Now Everyone Can Fly
Our Vision

TO CONTINUE TO BE THE LOWEST COST SHORTHAUL AIRLINE IN EVERY MARKET WE SERVE IN ASIA, DELIVERING STRONG ORGANIC GROWTH THROUGH OFFERING THE LOWEST AIRFARES AT A PROFIT.

Our Strategy

Leanest Cost Structure
• Efficient and simple point-to-point operations
• Attracting and retaining hardworking and smart people
• Passion for continuous cost reduction

Maximise Shareholders’ Value
• Resilient profit growth through our lower cost base
• Expansion of the AirAsia network in a prudent and disciplined manner
• Invest and enhance the AirAsia brand to increase investors’ returns

Safety
• Comply with the highest International Aviation Safety Standards and practices
• Keep operations simple and transparent
• Ensure the security of our People and Guests

Passion for Guests’ Satisfaction
• Maintain simplicity in every application
• Practice the unique and friendly AirAsia experience at every opportunity
• Recognise the linkage between guests’ satisfaction and long-term success

Transparency
• Transparency in decision-making and information sharing
• Optimum disclosure – higher than industry norms
• Timeliness in disclosing information

Human Capital Development
• Invest in both hard and soft skills
• Recognise all our People as contributors to our success
• Reward excellence and individual contributions
• Maintaining one brand across the Group
A REVOLUTIONARY NAME IN AIR TRAVEL REACHES GREATER HEIGHTS

AirAsia Berhad (“AirAsia” or “the Company”) is a name synonymous with low fare. It is also a truly homegrown brand that surpassed everyone’s expectations to emerge as a household name throughout Asia. With its tagline, “Now Everyone Can Fly”, AirAsia has distinctively positioned itself as an airline for the people that empower guests to fly.

AGAINST ALL ODDS

In 2001, Dato’ Tony Fernandes along with Dato’ Pahamin Ab. Rajab (Chairman, AirAsia), Dato’ Kamarudin Meranun (Deputy Group Chief Executive Officer, AirAsia) and Abdul Aziz bin Abu Bakar (Director, AirAsia) formed a partnership to set up Tune Air Sdn Bhd 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 remodelled into a low cost carrier and by January 2002, their vision to make air travel more affordable for Malaysians took flight.

Valued at RM3.6 billion, AirAsia is today an award winning and the single largest low cost carrier in Asia. From a two aircraft operation of Boeing 737-300s, AirAsia currently boasts a fleet of 46 aircraft that fly to over 44 domestic and international destinations and operates over 300 domestic and international flights daily from six hubs located at Low Cost Carrier Terminal (KLIA), Johor Bahru, Kota Kinabalu, Kuching, Bangkok (Thailand) and Jakarta (Indonesia). AirAsia is fast spreading its wings to bigger and more extensive route network through its associate companies, Thai AirAsia and Indonesia AirAsia. The airline has, thus far, carried over 20 million guests since its first day of operation.

BRINGING ASIA CLOSER

At AirAsia, we are bringing people closer by bridging boundaries through our philosophy of offering low fares as people from all walks of life are now able to fly more frequently and for many, for the first time ever. It is something very close to our hearts as we continuously strive to promote air travel and create excitement amongst our guests with our range of innovative products and personalised services.

That AirAsia is a household name throughout Asia is an amazing feat given that our airline is barely five years old. Our success stems from our ability to keep our fares low despite the challenges faced during the year under review.

OUR PILLARS OF STRENGTH

AirAsia’s success is driven by the continued confidence of our guests who prefer a no-frills, hassle-free and convenient way of air travel. We make this possible through the implementation of the following key strategies:

- **Low Fare, No Frills** – AirAsia targets guests who are prepared to do away with frills such as meals, frequent flyer miles or airport lounges in exchange for fares lower than those currently offered without compromising on quality and service. Although AirAsia does not offer complimentary drinks or meals, guests have the choice of buying exclusively prepared, delicious snacks and drinks from our culinary service “Snack Attack” at very affordable prices.

- **High Frequency** – AirAsia’s high frequency flight schedules have made it more convenient for guests to travel as the airline practises a quick turnaround of 25 minutes, which is the fastest in the region. This has resulted 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 and innovative range of distribution channels to make traveling easier for its guests. AirAsia’s ticketless service provides a low cost alternative to issuing printed tickets. Guests can make booking and payments through:
  - Internet booking at www.airasia.com. This is one of the most popular booking channels, accounting for approximately 60% of AirAsia’s total bookings;
  - mobile.airasia.com; the 1st in the world;
  - Call centres;
  - Sales offices and airport offices; and
  - 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 comply with the conditions set by regulators in all the countries where the airline operates. AirAsia’s partnership with world renowned maintenance providers also ensure that its fleet is always in the best condition.

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

With our strong fundamentals supported by our close-knit team of Management and staff, and our strong branding, we believe our tenacity will bring us to greater heights in making low cost travel even more “fashionable”.

**OUR COMMITMENT**

Our extended order of 40 firm Airbus A320 from the original fleet of 60 and an additional purchase option of 30 aircraft is ample proof of our commitment to be a truly Asian airline that operates an extensive route network, fosters economic prosperity, stimulates tourism and promotes stronger cultural integration. This has placed us in an enviable position of potentially becoming the largest and youngest airline fleet in the region.

**THE AIRASIA CULTURE**

By walking the talk, we have developed a brand that is accessible to everyone. The driving force behind our brand is our single most important asset – over 4,000 staff whose dedication, determination and patience have made us a success story. In turn, we have built a conducive and positive AirAsia culture that permeates all our lines of operations including management, guest services, ground and flight operations.

www.airasia.com
### For the 15 months ended 30 June 2002^ †

<table>
<thead>
<tr>
<th></th>
<th>For the year ended 30 June 2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
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<tr>
<td><strong>Revenue</strong></td>
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<td>330</td>
<td>393</td>
<td>666</td>
<td>863</td>
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<tr>
<td>Total expenses</td>
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<td>318</td>
<td>332</td>
<td>533</td>
<td>766</td>
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<tr>
<td>EBITDAR</td>
<td>76</td>
<td>96</td>
<td>116</td>
<td>220</td>
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<tr>
<td>EBIT</td>
<td>(1)</td>
<td>12</td>
<td>61</td>
<td>133</td>
<td>103</td>
<td>103</td>
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<tr>
<td>Share of results of jointly controlled entity/associates</td>
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<td>(0.1)</td>
<td>(5.4)</td>
<td>6.0</td>
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<tr>
<td>Profit before tax</td>
<td>(1.6)</td>
<td>11.5</td>
<td>58.1</td>
<td>125.4</td>
<td>115.5</td>
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<tr>
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<td>(0.1)</td>
<td>7.4</td>
<td>(9.1)</td>
<td>(14.3)</td>
<td>(27.1)</td>
<td>126.5</td>
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<tr>
<td><strong>Net income</strong></td>
<td>(1.7)</td>
<td>18.8</td>
<td>49.1</td>
<td>111.6</td>
<td>88.4</td>
<td>242.0</td>
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### BALANCE SHEET

- Cash & cash equivalents: 14, 34, 66, 329, 426, 426
- Total Assets: 51, 124, 350, 1,123, 2,413, 2,413
- Net Debt (Total Debt – Total Cash): (14), (34), 29, (329), 627, 627
- Shareholders’ Equity: 3, 49, 150, 953, 1,053, 1,206

### CASH FLOW STATEMENTS

- Net cash from operating activities: (12), 15, 29, (38), 282, 282
- Cash flow from investing activities: (7), (22), (144), (297), (1,249), (1,249)
- Cash flow from financing activities: (2), 26, 141, 589, 1,067, 1,067

**Net Cash Flow**

- (21), 19, 26, 254, 100, 100

### CONSOLIDATED FINANCIAL PERFORMANCE (%)

- Return on average total assets: –, 15.2, 14.0, 9.9, 3.7, 10.0
- Return on average shareholders’ equity: –, 38.4, 32.7, 11.7, 8.4, 20.1
- R.O.C.E (EBIT/(Net Debt + Equity)): 11.6, 74.4, 33.8, 21.4, 6.1, 5.6
- EBITDAR margin: 34.6, 29.7, 29.6, 33.1, 20.5, 20.5
- EBIT margin: (0.6), 3.5, 15.4, 20.0, 11.9, 11.9
- Net Income margin: (0.8), 5.7, 12.5, 16.8, 10.2, 28.0

### CONSOLIDATED OPERATING STATISTICS

- Passengers carried (Malaysia): 610,738, 1,481,097, 2,838,822, 4,414,069, 5,719,411, 5,719,411
- RPK (million): 672, 1,539, 2,771, 4,881, 6,702, 6,702
- ASK (million): 1,018, 2,086, 3,592, 6,525, 8,646, 8,646
- Load factor (%): 66, 74, 77, 75, 78, 78
- Aircraft utilisation (hours per day): 11.2, 12.5, 12.8, 12.6, 12.1, 12.0
- Average fare (RM): 183, 147, 131, 143, 137, 137
- Yield Revenue per RPK (sen): 18.4, 15.1, 14.2, 13.6, 12.9, 12.9
- Cost per ASK (sen): 12.8, 10.9, 9.4, 8.3, 8.8, 8.8
- Cost per ASK – excluding fuel (sen): 8.9, 7.4, 6.5, 4.2, 5.0, 5.0
- Yield Revenue per RPK (US¢): 4.84, 3.97, 3.74, 3.59, 3.47, 3.47
- Cost per ASK (US¢): 3.37, 2.86, 2.47, 2.19, 2.37, 2.37
- Cost per ASK – excluding fuel (US¢): 2.35, 1.96, 1.72, 1.11, 1.35, 1.35

### Additional Notes

- Net income after minority interests
- 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
Sponsored by GE Commercial Aviation Services, GE Aircraft Engines and GE Malaysia in support of a terrific customer, Air Asia.

The GEnx™ jet engine. A more fuel efficient, lower emissions, high-performance engine designed to move aircraft with less impact on the sky. Ecomagination gave this idea wings.

To learn more, visit ge.com/ecomagination.

GE imagination at work
Success is a **journey**, not a **destination**.

**Celebrating five years**

101 customers | 33 countries

RBS Aviation Capital  www.rbs.aero
Tel: +852 2966 2902
E-mail: marketing@ros.aero

**Make it happen**
NOV 2005  12th Annual General Meeting (“AGM”) of the Company was held on 25 November 2005.

NOV 2005  Announcement on 28 November 2005 of the unaudited consolidated first quarter results for the three months ended 30 September 2005.

FEB 2006  Announcement on 24 February 2006 of the unaudited consolidated second quarter results for the three months ended 31 December 2005.

MAY 2006  Announcement on 30 May 2006 of the unaudited consolidated third quarter results for the three months ended 31 March 2006.

AUG 2006  Announcement on 29 August 2006 of the unaudited consolidated fourth quarter results for the three months ended 30 June 2006.
In 2006, AirAsia added 15 aircraft to its fleet, seven of which are the brand new Airbus A320 aircraft. The reception has been nothing short of fantastic as for everyone, it was love at first sight! Everyone was bowled over as the aircraft won our hearts instantly. The integration process was smooth and we did not encounter any complications. Simply put, the aircraft exceeded all our expectations. The Airbus A320 has enhanced our image and brand equity in terms of service quality, comfort and reliability. In fact, the Airbus A320 has proven to be exceptionally popular given the consistent and positive feedback from our guests. Due to its proven superior performance and popularity, we decided to exercise our option and expand the original order.

