintain low fares in order to make air travel accessible for everyone, in line with our slogan **"Now Everyone Can Fly".**

Finally, on behalf of the Board of Directors, I wish to express my sincere thanks to the Company's stakeholders – our shareholders, customers, business associates and the relevant authorities for the continued support and trust in us. As always, we are focused on maintaining superior customer satisfaction and enhancing shareholder value.

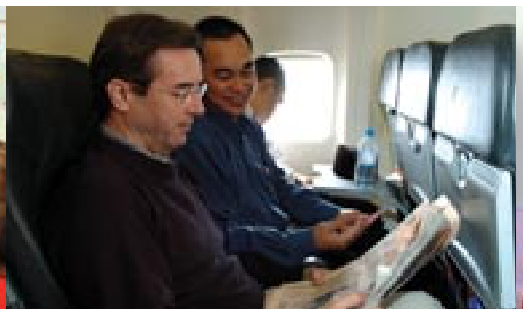
I also wish to extend my sincere appreciation to the management and staff for their invaluable contributions, dedication and commitment.

Pahamin A. Rajab
Chairman

group chief executive officer's review

"AS WE ENTER OUR FOURTH YEAR OF OPERATIONS, WE REMAIN COMMITTED TO PROVIDING THE BEST ALL-ROUND AIRLINE EXPERIENCE TO OUR GUESTS.
...WE SHALL BE REDOUBLING OUR EFFORTS TO KEEP OTHER COSTS LOW, LEVERAGING THE BENEFITS OF NEW TECHNOLOGY AND OUR NEW HOME..."

Tony Fernandes
Group Chief Executive Officer

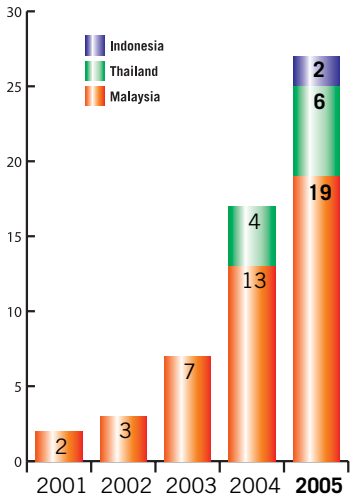


Dear Shareholders,

AirAsia set out to create an airline that provides passengers with superior service at the lowest available fare. We also aspired to create a working environment in which our employees felt empowered with a strong sense of belonging, as only with highly motivated employees can we deliver a high level of service to our guests. In a little less than four years, we have accomplished all these and more. We have stayed true to our motto **"Now Everyone Can Fly"**; this is no idle boast – with fares as low as ours, everyone really can fly.

2005 was another year of success for AirAsia, both operationally and financially. This success came at a time when the region experienced a tsunami, civil unrest in Southern Thailand and several earthquakes, none of which could be described as supporting demand for travel. Despite these challenges, we carried over six million passengers this year, doubled the route network and preserved our flawless safety record.

Number of aircraft



We maintained our very tight focus on operating costs, recording the lowest unit cost structure amongst the world's listed airlines at US 2.19 cents per available seat per kilometre. This was an 11% improvement on the previous year and was achieved despite a greater than 50% escalation in the price of fuel.

We have also been successful in replicating our business model outside of Malaysia. Our associate in Thailand is performing well despite experiencing one of the tougher periods in Thailand's aviation history. Within a year, Thai AirAsia has become the largest and most dominant low cost carrier in the country. We acquired our stake in PT AWAIR in late December 2004, and it has successfully established a strong foothold in Indonesia. We are very optimistic about our associates' potential and we expect to see positive contributions from these investments in 2006.

On 25 March 2005, we concluded a purchase agreement for 100 Airbus A320; a firm order for 60 aircraft and an option for 40 more. This was a slight amendment from our Memorandum of Understanding originally signed for 60 aircraft – the increased order was due to a more rapid growth profile than initially anticipated and the incorporation of Indonesian operations into our expansion plan. Deliveries commence in December 2005, progressively replacing the B737s at our Malaysian operation. Not only will this have a significant impact on our cost base given the new aircraft's superiority in terms of fuel burn, maintenance requirement, capacity and manning, but it will appreciably free up management time from the concerns of adhering to a target fleet programme that proved so arduous in FY2005. The sophistication of these aircraft will enhance our image and this improved perception should enable us to capture market segments that previously had reservations about our in-flight product.

As we look forward to the expansion of our fleet, we are carefully investing in the infrastructure necessary to support future growth. The AirAsia Academy building was completed in June 2005; this state of the art building is equipped with multi training centres, aircraft simulators and other aviation related training requirements. There are comprehensive training modules to ensure the "AirAsia culture" is instilled into every employee and to ensure our customer service quality maintain its highest standards. We believe that our culture is vital to the success of our business. As we continue to grow, we will sharpen our focus on retaining the key ingredients of what we see as a winning corporate culture.

The Low Cost Terminal construction at KLIA is progressing ahead of schedule and should be completed by April 2006. This new home will allow us to centralise our operations for the first time in several years, thereby reducing expenses and improving efficiency. We have been working closely with Malaysia Airports Berhad to ensure that the terminal is built with utmost simplicity and functionality. This new facility will have the capacity to handle 10 million passengers a year, with 30 parking aprons that can cater for both Airbus A320s and Boeing 737s. The terminal will be approximately four times larger than the Singaporean low cost terminal also currently under construction, with handling capacity of up to 15 million

NOW EVERY
SNICKERS

The AirAsia Academy located near KLIA is the centre for AirAsia staff training and potential regional hub for pilot training.

passengers per annum ultimately possible. We are grateful to the Government for its continued support and for its vision in building Malaysia as a premier location for low cost travel. We hope that the Malaysian Government will soon complete its review of Malaysia's domestic aviation route structure, which we believe will result in a far more rational division of market between ourselves and Malaysian Airline Systems.

Our sponsorship agreement with Manchester United will be a key component of our marketing strategy in developing regions. Football is the world's favourite, most widely viewed sport with a following in Asia that is growing exponentially. Our association with one of the sport's most renowned teams and related marketing and promotional activities is expected to raise our profile in markets outside those where we have a business base, preparing the ground for our expansion.

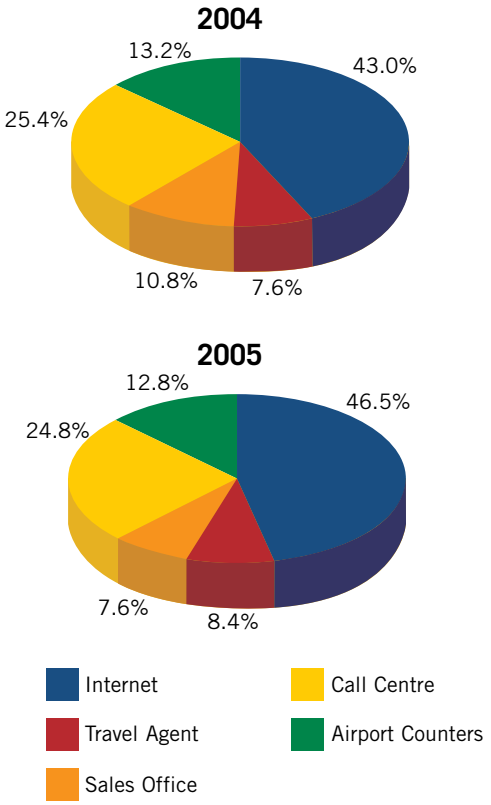
One such example is China where we intend to add services to five more cities during the current financial year, as well as, ease our ultimate move into Indo-China.