AirAsia’s purchase agreement with Airbus is for 130 aircraft, of which 100 are firm orders with an option to purchase a further 30. The addition of these aircraft will enable us to continue to drive down our aircraft and operating costs, as well as secure AirAsia’s fleet requirement up till 2012 and lock in the benefits of the original agreement. It goes without saying that AirAsia will soon have the most modern and youngest fleet in the world.

**THE RIGHT TOOL FOR THE JOB**

Apart from having a reputation for being the most modern and sophisticated aircraft of its class, the Airbus A320 is also renowned for its high reliability and low operating costs. Compared to the airline’s Boeing 737-300 aircraft, the Airbus A320 is at least 15% more fuel efficient on an available seat kilometer basis, while offering guests greater width space, a quieter ride and unrivalled comfort. AirAsia will integrate the Airbus A320 into the current fleet of Boeing 737-300 aircraft that will be phased out accordingly as its lease expires. Through this approach, AirAsia has greater flexibility to meet the needs of each market while building on the cost efficiencies of operating one aircraft type.

**DO YOU KNOW THAT...**

- Every 3 minutes, an AirAsia aircraft is either taking off or landing somewhere in Asia.
- Our aircraft flies an average of 2.8 million kilometers each year; that’s an equal distance to the moon and back, four times over.
- Our pilots and cabin crew travel 500,000 kilometers every year; roughly circling the Earth 13 times.
- Each of our ramp staff carries an equivalent of 110 tons of luggage every year.
- Our aircraft consumes approximately 14 million litres of fuel each year.
- Our aircraft undergoes stringent safety maintenance checks every day.
- We implement a comprehensive service maintenance check (“A” check) on our aircraft every 600 hours – approximately every 50 days.

**the AIRBUS A320**

– AirAsia’s latest family member

- 15% lower fuelburn
- 35% lower maintenance
- 22% more seating capacity (180 total seats)
- 13-15% lower unit cost
- 18 cm wider fuselage
- 18 cm wider fan diameter
- 58 cm taller cargo door
- 10% bigger overhead bin
- more profit per month
- 40% wider aisle
Introducing Asia’s largest & most modern fleet
AirAsia Airbus A320
AirAsia is popularising air travel, stimulating latent demand through clever and punchy eye-catching promotional campaigns. When we first launched our low fare, no frills concept back in December 2001, our aim was to liberate the skies and defy the myth that flying is reserved only for the affluent and well heeled. While other airlines were charging exorbitant fares to every destination, AirAsia offered fares from as low as USD 0.99 – less than a bus fare.

Today, we continue to offer our guests amazing low fares, exciting destinations to choose from, and our genuine AirAsia spirit to all corners of Asia. Our guests have developed a habit of booking flights on-line and planning their trip/s well in advance. Not only are our guests enjoying amazing low fares, but they can look forward to travel in modern, exceptionally safe aircraft complemented with high quality service from our friendly cabin crew who treat you the way you like to be treated.

THE LCC IMPACT

AirAsia aims to stimulate the market with low fares and grow the market to its full potential. When we enter a new market, our competitors tends to lower their fares to match ours. The principal difference is our fares stay low – if not lower, whenever and wherever we fly. This helps stimulate traffic growth as it entices people to switch from other travel alternatives while attracting first time flyers. Passenger volume on AirAsia’s Malaysian routes grew by around 11% between 2001 and 2005.
The playing field isn’t always level. To ensure your success, we create solutions that balance the odds in your favour. At ECM Libra Avenue we get the right information. Make the right judgements. Take the right actions.
Welcome to our new home, the low cost carrier terminal (LCCT)

THE FIRST DEDICATED LOW COST CARRIER TERMINAL IN THE REGION

On 23 March 2006, we moved our operations to the Low Cost Carrier Terminal (LCCT). The LCCT is the first of its kind built in the region and it was built in a record period of nine months. The terminal was designed to cater for 10 million passengers a year with 30 parking bays. If the need arises, the terminal can be upgraded to handle 15 million passengers per year with an additional 12 parking bays. The LCCT is a showcase model as other airports are emulating its success by building their own low cost carrier terminals. Kota Kinabalu airport is currently busy constructing their low cost carrier terminal and should be completed by the end of the year; Kuching airport will start construction of their terminal early next year. Bangkok and Jakarta are also considering building their own low cost carrier terminals.

HIGH QUALITY SERVICE AT LOWER COST

The LCCT provides us with numerous cost saving opportunities. The simple and compact design facilitates more efficient operations. Furthermore, the close proximity of all key authorities will ensure that there are no breakdown in communications.

When we achieve better cost savings, we translate that into even lower fares for our guests.

Among the LCCT’s major cost saving contributors are:

- **The absence of aerobridges.** We believe that an aerobridge is not a necessity. Thus, the savings generated by not using an aerobridge are significant. Simultaneously, it helps to improve efficiency because it enables us to use both exit doors of the aircraft.

- **Close to the runway.** The close proximity to the runway minimises taxi time and this helps us to reduce our aircraft fuel burn.

- **Lower manpower requirements.** The terminal’s ergonomic design allow us to deploy fewer staff to get the same job done. There are no longer duplication of duties and our teams can multi task better. Furthermore, a significant amount of time is saved commuting from one workstation to the other.

Besides providing better efficiency and cost savings, the LCCT also enhances passenger comfort and experience. Among the notable improvements in service are:

- **Short walking distance.** The maximum walking distance from the terminal entrance to the aircraft seat is no more than 400 metres! At our previous premise, one would have to walk at least three times the distance.

- **User-friendly design.** The terminal sections are clearly marked with a simple single floor layout. Thus, guests have no problem locating their departure gate.

- **Comprehensive connectivity.** The LCCT is connected with frequent bus service to the city centre and to the main terminal building at KLIA. Taxis are frequent and at fair rates to all destinations. There are also ongoing talks to extend the Express Rail Link service to the LCCT.
AirAsia: Above and beyond the ordinary.

Navitaire congratulates AirAsia on yet another successful year. AirAsia’s record growth and profits demonstrate the high-performance results achievable through innovative ideas supported by strategic business partners. Navitaire is proud to be behind the scenes of AirAsia’s remarkable success by delivering flexible, integrated systems serving its reservations, revenue management and operations management needs.

Thinking beyond the ordinary in a highly competitive world helps AirAsia tap into new markets, grow profitably and maintain a low cost structure.

We’re confident AirAsia will continue being a high-performance business that goes above and beyond the basics. And Navitaire will be there to help AirAsia turn its ideas into revenues.

Navitaire

Growth, Innovation, Results. Delivered.

www.navitaire.com
Many ask us what drives AirAsia day in, day out. The answer is simple - it’s our people; talented and passionate individuals who have made us a force to reckon with in the airline industry within a very short span of time. More importantly, they believe and share our philosophy. Many say we are a model success story but we believe it’s due to our greatest assets – OUR PEOPLE, all success stories themselves.

ONE people, ONE culture, ONE AirAsia, ONE family.

As AirAsia’s operation in the region expands, our workforce has grown in tandem. We believe in the importance of building on our core values which we have put into practice in order to sustain a strong company culture across the region. We may have employees in 9 countries but we strive to uphold ONE people, ONE culture, ONE AirAsia, ONE family.

The Corporate Culture Department was established in August 2004 to ensure our vision to have a winning culture is achieved. The Department’s role is to promote the AirAsia spirit and family atmosphere through close communication and exciting activities designed specially for our people. Our ultimate goal – to ensure our guests experience ONE AirAsia wherever they fly.
Azmir Hashim, our former Guest Services staff, successfully graduated from AirAsia’s cadet pilot program (Batch 1) and has been a proud First Officer on the Boeing 737 since May 2005. AirAsia’s cadet pilot training program with the Malaysian Flying Academy in Melaka was launched in 2003 and to date AirAsia has trained over 60 pilots under the program. Amongst the graduates who are now serving as First Officers are two female pilots and our staff formerly in Purchasing, Guest Services, Accounts, Cabin Crew and Engineering.

“Once a month, I carry bags with the ramp boys, or I’m cabin crew, or at the check-in. I do this to get close to the operation. I also want to know my people. When I first started this, I met all these bright kids at the check-in or carrying bags. We were starting this cadet pilot program, and I said, "Let’s open it up to anyone. Let some of these kids apply." They have the brains, but they just didn’t have the money to get the education. Out of the first batch of 19 cadets, 11 came from within the Company. Some of these boys got the highest marks ever in the flying academy. There was one kid who joined us to carry bags, and 18 months later he was a First Officer of a 737. Can you imagine what that does for the motivation in the Company? Everyone talks about developing human capital, but we did it.”

Tony Fernandes

Source: An extract from an article in Asia Wall Street Journal, 29 May 2006.
AirAsia offers more than just low fares to make the flying experience more enjoyable and convenient for our guests. We offer a host of value-added products that enhance our guests’ travel experience and cater to their varied needs. Our brand has grown in tandem with current trends in the market place. Our guests can expect the “AirAsia Experience” from the point of booking until they reach their destination – convenient online reservation system, friendly cabin crew, affordable in-flight food and attractive merchandise for sale on board, and entertaining in-flight games. Over the years, our website www.airasia.com has evolved into a convenient one-stop travel centre that allows guests to plan their entire holiday online, from making flight reservations to booking other travel related products such as hotels, holiday packages, health packages and even car rentals.

**Go Holiday**, AirAsia’s online holiday packages was launched in Aug 2003 offering guests the convenience of booking their holiday packages online. Of the total sales, 85% are from Do It Yourself (DIY) packages which comprise flight and hotel bookings, 10% from hotel bookings and the remaining 5% from the newly launched group package bookings that consist of flight, hotel, transfer and tour. Local inbound agents for respective destinations will be appointed to handle the groups’ arrivals.

Go Holiday now boasts 500 hotel partners in all the countries that we fly to. Our hotel class offering ranges from high end properties to budget hotels, enabling us to cater to all customer segments. Go Holiday’s large room allotment, newly designed web layout, introduction of multi currencies booking and aggressive marketing campaigns are among the contributing factors to the popularity of this online service.

**Go Medic** is our specially designed online health package to cater to the growing demand from health tourism. Currently, Go Medic has formed a partnership with two diagnostic centres with potentially more hospitals and diagnostic centres to be added to the service.

**Go Holiday Theme Park** which was also recently added to the service, currently offers theme park packages in Malaysia and has potential for expansion to other countries in the region.

**AirAsia GoInsure** issued by American Home Assurance Company, Malaysia is a specially designed Travel Protection for AirAsia guests. Insurance policies range from as low as RM6 for a one way In-Flight Coverage and RM15.00 for a Comprehensive Coverage. The product was launched in April 2006 and is growing in popularity. The Travel Protection offers benefits such as Accidental Medical.
Reimbursement up to RM20,000, Evacuation and Repatriation Expenses, Personal Accident up to RM125,000, Baggage and Personal Effects up to RM1,500, Trip Cancellation and Interruption, Flight Delay and Complimentary 24 hour Medical Assistance. AirAsia Go Insure is currently available in Malaysia and there are plans to expand the online product to other countries in the future.

The **AirAsia Credit Card** issued by RHB Bank has one of the fastest growing take-up rates in the market, with a current card holder base of approximately 160,000. The AirAsia Credit Card offers benefits such as worldwide acceptance, free travel insurance of up to RM300,000 for card holders and their family members, Smart Rewards that come with over 300 exciting redemption choices and many more. This year’s highlights for card holders include Free Weekly Flights as well as Click n Go bookings at prices as low as RM1.99. Card holders can also accumulate RHB Reward Points and convert them into AA (RM) in order to enjoy free flight redemptions! Aside from these worthwhile benefits, Principal cardmembers are given a 1-year fee waiver and Free-for-Life term for supplementary card holders.

AirAsia introduced **mobile.airasia.com** in 2005 and became the first airline in the world to offer a total and comprehensive booking system targeting mobile phones and wireless devices. This service enables mobile phone and PDA users with any GPRS, 3G, EDGE or wireless facilities, to view AirAsia’s web pages directly. Guests only require a mobile phone to search for flights, book, use a credit card to pay, and receive flight confirmation and itinerary details, from anywhere in the world, 24 hours a day.

Although we operate a no-frills service, we offer **Snack Attack**, a selection of tasty food and drinks available on board at affordable prices. Guests can choose from hot food such as our signature nasi lemak to sandwiches and snacks.

We also offer a range of attractive **AirAsia Merchandise** items for sale from our signature red caps and aircraft models to key chains and beanie planes for the little ones on board. Our exclusive co-brand AirAsia Manchester United merchandise has also gained popularity and we are looking at introducing a new range to cater to the demand of our guests.

**www.airasia.com**

- Every 4.3 seconds somebody will book their seats online.
- Visited by 1.1 million viewers each month, making it the most highly searched website in the ASEAN region.
- Surfed by users from over 180 countries worldwide.
we believe
our guests come first
## Year 2005

### 1 NOV 2005
AirAsia commenced daily flights from Kuala Lumpur to Phnom Penh. The launch ceremony was officiated by the President of the National Assembly of the Kingdom of Cambodia, HRH Samdech Krom Preah Norodom Ranariddh.

### 2 DECEMBER
AirAsia offered 2 million free seats in conjunction with our 4th year anniversary celebrations and this campaign was promoted in seven countries.

### 8 DECEMBER
AirAsia’s first Airbus A320, 9M-AFA, arrived at Kuala Lumpur International Airport from Toulouse, France.

### 9 DECEMBER
AirAsia’s A320 made its first public appearance in Malaysia at the LIMA Air Show 2005 in Langkawi. YAB Datuk Seri Najib bin Tun Abdul Razak, Deputy Prime Minister of Malaysia boarded the aircraft to view the brand new interior along with other dignitaries.

### 27 DECEMBER
AirAsia introduced direct flights from Kuala Lumpur to Siam Reap.

## Year 2006

### 18 JANUARY
AirAsia and Galileo signed a global agreement for exclusive access to low fares, enabling AirAsia to reach and serve an even larger and wider network of markets. The collaboration is set to benefit subscribers of over 50,000 travel agencies worldwide, while introducing AirAsia for the first time to more markets via a major and well established distribution channel.

### 23 MARCH
YAB Dato’ Seri Abdullah bin Haji Ahmad Badawi, Prime Minister of Malaysia officially launched AirAsia’s new home at the Low Cost Carrier Terminal (LCCT) in Kuala Lumpur International Airport.

### 22 APRIL
DYMM Seri Paduka Baginda, Yang di-Pertuan Agong XII, Tuanku Syed Sirajuddin Ibni Al-Marhum Tuanku Syed Putra Jamalullail (King of Malaysia) visited AirAsia’s new home at the Low Cost Carrier Terminal and presented certificates to graduates from our cadet pilot training program.
26 APRIL
AirAsia hosted the first EU-Malaysia civil aviation safety conference to promote closer ties between the European and Asian Aerospace industry and regulatory authorities, and to improve aviation safety in South East Asia.

8-9 MAY
Manchester United players visited AirAsia’s “Red Devil” A320 at Manchester Airport. The plane flew from Kuala Lumpur for a promotional visit and took lucky Manchester United fans for a joyride in Manchester.

31 MAY
AirAsia despatched an extra flight from Kuala Lumpur to Solo (AK 9994) to aid humanitarian and relief work in Yogyakarta, Central Java following the earthquake in the Indonesian city.

20 JUNE
AirAsia, in partnership with AIG S.E. Asia Pte Ltd launched the AirAsia GoInsure Travel Protection, thus becoming the first low cost carrier in Asia to offer a web-integrated travel protection sales platform.

4 JULY
AXN, a leading international action and adventure cable channel announced AirAsia’s participation as the Official Airline Partner for the Asia edition of the three-time Emmy award-winning Amazing Race reality series.

7 JULY
AirAsia’s new Kota Kinabalu hub was officially launched by the Chief Minister of Sabah, YAB Datuk Musa bin Haji Aman.

11 JULY
AirAsia commenced daily flights from Kuala Lumpur to Brunei.

20 JULY
AirAsia announced that we will exercise our option to acquire an additional 40 Airbus A320 and extend the order for a further 30 aircraft, thus bringing the total order for the Airbus A320 to 100 firm orders with an option for another 30.

20 JULY
AirAsia’s new Kuching hub was officially launched by YB Dato’ Sri Chan Kong Choy, Minister of Transport Malaysia.

1 AUGUST
The Malaysian aviation industry has successfully implemented rationalisation of its domestic routes. The market environment is now commercially friendly with a level playing field for everyone.

14 AUGUST
AirAsia launched its state-of-the-art Airbus A320 full flight simulators at the new AirAsia Academy. The event was officiated by YB Dato’ Sri Chan Kong Choy, Minister of Transport Malaysia.

8 SEPTEMBER
AirAsia extended our partnership with Manchester United Football Club for a second year and signed a partnership with Tourism Malaysia as a new sponsor of the football club to jointly promote Visit Malaysia 2007.

4 OCTOBER
AirAsia made its entry into Vietnam with the launch of daily flights from Kuala Lumpur to Hanoi.
Some think competition.

We think partnership.

Since 1856, we have focused on bringing new perspectives to our clients. Understanding the past, but shaped by the future. Always looking at opportunities and challenges from a different point of view. Bringing together new partners to achieve results that can make the difference for our clients. Because our sole ambition is to turn your vision into a reality.

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Thinking New Perspectives.

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AirAsia and the AIG group are proud to have launched the first web-integrated travel insurance sales solution with an airline in Asia.

We aim to continue helping AirAsia maximize their ancillary income potential with our insurance industry-leading systems solutions, worldwide expertise and market-leading reputation for quality.

We look forward to a long-term partnership that will benefit AirAsia, their Guests and their Shareholders for years to come.
BOARD OF DIRECTORS

Dato’ Pahamin Ab. Rajab
Chairman/Non-Executive Director

Dato’ Anthony Francis Fernandes
Group Chief Executive Officer

Dato’ Kamarudin Meranun
Deputy Group Chief Executive Officer

Abdel Aziz @ Abdul Aziz bin Abu Bakar
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

Datuk Alias bin Ali
Independent Non-Executive Director

Paul John Da Vall
Alternate Director to John Francis Tierney

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

John Francis Tierney
Dato’ Leong Sonny @ Leong Khee Seong

NOMINATION COMMITTEE

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

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) 78809318
Fax : (603) 78806318
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

ABN Amro Bank Berhad
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

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STOCK EXCHANGE LISTING

Main Board of Bursa Malaysia Securities Berhad (“Bursa Malaysia”)
(Listed since 22 November 2004)
(Stock code: 5099)
we believe
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Choice of venue:

Shot on location at our Head Office against a backdrop depicting AirAsia’s milestones.
DATO’ PAHAMIN AB. RAJAB, Malaysian, aged 60, 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 Executive Committee and 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 Organization and, in 2000, was awarded the prestigious Cyber Champion International Award by the Business Software Alliance in Washington. He received a B.A. degree in History 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 Masters 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 and LNG Resources Berhad.

DATO’ ANTHONY FRANCIS FERNANDES (DATO’ TONY FERNANDES), Malaysian, aged 42, was appointed Group Chief Executive Officer of the Company in December 2001. He is also a member of the Executive and Employee 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 “Siesta 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 achievement 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 awarded the “Airline Business Strategy Award 2005 and Low Cost Leadership” by Airline Business and he was also named Asia Pacific Aviation Executive of the Centre for Asia Pacific Aviation (“CAPA”) for the year 2004 and 2005. 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 (DPT.J) which carries the title Dato’ by the Negeri Semblian’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.

DATO’ KAMARUDIN MERANUN, Malaysian, aged 44, was appointed Director of the Company on 12 December 2001. In January 2004, he was appointed Executive Director and on 8 December 2005, he was redesignated to Group Deputy Chief Executive Officer. He is also a member of the 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 Innosahab Capital Management Sdn Bhd, a subsidiary of Innosahab Securities Sdn Bhd. He subsequently acquired the shares of its joint venture partner of Innosahab Capital Management Sdn Bhd, which was later renamed Intrinsic Capital Management Sdn Bhd. He 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, Malaysian, aged 53, was appointed as Non-Executive Director of the Company on 20 April 2005. He is also a member of the Operational Safety Committee of the Board. Prior to this, he served as an Alternate Director of the Company to Dato’ Pahamin 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, his BSc in Agriculture Business from Louisiana State University, USA in 1978, and an MBA from the University of Dallas, USA in 1980.

JOHN FRANCIS TIERNEY, Irish, aged 61, 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 of 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 MBA degree from University College Dublin, and is a fellow of the Institute of Chartered Accountants in Ireland.

CONOR MCCARTHY, Irish, aged 44, was appointed Non-Executive Director of the Company on 21 June 2004. He heads the Operational 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, Malaysian, aged 71, 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 (1986-1989). His varied career includes having served as an Alternate Executive Director of the World Bank, Washington D.C. (1971-1972), Chairman of the ASEAN Committee on Transportation and Communication (1986-1989), 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 (1989-1994). He was Vice Chairman of the Malaysian Business Council, was 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. 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 the 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. He is currently the President of Transparency Malaysia and Chairman of the ASLI Center of Public Policy Studies.

DATO’ LEONG SONNY @ LEONG KHEE SEONG, Malaysian, aged 67, 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 Deputy Minister of Primary Industries from 1974 to 1978, 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 the Chairman of the General Agreement on Tariffs and Trade’s Negotiating Committee on Tropical Products (1986 to 1990) and was the 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. He is an Independent Non-Executive Deputy Chairman of Sin Chew Media Corporation Berhad and Independent Non-Executive Director of TSH Resources Berhad.

FAM LEE LEE, Malaysian, aged 45, 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 the senior partner at Messrs. YF Chun, Fam & Yeo. He also serves as a Director of M-Mode Berhad.
DATUK ALIAS BIN ALI, Malaysian, aged 58, 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 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 in several Ministries and Department 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 Post Malaysia & Services Holdings Berhad, Integrated Rubber Corporation Berhad, FIMA Corporation Berhad, Mentakab Rubber Company Berhad and Duopharma Biotech Bhd.