As we enter our fourth year of operations, we remain committed to providing the best all-round airline experience to our guests. In comparison to previous years, our rate of growth will be more modest – at only double rather than triple digits – but that is merely because of our bigger base. With jet fuel prices where they are, we shall be redoubling our efforts to keep other costs low, leveraging the benefits of new technology and our new home to assist us in this process. It is only with this insistence on low costs that we can continue to deliver the rates of profit growth that our shareholders deserve. On behalf of the AirAsia family, thank you very much for your continued interest in and support for AirAsia.

Yours faithfully,

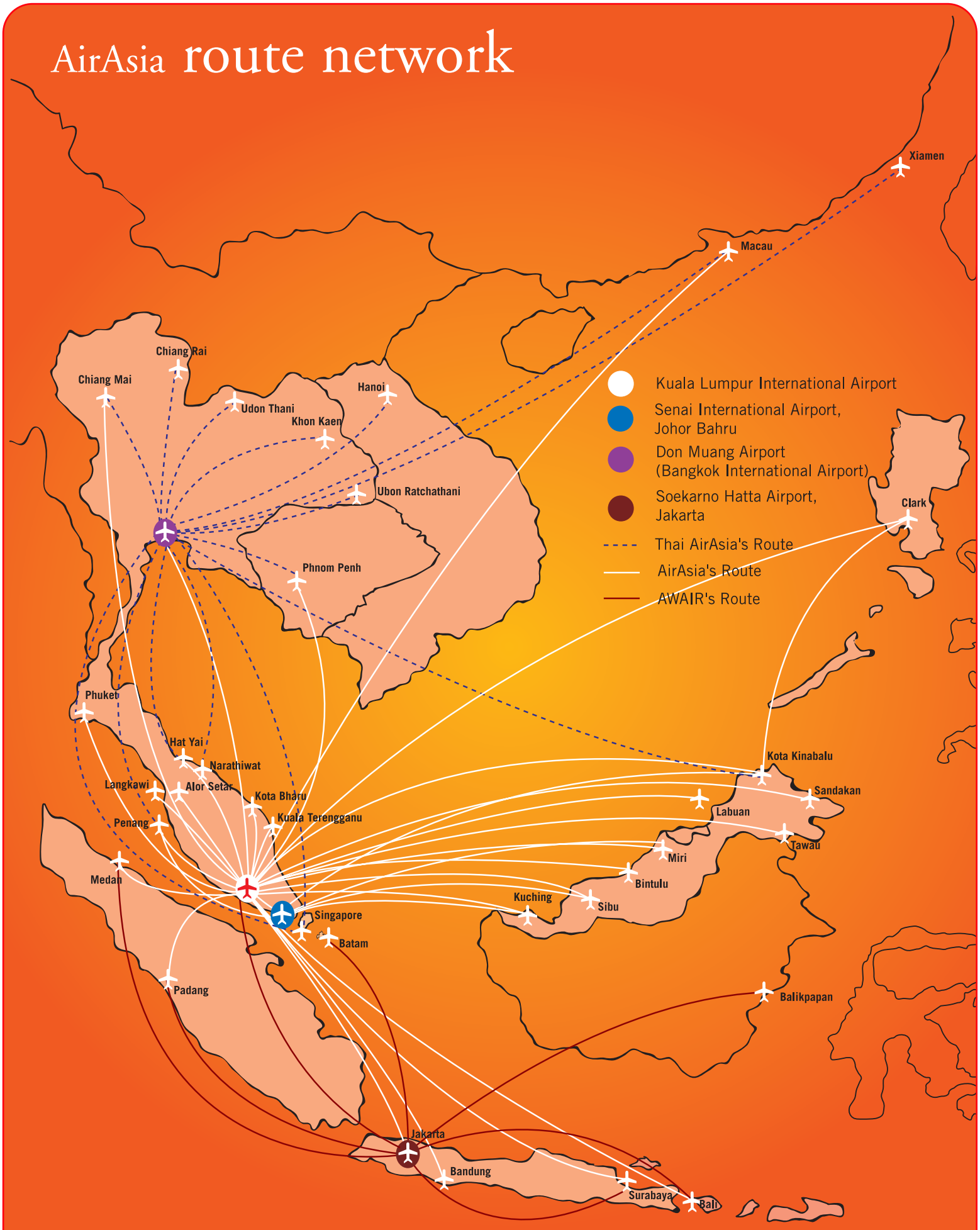
Tony Fernandes
Group Chief Executive Officer

Distribution Mix



The AirAsia full flight simulator which is used for training pilots, is located at the AirAsia Academy which has the capacity to house 6 full-flight simulators.

AirAsia route network



• Over 100 Daily Flights • 4 Hubs • 8 Countries

Note: As at 1 November 2005

awards & recognition

the ASEAN leader in affordable Asian travel and an award-winning low cost carrier.

Year 2005

- Regional/Low-Cost Leadership Award in Airline Business Strategy Awards 2005 by Airline Business (Tony Fernandes)

Year 2004

- Asia Pacific Low Cost Airline of the Year 2004 by Centre for Asia Pacific Aviation (CAPA)
- Asia Pacific Aviation Executive of the Year 2004 awarded to Tony Fernandes by Centre for Asia Pacific Aviation (CAPA)
- Best Managed Company in the Airlines and Aviation Sector by Euromoney
- Best Newly Listed Company (3rd place) by Euromoney
- Triple A Regional Award for Best Airline IPO for 2004 by The Asset Magazine
- Best IPO of the Year by The Edge Singapore
- 25 Stars of Asia honoree listing by BusinessWeek (Tony Fernandes)
- Market Leadership Award by Air Transport World

Year 2003

- Asia Pacific Airline of the Year 2003 by Centre for Asia Pacific Aviation (CAPA)
- Developing Airline of the Year 2003 by Airfinance Journal
- CEO of The Year by Business Times and American Express (Tony Fernandes)
- CIO Top 100 Honoree for excellence in strategic IT deployment
- Obtained Malaysian Superbrands status by Superbrands International
- www.airasia.com voted as the most popular website for online shopping in the 11th Malaysia Internet User Survey conducted by AC Nielsen Consult

www.airasia.com

what our guests say

"We are glad to note that AirAsia is a company without frills but that considers the important things. Compared to other low cost airlines, AirAsia gives much valuable service and really takes care of the customers."
-- Carminati Stefano Accarisi Adriana, Italy

"I have to confess that my impression of low cost, no frill airlines is that they offer low service, no thrill services - and how glad was I to make a trial flight to/from Johor last week. And glad too was I to be proven wrong.