PAUL JOHN DA VAL, British, aged 36, was appointed Alternate Director of the Company to Mr. John Francis Tierney on 17 August 2005. He is currently the Senior 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 has any family relationship with any director and/or major shareholder of AirAsia.
2. **Conflict of Interest**
   None of the Directors has any conflict of interest with AirAsia Group.
3. **Conviction for Offences**
   None of the Directors has 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.
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senior management profile

DATO’ TONY FERNANDES
Group Chief Executive Officer

Details of Dato’ Tony Fernandes are disclosed in the Directors’ Profile on page 30 of this Annual Report.

DATO’ KAMARUDIN MERANUN
Deputy Group Chief Executive Officer

Details of Dato’ Kamarudin Meranun are disclosed in the Directors’ Profile on page 30 of this Annual Report.

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 growth in Thailand. He received a Bachelor’s degree in Marketing from Assumption University, Thailand and a Master in International Marketing from Thamsart University, Thailand.

Tassapon has had more than 11 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.
SENDJAJA WIDJAJA
President Director, Indonesia AirAsia

Sendjaja Widjaja has been President Director of Indonesia AirAsia 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.

ROZMAN OMAR
Group Chief Financial Officer

Rozman Omar served as Chief Financial Officer (CFO) of PT Indonesia AirAsia, AirAsia’s associate company in Indonesia before his appointment as Group Chief Financial Officer on 1 August 2006. Rozman was part of the Management team that spearheaded the flotation of AirAsia Berhad on Bursa Malaysia. He was also one of the key personnel involved in the formation of AirAsia’s joint ventures in Thailand and Indonesia. Upon completion of the Company’s flotation in November 2004, he was made the CFO of PT Indonesia AirAsia responsible for all the financial and corporate legal aspects of the Company.

Rozman comes with over 22 years of extensive corporate finance experience. Upon completion of his ACCA examinations in 1984, Rozman joined Arab-Malaysian Merchant Bank Berhad for six years and rose to the position of Corporate Finance Manager. He then joined Bumiputra Merchant Bankers Berhad. Subsequently, he joined Kumpulan Fima Berhad in 1992 as Senior Vice President, Corporate Services. He later returned to Arab-Malaysian Merchant Bank Berhad as General Manager, Corporate Finance from 1994 to 1996. He then became Managing Director of Innosabah Corporate Services Sdn Bhd until 1999 before venturing out with InCAM Consulting Sdn Bhd until 2003.

WONG MEE YEN
Group Financial Controller

Wong Mee Yen has been, prior to her promotion as Group Financial Controller in August 2006, the Financial Controller at AirAsia since March 2004. She has more than 20 years of experience in finance and accounting. Mee Yen started her career with BDO Binder from 1986 to 1991, of which her last position held was as Audit Manager. She then joined KPMG Peat Marwick as Senior Audit Manager from 1991 to 1992. Mee Yen was Group Financial Controller cum Company Secretary with Press Metal Bhd in Malaysia from 1992 to 1996, Regional Financial Controller with TV Media Pte Ltd in Singapore from 1996 to 1997, and Operations Director cum Company Secretary for MCS Microsystems Sdn Bhd from 1997 to 2001. Prior to joining AirAsia, she worked as a Consultant with SPM Holdings Sdn Bhd from 2002 to 2003. She has been a Director of Alubright Global Sdn Bhd since August 2003. She is a Certified Public Accountant in Malaysia and a member of the Malaysian Institute of Accountants (MIA).
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 launched 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, brand building and ancillary income within the AirAsia network.

Prior to AirAsia, she was Managing Director of Warner Music Singapore for 7 years, Chairperson of the Recording Industry Association of Singapore and Regional Marketing Director of Warner Music Asia Pacific in Hong Kong for 3 years. During her six year stint with the 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 overseeing marketing communications for Gucci, Coach, Fendi and many other labels within the Group. Kathleen started her career in the advertising industry, having worked in agencies such as Leo Burnett and Mojo.

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

Captain Chin Nyok San has been Executive Vice President, Planning and Business Development of AirAsia since January 2005. Prior to this, he was the Head of Flight Operations of the Company from May 1996 to February 2004. A trained pilot, he 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 a Airline Transport Pilot’s License from the Federal Aviation Administration in 1994.

Captain Chin is responsible for the effective planning and business development of the Group’s operations, associated administrative and supporting activities that include Maintenance Systems, Flight Operations and Ground Operations.

CHARLES CJ CHOW
Executive Vice President – People

Charles CJ Chow joined AirAsia in 2002. Prior to his appointment as Executive Vice President – People in October 2005, Charles was AirAsia’s Group General Counsel. 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 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. He now heads the management of the Group’s human resources.
BO LINGAM
Executive Vice President – Operations

Prior to joining AirAsia, Bo Lingam has 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 Executive Vice President – Operations, Bo held several other key roles at AirAsia including as Regional Director – Guest Services, Senior Manager – Purchasing & Supplies before he was seconded to Thai AirAsia to oversee and assist in the initial set-up of Thai AirAsia operations in Bangkok.

MEGAT KAMARRUDDIN MEGAT SHAMSUDDIN
Executive Vice President, Treasury

Megat Kamarruddin, AirAsia’s Executive Vice President, Treasury, has over 20 years of experience gained at various financial institutions in major financial centres globally where he held senior positions. He was principally responsible for amongst others, trading and investing in foreign exchange, interest rate and fixed income markets. Prior to joining AirAsia in June 2006, he was Head of Treasury at Bumiputra Commerce Bank and Head of Global Sales and Global Funding at Group Treasury, CIMB. Megat is responsible for group corporate treasury matters, principally market interfacing activities which includes though not restricted to Forex, Investments, Interest rates, Insurance and Commodity Hedging.

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 from October 2004. He has had 36 years experience in the airline industry, having worked at Malaysia-Singapore Airlines as Management Trainee/Marketing Executive from 1970 to 1972 and Malaysia Airlines 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 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 Licenses 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.

NASSER KASSIM  
Regional Director, Cargo

Nasser served as Regional Director, In-flight Services, Charter and Cargo for AirAsia before his appointment as Regional Director, Cargo. His prior appointments at AirAsia include that of Country Director of Indonesia AirAsia and Executive Director, Business Development managing AirAsia’s Haj operations, cargo, charter and Army contracts. Nasser’s contribution to AirAsia’s rapid expansion plans include managing routes development, negotiating aircraft leases, developing cargo operations, charter and in-flight services that encompass food and beverage as well as merchandising.

Nasser’s expertise in developing regional markets stems from his vast experience gained over an illustrious 18-year career at 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 a better understanding of the Asian markets and cultures.

JOYCE LAI LIH YIN  
Regional Director, AirAsia Academy and Corporate Culture

Joyce has been Regional Director, AirAsia Academy and Corporate Culture since February 2006. Prior to that Joyce was Regional Director, Corporate Culture and Service Quality since March 2005. Joyce joined AirAsia as Senior Manager, Media in December 2001 and was later promoted to Chief Communications Officer. She was appointed as Regional Director, Marketing and Communications in July 2004. She has extensive marketing experience having previously held various key positions at 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 before being promoted to Marketing Director. Joyce was instrumental in building the AirAsia brand name in Malaysia and the region, and raising its international profile. As head of the AirAsia Academy, Joyce is responsible for overseeing all aspects of the training needs for the Group’s workforce.
CAPTAIN WONG KAM WENG
Regional Director, Group Quality Management System

Captain Wong served as Regional Director – Safety and Security until his recent appointment as Regional Director – Group Quality Management System. Captain Wong joined AirAsia in September 1996, initially as Captain of the Boeing 737 and later as Instructor and Examiner. Captain Wong currently flies the Airbus 320 as Captain and Instructor and is a member of AirAsia’s aircraft acceptance test team. Captain Wong started his career in the aviation industry with Pelangi Air as co-pilot. He was subsequently promoted to Captain and Instructor and later as Fleet Captain of the Fokker 50. He has flown various aircraft including the Airbus 320, Boeing 737, Fokker 50, Dornier 228 and Twin Otter DHC6 and has accumulated a total of 12,000 flying hours.

TAN HOCK SOON
General Manager, AirAsia Go Holiday

Tan has been General Manager for AirAsia Go Holiday since April 2006. Since then, he has successfully revamped the business model and achieved a 300% growth in revenue. Prior to his current appointment, he was Regional Director, Distribution from July 2005 to March 2006 where he was instrumental in establishing AirAsia franchise outlets in the distribution channel. A proven sales practitioner, he has had an impressive career track record. From 1987 to 1993 he held various positions at Procter & Gamble (P&G) including as Jobber Distribution Supervisor, Key Account Manager and Section Manager. Tan was a pioneer member at P&G. From 1993 to 1994, he was Area Sales Manager at Cusson UK International where he was successful in penetrating key shopping complexes and establishing good customer relationships. From 1994 to 1996, he served as Assistant Sales Manager and helped increase both product distribution and revenue in the East Malaysia and Southern regions. Prior to joining AirAsia, he served at Warner Music Malaysia from 1996 to 2005.

CAPTAIN OMAR SHUIB
Regional Director, Group Safety and Security

Captain Omar has been with AirAsia since 1997 when the airline was then under DRB-Hicom. He started his career as an airforce fighter pilot in 1980, serving the airforce for 13 years in various positions including that of Flight Commander, instructor, examiner and Flight Safety Officer. He then joined the Department of Civil Aviation (DCA) where he served for 2 years as Assistant Director Flight Operation, responsible for Pilot Licensing and aircraft accident investigation. Captain Omar was also an Executive Jet Pilot for 2 years. At AirAsia, Captain Omar has held various appointments including that of Training Captain, DCA Authorised Examiner, Chief Pilot – Training and Standard and Chief Pilot – Safety & Security. He was later seconded to Indonesia AirAsia as Executive Advisor, Flight Operation during the airline’s initial start up period and was responsible to assist and oversee Flight Operations particularly pilot training. He returned to Malaysia in April 2006 prior to assuming his current appointment.

CAPTAIN ADRIAN JENKINS
Director, Flight Operations

Captain Adrian joined AirAsia in 1996 when the airline was then under DRB Hicom. Prior to his appointment as Director, Flight Operations in September 2006, he served AirAsia in various positions including as Instructor and Company Check Airman, Assistant Chief Pilot – Training and Standards and Assistant Chief Pilot – Operations. He also helped in the setting up of Thai AirAsia’s flight operations and pilot training.

Captain Adrian joined the aviation industry in 1989 as a cabin crew with Malaysia Airlines. He left in 1992 to undergo training as a pilot. In 1994, he joined Nusantara Sakti, a member of the Renong group, where he undertook general aviation duties.
we believe

our direction

is clear & focused
“AIRASIA’S PEOPLE ARE THE DRIVING FORCE BEHIND THIS ORGANISATION, AND OUR UNIQUE CORPORATE CULTURE CONTINUES TO FLOURISH AS THE SIZE OF OUR COMPANY EXPANDS.”

Pahamin Ab. Rajab
Chairman
Dear Shareholders,

It was yet another exciting year for AirAsia as we continued to prosper through difficult times in our industry. Notwithstanding these difficulties, we were able to produce another profitable year with 14% profit growth, while successfully positioning ourselves for ongoing growth. Following our acquisition of seven Airbus A320 aircraft and six Boeing 737-300 in 2006, we increased the number of airplanes in our fleet to 42 aircraft at year end. These acquisitions have enabled us to grow our passenger base by 48%, usher in 13 new destinations and carry more than 20 million guests since our inception.

AirAsia’s people are the driving force behind this organisation, and our unique corporate culture continues to flourish as the size of our Company expands. Without the commitment of our people, the achievement of these financial results would not have been possible. Our teams responded extremely well to the challenges of 2006, and I believe that they are ready to take on what may be even greater challenges in 2007 and beyond. With the vast majority of AirAsia’s people being shareholders, and with everyone sharing in the fruits of our success, I am confident that our team remains extremely proud and highly motivated to drive our great airline to even greater success.

Under the International Financial Reporting Standard (IFRS) principally IAS 12, the net profit figure will be RM242 million. However, under Malaysian Accounting Standard Board’s policies, the reported net income figure is RM88.4 million. The deviation arose because the Malaysian accounting standard does not allow the Company to recognise the investment tax allowance granted to the Company by the Malaysian Government. This investment tax allowance effectively shelters the Company from making tax payments, and this may span many years into the future based on current profit and capital expenditure projections.

It was a very challenging year, fuel price kept going up and competition intensified. Our fuel hedge and fuel surcharge partially cushioned the
closer to our ambition to fly to every ASEAN country. The domestic rationalisation was successfully implemented on 1 August 2006. This is an important milestone as the domestic rationalisation provides the platform for level playing field and market driven competition in the domestic Malaysian operations.

We took delivery of our first Airbus A320 aircraft in December 2005. The Airbus A320 had added significant value to the Company. It has transformed our image and enables us to capture new markets. We believe that we will build our position as the market leader with the Airbus A320’s superior cost economics and reliability.

impact of higher fuel cost. However, the intensified competition forced us to adopt a change in strategy whereby we lowered our fares in order to boost the load factor. I’m proud to say that we have increased the load factor to 78%, and in the fourth quarter it was a record high of 83%. It is crucial that we adapt to changes quickly in order to be one step ahead of the competition and reinforce the business.

There were a number of exciting highlights in the past year. We have moved our operations to the Low Cost Carrier Terminal (LCCT). This terminal provides us with significant cost savings and enhances our service level. We have made our entry to Vietnam, Brunei and Cambodia, thus bringing us closer to our ambition to fly to every ASEAN country. In a challenging industry, our investors can always be confident of the amazing team of people we have assembled to run this airline. We will stick to our tested and proven business model to offer the lowest fare available, introduce new routes and keep the business simple and as low cost as possible. From all of us at AirAsia, thank you for your ongoing support that will allow us to continue to profitably bring affordable travel to more people and to more destinations across Asia.

Pahamin Ab. Rajab
Chairman
BNP PARIBAS

The most active bank for the low cost carrier’s community is extremely proud of its partnership with AirAsia.

We are happy to be associated with AirAsia in the financing of its A320-200 aircraft.
YOU HELP EVERYONE TO FLY.
WE HELP YOU TO SOAR.

Award-winning AirAsia has soared onto the Asian travel scene with a successful formula of understanding customers’ needs, cost-efficient services, out-of-the-box products and a corporate culture that encompasses safety, care, fun, integrity and passion to be the best. We are committed to be your partner in your exciting journey by providing one-stop banking services to help you achieve your goals.

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Making more possible

ABN AMRO
“SINCE AIRASIA’S FIRST FLIGHT IN JANUARY 2002, WE HAVE REPORTED CONTINUOUS GROWTH, ALONG WITH CONSISTENT PROFITABILITY.”

Tony Fernandes
Group Chief Executive Officer
Dear Shareholders,

AirAsia once again delivered a strong financial performance and growth. It is not an exaggeration to say that 2006 was one of the toughest years we have faced in our five-year history. Although demand for travel was robust, cost pressures in the form of spiralling fuel price and intensified competition added even greater pressure to an already depressed yield environment.

Our ability to successfully manoeuvre these challenges is a testimony to the dedication and commitment of the people of AirAsia. Our people’s commitment and efforts to meet our guests’ expectations and our own goals for reliability and efficiency are second to none. Not only did this dedication allow us to withstand this difficult environment, but it resulted in a number of important accomplishments that will position AirAsia for our next phase of continued growth.

The Group has continued its growth path for the past year; we expanded our network to 13 new destinations. It is also a very special year as Cambodia and Vietnam have opened their doors to low cost carriers and we have embraced the opportunity by scheduling daily flights into those countries. We added 15 aircraft into the fleet, 7 of which are the new Airbus A320, ending the year with a total of 42 aircraft, up from 27 aircraft in June 2005. In 2006, the Group carried 9.3 million people across our network, which represents a 48% growth over 2005.

STRATEGIC ACTIONS IN 2006

We have refocused our route planning and management resources on routes where we have significant commercial presence and on a concentrated number of high potential routes. We have terminated a number of underperforming routes and offered significant fare discounts to boost our load factors. Our load factors have improved significantly by 3 percentage points to 78%, albeit at the expense of 4% lower average fares and yields. We believe we can increase the load factors to higher levels and maintain steady yields going forward.

Our goal is clear – we want to lead where we choose to compete, low fares coupled with great service is our aim. Our opportunities lie in identifying and addressing underserved markets, and growing the routes beyond what the consensus of opinion might be. We have done this consistently in the past – out of our 70 routes, 16 routes were pioneered by us. We have learned that with the right products, agility and a cost focused discipline can deliver impressive results.
AIRBUS A320

The Airbus replacement programme is proving effective with better aircraft reliability and superior cost economics. We are very satisfied with the proven superiority of the aircraft and we have decided to exercise our options for delivery of 40 additional Airbus A320 aircraft with options to acquire up to a further 30 aircraft. The purchase order now extends to 100 firm orders with options to acquire up to a further 30 aircraft. This purchase order effectively secures our growth pipeline until 2012 while concurrently locking in the benefits of our original aircraft acquisition agreement.

As the number of Airbus A320 aircraft in our fleet increase, we will continue to achieve greater reductions in operational costs. At the same time, our guests will enjoy the better comfort and reliability of these new aircraft. The Airbus A320 aircraft has certainly raised AirAsia’s brand equity and enhanced our competitive advantage over our competitors. We are capturing new markets that we never dreamt of before due to the induction of these brand new sophisticated aircraft.

DOMESTIC RATIONALISATION

We thank the Government’s persistent drive to make the domestic rationalisation a reality. The Malaysian aviation industry has taken a significant step forward; MAS no longer receives subsidies and AirAsia is now an equal status national carrier. We welcome the new commercial friendly environment which is driven by fair competition. We believe this could be the catalyst that will propel Malaysia as the premier low cost hub in the region.

MANCHESTER UNITED SPONSORSHIP

Our sponsorship agreement with Manchester United was a resounding success and we will extend the deal for another year together with Tourism Malaysia. This joint sponsorship not only saves cost, it will also maximise benefits as we streamline our efforts to promote the “Visit Malaysia Year 2007” campaign. Our co-branded Manchester

LOW COST CARRIER TERMINAL @ RED FORT

We moved our operations to the low cost carrier terminal (LCCT) on 23 March 2006. The low cost carrier terminal is delivering numerous cost saving opportunities and greater efficiency. For the first time ever, all of AirAsia workforce are working under one roof. This has enhanced AirAsia’s family unity, and the synergies obtained are significant.

CAPT. SUKHDEV SINGH, Synthetic Flight Instructor, Airbus A320
United merchandise is very popular, and the sales generated well exceeded our expectations.

**COMPETITION**

It is inevitable that AirAsia will face challenges, particularly from incumbent airlines as well as prospective new start-ups – it is a reflection of today’s airline industry. Our position is clear: as long as our cost is the lowest, we can consistently offer the LOWEST fare in the market and not worry about the competition. It is a hard biting economic fact that our competitors have to grasp, and we have seen some scale back in capacity on certain routes and a more “rationale” pricing environment. Ultimately, our cost is our number one competitor!

**FUTURE DEVELOPMENT**

AirAsia is stronger than ever and I am confident that the implementation of our strategic initiatives will position us well for future growth. The Group has a promising future with a strong brand, an energetic management team and a dedicated work force. Our aim during the forthcoming year is to continue to strengthen AirAsia’s position in its marketplaces and to develop the Group into one of the leading low cost carriers in the world.

The year 2006 was exciting and challenging. The dedication and professionalism of our employees made our success possible. Their hard work and innovative approach will continue to ensure success for the Company in the years ahead. On behalf of the AirAsia family, thank you very much for your continued interest and support for AirAsia.

Yours faithfully,

Tony Fernandes
Group Chief Executive Officer
Air Asia

Growing From Strength to Strength

Isn’t it exciting how, after only four years, AirAsia has grown from a low fare carrier of only 2 aircrafts to a strong fleet of 35 jets? Today, the routes have expanded to meet increasing demands from passengers in major hubs all over Asia. Now Everyone Can Fly with Asia’s leading low fare, no frills airline.

We, at RHB Investment Bank, are proud to have been there with you from the very beginning, when you made your debut on Bursa Malaysia.

The RHB Banking Group is also honoured to be associated with AirAsia and fully supports its vision of affordable flying for all.
our safety measures
meet world class standards
AIRASIA CONSIDERS SAFETY TO BE THE SINGLE MOST IMPORTANT ASPECT OF OUR OPERATIONS AND IT IS A CHARACTERISTIC THAT WE WILL NEVER COMPROMISE. AIRASIA IS STRINGENT ABOUT COMPLYING WITH THE HIGHEST INTERNATIONAL STANDARDS AND PROCEDURES SET BY THE MALAYSIAN CIVIL AVIATION REGULATIONS. AIRASIA’S TECHNICIANS AND ENGINEERS MAKE UP ONE OF THE MOST EXPERIENCED TEAMS IN MALAYSIA, WITH YEARS OF EXPERIENCE IN THE AVIATION INDUSTRY. SAFETY PROCEDURES INCLUDE STRICT AIRCRAFT MAINTENANCE, CONSTANT UPDATING AND TRAINING OF TECHNICIANS AND FLIGHT CREW.

TOGETHER WITH BOEING AND AIRBUS, AND WITH THE AUTHORISATION OF THE REGULATORY AGENCIES, AIRASIA HAS DEVELOPED AN ERGONOMIC WAY TO MAINTAIN ITS AIRCRAFT WITHOUT IMPACTING OPERATIONS. USING A MODERN SOPHISTICATED SYSTEM, A HIGHLY SKILLED TECHNICAL TEAM AND THE MOST ADVANCED TECHNOLOGY, AIRASIA CONDUCTS PERIODIC CHECK-UPS OF ITS AIRCRAFT VIA A SCHEDULED MAINTENANCE SYSTEM. WITH THIS SCHEDULED MAINTENANCE SYSTEM, PREVENTIVE MAINTENANCE CAN BE INTEGRATED SMOOTHLY INTO THE OPERATIONS, THUS INCREASING BLOCK HOURS AND REDUCING COSTS. AIRASIA CAN THEREFORE KEEP ITS AIRCRAFT FULLY OPERATIONAL FOR THE ENTIRE YEAR, AND MORE IMPORTANTLY WITH ENHANCED SAFETY.