I am a customer service trainer and it is heartening to note that legendary service is here and now being rendered by AirAsia with good value for money."
-- Yim Choong Chow

"We walked out of the plane at KLIA and we asked the steward if he could retrieve our baby stroller from the cargo hold, to which he reacted like Lindford Christie off the blocks by literally bolting out of the door, down the ladder to the tarmac and within 2 minutes he came back with our baby stroller!" -- Weng Yew Ho, KL

"Thank you for an excellent flight to Singapore over Songkran. The whole journey was very smooth and quick from check in to take off and I was very impressed. Your staff are very friendly and keep you no longer than is necessary – other airlines have a lot to learn from this." -- Paul Watson, UK

"Using AirAsia made our travelling much easier and quicker and came well within our strict budget limits. All the flights were booked via the Internet from the UK well before we arrived in Malaysia and this made the whole trip very smooth and easy. The web site is easy to navigiate and is well designed."
-- Liz James & Andy Dobson, UK

"I am in Thailand. Since a long time ago, I have wanted to visit Malaysia but never got there because it is much cheaper to fly to Singapore as opposed to flying to KL. So from now on, I will visit Malaysia as often as I have time to." -- Daniel Dechana Bournuch, Thailand

"Imagine if without AirAsia, many people cannot afford to fly. Now my sister can always fly back home, thanks to AirAsia.

I have a friend who lives in Johor Baru. Recently he took his family to Langkawi for a vacation, flying with AirAsia. Thus my friend managed to save and use the money saved for accommodation and other expenses in Langkawi."
-- HN Lim, KL

"Flew for the first time on AirAsia. Flight departed on time and even arrived 5 minutes earlier. The Cabin crew were friendly and efficient! I had a sandwich and juice – I must say it was really fresh and nice. Love AirAsia and for RM49.90....I can go home more often to my family!!!!" -- Kenneth Chong, Kuching

"The RM9.99 air fare is true and real. We are loyal and happy AirAsia guests."
-- Albert Kee, Penang

"I am a very satisfied customer of AirAsia who managed to fly my whole family of 6, my sister's family and my parents to Kuala Trengganu, Kota Bahru, Penang and Kuching in 2003 at very good fares." -- Salina Umar, Johor

"Anyways, the idea of having website internet booking is excellent and the website being multilingual is an even added bonus." -- Lee, KL

"It was indeed a pleasant experience flying with AirAsia – Not only because it lives up to the name – Now Everyone Can Fly – but also for a 2 star fare we get a 5 star service. Kudos to the crew of flight AK 884 (12 March 05) and AK 881 (14 March 05) for their friendliness and professionalism. You, the crew, have added another feather on the cap for AirAsia.

Looking forward to flying with AirAsia again – and of course – the word must be passed around!" -- Choo, KL

"We have just returned from a one month trip to Asia. During our trip we boarded an AirAsia plane 8 times and all flights were one time. We were absolutely thrilled with the friendliness of the staff and with priority boarding for families with kids, not to mention the low fares which open up new travel routes for us that were previously far too expensive. Our kids are 4 and 7 and they absolutely had to have an AirAsia beanie plane, which they really treasure. We will be happy to use Air Asia again."
-- Linda & Samuel Wee, Switzerland

the people's airline

As a low cost carrier, we focus on keeping our costs low. However, as an organisation that believes in the spirit of caring and sharing we will, within our means, continue to help those in need.

AirAsia has participated in many worthwhile community events, supported charitable efforts and helped non-profit organisations in facilitating cost savings through gifts, both in cash and kind, which include complimentary flights, contribution of low fares as well as sharing of knowledge, time and expertise.

4 APRIL 2002
AirAsia joined hands with Special Olympics Malaysia at the 2nd Mount Kinabalu Challenge 2002 in line with their aim to integrate special athletes into the mainstream of life. AirAsia flew special athletes from Perak, Kuala Lumpur and Selangor to Sabah to participate in the event.

NOV 2002
AirAsia flew 9-year old Nusti and her father from Kota Kinabalu to Kuala Lumpur and onwards to Penang to undergo an operation for her cleft lip.

4 JUNE 2003
AirAsia flew special athletes from Kuala Lumpur to Kota Kinabalu where they departed for the 11th Special Olympics World Summer Games in Dublin, Ireland the next day.

JULY 2004
AirAsia made it possible for special children from Pendidikan Khas SMK Bukit Jana, Kamunting, Perak to experience a flight for the first time from Penang to Kuala Lumpur.

MAY 2004
AirAsia is the official airline for the "Celebrities Arts and Sports Carnival", a Charity Event comprising Thai and Malaysian celebrities to benefit Yellow House's Healthy ARTS Program for Children from homes. AirAsia organised a special educational tour of the aircraft for 30 children with AirAsia's pilots and cabin crew. Needless to say, judging from the happy faces, it was evident that many of the children harboured ambitions of becoming airline pilots and cabin crew personnel!

28 DEC 2004
AirAsia, in the wake of the Tsunami tragedy, contributed towards relief efforts by pledging RM100,000.00 to various bodies and organisations and offered 150 seats for rescue and relief volunteers travelling to tsunami affected areas including Penang, Alor Star, Langkawi, Phuket and Medan.

"Thanks to AirAsia, we were able to fly our volunteers to help out victims in Tsunami affected areas in Acheh and Phuket. AirAsia has also made it possible for us to send supplies of clothings, toys, medicine and other necessities to the affected families. Teams of counselors and trained medical staff/nurses were also sent to conduct in-house training for affected victims. Lives have been restored and homes rebuilt. A lot of hard work and support is required to build back communities and AirAsia has helped us save approximately RM25,000 this year. Thank you for your partnership in reaching out to the poor and needy through CREST"

Ms Lana Wong
Executive Director, CREST

statement of corporate governance

The Board of Directors of AirAsia was reconstituted at the time of AirAsia's listing on Bursa Malaysia in November 2004 to comply with the listing requirements of Bursa Malaysia. In the period to June 2005, the Board has commenced the task of adopting the principles and best practices as set out in the Malaysian Code on Corporate Governance including the installation of appropriate internal control and risk management processes and procedures to assist the Board in its task. This is an ongoing task which will require continuing adaptation to accommodate the rapid growth of the Group.

The Board of Directors is fully committed and recognises the importance of complying with the principles and best practices as set out in the Malaysian Code on Corporate Governance as a fundamental part of discharging its responsibilities to protect and enhance shareholder value and the financial performance of the Group. Set out below is a statement on how the Group is approaching this task:

A. DIRECTORS

The Board of Directors and Meetings

The Board is responsible for the strategic direction and overall management of the Group. In the discharge of its fiduciary responsibilities, which may be undertaken by the Directors collectively or via committees made up entirely of Directors or otherwise, the six specific areas covered are as follows:

- Strategic planning for the Group;
- Overseeing the conduct of the Group's business to evaluate whether the business is being properly managed;
- Identifying principal risks and ensuring the implementation of appropriate systems to manage these risks;
- Developing and implementing an investor relations programme or shareholder communications policy for the Group; and
- Reviewing the adequacy and integrity of the Group's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines.

The Board has a formal schedule of matters reserved for its decision which includes the approval of certain policies, budgets, financing plans and major capital expenditure projects but otherwise delegates specific responsibilities to Board Committees, as described below. It also reviews and considers the key activities of the business and the work undertaken by the Committees.