TOTAL SAFETY MANAGEMENT SYSTEM

As part of the plan to continuously enhance safety, the Company has moved to a total safety management system. We have integrated an active FDA (Flight Data Analysis) programme whereby the parameters of each flight are recorded and analysed. Our analyst examines the parameters of each flight to determine if there are any traces of irregularity. Therefore, we can effectively detect any complications even before it happens! Not only does this system elevate the safety standards to a higher level, but it also saves the Company significant cost by avoiding last minute surprises. This system also ensures that we continue to deliver seamless high quality service.

AirAsia is constantly in discussion with the regulatory authorities, manufacturers and other operators regarding trends and improvements in the management of Air Safety. The Safety Committee also examines these developments with regard to their suitability and adoption.
investing for the future

AT AIRASIA, WE BELIEVE THAT WHEN PLANNING FOR THE FUTURE, ONE SHOULD NOT BE “PENNY-WISE, POUND-FOOLISH”. THAT IS WHY WE HAVE TAKEN EARLY STEPS TO INVEST IN HUMAN CAPITAL AND INFRASTRUCTURE IN ORDER TO SECURE OUR FUTURE.

AIRASIA ACADEMY

One of the key highlights for the year was the commissioning of the AirAsia Academy. The Academy is now the one-stop training centre for every AirAsia employee. This ensures consistent quality and service across our operations and homogeneity in our culture. It matters not if you fly from Malaysia or Indonesia, you will be met with the same gregarious warmth and high quality service wherever you fly.

The Academy serves as the platform to keep our people on track with the latest industry developments and incorporates best-practices. We have invested significantly to equip the Academy with the latest and highest quality equipment and training procedures. The Academy is equipped with a Maintenance Flight Training Device (“MFTD”), the only one available in the region. This unique device allows our pilots to better prepare themselves for a real flight.

We added two simulators during the year, bringing our total to three. An additional Airbus A320 simulator is currently under construction and should be completed during the course of the year. With one Boeing 737 simulator and three Airbus A320 simulators, we have effectively secured all our hardware requirements to train our future pilots. Together with CAE, we intend to develop AirAsia Academy as the aviation school for Asia; we have already secured the type rating training organisation status from the Malaysian authorities. AirAsia also intends to provide simulator services for other airlines whenever there is spare capacity available. Looking ahead, we believe this could potentially be another source of revenue for AirAsia.

The Academy plays a strategic role in developing the skilled manpower required for our continued growth. In addition, the Academy provides us with autonomy from cyclical market adversities and control over our human capital.

AIRASIA MAINTENANCE HANGAR

The maintenance hangar opening was officiated by YB Dato’ Seri Chan Kong Choy, Minister of Transport Malaysia back in December 2004. This was a proud achievement for us, and the country as well, because the facility was designed and built by Malaysians. We believe in our home-grown talents who lived up to the “Malaysia Boleh” spirit.

The maintenance hangar has already contributed significant savings. The savings will expand further as we increase our fleet going forward. This facility provides us with the flexibility to implement preventive procedures to improve efficiency and gives us complete autonomy from relying on a third party.
award & recognition

THE ASEAN LEADER IN AFFORDABLE ASIAN TRAVEL AND AN AWARD-WINNING LOW COST CARRIER.

Year 2006

- Merit Award for CAPA Airline of the Year 2006 by Centre for Asia Pacific Aviation (CAPA)
- Asia’s Best Budget Airline by SmartTravelAsia.com under the Best In Travel 2006 list
- Winner in four categories including Best Managed Company, Best Corporate Governance, Best Investor Relations, and Most Committed to Strong Dividend Policy under The Annual Investor Poll of FinanceAsia.com

Year 2005

- Tony Fernandes was awarded the Asia Pacific Aviation Executive of the Year 2005 by Centre for Asia Pacific Aviation (CAPA)
- Asia Aircraft Debt Deal of the Year by Jane’s Transport Finance
- Transport Company of Excellence Award in conjunction with the annual Transport Industry Awards jointly organised by Ports World Sdn Bhd and the Chartered Institute of Logistics and Transport Malaysia
- Asia’s “Best Under A Billion” by Forbes
- Regional/Low-Cost Leadership Award in Airline Business Strategy Awards 2005 by Airline Business (Tony Fernandes)
AIRASIA’S PHILOSOPHY OF LOW FARES HAS NEVER STOPPED US FROM BECOMING AN ACTIVE PARTICIPANT IN HELPING THOSE IN NEED. WE REMAIN VIGILANT ON COSTS AND CONTINUE TO HELP WITHIN OUR MEANS. OUR SPECIAL GIFT OF FLIGHT AND LOW FARES HAVE ALLOWED MANY TO REALISE DREAMS AND ENABLED CARING INDIVIDUALS AND ORGANISATIONS TO REACH OUT TO COMMUNITIES. AIRASIA ALSO CONTINUES FLYING VOLUNTEERS AND NON-PROFIT ORGANISATIONS AROUND THE REGION TO HELP REBUILD LIVES AND COMMUNITIES AFFECTED BY NATURAL DISASTERS.

OCTOBER 2005
Captain Chandra Mohan (Flight Operations) and Thanam Raja (Marketing) spent an afternoon with the youths and children in Batang Berjuntai estate. Captain Mohan shared inspiring anecdotes and talked about his experiences as a pilot to a captivated young audience who later received gifts from AirAsia.

9 OCTOBER 2005
AirAsia launched the “To Bali With Love” campaign and offered 12,000 free seats to Bali from 10-14 October 2005 to support the people and the economy of Bali affected by the October terror act and contribute towards reviving tourism in Bali.

DECEMBER 2005
AirAsia helped make it possible for aspiring gymnast Kong Pei Ling to participate in the 23rd SEA Games in Manila, under the Aerobics Gymnastics women’s individual category. Pei Ling who was the youngest female competitor in this category finished 7th place.

19 MAY 2006
In our efforts to support the growth of our young footballers in sports, AirAsia flew the SMK Sultan Sulaiman, Terengganu team to Bangkok, Thailand to compete in the NIKE Manchester United Premier Cup Under 15 regional tournament.

30 MAY 2006
AirAsia mounted extra flights to Solo to aid humanitarian and relief work in Yogyakarta following the devastating earthquake at the Indonesian city in Central Java. The flight carried voluntary workers from various humanitarian and relief organisations.

7 AUGUST 2006
AirAsia contributed wheelchairs to the Ex-Police Association of Sarawak for disabled members.

7-11 SEPTEMBER 2006
AirAsia flew 32 athletes on special fares from Kuala Lumpur to Kota Kinabalu to participate in Malaysia’s First Special Olympics National Games held at Likas Sports Complex, Kota Kinabalu from 7-10 September 2006.
AirAsia’s partnership with Manchester United Football Club (“MUFC”) was formed in September 2005 with the objective of using football as a platform to promote our brand around the World. This relationship yields mutual benefits; we are showcasing the MUFC brand significantly in Asia and in the process attracting millions of football enthusiasts all around the World to Asia. Ultimately, this will drive people to see more of Asia, knowing that they only need to spend a fraction of the cost if they fly with us. We also aim to tap into Manchester United’s knowledge and resources to help inspire football in Malaysia and create opportunities for Asian fans to get closer to one of the world’s biggest football clubs.

We have collaborated with the Club on various marketing activities. Our specially designed “Red Devil” Airbus A320, painted in the Club’s colors and featuring some of the Club’s renowned personalities, has created a big buzz in Asia and the United Kingdom since it took to the skies in February 2006. In May 2006, we flew this aircraft from Kuala Lumpur to Manchester and attracted thousands of viewers at Manchester Airport. A joy-ride for Manchester United fans took place a few days later through a special promotion with Century Radio FM.

AirAsia has also helped link MUFC with the youth and sports development program in Malaysia. As the Official Airline Partner of Football Association of Malaysia (“FAM”), AirAsia together with Manchester United hosted a training program for the Malaysian National Under-20 team at Manchester United’s training grounds at Carrington. This training program culminated with a friendly match against the Manchester United Academy team on 10 May 2006 where the Malaysian boys beat the MU Academy team 4-1.

In September 2006, we extended our partnership for a second year and brought in Tourism Malaysia as a co-sponsor of Manchester United. We aim to work closely with the Ministry to promote Visit Malaysia Year 2007 through our partnership with the Club.

What do you think of AirAsia?
AirAsia is a fantastic partner for our Club to have, they are also leaders in their field – the first no frills Asian airline. The partnership shows our appeal overseas and reflects the millions of fans that we have in the Far East. This partnership can bring those fans closer to Manchester United, connecting them to each other in Asia and even giving them the opportunity to visit the Theatre of Dreams.

Are you looking forward to the Asia tour next summer?
I am really looking forward to the tour next year, as are the team. We have toured there many times and to some of the team it will be no surprise to see how fanatical the fans are. However for the players that have joined us this season it will be a shock, many probably have never experienced anything like it.

Asia is beautiful, full of diverse cultures, history and people. Every time we tour there I am always surprised at how beautiful it is. It can be tranquil in one part and hectic in another, everyone rushing around attending to their everyday lives. The hustle and bustle of the traffic, street traders and I have even seen elephants on the streets – simply amazing and nothing like Govan!

Any message for your 40 million fans in Asia?
The team and I are looking forward to seeing you all next year. Keep supporting us!

Interview with Sir Alex Ferguson, Manager, Manchester United

The partnership with AirAsia has helped us get closer to the millions of fans we have in Asia. AirAsia has been an innovative and active partner, even branding one of their brand new planes with our Club’s name and player images. The plane looks fantastic and the interior is impressive. I am looking forward to touring Asia next year with Manchester United.
"A truly Global Aviation Bank for an Outstanding Aviation Champion in Malaysia"

Calyon

Global Aviation Group

Innovation, Commitment, Execution

www.calyon.com
The Board is committed to maintaining high standards of corporate governance, the process by which the Group is directed and managed, risks are identified and controlled and effective accountability assured. The Board considers that it has complied throughout the year under review with the principles and best practices as set out in the Malaysian Code on Corporate Governance.

This statement describes how the principles and provisions of corporate governance set out in the Malaysian Code on Corporate Governance have been applied within the Group.

A. DIRECTORS

Board Balance and Meetings

The composition of the Board of Directors of AirAsia Berhad is in compliance with Bursa Malaysia’s Listing Requirements. The Board comprises a Non-Executive Chairman, seven further Non-Executive Directors and two Executive Directors, details of whom are given on pages 30 to 33 of this Annual Report. The roles of Chairman and Group Chief Executive Officer are separate with a clear division of responsibility between them.

The size, balance and composition of the Board supports the Board’s role, which is to determine the long term direction and strategy of the Group, create value for shareholders, monitor the achievement of business objectives, ensure that good corporate governance is practised to ensure that the Group meets its other responsibilities to its shareholders, guests and other stakeholders. The Board is also responsible for ensuring that appropriate processes are in place in respect of succession planning for appointments to the Board and to senior management positions.