During the financial year ended 30 June 2005, the Board of Directors held a total of six (6) meetings and the details of Directors' attendances are set out below:

Name	Attendance Record
Dato' Pahamin bin Ab. Rajab	5 out of 6 meetings
Dato' Tony Fernandes	6 out of 6 meetings
Kamarudin bin Meranun	6 out of 6 meetings
Abdel Aziz @ Abdul Aziz bin Abu Bakar *(Resigned on 11/10/2004 and re-appointed on 20/04/2005)*	3 out of 3 meetings prior to his earlier resignation and since his re-appointment
Mumtaz Khan	3 out of 6 meetings
Sam Ali A. Sindi *(Resigned on 23/9/2005)*	4 out of 6 meetings
John Francis Tierney	6 out of 6 meetings
Conor McCarthy	6 out of 6 meetings
Tan Sri Dato' (Dr) R.V. Navaratnam *(appointed on 8/10/2004)*	4 out of 5 meetings since his appointment
Dato' Leong Sonny @ Leong Khee Seong *(appointed on 8/10/2004)*	5 out of 5 meetings since his appointment
Fam Lee Ee *(appointed on 8/10/2004)*	5 out of 5 meetings since his appointment
Timothy Wakefield Ross *(appointed on 20/04/2005)*	1 out of 1 meeting since his appointment

Board Balance

During the financial year, the Board had twelve members – two Executive Directors, six Non-Executive Directors and four Independent Non-Executive Directors. The Non-Executive Directors do not participate in the day-to-day management of the Group. One third (1/3) of the Board is represented by Independent Non-Executive Directors who meet appropriate standards of independence. A brief description of the background of each Director is contained in the "Directors' Profile" section as set out on pages 12 to 15 of this Annual Report. The Directors have wide ranging experience and all have occupied or currently occupy senior positions in the public and/or private sectors. The Independent Non-Executive Directors provide a strong independent element on the Board to provide assurance that there is sufficient check and balance and provide an essential source of impartial and professional guidance.

To ensure a balance of power and authority, there is a clear division of responsibility between the Chairman and the Chief Executive Office ("CEO"). The Chairman of the Board is responsible for ensuring the Board's effectiveness and conduct as described below whilst the Group's CEO has overall responsibility over the business units, organisational effectiveness and implementation of Board policies, strategies and decisions.

In respect of running the Board, the Chairman is responsible for the following:

- the workings of the Board;
- ensuring that all relevant issues are on the agenda;
- ensuring that all Directors, executive and non-executive alike are enabled and encouraged to play their full part in the Board's activities. This includes making certain Directors, especially the non-executive Directors receive timely, relevant information tailored to their needs and they are properly briefed on issues arising at Board meetings; and
- ensuring that the Executive Directors look beyond their executive functions and accept their full share of responsibilities of governance.

Supply of Information

Notice of meetings, the agenda and accompanying Board papers are despatched to the Directors in sufficient time in order to facilitate informed discussions and decision making and to enable the Directors to peruse, obtain additional information and/or seek further clarification on the matters to be deliberated. As a Group practice, any Director who wishes to seek independent professional advice in the furtherance of his duties may do so at the Group's expense. Directors have access to all information and records of the Group and also the advice and services of the Company Secretary, who also serves in that capacity in the various Board Committees.

Appointments to the Board

The Group has implemented procedures for the nomination and election of Directors via the Nomination Committee. Comprising mainly of Independent Non-Executive Directors, the Nomination Committee is responsible for identifying and recommending to the Board suitable nominees for appointment to the Board

and Board Committees. On appointment, Directors are provided with information about the Group and attend an induction programme. The Company Secretary will ensure that all appointments are properly made, that all information necessary is obtained, as well as all legal and regulatory obligations are met.

Directors' Training

During the financial year ended 30 June 2005, all Directors have attended and completed the Mandatory Accreditation Programme as required under the Listing Requirements of Bursa Malaysia. The Directors are also encouraged to attend programmes and seminars whether in-house or external to help them in the discharge of their duties and to keep abreast with the developments in the industry of Low Cost Carriers.

Re-election of Directors

An election of Directors takes place annually. The Articles of Association of the Company provide that at least one-third of the Directors are subject to retirement by rotation at each Annual General Meeting ("AGM") and that all Directors shall retire once in every three years, and are eligible to offer themselves for re-election. The Articles of Association also provide that a Director who is appointed by the Board in the course of the year shall be subject to re-election at the next AGM to be held following his appointment. Directors over seventy years of age are required to submit themselves for re-appointment annually in accordance with Section 129(6) of the Companies Act, 1965.

Board Committees

During the financial year ended 30 June 2005, the Board established four standing committees, each operating within defined terms of reference, to assist the Board in discharging its responsibilities. The committees are the Audit Committee, the Nomination Committee, the Remuneration Committee and the Employee Share Option Scheme ("ESOS") Committee. Subsequent to the said financial year end, another two committees were established which are the Management Executive Committee and the Operations Safety Committee. The minutes of proceedings of each committee meeting are circulated to Board members during Board meetings so that each Director is aware of the deliberations and resolutions made. Additionally, where applicable, the committee shall report its decisions to the Board and present their recommendations to the Board for approval.

The **Audit Committee** comprises two Independent Directors and one Non-Executive Director. The committee meets routinely at least five times a year with additional meetings held where necessary. The Group Chief Financial Officer, senior management staff, the internal and external auditors attend such meetings by invitation and provide reports as required by the committee. At least one meeting is held each year with the Head of Internal Audit and the external auditors in private, in the absence of management.

The **Nomination Committee** comprises three Non-Executive Directors, two of whom are Independent. The committee makes recommendations to the Board on new Board appointments, taking into account the balance and structure of the Board. Additionally, the committee oversees and evaluates the Board's effectiveness and suggests opportunities for improvement. The committee reviews the appropriate skills, experience and characteristics required of the Board and its committees' members, considering their current makeup. They assess issues such as international experience, independence and skills which include understanding of finance, legal and technical issues. The committee also considers the succession planning framework for the Group and reviews whether they are in order and if adequate training programmes are being developed to address any competency gaps. During the financial year ended 30 June 2005, the Nomination Committee did not meet as the Board performed the above functions.

The **Remuneration Committee** comprises three Non-Executive Directors, one of whom is Independent. The committee considers the remuneration of Executive Directors which is in accordance with the skill, experience and expertise they possess. The component parts of the remuneration are structured so as to link rewards to the individual and group performance. Annually, the committee meets to discuss the Executive Directors' current year performance against the performance objectives approved by the Board earlier in the year. The committee also reviews the Non-Executive Directors' remuneration which would reflect the level of responsibilities undertaken by the particular Director. The committee makes the required recommendation to the Board as the Committee is not authorised to implement its recommendation on behalf of the Board. The quantum of annual fees payable to Non-Executive Directors is subject to shareholders approval at the Company's AGM. During the financial year ended 30 June 2005, the Remuneration Committee met once, which was attended by all members.

The **ESOS Committee** comprises of the Chief Executive Officer, the Executive Director, the Chief Financial Officer and the Executive Vice President, People Department and the Company's External Legal Advisor. The ESOS Committee was established to administer the ESOS of the Group in accordance with the objectives and regulations

thereof and to determine the participation eligibility, option offers and share allocations (based on the performance, seniority and number of years of service as well as the employees' actual or potential contribution to the Group) and to attend to such other matters as may be required. During the financial year ended 30 June 2005, the ESOS Committee met once, which was attended by all members.

The **Executive Committee** comprises of the Chief Executive Officer, the Executive Director, and the Chief Financial Officer. The Legal Counsel of the Group acts as the Secretary to this committee. Among others, the functions of the Executive Committee are to evaluate strategic plans, to decide on transactions and matters of the Group's businesses which fall within their levels of authority. This will allow matters that fall within the committee's limit or terms of reference to be deliberated and decided by the committee, thus reducing the Board's agenda. Where appropriate, recommendations are made to the Board on decisions reserved for the Board.

The **Operations Safety Committee** was established in August 2005 to address and resolve issues that may affect the safety and security of AirAsia's operations.

The Committee will convene on a quarterly basis and it is intended that future Annual Reports will include a report from the Chairman of the Committee.

The Committee comprises two Non-Executive Directors and the other members include relevant operations safety and security specialists from AirAsia and from our affiliates in Thailand and Indonesia.

The Committee has the following functions:

1. To review the overall safety and security performance of the Group and outline strategies and specific actions to improve same;

2. To review occurrence reports, trend analyses and corrective actions and to recommend any other actions which may be considered appropriate;

3. To monitor safety management processes in flight operations, engineering, ground operations and ensure that these are effective in terms of hazard identification and elimination and consistent with the operations quality goals of the Group;

4. To encourage seamless communication within the Group and between various departments so that any problem areas and learnings are quickly highlighted and corrective actions taken across the Group; and

5. To ensure that effective contingency planning and crisis management procedures are in place and that these are tested at least annually.

B. DIRECTORS REMUNERATION

The remuneration package comprises the following elements:-

1. **Fee**
   The fees payable to each of the Non-Executive Directors for their service on the Board and sub committees are recommended by the Remuneration Committee to the Board for final approval by shareholders of the Group at the AGM.

2. **Basic salary**
   The basic salary for each Executive Director is recommended by the Remuneration Committee and approved by the Board, taking into account the performance of the individual, the inflation price index and information from independent sources on the rates of salary for similar positions in other comparable companies internationally. Salaries are reviewed annually.

3. **Bonus scheme**
   The Group operates a bonus scheme for all employees, including the Executive Directors. The criteria for the scheme are dependent on various performance measures of the Group, together with an assessment of each individual's performance during the period.

4. **Benefits-in-kind**
   Other customary benefits (such as private medical care, car, travel coupons, etc.) are made available as appropriate.

5. **Service contract**
   Both the Group Chief Executive and Executive Director, have three-year service contracts with AirAsia.

6. **Directors' share options**
   There was no movement in Directors' share options during the year ended 30 June 2005.

Details of the Directors' remuneration are set out in the Audited Financial Statements on page 87 of this Annual Report.

C. SHAREHOLDERS

Investor Relations

A number of formal communication channels are used to inform shareholders about the performance of the Group. These include the Annual Report and Accounts and announcements made through Bursa Malaysia, as well as through the AGM.

Members of senior management are directly involved in investor relations through periodic roadshows and investor briefings in the country and abroad with financial analysts, institutional shareholders and fund managers.

Reports, announcements and presentations given at appropriate intervals to representatives of the investment community are also available for download at the Group's website at www.airasia.com.

Any queries or concerns regarding the Group may be directed to the Investor Relations Department at investorrelations@airasia.com.

Annual General Meeting

Given the size and geographical diversity of our shareholder base, the AGM is another important forum for shareholder interaction. All shareholders are notified of the meeting together with a copy of the Group's Annual Report at least 21 days before the AGM is held.

At the AGM, the Group CEO will conduct a brief presentation on the Group's performance for the year and future prospects. The Chairman and all Board Committee Chairmen will be present at the AGM to answer shareholders' questions and hear their views during the meeting. Shareholders are encouraged to participate in the proceedings and ask questions about the resolutions being proposed and the operations of the Group.

D. ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board aims to ensure that the quarterly reports, annual financial statements as well as the annual review of operations in the Annual Report reflect full, fair and accurate recording and reporting of financial and business information in accordance with the Listing Requirements of Bursa Malaysia.

The Directors are also required by the Companies Act, 1965 to prepare the Group's annual financial statements with all material disclosures such that they are complete, accurate and in conformance with applicable accounting standards and rules and regulations.

The external auditors provide an opinion based on its audit of evidence relevant to the amounts and disclosures in the accounts that are subject to audit. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

The Directors' Responsibility Statement is enclosed in page 111 of this Annual Report.

Relationship with the Auditors

The Group through the Audit Committee has a professional and transparent relationship with the external auditors, PricewaterhouseCoopers ("PWC"). In the course of the audit of the Group's operations, the external auditors have highlighted to the Audit Committee and the Board, matters that require the Board's attention. PWC meets with members of the Audit Committee to present their comments on the audited financial statements, with and without the presence of the executive management.

The report on the role of the Audit Committee in relation to internal and external auditors is set out on pages 39 to 43 of this Annual Report.

Internal Control

The Board's governance policies include a process for the Board, through the Audit Committee to review regularly the effectiveness of the system of internal control as required by the Malaysian Code on Corporate Governance. As part of this process, the Audit Committee is reviewing the executive management's assurance process and the continuing development of the systems of internal controls in place to identify, address and manage risks.

To enable the Audit Committee to assess the effectiveness of the system of internal control in operation for managing significant risks throughout the year, the Committee also received a risk assessment report which describes how significant risks were identified and embedded within different departments across the Group.

The Statement of Internal Control is set out in page 44 of this Annual Report.

This Statement is made in accordance with a resolution of the Board of Directors of AirAsia dated 17 October 2005.

audit committee report

The Board of AirAsia is pleased to present the report on the Audit Committee for the financial year ended 30 June 2005.

INTRODUCTION

The Audit Committee of the Board ("the Committee") was established during AirAsia's IPO process prior to listing on Bursa Malaysia in November 2004. The Committee's terms of reference are in line with best management practice and will facilitate the fulfillment of the Committee's mandate. In the nine-month period to June 2005, the Committee worked with management to establish an Internal Audit function and the commencement of a review of the Group's internal controls and risk management systems – which is ongoing. At this early stage in the Group's development, a reputable external professional firm has been retained to provide the resources for the internal audit department. Their activities are managed by a company executive (Head of Internal Audit) who reports directly to the Audit Committee.

COMPOSITION OF THE COMMITTEE AND MEETINGS

During the financial year ended 30 June 2005, the Committee held a total of five (5) meetings. The members of the Committee together with their attendance are set out below:-

Name	Directorship	No of Meetings Attended
Dato' Leong Sonny @ Leong Khee Seong *(Chairman of the Committee)*	Independent Director	5
Fam Lee Ee	Independent Director	5
John Francis Tierney	Non-Executive Director	5

TERMS OF REFERENCE OF THE COMMITTEE

The Committee is governed by the following terms of reference:

A. Purpose

To review and report to the Board on the quality and performance of the internal and external audit function.

To review and recommend to the Board for approval, the Quarterly Reports to Bursa Malaysia and the Annual Audited Accounts.

B. Membership

The Audit Committee is appointed by the Board of Directors and is composed of at least three (3) members, the majority of whom are Independent Non-Executive Directors.

At least one member of the audit committee:-

(i) must be a member of the Malaysian Institute of Accountants; or

(ii) if he is not a member of the Malaysian Institute of Accountants, he must have at least three (3) years of working experience and:-

- he must have passed the examinations specified in Part I of the 1st Schedule of the Accountants Act 1967; or
- he must be a member of one of the associations of accountants specified in Part II of the 1st Schedule of the Accountants Act 1967.

No alternate director can be appointed as a member of the Audit Committee.

Members of the Audit Committee elect a Chairman from among themselves who is an Independent Director.