The Non-Executive Directors have a wide range of skills and experience which helps to ensure that independent judgement is exercised on issues such as strategy and performance and also that a proper balance of power is maintained for full and effective control. The Non-Executive Directors (in particular the Chairman) devote sufficient time and attention as necessary in order to perform their duties. Other professional commitments of the Non-Executive Directors are provided in their biographies on pages 30 to 33 of this Annual Report. The Board requires that all Non-Executive Directors are independent in character and judgement.

During the financial year ended 30 June 2006, the Board of Directors held a total of six (6) meetings and the details of Directors’ attendances are set out below:

<table>
<thead>
<tr>
<th>Name</th>
<th>Attendance Record</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dato’ Pahamin Ab. Rajab</td>
<td>5 out of 6 meetings</td>
</tr>
<tr>
<td>Dato’ Anthony Francis Fernandes</td>
<td>6 out of 6 meetings</td>
</tr>
<tr>
<td>Dato’ Kamarudin bin Meranun</td>
<td>6 out of 6 meetings</td>
</tr>
<tr>
<td>Abdel Aziz @ Abdul Aiz bin Abu Bakar</td>
<td>6 out of 6 meetings</td>
</tr>
<tr>
<td>John Francis Tierney</td>
<td>6 out of 6 meetings</td>
</tr>
<tr>
<td>Conor McCarthy</td>
<td>6 out of 6 meetings</td>
</tr>
<tr>
<td>Tan Sri Dato’ (Dr.) R.V. Navaratnam</td>
<td>4 out of 6 meetings</td>
</tr>
<tr>
<td>Dato’ Leong Sonny @ Leong Khee Seong</td>
<td>6 out of 6 meetings</td>
</tr>
<tr>
<td>Fam Lee Ee</td>
<td>6 out of 6 meetings</td>
</tr>
<tr>
<td>Datuk Alias bin Ali (appointed on 23 September 2005)</td>
<td>5 out of 6 meetings</td>
</tr>
<tr>
<td>Timothy Wakefield Ross (resigned on 15 February 2006)</td>
<td>3 out of 6 meetings</td>
</tr>
<tr>
<td>Mumtaz Khan (resigned on 25 May 2006)</td>
<td>3 out of 6 meetings</td>
</tr>
</tbody>
</table>

Supply of Information

Seven (7) days prior to Board Meetings, all Directors receive the agenda and a set of Board papers containing information for deliberation at Board Meetings. Management is required to explain in the event that the timeline cannot be observed.

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 serve in that capacity for the various Board Committees. All the Directors have direct access to the advice and services of the Company Secretary who is fully capable of discharging the duties required in the position.
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 ensures that all appointments are properly made, that all information necessary is obtained, and that all legal and regulatory obligations are met.

Directors’ Training

During the financial year ended 30 June 2006, members of the Audit Committee attended a briefing by the external auditors on Financial Reporting Standards. All members of the Board have attended the Mandatory Accreditation Programme ("MAP") prescribed by 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 updated with emerging trends in the industry of Low Cost Carriers.

Re-election of Directors

Directors are elected 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

The Audit Committee comprises two Independent Directors and one Non-Executive Director. During the period under review, the Committee held five meetings at which there was full attendance by all Committee members. At all meetings the internal auditors, Group Chief Financial Officer, Group Financial Controller and other Senior Management as required are in attendance. The Committee also meets with the external auditors in private at least once in the year under review.

The Committee reviews all published financial statements and post audit findings, focusing in particular on accounting policies, compliance, management judgement and estimates. It also monitors the Group’s internal control and risk management framework (including the effectiveness of the internal audit function) and financial reporting. Any significant findings or identified weaknesses are closely examined so that appropriate action can be taken, monitored and reported to the Board.

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 for the Board and its Committee members, considering their current makeup. They assess issues such as international experience, independence and skills such as 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 whether adequate training programmes are being developed to address any competency gaps. During the financial year ended 30 June 2006, 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. During the year, Mr. Mumtaz Khan ceased to be a member in view of his resignation as a Director. The Committee considers the remuneration of Executive Directors which is in accordance with the skills, experience and expertise they possess. The component parts of the remuneration are structured so as to link rewards to 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 2006, the Remuneration Committee met twice, with all members attending.
The **ESOS Committee** comprises the Group Chief Executive Officer, the Deputy Group Chief Executive Officer, the Group Chief Financial Officer, 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.

The **Executive Committee of the Board** comprises of the Chairman, the Group Chief Executive Officer, the Deputy Group Chief 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 **Operational Safety Committee** comprises of Conor McCarthy (Non-Executive Director and Chairman of the Committee), Abdul Aziz bin Abu Bakar (Non-Executive Director), Regional Director of Flight Operations, Chief Pilot, Regional Director of Flight Safety, Regional Director of Flight Safety, Regional Director Engineering, Postholder Engineering Quality Assurance, Ramp Operations Manager, Flight Operations Quality Assurance, Flight Safety Officer and FDA Team Leader.

AirAsia considers Air Safety to be the single most important aspect of its operations and the Board established the Board Operational Safety Committee in 2005 to ensure that the airline was operating to the highest international standards with the highest degree of transparency. AirAsia has a Confidential Reporting System for our Flight Crew to ensure the maximum amount of safety information is received.

The Committee holds a meeting with the airline management each quarter to review Air Safety in the preceding three months for all AirAsia Flight Operations including those in Thailand and Indonesia. All Mandatory Occurrence reports (MORs) are reviewed and findings, recommendations and management actions are examined. The airline has an active FDA (Flight Data Analysis) programme in place whereby the parameters of each flight are recorded and analysed. The Committee also receives a report from the FDA Team outlining findings, trends, recommendations and actions.

AirAsia management are constantly in discussion with regulatory authorities, manufacturers and other operators regarding trends and improvements in the management of Air Safety, and the Committee also examines these developments with regard to their suitability and adoption.

The Committee meets each quarter and reports to the Board of Directors at each Board Meeting.

During the financial year ended 30 June 2006, the Committee held a total of four meetings.

**Purpose**

- To anticipate, identify and discuss safety & security issues, and develop the strength of operational safety & security throughout AirAsia.
- To ensure that all parts of the AirAsia operation develop a strong and consistent Safety Culture by learning from each other.
- To review the adequacy, effectiveness and performance of the AirAsia Crisis Response and to receive feedback on the annual exercise of same.
- To ensure the safe operations of the airline are strengthened through information gathered, learning and feedback to Operations and Training from Flight Data Analysis (“FDA”).
- To review the summarised occurrence reports quarterly, address the issues and make suggestions/recommendations where appropriate.

The Committee ensures adequate Board-level oversight of Safety & Security matters and it is not intended to have an executive role or to replace the elements of the existing Safety & Security Management Processes within AirAsia.
Report on 2006

During the past 12 months, AirAsia expanded in a controlled and disciplined fashion and invested heavily in the ongoing training of our Pilots, Engineering, Cabin Crew and Ground Operations people. The AirAsia Academy has played a major role in developing a self sufficiency within the airline and we are proud to boast a World Class training facility with Full Flight Simulator Devices (two Airbus A320 and one Boeing 737), 2 A320 Flight Training Devices in addition to Door Trainer and Escape Slide Trainer. The Academy has state-of-the-art classrooms and is a physical testament to our commitment to train to the highest international standards.

The Committee was delighted to note that the introduction of the Airbus A320 during the past year was handled smoothly by management with any potential problems being anticipated in advance and built into the training and induction programmes. Particular attention was paid to issues that had arisen in other airlines in order to ensure that these were avoided.

In addition, the Committee reviewed the MOR trends and satisfied itself that no adverse trends were established. During the year, AirAsia was honoured to participate in an EU-SEA Safety Management System Seminar in Kuala Lumpur and we are now actively participating in an EU-SEA programme for Flight Instructor Training. Apart from that, AirAsia has been recognised as the lead representative for the SEA airline industry and have been involved in the Gen Steering Committee including the setting up and active participation of SEARIF (“SEA Regional Initiatives Forum”) which is a body formed to carry a bridging project whilst the EC formally extend the EU-SEA Civil Aviation project.

In the past twelve months, the airline also successfully implemented its FDA programme which is already showing very positive benefits with feedback directly into the training and line checking functions.

The Committee also addressed ramp safety and made a number of requests and recommendations to the Management of this area which were aimed at ensuring the continued safety of our people and guests.

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 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. Service contract
   Both the Group Chief Executive Officer and Deputy Group Chief Executive Officer, have a three-year service contract with AirAsia.

5. Directors’ share options
   There was no movement in Directors’ share options during the year ended 30 June 2006.

Details of the Directors’ remuneration are set out in the Audited Financial Statements on page 103 of this Annual Report.
C. SHAREHOLDERS

Investor Relations

The Board attaches considerable importance to its relationships and communication with shareholders. Communication is facilitated by a number of formal channels 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 ("AGM")

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 and sent a copy of the Group’s Annual Report at least 21 days before the meeting is held.

At the AGM, the Group CEO will conduct a brief presentation on the Group’s performance for the year and will outline 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 engage with dialogue with the Board and Senior Management.

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.

Statement of Directors’ Responsibility for Preparing the Financial Statements

The Directors are required by the Companies Act, 1965 to prepare the financial statements in accordance with the MASB approved accounting standards and give a true and fair view of the state of affairs of the Group and Company at the end of the financial year and of the results and cash flows of the Group and Company for the financial year.

In preparing the financial statements, the Directors have ensured that the accounting policies have been consistently and properly applied, supported by reasonable and prudent judgements and estimates, and in adherence to all applicable accounting standards.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Group and Company and which enable them to ensure that the financial statements comply with the Companies Act, 1965.

Audit Committee and 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. A report on the Audit Committee and its terms of reference is presented on pages 69 to 73 of this Annual Report.

The Board has overall responsibility for the Group’s system of internal control, which comprises a process for identifying, evaluating and managing the risks faced by the Group and for regularly reviewing its effectiveness in accordance with the Malaysian Code of Corporate Governance.

The Board confirms that this process was in place throughout the year under review and up to the date of approval of these financial statements. The primary aim is to operate a system which is appropriate to the business and which can, over time, increase shareholder value whilst safeguarding the Group’s assets. The system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.
Taking care of everything under the sky to keep you up in the air.

Total Aviation Support is a concept we champion. Be it aircraft maintenance or modifications, engines or component support, maintenance planning, engineering services or material needs, ST Aerospace is ready all over the world, providing support to help improve your performance. As the world’s leading third party MRO service provider, we’re always at your side — keeping you flying safe and ensuring the safety and comfort of your customers.
The Audit Committee was established to support the Board discharge their responsibilities of maintaining a sound system of internal control to safeguard shareholders’ investment and the Group’s assets.

During the financial year, the Audit Committee reviewed its own effectiveness by undertaking a self-assessment exercise. The Chairman of the Committee then led a discussion on the results of the assessment focusing on areas for improvement.

Members of the Audit Committee also attended a briefing by the external auditors on International Financial Reporting Standards.

COMPOSITION OF THE COMMITTEE AND MEETINGS

During the financial year ended 30 June 2006, the Committee held a total of five (5) meetings. The members of the Committee together with their attendance are set out below:

<table>
<thead>
<tr>
<th>Name</th>
<th>Directorship</th>
<th>No. of Meetings Attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dato’ Leong Khee Seong (Chairman of the Committee)</td>
<td>Independent Director</td>
<td>5</td>
</tr>
<tr>
<td>Fam Lee Ee</td>
<td>Independent Director</td>
<td>5</td>
</tr>
<tr>
<td>John Francis Tierney</td>
<td>Non-Executive Director</td>
<td>5</td>
</tr>
</tbody>
</table>

TERMS OF REFERENCE OF THE AUDIT 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 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 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 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; and
  • 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 whistle blowing, detecting fraud and to 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; and

– 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 Group Chief Financial Officer, the Group Financial Controller 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.

g) 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.

h) 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.

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

j) 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.

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 Berhad on 22 December 2004.
SUMMARY OF ACTIVITIES

A summary of the activities performed by the Audit Committee during the financial year is set out below.

Risk Management

- Reviewed the adequacy of the risk management system for identifying and managing the Group’s risks.
- Reviewed the first draft of the Business Continuity Plan for key processes in Malaysia.

Internal Audit

- Approved the Group’s Internal Audit Plan outsourcing of audits and the related fees.
- Reviewed internal audit reports issued by the Internal Audit department and external parties on the effectiveness of internal controls, adequacy of risk management and other compliance and governance processes.
- Reviewed the Environmental, Health and Safety Compliance and Best Practice Audit of the Group’s facility in Kuala Lumpur International Airport.

External Audit

- Recommended to the Board of Directors the appointment and remuneration of the Group External Auditor.
- Approved the external audit plan and scope for the financial year.
- Reviewed the results of external audits.

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 ended 30 June 2006.

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 the financial year. The plan was derived from a risk assessment process which considered the risks within each department and the extent that it would have an impact on the Group.

Sustaining the momentum for implementing an effective risk management process is a challenge as the Group continues to experience dynamic growth which alters the Group’s risk profile. The process of continuously identifying, evaluating and managing risks is ongoing.

The internal audit function also assists in the evaluation of risks and controls in key processes and in the introduction of new systems and products. The internal audit function also assists management in the review of documenting Standard Operating Procedures.
Congratulations to AirAsia on a successful year of letting everyone fly.

Your valued partners at Travelport.

› A leader in the $6 trillion travel industry
› Over 100 million transactions a year
› Customers in over 130 countries
› Over 20 of the world’s leading travel brands
› Endless possibilities

YOUR INDUSTRY PARTNER

Welcome to Travelport, a new company with a track record of nearly 30 years experience. Formerly Cendant Travel Distribution Services, we operate one of the world’s largest networks of travel brands, content and service offerings.

Across more than 130 countries and through leading brands such as Orbitz®, Galileo®, GTA® aiRES™ and Shepherd Business Intelligence™, our network of 8,000 local professionals opens new possibilities and delivers greater choice, tremendous travel content and cost savings every day. Whether you’re a travel supplier, travel agent or independent traveler, we’re there at every step of the way, helping you create exceptional travel experiences.

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In adherence to the Malaysian Code of 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 2006.

BOARD ACCOUNTABILITY

The Board recognises the importance of a sound system of internal controls which covers risk management, financial, organisational, operational, and compliance controls. The Board strives to maintain a sound system of internal controls and effective risk management practices to ensure long-term sustainability of the Group. The Board re-affirms its responsibility to:

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

The Board wishes to stress that such systems are intended to reasonable manage rather than totally eliminate the risk of failure to achieve business objectives. The Board is aware that such systems can only provide reasonable, and not absolute, assurance against material misstatement or loss.

Management is responsible for assisting the Board implement policies and procedures on risk and control by identifying and assessing the risks faced, and in the implementation of suitable remedial internal controls to enhance operational controls and enhance risk management. Indeed, the first level of assurance comes from business operations which perform the day to day risk management activity. The Board is informed of all major control issues encompassing internal controls, regulatory compliance and risk taking.

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 and has implemented a risk-based internal audit plan. The risk management process will be more effective and comprehensive once the framework has been rolled out to include support functions and other related companies within the Group.

A risk assessment exercise was initiated in the previous financial year 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.

The risk management process is an ongoing effort monitored as part of the internal audit process to review the progress of the implementation of action plans. This is reported on a quarterly basis to the Audit Committee.

BUSINESS CONTINUITY MANAGEMENT

Business continuity management is regarded an integral part of the Group’s risk management process. The Group has completed a first draft of the Business Continuity Plan to ensure continuity of its services to guests, as well as ensure operational and financial continuity in the event of adverse circumstances. The plan will require testing as well as scheduled updating and revision. Business continuity management will also need to be initiated in the rest of the Group’s other related companies.

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;
- The Audit Committee, chaired by an independent non-executive director reviews the internal controls system and findings of the internal auditors and external auditors;
- The Internal Audit Department is responsible for undertaking regular and systematic review of the internal controls to provide the Audit Committee with significant summary reports on the effectiveness and weaknesses of internal controls;
- Management is responsible for ensuring that corrective actions to address control weaknesses are implemented within a defined time frame. The status of implementation is monitored through follow-up audits which are also reported to the Audit Committee;
- The Group is in the midst of formally documenting internal procedures and processes in Standard Operating Procedures. This will be critical to ensure compliance with internal controls and relevant laws and regulations;
- Heads of Department present their annual budget, including financial and operating targets and capital expenditure plans for the approval of the Group Chief Executive Officer; and
- Group annual budget is prepared and tabled for Board approval. These budgets and business plans are cascaded throughout the organisation to ensure effective execution and follow through. Actual performance is compared against budget and reviewed by the Board.

The statement does not include the state of internal controls in material joint ventures and associated companies. There was no material loss incurred as a result of internal control weaknesses.
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**

<table>
<thead>
<tr>
<th>Proposed Utilisation Of IPO Proceeds Utilised To Date Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>RM’000</td>
</tr>
<tr>
<td>Repayment of bank borrowings</td>
</tr>
<tr>
<td>Capital expenditure</td>
</tr>
<tr>
<td>Listing expenses (1)</td>
</tr>
<tr>
<td>Working capital</td>
</tr>
<tr>
<td><strong>717,439</strong></td>
</tr>
</tbody>
</table>

(1) The Company has made full settlement of the listing expenses. Accordingly, the remaining balance of RM7.4 million on the proposed utilisation of the IPO proceeds for listing expenses has been transferred in this analysis to working capital.

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. The AirAsia Berhad Employee Share Option Scheme (“ESOS”) came into effect on 1 September 2004. The details of the ESOS exercised are disclosed in page 120 of the financial statements.

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 2006.

5. **SANCTIONS AND/OR SIGNIFICANT PENALTIES**

There were no public sanctions and/or significant penalties imposed on the Company and its subsidiaries, Directors or Management by the relevant regulatory bodies during the financial year ended 30 June 2006.

6. **NON-AUDIT FEES**

<table>
<thead>
<tr>
<th>PricewaterhouseCoopers Malaysian firm</th>
<th>2006</th>
<th>2005</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group</td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
<td>RM’000</td>
</tr>
<tr>
<td>Statutory audit</td>
<td>327</td>
<td>230</td>
<td>296</td>
<td>200</td>
</tr>
<tr>
<td>– current financial year</td>
<td>100</td>
<td>–</td>
<td>100</td>
<td>–</td>
</tr>
<tr>
<td>– under accrual in prior financial year</td>
<td>75</td>
<td>–</td>
<td>75</td>
<td>–</td>
</tr>
<tr>
<td>Tax advisory and compliance work</td>
<td>–</td>
<td>1,100</td>
<td>–</td>
<td>1,100</td>
</tr>
<tr>
<td>Reporting accountants</td>
<td>–</td>
<td>16</td>
<td>–</td>
<td>16</td>
</tr>
<tr>
<td>Review of quarterly results</td>
<td>8</td>
<td>–</td>
<td>8</td>
<td>–</td>
</tr>
<tr>
<td>Others</td>
<td>510</td>
<td>1,346</td>
<td>479</td>
<td>1,316</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Overseas</th>
<th>2006</th>
<th>2005</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Member firm of PricewaterhouseCoopers International Limited, which is a separate and independent legal entity from PricewaterhouseCoopers, Malaysia</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>– Statutory audit on a joint controlled entity</td>
<td>128</td>
<td>92</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Total remuneration</td>
<td>638</td>
<td>1,438</td>
<td>479</td>
<td>1,316</td>
</tr>
</tbody>
</table>
7. VARIATION IN RESULTS
The Company did not release or announce any profit estimate, forecast or projection during the financial year under review except for the following:

On 11 November 2006, the Board of Directors of AirAsia Berhad ("AirAsia" or the Company) announced that the Group’s audited profit after tax and minority interests for the financial year ended 30 June 2006 has been revised to RM88.4 million. The Group had in its fourth quarter announcement dated 29 August 2006 stated that the unaudited profit after tax and minority interests for the year ended 30 June 2006 was RM126.9 million. This gives rise to a deviation of RM38.5 million or 30.3%.

The deviation arose solely from the application of FRS 112 2004 on Income Taxes which does not recognise re-investment or other tax allowances in excess of its normal capital allowances. The Directors maintain the view that the application of FRS 112 2004 will not fairly present the financial position and performance of the Company because the unutilised capital allowances and investment tax allowances available to the Company are expected to accumulate to a very substantial amount and will shelter the Company from future tax liability for many years to come.

In the preparation of the fourth quarter announcement, the Company had adopted a conservative approach and recognised only part of the available investment tax allowances as deferred tax assets to offset the deferred tax liability. However, had the Company recognised the investment tax allowances in full as permitted under IAS 12, the Group and Company profit after tax and minority interest will be RM242.0 million and RM233.1 million respectively, bringing the shareholders funds to RM1.206 billion at Group level and RM1.203 billion at Company level as illustrated in the table below. This treatment is permitted under the International Financial Reporting Standards, principally IAS 12, and this has been confirmed by PricewaterhouseCoopers, the Company’s auditors.

<table>
<thead>
<tr>
<th>Group</th>
<th>Adoption of IAS 12 (Full Recognition) RM’000</th>
<th>Partial Recognition Per 4th Quarter Announcement RM’000</th>
<th>Compliance with FRS 112 2004 RM’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit after tax and minority interests</td>
<td>242.0</td>
<td>126.9</td>
<td>88.4</td>
</tr>
<tr>
<td>Shareholders’ Equity</td>
<td>1,206.2</td>
<td>1,09.1</td>
<td>1,052.6</td>
</tr>
<tr>
<td>Basic Earnings Per Share</td>
<td>10.3</td>
<td>5.4</td>
<td>3.8</td>
</tr>
</tbody>
</table>

8. PROFIT GUARANTEE
During the financial year ended 30 June 2006, 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 2006, no contracts of a material nature were entered into or were subsisting between the AirAsia Group and its Directors or major shareholders.
PETRONAS PRIMAX 3, the revolutionary high-performance third generation fuel from PETRONAS contains the unique additive component SINAR G-05 that thoroughly cleans and re-energises your engine. Effective from the first time you fill up, PETRONAS PRIMAX 3 restores the power output and efficiency of your engine. Experience more power, better fuel economy and engine cleansing. Stay ahead and enjoy peak performance. Fill up with PETRONAS PRIMAX 3.
KHF, we are here.

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Providing innovative Shariah-compliant solutions for YOUR financial needs.

Corporate + Investment + Commercial + Retail