If a member of the Audit Committee resigns, dies or for any reason ceases to be a member with the result that the number of members is reduced below three (3), the Board shall, within three (3) months appoint such number of new members as may be required to make up the minimum of three (3) members.

The terms of office and performance of the Audit Committee and each of its members shall be reviewed by the Board no less than once every three (3) years. However, the appointment terminates when a member ceases to be a Director.

C. Roles and responsibility

– To consider the audit fee of the external auditor, any questions of resignation or dismissal of the external auditor and appointment of new external auditor to replace the outgoing auditor;

– To discuss with the external auditor before the audit commences, the nature and scope of the audit, and ensure co-ordination where more than one audit firm is involved;

– To act as an intermediary between management or other employees, and the external auditors;

– To review the quarterly and year-end financial statements of the Board, focusing particularly on:-

  - any changes in accounting policies and practices;
  - significant adjustments arising from the audit;
  - litigation that could affect results materially;
  - the going concern assumption;
  - compliance with accounting standards and other legal requirements;

– To discuss problems and reservations arising from the interim and final audits, and any matter the external auditor may wish to discuss (in the absence of management where necessary);

– To review the external auditor's management letter and management's response;

– To do the following where an internal audit function exists:-

  - review the adequacy of the scope, functions and resources of the internal audit function, and that it has the necessary authority to carry out its work;
  - review the internal audit programme and results of the internal audit process and where necessary ensure that appropriate action is taken on the recommendations of the internal audit function;
  - review any appraisal or assessment of the performance of members of the internal audit function;
  - to review the independence of the internal audit function;
  - approve any appointment or termination of senior staff members of the internal audit function; and
  - inform itself of resignations of internal audit staff members and provide the resigning staff member an opportunity to submit reasons for resigning.

– Review the adequacy and the integrity of the Group's internal control systems and management information systems, including systems for compliance with applicable laws, regulations, rules, directives and guidelines;

– To consider any related party transactions that may arise within the Group;

- To consider compliance with the Group's conflict of interest policy;

- To consider compliance with the Group's insider trading policy;

- To consider the major findings of internal investigations and management's response;

- To consider other topics as defined by the Board;

- Internal controls and risk management;

- To review the Group's procedures for detecting fraud and whistle blowing and ensure that arrangements are in place by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting, financial control or any other matters (in compliance with provisions made in the Securities Industry Act amended in 2004);

- To review management's and the internal auditor's reports on the effectiveness of the systems for internal financial control, financial reporting and risk management;

- To monitor the integrity of the Group's internal financial controls;

- To review the statement in the Annual Report and accounts on the Group's internal controls and risk management framework;

- To assess the scope and effectiveness of the systems established by management to identify, assess, manage and monitor financial and non-financial risks. [Note: The Board retains responsibility for the review of the effectiveness of the system of internal control and must form its own opinion despite aspects of that review being delegated to the Audit Committee.]

D. Authority and powers of the Audit Committee

In carrying out its duties, the Audit Committee shall, at the cost of the Group,

- have authority to investigate any matter within its terms of reference;

- have full, free and unrestricted access to the Group's records, properties, personnel and other resources;

- have full and unrestricted access to any information regarding the Group;

- have direct communication channels with the external auditors and person(s) carrying out the internal audit function;

- be able to obtain independent professional or other advice; and

- be able to convene meetings with the external auditors, excluding the attendance of the executive members of the Audit Committee, whenever deemed necessary.

The Audit Committee is not authorised to implement its recommendations on behalf of the Board but report its recommendations back to the Board for its consideration and implementation.

Where the Audit Committee is of the view that a matter reported by it to the Board of Directors has not been satisfactorily resolved resulting in a breach of the Listing Requirements of Bursa Malaysia, the Audit Committee is authorised to promptly report such matters to Bursa Malaysia.

E. Audit Committee Report

The Audit Committee is required to assist the Board to prepare the Audit Committee Report for inclusion in the Annual Report of the Group.

The Audit Committee Report shall include the following:-

a) the composition of the Audit Committee, including the name, designation (indicating The Chairman) and directorship of the members (indicating whether the directors are independent or otherwise);

b) the terms of reference of the Audit Committee;

c) the number of Audit Committee meetings held during the financial year and details of attendance of each Audit Committee member;

d) a summary of the activities of the Audit Committee in the discharge of its functions and duties for that financial year of the listed issuer; and

e) the existence of an internal audit function or activity and where there is such a function or activity, a summary of the activities of the function or activity. Where such a function or activity does not exist, an explanation of the mechanisms that exist to enable the Audit Committee to discharge its functions effectively.

F. Meetings

a) The quorum for an Audit Committee Meeting shall be at least two (2) members; the majority present must be Independent Directors.

b) The Audit Committee shall meet at least five (5) times a year and such additional meetings as the Chairman shall decide.

c) The External Auditor has the right to appear and be heard at any meeting of the Audit Committee and shall appear before the Audit Committee when required to do so.

d) The Chief Financial Officer and the Head of Internal Audit of the Group shall normally attend the meetings to assist in its deliberations and resolutions of matters raised. However, at least once a year, the Audit Committee shall meet with the External Auditors without the presence of the executive members of the Audit Committee.

e) The Internal Auditors shall be in attendance at all meetings to present and discuss the audit reports and other related matters as well as the recommendations relating thereto and to follow-up on all relevant decisions made.

f) The Company Secretary shall act as Secretary of the Audit Committee and shall be responsible, with the concurrence of the Chairman, for drawing up and circulating the agenda and the notice of meetings together with the supporting explanatory documentation to members prior to each meeting.

The Secretary of the Audit Committee shall be entrusted to record all proceedings and minutes of all meetings of the Audit Committee.

In addition to the availability of detailed minutes of the Audit Committee Meetings to all Board members, the Audit Committee at each Board Meeting will report a summary of significant matters resolved.

G. Internal Audit Department

The Head of the Internal Audit Department has unrestricted access to the Audit Committee Members and reports directly to the Audit Committee whose scope of responsibility includes overseeing the development and the establishment of the internal audit function.

The above functions and duties are in addition to such other functions as may be agreed to from time to time by the Audit Committee and the Board.

The revised terms of reference were approved by the Board of Directors of AirAsia on 22 December 2004.

SUMMARY OF ACTIVITIES

The Audit Committee carried out its responsibilities in accordance with its Terms of Reference:

The main activities carried out by the Committee were as follows:

- Worked with management to set up the Internal Audit Function;
- Reviewed and approved the internal audit plan for the Group;
- Reviewed the internal audit reports for the Group;
- Reviewed the external audit reports for the Group with the external auditors;
- Reviewed and commented on the quarterly and annual financial results of the Group, taking note of changes in or implementation of major accounting policy changes; significant and unusual events; and compliance with accounting standards and other legal requirements;
- Reviewed related party transactions of the Group for compliance with the Listing Requirements of Bursa Malaysia and the appropriateness of such transactions before recommending them to the Board for its approval;
- Reviewed the procedures for securing the shareholders' mandate for Recurrent Related Party Transactions;
- Considered the reappointment of the external auditors for recommendation to the shareholders for their approval;
- Reviewed the Financial Statements of the Group for the financial year ended 30 June 2005; and
- Reviewed the preliminary risk assessment report and status of business continuity planning.

INTERNAL AUDIT FUNCTION AND RISK MANAGEMENT PROCESS

The Group has an adequately resourced internal audit function to assist the Board in maintaining an effective system of internal control and the overall governance practices within the Group. The audits and reviews conducted by internal audit are defined in an annual audit plan that was reviewed and approved by the Audit Committee at the beginning of each financial year. The plan was derived from a risk assessment process which considers the risks within each department and the extent that it would have an impact on the Group.

As risk management is a significant component of a sound system of internal control, a risk management process is being developed to provide the Board with means to continuously identify, evaluate and manage risks.

The internal audit function also assists in the evaluation of risks and controls in key processes.

EMPLOYEE SHARE OPTION SCHEME

The Committee verified the allocation of options pursuant to the criteria disclosed to the employees of the Group and established pursuant to the Employee Share Option Scheme for the financial year which ended on 30 June 2005.

statement on internal control

In adherence to the Malaysian Code on Corporate Governance which "... requires listed companies to maintain a sound system of internal control to safeguard shareholders' investment and the Company's assets" and Bursa Malaysia's Listing Requirements Paragraph 15.27 (b) which requires the Board to make a statement about the state of internal control of the listed issuer as a group, the Board is pleased to issue the following statement on the state of internal control of the Group for the financial year ended 30 June 2005.

BOARD ACCOUNTABILILITY

The Board recognises the importance of a sound system of internal controls which covers risk management, financial, organisational, operational and compliance controls. The Board acknowledges its responsibility to:

- Identify principal risks and ensure implementation of appropriate control measures to manage the risks;
- Review the adequacy and integrity of the internal control system and management information systems and systems for compliance with applicable laws, regulations, rules, directives and guidelines.

In recognition of these responsibilities the Board has recently initiated the establishment of a comprehensive risk based system of internal controls. This will take some time to complete and will be developed and refined as the Group grows.

It should be noted, however, that such a system is designed to manage rather than eliminate the risk of failure to meet the Group's business objectives. The Board is aware that such systems can only provide reasonable, and not absolute, assurance against material misstatement or loss.

INTEGRATING RISK MANAGEMENT WITH INTERNAL CONTROLS

The Group firmly believes that risk management is critical for the Group's continued profitability and the enhancement of shareholder value. Therefore, the Group has adopted the enterprise-wide risk management framework to manage its risks. As the work in relation to this matter progresses the framework will provide an integrated, proactive and process-oriented approach to managing risks.

A risk assessment exercise has been initiated during the financial year under review to identify the risks which may prevent the Group from achieving its business and corporate objectives. The risks identified and analysed are being evaluated based on the likelihood of the risks materialising and the severity of their impact to the Group. This will allow for the prioritisation of risk mitigation and for the allocation of resources.

To align the Group's risks with internal controls, a risk-based internal audit plan has been derived from the risk assessment report. The process of risk management is an on-going process with quarterly reviews by the Board through the Audit Committee on its effectiveness.

BUSINESS CONTINUITY MANAGEMENT

The Group has also initiated business continuity planning to respond to disasters or other major events in order to ensure continuity of its services to guests, as well as ensure operational and financial continuity in the event of adverse circumstances. This is an ongoing project which will require scheduled updating and testing.

CONTROL STRUCTURE AND ENVIRONMENT

The key elements of the Group's internal control system are described below:

- Clearly defined delegation of responsibilities to Board Committees within the definition of terms of reference and organisation structures;
- Documentation of standard operating procedures has commenced with regular updates to reflect changing risks or to resolve operational deficiencies;
- Detailed budgeting process established requiring all business units to prepare budgets annually which are discussed and approved by the Board; and
- A half yearly review of the annual budget is undertaken by Management to identify, and where appropriate, to address significant variances from the budget.

additional compliance information

The information set out below is disclosed in compliance with the Listing Requirements of Bursa Malaysia:-

1. STATUS OF UTILISATION OF PROCEEDS RAISED FROM CORPORATE PROPOSAL

The IPO proceeds were received on 23 November 2004. The amount of RM717.4 million was derived from the issuance of 443,655,900 new shares at RM1.25 each to institutional investors and 140,101,900 new shares at the retail price of RM1.1625 each to the Malaysian public, eligible Directors and employees of the Group and persons who have contributed to the success of the Group. As at 11 October 2005, the following are the details of the utilisation of the IPO proceeds:-

	Proposed Utilisation of IPO proceeds RM'000	Utilised to date RM'000	Balance RM'000
Repayment of bank borrowings	94,240	94,240	0
Capital expenditure	100,000	91,819	8,181
Estimated listing expenses	35,500	26,420	9,080
Working capital	487,699	243,219	244,480
	717,439	455,698	261,741

2. SHARE BUY-BACK

The Company does not have a scheme to buy-back its own shares.

3. OPTIONS, WARRANTS OR CONVERTIBLE SECURITIES EXERCISED

The Company does not have any warrants or convertible securities in issue. For the financial year ended 30 June 2005, the options held over ordinary shares under the Company's Employee Share Option Scheme were not exercisable.

4. AMERICAN DEPOSITORY RECEIPT ("ADR") OR GLOBAL DEPOSITORY RECEIPT ("GDR") PROGRAMME

The Company did not sponsor any ADR or GDR programme during the financial year ended 30 June 2005.

5. SANCTIONS AND/OR PENALTIES

There were no public sanctions and/or penalties imposed on the Company and its subsidiaries, Directors or Management by the relevant regulatory bodies during the financial year ended 30 June 2005.

6. NON-AUDIT FEES

	Group		Company	
	2005 RM'000	2004 RM'000	2005 RM'000	2004 RM'000
PricewaterhouseCoopers, Malaysian firm				
– Statutory audit (Note 6 to the financial statements)	230	90	200	80
– review of quarterly results	16	0	16	0
– reporting accountants	1,100	0	1,100	0
Overseas Member firm of PricewaterhouseCoopers International Limited, which is a separate and independent legal entity from PricewaterhouseCoopers, Malaysia				
– Statutory audit on a joint controlled entity	92	0	92	0
Total remuneration	1,438	90	1,408	80

7. VARIATION IN RESULTS

The results achieved by the Group for the financial year ended 30 June 2005 showed a deviation of RM48.3 million or 30.2% from the profit forecast stated in the IPO Prospectus.

	As per IPO Forecast 30 June 2005 (RM'000)	Current year ended 30 June 2005 (Audited) (RM'000)	Variance (%)
Revenue	746,596	666,036	10.8%
Consolidated profit before taxation	172,804	125,400	27.4%
Less: Taxation	(11,578)	(14,304)	
Consolidated profit after taxation	161,226	111,096	
Less: Minority interest	(1,344)	461	
Consolidated profit after taxation and minority interest	159,882	111,557	30.2%

The reconciliation of the deviation is shown as follows:-

	RM'000	Note
Profit as per IPO forecast	159,882	
Add/(Less)		
Lower Revenue		
Scheduled Flights and others	(77,545)	1
Operational Costs		
Operational costs	70,462	2
Higher fuel costs	(15,405)	3
	(22,488)	
	137,394	
Deferred taxation	(4,612)	4
Other costs	(1,702)	
	131,080	
Share of results of jointly controlled entity	(19,523)	5
Audited profit for FY2005	111,557	

The non-achievement of the Profit Forecast was primarily due to the following factors:-

1) Fewer than expected number of aircraft deployed

In the profit forecast, it was assumed that the Group would increase its fleet in Malaysia from 13 aircraft as at 30 June 2004 to 25 aircraft as at 30 June 2005. The fleet size in Thailand was assumed to comprise 11 aircraft by 30 June 2005.

It was also assumed that the average number of aircraft for the financial year ended 30 June 2005 to be 19.3 aircraft and 7.0 aircraft for the Malaysian and Thailand operations, respectively.

As previously announced to Bursa Malaysia, the performance of the Group had been affected by delays in aircraft deployment due to the tightening of the used B737-300 lease market which had led to higher lease rates as compared to the rates assumed in the Profit Forecast. Given that our success thus far was primarily due to our ability to maintain a low cost structure and coupled with the impending aircraft delivery from Airbus in as early as the second quarter of financial year ending 30 June 2006, we were unwilling to make a commitment for a higher lease rate for the B737 300s.

The number of aircraft deployed as at 30 June 2005 and the average number of aircraft deployed for the financial year ended 30 June 2005 for the Malaysian and Thailand operations are set out below:-

Operations	Total number of aircraft as at 30 June 2005	Average number of aircraft deployed for the financial year ended 30 June 2005		Shortfall in the number of aircraft deployed
		Forecast (A)	Actual (B)	A less B
Malaysia	19	19.3	16.3	3.0
Thailand	6	7.0	5.1	1.9

The shortfall in the average number of aircraft deployed had consequently affected the achievement of other assumptions used in the preparation of the Profit Forecast such as number of passengers carried, revenue passenger kilometers (RPK), available seat kilometers (ASK) etc.

2) Savings in operational costs

In relation to the shortfall in the average number of aircraft in operation (as mentioned in Note 1 above), the relevent related costs, namely aircraft lease rental, airport charges, maintenance and overhaul and related costs were not incurred.

3) Higher fuel costs

In October 2004, it was assumed that the average aircraft jet fuel cost of the Malaysian operations, after taking into account the effect of hedging would be USD42.00 per barrel for the first half to 31 December 2004 and USD36.96 per barrel for the second half to 30 June 2005. The actual average fuel cost was USD43.95 per barrel and USD46.28 per barrel for the first half to 31 December 2004 and the second half to 30 June 2005, respectively.

4) Deferred taxation

This was related to deferred tax underprovision in the IPO profit forecast.

5) Share of losses of jointly controlled company – Thai AirAsia Co Ltd ("Thai AirAsia")

It was previously expected that Thai AirAsia could contribute a profit after taxation of approximately RM14.0 million to Group Profit Forecast. However, for the financial year ended 30 June 2005, we had to equity account approximately RM5.3 million of share of losses incurred by Thai AirAsia.

Thai AirAsia was not able to meet its profit forecast due to domestic competition and several unforeseen circumstances. The air travel sentiments were dampened by the unexpected Tsunami disaster, multiple earthquakes off Sumatra and unrest in southern Thailand that occurred in the 2nd and 3rd quarter of the financial year ended 30 June 2005. In addition, Thai AirAsia was also affected by the high fuel price and fewer aircraft than forecasted due to the reasons as mentioned in Notes 1 and 3 above.

8. PROFIT GUARANTEE

During the financial year ended 30 June 2005, the Group and the Company did not give any profit guarantee.

9. MATERIAL CONTRACTS INVOLVING DIRECTORS AND MAJOR SHAREHOLDERS

For the financial year ended 30 June 2005, no contracts of a material nature were entered into or were subsisting between the AirAsia Group and its Directors or major shareholders.

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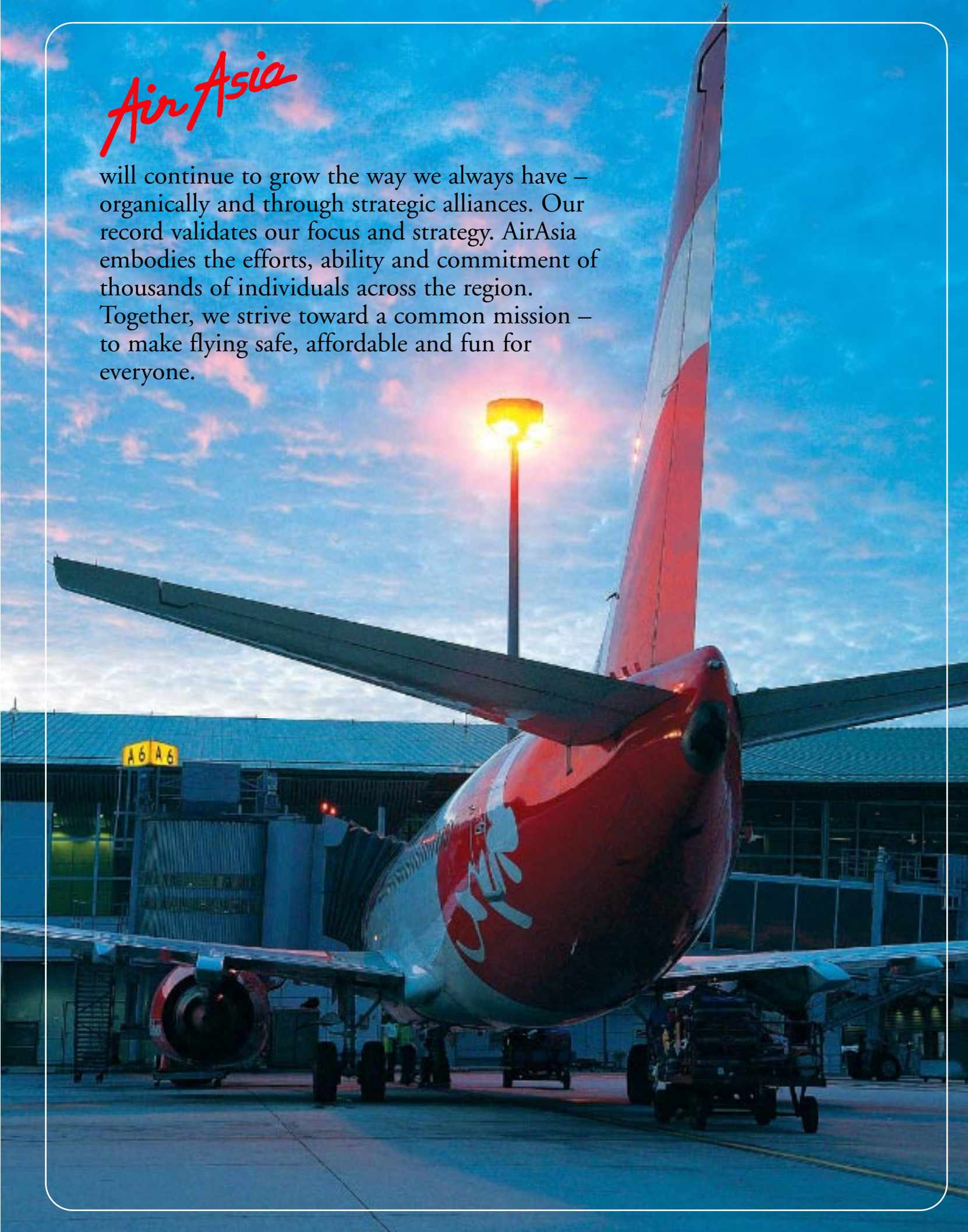

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